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Historical Overview of Small and Medium Enterprise Policies in Zimbabwe

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ABSTRACT Zimbabwean small and medium enterprises (SMEs), since independence in 1980, have struggled for survival and development due to a plethora of challenges. The government responded by implementing policies and strategies to address the challenges confronting SMEs. This article gives a country perspective and historical understanding of the SME policies and strategies at play within Zimbabwe. The researchers contribute to the understanding of the dynamics surrounding SMEs particularly in developing countries by providing a historical account of the policy issues and strategies used to ensure growth of the sector. Methodologically, the study adopted a critical analysis of literature related to SME policies in Zimbabwe. The researchers drew insights from different government policy documents and pieces of legislation since 1980. The results of the analysis indicate that the policies and strategies, to a larger extent, have not yielded the required results, and largely not addressed the major challenges confronting SMEs.

INTRODUCTION

SMEs are an important sector in the Zimbabwean economy due to their provision of employment (Manuere et al. 2012), contribution to the GDP (Dumba and Chidamoyo 2012), alleviation of poverty (Government of Zimbabwe (GoZ) 2012) and provision of an opportunity for women and youth to participate in the mainstream economy (GoZ 2012). Being that as it may, SMEs are confronted with a plethora of obstacles to growth. Such obstacles include financial, managerial, taxation, infrastructural and access to markets. The Zimbabwean government established policies and strategies to deal with the key challenges facing SMEs. The paper presents an analysis of the effectiveness of these policies and strategies in addressing SME challenges.

Objectives of the Study

The study seeks to identify the policies and strategies adopted by the government to address SME challenges and assess the effectiveness of those policies and strategies and in dealing with SME obstacles to growth.

The Concept of SMEs

There is no universally accepted definition of SMEs (Inyang 2013). Scholars, researchers, governments and private institutions have defined the concept from various perspectives and angles (Chirisa et al. 2012). In the United Kingdom (UK), SMEs have from less than 10 to less than 250 employees and an annual income which ranges from USD3.3 million to USD383.3 million (Faloye and Akinkoye 2013; Lee and Rodriguez 2013). The USA defines SMEs as businesses with an annual income of not more than USD25 million and less than 500 employees (Organization for Economic Cooperation and Development (OECD) 2014). The Small and Medium Enterprise Development Corporation (SMEDCO) (2010), the financing arm of the Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD) in Zimbabwe, views an SME as a firm that has not more than hundred employees and maximum annual sales turnover of USD830,000. The MSMECD policy and strategy framework has defined the SMEs as those registered in terms of their legal status and employing anywhere between 6 to 100 workers (Chirisa et al. 2012). The latest Zimbabwean SME Act (2011) describes SMEs as the business organizations with an asset value of from USD10,000 to USD2 million, employs 2 to 20 people and has an annual turnover that ranges from USD30,000 to USD5 million. The same definition has been adopted by the Reserve Bank of Zimbabwe (RBZ) (RBZ 2013). In this study, the definition of the SMEs as outlined in the SME Act of 2011 has been adopted as it reflects the current state of SMEs in Zimbabwe.

The Concept of Government Policy

Policy is a broad statement of goals and what the government aspires to achieve. It provides general guidelines as to how the goals can be realized (Osman 2009). According to Wolkomer (2010), public policy is a 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 goals and aspirations and the realization of those goals. Policies are formulated in response to challenges confronting a nation. Once a government is put in place, running the affairs of a nation involves policy formulation, implementation and evaluation. In this study the researchers focus on the government SME policies and strategies.

THE INFLUENCE OF SOCIO-ECONOMIC FACTORS ON THE DEVELOPMENT OF SMEs IN ZIMBABWE

The Economic Structural Adjustment Program (ESAP) introduced by the Zimbabwe government in 1991 created an environment for the development of SMEs in the country. ESAP was an economic policy that the World Bank and the International Monetary Fund (IMF) suggested and administered to countries facing a debt crisis and in economic problems. Zimbabwe introduced the economic reform program with the aim to reduce the budget deficit, creation of employment, improving the standards of living of the people and promote industrial development (Kanyenze et al. 2011; Hawkins and Ndhlela 2009 cited in Gumbe and Chaneta 2014). This was to be achieved through the removal of government subsidies on social services, trade liberalization, reducing government expenditure, removal of price controls and the privatization and commercialization of state enterprises (Madzivire 2011; Matunhu and Mago 2013).

The ESAP failed to promote the expected economic development as it resulted in the loss of jobs in both the public and private sectors (Murisa 2010; Jongwe 2011 cited in Jongwe 2013; Gumbe and Chaneta 2014) and the GDP declined (Madzivire 2011). In the public sector, approximately 2,500 jobs were lost in the public service (Murisa 2004 cited in Murisa 2010). In the private sector, six manufacturing companies closed down leading to more job losses (Nkala 2012 cited in Mushanyuri 2014). Poverty increased from sixty-two percent in 1995 to eighty-five percent in 2001 (Ngwenya and Ndlovu 2003). Some large multinational companies, as well as large local companies were forced by the harsh economic circumstances to scale down their production while others had to close down leading to massive retrenchments (Matutu 2014). As the formal job market was shrinking, people became poorer than before, giving way to the expansion of the SME sector (RBZ 2014).

The socio-economic situation in Zimbabwe deteriorated after the introduction of ESAP. The situation was further exacerbated by the severe drought of the early 1990s. People had to find other ways to meet their everyday needs (Muhande and Matonhodze 2008; Marunda and Marunda 2014). SMEs were established for the purpose of complementing the household income and create income for the retrenched people as a result of the closure of companies and also provide employment for graduates from higher education institutions who could not be absorbed into the formal sector (Ngwenya and Ndlovu 2003; Chipangura and Kaseke 2012). SMEs became the major source of livelihood for eighty percent of the Zimbabwean population (Muhande and Matonhodze 2008; Chandaengerwa 2014).

The development of SMEs is 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 (Chipangura and Kaseke 2012). Women and children were exposed to so much suffering that they were left with no choice but to turn to the sector for employment or open small businesses for survival.

The SMEs faced a multiplicity of challenges, which included inadequate finance, poor management skills, unsuitable location, punitive rules and regulations, poor economic performance and other challenges such as inappropriate and unsupportive infrastructure. The government responded by establishing institutions, policies and strategies to address the obstacles to SME growth.

INSTITUTIONS, POLICIES AND STRATEGIES TO ADDRESS SME CHALLENGES

The government formulated and implemented a multiplicity of policies and strategies in order to address the key challenges confronting the SME sector and promote its survival, growth and development (Maunganidze 2013). Institutions have also been set up to facilitate SME development in Zimbabwe

The Ministry of Industry and Commerce

Prior to the formation of the Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD), the SMEs were put under the responsibility of the Ministry of Industry and Commerce (MIC) (Chivasa 2014) which conducted research, distributed information, as well as coordinated different ministries' programs of SME development. Each ministry made efforts to support SME development through playing a role in addressing the challenges facing the sector. Efforts to deal with SME challenges and promote SME development were ineffective because they were not properly coordinated as each ministry and department did what it thought would assist SMEs without consultation with other ministries or departments (Zimbabwe Parliament Portfolio Committee on SMEs (ZPPCSMEs) 2010).

The MIC, today, promotes SME access to regional and international markets through negotiations of bilateral and multilateral agreements, provides information about the foreign markets, and organizes international trade fairs, missions and exhibitions for Zimbabwean companies including SMEs (MIC 2015). The Ministry is also involved in enhancing the quality of products and promoting competitiveness of SMEs involved in international trade by ensuring that the products and services meet international standards (MIC 2014). However, the number of SMEs that benefit from such government programs is limited.

Small and Medium Enterprise Development Corporation (SMEDCO)

SEDCO was established in 1984 by the Act of Parliament (Chapter 24:12) as a parastatal under the Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD) to assist SMEs in the form of financial support, management counseling, training and provision of information and advice on business issues (Manyani 2014; GoZ 2015). The government support for SMEs was meant to increase industrial production, provide employment for the jobless and promote economic growth (Mumbengegwi 2007 cited in Ijeoma and Matarirano 2011). Financial assistance was and is in the form of loans, which require collateral. The interest rates for the loans are too high for SMEs (Maunganidze 2013) leading to SMEs failing to pay back the loans. The need for collateral meant and means that not every businessperson could access the loans (Chikomba et al. 2013). Some of the business people did not have the required collateral. This suppressed the growth of the SME, as the financial challenge could not be adequately addressed.

The SMEDCO received an allocation in the 2007 National Budget for lending to the SMEs but the funding could not fully be accounted for (Zimbabwe Parliament Portfolio Committee on Youth, Gender and Women Affairs (ZPPCYGWA) 2007). This raised questions about the transparency mechanisms in place to ensure that the intended beneficiaries of the program actually benefited. A large part of the budget allocation was being used for employment and administration costs (ZPPCYGWA 2007). Thus, insufficient financial resources were available for lending to the SMEs.

In 2010, SMEDCO had no allocation from the National Budget (ZPPCSMEs 2010). The government did not have adequate financial resources due to the unfavorable macroeconomic environment. In 2012, SMEDCO was allocated USD 200,000, which was not enough to effectively support SMEs in that year (Maunganidze 2013). In 2013, the budget allocation for SMEDCO decreased by 3.6 percent (GoZ 2014). The allocation of USD300,000 for infrastructural development for SMEs was inadequate as SMEDCO had many projects to be done that needed much more funding (GoZ 2014). Regardless of inadequate funding, the corporation continues to provide loans from USD500 to USD5,000 (FinScope 2012). Over and above that the late disbursement of funds from the Ministry of Finance further cripples the operations of SMEDCO (GoZ 2014). It is against this backdrop that SMEDCO has not been able to effectively address the financial challenges confronting SMEs in Zimbabwe.

Whilst it is conspicuous that SMEDCO failed to address the financial challenges, it has scored some 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, Chitungwiza and Gazaland in Harare and Bindura (Mhuka 2011). SMEDCO has also provided entrepreneurs with access to machinery in Chitungwiza for metal fabrication, woodwork and machinery provided by the Indo-Zimbabwe Project (SMEDCO 2015). Litefold Engineering, a company owned by SMEDCO, which started operating in 2008, operates to make profit (SMEDCO 2015) but trains SMEs using the latest technology (Mabhanda and Kurebwa 2013). Further to that, SMEDCO 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 interests rates and the need for collateral, SMEDCO managed to advance loans to 4,900 SMEs in 2010 (Moyo 2011). SMEDCO managed to do this even though funding from the national budget was inadequate. The government agency could not financially assist all the SMEs, but managed to prop up some entrepreneurs even if it was 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.

SMEDCO has also been involved in business incubation (Chirisa et al. 2012; Mhuka 2011) in centers 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 required to develop and grow their businesses. The objective of incubation is to enhance the chances of success, shorten the period and reduce the costs of starting and growing a business. 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 centers, except in the Chtungwiza factory.

The Credit Guarantee Company of Zimbabwe (CGC)

The Credit Guarantee Company (CGC) established in 1977 to promote SME access to finance (Reserve Bank of Zimbabwe (RBZ) 2007) continued to operate as an institution providing funding to SMEs (Chivasa 2014) after independence. The government had realized the need to have such a SME development institution.

The Reserve Bank of Zimbabwe and five commercial banks formed the Finance Trust to assist viable emerging businesses (Gangata and Matavire 2013). The commercial banks provided loans at concessional rates to viable SMEs, while the Reserve Bank provided guarantees of fifty percent in the event of default by the borrower (RBZ 2007). However, the funds were inadequate, as a large number of SMEs needed funding. Given the fact that the loans were highly subsidized the interest rate charged was artificially low, even below the interest rates on the market (Mago 2013). Mago (2013) further observes that some SMEs regarded loans from government agencies as some form of "gifts" and they felt they should not be paid back. Therefore, some could not repay the loans. Some paid back after a long time and the money was of no value due to inflation. It could not revolve to other SMEs who were in need of funding.

Zimbabwe Development Bank (ZDB)

The bank started its operations in 1984 for the purpose of providing debt finance to SMEs (Nyangara 2013). As much as ZDB was keen to assist SMEs, it was heavily crippled by a lack of adequate financial support from the state. Before accessing the debt finance, SMEs were expected to provide details of the collateral, which the majority did not have. Some of the SMEs could not repay the loans that were advanced to them by the bank. The bank could not perform as expected due to limited funding and non-payment loans advanced to SMEs.

The bank was transformed into the Infrastructure Development Bank of Zimbabwe (IDBZ) in 2005 through the Act of Parliament, 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 (GoZ 2015; Norsad Finance 2015). Besides providing finance, it was also involved in the leasing of equipment and other assets to businesses (ZAMFI and SNVNDA 2009). Therefore, the bank focuses on the long-term infrastructural development and finance (IDBZ 2013) and SME development through funding and technical assistance (Norsad Finance 2015).

From 2000 to 2008 Zimbabwe experienced an economic crisis (ZEPARU 2013), which crippled the operations of the banking sector. During the period in question, the macroeconomic environment characterized by hyperinflation, high interest rates on loans, liquidity crisis and a critical shortage of foreign currency rendered the financial sector ineffective and the IDB was no exception. Such an economic climate made it difficult for SMEs to access credit finance from the IDBZ.

Currently, the IDBZ concentrates much 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 (Chenga 2015). The support for SMEs is no longer its core business. Thus, the IDBZ has neglected the SME sector.

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

Prior to independence there were no meaningful credit facilities that were made available to smallholder farmers (Malaba 2005). An Act of Parliament was passed in 1980, mandating 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 credit facilities (DBSA 2012). The corporation concentrated on assisting communal, resettled and small-scale commercial farmers who were into fulltime farming, having land to work on and as well as holding 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, the agricultural season AFC provided over 100,000 loans to both large and small-scale commercial farmers in Zimbabwe (Malaba 2005; DBSA 2012). As a result, forty-five percent of the maize sold to the GMB was produced by the communal, resettled and small-scale commercial farmers (DBSA 2012). Between 1981 and 1985, there was a high level of default on the loans advanced to small-scale commercial farmers (Malaba 2005). Farmers had poor harvests because a significant number of them were going through a learning curve. Due to the high level of default, AFC with the aid 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 finances available to smallholder farmers between 1990 and 1995.

The main challenge that the AFC faced was that of high level of default on loans (Malaba 2005). It is against this background that the growth of the SMEs in the agricultural sector became compromised because the funds were not revolving and the AFC had no extra financial resources to continue supporting the farmers. That could explain why the financial challenge is still evident today among SMEs in the agricultural sector. The policy initiatives at this time emphasized 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 the farming sector 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; Zimbabwe Association of Microfinance Institutes (ZAMFI) and SNV Netherland Development Association (SNVNDA) 2009). Medium-term finance was provided after payment of a deposit of twenty-five percent of the loan (Kapoor et al. 1997). The challenge with this condition was that some of the small farmers could not afford to pay twenty-five percent of the loan though they were deeply in need of finances. This condition might have crippled the development of SMEs in the agricultural sector.

The government transformed AFC into the Agricultural Bank of Zimbabwe (Agribank) in 1996 and started operating in 2000 (DBSA 2012;

Herald 2013) for the main purpose offering credit finance to communal, resettled, small-scale and commercial farmers (Banker Africa 2013; Herald 2013). The bank was registered as a commercial bank in terms of the Banking Act (Chapter 24:20) (ZAMFI and SNVNDA 2009; Herald 2013). The bank works with Tobacco Industry Marketing Board (TIMB) in providing smallholder tobacco growers with credit finance (Banker Africa 2013).

The government introduced the Agricultural Input Procurement Scheme (AIPS), which was used for the purchase of seeds, fertilizers, herbicides and pesticides (Ijeoma and Matarirano 2011). The funds for these agricultural inputs were disbursed through Agribank. There was also the Mechanization Program, which availed farm implements and tractors to farmers that were newly resettled (Mumbengegwi 2007 cited in Ijeoma and Matarirano 2011). Loans were made available to SME farmers for the purchase of machinery at concessionary rates (Mumbengegwi 2007 cited in Ijeoma and Matarirano 2011). The bank, on behalf of the RBZ, disbursed funds to small-scale farmers under the Public Sector Investment Program (PSIP). The funding did not require collateral as the loans were guaranteed by the government (ZAMFI and SNVNDA 2009). However, less than fifty percent of the loans were repaid (ZAMFI and SNVNDA 2009). This indicates a high default rate. Currently, the bank has problems of capitalization partly due to non-repayment of loans advanced to small-scale farmers. The bank is not in a position to continue supporting SMEs in the agricultural sector.

The Agribank was confronted with a multiplicity of challenges. The bank had poor performance due to poor working capital, as it was not adequately capitalized. Loans given to farmers were not paid back (Kapoor et al. 1997; Malaba 2005; ZAMFI and SNVNDA 2009). Between 2002 and 2003 the government did not provide funding for the bank and made losses of between Z$374 million and Z$1.7 billion (Malaba 2005). The bank became financially weak such that it could not 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. Seeds and fertilizers were also in short supply. Inflation levels were high, for example in June of 2004 it was one hundred and sixty-four percent (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 seventy percent of the population live in rural areas and rely on agriculture, but only five to ten percent of the SMEs in farming have access to credit (MIC 2000; Matunhu and Mago 2013). Most rural areas lack financial intermediaries, which can make the financial resources available to the smallholder farmers (Matunhu and Mago 2013; ZEPARU 2013). Under such circumstances it is not surprising to note that most SMEs in this sector fail.

The Reserve Bank of Zimbabwe (RBZ)

The RBZ funded SMEs in the agricultural sector from 2004 (RBZ 2005). Loans facilities for livestock production, irrigation, mechanization, crop production and tobacco ban rehabilitation were advanced to SMEs (RBZ 2005). The institution also funded programs, which included the Agribank Tobacco Scheme (Z$240 billion), Winter Wheat Program (Z$480 billion) and Public Sector Investment Program (Z$410 billion) (RBZ 2005). The interest rate on the loans was twenty percent and the repayment period was 180 days (RBZ 2005).

In the 2004-2005, the agricultural season farmers found it difficult to pay back loans due the devastating drought and some farmers willfully defaulted payment (Malaba 2005). Some of the farmers who got the loans bought expensive cars instead of investing in the land, while others did not have an understanding of what farming was all about and did not have skills and knowledge about farming (GoZ 2014). Thus, valuable resources were wasted. Small-scale farmers were assisted with fertilizers, chemicals, seeds fuel (diesel) for ploughing, but the majority of the farmers sold these inputs to get money. The policymakers 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 further be attributed to a lack of farming skills, improper use of resources as well as the natural factors such as drought.

In 2006, the Reserve Bank of Zimbabwe devised a measure to help address the financial challenges confronting the SME sector. The bank availed Z$16 trillion to promote activities and projects in the sector (RBZ 2006). The interest rate was seventy percent per annum. The funds were allocated to provinces in accordance with population sizes and the level of economic activity (RBZ 2006). The activities funded included agro-processing, construction, mining and animal husbandry and poultry. The rate of interest charged on the loans, seventy percent, was too high for the SMEs.

The Reserve Bank of Zimbabwe (2013) in its monetary policy statement stated that banking institutions were required to design their portfolios in such a way that loans to the SME sector would constitute at least thirty percent of the total loan book. The RBZ would conduct monthly assessments to monitor compliance and failure to comply attracts 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 results of achieving SME growth and development. Failure of SMEs in Zimbabwe is due to a multiplicity of factors, which need consideration. Since 1991, SMEs have been exposed to financial support but most of them still fail (Mudavanhu et al. 2011).

Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD)

The MSMECD was established in 2002 for the purpose creating and maintaining a conducive environment that promotes the development of SMEs so as to facilitate economic growth and provision of employment (Chivasa 2014; Mushanyuri 2014). To this end, the MSMECD would deal with issues negatively impacting the growth of the SMEs and develop policies to enhance the development of the sector. In 2007, the Ministry purported to have done a lot of activities including marketing and trade promotions, training workshops, the SME study, the construction of infrastructure and relocation of SMEs to the infrastructure and the construction of factory shell in Gwanda and Bindura, but most of the achievements were on paper and there was no evidence on the ground (ZPPCSMEs 2007). The MSMECD was virtually non-existent on the ground and only a few SMEs confirmed to have benefited from the operations of the Ministry (ZPPSMEs 2007). SMEs in the rural area could not have access to the services of the MSMECD as the Ministry has offices in towns and cities. Therefore, only a few entrepreneurs benefited from the services of the MSMECD in the urban areas. The majority of the population (70%) is found in rural areas, and did not benefit from the services of the Ministry (ZimStats 2013). The MSMECD has an officer stationed in every district to assist the development of SMEs (MSMECD 2011). A district is too big for a single officer to effectively attend to all the SMEs that need assistance. This set up may not be effective in addressing challenges confronting SMEs.

There was replication of functions in some ministries (ZPPSMEs 2007). This was the case with the Ministry of SMEs and the Ministry of Women Affairs, Gender and Community Development. The duplication of activities led to confusion on the ground and ineffective utilization of scarce resources. These two ministries were grossly underfunded. That partly accounts for the ineffectiveness of the MSMECD.

The operations of the MSMECD are crippled by the inadequate funding from the National Budget. In 2013, the MSMECD had budgeted for USD 9,479,000, but the Ministry of Finance allocated USD3,605,977 to the SME ministry (GoZ 2014). Therefore, what the ministry planned to do for SMEs in the year was not fulfilled, as the funding was inadequate. In the National Budget Statement of 2014, the MSMECD needed USD 81,269,937 but was allocated USD 8,695,000 (Makoshori 2014). The Ministry was underfunded considering the activities planned in the year such as training SMEs, building shelter for SMEs as well as providing funding to SMEs through SMEDCO. In every budget statement the MSMECD is underfunded because it is not viewed as a very important ministry (Maunganidze 2013). Such an attitude towards the MSMECD stifles its operations and effective participation in the economy through supporting SMEs.

Even though the 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 mobilized USD4 million from development partners (GoZ 2014). The mobilized financial resources were used for the growth of SMEs. The performance could be much better had it been that the funding was adequate.

Government Partnership with Other Countries and Non-governmental Organizations

The Zimbabwean government realized that they could not successfully promote the growth of SMEs alone. Therefore, the government partnered with other governments and non-governmental organizations. Assistance rendered to SMEs in Zimbabwe was in the form of equipment, finance and training.

India and Zimbabwe partnered in the Indo-Zimbabwe Project to promote technology transfer to SMEs into carpentry and metal fabrication (MSMECD 2008; Kangondo 2012). The project was meant to provide SMEs with access to machinery. SMEs also buy spare parts from the technology centers (MSMECD, 2011). The Indo-Zimbabwe technology centers were first established at the Harare Institute of Technology, Bulawayo Polytechnic College and SMEDCO's Chitungwiza factory shells (GoZ 2008; Kangondo 2012). More technology centers have been established in Chinhoyi, Harare, Bulawayo, Gokwe, Marondera, Magamba, Plumtree and Lupane for the purpose of assisting SMEs in product development (MSMECD 2011). Indian experts are involved in training SMEs (Kangondo 2012).

The government of Zimbabwe through the MSMECD entered into an agreement with the National Small Industries Corporation (NSIC) of India so that they could establish an incubation center (Mandizha 2014). The incubation center is worth USD2 million and is meant to transfer technology to SMEs (Maromo 2015). The is further mentioned in the 2013 National Budget Statement in which the Ministry of Finance indicated that the government was working jointly with the government of India in facilitating the transfer of technology through incubation (Maromo, 2015). For the establishment of the India-Zimbabwe Africa Incubation Centre (IZAIC), the government of Zimbabwe contributed USD1 million and India contributed the same amount (Mandizha 2014). The center is meant to promote technology transfer in Southern Africa (Mandizha 2014). The center focuses on manufacturing SMEs (Muromo 2015). The incubation center 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 set up reduces the cost of staring a new business and the chances of business failure as advisory services are provided and SMEs are exposed to the world-class technology (Kangondo 2012).

The China Development Bank (CDB), a wholly government-owned financial institution, extended a credit facility of USD30 million to the IDBZ for the support of SMEs in Zimbabwe (Dube 2011). Such assistance was a result of the socio-economic and political cooperation between the governments of China and Zimbabwe. Part of the loan, USD10 million was meant for capital expenditure that benefits SMEs, while USD20 million was for working capital (Dube 2011). Loans were disbursed to SMEs at ten percent interest rate per annum for a period of five years. The repayment period provided SMES with some kind of long-term finance. However, bank requirements are so stringent that some SMEs could not access the loans (Dube 2011).

The government has also entered into partnership with non-governmental organizations to address challenges negatively impacting the SME sector. Techno Serve assists small-scale farmers and agro-businesses with credit finance (MSMECD 2012) as well as training. Empretec Zimbabwe, established by the United Nation Development Program has developed an entrepreneurial culture among Zimbabweans (Empretec 2011). The organization works in conjunction with the MSMECD. Empretec has succeeded in promoting SME development in Zimbabwe through training. Empretec has trained more than 15,000 entrepreneurs, eighty-five percent of those trained have established vibrant businesses, thirty-five percent are exporting products and over 20,000 jobs have been created (Empretec 2011). Therefore, the government partnership with Empretec has been a success.

A French financial development institution, PROPARCO, which is owned by the French Development Agency and some private shareholders, provided financial resources for the development of SMEs (GoZ 2015). In 2014 the institution provided loan facilities to the National Merchant Bank of Zimbabwe Limited (NMB Bank) and Central African Building Society (CABS) worth USD20 million for the support of SMEs (GoZ 2015). The loan facilities, which are five years long, have provided the much needed long-term financing for the growth of SMEs. However, the loans required collateral and the interest rates were too high for SMEs.

The Arab Bank for Economic Development in Africa (BADEA), an independent international financial institution that is owned by eighteen Arab countries in the League of Arab States has provided credit finance to SMEs in Zimbabwe (GoZ 2015). In February 2011, the government entered into an agreement with the BADEA for a loan facility of USD5 million (GoZ 2015). The government and the Commercial Bank of Zimbabwe (CBZ) were to contribute USD5 million each to the SME fund so that the amount available for loans to SMEs would be USD15 million (GoZ 2015). At the end of September 2014, SMEs received a total of USD7,884,204 from the loan facility (GoZ 2015). This indicates that the government partnership with foreign financial institutions has assisted SMEs through funding.

Promotion of Access to Local and International Markets

Creation of awareness of regional and international markets is one of the policy strategies (GoZ 2011). This entails providing information on the 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 Nation Trade Promotion Organization provides the Export Marketing Training Program for SMEs with a view to inculcate an export culture within these SMEs (MIC 2012). ZimTrade also provides information about foreign markets and develop new markets for SMEs (ZimTrade 2015). Such assistance partly explains why SMEs contribute about ninety percent of the economic growth in the country (Zindiye et al. 2012).

The Zimbabwe International Trade Fair (ZITF), an exhibition, which is held annually, accords SMEs and other businesses an 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 of finding markets locally and abroad (ZITF 2014). The MSMECD organized SMEs to participate in the ZITF in Bulawayo (Chirisa et al. 2012). The government also seeks to promote exports through trade missions, facilitating trade, use of media in advertising training SMEs for export and certification of products that meet international standards (ZITF 2014).

In order to promote the SMEs and large companies in the manufacturing sector and to protect local industries from international competition, import tariffs were increased in February 2007 (AfDB 2007). There was a reduction in tariffs on raw materials and the removal of customs duty on capital goods so as to allow locally produced goods to be 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 from ten percent to twenty-five percent on basic goods such as cooking oil, meali-meal (maize meal), jam and baked beans (GoZ 2011; Ndlovu 2011). Zimbabwe had relied so much 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 had faced stiff competition from cheap imports, especially from the Asian countries (Zimbabwe Broadcasting Corporation (ZBC) 2012), South Africa, Botswana and Mozambique (GoZ 2014).

Participation of SMEs in the Public Procurement

The Zimbabwean government established the indigenization policy to promote SME participation in the public procurement. SMEs can get supplying contracts directly from the government or indirectly through being subcontracted by large firms (Chingwaru 2014; Tsabora 2014). Such a policy was meant to promote SME growth by providing a market for SMEs and improving their cash flow (Mandiyambira 2013). Closely linked to the Indigenization Policy is the Indigenization and Economic Empowerment Act, 2007, which requires all government departments and companies to procure a minimum of fifty percent of their goods and services from the companies owned by Black Zimbabweans.

In their participation in the public procurement, SMEs are confronted with a myriad of challenges. SMEs lack the managerial and technical competences to perform government contracts (Musanzikwa 2014). Due to the lack in technical competences and inadequate capital, SMEs supply substandard products. Hence, it negatively impacts their competitiveness in winning government tenders (Mandiyambira 2013). Resultantly, they are driven out of business by large competitive businesses from China and South Africa (Nyoni 2014). In the previous 5 years most construction tenders have been given to companies from China (Tsabora 2014). SMEs may not have adequate financial resources to meet the financial requirement of bidding for government contracts (Mandiyambira 2013; Nyoni 2014). SMEs lack awareness of the government procurement processes, procedures and opportunities (Uromi 2014). This stifles their participation in the public procurement process. The time allocated for them to submit tenders is inadequate. Thus, many SMEs fail to get government contracts. Failure to obtain contracts leads to disappointment and frustration. Consequently, SMEs stop bidding for government tenders (Mandiyambira 2013). The government takes long before it pays the SMEs for services rendered or goods supplied. This is partly due to inefficiency caused by the centralization of the payment system. All payments for services rendered to the government are conducted by the Ministry of Finance, which in many cases, is inundated with much work (Zinyama 2014).

The procurement process is flawed with many irregularities. Corruption is rampant in the awarding of tenders (Zinyama 2014). Approximately seventy percent of the tenders that pass through SPB have an element of corruption in them (Bwititi and Towindo 2014). In 2014, the State Procurement Board issued a USD2 million tender to two security companies owned by one person (Bwititi and Towindo 2014). Such a move obstructed a competent SME in the security sector from getting a tender. Some officials at SPB provide consultancy services to bidders by preparing tender documents for them to meet specific requirements so that they get kickbacks after the tender is awarded to them (Bulawayo Progressive Residents Association 2010).

The Role of Higher Education Institutions (HEIs)

Higher education is a critical, indispensable element of entrepreneurship and the development of SMEs. The success of entrepreneurship and SMEs in any society is hinged on the quality of its higher education. The higher education institutions (HEIs) established by the government of Zimbabwe have played a significant role in the establishment and development of SMEs in Zimbabwe through training, technology transfer and provision of research information (Technopolis Review 2011).

The government encourages universities and polytechnic colleges to be actively involved in economic development. That explains why universities like the Harare Institute of Technology (HIT) and Chinhoyi University of Technology (CUT) have become centers of technical training and technology transfer for SMEs (Technopolis Review 2011; Freitas et al. 2012). The HIT has a technology center where students and SMEs are trained in order to understand the stages of product development, from invention to commercialization (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 the HIT. Manufacturing SMEs approach the Indo-Zimbabwe Project at HIT for spare parts of their machinery (MSMECD 2011). Other universities are also actively involved in research, training and technology transfer to the SMEs. HEIs also created a high caliber workforce for the SMEs. Large companies are closing due to the unstable macroeconomic environment leading to an increase in the number of the unemployed. Therefore, the university graduates from universities are being absorbed by the SMEs (Rwafa 2006 cited in Zindiye et al. 2012).

SMEDCO entered into a contract with the Harare Poly-technical College in 2009 so as to assist the corporation with the management of the 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 depicts the commitment of Zimbabwean HEIs in promoting SME development.

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 research findings provide an important source of valuable information for SMEs. Zimbabwean academics are thus an important part of SME growth in Zimbabwe.

METHODOLOGY

Methodologically, the study adopted a critical analysis of literature related to SME policies and strategies in Zimbabwe. Therefore, a desk research was conducted. The analysis of literature was done through the extensive reading of government policies, pieces of legislation, published books and journal articles that have information about the subject under study. The government policy documents, strategies and pieces of legislation since 1980 were reviewed. An assessment was conducted to establish the effectiveness of the policies and strategies in addressing the key challenges confronting the SME sector in Zimbabwe. The SMEs in the various sectors of the economy constituted the population under study.

RESULTS

The research sought to identify the policies and strategies adopted by the government and assess the effectiveness of these policies and strategies in addressing the key challenges confronting the SME sector in Zimbabwe. The policies and strategies adopted by the government focused on training and technology transfer, providing shelter for SMEs, provision of funding, business incubation and the participation of SMEs in the public procurement.

The research revealed that the policies and strategies to assist SMEs lacked coordination and the efforts were piece-meal. Various government ministries had a role to play in promoting SME development. However, their efforts were uncoordinated and each ministry did what it thought was beneficial to the SMEs. There was a duplication of activities leading to confusion and wastage of scarce resources. The MSMECD and the Ministry of Women's Affairs, Gender and Community Development duplicated their activities.

The government stressed on addressing the financial challenge as it was viewed as the key obstacle to SME growth. Little attention was paid to other challenges such as administration and management as well as access to proper infrastructure. SEDCO, ZDB, CGC, AFC, Agribank and RBZ are institutions that provided funding for SME development, but little was done to provide training in small business management, small-scale commercial farming and marketing strategies.

The loans provided by SEDCO required collateral, which SMEs did not have and the interest rates on the loans were too high. Many SMEs needed funding and SEDCO could not cater for all of them. Machinery was leased by SEDCO to SMEs at a cost that was high. Thus, not every businessperson had access to the loans and the machinery. The budget allocation for SEDCO in 2007, 2010, 2013 and 2014 was inadequate to effectively support SMEs. However, SEDCO managed to provide space for factories in Nyika Growth Point, Gweru, Chitungwiza and Gazaland in Harare.

The CGC operations were crippled by inadequate funding from the government leading to insufficient support for SMEs. The interest rates on the loans were too low and unsustainable for the CGC. Some SMEs took too long to pay back the loans. It was difficult for the funding to revolve to other SMEs. Thus, a few SMEs benefited from the CGC services.

Institutions such as ZDB, SEDCO and AFC demanded collateral, which the SMEs did not have. Therefore, it was difficult for SMEs to access funding. There was a high default rate on the loans advanced to SMEs. The government intended to create a revolving fund, but since the level of default was high, the funds were no longer revolving. This created a scenario where some SMEs could not access funding due to unavailability of resources for lending.

SMEs participated in the Business Expo in China while others attended a regional business exhibition in Zambia. ZimTrade, a national trade promotion organization has managed to provide training to SMEs on export marketing. SMEs also attended the Zimbabwe International Trade Fair in Bulawayo. This was a platform for SMEs to obtain information regarding the regional and international markets. However, a few SMEs could attend the local and international exhibitions and trade fairs.

Government partnership with non-governmental organizations and other countries managed to yield meaningful results. The partnership with TechnoServe managed to provide financial support to small-scale farmers and agro-businesses. Empretec has successfully assisted women in the arts and culture sector to penetrate foreign markets. Empretec, to date, has trained more than 15,000 entrepreneurs and eighty-five percent of these people have managed to establish vibrant businesses. The Indo-Zimbabwe Project improved the quality of products manufactured by SMEs, such as furniture and grinding mills. Entrepreneurs are using the Indo-Zimbabwe Technology Center for accessing spare parts for machinery.

The MSMECD was grossly underfunded such that it was difficult to fulfill its mandate. However, the MSMECD managed to ministry provide shelter to 6,363 SMEs, trained 11,936 SMEs, acquired buildings for business incubation and mobilized USD4 million from development partners. Entrepreneurs in rural areas do not have access to the services of the MSMECD, as the offices are located in towns and cities. The literature reveals that the Ministry of SMEs purported to have done marketing and trade promotions, training workshops and the construction of SME infrastructure in 2007, but there was no evidence on the ground. Very few people confirmed having benefited from the Ministry's operations.

The government established a policy to promote SME participation in the public procurement. However, SME participation in government contracts is stifled by corruption, lack of knowledge of the government tendering procedures and stringent capital requirements.

HEIs have played a critical role in SME development through the provision of training, technology transfer and business incubation. HEIs conduct researches and avail information to SMEs.

DISCUSSION

The extensive review of literature revealed that the policies and strategies, to a larger extent, have not yielded the required results, and largely not addressed the major challenges confronting the SME sector. However, some successes have been scored in some areas. Government efforts to assist SMEs were frustrated by natural factors such as droughts and floods, a poor macroeconomic environment characterized by high interest rates on loans, hyperinflation, a liquidity crunch, and a critical shortage of foreign currency, unfavorable exchange rates and shortages of commodities in shops. Such an unstable macroeconomic environment and natural disasters (such as droughts) weakened the government position to effectively assist SMEs.

These drought periods were so devastating that the annual GDP growth rates were negative. During the period of the land reform program (1998-2007), the GDP growth rate became worse. The economy of Zimbabwe was at its lowest ebb. The land reform program led to negative international publicity and became an unattractive investment destination. Even if the government desired so much to assist SMEs, it could not because of the unfavorable macroeconomic environment (ZEPARU 2013). Companies closed and the harvest on farms was poor leading to critical shortages of food. Prices of basic commodities increased, making it difficult for people to buy basic commodities. In such an environment SMEs were bound to fail.

From 2005 up to 2008, Zimbabwe experienced a hyperinflationary environment, which pushed up the interest rates on borrowings (ZEPARU 2013). Inflation rate rose from about two thousand percent in 2005 to approximately one hundred thousand percent in 2008. For SMEs, access to funding from financial institutions was difficult. The government could not plan to assist SMEs because inflation was rising every day at unsustainable levels (ZEPARU 2013). The Zimbabwean dollar became valueless such that SMEs were struggling for survival. The majority of the Zimbabwean population was fighting just to buy basic commodities.

The Zimbabwean government faces an SME sector with business people who have limited skills in the areas of business management and commercial farming (Chadamoyo and Dumbu 2012; Zindiye et al. 2012). The government created various finance vehicles to assist SMEs, but the business owners could not pay back the loans, some due to operational challenges while others willfully defaulted payment. SMEs in the farming sector diverted resources provided by the government meant for farming to other things such as buying expensive cars. The government provided inputs such as fuel (diesel), fertilizers, seeds, and chemicals to small-scale commercial farmers, but the farmers decided to sell the inputs. This stifled the growth of the SME sector. There was a need for the government to put in place a monitoring mechanism to ensure that all the inputs were invested in the land.

CONCLUSION

From the foregoing, it can be concluded that the government strategies have been, to a larger extent, ineffective in addressing the key challenges confronting the SME sector in Zimbabwe. Though frantic efforts have been made, challenges that still continue to bedevil the sector include lack of finance and infrastructure, as well as lack of management and technical skills. Some SMEs still need space for their activities as evidenced by overcrowding in the shelters constructed by government. However, the government has scored some spectacular successes in the area of technology transfer, the establishment of technology centers, providing training and creating strategic partnerships with the non-governmental organizations with a view to addressing challenges confronting the SME sector.

RECOMMENDATIONS

The government should continue having partnerships with the private sector, non-governmental organizations and other countries. The success of the Indo-Zimbabwe Project and the partnership with Techno Serve bears testimony to this. More non-governmental organizations should be allowed to take part in assisting SME development. Empretec has been instrumental in propping up the SME sector in Zimbabwe. When providing financial resources or any inputs to SMEs, an effective monitoring mechanism is required to ensure that the resources are used for the intended purpose. Before funding is made available to SMEs, it is important that business people be trained on how to manage the resources. A commitment in writing must be made by business owners that the funds will be used only for business purposes. The MSMECD should have offices in rural areas to provide rural SMEs with that with information and support that promotes SME growth. Over and above that, the government needs to work extremely hard to create an enabling environment for SME growth.

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