

EFFECTIVENESS OF ZIMBABWE'S SMALL AND MEDIUM ENTERPRISES POLICY: A COMPARATIVE ANALYSIS

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ABSTRACT

The study sought to compare the Small and Medium Enterprises (SME) policy of Zimbabwe against that of three other countries so as to draw insights on the effectiveness of the Zimbabwe SME policy. The failure of many SMEs to break even and transform into larger corporations coupled with the closure of other SMEs called for this study. The study analyzed SME policy documents of Zimbabwe, Namibia, Tanzania and Japan to find similarities and differences from which inferences and key lessons were drawn. The study found out that the major policy provisions that need to be addressed in the Zimbabwe SME policy are the relaxation of the registration and licensing procedures of SMEs and establishment of a SME bank existent solely for the purpose of financing SMEs. This is so since the major drawback to SME growth and sustainable development in Zimbabwe is lack of capitalisation.

Keywords: SMEs, policy, Growth, Development, Economy, Capitalization, Enterprises, Sustainability

INTRODUCTION

SMEs are the backbone of many an economy's growth especially through employment creation and introduction of innovative products and systems. Because of this, each country has an established SME policy that exists for the dual purpose of promoting the growth of SMEs and facilitating their contribution to the broader economy. SME policy is a critical space because in most countries the highest concentration of economic activity happens here (Tewari, Skilling, Kumar and Wu, 2013). The SME policy exists and functions under the auspices of different government ministerial bodies in different countries. Some countries have government ministries specifically existent for the driving of the SME policy, whilst in other countries the SME policy is steered by either the Industry and Commerce ministry or the economic development ministry. Whichever way it suffices to state that the bulk of national governments have a SME policy. To the degree that the national government views SMEs as of great importance to the national economy to the same degree that adequate resources and support systems will be established to support and effectively execute the SME policy. Zimbabwe is one of the countries with a government ministry specifically established for the effective execution and implementation of the SME policy. This is so as the country has realized that for sustainable development to take place in the economy SMEs should be given much priority as they contribute meaningfully to the gross domestic product. The focus of this study was comparison of the Zimbabwe SME policy against that of Tanzania, Namibia, and Japan.

Small and Medium Enterprise (SME) policy?

SME policy is an example of public policy. Public policy being a set of statutes and legislative measures formulated and effected by the government to oversee and govern certain activities and entities. SME policy is basically what the government does to impact, regulate and support SMEs. It is a chosen path of action by the government to influence activities within the framework of SMEs. It deals with administration of the SME industry and their services, matters affecting the development and growth of SMEs and also cultivating a thriving environment for them. The SME policy exists mainly because of information asymmetry. In Zimbabwe the SME policy is formulated by the Ministry of Micro, Small and Medium Enterprise and Corporative Development (MMSMECD).

Statement of the problem

All things being equal the existence of a SME policy in Zimbabwe would be expected to be seen through the successful growth and development of SMEs and their contribution to the national economy. However the reality on the ground submits contrasting results. Many SMEs in Zimbabwe are closing down due to business failure, and of those still existent few are successful with the remainder merely surviving. This begs the question 'is the Zimbabwe's SME policy faulty and in need of revision?' In other words with an SME policy in place why are Zimbabwean SMEs continuously failing to break even and grow? The reality of Zimbabwean SMEs gives room for this research to address the Zimbabwe SME policy in comparison with those from other countries.

Objectives of the study

In light of the research problem, the study has the following objectives:

- To examine the SME policy of Zimbabwe vis-à-vis those of other countries.
- To establish similarities and differences among the policies.
- To propose recommendations that will enable the Zimbabwe SME policy to adequately fulfil its mandate.

Significance of the Study

The empirical findings from this study will immensely benefit Zimbabwe SME policy makers by availing them with insights on the weaknesses in the Zimbabwe SME policy and on the strengths from other countries' SME policies that can buttress it. Once the weaknesses in the Zimbabwe SME policy are addressed, SMEs will benefit immensely and will be in a position to grow and develop into larger business enterprises.

LITERATURE REVIEW

The importance of the SME policy with regards to the regulation, welfare delivery and opportunity creation for SMEs is substantiated by literature available. A considerable amount of literature has covered the aspect of SME policy. In their study, Chingwenya and Mudzengerere (2013) delved into the SME policy in Zimbabwe. They explored the strides which have been taken by the government of Zimbabwe to formalize the informal sector and to mainstream it into the broader economy. Their study revealed that a number of initiatives have been established by the government of Zimbabwe to provide a policy framework which recognizes the informal sector. Interestingly Nyamwanza, Paketh, Mhaka, Makaza and Moyo (2015) conducted a research which produced contrasting findings to those submitted by Chingwenya and Mudzengerere (2013). Nyamwanza, Paketh, Mhaka, Makaza and Moyo (2015) carried out a study in which they used Glen View Area 8 SMEs to appraise the policies established by the Zimbabwean government to boost the survival and development of SMEs. Their study results indicated that with regards to addressing SME matters and creating a conducive environment for their growth, not much had been done by the government of Zimbabwe. These results are further confirmed by the findings from the study by Maunganidze (2013). His study on the role of the government in establishing, growing and developing SMEs revealed that the provisions proffered by the government were mere empty talk and very little had been done.

A study closer to this one is one by Majoni, Matunhu, and Chaderopa (2016). Their comparative study assessed the policies and difficulties faced by SMEs operating in Zimbabwe and South Korea. It emerged from their study that difficulties faced by SMEs in the two countries are the same, the major difference being the business environment. It came out of the study also that South Korea's policies are more supportive than those of Zimbabwe, resultantly the past decade has seen SMEs in South Korea contribute immensely to the country's GDP whilst Zimbabwean SMEs have not performed as expected. On the international scene a cross country comparative analysis of SME policy has been done by Shapira, Youtie and Kay (2011). Their study evaluated policies and programmes of technology extension for SMEs policies and programmes in the countries US, Japan, Germany, Canada, Spain, and Argentina. The study disclosed that innovation systems influence technology extension programmes of SMEs. Still another study on government policy with regards to SME is by Eniola and Entebang (2015). The study focused on the relationship between the policies of the Nigerian government and the SMEs. It was found out from the

study that SME performance was determined by the government policy they chose and the supportive schemes instituted by the government.

SMEs development in general has been encouraged as these operate at a small scale than larger corporations. As such they pose minimal threat to the environment because they do not emit pollutants or degrade the environment at the magnitude of large manufacturing companies. These have been found to promote sustainable development for the future generations. This promotes the adage which goes as ‘the environment is for us all, play your part to utilize our resources in a way that does not compromise the capacity of future generations to reap benefits from the resources’. The Zimbabwean SME policy does not directly emphasize on this aspect for SMEs (Maunganidze, 2013).

SME definitions

The following make up the SME definitions of the four countries under study; Zimbabwe, Japan, Namibia and Tanzania

Zimbabwe: The following define Zimbabwe’s SME sector.

Enterprise	Turnover
Small	<\$240 000
Medium	<\$240 000 < \$1 million

Source: *SME Association of Zimbabwe definition of SME (2012)*

Namibia: Namibia defines its SME sector by employment, turnover and capital employment.

Industry	Employment	Maximum Turnover	Maximum capital employment
Manufacturing	Less than 10	N\$1,000 000	N\$ 500 000
All other	Less than 5	N\$ 250 000	N\$ 100 000

Source: *Schultz and Schultz (2006)*.

Tanzania: Tanzania defines its SME sector by employment and capital investment.

Category	Employees	Capital Investment in Machinery (Tshs)
Micro enterprise .	1-4	Upto 5 mil
Small Enterprises	5-49	Above 5mil-200mil
Medium Enterprises	50-199	200mil – 800mil
Large Enterprises	100+	Above 800mil

Source: *Tanzania Small and Medium Enterprise Development policy Ministry of Industry and Trade (2003)*.

Japan: Japan’s SME sector is defined as follows:

Industry	Capital	No. of employess
Manufacturing	Up to 300 million JPY	Upto 20
Wholesale	Up to 100 million JPY	Upto 5
Services	Up to 50 million JPY	Upto 5
Retail	Up to 50 million JPY	Upto 5

Source: *Katua (2014)*.

Countries’ SME Policies

Zimbabwe’s Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD)

The Ministry has the mandate of formulating and implementing the SME policy. The Ministry has the following functions;

- Crafting and execution of policies for MSMEs.
- Weaving of a legislative fabric upon which growth and development of MSMEs can be realized.
- Advance and supervise MSME financing instruments that are growth and development-oriented.
- Supply entrepreneurial and managerial training to augment business skills of MSME owners.
- Foster MSME-large enterprise business networks.
- Offer advisory services to MSMEs and cooperatives.
- Ascertain that MSMEs and cooperatives are provided with basic facilities.
- Explore investment and marketing opportunities for MSMEs and cooperatives.
- Create and manage a data institution for MSMEs and Cooperatives.
- Oversee the MSME development Fund.
- Provide Financial and Administrative Services

These provisions feed into the SME policy for the country. The Ministry’s mandate is to see that SMEs are well catered for so that they contribute meaningfully to the development of the country.

Namibia’s Ministry of Industrialization, Trade and SME development

The vision of the Ministry of Industrialization, Trade and SME development in Namibia spells the focus of the SME policy as maximization of resources towards boosting the economy, the ultimate goal being creation of a conducive environment where SMEs can thrive and develop into larger enterprises. The policy targets objectives aligned with creating a framework for SMEs

growth. SMEs are viewed as a key ingredient for economic growth and success and provisions are made to uphold modernization and technology innovation. Recommendations in the policy touch on a number of issues;

- Increasing the ease with which SMEs do business.
- Removing of restrictive requirements regarding SME registration and formalization through the Business and Intellectual Property Authority (BIPA).
- Identification of mechanisms and systems that will result in reduction of taxes towards SMEs.
- Improving MSME access to tenders through revamp of the Namibia Competition Act.
- Easing of environmental regulations.
- Increasing access of MSME to financing through fortification of the SME bank and also through easing of the financial regulatory system.

Tanzania's Ministry of Industry and Trade

According to the Ministry of Industry and Trade (2003) the focus of the SME Development Policy is; 'creation of a thriving, evolving and growth-oriented SME sector through maximization of available resources'. The overall policy objective is centered on employment creation. The scope of the policy deals with a number of issues namely;

- Easing and relaxing of SME registration and licensing regulations so as to encourage more informal SMEs to become registered and participate in the mainstream economy.
- Tax system to be simplified.
- Allocation of land and underutilized buildings to SMEs.
- Inclusion of entrepreneurship skills training and development in school training so as to enhance entrepreneurial spirit in school leavers.
- Launch of an information center where SMEs can access all the business and industry information they need.
- SMEs and Information Communication and Technology service providers to network and create linkages.
- Facilitation of SME- large enterprises business linkages.
- Promote SME participation in trade fairs and international markets.

Japan

The focus of Japan's SME policy is on reviving SMEs through innovation. This revival of SMEs is pursued through various channels. The objectives of the policy focus also on;

- Enabling succession in management of SMEs
- Formation of new SMEs through enhanced technology
- Establishment of the Support Portal Site where SMEs can access all the latest support information and advice for their businesses from seasoned experts.
- Support and adequate resourcing of the nine universities across the country where entrepreneurs enroll to learn business management skills.

- Provision of financial support for SMEs diversifying into different businesses.
- Awarding the Japan Venture award for outstanding entrepreneurs who display excellent ability with regards to establishing a company.
- Support of SMEs through provision of unsecured low interest loans by the Japan Finance co-corporation. These loans do not require a guarantor.

METHODOLOGY

The study did critical review and analysis of literature and policy documents on SME policies of Zimbabwe, Namibia, Tanzania, and Japan. A comprehensive exploration of respective government policy documents and legislative documents was carried out. This involved an evaluation of the Zimbabwean SME policy vis a vis those from other countries so as to ascertain its effectiveness. The SMEs policy documents from the respective countries under study constituted the target population.

RESULTS AND ANALYSIS

The study sought to examine the SME policy of Zimbabwe vis-a-vis those of other countries, establish similarities and differences among the policies, identify possible areas of policy coordination between Zimbabwe policy makers and those from outside and to propose solutions that will enable the Zimbabwe SME policy to adequately fulfil its mandate.

SME policy comparisons

The research revealed similarities and differences between Zimbabwe's SME policy and that from the other three countries. The following make up the areas of similarity;

Endeavors by the government to improve SME access to financing. Like the other countries Zimbabwe's SME policy has a provision for the government to create opportunities to support SMEs through improving access to financing since one of the major challenges for many SMEs is capitalization. The Ministry through its subsidiary Small Enterprise Development Corporation (SEDCO) has a fund meant to cater for SME financing needs.

Training programmes for SMEs. The Zimbabwean policy for SMEs has a provision for training of entrepreneurial and management skills for SMEs. On a regular basis the Ministry organizes workshops and seminars where SME owners are furnished with the knowledge, skill and experience requisite for the successful growth and development of their businesses.

Creation of SME-large enterprise business linkages. The policy of Zimbabwe's SMEs advocates for the generation of business synergies between small and large businesses for the major purpose of transmission of financial, technological, and knowledge spillovers from large businesses to small businesses.

Inclusion of entrepreneur development in the curriculum of schools. The Zimbabwean government through the Ministry of Primary and Secondary Education has introduced teaching of entrepreneurship in schools so that business innovation and expertise is developed from the grassroots level upwards for the sole purpose of creating entrepreneurs who will establish successful businesses.

Promotion of SME participation in trade fairs and international markets. Every year the Ministry of Industry and Commerce hosts the Zimbabwe International Trade Fair (ZITF) where SMEs are strongly encouraged to participate since it opens up more business opportunities for them. The Ministry of SMEs in Zimbabwe also organizes regular trips to China and Dubai for entrepreneurs so that they in turn can turn around their businesses.

The following constitutes the policy provisions contained in the SME policies of the three countries but not addressed by the Zimbabwe SME policy.

Namibia

- Policy seeks to address spatial imbalances through establishment of SMEs in marginalized areas/rural areas
- Removing of restrictive requirements regarding SME formalization.
- Identification of mechanisms and systems that will result in reduction of taxes towards SMEs.
- Improving MSME access to tenders through revamp of the Namibia Competition Act.
- Creation of SME bank solely for SME financing.
- Easing of environmental regulations.

Tanzania

- Easing and relaxing of SME registration and licensing regulations so as to encourage more informal SMEs to become registered and participate in the mainstream economy.
- Tax system to be simplified.
- Allocation of land and underutilized buildings to SMEs.

Japan

- Enabling succession in management of SMEs.
- Support and adequate resourcing of the nine universities across the country where entrepreneurs enroll to learn business management skills.
- Provision of financial support for SMEs diversifying into different businesses.
- Support of SMEs through provision of unsecured low interest loans by the Japan Finance Corporation. These loans do not require a guarantor.

CONCLUSIONS

The study unearthed interesting findings regarding the SME policy of Zimbabwe, chief among them lack of clauses and provisions that address the issue of restrictive and prohibitive registration and licensing procedures for SMEs. Another pertinent issue that came out was regarding financing of SMEs, more needs to be done to financially support SMEs. The environmental aspect of SMEs is not very clear for all the countries under study although Namibia mentions the easing of environmental regulations. Zimbabwe while promoting the growth of the SME sector it has not dwelt much on the sustainability of development as this has an impact on future generations. However, despite this dimension Zimbabwe can do well in enhancing the growth of the SME sector by looking at other countries how they have been driving this sector ahead as is being done in Namibia, Tanzania and Japan.

RECOMMENDATIONS

The following are recommendations that could be incorporated into the Zimbabwe SME policy.

- Policy makers must relax SME registration and licensing requirements so that informal SMEs can become formalized and be able to access formal financing for their operations.
- The government must reduce taxes so that more SMEs can participate in the broader economy and contribute gainfully.
- An SME financing instrument in the form of an SME bank must be created solely for the purpose of financially supporting SMEs.
- More resources must be channeled towards research and development of the SME sector so that more innovative and efficient systems are introduced to boost performance of Zimbabwe SMEs.
- The government of Zimbabwe, through the MSMECD, must offer incentives to those SMEs whose activities, systems and structures promote sustainable development.

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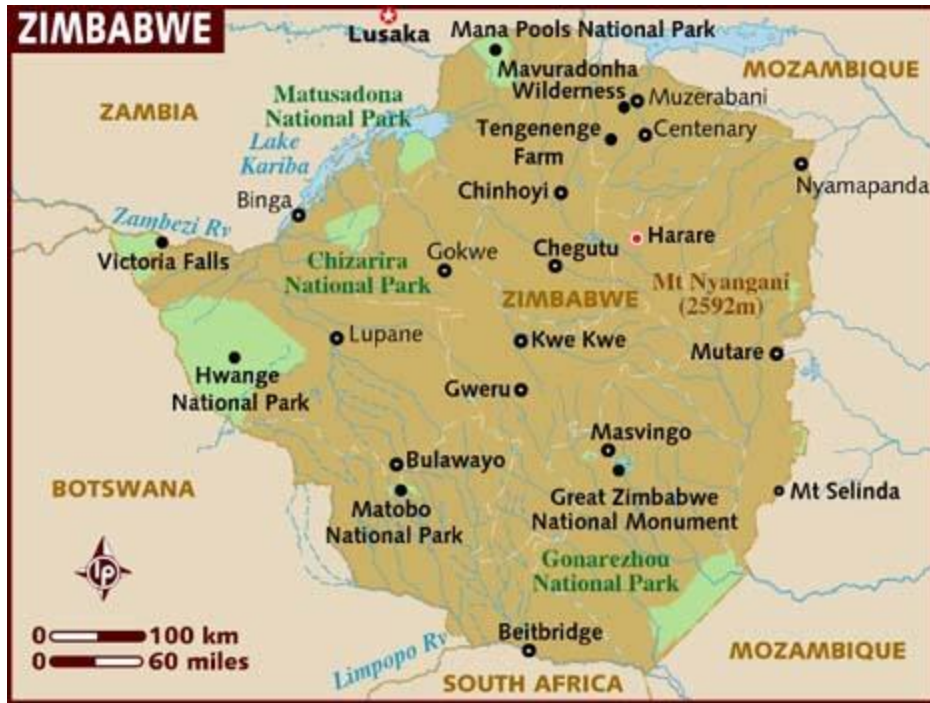
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Japan

