

## **Enhancing the Micro and Small to Medium size Enterprise Operating Environment in Zimbabwe**

Dr Elizabeth Marunda<sup>1</sup>, Dr Edmond Marunda<sup>2</sup>

<sup>1</sup>*Fettmer Consulting (Pvt) Ltd, Zimbabwe*

<sup>2</sup>*Tourism, Leisure and Hospitality Studies Department, University of Zimbabwe*

---

**Abstract:** *This article contributes to the development of a national draft policy for the Micro and Small to Medium size Enterprises (MSME) for the Ministry of Small to Medium Enterprise and Cooperative Development of Zimbabwe. The focus of this study was to collect information to enhance existing strategies geared at effectively implementing MSME registration, licensing and operations. A survey incorporating observations and semi-structured interviews was conducted amongst fifty entrepreneurs running MSMEs at the Market Square; a City of Harare designated business area. Findings from this survey showed that the business entrepreneurs had no infrastructure to work from, as they have to work in the open and are exposed to the vagaries of the harsh weather conditions resulting in poor revenues. They are neither registered nor licensed. The findings of the study confirmed the importance of formulating MSME formalization strategies as recommended by 2012 Fin Scope Survey Report and the 1998 ILO Geneva Conference Recommendation 189. The study recommends incorporation of proposed strategies into the Ministry of Small and Medium Enterprises and Cooperative Development policy draft.*

**Keywords:** *Business and Enterprise Development, Entrepreneurship, Micro and Small to Medium size Enterprises*

---

### **I. Introduction**

Zimbabwe's Micro and Small to Medium size Enterprises (MSME) sector employs a total of 5.7 million people and plays an important role in contributing to the national domestic product (Fin Scope Report, 2012). In Zimbabwe today, from an informal service sector point of view, the unemployment rate is estimated at 11%. This presupposes that at least 81% of the population works in MSMEs and these are considered by government to be employed. Although it appears as if this informal sector in Zimbabwe is too big, MSMEs drive economies of countries in other continents such as Europe, Asia and North America. Categorisation of MSMEs according to the Small Enterprises Development Corporation Amendment (2011) recognises individual entrepreneurs as having zero employees, micro enterprises as having one to five employees and small and medium size businesses as having six to seventy five employees.

The success of MSMEs is determined by the reigning business environment. To achieve this objective, Zimbabwe's Ministry of Small and Medium Enterprises (SME) and Cooperative Development is making frantic efforts to create an enabling environment through its development strategies.

The Fin Scope Report (2012) found out that of Zimbabwe's 3.4 million MSMEs, 85% are not formally registered or licensed and of the remaining 15%, individual entrepreneurs make up only 10% of the total comprising those that are formally registered and licensed. Therefore, the need to formalise operations of MSMEs is of prime importance in the drafting of the national MSME policy. This article proposes strategies and guidelines for the optimal formalisation of these MSMEs.

The following research objectives guided the study:

1. To establish strategies that enhance the proposed MSME policy framework; and
2. To identify interventions addressing MSME sector challenges.

### **II. Literature Review**

#### **2.1 The Role of MSME in Global Economies:**

Conry R (2013) defines entrepreneurship as the willingness to start and run a small and innovative business as well as taking risks associated with it. According to Schumpeter (2014) there are two major views to entrepreneurs, the first being the prevalent view, that entrepreneurs are people who run their own companies, the self-employed or small-business people and the second one being that entrepreneurs are innovators, people who come up with ideas and embody those ideas in high-growth companies. Clearly, an Entrepreneur is one who:

- takes initiatives by exploiting an observed opportunity in the form of a need or demand to be met;
  - making decisions about what needs to be done;
  - how it is to be done;
  - determining the quantity of goods and services to be produced;
-

- controlling business activities;
- conducting results based planning, monitoring and evaluation; and
- taking risks.

Khrystyna, Mirmulstein and Romalho (2010) posited that a generic definition of MSME is on the basis of the number of employees, 1-9 employees, micro enterprise, 10-49 employees, small enterprise, 50-249 employees, medium size enterprise. They added that some countries define MSMEs on the basis of annual turnover or investment. It is important to note that, one third of the economies under their study defined MSMEs as enterprises employing up to 250 employees. However local definitions of MSMEs are the norm.

Micro, Small, Medium size Enterprises owned by entrepreneurs may be formal when registered and licensed or informal, when not registered. An entrepreneur might be a sole proprietor, a partner or one with the greatest number of shares in an incorporated venture. It is the vision of many Zimbabweans and the Ministry of SME and Cooperative Development to see a transformation of MSMEs into big corporations. This becomes a pipe dream until all MSMEs are formalised.

In their study of 132 economies globally, Khrystyna, Mirmulstein and Romalho (2010) indicated that formal MSMEs are more common in high income economies and 83% of these, are micro enterprises.

## **2.2 MSME Registration, Licensing and Job Creation**

Bearing in mind that formalisation of MSMEs brings about job creation and employment, it is imperative to ensure that more MSMEs are registered, providing an enabling environment to facilitate business operations that increase profitability, enhance expansion, buttress job creation and employment. In India a company registered as a Small Scale Industry under the MSME Act enjoys several benefits including exemption on interest in the overdraft facility, bank financing and subsidies on the purchase of machinery (<http://in.linkedin.com/pub/msme-registration/38/4b0/801> visited 21/10/2014). The World Bank reports that in Mexico the moveable collateral registry created in 2010 has afforded MSMEs in that country the opportunity to draw loans for financing their businesses (<http://www.worldbank.org/en/results/2013/04/05/msme-finance-expanding-opportunities-and-creating-jobs>, visited 21/10/2014). The report adds that in China, the International Finance Corporation (IFC) supports women owned businesses affected by 2008 earthquake besides supporting women owned MSME businesses. Although the World Bank supports 60 countries worldwide in providing an enabling environment for MSMEs to the tune of US\$3.2 billion annually none of this is permeating to the Zimbabwean scenario. Evidently, the relevance of MSME formalisation and the role of MSME in job creation and employment have been expressed by Zimbabwe Ministry of SME and Cooperative Development through its strategic formulation of its vision: "To be the nerve centre for economic growth and empowerment through the development of MSMEs in Zimbabwe."

## **2.3 The Development of the Informal Sector in Zimbabwe**

Through the Economic Structural Adjustment Programme (ESAP), in the early nineties, the economic environment became characterised by industry based collective bargaining, failure to pay wages, retrenchments and increasing unemployment. This persisted after the economic depression following the year 2000. The 2009 Indigenisation policy has not attracted foreign direct investment to the expected levels. Its negative impact is further manifested in company closures and subsequent retrenchments, an increase of the unemployed who have swelled the street ranks and now eke out a living through unregistered micro enterprises, focusing on vending among other economic activities in various sectors of the economy. In a bid to earn livelihoods, unregistered MSMEs mushroomed and increased by the day. With vending demanding low capital and low educational qualifications, most people moved into street vending and at designated council business areas selling confectionery, clothing, vegetables and fruits. Given the current economic challenges, MSMEs in this informal sector are expected to contribute into the Government revenue, yet this sector is characterised by low intermittent earnings, resulting in negligible domestic savings and low disposable income making it difficult to sustain thriving businesses.

### **III. Research Methodology**

The researcher carried out a rapid research survey at the Market Square in the Harare Central Business District. Some fifty entrepreneurs were sampled into clusters made up of those vending on the streets, operating in privately owned buildings and those working in open spaces next to the designated vending points. Fifty face to face interviews were conducted on the basis of a semi structured interview schedule. Observations of the business environment were carried out during the interviews.

#### **IV. Findings**

##### **4.1 State of the designated vending area - Harare Market Square:**

Through observation, it was established that the Harare Market Square, a City Council designated space for vendors, has no supporting infrastructure to augment MSME business operations. There are no stalls to protect vendors against rainy conditions, winds and sunny weather. Respondents confirmed that the rental fees for Harare City Council designated space ranges from one dollar a day when selling fruits and vegetables, two dollars when selling confectionery and three dollars a day when selling clothing. Respondent lamented that there are no facilities for raising finances for operations or drawing loans. This position tallies with findings in the literature review showing that in low income countries, despite being the largest employer, MSMEs fail to secure risk management tools such as savings, insurance and credit to enable them to prosper and develop. They also complained that the minimum amount of US\$300 that is exempted from duty is too low.

##### **4.2 Undesignated Street vending areas around Harare Market Square**

It was observed that a lot of vendors sell along the streets. They fold cardboard boxes into tables to expedite their operations. Respondents whispered that obliging neighbouring shops provided them with storage space for which they paid 2 dollars per day. They intermittently run for cover when City Council officials come along to collect rents from them. They added that their goods are confiscated once they get caught. All vendors utilise the same rest facilities. The researcher observed that existing facilities have broken down toilet cisterns and the pipes are leaking. She noticed that one food take away shop provider correspondingly operates opposite and close to a broken down rest facility.

##### **4.3 Private vending spaces**

Some micro businesses operate from nearby buildings. The buildings are owned by private real estate agents. In one open room measuring at least 8 metres by 6 metres; at least 12 vendors are accommodated paying 90 dollars per month each. It was further observed that in this particular building the ablution facilities are in a deplorable state with water dripping out.

#### **V. Analysis**

In the absence of supporting infrastructure like vending stalls, vendors fail to maximise daily business working hours as they are forced to move to a shed away from their wares in a bid to avoid the scorching sun, rain and lightening, as well as excruciating cold. Ultimately, daily revenues are compromised. Given the poor state of the ablution blocks, the open skies under which they work and the storage fees paid, the total amount paid out by vendors further reduces their daily earnings.

Absence of proper wooden or metal tables makes the wares liable to dropping down and breaking up. In addition avoiding city officials distracts vendors from focussing on their businesses, in the process of evading the city officials, some wares drop and others are snatched away by the city officials, thereby reducing the ordered stock for sale. Vendors who run away from City Council officials do so to avoid paying fines and being detected as illegal vendors whose enterprises are neither licensed nor registered.

The broken down ablution block at the Market Square is a reflection of excessive usage as the toilet-to-people ratio including clients is over whelming. This further puts vendors and their clients at health risks especially during the rainy season as the outbreak of water borne diseases becomes highly threatening. In addition, the cleanliness of the take away shop and safety of the food is questionable.

Being crowded in a small room, vendors are deprived of fresh air, and should there be any disease outbreak, it would quickly spread and put many people's lives at risk.

#### **VI. Conclusion**

The main objective of the study was to establish strategies that enhance the proposed MSME policy framework. It is clear from the findings and analysis in this report that there is need to register, license and fund MSME operations. It was also the study's objective to identify interventions addressing MSME sector challenges. The following strategies can be employed to mitigate the identified challenges:

- Entrepreneurs need to be consulted on their choice of the vending locations;
- Improved working infrastructure for MSME operations are a prerequisite;
- User friendly vending stalls are necessary for MSMEs;
- Safe and clean ablution blocks are an imperative to provide a healthy environment;
- Cold rooms to increase the life span of perishables would be a welcome development;
- Tables with storage space should be provided by Council;
- Provision of bank loans to cater for seed capital and liquidity in MSME operations;
- Accessibility of credit, savings, and insurance; would offer the much needed security;
- Decentralisation of registration and licensing would speed up MSME formalisation.

These cited strategies would certainly create an enabling environment for entrepreneurs thereby persuading them to register their companies, license their operations. They would also be encouraged to pay rates and taxes regularly.

### **References**

- [1] Fin Scope Report (2012) [http://www.finmark.org.za/wp-content/uploads/pubs/FinScope\\_Zimbabwe\\_Broch13FNL.pdf](http://www.finmark.org.za/wp-content/uploads/pubs/FinScope_Zimbabwe_Broch13FNL.pdf)
- [2] Small Enterprises Development Corporation Amendment (H.B.9,2010) Zimbabwe Government.
- [3] <http://www.economist.com/blogs/schumpeter/2014/02/>
- [4] <http://in.linkedin.com/pub/msme-registration/38/4b0/801> visited 21/10/2014)
- [5] <http://www.worldbank.org/en/results/2013/04/05/msme-finance-expanding-opportunities-and-creating-jobs>
- [6] Khrystyna, Mirmulstein and Romalho (2010) Micro, Small and Medium Enterprises Around the World: How many are there And what affects the Counts? <http://www.ifc.org/wps/wcm/connect/9ae1dd80495860d6a482b519583b6d16/MSME-CI-AnalysisNote.pdf?MOD=AJPERES>