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Small and Medium Enterprises: Engines of Growth for Industrialisation and Modernisation

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Abstract: **The study sought to establish the reasons behind the failure by the existing Small and Medium Enterprises (SMEs) to grow and develop into productive economic entities to become the engines of growth and development in Zimbabwe. The proliferation of SMEs, started soon after the demise of big firms in the country, was viewed as the best option if the nation was to reclaim its former position as a rapidly developing country. The researchers carried out a qualitative research that sought the perceptions, experiences and views of SME operators, mainly those who went past the 5th year of operation and should have embarked on a growth trajectory; enhanced production, increased numbers of employees and annual turnover. The population was composed of SME operators in the City of Harare and who occupied rented office accommodation and had a strong reason to grow and proceed beyond just survival. The sample composed of purposively selected SME owners and operators who were engaged in interviews and focus group discussions. The data generation process reached a point of saturation with the eleventh interview and three discussion groups. The major finding was that most owners and operators started SMEs as an innovative survival strategy when theywere retrenched from companies that liquidated their businesses due to the hyperinflation of 2007-2009; they were never meant to grow but to provide a livelihood for the owners, who were averse to growth loans. Those that desired to grow were constrained by lack of credit or affordable funding sources,they operated in a restrictive regulatory environment and they did not have, at their disposal, a support mechanism, like mentorship by successful operators. The other reasons for failure to grow included a phobia for bad debts, lack of transport, scarcity of operating space, inadequacy of raw material and fear of natural disasters for those in the agricultural sector. The main recommendation was that the government could put in place a private SME Funding Authority that received a budget from government and funds from other sources, like donations, for lending out at very competitive interest rates, and purely on business considerations. The other recommendation was that other researchers could pursue the suggested funding method and suggest how to operationalisethe Authority to the best advantage of the SMEs. The conclusion was that the available empirical evidence indicated that, if afforded adequate support, SMEs could be the engine of economic growth and development to the nation.**

Keywords: **growth, development and engine.**

1. PREAMBLE

Small and Medium Enterprises (SMEs) are business concerns that are usually started by individual entrepreneurs for a variety of reasons; most concerns are started for a survival purpose. The general classification starts with the individual entrepreneur, who works alone and includes the street vendor; the micro stepwise that employs an average of five workers, and the small enterprise, which is higher than the micro enterprise. In this paper, the micro enterprise is merged into the small classification. FinScope (2012) defines micro, small and medium enterprises by the number of employee each employs: a micro business employs one to five (1-5) people; a small business employs six to between thirty and forty (6 – 30/40) employees, depending on the MSME sector; and a medium business employs between thirty-one/forty-one to seventy (31/41 – 75) people. An entrepreneur does not employ any worker. Apart from considering the number of employees, an SME is defined by the total annual turnover that must not exceed one (1) million dollars and have a gross value of assets that is two (2) million dollars or less. The SME founding Act defines a small to medium enterprise as one registered in terms of their legal status and employing anywhere between 6 to 100 workers.

Reading through most of the literature quoted in this paper, a distinct impression is created that the policy framework and other regulatory provisions are primarily meant to control and supervise SMEs, but not to enable them to function at their optimal levels. The provision of financial resources appears as an issue at the periphery of concern and intention. The criticality of providing strong financial assistance to SMEs, at concessionary terms, seems to be understated.

1.1 Background to the problem:

The statistics in the preamble and in this section indicate that there are many definitions to Small and Medium Enterprises (SMEs), but this paper recognises and adopts the classification given in the SME Act, given below. The hyperinflation of 2008 caused the closure of most of the industries in Zimbabwe and forced those retrenched to open backyard business concerns where they provided services using the skills that they acquired during the time they were employed; these were enterprises born of the need to survive. The closure of industries forced retrenches to individual enterprises, some of which grew into micro enterprises, some grew into small enterprises and others grew further into medium enterprises. The statistics in Table 1 show that the SMEs have assumed a position of importance in the economy and, like in countries that suffered similar fate in the past, the economy now depends for its growth and development on the SMEs. The purpose of this paper is to show the government, commerce and industry the role that a supported and funded SME sector is the engine of economic growth and development for the nation.

The New Economy (2016) defines an MSME in terms of the SME Act (Chapter 24:12) as a legal business entity defined by the following variables: number of permanent workers; capitalization, excluding fixed assets; turnover; and, sector. The classification of SMEs is illustrated in the following table.

Table 1: Classification of SMEs by economic sector

Sector	Size/class	Maximum total number of full time paid employees	Maximum total annual turnover $	Maximum gross value of assets (excluding immovable property) $
Agriculture	Small	35	530 000	260 000
	Medium	75	1 000 000	500 000
Arts, Entertainment, Culture, Education and Sport	Small	35	530 000	260 000
	Medium	75	1 000 000	500 000
Mining and Quarrying	Small	45	1 550 000	1 550 000
	Medium	75	3 000 000	2 000 000
Manufacturing	Small	45	530 000	510 000
	Medium	75	1 000 000	1 000 000
Construction	Small	45	1 550 000	1 010 000
	Medium	75	2 000 000	2 000 000
Energy	Small	45	530 000	1 010 000
	Medium	75	1 000 000	2 000 000
Financial Services	Small	35	530 000	260 000
	Medium	75	1 000 000	500 000
Transport	Small	45	530 000	260 000
	Medium	75	1 000 000	500 000
Retail	Small	45	530 000	260 000
	Medium	75	1 000 000	500 000
Tourism and Hospitality	Small	35	530 000	260 000
	Medium	75	1 000 000	500 000
Services	Small	35	530 000	260 000
	Medium	75	1 000 000	500 000

Source: New Economy

Note: *The micro enterprise class was collapsed into the small enterprise class for ease of reference*

According to FinScope (2012), MSMEs in Zimbabwe employ an estimated 5.7 million people, 2.8 million people are owners of MSMEs and 2.9 million are employees, with 22% of the employees working full time; the figures relate to those above 18 years of age, adults. Apart from formally employed workers, there are those who are not paid because they are spouses working in the businesses; 5.9 million people, almost all the adult population, are engaged in SME activity. The same research produced findings that indicate that 73% of MSME owners are over thirty years of age; 53% of owners are female; 66% of MSME owners are located in rural areas; 71% of owners possess secondary school education; and 65% of the owners are heads of households. Most businesses (39%) operate from residential premises; the majority (85%) are not registered; 40% of the businesses are in the start-up stage; and 31% of the businesses are in the maturity stage of development; and 71% of the businesses have been in operation for 5 years. FinScope (2012) estimates that the turnover of SMEs in 2012 was USD7.9billion, the contribution to GDP is overlooked. Where MSME owners do not earn enough to sustain their livelihoods, they supplement with earnings from their employment or other sources of income. The motive of starting a business was need to survive. For the purpose of the current paper, micro enterprise aspectis subsumed into the small enterprises sector to remain with small to medium enterprises (SMEs).

APEC (2016) issued a statement reaffirming the importance of SMEs in Peru and other South American nations; recognise SMEs as engines of economic growth and prosperity. SMEs are important because they engage in economic activities and act as a source of innovation and employment; SMEs are capable of effecting an economic structural reform that is a source of economic sustainability, which affects economic policies, best practices and strategies. The ministerial statement recognises the importance of supporting the internationalisation of SMEs and encourages the formation of private-public partnerships; it encourages partnerships between SMEs and business and SMEs and government. The statement further encourages the exploitation of SMEinnovation capabilities, the improvement of the policy environment and SME growth through innovation. APEC (2016) applauds greening micro, small and medium enterprises for a sustainability initiative; also applauded is the attainment of sustainable development through decarbonising economic activities, the protection of the environment. Practising sustainable production methods and the enhancement of the sustainability of livelihoods of local communities.

Ministerial Conference (2014) reiterates the criticality of effective reporting frameworks for SMEs in an endeavour to enhance their business environment. The statement was passed by European and Central Asian nations and the same could be said of local SMEs. The conference realised the importance of SMEs as the drivers of economic growth and development, through innovation.

A research by the South Africa Institute of Chartered Accountants (SAICA) (2015) indicates that entrepreneurs, who were optimistic and enjoyed 100% shareholding of the business, started most SMEs. The entrepreneurs were the sole directors and the Chief Executive Officers rolled into one. This resonated well with the Zimbabwean experience. In a Feature Story (2010), India recognises the role SMEs play as engines of growth, and gives an example of a SME firm that grew to employ more than 400 people. A vibrant SME sector is attributed to a high and inclusive economic growth where many jobs are created, productivity increased exponentially; employees were better skilled and better educated. The National Economic Development Plan of South Africa indicates that 90% of new jobs in 2030 will be created by SMEs (SAICA, 2015), which might seem extremely ambitious but it is informed by current developments.

In an interview, Hove (20 October 2017), the Secretary General of the Zimbabwe Chamber of SMEs, says the SME contribution to Gross Domestic Product of 40% recorded in 2014 and anticipated that with support the figure could increase to 45% in 2017. He, however, was not optimistic due to the depressed economic activities on the ground and the high country risk.

Gonzalez, quoted in The Financial Gazette (20 October 2017) says there are over 50 million SMEs in Africa that employ 60% of the continental workforce. A full realisation of the potential that SMEs represent would need nations to unlock the potential through enabling and businesses conducive policies and funding mechanisms, and assist SMEs access proper markets. SMEs should be helped to move up the value chain, enhance competitiveness and access regional and international markets. The assistance that governments should render to SMEs should ensure they reduce poverty by increasing trade through job creation that results from growth and development of the national economies. The local SMEs made up 7% of the country’s business and they were the country’s biggest employer and formed the backbone of the economy.

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2. STATEMENT OF THE PROBLEM

Empirical studies indicate that SMEs in growing and developing countries contribute more than 55% to Gross Domestic Product (GDP); Zimbabwean SMEs contribute 40% to GDP. How can Zimbabwean SMEs increase their contribution to GDP to equal or surpass the average contribution of 55%?

2.1 Research questions:

1. Main question

How can SMEs increase their contribution to GDP?

2. Subsidiary questions

i. Why do SMEs contribute only 40% to GDP?

ii. How could SMEs be assisted to increase their contribution to surpass 50% of GDP?

3. PURPOSE OF THE STUDY

The study intended to establish how SMEs could become the engine of economic growth and development.

4. SIGNIFICANCE OF THE STUDY

The study contributes to knowledge on Small and Medium Enterprises. There are many varieties and nuances to the composition, operation and survival of SMEs that needs to be unpacked and made known to stakeholders.

The government has a responsibility to assist the SMEs, both materially and financially, and it must do so on the basis of accurate information. Government needs accurate information about SMEs in order to construct relevant policies.

The SMEs need to know themselves and how they interact and how they are integrated into the national economic arena.

5. DELIMITATIONS OF THE STUDY

The study focused its attention on the operations of SMEs in the capital city, Harare, and across the different types of SMEs, as long as they had existed for over five years and had physical space from which to operate. The study focused on the contribution to GDP of SMEs in the country

6. ETHICAL AND LEGAL CONSIDERATIONS

The researcher adhered to national and ethical legal requirements in the conduct of the study; the researcher explained the nature and reasons for the study to participants, who were asked to voluntarily participate. The participants were free to discontinue with interviews at any time and they did not need to state a reason. Participants were anonymous and treated that way, and their contribution to the study was not divulged to anyone and their names were not recorded.

7. REVIEW OF RELATED LITERATURE

The literature that was reviewed related to the contribution of the Small and Medium Enterprises to the Gross Domestic Product of the country. The intention was to understand the reasons why SMEs failed to grow their business concerns and increase output as well as contribute significantly to GDP.

7.1 Economic context of the country:

According to FinScope (2012), the Zimbabwean economy suffered from a hyperinflation that led to a decimation of the local currency. This led to an adoption of a multi-currency regime and an end to hyperinflation. The current challenges include a sharp decline in industry capacity utilisation, a decline in exports, low investment, and low basic social service, scarce raw material for industrial production and inadequate infrastructure. A vibrant SME sector should be able to resolve some of these economic challenges; they are an indispensable part of the economy and can contribute immensely to the creation of employment, the attainment of sustainable development and to an increase in GDP.

The government created a financial facility, the Small Enterprise Development Corporation (SEDCO), to provide financial needs to SMEs. The assistance is in the form of business management training, the provision of financial resources and the provision of business infrastructure meant to enable SMEs to contribute significantly to the nation's economic growth and development. SEDCO is funded through contributions from the Reserve Bank of Zimbabwe and the SME Revolving Productive Fund. However, SEDCO has faced funding challenges in the injection of funds that have forced it to offer microloans ranging between USD500 and USD5000; these sums may not significantly improve the trading situation of SMEs (FinScope, 2012). The assistance in the form of training and management capability is vital for two basic reasons; SME owners create the business due to survival need, not the desire to own a business because of capability, and the level of education of the owners is generally low. FinScope (2012) statistics show that 90% of owners have a maximum educational qualification of Ordinary Level, 9% have an Advanced Level or college qualification and 1% possess a university degree.

7.2 Benefits of SMEs:

According to Frimpong (2013), SMEs have greatly contributed to the economic growth and development of many countries; the total value added to GDP by SMEs to China is 60%, 55.3% in Japan, 47.3% in Malaysia and 50% in Korea. SMEs provided 85% of the employment in the manufacturing sector and 75% to the GDP in Ghana, until the country started producing oil. According to Frimpong (2013), empirical studies show that SMEs contribute upward of 55% to GDP and employ 65% of the people in high-income nations; they contribute immensely to national economic growth and development.The three main areas of contribution were the services, manufacturing and agriculture; the same areas are important to the Zimbabwean economy, which is agriculture-based.FinScope (2012) indicates that SMEs contribute to poverty alleviation; they act as a retaining wall preventing households from slipping deeper into poverty due to the survival mode of most SMEs. In an interview, Hove (20 October 2017), the Secretary General of the Zimbabwe Chamber of SMEs, says the SME contribution to Gross Domestic Product of 40% recorded in 2014 had increased to 45% in 2017.

7.3 Financing of SMEs:

New Economy (2016) indicates that SMEs access financial services from a variety of sources, one of which is the promotion of savings and credit cooperatives. The Small and Credit Cooperatives (SACCO) is a member owned cooperative meant to promote thrift, provide credit at competitive interest rates and the provision of other financial services to members. However, the noble intentions of SACCOare grossly affected by the inability of members to contribute viably to the fund. The different savings and credit cooperatives formed the National Association of Cooperative Savings and Unions of Zimbabwe. These cooperatives are affected when member unions struggle to fund their contributions; the union was designed to sustain the operations of the SMEs into the next generation of SMEs. The SMEs need to raise money individually to fund their activities, because the union funds are nearly always inadequate. They are "not able to raise money directly in the capital markets and are mainly dependent on the traditional bank financing" which is limited as the SMEs usually fail to satisfy the needs of the lending banks (New Economy, 2016:15). Banks should innovate and introduce creative banking practices that can benefit SMEs.

World Bank (2014) acknowledges that SMEs are critical to any economy because they are engines of growth and economic development, but they need to have effective financial reporting systems that provide transparent, accurate and reliable financial information used for decision-making.

7.4 Formalisation of SMEs:

A research carried out by the Ministry of Small and Medium Enterprises and Cooperative Development (MSME & CD), in 2016, revealed a few notable findings. The SMEs believe that formalisation makes it easier for them to operate their business from legal locations, access a certificate or licence to enable the business to trade legally and the SME would be able to create conducive working conditions for their workers. The advantages of formalisation are that there is freedom from harassment by law enforcement agencies, loan access is possible, it is possible to access business development services and the availability of large markets to which bigger sales could be made. The conclusions were that the Ministry's formalisation strategy could only be successful if the Ministry were informed of the benefits accruing from formalisation, the benefits to the SMEs should be clarified and the implementation of the strategy needed to be efficient and effective. TheSMEs needed training in business management, marketing and staff management. However, the SMEs felt formalisation opened them to the payment of taxes and increased their operating costs when they were not viable enough for the enterprises to absorb the costs.

The formalisation statistics of SMEs indicates that 17% of SMEs are licenced by local authorities, 17% of SMEs are registered with the Registrar of Companies, 6% of SMEs are registered with the Registrar of Cooperatives and 7% of SMEs have other forms of registration. The problems cited against registration are that the process is cumbersome and expensive, and it takes an average of 90 days to exhaust the process. The minimum cost of registration, without travel and subsistence expenses, is USD68 514; some owners proffer ignorance of the registration process and remain unregistered; and the businesses are deemed too small to be registered at such high cost. Some owners do not register because they do not see the value or benefit of registering, some claim to have tried but were unsuccessful, some do not have the time and others claim that the process is complicated. SMEs do not realise that registration renders compliance with national laws, prevents harassment from authorities, they can access government assistance and help from the private sector, opens up access to raw materials and clients.

The concept of a One Stop Shop was approved by 70% SMEs; the concept of the shop was a result of the concerns raised by SMEs against formalisation/registration of their businesses. SMEs felt the process was expensive, (62%), there was a lack of confidence in the economy as a wholedue to political instability (30%), the local authorities imposed prohibitive by-laws (9%) and the registration offices were far removed from the business locations (8%). The approval was based on a perceived attraction of the One Stop Shop in that it would be accessible, quick, efficient and offered transparent service.

SMEs failed to expand their concerns and to access financial assistance because they were afraid of the law enforcement agencies who could come and close their enterprises due to non-formalisation; the threat of a visit from Zimbabwe Revenue Authority (ZIMRA) was a real deterrent to SMEs that wanted to exercise their full business potential. The major constraints of SMEs are limited access to financial services, red tape in formalisation process, problems in growing and operating the businesses, lack of effectiveness in operational structures and inadequate infrastructure.

7.5 Challenges faced by SMEs:

Frimpong (2013) cites the lack of access to credit and lines of affordable funding as the most critical challenge that SMEs faced and this hindered the realisation of their full contribution to the national fiscus.South Africa Institute of Chartered Accountants (2015), a body that provides SMEs a platform to raise their voice, established in a research that the success of SMEs depended on the type of mentorship that they received, especially from their more experienced SME peers. The other finding was existence of government red tape, or bureaucracy, that caused many potential SME operators to shelve the idea, or postpone it for long periods.

India, in a Feature Story (2010), bemoans the lack of funding for SMEs that force them to borrow from the private sector at prohibitive interest rates; it entered into an agreement with the World Bank as a source of affordable financial resources.

According to Gonzalez, quoted in The Financial Gazette (20 October 2017), the local SMEs pose a huge opportunity to be an incubator of jobs and economic growth if right policies were instituted; the policies should guide the skills, financial inclusion, competitiveness and other efforts that the government wanted to formulate. SMEs were characterised by lower salaries, lower working conditions and lower contribution to GDP, and this had to be changed through the formulation of enabling policies. The skills mix for SMEs was not appropriate because the university and college graduates did not possess the skills that the SMEs needed; training should be offered to the graduates. The major change needed was to identify an appropriate way SMEs accessed financial resources; the government needed to assume responsibility and offer benefits like tax havens, concessionary loans and loan repayment periods.

In an interview, Hove (20 October 2017), the Secretary General of the Zimbabwe Chamber of SMEs, says the critical area of concern in the sector is the unfriendly policies that are in place. There is no grace period SMEs are afforded before they pay taxes, after an SME entered into the sector. The USD90 million loan facility that was put in place in May 2017 was not accessible because SMEs did not have collateral and the Act of Parliament on movable property as collateral was taking too long to operationalise. SMEs and entrepreneurs who needed loans registered their movable property with the Reserve Bank of Zimbabwe and funds providers accessed the movable property register lodged with the RBZ to assess how much funds to lend the prospective candidate.

Hove (20 October 2017) says the Implementation Matrix for the MSME Policy Framework (2014 – 2018) is not implementable to MSMEs due to the nature of the policies that need to be implemented; they do not advance the cause of the enterprise. He gives the first policy goal as an example: To stimulate economic growth and create wealth. The policy should be premised on a clear funding platform and access to professional training to equip SMEs with the proper knowledge and skills; the policies should be a collective responsibility among all parties involved in their implementation.

Hove (20 October 2017) continues to say that SMEs use own funds or funds they borrow from the private banks and any other sources of funds that ordinarily require specified forms of collateral. This type of SME financing becomes expensive and unreliable.

Although 57% of SME owners are financially included, they use financial products and services for managing their businesses, the 43% of owners who are financially excluded are a cause for concern. The excluded should be assisted to expeditiously adopt financial inclusion. The major challenges faced by MSME owners relate to access to finance, securing financial resources, lack of raw material and the inadequacy of working space.

8. GAP ANALYSIS

An analysis from all the empirical studies focused on local SMEs reveal that most researches concentrated on reasons why they are not registered, why most of them are liquidated before they are five years old and reasons why they do not grow as economic entities. The current study focused on their contribution to the GDP.

9. RESEARCH METHODOLOGY

The study adopted a qualitative paradigm that is significantly inclined towards the interpretivist philosophy. The study sought to access the perceptions, experiences and beliefs of participants, who are owners and operators of SMEs. These were accessed through in-depth interviews that were extended into telephonic discussions because some of the participants were too busy to allocate time for prolonged in-depth interviews. The target population of the study consisted of SME owners who operated their business concerns. A point of saturation in the interviews was reached on the tenth participant. The generated data were coded and these codes were transcribed into themes. Each theme, which was a response to a research questions, was broken down into subthemes to extend the response to each question.

10. FINDINGS OF THE STUDY

Table 2 outlines the particulars of the owners and operators of SMEs. Their ages and experience as SME owners indicate that most of them ventured into business to survive the challenges of unemployment, when one had to provide on the table for the family. Their ages and educational qualifications, coupled with their years of experience in business, render the participants an honest and dependable group of business people.

Table 2: Biodata of participants

Name of owner (pseudonym)	Age (Years)	Educational qualification	Profession	Years of experience
KudzaiShumba	46	Degree	Accountant	7
Simon Pfende	58	‘O’ level	Machinist	8
KudakwasheChakanetsa	43	‘O’ Level	Boilermaker	6
Susan Nyathi	47	ZJC	General hand	7
MarbelChakwesha	44	‘A’ Level	Nurse	9
MufudziMukaradzi	57	‘A’ Level	Tinsmith	8
Robson Mhazi	52	Degree	Metallurgist	8
TabethMukabeta	61	Diploma	General Nurse	8
MasimbaMubayi	39	Degree	Historian	6
Timothy Mukwenha	67	Degree	Lecturer	9

The study’s findings are reproduced in themes that were broken into sub-themes and in answer to the research questions. The major reason for the failure by SMEs to produce enough to contribute beyond 50% of the GDP is the lack of financial support, especially by government. The study’s response to this is to propose the setting up of an SME Financial Authority, whose sole responsibility would be to finance SMEs on affordable conditions.

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Table 3: Themes and sub-themes

Theme	Sub-Theme	Sources
None availability of funding	• Bank accounts • Reliance on personal source of money • We do not get financial support	In-depth interview Telephonic interview
There is no assistance for SMEs	• Provide own funds for capital expenditure • Operators not trained • Lack of mentors • Business space is expensive • Bureaucratic operating legal framework • Taxes too high • Expensive and long formalisation process • Government not involved	In-depth interview Telephonic interview
Many strategies to help us succeed	• Open banking facilities • Successful operators must help others • Access to government business • Training facilities for SMEs • Construct affordable operating shells • Provide incentives	In-depth interview Telephonic interview

SMEs fail to grow in order to produce more and contribute to GDP because most of them were formed for innovative survival reasons; the owners were retrenched through liquidated companies in the hyperinflationary era. The owners did not have a reason to grow their business as long as they earned enough income to survive; some owners relied on personal savings and other forms of income personal income in fear of debt. Generally, SMEs lacked financial resources to grow their operations.Most of the operators in the small enterprise sector did not own bank accounts and did not transact through banks; financial exclusion was a hindrance to growth. Additional reasons cited for lack of growth included the intensity of competition, scarcity of additional operating space, bad debts, lack of transport, inadequate availability of raw material, bad weather and fear of natural disasters, mainly for those in the agriculture sector.

In a situation where financial assistance and training are offered, the SMEs could follow the trend in South Africa. The South Africa Institute of Chartered Accountants (2015) states that two-thirds of all the people who started a business would start at least one more business. A third of all those who started a business would start at least three (3) more businesses and 3% of those who started a new business were likely to start ten (10) or more businesses. It also established that the longer an SME existed, the higher the turnover, the larger the SME grew and the larger the employment figures grew and the greater the contribution to the GDP; the SMEs needed to be assisted with funding to enable the growth process to take place. This resonated well with the study as this is the trajectory the SMEs should take.

11. WAY FORWARD

Government could include SMEs in their procurement system by making it mandatory for government departments to procure a certain percentage of their needs from SMEs; this way government could become a catalyst for SME establishment, growth and development. A decision could be taken to pay SME suppliers to government departments faster; this could be achieved through a mentoring process where SMEs are taught how to complete government forms, manage their financial records and create linkages between the parties. Specific areas of assistance could be in accounting and reporting, risk identification and management, general business advice, cash-flow management and fund sourcing.

A tender process for SMEs could be instituted, different and less bureaucratic than the normal tender process that could be managed by an SME Investment Authority. The payment process to SMEs could be restricted to an agreed timeframe.

The Institute of Directors could be requested to assist SMEs with governance issues, the training of SME personnel in good governance practices and the production of a governance manual, a Code of Conduct for SMEs. The Institute could provide mentors or advisors to SMEs, where necessary.

11.1 Financing matrix:

The main reason for SME collapse and failure to grow rests with their inability to access financial support from government and from donor community; most of these businesses rely on own funds. This paper acknowledges the existence of a number of financial models being used by government to fund the SMEs, especially the savings and credit cooperatives, bank lending and donations from a variety of donor agencies. There seems to be a lack of a viable framework to coordinate all various efforts and pool the resources from, which a central resource pool could be managed.

The paper proposes the establishment of an SME Financial Authority that supervises and coordinates all SME funding activities at national level. The national authority could formulate a financing policy framework, implement the framework through provincial chapters and supervise the operations of each provincial authority. The key stakeholders, the SMEs, would be involved in the boards of the authority, especially at provincial level. The authority could be founded on an Act of Parliament to enable it to exercise its powers in an effective and efficient manner, backed by a legal provision that allowed it to call both the provincial authority and individual SMEs to account for their action, demand restitution and prosecution where the need arose.

The SME Financial Authority coordinates all fund sources in the market, whether from the private or public sectors; SME funds should be managed from one basket for accountability purposes and they are allocated to provincial offices against need. The authority also allocates funds against sectors that have need and are contributing to the economic growth of the nation in a meaningful way. The agriculture sector would get a bigger portion of the funding since the Zimbabwean economy is agriculture-based.

The national authority opens provincial chapters to manage the financing of all provincial business initiatives that qualify for funding. The local authority should keep a register of all SMEs in the province, by sector, location and other necessary detail. The individual SMEs that required funding would apply to the provincial office. The application and processing should be done through a transparent and fair process and the outcome should be known within given timelines.

The financing framework should be related to the One Stop Shop registration process to enable each registration to be filed with the financing authority. Since the success of each SME is the concern of government, the availability of financial assistance to each SME should attract government concern. The government could levy the business community to contribute to the SME fund, like a portion of their tax that can be re-routed to the national authority. The SME that accessed funding from the national authority could be given a repayment holiday of a year during which they put in place their systems and consolidated operations, before they are encumbered by loan repayments. The interest rate from the loans should be minimal to allow borrower SMEs to have enough financial resources for speedy growth; a manageable interest rate results in SMEs applying for bigger loans to fund bigger projects that grow the economy faster.

The majority of SMEs were founded for survival purpose and the owners could be reluctant to grow them, but if funds were made available at competitive cost, most owners could decide to grow them into big organisations. A few SME owners are not prepared to enter into a loan agreement if they feel they are exposing their enterprises to credit risk that might threaten the survival of their families; they need to feel that the loan benefits their enterprise.

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