

Economic Policy Reforms and Meso-Scale Rural Market Changes in Zimbabwe The Case of Shamva District



**Edited by
LOUIS MASUKO**

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Chapter 7

INSTITUTIONAL SUPPORT SERVICES AND ECONOMIC POLICY ENVIRONMENT FOR RURAL MICRO AND SMALL-SCALE ENTERPRISES: THE CASE OF SHAMVA

Neddy Matshalaga

Institute of Development Studies, University of Zimbabwe

1.0: INTRODUCTION

1.1 BACKGROUND

The Micro and Small Scale-Enterprises (MSEs) have emerged as the panacea to the rising unemployment problem prevailing in Zimbabwe. One of the reasons why unemployment is rising at a higher rate than that of employment creation has been the retrenchments resulting from the implementation of the Economic Structural Adjustment Programme (ESAP). In order to address the growing problems of unemployment, policy makers have therefore taken measures to promote the growth of MSEs. The policies shall be discussed later in this chapter.

Considerable support has been given to MSEs by the government, local authorities, pressure groups, donor agencies, non-governmental organisations, and the private sector in the areas of financial assistance, infrastructure, training, marketing assistance and technology. However, such support has mostly benefitted the urban-based MSEs at the disadvantage of rural-based ones.

The promotion of MSEs should be looked at in the light of the fact that three quarters of Zimbabwe's population lives in the rural areas. The recent Government of Zimbabwe Poverty Assessment Study (1996) shows that there is a higher proportion of poor people in rural areas than there is in urban areas. If the standard of living for the majority of Zimbabweans is to be raised through the growth of MSEs, there is therefore need to include the rural sector in any policy measures targeted at the growth of MSEs.

Prior to the implementation of ESAP, the prevailing policy environment and a multiplicity of regulations inhibited the growth of MSEs. The introduction of ESAP marked a turning point in the policy and institutional environment in which MSEs operated. The case study of rural MSEs in Shamva District is an attempt to assess the impact of the changing economic environment on the growth and development of rural MSEs.

1.2 OBJECTIVES OF STUDY

The objectives of this study are therefore:

- To assess if an enabling environment for the growth of rural MSEs in Shamva has been created.

- To identify major constraints to the growth and development of Shamva rural MSEs.
- To identify existing institutions that have been supporting rural MSEs in Shamva with a view to assess their impact on the promotion and growth of the MSEs.
- To identify the institutions with potential to contribute to rural MSEs development.
- To explore interventions, which are critical to the development of indigenous MSE institutions in rural areas.
- To identify training needs for the rural MSEs and make recommendations on how existing and possible new institutions can offer capacity building to the rural MSEs.

1.3 METHODOLOGY

The data for this study was collected using both qualitative and quantitative methods. The rationale being that certain information concerning MSEs could not be collected using traditional survey methods.

1.3.1 Qualitative Method

Interviews

Structured interview schedules were developed to interview key informants from the major parties involved in the provision of institutional services and economic policy development of MSEs. The parties that were interviewed were:

- a) Representatives of NGOs that support MSEs or call for indigenous business development. The sample consisted of 17 such institutions.
- b) Key informants from the local authority which is Chaminuka Rural District Council.
- c) Key informants at Ponesai Vanhu Training Centre, a local training institute in the district.

Focus Group Discussions

These were conducted with randomly selected groups of rural entrepreneurs from all the wards in Shamva District. Two groups were selected from each ward. Each group comprised of men and women, the rationale being that any gender issues that may exist in rural MSEs could be included in the study.

The focus group method is valuable in obtaining a range of information, views, opinions and attitudes on the particular topic.

1.3.2 Quantitative Method

Questionnaires were administered. These were targeted at both MSEs in Shamva and the institutions that service small and medium enterprises. The main issues relating to MSEs that the questionnaires focused on were:

- Demographic Characteristics
- Household information
- Institutional Services
- Finance
- Policy and Advocacy
- Training
- Infrastructure
- Organisational affiliation

1.4 DEFINITION OF MSEs

MSEs are found in virtually all the sectors of the economy, from the primary producing sectors such as agriculture and mining to manufacturing and the service sector. Sectoral demarcations can be illusory as some activities span into more than one sector because of linkages.

Consequently MSEs are defined differently by different organisations. Some define MSEs by the number of employees and others by the amount of capital that has been employed. For example, the Commercial Bank of Zimbabwe (CBZ) defines a small business as one that employs a maximum of 50 people with maximum assets of Z\$200 000 excluding land, and a medium business as one that employs a maximum of 100 employees with maximum assets of US\$ 500 000 excluding land. Since their thresholds are maximums, that means that anybody within that range can be categorized in the MSE sector. In considering loan applications they require 100% security and will also consider viability of the project. The above definition clearly shows that most of the rural MSEs would not qualify for financial assistance as they do not have the required capital and do not own land. This explains why the loan facility schemes which government has introduced have not benefitted the real target group. As long as banks and financial institutions continue to demand collateral in the form of land, the rural MSEs will not benefit at all.

The Small Enterprise Development Corporation (SEDCO) on the other hand, defines small and medium scale enterprises as firms that employ not more than 50 people with assets worth not more than Z\$2 million. It was only one and a half years ago that they disregarded assets and now only use size of company as the criterion. Although SEDCO made this welcome move of removing the issue of assets in their definition, there is still a problem in that they also require collateral when one applies for a loan. Although they give loans of up to \$5 000 to existing businesses on the strength of the viability of their business, this amount is too small for some people who may want to establish big businesses.

BESA-IBDC defines small to medium scale businesses as those with up to 150 people with a capital base of up to Z\$3 million excluding land. This definition continues to give the problem of asset base and ownership of land. The concept of MSEs is thus elusive and difficult to give a single definition.

It is important to note that all the above definitions exclude the rural-based MSEs, whose asset base is not that high and they do not own any land. Nevertheless there are a lot of MSEs operating in rural areas, and so for the purpose of this study of the Shamva District, MSEs shall be defined as, "An income generating venture employing at least five people, and making some profit out of the business". The sample for the study was therefore made on the basis of this working definition.

1.5 LITERATURE REVIEW

There is not as much in-depth literature on rural Small and Micro Enterprises as there is for the urban informal sector. It is however believed that there is a lot of unconsolidated data in organisations. This in a way may indicate the marginalisation of the rural sector. Nevertheless, Government policies and objectives have been very clear in terms of their aim to develop rural areas and increase employment through the promotion of Small Scale Enterprises.

Policies meant for the development of the rural areas were clearly spelt out in the First and Second Five Year National Development Plans. At that time the main thrust was in the improvement of the rural areas in terms of the provision of infrastructure and social services. This in essence did not result in the improvement of incomes for the rural people as they still rely on agriculture for their livelihood. As such government realised the need to create a conducive environment for investment in rural areas. They then came up with the "Growth Centre Policy", whose main aim was to attract investment at growth points. Several growth points were thus designated with each province having at least one growth point. They came up with a number of incentives that would encourage people to invest at the centres. Noteworthy of these incentives were; tax holidays, subsidised service charges, cheap land etc.

Nevertheless the growth centre policy was not very successful in creating a conducive policy environment for the rural MSEs for a number of reasons. Firstly, the criteria used for the location of the centre was more political than economic. As such most of the centres did not have a resource base and were not suitable for investment and hence they failed to grow and ended up being referred to by some authors as "death points".

Secondly, for the few that managed to attract investment, it was not necessarily the rural MSEs that came to invest, but rather some large urban-based companies decentralised to the centres so that they could benefit from the tax incentives offered there. The rural MSEs failed to take advantage of this policy as they had other problems of finance, lack of title deeds and general lack of entrepreneurship.

Again, the drive to decentralise and attract development activities to growth points in order to provide jobs, shelter and basic amenities was also hampered by some problems that are characteristic of concentration. These are; lack of

safe water supply and sanitation, inadequate solid waste management and depletion of surrounding natural resources. It can therefore be concluded that although the growth centre policy was one major policy which government introduced in an effort to improve investment and incomes for rural people, it did not in essence achieve the objective of encouraging the growth of rural MSEs.

The introduction of the Economic Structural Adjustment Programme in 1991 saw the government introducing policies meant to increase investment in the country as a whole. It nevertheless placed more emphasis on the promotion of the MSE sector. The major policy statement of ESAP 1 was to improve the status of MSEs as it clearly states that "the informal and the small to medium scale formal business sectors of the economy together have the potential to make a major contribution to wealth and to employment creation" (Government of Zimbabwe, *A Framework for Economic Reform 1991-1995*). The broadly stated objectives of Economic Reform Programmes were to improve the standard of living of people by facilitating the growth of investment, macro-economic efficiency and employment creation. This was to be done through trade liberalisation, fiscal and monetary policy changes as well as deregulation of the economy (Grieson and Moyo, 1993). The Economic Reform policy document explicitly recognises MSEs and the removal of barriers to development as a lay product and stimulus to improve economic efficiency.

ESAP 11 (ZIMPREST) also puts the growth and development of small and medium scale enterprises among its major ingredients of the reform process. "To ensure continuity, in the post-1995 period, government will consolidate the gains of the first phase of the reform programme, successfully conclude the unfinished business of ESAP Phase 1 and rectify the failures and mistakes made during the same period" (ESAP 11 Internal Discussion Paper, Ministry of Finance). This obviously also applies to the growth and development of the MSEs.

Although government's policy objectives in ESAP was to promote the small scale enterprise sector, the question raised is whether much was done to establish a conducive rural institutional environment that would ensure that the rural sector received all the assistance they require, in terms of finance, training, technology and marketing. The government established such institutions as Small Enterprises Development Corporation (SEDCO), Zimbabwe Development Bank (ZDB), Venture Capital Company of Zimbabwe (VCCZ) and the Credit Guarantee Company of Zimbabwe (CGCZ) to offer financial services to MSEs. Under the Poverty Alleviation Plan (PAAP), government also provided funds through the budget in support of micro and small enterprises in both rural and urban areas. In 1992/3 fiscal year, as part of the social dimension of ESAP, government provided \$100 million in addition to the SDF which is disbursed through commercial banks, SEDCO and finance houses (ILO/SAMAT, 1995).

Various MSEs institutional support and co-ordination arrangements emerged in the late 1980s and early 1990s as part of the indigenisation lobby (Moyo, 1995). By 1989, a group of black entrepreneurs or business pressure groups evolved. The pressure groups formalized themselves to form the Indigenous Business Development Center (IBDC), Indigenous Business Women's Organisation (IBWO), Women in Business (WIB), Rural Trader Association (RTA), Zimbabwe Women Finance Trust (ZWFT), just to mention a few (Grieson *et al*, 1993).

Private and NGO support for MSEs emerged in earnest only after 1989/90 (Grieson and Moyo, 1993). Commercial Banks and other financial institutions opened small MSEs lending "windows" in 1991/92 period. Older business lobbying organisations such as Confederation of Zimbabwe Industries (CZI), Employment Confederation of Zimbabwe (EMCOZ), have only truly established MSEs special programmes after 1990 (Grieson and Moyo, 1993).

A wide range of NGOs play a vital role in supporting micro and small-scale non-agricultural enterprises. They provide women groups in business and income-generating projects with training in business management and marketing. These groups have been substituting for the weak linkages of Indigenous Small Enterprise Institutions (Skarpa, 1991).

A review of institution support systems for MSEs after 1985 shows the mushrooming of many institutions that are meant to assist MSEs as a whole. One big question that remains is, "have these mushrooming institutions, financial or otherwise, positively benefited rural MSEs?" A quick review of the work of these institutions in rural MSEs will thus follow.

The government has channelled through the Credit Guarantee Company (CGC) and other financial institutions, substantial funds which have been specifically targeted at small and medium size businesses. These funds are commonly referred to as the \$100 million and \$400 million "Special Facility" (Goz, 1996). For MSEs these are substantial investment funds. How many of the rural MSEs have had access to these funds? It would appear like an insignificant proportion of rural MSEs (0.7%, 1993) have had access to such financial resources (Gemini, 1993). The reason for this has been the discriminatory selection criteria used by the institutions and the fact that there is no universal definition of MSEs. It would be interesting to look at some of the definitions that are used by the institutions and finally derive a working definition for the Shamva District Study.

Although a number of institutions have been set up to assist small scale enterprises, the criteria used for the selection of beneficiaries leaves out a number of deserving cases (ILO/SAMAT, 1995). Whatever the difference in the definitions, the majority of financial institutions through their conservative lending practices have marginalised the majority of rural MSEs. Rural MSEs as a result have limited or no access to national financial "special facilities" that are set to service them.

The mere location of the financial institutions in major urban centres with no branches in rural areas further shows that they are meant to serve the interests of urban entrepreneurs. For rural entrepreneurs, travel costs to and from the towns and cities where these agencies are located are prohibitive. In addition, for the majority of MSEs, the amount of paperwork needed to secure a loan from a bank or finance house is often formidable (*Ibid.*).

Other sets of constraints for rural MSEs which are closely related to obtaining loans from financial institutions can be grouped as "technical constraints". These include among others, lack of capacity to identify opportunities, project formulation, lack of collateral and many others (*Ibid.*). While there are organisations like IBDC-BESA meant to provide technical, training and management support services to the small scale sector, rural MSEs have not been well serviced by these institutions. The "weak" institutions available, have tended to service MSEs in urban than rural areas. (Moyo 1995) points out that lack of MSEs institutions serving growth points is striking. This gap is rather disturbing if one considers that more than 70% of MSEs are located in rural areas. Rural areas seriously need the development of MSEs if the historical economic imbalance is to be reduced.

A few indigenous institutions for MSEs support (rural/urban) do exist but they lack continuity and policy advocacy capabilities. Such weaknesses limit the extent to which such institutions can benefit from Economic Reform Programmes. It also limits their ability to forge for policy reforms that will benefit MSEs growth and development. (Moyo, 1995) rightly points out that MSEs' access to various ESAP investment incentives, their participation in local equity markets and access to foreign exchange benefits has not been impressive due to limited capabilities of indigenous small enterprise institutions. Deregulation measures, which were expected to lower the barriers of MSE entry into the mainstream economy, have been slow to come for similar reasons.

The literature review has shown that the problems which face MSEs are numerous and complex. They include a weak policy and institutional framework, location, finance, infrastructure, equipment, technology, technical, marketing and management skills. Most importantly, it should be noted that the policy environment favours large and urban-based enterprises at the expense of the rural MSEs. There is need for authorities to consciously facilitate the development of rural MSEs so as to increase both employment and the sector's contribution to the national economy. Government cannot afford to grope in the dark in the absence of an explicit policy on the development of rural MSEs, for to do so would amount to neglecting a sector which has been identified as having a high potential for drastically reducing the level of unemployment and poverty in the country.

2.0 RESEARCH FINDINGS

2.1 FINANCIAL SUPPORT FOR MSEs

Data collected for the study was structured in such a way that institutions provided their views on the assistance they offer to Shamva MSEs. Equally so, MSEs in Shamva said what they thought of the institutions and the support they get or do not get from them. What follows are views of institutional support services to MSEs in Shamva district.

2.1.1 The View of Financial Institutions

Seventeen institutions which support MSEs whose headquarters are in Harare were approached. The institutions include Zimbabwe Development Bank, ISTRAW (GTZ), USAID, Stanbic Bank, NORAD, Fredrick Newman Foundation, CZI, Zimbabwe National Chamber of Commerce (ZNCC), UNDP, ITDG, Social Dimensions Fund (SDF) and ZIMTRUST.

The services provided by these institutions are financial, training in business management and provision of infrastructure. Of all the institutions approached, 75 percent provide training to both rural and urban MSEs, 89 percent offer training services, 56 percent offer financial assistance and 67 percent offer infrastructure and technical services. Of the institutions that cater for rural constituencies, only 42 percent had branches in rural areas. Both quantitative and qualitative data indicated that most of the institutions set to help MSEs did not have offices in Shamva. If these institutions are to assist the MSEs meaningfully, then they need to have branches in Shamva.

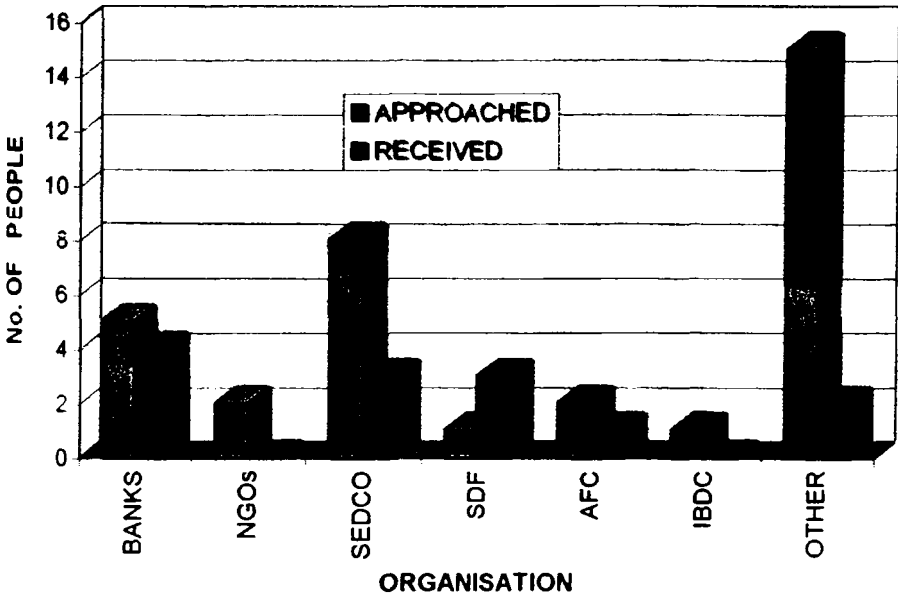
Institutions said they face some problems when dealing with rural MSEs in general. They indicated that most of the rural MSEs were not commercially viable. This makes it very difficult for them to support rural MSEs financially. Almost all the institutions that give loans to rural MSEs are not happy with loan repayment. Most rural MSEs fail to pay back the loan to the institutions. The same observation was made of Shamva MSEs.

For the success of rural MSEs and in particular Shamva MSEs, about 33 percent of the institutions proposed a serious approach to business on the part of the MSEs, motivation for development into new areas and improvement of infrastructure. The institutions also cited the need for title deeds for rural land and business premises so as to increase chances of the MSEs accessing formal loans. Decentralisation of banks to rural areas was also cited as a strategy that could increase the MSEs' access to financial resources.

2.1.2 The View of Shamva Rural MSEs

The majority of MSEs in Shamva are ignorant of the institutions that are supposed to work with them. The institutions that were approached by some Shamva MSEs were Banks, NGOs, SEDCO, Agriculture Finance Corporation (AFC), and SDF.

Fig. 1: Organisations which were approached and assistance received



The bar graph above shows the organisations which were approached by some MSEs for financial assistance. Against each organisation, the number of MSEs that applied for loans and those who received is also indicated. About 79.1 percent did not approach any financial institution for assistance. This seems to indicate that many MSEs lack knowledge of where to get capital to start their businesses or perhaps fear to take up risky ventures.

Only 11% of the MSEs got loans from financial institutions. According to the study, no female entrepreneurs received financial assistance from the institutions. Many a times, female entrepreneurs are faced with technical problems such as lack of collateral hence fail to access business loans. In a focus group discussion with both male and female entrepreneurs at Madziwa, one female entrepreneur with potential of being a prosperous entrepreneur explained how her effort to access a loan was fruitless due to lack of collateral.

I run a butchery and a bookshop. Through business meetings, I heard about Credit Guarantee Company which gives loans. With a desire to expand my business I approached my bank, Zimbank in Mt. Darwin and obtained application forms from CGC. CGC came to assess the viability of my business. The assessors were satisfied with the way I run my business. They approved a loan of fifty thousand dollars, which I had to

get through my bank. When I approached the bank for disbursement of the loan, they turned me down on grounds that I had no collateral.

The facilitator of the focus group further asked the woman entrepreneur what steps she took to get the approved loan. The woman responded as follows:

Normally when we attend big meetings of CGC in Harare, we are told that we can get loans even if we do not have collateral. I went back to CGC who convinced me I could still get the approved loan. On return to my bank, this time I was told that the bank had no money. I think this was a polite way of sending me away because I had no collateral.

Discussions with MSEs in focus groups also revealed that most of the rural MSEs in Shamva District are not aware of the financial institutions which can offer loans. Some of the MSEs have a vague knowledge of these financial institutions. They indicated that they had heard of some entrepreneurs who had been assisted by institutions such as SEDCO and SDF.

Two of the participants of a focus group held at Chakonda rural business centre had received some loans from different institutions. One of the male entrepreneurs, a retired civil servant from the police force had received a loan of \$96 000 from SEDCO. The entrepreneur explained the conditions of the loan and what he used the money for. To quote the entrepreneur:

I obtained a loan of \$96 000 from SEDCO in 1993. I have to pay back the loan in five years. I have done so for four years now. I pay \$3 000 per month. When the interests and other cultivates were added, the figure went up to \$105 000. I used the loan to finish up the construction of a bar, butchery and supermarket. I purchased refrigerators which you saw on your way in.

The facilitator interrupted the entrepreneur and further probed if he was grateful and happy with the conditions of the loan. The businessman continued:

While I appreciated this loan, there are many problems associated with it. The interest of 12.5% is too high. Regardless of whether I make a profit or not, I am expected to pay my monthly instalments. In drought years, this is a problem because people have low buying power and realise less profits. I did not get any grace period after receiving the loan. Because of high interest rates and no grace period, very few of the entrepreneurs who have received help from SEDCO have benefited from such loans.

The second participant of the focus group at Chakonda who received financial assistance got it from the Ministry of National Affairs and Employment Creation. The entrepreneur is a welder. He received a loan of \$20 000. He was given a grace period of 6 months. He was happy with the conditions of the loan. He used the money to buy machinery needed in his business.

Some owners of MSEs applied for loans and failed to get them as indicated in the bar graph above. Most of the owners were turned down because they had

no collateral. Some MSEs owners were refused loans because of old age, no licenses for their business, and improper applications. One entrepreneur at Madziwa in a focus group discussion indicated that applications from rural business entrepreneurs were turned down because of their poor quality. To quote his expression:

A lot of us don't know how to write proper proposals. Our own children do our cashflow documents. Urban entrepreneurs have better knowledge of writing project proposals, more so on computers. Our document written on poor khaki paper, I am sure are never read and thrown in the bins.

There was a very strong feeling among the participants that urban MSEs are the ones who get the loans from financial institutions because of their priority to the sources of money and they also believed that these institutions were set with a bias towards serving the urban constituency. Some of the rural entrepreneurs also expressed the view that, being isolated in the woods, they had few connections with people who work in banks. Loans, they said, were obtained on the basis of whom you know at these banks. The entrepreneurs then called for:

- Easy access to finance.
- IBWO, SEDCO, IBDC's expansion and intensification of their operations in rural areas.
- Knowledge in accessing the above organisations.
- The formation of an organisation for rural business people.
- Training in rural business management.

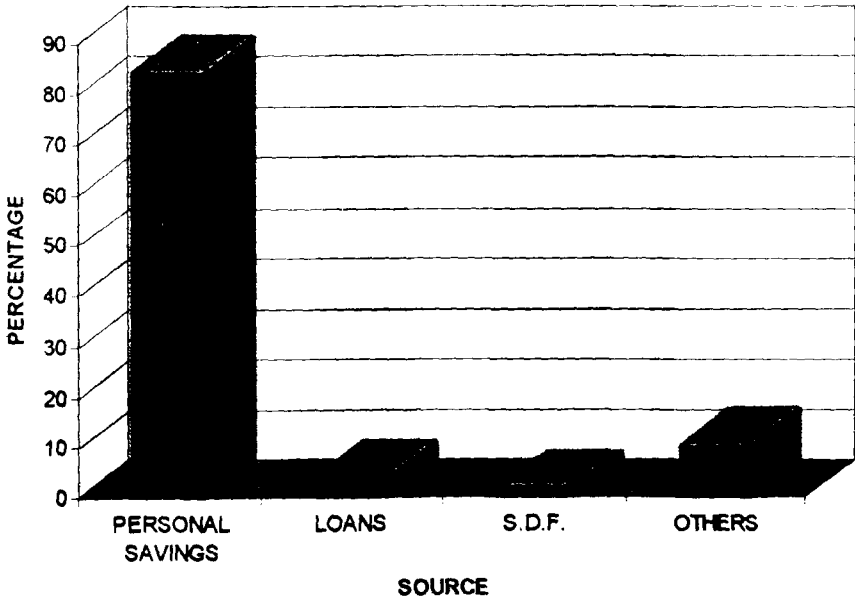
2.1.3 Alternative Sources of Capital for Shamva MSEs

The above discussion has shown that financial institutions only manage to assist a tiny fraction of the Shamva MSEs. The next question to ask is "What then are the principal sources of capital for the MSEs?" The bar graph below summaries the main sources of capital for the MSEs in Shamva.

The majority of Shamva MSEs get capital to start their businesses from personal savings, mostly made from farming. The savings are then used to buy a few tools and materials to start a business in the case of welding, electronics and other similar trades. For retailing, the savings are used to buy stock purchases. A few entrepreneurs start off using employment benefits such as pensions, retrenchment packages or savings made whilst they were formally employed. A small fraction of the entrepreneurs inherited their business from parents.

2.1.4 Institutions With Potential to Serve the Interests of Shamva MSEs

The question of potential organisations/institutions which could best serve the interests of Shamva MSEs was raised. Both quantitative and qualitative data analysis indicated that SEDCO was the institution with the capacity to assist

Fig. 2: Principal source of capital

the MSEs. In the focus group discussions held at Wadzanayi Township in Shamva Urban and Madziwa Township, entrepreneurs believed that the only way they could be successful is if they present their problems as a group rather than as individuals.

At Chakonda Business Centre entrepreneurs were not of the idea of forming a new organisation. They believed it would take many years for a rural representative organisation to be formed. During that time there would be a vacuum. They thus thought that every businessperson must continue standing on his/her own being supplemented by returns from farming. Alternatively SEDCO should get more financial resources and have increased rural outreach programmes. The third suggestion from the Chakonda group was that donors should be brought in direct contact with rural business entrepreneurs so that their assistance does not remain within the institutions that purport to help rural MSEs.

2.2 THE PROVISION OF INFRASTRUCTURE FOR SHAMVA MSES

2.2.1 The View of the MSEs

During a dissemination workshop with rural MSEs in Shamva the entrepreneurs expressed their views on the role of Chaminuka Rural District Council as follows:

- Council is not promoting MSEs and there are no roads to most centres.
- Council does not consult business people when formulating policies especially the introduction of the unit tax in 1996.
- There are too many charges and entrepreneurs have to pay unit tax of Z\$500 per year (a person with a bottle store, butchery and bookshop pays Z\$1 500 per year for the three units), Z\$200 for license and Z\$240 per year service charge (for the bins, roads and toilets).
- Council still expects entrepreneurs to pay for the repair of toilets in addition to the service charge.
- Some of the centres do not have piped water and flush toilets but entrepreneurs there still pay the service charge.
- Council always says there are no business stands because they do not have serviced stands.
- Where business stands are available, council also insists on collateral and wants an entrepreneur to have at least \$50 000.
- Council charges end up hiking rental charges for rented premises.

2.2.2 The View of Chaminuka Rural District Council (CRDC)

An interview with the Chaminuka Rural District Council revealed the following facts about their role in the development of the MSEs:

- The CRDC is the land authority and thus makes land available to the MSEs, especially those situated at designated business centres and growth points.
- Provides services like water, electricity (through ZESA), roads, and public health education facilities.
- It is the licensing authority to legalise all training and development.
- In situations where construction takes place and subsequent ownership by the developer the CRDC facilitates the processing of lease agreements, and approve the building plans.
- Facilitates the title surveying of land at growth points, although they also rely on the Department of the Surveyor General (which is always over-subscribed) for the surveyors.

On the other hand, the RDC also cited a number of problems it faces in its dealings with the MSEs. The Council specifically agrees that the provision of water at established centres is slow as the cost of the infrastructure is too high. Again the issue of surveyors raised above, creates problems as the Council is normally under pressure from developers wanting stands but cannot provide until the surveyors have pegged the stands. For the viable running of the RDC, it also requires businesses to pay service charges, license fees and unit tax, but faces problems as most of the businesses are defaulters. This makes it difficult for the Council to effectively provide the services.

In terms of policy and regulatory environment, the RDC feels that the thrust by government to promote the MSEs has been more favourable to the sector to

its disadvantage. Due to the deregulation of the economy, statutory instrument 216 of 1994 stipulated that people be allowed to carry out business activities on their residential premises. This has resulted in the Council facing problems in terms of loss of revenue as these people no longer pay unit tax and other charges payable by other entrepreneurs. Generally the Council views ESAP as bringing undesirable effects on it. There is hope nevertheless that the Capacity Building Programme will help them resolve some of their problems and also make it possible for them to effectively provide services to the MSEs. The Council also realises that there is potential for the growth of the sector.

2.3 THE PROVISION OF TRAINING FACILITIES

Shamva District does not have a lot of training institutions. This is most unfortunate as most of the MSEs require training in technical skills and financial management. During the research we managed to visit the only training college in Shamva called Ponesai Vanhu Technical College.

2.3.1 Ponesai Vanhu Technical College

Ponesai Vanhu Technical College offers courses in Tropical Agriculture, Motor Mechanics and Business Studies. The entry requirements is four 'O' level passes including English and Mathematics. Due to excessive demand the college is now taking candidates with up to five 'O' level passes. It is open to everybody but the response is mainly from the young generation and some retrenched and demobilised officers. Asked if they provided training to Shamva MSEs, they said they did not do so because their fees are quite high making it unaffordable for a lot of the MSEs. For example a one year Business Studies course costs \$2 220.00 per term and that for Motor Mechanics \$3 740 per term.

Although the college currently does not offer business training for local MSEs as explained above, it intends to introduce short courses in typing and other basic business subjects to locals. It is hoped that since there will be short courses they will be reasonably priced for the benefit of the MSEs. The only way it assists the MSEs at the moment is when they require to use the centre for their functions. The centre is willing to offer training services to rural MSEs if they would get sponsorship from well wishes.

2.3.2 Training in Business Management

Most of the entrepreneurs had not received any formal training in their fields of interest. Only 23 percent of the Shamva small scale entrepreneurs had attended business management courses offered by SEDCO, SDF and NGOs. Most of the small scale entrepreneurs paid for their courses and the majority of them had benefitted from the courses.

About 87 percent of the MSEs in Shamva keep accounts of their day-to-day business transactions. Only 6 percent do not keep accounts of the daily

transactions. There is a high demand for training by most of the small-scale entrepreneurs. As much as 81 percent of the rural small-scale entrepreneurs in Shamva said they need training in business management. The rest indicated that they did not need training. Although the majority of them need training, they might not be able to pay for the service themselves. So if financial institutions can offer training, it will be greatly appreciated by these small-scale entrepreneurs.

The majority of the MSEs felt that their employees also need some training. This would help in providing better services.

2.4 THE VIEWS OF MSEs ON POLICY ISSUES

2.4.1 Regulations on Operating MSEs

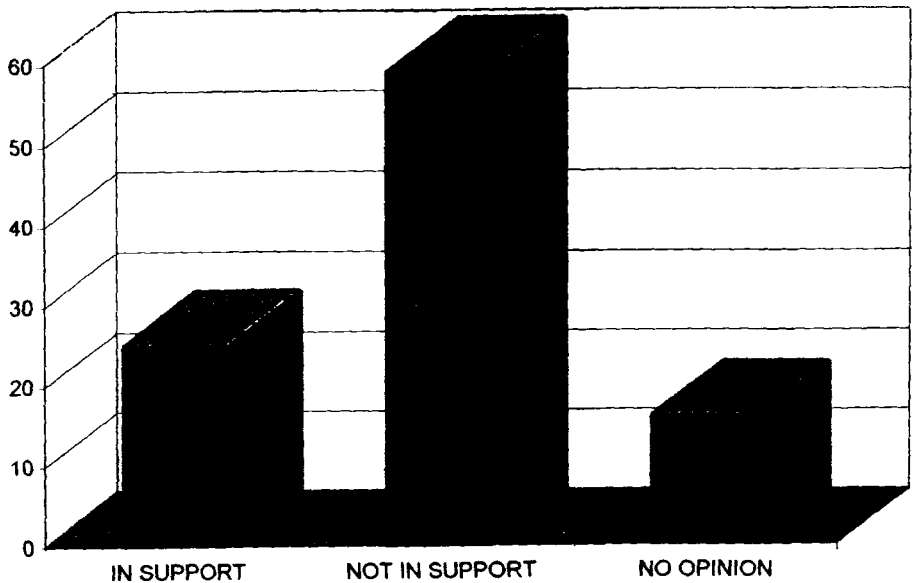
A majority of Shamva MSEs were happy with the regulations governing the running of small businesses. The regulations include licensing of businesses, minimum health requirements and minimum building requirements. These regulations mostly affected entrepreneurs at rural business centres. Most of the small-scale entrepreneurs believe that a good healthy environment will help in attracting more customers.

2.4.2 ESAP and Rural MSEs in Shamva

The research also attempted to assess if MSEs in Shamva were aware of ESAP as a macro policy and whether the economic environment under ESAP had improved the performance of rural MSEs. Ninety seven percent (97%) of MSEs in Shamva were aware of ESAP and thirty six percent (36%) of them defined ESAP as a policy of economic recovery while another 36 percent associated ESAP with general hardship and retrenchments. Another 19 percent believed ESAP had brought about a wide range of products on the market. The rest of the MSEs had heard about ESAP but could not clearly define it.

Overall, the majority of the MSEs viewed ESAP as having a negative impact on the growth of rural MSEs. These included among others, high cost of inputs, devaluation of the dollar, less profits due to low buying power and a decrease in employment opportunities. The research went further to elicit views on whether the MSEs supported ESAP. The graph below indicates responses from the MSEs.

Most of the MSEs thought they were doing badly as a result of ESAP. Liberalisation of the economy resulted in many proprietors starting businesses. The stiff competition due to increased numbers of MSEs had forced down the prices of consumer goods. The majority, 61 percent, felt that under ESAP imported goods had increased whilst 28 percent said the opposite. The rest felt that there was no change. About 76 percent of Shamva small scale entrepreneurs are currently facing major problems although the remainder said they were not currently facing any problems in their operations.

Fig. 3: Views of MSEs on ESAP

3.0 AN ANALYSIS OF INSTITUTIONAL SUPPORT SERVICES FOR SHAMVA MSEs

The findings of this study have revealed that Shamva MSEs feel that the financial institutions discriminate against them on the grounds of security, and the training centres also exclude them on the grounds of high costs. On the other hand, the Rural District Council charges them too much money for the services. The financial institutions also have their misgivings with the MSEs, as most of them do not repay their loans and therefore they constitute a high percentage of defaulters. It is important to analyse this scenario so as to make it clear why the MSEs have not received much help from the banks. From the study it has been highlighted that most of the MSEs lack training in business management. This in itself means they are not good at managing their finances and worse still managing a loan. They have nevertheless blamed their lack of management to the high costs of training at Ponesai Vanhu Technical College. This means that if cheaper training facilities were made available in Shamva then the MSEs could take advantage of them, and this would enable them to operate their businesses more profitably and efficiently. The financial institutions also need to relax lending requirements and assist the entrepreneurs in obtaining loans. It is unfortunate that the research did not go ahead to find out what other security measures banks could take

besides the use of collateral. It was made clear in the findings that the financial institutions insist on collateral and that this was the major reason why most MSEs had failed to secure loans. Other options like the group lending scheme introduced by the Commercial Bank of Zimbabwe (CBZ), were worth of further research, in order to find out the impact they have had on the Shamva MSEs. Nevertheless, the findings reveal that there is lack of information on the available schemes and opportunities for Shamva MSEs. So it is not surprising that most Shamva MSEs do not know of the existence of such a facility.

The MSEs have also complained about the high service charges, but these services are very essential for the proper functioning of their businesses. As such, they have to understand that it is necessary to pay for services as costs are incurred in providing these services. All they need to do is run their businesses more profitably, and be able to pay for the services. The Rural District Council should also take the MSEs as potential business people and support them by ensuring that they provide an enabling physical environment for the businessmen. One major problem cited by both the MSEs and the Council is the lack of title surveys at the business centres. This indeed is a critical issue which the government has to address. Title surveys enable the entrepreneurs to obtain title deeds which would act as collateral when applying for loans with financial institutions. Again the Council has to ensure that they provide serviced stands, as lack of working space has also been identified as a major problem.

This analysis shows that all parties have a role to play if the Shamva MSEs are to be successful. The government has to come up with a more enabling policy environment whose objective is to channel financial resources to these rural businesspeople at a reasonable rate. The financial institutions should also come up with other means of security that are available to the MSEs. Some organisations should target the Shamva MSEs and come up with appropriate training at a reasonable rate. The Rural District Council also needs to have a more positive attitude to these businessmen as they are their major rate payers and will contribute to the economic growth of their district. Finally, the MSEs themselves have to change their attitude towards the financial institutions and the local authority, and understand that these institutions also need some assurance that they will get back what is owed to them. The MSEs have to develop an entrepreneurship culture and be more enterprising and hard working, rather than just criticising the system.

It is clear from the above analysis that there is no enabling environment for the development and growth of MSEs in the Shamva district. It seems like there is pointing of fingers which has not resulted in much progress being realised in terms of the development of the MSE sector in the district.

4.0 CONCLUSIONS

The following conclusions can be drawn from the findings of the study of the Shamva MSEs.

4.1 INSTITUTIONAL SUPPORT SERVICES FOR SHAMVA MSEs

- Most of the Shamva MSEs are not aware of the institutions that are meant to assist them.
- There are a few MSEs that have been assisted in various ways by the institutions.
- The institutions that are operational in Shamva District are SEDCO, SDF, CGC, AFC and IBWO. However, most of the rural entrepreneurs in Shamva strongly believe that the existing institutions, particularly the indigenous ones, serve the interests of the urban constituency as opposed to rural MSEs. This is also evidenced by the absence of such an institution in Shamva District.
- Both qualitative and quantitative data revealed that SEDCO was the only institution that had the greatest potential to assist Shamva MSEs. If meaningful assistance has to be given to Shamva MSEs then more funds have to be channelled through this institution and a quota system for rural assistance created.
- Bureaucratic and financial constraints on the part of Chaminuka Rural District Council have hindered the growth of MSEs in Shamva District.

4.1.1 Loans

- Only a very small fraction of MSEs in Shamva have managed to access loans from the institutions currently operating in the area. This is because of a number of reasons such as:
 - little information about financial institutions,
 - lack of collateral on the part of entrepreneurs,
 - Numerous non-viable enterprises,
 - Majority of financial institutions put great emphasis on urban areas.

4.1.2 Infrastructure

- From the study, most of the rural entrepreneurs were not happy with the provision of infrastructure such as roads, telephone services, mailing services and communication in general.
- Lack of working space was a major problem particularly for those entrepreneurs working in the non-retail business. Trades such as motor mechanics, tyre repairs, welding, carpentry and tin making require special working space.

4.1.3 ESAP

- ESAP led to the increase in the number of MSEs in Shamva.
- However, the growth in MSEs did not translate into qualitative growth of rural enterprises.
- The majority of the MSEs remained small, non-viable and concentrated in retail business. Lack of qualitative growth could have been caused by poor

managerial skills, lack of diversification in enterprise and lack of organisational leadership among the MSEs.

4.2 POSSIBLE INTERVENTIONS FOR THE GROWTH OF MSEs IN SHAMVA

From the findings of the study, the following interventions for the growth of the MSEs in Shamva can be derived. Please note that these interventions are derived from what the target population suggested with the author having made a critical evaluation of the soundness of the suggestions.

- There is need for the creation of an organisation which will look into the needs of Shamva MSEs. Such an institutional body would provide a number of services aimed at the growth of rural enterprises. The services would include among others, sourcing of funds, dissemination of relevant information to rural MSEs, networking with relevant institutions such as the government, banks, local authorities, NGOs and other relevant institutions. Such an organisation would also lobby for relevant policy changes for the growth of rural MSEs.
- The research showed that many of the rural enterprises in Shamva are not viable. This in a way explains why very few entrepreneurs managed to access loans from financial institutions. Financial loans granted to entrepreneurs should result in economic development hence a better standard of living for the population. If meaningful development is to take place in Shamva District then the enterprises should diversify into manufacturing and provision of services. Therefore more loans for the development of rural MSEs in Shamva should be tied to the diversification thrust. Provision of loans to viable manufacturing and service sectors would result in better loan repayment to financial institutions.
- There is need for the provision of umbrella infrastructure services that would cater for many MSEs. Such services include the construction of industrial shells or sheds at selected locations in the district as well as building an institute for both managerial and technical training. Donors, NGOs or other institutions could best provide these umbrella infrastructure services.
- Most of the rural entrepreneurs lack skills. Institutions wishing to provide direct assistance to the rural constituency could do that by funding or providing free or subsidised training programmes within the district.

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