

The impact of Government and other Institutions' support on the Performance of Small and Medium Enterprises in the Manufacturing Sector in Harare, Zimbabwe

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Abstract

The purpose of this paper is to investigate the influence of government and other institutions' support on the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector in Harare, Zimbabwe. The target population for this study was 609 SMEs of which a sample of 241 SME owners or managers participated in the study. Data analysis was done using the Chi-square test to test for association. The results indicated that government and other institutions are playing a positive role on the performance of SMEs despite the prevailing economic conditions. Based on the results it can be concluded that duty drawback system and skills training are the most important initiatives for the growth of SMEs in the manufacturing sector in Harare, Zimbabwe.

Key words: *Small and medium enterprises (SMEs), performance, government support, manufacturing.*

INTRODUCTION

The focus of the study is on the role of government and other institutions' support on the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector in Harare, Zimbabwe. In Zimbabwe, an SME is described as a registered company with a maximum of 100 employees and an annual turnover in sales of a maximum of 830, 000 U.S. dollars. There are an estimated 10 000 SMEs in Zimbabwe, controlling 65 percent of the total corporate purchasing power (Machipisa, 1998:2).

Small and medium sized firms dominate both developed and developing economies in terms of employment and number of companies, yet their full potential remains untapped. These trends need to be changed. The ability of smaller firms to create jobs is clearly a major attraction for governments in the short term. SMEs must be encouraged and supported to flourish. This is important so that economic objectives (economic growth and development, favourable balance of trade and payment and employment) and social objectives (poverty alleviation and improving standards of living) can be realised. Zimbabwe must respond to the needs of SMEs as they form an important component of the economy (Schlogl, 2004:46).

With the advent of the economic reform programme in 1991, there has been a significant change in the Zimbabwean government's attitude towards the SME sector. The SME sector is increasingly viewed as an important engine for employment creation and economic growth. This has been necessitated by the increasing awareness within the government that large projects in the industrial sector are less likely to generate the requisite employment opportunities, given the high capital-intensity of output in the sector. Experience in Zimbabwe, as is the case in the rest of the world, has shown that SMEs are more flexible and responsive to changes in the market, require relatively less capital, and therefore have the potential to generate significant levels of employment for skilled and semi-skilled labour (Kapoor, Mugwara & Chidavaenzi, 1997:8-9).

PROBLEM STATEMENT

Zimbabwe is currently experiencing economic hardships which are characterised by a high inflation rate (516 Quintillion% as per December 2008) (Burgess, 2008). Zimbabwe is in dire need of major economic growth. There is disinvestment as major stakeholders in the economy are withdrawing due to high inflation and interest rates which makes investment costly. These stakeholders include multinational companies and private investors. Unemployment is high, partly due to a lack of the much-needed efforts to create jobs and also the current state of the economy. Job creation and poverty alleviation are two pressing challenges facing Zimbabwe today. Zimbabwe's capacity to address the high unemployment and poverty levels is partly hampered by the nose diving economic conditions due to sanctions and a high rate of inflation. The encouragement and support of SMEs in Zimbabwe is therefore important in the light of the many economic challenges which the country is currently experiencing (Gono, 2005:7). High interest rates make the borrowing of capital expensive, resulting in low levels of investment and a weaker currency which makes the importation of raw materials difficult and expensive at the same time. Access to finance becomes a challenge to SMEs in Zimbabwe. An environment conducive for the growth of SMEs is required. It is against this background that the research seeks to

investigate whether the government and supporting institutions' initiatives affect the performance of SMEs in the manufacturing sector in Harare, Zimbabwe.

OBJECTIVE OF THE PAPER

The paper seeks to establish whether the economic initiatives of the Zimbabwean government and supporting institutions aimed at SME development had an effect on the performance of SMEs as perceived by the manufacturing sector in Harare, Zimbabwe.

RESEARCH HYPOTHESIS

Ho: The economic initiatives of the Zimbabwean government aimed at SME development do not affect the performance of SMEs in the manufacturing sector in Harare, Zimbabwe.

H₁: The economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector in Harare, Zimbabwe.

LITERATURE REVIEW

In Zimbabwe there is a realisation that SMEs are innovative, flexible and require low startup capital. There is an increased interest in pursuing SMEs as a poverty reduction strategy. SMEs account for the employment of at least 57% of the productive population in Zimbabwe. The current formal unemployment rate in the country is approximately 80% (Robertson, 2007). This figure is fast increasing due to the shrinkage in the formal sector, subsequent retrenchments and the outpouring of graduates from tertiary institutions joining employment seekers while the formal sector can only absorb 20 000 graduates or less annually (Ndlovu & Ngwenya, 2003:6). Robertson (2007) stipulates that with 80 percent formal unemployment and shrinking productivity, few of the 2 million young people and graduates who turned 18 since 2000 found jobs with a regular income, training, advancement or career prospects.

Ministry of Small and Medium Enterprise Development in Zimbabwe (2002) defined an SME as a registered enterprise with employment levels ranging from 30 to 70 employees and depending on the type of industry will be referred to as a small or medium scale enterprise. For the purposes of this study a Small and Medium enterprise refer to a registered company with a maximum of 100 employees and an annual turnover in sales of a maximum of 830 000 US dollars.

THE ROLE OF SMES IN THE ZIMBABWEAN ECONOMY

In recent years there has been increasing awareness by governments in the developing world of the role played by SMEs and their contribution to the economy. In the Zimbabwe situation, the development of the small business sector is regarded as crucial for the achievement of broader development objectives. These objectives include poverty alleviation, spreading employment to rural areas, improving the situation of women and increasing indigenous ownership of investment in the economy (Nyoni, 2002:1). As conventional sources of employment are shrinking, formal employment opportunities are becoming increasingly limited in Zimbabwe. The medium term experience in the economy has been that investment levels are not sufficient to generate employment for the 300 000 graduates in Zimbabwe on an annual basis (Nyoni, 2002:2; Rwafa, 2006:8).

The lack of employment opportunities in Zimbabwe turns the focus on the SME sector as the potential for investment and for making a meaningful and substantial contribution to employment generation. As the primary employment-creating sector of the Zimbabwean economy, small businesses are responsible for the livelihood of millions of Zimbabweans as they employ the largest number of people which result in them having disposable income (Nyoni, 2002:1-2; Ndlovu & Ngwenya, 2003:6).

The Zimbabwean government has identified SMEs as the engine for national growth and a vehicle for economic development since SMEs contribute more than 50% of the GDP of the country. This is the result of a macro-economic meltdown that has seen, in the past 5 years, Zimbabwe experience a 50% decline in economic growth, 60% closure in factories, a 60% formal unemployment rate and a near 100% decline in foreign currency reserves. Inevitably, this has led to an increase in informal trading, with each and every empty space in urban areas transformed to a flea market, fruit vendor, and carpentry or iron craft workshop. Zimbabwean craft ware has found its way to top galleries from Cape Town to Cologne, all through the ingenious creativity of SMEs (Ngwenya, 2006). SMEs play an important role in economic growth, social development and overall poverty eradication. Economic growth is achieved through the establishment of successful entrepreneurial ventures. These ventures will create employment opportunities for the people in the society in which they will be operating. Employment opportunities will result in people having disposable income which leads to the demand of goods and services and ultimately purchase of the commodities in demand. Disposable income will lead to improved standards of living and will also result in the reduction of poverty levels in the country (Chuma-Mkandawire, 2004:13).

The SME sector in Zimbabwe is also a major role player in national development, employment creation, uplifting of the standards of living for urbanites, as well as the promotion of urban economies. This has been necessitated by rural-urban migration which has resulted in many people migrating to urban areas. Due to SMEs diversity in nature, character and business exploits, SMEs have become a vehicle for economic emancipation and sustainable development. As a result, local authorities have taken a firm stance in implementing government policy to stimulate SME growth, which will ultimately result in economic growth (Simbi, 2004:16).

SMEs have become increasingly important to Zimbabwe's economic growth. Given the number of retrenches due to the economic downturn Zimbabwe has experienced since 2000, SMEs offer the best alternative means of livelihood for the majority of the people in the country. As a result, there is a definite need to support the growth of the SME sector in Zimbabwe so that it contributes more meaningfully to national economic development. Against this background support services for the establishment of SMEs offered by the Zimbabwean government are discussed below.

GOVERNMENT SUPPORT MEASURES FOR THE ESTABLISHMENT OF SMES IN ZIMBABWE

The government of Zimbabwe, through the Ministry of Industry and International Trade, and in conjunction with the Ministry of Youth Development, Gender and Employment Creation established a Policy Document for the support of Small, Micro and Medium Enterprises (SMMEs), which was approved by Cabinet in July 2002. The document maps out strategies to address various obstacles facing the small business operator. This policy document is aimed at providing a shared vision by all stakeholders in advancing the cause of small business and providing an enabling environment for them to realise their full potential. In a bid to strengthen the SME sector the government of Zimbabwe has set up an SME bourse to promote their activities so that SMEs will be listed on the Zimbabwe Stock Exchange (ZSE) (Gogo, 2007; Hwamiridza, 2007).

In spite of the importance of the SME sector, various barriers to entry have been identified. These barriers range from a hostile regulatory environment, limited access to finance, inadequate management and entrepreneurial skills. The SME policy of the government of Zimbabwe maps out measures to address these constraints. It is recognised that although various initiatives have been put in place to support the SME sector, there is a need for an integrated coherent policy and strategy for the development of the SME sector in Zimbabwe (Nyoni, 2002:1).

The main objective of the SME policy is to generate sustainable employment, reduce poverty, to stimulate economic growth and generate foreign currency earnings, thus contributing to the economic well being of all Zimbabweans. It also aims to create an enabling environment in order to double the number of small business entities in Zimbabwe by the year 2007. The policy, furthermore, also attempts to define how the government of Zimbabwe, the private sector and other stakeholders can encourage and create an enabling environment for SMEs to grow, and to enhance the contribution of this sector to national development. The main focal points of the Zimbabwean government's SME policy include ensuring the co-ordination of the different policies and programmes at national level. To provide an appropriate institutional mechanism to facilitate SME development efforts. The policy is committed to SME growth over the long term rather than dependence on any quick-fix solutions by prioritizing SMEs and allocates appropriately the limited public resources. Lastly to rationalise support programmes and co-ordinate resource mobilization strategies through the delegation of tasks, responsibilities and accountability (Nyoni, 2002:2).

Key strategies which deal with the above mentioned areas of concern which affect the growth and development of SMEs in Zimbabwe include the creation of an enabling legal and regulatory environment, investment promotion, financial assistance, market promotion, technology and infrastructure support, entrepreneurship, management and skills development, targeted support, relationships and partnerships, and institutional reform.

GOVERNMENT POLICY ON SMES

With the advent of the economic reforms in 1991, there has been a significant change in the Zimbabwean government's attitude towards the private sector and the small enterprise sector is increasingly viewed as an important engine for employment creation and economic growth. Government support for the SME sector has been repeatedly enunciated in various policy documents such as the Framework for Economic Reform; The Zimbabwe Programme for Economic and Social Transformation (ZIMPREST); and The Economic Recovery Programme (Nyoni, 2002:3).

Furthermore, given the SME's high labour-to-capital ratios, the Industrial Policy Framework recognises SMEs and their "need to be encouraged to spread and grow in order to reduce unemployment". Various government support programmes have been put in place for the SME sector. These programmes are supported by institutions such as the Small Enterprise Development Corporation (SEDCO), Zimbabwe Development Bank, Credit Guarantee Company of Zimbabwe, Agricultural Development Bank (Agribank), and the Venture Capital Company of Zimbabwe. However, this support has been piecemeal and uncoordinated (Nyoni, 2002:3-4).

Guided by the Zimbabwe Programme of Economic and Social Transformation (ZIMPREST) document, Industry Policy Framework, Economic Recovery Programme, research on the sector and consultations with stakeholders, the Zimbabwean government's SME Policy addresses the following areas of concern creating an enabling Legal and Regulatory environment; investment promotion; financial assistance; market promotion;

technology and infrastructure support; provision of information; entrepreneurship, management and skills development; targeted support; relationships and partnerships; and institutional reform (Nyoni, 2002:7-8).

ENABLING LEGAL AND REGULATORY ENVIRONMENT

The complexity of the regulatory environment and the multiplicity of bureaucratic requirements are some of the constraints SMEs face in Zimbabwe. For example, the process of registering a business, getting the necessary licences and the cost of compliance can be a major deterrent for small-scale entrepreneurs. These processes can take years to complete. Concerns by prospective entrepreneurs range from business formation, reporting procedures to tax requirements. For example, taxation favours large-scale businesses over small ones because the reporting demands of taxation which are too frequent and highly bureaucratic require a high degree of business resources (e.g. time or personnel) (Ndlovu, 2002:7).

The Zimbabwean government has put in place specific intervening strategies which are aimed at revising laws and regulations to reduce the burden of doing business. Policy makers will ensure that regulations in place are pro-active and do not impose disproportionate costs on businesses or the consumer. Legal instruments and regulations are aimed at ensuring minimal administrative work. The regulatory remedies focus on the following simplification of complex regulations; improving access to information; and centralising and streamlining procedures (Ndlovu, 2002:7).

For these remedies to be effective in addressing the SME challenges in Zimbabwe, the government has come up with the *Small Business Act* which is a legal instrument for facilitating the growth of the SME sector in Zimbabwe. The *Business Formation and Licensing Procedure* where the responsible authorities for business formation have a duty to simplify and minimise procedures for establishing new entrepreneurial ventures. the *Reporting and Administrative Requirements* the ultimate goal of the Zimbabwean government is to minimise reporting and administrative requirements of SMEs such as taxation requirements. This has resulted in the introduction of standardised formulae for calculating tax liability and tax forms which are user friendly and which have been designed for SMEs. The simplified administrative requirements are also applicable to labour markets such as abiding by specified codes of conduct, employment conditions and wage levels (Ndlovu, 2002:7-8):

INVESTMENT PROMOTION

Investment promotion is critical to the development of SMEs. High interest rates and high inflation adversely affect the growth and development of the SME sector in Zimbabwe. It becomes critical for macroeconomic policies to create a conducive environment for SME development. In order to attract foreign investors, the government of Zimbabwe has formulated the following strategies for intervention to stimulate the growth and development of the SME sector in the country (Gono, 2006:8; Ndlovu, 2002:7; Kapoor *et al.*, 1997:10):

Tax Relief

The small business sector in Zimbabwe receives a tax relief from the government, i.e. they are not subjected to the full rate of tax. This implies that SMEs have a lower corporate and capital gains tax threshold. SMEs are also given a five year grace period on taxation during their start up phase. This tax incentive is also used as a transitional process to encourage the graduation of small businesses from the informal to the formal sector and to widen the tax base. The Zimbabwean government has also introduced tax breaks for companies which subcontract to SMEs or which earmark funds for the sector such as 'business angels'.

Rebates and Discounts

Local authorities and utilities in Zimbabwe are encouraged to identify incentives that encourage small businesses to establish themselves and register. Rate rebates or discounts on land and services, for example, can represent a valuable incentive. These are viewed as some of the most effective incentives in that a discount in land cost will result in a reduced cost of production which will increase the viability of SMEs.

Access to finance

The two principal constraints currently affecting the SME sector in Zimbabwe are limited access to finance and the high cost of finance. The secondary constraints of SMEs are absence of security and the lack of a track record. In order to lessen these financial constraints on SMEs the Zimbabwean government has put the following measures in place, namely (Hinton, Mokobi & Sprokel, 2006:17):

- **Credit finance**

It incorporates the establishment of institutions that assist the viability of SMEs in obtaining unsecured funding at concessionary interest rates. The Zimbabwean government has introduced incentives such as a reduction in the tax rate paid and easy access to foreign currency for the purposes of acquiring imported inputs and parts. Credit finance is to existing financial institutions that are SME friendly.

- **Credit Guarantees**

It is used as an option to address finance accessibility and collateral constraints of SMEs. The Zimbabwean government is taking a leading role in providing a guarantee fund for SMEs since they act as surety for the SMEs when they want to borrow from banks and credit institutions. The Zimbabwean government is also encouraging a culture of saving among SMEs through the formation of Cooperatives and Credit Unions. The SMEs will be depositing money for each other in these Cooperatives and Credit Unions as a support mechanism to ensure their financial survival in the future. This is done in order for SMEs to plough back their

profits in the form of additional investments which results in growth. Government provides financial and institutional support to those SMEs establishing groups to mobilise resources such as credit unions and group insurance, in particular, for cooperatives and rural women.

- *Risk capital*

It includes private equity, business angels and corporate venturing. Private equity refers to equity capital that is made available to companies or investors, but not quoted on a stock market. Incentives for initiatives such as tax breaks for those investing their own equity into high growth businesses have also been introduced. The Zimbabwean government is also promoting the establishment of secondary markets. The secondary markets are aimed at increasing the attractiveness of small businesses to the lending community and allow the lenders to meet the credit needs of small businesses through equity involvement. This arrangement provides a hedge against liquidity problems for SMEs. This is due to the fact that SMEs will be listed on the stock exchange and their performance will be monitored.

Market penetration

Access to markets, both local and foreign, remains a significant constraint facing SMEs. Many SMEs in Zimbabwe have failed to operate successfully because they do not have sufficient information and intelligence on market opportunities and market trends. The SME sector is also not geared for exports and most entrepreneurs find the costs and complications of exporting onerous. To counter the market penetration challenges being encountered by SMEs, the Zimbabwean government has come up with the following strategies for intervention (Nyoni, 2002:9-10):

- *Market Intelligence*

It is important that information on market trends through industry sector studies and other strategies be provided on a continuous basis to SMEs. The government has availed pre-investment studies that are sector specific to SMEs so that they can enhance their competitive advantage. Business associations are providing a service to SMEs on market opportunities so that they can tailor their operations towards the exploitation of the available opportunities. Technical assistance provided by ZimTrade is also strengthened to increase the marketing knowledge of SMEs and to identify niche markets to target. ZimTrade provides international trade information, facilitates the development, diversification, promotion and coordination of all export related activities leading sustainable export growth in Zimbabwe. The Zimbabwean government assists small businesses to attend international and regional trade fairs so that they can enhance their business knowledge.

- *Business Linkages*

Significant access to markets by SMEs will also be gained through the promotion of sub-contracting, franchising, licensing, joint ventures and other forms of business linkages. In such incidences, the Zimbabwean government has introduced regulations to protect SMEs from exploitation such as the prompt payment legislation. This legislation is geared towards protecting SMEs after they have rendered services to large firms who are normally in the habit of defaulting payments.

- *Marketing and Distribution Support*

The government has developed data banks and marketing houses to support SME exports. These marketing houses as well as distribution networks have been enhanced to support SME exports. The distribution networks have been set up by ZimTrade and the private sector to enhance the SME export process and also to assist in reducing the processes that SMEs go through in exporting their products and services.

- *Quality Assurance*

The Zimbabwean government is encouraging quality assurance measures and accreditation to ISO 9000 and other standards. Meeting these standards will increase the global competitiveness of SMEs as they are able to offer quality products to the market both internationally and locally. The Standards Association of Zimbabwe is also embarking on a support programme targeted at SMEs. This is being done to enable SMEs to produce products to the required and expected standards which increase their competitive advantage.

- *Trade Facilitation*

In creating a facilitative trading environment, procedures for exporting and importing have been simplified and costs minimized for SMEs by the Zimbabwean government. Schemes such as the duty draw back system and the inward processing scheme are functioning efficiently in Zimbabwe and their administration has been decentralised in all regions of Zimbabwe. The tariff system is being constantly reviewed to ensure that it responds to ever changing domestic and international circumstances and trends. The immigration regulations have been made user-friendly for SMEs to facilitate smooth cross-border trading in order to lessen the bureaucratic procedures and red tape. This process is being steered by the Export Processing Council of Zimbabwe and ZimTrade.

Technology and Infrastructure support

SMEs are unable to identify sources of technologies appropriate to their specific activities due to a lack of knowledge. This technology will enable SMEs to service their clientele, however, they end up investing in costly technology which sometimes might not be suitable for their operations. A lack of knowledge with regard to

information technology also hampers the development and growth of SMEs in Zimbabwe since it results in an increased cost of production which minimise the viability of SMEs (Nyoni, 2002:10). The Zimbabwean government has put in place various strategies for intervention which are aimed at assisting SMEs in their quest for growth and development. A discussion of the intervening strategies follows (Nyoni, 2002:10-11):

- *Technology Information*

Existing institutions such as the Scientific, Industrial, Research and Development Centre (SIRDC) and the Centre for Innovation and Enterprise Development in Zimbabwe have been encouraged by the government to strengthen their programmes to assist SMEs. These programmes will assist SMEs in two ways. Firstly it will identify appropriate technologies which are necessary in the daily operations of SMEs. Secondly, the programmes will also provide SMEs with updated information on technological advancement to keep them abreast with the changing trends that will enhance the quality and competitiveness of their products. This is as result of the fact that efficient and effective production methods are applied. Study tours to expose SMEs to new technologies will be undertaken in technological-oriented firms in order to make SMEs aware of the already existing and new technologies and how they can be applied in their operations.

- *Provision of Workspace*

The Zimbabwean government, through the local authorities, is making market trading and manufacturing points for the small business sector, especially the informal sector, attractive. Local authorities are revising the operative master plans and local plans in order to site facilities for the informal sector close to both the market and suppliers of raw materials. This is being done for the convenience of SMEs in that they will have access to the source of raw materials for production purposes and the market for their products.

- *Business incubators*

In order to reduce the need for a large up-front capital outlay for infrastructure support, business incubator start-up SMEs are being established in Zimbabwe. This temporal structure help to reduce the start-up costs of SMEs and enables them to establish quickly. In the long term, technology parks will be introduced as public-private sector initiatives to encourage innovation. This will enable SMEs to keep abreast with technological changes and embrace the new trends in the market place.

- *National Productivity Centre*

The government of Zimbabwe is set to establish the National Productivity Centre to set-up productivity benchmarks both at national, regional and international level. These benchmarks are necessary to ensure that business organisations are meeting the globally required product standards. Support programmes will be established to assist SMEs to enhance their productivity. This is geared towards increasing the global competitiveness of SMEs as they will be able to produce products to the required and specific international standards.

- *Electronic Commerce*

The Zimbabwean government is encouraging SMEs to adopt information technologies such as e-commerce and wireless to enhance their competitiveness. This will enable SMEs to respond to the demands of the 21st century in that they are able to communicate quickly and effectively. Also it leads to prompt processing of orders as they reach them fast.

Entrepreneurial management and skills development

A lack of management skills and expertise is a major constraint impeding the progress of the SME sector in Zimbabwe. Several studies in Zimbabwe suggest that entrepreneurs in the SME sector attach low priority to training and are often unwilling to participate in programs which require them to finance even a small proportion of total training costs. The areas of weaknesses identified range from cash management to marketing strategies and finance. Business start-ups lack technical skills such as designing and to produce quality products, but also expertise in implementing growth strategies for their enterprises (Nyoni, 2002:11). In order for the government of Zimbabwe to address these challenges, skills development and training are being provided at shop floor, management and entrepreneurial level. Under these strategies for intervention the main focus are as follows (Nyoni, 2002:11-12):

- *Entrepreneurship Development*

Entrepreneurship training is being carried out on a national basis targeted at women, the youth and the unemployed. These two groups are targeted since they are the most affected by unemployment and are also more willing to take risks. The training is mainly in business skills which includes drafting business plans and small business bookkeeping. This kind of training is necessary due to the fact that for an entrepreneur to access funds, a suitable business plan is required. Furthermore, a basic knowledge of accounting is required since SMEs cannot afford the services of professional accountants during their initial operating periods as they will not be well established and, therefore, less viable and profitable.

- *Business management and support*

The focus area of SME training in Zimbabwe is on strategic marketing, business planning, financial management, business ethics and IT skills. Extension services are being strengthened to mentor and monitor small business ventures to reduce their failure rates. Specialised training is being provided to entrepreneurs in

areas that address productivity and environmental awareness since they have a bearing on their competitiveness. Programmes on quality assurance are being developed and SMEs will be assisted through matching grants to attain international quality standards. This is geared towards ensuring the survival, growth and development of the SME sector in Zimbabwe. This training is necessary due to skills deficiency amongst SMEs in Zimbabwe.

- *Technical skills training*

Technical skills are provided to sharpen the production skills of SMEs in order for them to produce goods to the required international standards which in turn enhance their global competitive advantage. Institutions of higher learning, technical colleges, vocational training centres and the private sector play a key role in this exercise since they are involved in the actual training as service providers. The government is encouraging the private sector to provide mentorship support to emerging entrepreneurs in the form of big and small brother relationships.

- *Information and advice*

Lead ministries such as the Ministry of SME Development, Ministry of Finance, Ministry of Economic Development, Ministry of Industry and International Trade and the Ministry of Agriculture, which support small businesses, are setting up small business resource centres countrywide. Commercial banks and business associations are being encouraged to develop written guidelines to help SMEs to comply with regulations and to develop formats of business plans and financial statements. In order for SMEs to access assistance, information on service providers and their areas of expertise is published by the government through the Ministry of SME Development and institutions such as SEDCO. In this regard, a database of service providers is provided by the Zimbabwean government and quality assessment of their competencies undertaken to ascertain quality programme delivery to SMEs. This is done in order to ensure that SMEs receive the best services to ensure their survival and future growth.

Targeted Support

The focus of targeted support is on how best the culture of entrepreneurship can be encouraged. The Zimbabwean government is paying special attention to the growth and development of SMEs through initiatives such as the cluster based development, gender dimension, youth development and rural focus. Each of these focal points is discussed in more detail below (Nyoni, 2002:12):

- *Cluster based development*

The purpose of cluster initiative organisations is to promote economic development within the cluster by improving the competitiveness of one or several specific business sectors. The government of Zimbabwe places high priority on export promotion and the emphasis of the government have shifted to a cluster-based approach which focuses on adding value at every level of the manufacturing value chain. The identified clusters are food processing, light engineering and metal products, carpentry and furniture making, textiles and home crafts and tourism. Service sectors related to information technology and back office data processing, because of the country's human capital endowment, have also been identified.

- *Gender Dimension*

Research indicates that the percentage of women in Zimbabwe who start SMEs is smaller than the average in developed countries. Twenty five percent of the businesses in advanced market economies are owned and operated by women. As a result, a plan of action for encouraging women entrepreneurs and the establishment of SMEs by women was put in place by the Zimbabwean government. Specific programmes range from strategies to remove barriers for women cross-border traders, the amendment of the Banking Act with regard to married women's access to finance, home-based business as an option and motivational and confidence building workshops for the girl child. The focus on women by the Zimbabwean government is based on the fact that women constitute more than 52% of the total population in Zimbabwe and the majority of them are not formally employed. Based on this scenario it is easier to cultivate a spirit of entrepreneurship in women which means that their active involvement in business will result in economic development and the socio-economic development of the nation.

- *Youth Development*

This is a strategy to create an entrepreneurial culture and to prepare youth for self employment. A comprehensive integrated programme providing funding, technical skills and entrepreneurship training will be targeted at the youth by the Zimbabwean government as most of them are unemployed graduates. The Zimbabwean youth must, therefore, be encouraged to engage in entrepreneurial activities since they are supposed to take an active role in the economic activities by virtue of them being the economic active group. Furthermore, this will safeguard them against engaging in illegal and dangerous activities such as drug abuse and armed robberies.

- *Rural Focus*

Special attention is being provided by the Zimbabwean government to small businesses in rural areas. Particular attention is related to market support with regard to the transportation of goods, sourcing and the storage of raw materials. The focus is directed at the rural population to venture into innovative and value-

added employment generation projects that tap resources endowed in various provinces. SMEs can grow and develop in the rural areas since there is a large amount of untapped resources such as raw material and labour in these areas.

Relationships and partnerships

In order to equip SMEs to deal with the new economic environment, they need technical and managerial knowledge over a wide range of business areas. A large proportion of SMEs have a limited range of skills, managerial knowledge and scarce resources to deal with these new challenges such as the emergence of global competition. SMEs are being encouraged to network and establish partnerships and joint ventures at local, regional and international levels with large businesses. These partnerships will facilitate the provision of capital injections, market access, managerial expertise and the transfer of technology. This will increase the survival rate of SMEs and result in them being successful and competitive in a global environment (Wagner, Fillis & Johnson, 2003:343; Nyoni, 2002:13).

Institutional Reform

The existing institutional infrastructure for SME support in Zimbabwe is fragmented and needs to be rationalised to ensure better coordination. The structures in place are not suitable for the growth and development of SMEs in Zimbabwe. The applied strategies to enhance capacity will be through organised training programmes, attachments, hands on technical assistance, and study tours. Capacity building programmes will include policy formulation techniques, research methods, advocacy skills and business consultancy techniques. Structures to establish an institutional framework which facilitates the growth and the development of an SME sector in Zimbabwe include the Ministry of Industry and International Trade, Ministry of Youth, Gender and Employment Creation, Small Business Advisory Council, Small Business Authority, National Association of SMEs, Business Associations, ZimTrade, Scientific Industrial Development and Research Centre, Standards Association of Zimbabwe, Export Processing Zone, Zimbabwe Investment Centre, The National Productivity Centre, Financial Institutions, and Industrial Task Force (Nyoni, 2002:13-15).

Government efforts to make the SME sector vibrant in Zimbabwe are being recognised and both public and private institutions have joined hands with the government to make the sector a success. These role players also want to achieve the objectives of generating employment in Zimbabwe and to stimulate the economic growth rate of the country.

THE ROLE OF EMPRETEC, ILO AND SEDCO IN THE ESTABLISHMENT OF SMES IN ZIMBABWE

To ensure that the contributions of the SME sector are fully realised the Zimbabwean government has joined hands with supporting institutions such as EMPRETEC, ILO and SEDCO to help the SME sector. EMPRETEC is an organisation which aims at empowering SMEs through training and the provision of support services. It is involved in the training of entrepreneurs and potential entrepreneurs with managerial skills and other skills such as bookkeeping, human resource management and marketing and communicating skills to operate their business ventures (Hwengere, 2004:13).

The International Labour Organisation (ILO) supports SME development in Zimbabwe. Recommendation 189 of 1998 agreed to assist member states of the ILO to develop policies that facilitate the start up, growth and promotion of SMEs. The ILO is actively involved in training SME entrepreneurs through programmes such as Start Your Business (SYB) and Start and Improve Your Business (SIYB) in Zimbabwe. ILO is also funding the Expand Your Business (EYB) training for SMEs and is providing seed money as startup capital for SMEs. ILO is, furthermore, concerned with the impact of HIV and AIDS among SMEs in Zimbabwe and has drafted possible policy frameworks for implementation to help in the fight against the HIV and AIDS pandemic among entrepreneurs in the country (Chuma-Mkandawire, 2004:5, 12-13).

The Small Enterprise Development Corporation (SEDCO) is leading the way in the development of small enterprise development as it reaches out to emerging businesses in Zimbabwe's small, but vibrant economic sector. SEDCO focuses on the promotion and facilitation of the development of SMEs in Zimbabwe. It assists in the creation of employment through the establishment of income generating projects which would also sustain viable enterprises. It also provides business management and entrepreneurship training to develop professional skills in business management. The training is basically record keeping and skills development training. SEDCO aims to foster self-reliance and greater participation in economic life by the majority of Zimbabwean nationals through the stimulation and increase of exports from the small enterprise sector (Fifteen, 2004:10). Through SEDCO, a number of loan facilities have been channeled to SMEs. These included the SME Revolving Fund, Reserve Bank of Zimbabwe (RBZ) Productive Facility, The Loan Booth Programme, People's Shops Programme, Business Infrastructural Development Programme and Business Management and Entrepreneurship Training (Fifteen, 2004:10-11).

CHALLENGES FACING THE SME SECTOR IN ZIMBABWE

In their quest to improve the standards of living of Zimbabwean citizens, reduce the levels of poverty and unemployment and significantly contribute to the economic growth and development of the Zimbabwean economy, the SME sector faces a number of challenges which impair their growth and development. These challenges are highlighted below.

A lack of transport, inadequate equipment and insufficient resources to execute planned activities are some of the main challenges being faced by the SME sector in Zimbabwe. Manufacturing SMEs experience difficulties in accessing transport facilities to deliver their finished products to the market. The SME sector in Zimbabwe is, furthermore, experiencing problems such as a lack of appropriate management skills to run their business entities, access to loans, inhibiting legal frameworks, access to markets, quality products and registration bureaucracy (Masuko & Marufu, 2003:29).

SMEs in Zimbabwe lack the necessary human resources skills, marketing skills, financial management skills and general management skills to ensure the continued survival of the sector in the country. Insufficient management skills therefore have a negative effect on the growth of the SME sector in Zimbabwe. The legal framework is also not favourable towards the establishment of SMEs in Zimbabwe. SMEs have limited access to the market since it is dominated by large companies. SMEs are not in a position to produce quality products which meet international standards due to their inability to purchase all the required raw materials as a result of financial constraints.

SMEs are currently also facing challenges such as the limited growth of their businesses and increased competition in the SME sector due to globalisation. The dynamics of small-scale industries have become more challenging. As SMEs are required to offer products to the required international standards they cannot compete in a globalised world. This is due to the fact that SMEs have limited access to finance which reduces their ability to procure quality raw materials hence they become less competitive (Nyoni, 2004:9). In Namibia challenges such as the regulatory environment which is not favourable to serve as an incentive to SME development are affecting the growth of the SME sector. (Gaomab, 2004).

Furthermore, SMEs in Zimbabwe are also experiencing challenges such as bad publicity in the western media and fuel shortages which, contributes to the high failure rate of SMEs in the country (Ndlovu, 2004:19). This negative publicity will result in low foreign direct investments which consequently increase the SMEs' challenge of limited access to sources of finance.

RESEARCH DESIGN

This study made use of a quantitative research approach and applied a descriptive research focus since it primarily depended on the interviewing of respondents (the managers or owners of SME's in the manufacturing sector in Harare, Zimbabwe). The study was also cross sectional since the respondents were only interviewed once.

Population and sample

The population of the study was 609 SMEs in the manufacturing sector in Harare, Zimbabwe. A list of SMEs was obtained from the Ministry of SME Development in Zimbabwe. A sample of 241 SMEs was used for the study. A computerised random number generator was used to select the 241 respondents out of the total population of 609. The researcher applied the simple random sampling technique for the study because each element of the population had an equal chance of being selected.

Measuring instrument

The measuring instrument used was a structured questionnaire which included some adapted items from previously tested measuring instruments and items, for example the instruments of Fatoki and Chiliya used in similar studies on SMEs in South Africa. In addition, structured interviews were conducted with the owners or managers of SMEs in the manufacturing sector in Harare, Zimbabwe. Closed-ended and open ended questions were used in the questionnaire. The questionnaire also consisted of six sections. Section A consisted of seven questions to gather biographical data on the SMEs and the owners or managers of SMEs. Section B consisted of nine questions to gather information on the requirements of the Ministry of Small and Medium Enterprise Development. Section C consisted of eight questions to gather data on SME support by the Zimbabwean government and other institutions.

Data analysis

Ordinal Multinomial Logit Models were used to test for the effects of explanatory variables on those responses that had more than two categories. For the binary responses Ordinary Logit Models were used. To assess or evaluate the association among the response factors, Loglinear Modeling was used. Chi-square was used to test for association. These statistical procedures were used as follow-up analyses to the graphical analysis (bar charts and pie charts). All tests were carried out at a five percent (5%) significant level. These statistical tools were used since the data contained some categorical variables where responses are classified. Furthermore the sections in the questionnaire were divided into an explanatory section, namely sections A and B and response section, that is, section C.

RESULTS

The results of the study are discussed below. The focus is on the effect of government and other institutions' support on the performance of SMEs and factors influencing the development of SMEs.

Is the Zimbabwean government doing enough to promote investment through tax relief such as rebates and discounts?

Seventy six percent (76%) of the respondents concurred that the investment support measures of the Zimbabwean government through tax relief are enough as this stimulates investment. This can be attributed to the fact that tax payments reduce the returns of a business. SMEs in the manufacturing sector in Harare, Zimbabwe are therefore benefiting from tax relief which enhances the viability of their businesses. However, twenty four percent (24%) of the respondents said that the government is not doing enough to promote investment. This result is in support of previous studies that indicated that taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special relief is given. The establishment of a business is very risky and taxation (income or company tax) reduces the potential reward that compensates for the risk (Little, Mazumdar and Page, 1987:18-21).

Have you benefited from the Zimbabwean government's measures to ensure SME's access to finance through credit finance, risk capital and credit guarantees?

Sixty six percent (66%) of the respondents have benefited from the Zimbabwean government's measures to ensure that SMEs' have access to finance through credit finance, risk capital and credit guarantees. This result shows that the respondents appreciate government's effort to address financial issues affecting SMEs. This is an important area as most SMEs are severely affected by a shortage of financial resources. Previous studies by Ligthelm and Cant (2003:5) have highlighted the limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. Typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian & Antonie, 2001; Peel & Wilson, 1996). However, thirty four percent (34%) of the respondents have not yet benefited from the Zimbabwean government's measures to enhance SME access to finance.

Has the Zimbabwean government done enough to address skills shortages in SMEs?

Seventy three percent (73%) of the respondents are satisfied with the Zimbabwean government's initiatives to address skill shortages in SMEs. This has been necessitated by the fact that in a large number of cases, the failure of SMEs has been attributed to a lack of skills. Research findings by Sawas & Feng (2005), Kakati (2003) and Sonfield & Lussier (1997) have indicated that a lack of managerial skills (refer to question 23, p. 191) result in the failure of SMEs. Therefore, this result clearly indicates that SMEs in the manufacturing sector in Harare, Zimbabwe are benefiting from the Zimbabwean government's efforts to minimise the failure rate of SMEs through equipping them with managerial skills. Workshops and seminars are provided to the owners and/or managers of SMEs where they are equipped with managerial skills.

Has the government's targeted support aimed at encouraging the growth of SMEs achieved its goals?

Approximately sixty six percent (66%) of the respondents concur that the Zimbabwean government's targeted support aimed at encouraging the growth of SMEs has achieved its goals. This result can be attributed to the fact that more women are now in business and the majority of the respondents were below 50, the age group where the government is mainly focusing. This result also shows that the government has targeted the category of people who cannot secure white collar employment in large organisations namely the youth and women. The youth are being encouraged to start own businesses as a substitute for formal employment in Zimbabwe. This result is consistent with what happens in Canada where SME-Youth programmes are aimed at encouraging a community of young entrepreneur. There are volunteer advisors who share their expertise with young businesspeople who possess small and medium enterprises (SMEs). Thus, the youth benefit from advice, structured support and mentoring from experienced business owner/managers (Gregoire & Gregoire, 2005:1).

Are Empretec, ILO and SEDCO playing a significant role in the survival, growth and development of SMEs?

The results indicate that the majority of the respondents are satisfied with the roles being played by these supporting institutions. This is supported by the responses from the respondents where seventy percent (70%) alluded to the fact that Empretec, ILO and SEDCO are playing a significant role in the survival, growth and development of SMEs. This result can be attributed to the fact that these supporting institutions focuses on offering managerial skills training (e.g. bookkeeping skills, advertising and promotion techniques) to SMEs which is one of the critical areas that have a negative effect on their performance. Empretec is primarily involved in the training of SMEs. It has trained various SME owners and employees in managerial aspects such as human resources management, financial management and marketing management. ILO has also been involved in the training of SME entrepreneurs through programmes such as 'Start Your Business (SYB) and Start and Improve Your Business (SIYB). SEDCO has provided funds to SMEs through its funding schemes. These funding schemes are the SME Revolving Fund, the RBZ Productive Sector Fund, the Distressed

Companies Facility and the Loan Booth Programme. It has also provided business management and entrepreneurship training to SMEs throughout Zimbabwe (National Economic Consultative Forum, 2004:5).

Which Zimbabwean policies on the development of SMEs are most helpful?

Forty four percent (44%) of the respondents have found the Economic Reform Framework to be the most helpful policy. Thirty one percent (31%) appreciate the Zimprest, for the reasons stipulated below, whilst twenty five percent (25%) have found the Economic Recovery Programme to be most helpful in their operational activities. The primary objective of Zimprest was the creation of a stable macro-economic environment which allows increased savings and investment in order to achieve higher growth and improvement in the standard of living for all Zimbabweans. During the first three years of the Zimprest, the highest economic growth was achieved at 7% in 1996, while lower growth rates were achieved at 2 % in 1997 and an estimated 1.6% in 1998, and equally low levels in 1999 and 2000. However, one outstanding achievement during the first 3 years of Zimprest was the marked improvement in Zimbabwe's fiscal performance. Zimbabwe managed to reduce its budget deficit, as percentage of GDP, from 12.9% in fiscal year 1994/95, to 9.7% in 1995/96, 6.7% in 1996/97 and 6.4% in 1997/8, (the latter being the lowest ratio since the inception of the reform programmes in 1991). This improvement in fiscal performance was due to improved revenue collection and enhanced expenditure management which was the major focus of the Zimprest. The strong fiscal position laid the groundwork for a stable macro-economic environment which was achievable once the balance of payments position improved.

Most SMEs have found the Economic Reform Framework and the Economic Recovery Programme to be the most helpful policy as it has resulted in the Zimbabwean government putting measures in place to support companies, especially those in the manufacturing sector. SMEs stand to benefit from these initiatives as the government is geared towards boosting the economy through increased production in the manufacturing sector.

Which market penetration measures established by the Zimbabwean government are most helpful in your operations?

Twenty five percent (25%) of the respondents indicated that business linkages are the most helpful market penetration measure. Twenty three percent (23%) of the respondents concluded that quality assurance was the most helpful market penetration measure. A total of nineteen percent (19%) of the respondents viewed distribution support as the most helpful market penetration measure. Distribution support is important in that it ensures that SMEs' products are easily accessible to customers. Seventeen percent (17%) felt that trade facilitation was the most helpful in penetrating the market. Trade facilitation is important as a market penetration measure as SMEs will be assured of customers and suppliers in the business operations. Twelve percent (12%) viewed marketing support as a helpful market penetration measure. Marketing support helps SMEs in that it enhances their advertising and promotional techniques which might give them a competitive edge. Market intelligence was viewed as the least helpful at five percent (5%). These results indicate the importance of business linkages and quality assurance in order for SMEs to penetrate the market. Business linkages are important as businesses depend on each other for survival. This is due to the fact that most businesses in Zimbabwe outsource services and subcontract. Similarly, to be competitive an organisation needs to offer quality products or services; hence quality assurance becomes important for the growth of any business.

Which infrastructure support measures had a positive impact on the performance of your business?

The results stipulate that thirty percent (30%) of the respondents value the provision of workspace as a component that have played a pivotal role in their operations. This result shows the importance of land for operational activities in the manufacturing sector in Harare, Zimbabwe. Twenty two percent (22%) of the respondents have found business incubators to be more important as it resulted in the positive performance of their enterprises. This can be attributed to the fact that these incubators help in the training of SME owners and/or managers to ensure the increased sustainability of SMEs in the manufacturing sector in Harare, Zimbabwe. In terms of the other support measures, the results indicate a nineteen percent (19%) for national productivity centre, sixteen percent (16%) for information technology, and thirteen percent (13%) for electronic commerce. This result clearly indicates that the support measures that have been put in place are having a positive impact on the performance of SMEs in the manufacturing sector in Zimbabwe. Business incubators have been helpful in that they also focus on providing business infrastructure for entrepreneurs who are unable to start their businesses because they lack the necessary facilities.

TESTING OF HYPOTHESIS

Research Hypothesis

The economic initiatives of the Zimbabwean government aimed at SME development do affect the performance of SMEs in the manufacturing sector in Harare, Zimbabwe.

The statistical programmes ANOVA (Analysis of variance), as well as a regression analysis were employed to statistically test the significance of this assertion. The results indicated that the economic initiatives of the Zimbabwean government play a significant role in determining the performance of SMEs in the manufacturing sector in Harare. Initiatives such as cluster based development ($p=0.021$), and gender dimension ($p=0.038$) were found to have a significant effect on business performance. What this means is that the economic initiatives of the Zimbabwean government are assisting the SMEs in the manufacturing sector in Harare,

Zimbabwe to develop and grow. Statistically, the null hypothesis which states that the economic initiatives of the Zimbabwean government aimed at SME development do not affect the performance of SMEs in the manufacturing sector in Harare, Zimbabwe is rejected and the hypothesis is accepted.

MANAGERIAL IMPLICATIONS

The managerial implications are discussed below. These implications are intended to help SME managers/owners in the manufacturing sector in Harare, Zimbabwe and all others in this sector in the developing world. It focuses on critical support from the government and other institutions influencing the development of SMEs and required skills for SME development.

Economic initiatives of the Zimbabwean government to develop SMEs in the manufacturing sector in Harare, Zimbabwe

The Zimbabwean government's economic initiatives must be made available and accessible to all SMEs in the manufacturing sector in Harare. The government must further involve these SMEs in policy formulation for the small and medium enterprise sector since they are key stakeholders who are affected by these policies. This can be done by involving SMEs in the manufacturing sector in Harare in workshops to discuss issues which affect their daily operations and the challenges which could influence their future survival. The government of Zimbabwe must also establish an SME association which represents the sector in direct talks with the government. In aiding SMEs in the manufacturing sector in Harare, the Zimbabwean government should put measures in place that make these SMEs accountable when they get assistance from the government. They must ensure that SMEs in the manufacturing sector in Harare furnish them with financial statements annually. In order for these SMEs to furnish the government with the required financial statements, the government must ensure that all SMEs in the manufacturing sector in Harare are registered. Furthermore, they must have a data base of the SMEs in the manufacturing sector in Harare they would have assisted. This will lead to these SMEs being more efficient in their operations in order not to waste and misuse resources.

SMEs in the manufacturing sector in Harare, Zimbabwe should also be better informed of the available supporting institutions and their roles in the development of SMEs. Although they are aware of the existence of Empretec, SEDCO and ILO, these institutions should embark on community outreach programmes. This should be done in order to inform the SMEs in the manufacturing sector in Harare about the available services from these supporting institutions. This will result in the development of sustainable entrepreneurial ventures as they will be in a position to utilise the available services from the government and supporting institutions. The supporting institutions must play a leading role in addressing the skills shortages among SMEs in the manufacturing sector in Harare to enhance their survival in the long run.

CONCLUSION

The results of the data gathered from the questionnaires have assisted the researcher to reach certain conclusions on the formulated hypotheses. Through these results, the researcher discovered that SMEs in the manufacturing sector valued and appreciated government and other institutions' initiatives to promote their growth and development. These initiatives includes investment promotion, access to finance, skills shortage address, targeted support, SME policy development, market penetration measures and infrastructure support measures. However, more should be done to make these initiatives accessible to all the SMEs in need of them. The above discussions clearly brought out the importance of the government initiatives together with all the supporting institutions for the survival, growth and development of SMEs in the manufacturing sector in Harare, Zimbabwe. An ability to address the challenges faced by SMEs and an effective implementation of all the highlighted measures will result in an increased performance of SMEs which will ultimately lead to the achievement of both economic and social objectives of SMEs.

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