URBANISATION AND SME GROWTH IN A DEVELOPING ECONOMY: IMPLICATIONS FOR POLICY

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Abstract

This paper sought to examine the challenges and government support for urban small and medium enterprises (SMEs) in Zimbabwe and offer policy direction for further development of the sector. Previous studies that explored challenges facing the urban SMEs in Zimbabwe paid little attention to government support and policy strategies to develop the sector further (Chigwenya & Mudzengerere, 2013; Thebe & Ncube, 2015). This study intends to fill this gap. Using a qualitative research design, we gathered data from 25 purposively sampled SMEs through in-depth interviews. Data were analysed using content analysis. Results revealed that urban SMEs face several challenges, including access to finance, lack of technical and management skills, and stringent government regulations. Although the government implemented some policies to support SMEs, these measures were inadequate. The government should set aside more resources to support the sector, including SMEs clustering and establishing more business incubation centres to facilitate technology and skills transfer. The government should also strike a balance between the regulatory laws of the sector and its development to achieve sustained growth. More importantly, the government’s urban plans should incorporate the pressing demands of climate change in building inclusive, resilient, and sustainable cities of the future. The study proposed areas for future research.

Keywords: Challenges, Policy, SMEs, Strategy, Urbanisation, Urban Entrepreneurship, Zimbabwe

1. INTRODUCTION

Small and medium enterprises (SMEs) are an integral component of the urban economic landscape as they provide employment, promote local economic development and innovation, and reduce poverty (Eraser, Moonga, & Wilkes, 2014; Goremsnandu, 2017; Mashingaidze, Bomani, & Derera, 2021). SMEs infuse the entrepreneurship spirit in urban communities. The contribution of SMEs to economic growth cannot be over-emphasised. For example, SMEs account for 70 per cent of all jobs in Accra (Eraser et al., 2014). SMEs in Lusaka employ approximately 88 per cent of the population (Clarke, Shah, Sheppard, Munro, & Pearson, 2010; International Trade Centre, 2020). In Zimbabwe,
SMEs contributed US$8.58 billion to the country’s Gross Domestic Product (GDP) in 2016 and employed more than 5.9 million people, that is, 75 per cent of a total workforce of 7.8 million (Financial Tribune, 2018). Furthermore, SMEs contribute 20 per cent in taxes and constitute over 70 per cent of the Zimbabwe Revenue Authority database of registered taxpayers (Financial Tribune, 2018). In Harare, SMEs provide 58 per cent of the employment (Harare Yangu, 2018). After independence, the informal sector became visible in African urban areas like Kenya, Ghana, and Zimbabwe (Gumbo & Geyer, 2011). The proliferation of SMEs in towns and cities of developing countries is attributed to rapid urbanisation and the natural increase in population (Gumbo & Geyer, 2011).

Before Zimbabwe’s independence in 1980, the formal economy was composed of large businesses. SMEs were regarded as the informal economy and were outlawed. Various pieces of legislation such as the Town and Planning Act of 1946, the Vacancy Act of 1960, the Urban Councils Act of 1973, and the Vendors and Hawkers Bylaws of 1973 were implemented to curb such activities (Chirisa, 2009; Gumbo & Geyer, 2011). With the advent of independence, repressive and segregative laws were abolished, leading to increased urbanisation. The people who migrated to urban areas could not be absorbed in the formal sector. Therefore, SMEs became an option for employment. The government policies such as the Economic Structural Adjustment Programme (ESAP) of 1991, the Land Reform Programme (LRP) of the 2000s, and the Indigenisation and Economic Empowerment of 2007 accounted for the poor economic performance leading to the closure of more than 130 companies (Gumbo & Geyer, 2011; Bomani, Fields, & Derera, 2015; Mazikana, 2017; Gukurume, 2018).

The closure of companies increased the number of urban dwellers who joined the SME sector for employment and family sustenance. In this way, Zimbabwe became an SME economy (Bell & Mawadza, 2017). SMEs increasingly dominate the urban economic landscape and face many challenges that stifle their growth and contribution to economic development. Cities are regarded as the economic powerhouses of global economies. The Government of Zimbabwe (2015) views cities as centres of economic development through the provision of employment and goods and services. If cities like Harare are to be economic powerhouses, there is a need to promote the development of SMEs, which constitute most businesses. The growth of SMEs in cities is hinged on implementing a favourable regulatory, policy, and strategy framework.

While the SME sector is crucial for urban development, research on urban SMEs is limited, particularly in Zimbabwe, where it is needed most due to the multifaceted factors affecting urban development. As previously mentioned, the Zimbabwean economy is dominated by small businesses, which have become a source of livelihoods for a significant proportion of the urban population. This has created significant policy implications for the sector’s growth, especially with the rising unemployment and poverty levels over the years. It implies, therefore, that the government of Zimbabwe’s policy strategy should equally focus on developing the SME sector. Similarly, entrepreneurship research should increase to match the SME sector’s importance to the Zimbabwean economy. Unfortunately, this has not been the case, as research in entrepreneurship is still in its infancy and continues to lag in all its domains. Derera, Croce, Phiri, and O’Sullivan’s (2020) study highlighted the scarcity of entrepreneurship research in the country, though it was from a women’s entrepreneurship perspective, a vital component of the entrepreneurial ecosystem in Zimbabwe. Rigorous entrepreneurship research is crucial to the Zimbabwean economy. Furthermore, past studies on urban SMEs in the country paid little attention to the role of government support in addressing the challenges facing urban SMEs, and policy strategies to develop the sector further (Chigwenya & Mudzengerere, 2013; Thebe & Ncube, 2015; Nyamwanza, Paketh, Mhaka, Makaza, & Moyo, 2015). This study intends to fill this research gap.

Previous studies on urban SMEs in Zimbabwe, among others, focused on informal sector activities (Chigwenya & Mudzengerere, 2013; Njaya, 2014; Thebe & Ncube, 2015; Rogerson, 2016; Gudzidzirai & Tanga, 2017), women entrepreneurship (Chamlee-Wright, 2002; Osirim, 2003; Mishi & Kapingura, 2012; Mazonde & Carmichael, 2016; Derera et al., 2020; Mashingaidze, 2022), SME strategy formulation (Mashingaidze et al., 2021; Mashingaidze & Chnakidzwa, 2021), obstacles to SME growth and development (Karedza, Sikwila, Mpofu, & Makurumidze, 2014), SME policies (Bomani et al., 2015; Nyamwanza et al., 2015). Most of these studies paid little attention to the role of government support in the urban SME sector, except Majoni, Matunhu, and Chaderopa’s (2016) study, which explored the obstacles of urban SMEs and government support for the sector.

For example, Thebe and Ncube’s (2015) study explored the orientation of street entrepreneurship (informal SMEs) in Bulawayo Metropolitan Province. The results revealed that street entrepreneurship is survivalist oriented and is a livelihood diversification strategy for most urban dwellers (Thebe & Ncube, 2015). The study also highlighted a general lack of institutional support for direct street entrepreneurship activities (Thebe & Ncube, 2015). Chigwenya and Mudzengerere (2013) studied the strides taken to mainstream the informal sector activities in urban local authorities. The research found that the government had made frantic efforts to promote the development of the urban SME sector (Chigwenya & Mudzengerere, 2013).

In urban women’s entrepreneurship research, Osirim (2003) examined the effects of the Economic Structural Adjustment Programme (ESAP) enacted in late 1990 at the request of the International Monetary Fund (IMF) and the World Bank on hairdressing and sewing businesses. The results concluded that increased costs, competition, and bans on imported raw materials negatively affected women’s businesses (Osirim, 2003). Mishi and Kapingura’s (2012) study assessed the impact of government support for the sector. The study revealed that women struggled to access funding due to several factors such as lack of collateral security, unofficial screening criterion, and exorbitant interest rates (Mishi & Kapingura, 2012).
Karedza et al. (2014) studied obstacles hindering the success of SMEs in Chinhoyi. The findings revealed that limited access to finance, lack of marketing skills, lack of management and entrepreneurial skill, limited access to infrastructure, lack of information, and stringent regulatory requirements were hindering the growth of SMEs (Karedza et al., 2014). Karedza et al.'s (2014) study omitted the role of government policy in addressing these challenges, a research gap intended to be filled by this study.

In SME policy research, Nyamwanza et al. (2015) conducted a study on the evaluation of the policies instituted by the government in promoting the survival and growth of SMEs. The results revealed that the government had not done enough to address the concerns of SMEs (Nyamwanza et al., 2015). Similarly, Bomani et al. (2015) conducted a study on the historical overview of SME policies. The results indicated that the policies and strategies implemented by the government to promote the development of the SME sector did not yield the expected results and had failed to ameliorate the significant challenges confronting SMEs. Hence, the need to suggest a new policy direction to enhance SMEs’ growth in urban areas. This is necessary for reviving the entrepreneurship and SME policy debate in a country dominated mainly by small businesses.

Majoni et al. (2016) conducted a comparative study of SME challenges and the policies intended to support the sector in Zimbabwe and South Korea. The study constituted SMEs in urban areas of Seoul and Ansan in South Korea and Harare and Chinhoyi in Zimbabwe (Majoni et al., 2016). The results indicated that SMEs in both countries faced similar challenges such as accessing finance, lack of managerial experience, lack of infrastructure, and environmental challenges (Majoni et al., 2016). The results also indicated that South Korea’s policies support the SME sector more than Zimbabwe’s, resulting in a high failure rate among urban SMEs in Zimbabwe. The scope of Majoni et al.’s (2016) study did not give room for policy recommendations for further developing the SME sector in the two countries. This study builds on Majoni et al.’s (2016) study and proposed policy recommendations for developing urban SMEs in Zimbabwe. Since most previous studies highlighted the need to strengthen the policy framework to address the obstacles of the SME sector, this study intends to fill this research gap by examining SME challenges, government support for the sector, and offering policy insights. The study sought to examine the challenges and government support for urban SMEs in Zimbabwe and offer policy direction for further development of the sector. The study utilised a qualitative interpretive research design to achieve the study objectives.

The study contributes to Zimbabwe’s entrepreneurship research by focussing on three aspects of urban entrepreneurship that are pivotal to the sector’s success. It also contributes to the debate on urban SMES, particularly entrepreneurship and SME policy, considering the sector’s significance to developing economies such as Zimbabwe.

The rest of the paper is structured as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology adopted to conduct empirical research on urban SMES. Section 4 presents and discusses the empirical results, while Section 5 offers policy implications for developing the urban SME sector. Section 6 concludes by highlighting areas for further research.

2. LITERATURE REVIEW

2.1. Urbanisation and SME growth in Zimbabwe

The Zimbabwean urban population has been increasing since 1936 (Munzwa & Wellington, 2010). As more people migrated to urban areas, the urban population grew from 13 per cent in 1960 to 23 per cent in 1980 (Labour and Economic Development Research Institute of Zimbabwe [LEDRI] & Friedrich-Ebert-Stiftung, 2015). Even today, urbanisation is occurring at an unprecedented rate (Goremusandu, 2017). Resultantly, the city boundaries have been adjusted several times (Chirisa & Matamanda, 2019). Urbanisation in Zimbabwe has been necessitated by drought, natural disasters, lack of employment opportunities, and the need for a better life (Muchadenyika & Williams, 2016). The IMF (as cited in Munyoro, Kabangure, and Dzapasi, 2016) noted that the growth rate of the urban population is four times the rate of the rural population. Various studies have noted that nations’ future will depend on cities as the urban population will be approximately 5 billion between 1995 and 2025 (Munyoro et al., 2016; Teye, 2018), indicating that about 65 per cent of the world population will be living in urban areas. Moreover, about 90 per cent of urban growth will occur in developing countries (Kamusoko, Gamba, & Murakami, 2013; Munyoro et al., 2016). In Zimbabwe, the current rate of urbanisation is estimated at 38.25 per cent (Muchadenyika, 2020). It is estimated that by 2030, more than 50 per cent of the Zimbabwean population will be living in cities (Muchadenyika, 2020).

The rapid increase in urban population presents environmental and socio-economic challenges (Munzwa & Wellington, 2010; Muchadenyika, 2020). These challenges include a high crime rate, squatter camps, multi-habitation, informal land sub-divisions, and unemployment rate. Against this backdrop, urban poverty has increased over the years. To alleviate the urban population from the shackles of urban poverty, people resorted to urban agriculture, setting up formal and informal businesses (Government of Zimbabwe, 2015). The LEDRIZ and Friedrich-Ebert-Stiftung (2015) noted that informal and formal businesses are a product of unemployment and poverty. Fraser et al. (2014) concurred that urbanisation in Africa is closely tied to the emergence of a large SME sector, particularly the informal sector.

The Economic Structural Adjustment Programme (ESAP) introduced in 1991 failed to promote economic growth, leading to increased unemployment and poverty in Zimbabwe (Bomani et al., 2015; Gukurume, 2018). Between 1991 and 1996, many companies closed, and many people lost their jobs (Gumbo & Geyer, 2011). There were also...
retrenchments in the public sector (Potts, 2016). Consequently, the urban informal economy expanded (Chirisa, 2009; Potts, 2016) and became the primary source of livelihood for most urban dwellers (Ndweni & Verhoeven, 2013). Many formal large companies disinvested, and their factory shells became “ghost towns” (Chirisa, 2009). Chirisa (2009) further noted that some former large industrial buildings were compartmentalised into small lots operated by SMEs. The fast-track Land Reform Programme (LRP), popularly known as the “Third Chimurenga”, in the 2000s further exacerbated the situation. Commercial farm employees lost jobs and livelihoods and were forced to migrate to cities to seek a better life. Consequently, there were massive job losses due to many formal companies disinvesting, with some shutting down business operations while others downsized (Gumbo & Geyer, 2011). The agro-based industrial sector collapsed due to the fast-track LRP (Fontein, 2009). Such a scenario led to the burgeoning of the SME sector in urban areas, particularly in Harare, the capital city of Zimbabwe.

Urban SMEs in Zimbabwe include, but are not limited to, flea markets, home industries, communal guarding car parks, furniture manufacturing, catering, food processing, chemical manufacturing, clothes manufacturing, business services, brick moulding, retailing, engineering, motor mechanics, welding, hair salons, fence making, manufacturing and mending shoes, and sculpting (Harare Yangu, 2018; Bomani, 2015). They are a source of livelihood for most urban dwellers and enhance the economic development of cities. However, SMEs are faced with many challenges that stifle their growth. Hence, a policy and strategy framework for the development of the urban SME sector becomes imperative.

2.2. Challenges facing urban SMEs

SMEs in urban areas face a plethora of challenges. SMEs lack sustainable trading space, particularly in Harare, where operating spaces were not incorporated into the land-use framework of the city (Harare Yangu, 2018). This is attributed to poor urban planning (Peprah, Buor, & Forkuor, 2019). Trading takes place in insecure places with inadequate infrastructure and shelter to protect the small business owners and their products from the adverse effects of the environment, such as high temperatures and rain (Karedza et al., 2014). The places with some infrastructure for SMEs are overcrowded (Uzhenyu, 2015). Chirisa, Dumba, and Mukura (2012) contended that Zimbabwe’s land-use planning system was designed to support large-scale commercial and industrial activities, implying that the urban planners were not prepared to handle the growing SME sector. Some of the trading places, like Mupedzanhamo in Mbare, Harare, lack adequate ablution facilities for small business owners and their customers (Majoni et al., 2016).

Furthermore, utilities such as water and electricity, which are in short supply, stifle production among SMEs. Power cuts may last for approximately 18 hours (Shumba, Zindiye, & Donga, 2017). The water supply is estimated to be 30 per cent below capacity in urban areas (Karedza et al., 2014). Water cuts are frequent. Businesses go for about 12 hours without water (Shumba et al., 2017). City councils hike their rates without giving due notice to the businesses. High water and electricity tariffs increase SMEs’ operational costs, thereby negatively impacting profitability.

Lack of management and technical skills, machinery, and equipment are some of the challenges deterring the growth of the SME sector in urban areas (Peprah et al., 2019; Matsongoni & Mutambara, 2021). SMEs find it challenging to identify technology sources appropriate for their business operations. Consequently, SMEs manufacture products that are not competitive in the market. SMEs lack management training. Majoni et al. (2016) assert that SMEs with business-related training or qualifications tend to survive 30 per cent more than those without any training. Thus, business management training is a critical component of business success.

The legal and regulatory environment stifles the growth of SMEs in urban areas. Legal instruments in Zimbabwe such as the Statutory Instrument 216 of 1994, Regional and Town Planning Act, Land Use Act, and the Environmental Management Act limit the development of the SME sector (Karedza et al., 2014) as they restrict the location of these businesses in certain areas. According to Maseko (2014), the Income Tax Act, Chapter 24:06 and the Finance Act, Chapter 23:04 require all businesses, including SMEs, to pay tax. The taxation rate is the same regardless of the size of the business. The high taxation system forces SMEs to remain small and invisible to the central government. Prospective entrepreneurs are discouraged from starting and running formal businesses due to punitive laws and regulations (Peprah et al., 2019). Such a scenario deters the growth of the SME sector. Registering a business is tedious and expensive (Majoni et al., 2016). It takes about 90 days to register a business in Zimbabwe (World Bank, 2015) at the cost of approximately US$940 (Mandizha, 2015). The operating license fees are very high. Mandizha (2015) cited in Shumba et al. (2017) claimed that the municipal business operating license costs about US$564.00 annually in Harare.

Harare Yangu (2018) argued that since some SMEs are not registered and operate in undesignated areas without suitable infrastructure, they encounter more challenges in accessing funding. Nevertheless, this funding is necessary to facilitate the growth and formalisation of their businesses. In addition, SMEs fail to meet lending requirements, such as a lack of collateral security (Derera, Chitakunye, O’Neill, & Tarkhar-Lail, 2014; Peprah et al., 2019; Matsongoni & Mutambara, 2021). Therefore, financial institutions are not prepared to fund their business activities through loans (Peprah et al., 2019). Mwangi and Bwisa (2013) noted that SMEs have to pay loan processing fees, high-interest rates, and credit insurance. Thus, the cost of credit finance is very high because of the risk of lending money to them. It is also sometimes difficult for SMEs to get financial support from family members and friends to expand business operations (Peprah et al., 2019).

Urban SMEs also lack market access, marketing skills, and adequate market knowledge (Tinarwo, 2016; Sithole, Sithole, & Chirimuta, 2018; Mashingaidze, Phiri, & Bomani, 2021). Established
businesses usually dominate markets. Consequently, they fail to meet the needs and expectations of their customers (Mashingaidze et al., 2021). Consumer preferences are constantly changing, and SMEs are not informed of this, as they lack market information (Mashingaidze et al., 2021). In the furniture manufacturing industry, increasing competition has the sustainability of SMEs (Gwarada, 2020). Additionally, Zimbabwe imports most products that compete with locally manufactured goods (Tinarwo, 2016). SMEs cannot manufacture globally competitive products due to limited financial resources, technical skills, equipment, and machinery.

2.3. Role of Zimbabwean government in urban SMEs development

Municipalities, especially the City of Harare, have designated some areas for SMEs’ operations (Chirisa et al., 2012). Gazaland, Siyanyo, and Glen View 8 Complex are some of the areas in Harare set aside for SMEs in Harare. The Ministry of Local Government and Urban Development crafted and implemented Statutory Instrument 216 of 1994 to allow small-scale non-polluting manufacturing SMEs to establish business premises in residential areas (Chirisa et al., 2012). Some cities have embraced the instrument in their land-use planning such that they make it a requirement to allocate land to SMEs. However, the land allocated is inadequate to cater to the growing SME sector.

Small and Medium Enterprise Development Corporation (SMEDCO), a government corporation responsible for promoting SME development, provides credit funding, factory shells, business advice, business training, and market information to SMEs. The corporation constructed and provided factory space for SMEs in Nyika Growth Point, Gweru, Chitungwiza, Gazaland in Harare, and Bindura (Chirisa et al., 2012). SMEDCO provided credit finance worth US$15 million between 2017 and 2018 (Mhaka, 2019). Moreover, the corporation has provided SMEs with metal fabrication and woodworking machinery (Bomani, 2015). Some SMEs received training at the Litefold Engineering Company in Chitungwiza (Bomani, 2015). SMEDCO was grossly underfunded such that it could not assist many SMEs. SMEs are required to have collateral security to access credit finance (Derera et al., 2014). Since many SMEs lack collateral security, a small number of SMEs benefited from SMEDCO loans. Interest rates for the loans were too high for SMEs, and the leased machinery was too expensive (Bomani et al., 2015).

The Zimbabwean government partnered with India in the Indo-Zimbabwe Project to enhance SMEs’ access to technology and machinery (Moyo & Chingwere, 2018). Entrepreneurs in the manufacturing sector received training in technical skills at low costs. The project positively impacted the quality of furniture and grinding mills manufactured by SMEs. SMEs managed to access machinery and the latest technology in manufacturing (Sabeta, 2018). Another partnership was with EMPRETEC. The partnership aimed at developing an entrepreneurial culture among women in the arts and cultural sector (Mugano, 2016). EMPRETEC assisted women entrepreneurs in penetrating foreign markets through developing proposals and other empowerment programmes. Since its inception in 1988, EMPRETEC has trained approximately 70,000 entrepreneurs in more than 2,700 workshops (Mugano, 2016).

Other government agencies have also been instrumental in promoting the growth of SMEs in urban areas. For example, the Zimbabwe International Trade Fair (ZITF) promotes SMEs’ access to domestic and foreign markets by showcasing their products and services and establishing ties with local and international businesses (Mabhena, 2019). However, most SMEs lack awareness of the services provided by the ZITF. Participation in the ZITF programmes is also expensive for SMEs struggling financially in most cases. ZimTrade carries out training on exports, provides information regarding foreign markets, and develops new markets for SMEs (Chikonyora, 2020; ZimTrade, 2018). A few SMEs access the services of ZimTrade in Harare and other big cities like Bulawayo. Most SMEs lack awareness of ZimTrade’s services to businesses.

Statutory Instrument 171 of 2002 and Indigenisation and Economic Empowerment Act of 2007, Chapter 14:33 promote SMEs participation in public procurement. The Indigenisation and Economic Empowerment Act of 2007 requires all government department and companies to procure a minimum of 50 per cent of their products from SMEs. However, a lack of managerial and technical competencies deter SMEs from delivering government contracts (Bomani, 2015). Furthermore, SMEs lack adequate financial resources to bid for government tenders (Pilo, Kanyepe, & Tukuta, 2018). SMEs also lack information regarding procurement processes, procedures, and opportunities (Mandiyambira, 2013). Corruption is rampant in the awarding of tenders (Tsabora, 2014) as some politicians manipulate the tendering process.

3. METHODOLOGY

The interpretivist philosophy guided the exploratory study. A qualitative research approach was adopted in the study. The study population constituted SMEs operating in the urban areas of Harare, Zimbabwe. However, due to the study’s exploratory nature and the research design, the study targeted a sample of 30 respondents. The researchers used the following criteria to identify entrepreneurs: 1) they must have registered small businesses, 2) have tax clearance certificates, 3) have specific business premises, and 4) have operating business licenses from the City of Harare Council. The empirical evidence was collected from 25 purposively sampled entrepreneurs from the manufacturing, retail, and service sectors. The other five respondents were unavailable for the interviews due to other pressing commitments. The response rate was 83.33 per cent.

Purposive sampling was adopted as the researchers aimed to gather empirical evidence from SME owners knowledgeable about SME challenges, government support, and policy insights for growing the sector. In-depth interviews were utilised to gather more profound insights into the challenges facing urban SMEs, the government’s policies and strategies to promote the sector, and
possible future policies insights to support the sector. In-depth interviews were appropriate as they provided deep insights which answered research objectives. Minhat (2015) asserted that in-depth interviews provide a deeper understanding of a phenomenon. The in-depth interviews were recorded using a dictaphone and later transcribed verbatim with the participants’ permission. The respondents were numbered from one to twenty-five to conceal their identity. The interviews took approximately 45 minutes. Content analysis was utilised to analyse the raw data. The data analysis involved summarising, categorising, coding, reporting findings, and interpreting results (Harding, 2013). The University of KwaZulu-Natal, South Africa, granted the ethical clearance certificate (No. HSS/1114/013D). The gatekeeper’s letter was issued by the Ministry of Small and Medium Enterprises and Cooperative Development.

4. PRESENTATION AND DISCUSSION OF RESULTS

4.1. Challenges facing SMEs in urban areas

The data analysis revealed that urban SMEs are confronted with several challenges such as lack of trading space and shelter, limited access to credit finance, water and power cuts, high water rates, and electricity tariffs. SMEs also lack access to machinery, equipment, and technology, limited access to markets, inability to comply with government procurement requirements, and restrictive legal and regulatory framework. The following statements from the entrepreneurs illustrate these results. For example, Respondent 2 noted that:

“We don’t have space for operating our businesses, and shelter provided by the government is inadequate. The shelter does not have functional ablution facilities for us and the customers”.

The quote indicates that though the government has provided land and factory shells or business premises, they are inadequate for the burgeoning SME sector. Extant literature supports that SMEs lack trading space (Uzhenyu, 2015; Majoni et al., 2016; Harare Yangu, 2018). Resultantly, the places with some infrastructure for SMEs are overcrowded (Uzhenyu, 2015). Majoni et al. (2016) observed that many trading places lack ablution facilities needed in a business area.

Another challenge that emerged from the data was limited access to credit finance. Most (20 out of 25) of the respondents indicated that access to funding was one of their most significant obstacles to business growth. Lack of collateral and high-interest rates on loans deter SMEs from accessing credit finance. For example, Respondent 8 lamented that:

“Access to finance is a challenge because we lack collateral for the loans. Even if one is to get a loan, the rates of interests are too high”.

As illustrated by the entrepreneur, accessing funding has always been a challenge for SMEs. The finding concurs with the literature (Mwangi & Bwisa, 2013; Derera et al., 2014; Peprah et al., 2019). For example, Peprah et al. (2019) posited that most SMEs lack collateral security such that financial institutions are not prepared to grant them loans for business operations. Mwangi and Bwisa (2013) asserted that SMEs have to pay loan processing fees, high-interest rates, and credit insurance. Consequently, the cost of credit finance becomes very high.

The urban entrepreneurs also complained about the water shortages and power cuts that interrupted business operations. The majority (18 out of 25) indicated that the City of Harare Council does not forewarn them about the imminent water and power cuts. Respondent 12 noted that:

“Water and electricity are a problem for our businesses as we suffer from constant water and power cuts without being informed about this in advance, which affects production. The water rates and electricity tariffs are too just high for us”.

The entrepreneur illustrates that the water and power cuts negatively affect the operations of SMEs. Shumba et al. (2017) claimed that frequent water and power cuts might go for 12 to 18 hours. Therefore, some businesses, like manufacturing, close during these hours, while others struggle to serve their clients effectively.

Accessing markets is another key challenge facing the urban SME sector. All the respondents indicated stiff competition, particularly from imported products. Furthermore, SMEs lack information regarding customer needs and expectations. Respondent 18 noted that:

“Getting customers is a challenge due to stiff competition. We do not know the market. We sell what we think customers need”.

In addition, the government, which is one of the largest buyers in any economy, advertises tenders that are difficult for SMEs to secure. The following statement from participants substantiates this result. Respondent 22 stated that:

“The government can be a market for us but getting a government tender is a challenge as the process is difficult and expensive for SME”.

Respondents 18 and 22 indicate that SMEs have limited market access due to increased competition from imported and local products. Additionally, SMEs lack adequate knowledge about the market as they, in most cases, do not conduct market research (Mashingaidze et al., 2021). Thus, they end up selling what they think customers need without being informed by market research (Mashingaidze et al., 2021). Tinarwo (2016) argued that SMEs in urban areas lack access to markets, marketing skills, and adequate market knowledge. Gwarada (2020) and Tinarwo (2016) observe that locally manufactured and imported products increase competition for SMEs’ products and services.

Punitive government laws and regulations stifle the development of the urban SME sector, as noted by the urban entrepreneurs. Most (17 out of 25) respondents indicated that the laws and regulations make it challenging to formalise their business operations. Business registration fees and taxes are very high. In support of this, Respondent 24 stated that:

“Government laws and regulations governing the establishment and operation of businesses are restrictive. Registering a business is an expensive and long process. The tax required by the Zimbabwe Revenue Authority is also too high”.

The findings show that government laws and regulations hinder the growth of the SME sector as supported by literature (Maseko, 2014; Mandizha, 2015; Peprah et al., 2019). For example, Peprah
et al. (2019) noted that entrepreneurs are discouraged from starting and running formal businesses due to punitive laws and regulations. Business registration fees are prohibitive (Mandizha, 2015). Maseko (2014) noted that the Income Tax Act, Chapter 24:06 and the Finance Act, Chapter 23:04 require all businesses to pay taxes. The tax rate is very high and unsustainable for SMEs.

4.2. Government support for the development of urban SMEs

The respondents agreed that the government adopted several measures to address their challenges. Provision of land, factory shells or business premises, credit finance, access to markets, training, business advice, access to technology, and participation in public procurement were strategies employed to develop the urban SME sector. However, government policies and strategies have not adequately addressed the needs of urban SMEs. The following quotes from the urban entrepreneurs support these results.

Regarding the provision of business premises, Respondent 2 claimed that: “The government provided some businesses operating space in the form of land and factory shells. However, not all SMEs have access to these facilities.”

The quote indicates that the government is indeed assisting the SME sector. However, the assistance is inadequate. Previous studies acknowledge that government supports SMEs with land and business premises (Chirisa et al., 2012; Bomani, 2015). For example, Chirisa et al. (2012) stated that SMEDCO constructed factory space for SMEs in Gweru, Chitungwiza, and Harare. Chirisa et al. (2012) further claimed that the municipality of Harare had allocated some land to SMEs in places like Gazaland, Siyaso, and Glen View 8 Complex. However, the land and factory shells are inadequate to cater to the growing SME sector (Bomani, 2015). SMEDCO, a government agency, provided credit funding to address SMEs’ financial needs. The findings revealed that the majority (20 out of 25) of respondents acknowledged the government’s efforts in bridging the finance gap among SMEs. This is consistent with the insights shared by Respondent 6: “The government, through SMEDCO, provides credit finance. The problem is that accessing credit funding requires collateral security, and we do not have that. The interest rates on the loans are very high for us to be able to sustain the business”.

This statement showed that the government financing agency SMEDCO provided credit finance to the SMEs. Mhaka (2019) claimed that SMEDCO provided finance worth US$15 million in 2017 and 2018. However, only a few SMEs with collateral security benefited from the funding. Furthermore, interest rates on the loans are too high for the struggling SME sector (Bomani et al., 2015).

The analysis of the empirical evidence also revealed that the government had facilitated SMEs’ access to markets through its various agencies. Exhibitions and trade fairs accorded SMEDCO the opportunity to showcase their products and services. This is in line with what Respondent 10 stated: “Some of us have managed to access markets through exhibitions and trade fairs. Very few businesses get that chance to showcase their products, and attending trade fairs is very expensive for our businesses. Some of the businesses are not aware of such opportunities”.

The entrepreneur noted that the government had promoted SMEs’ access to local and international markets through ZimTrade and Zimbabwe International Trade Fair. Bomani (2015) and Mabhen (2019) stated that international trade fairs, missions, and exhibitions have been used as platforms for enhancing SMEs’ access to markets. Chikonyora (2020) posited that ZimTrade conducts training on exports, provides information about international markets, and develops new markets for SMEs. However, some SMEs fail to participate in trade fairs and exhibitions as they are expensive (Bomani, 2015). Bomani (2015) further observed that SMEs lack awareness of government programmes.

The Government of Zimbabwe also provided training and business advice to SMEs through the SMEDCO. Most respondents (19 out of 25) acknowledged that SMEDCO provided training and business advice to a smaller number of SMEs, but the majority of them did not have access to these services. Respondent 15 indicated that: “SMEDCO provides training and business advice to SMEs. However, most of the businesses have not had the chance to access these services. Maybe it is because there are too many SMEs”.

The respondents also indicated that the government had made efforts to promote the development of SMEs through training and business advice. Existing literature supports the results. SMEDCO states that the corporation provides training and business advice to the SME sector. However, most SMEs do not access these services as they lack awareness of such government programmes (Bomani, 2015).

One of the strategies adopted by the government is facilitating SME access to technology. Technology improves the quality of products and services. Additionally, it improves production efficiency. The majority of the respondents (18 out of 25) noted that some businesses had access to technology, but only a few businesses in the manufacturing sector benefited. To support this, Respondent 17 noted that: “Some SMEs in the manufacturing sector have been accorded access to technology. This has improved the quality of products. Although the SME sector is growing, many businesses still do not have access to technology”.

The quote showed that some SMEs accessed technology through government programmes. However, a small number of SMEs benefited from such programmes. The results are in line with the existing literature. Moyo and Chingwere (2018) claimed that the Indo-Zimbabwe project provided SMEs with access to technology and machinery. The authors further mentioned that SMEs in the manufacturing sector acquired technical skills through training, which improved their products’ quality.

The objective of involving SMEs in public procurement was to promote the sector’s development, as observed by most respondents (17 out of 25). Public procurement provides a market for SMEs, subsequently improving their...
financial position. However, securing government tenders is a challenge for the SME sector. Respondent 24 observed that:

“Some of us are involved in government tenders. However, it is tough to bid for and get a contract successfully”.

The results revealed that the government has managed to promote SME access to government contracts through various statutory instruments. However, SMEs fail to bid for and secure government tenders due to various reasons. According to Pilo et al. (2018), SMEs lack adequate financial resources to bid for government tenders. SMEs also lack information about government procurement processes (Mandiyambira, 2013). Moreover, there is corruption in the awarding of government tenders (Tsabora, 2014).

5. POLICY IMPLICATIONS FOR URBAN SME GROWTH

Sustainable urban development is hinged on the successful integration of the SME sector into the urban ecosystem, as guided by the eleventh Sustainable Development Goal (SDG) of “making cities and human settlements inclusive, safe, resilient and sustainable” (United Nations [UN], 2022). More land and factory shells should be available to urban SMEs to achieve this. The government should prioritise the construction of business complexes to enable SMEs to operate in decent business spaces. Such developments facilitate SME clustering according to sector specifications, thereby providing platforms for disseminating business information. This requires careful urban planning by the government, through local governments, to create inclusive, safe, resilient, and sustainable African cities of the future. Government partnerships with the private sector, non-governmental organisations (NGOs), and community-based organisations are crucial for driving this change. Institutional trust is necessary for such partnerships to yield intended outcomes.

In conformity with the eleventh SDG, government policy on SMEs should consider environmental concerns and their impact on the future of urban economies driven mainly by the small business sector. For example, the government planning for SME operating space should be founded on the principle of the scarcity of natural resources, combating climate change, and using alternative sources of renewable energy to build inclusive, resilient, and sustainable cities.

Given that we are in the Fourth Industrial Revolution era where technology has taken centre stage, government policy should promote access to technology and its use in SME development with the intended purpose of creating smart cities of the future. Furthermore, technology use should ease and enhance business processes for the growth of the SME sector. Such initiatives include cost-effective online business registration and streamlining business processes to achieve competitive advantage and participation in the global market.

Councils or municipalities and the central government should mobilise more financial resources to promote the growth of urban SMEs. The government should also provide guarantees for SMEs’ business loans from private institutions. There is also a need for monitoring loan usage to ensure the resources are utilised for their intended purpose. Moreover, establishing an SME financial vehicle is essential to address the financial needs of the SME sector through the provision of low-interest rates, including collateral-free loans.

SMEs should augment government efforts by contributing towards tax revenue. However, the tax rates should be reasonably low to avoid crippling SME operations by driving up costs. More resources should be allocated towards training, information dissemination, technology transfer, SME infrastructure, and the funding of SME participation in domestic and international business exhibitions and local trade fairs. SMEs should finally deal with the rampant corruption existing in the awarding of government procurement businesses. Corrupt tendering officials should be prosecuted and face the wrath of the law. Furthermore, the government also needs to revise the strict laws and regulations that stifle the growth of the urban SME sector. Registering businesses should be less bureaucratic to encourage SMEs to formalize their businesses and contribute towards tax revenue.

Skills development agencies are essential for transferring entrepreneurial and technical skills to new and established entrepreneurs. India is an excellent example of a country that has established many skills development agencies and centres to facilitate technology transfer to SMEs. The Government of Zimbabwe may need to have such institutions as they are essential for urban SME growth. More science parks and incubation centres should be established in institutions of higher learning such as universities and colleges.

6. CONCLUSION

Using a qualitative interpretive research design, the study sought to examine the challenges and government support for urban SMEs in Zimbabwe and offer policy direction for further development of the sector. Data was gathered using in-depth interviews from twenty-five respondents from the manufacturing, retail, and service sectors. The study results indicated that urban SMEs face obstacles such as access to finance, lack of technical and management skills, business premises, stringent government regulations, limited access to markets, and increasing competition from imported products. The government responded to these challenges by providing several initiatives such as funding through SMEDCO, building factory shells, allocating land to SMEs, training and skills development, supporting SMEs to secure public procurement opportunities, clustering of SMEs, and...
technology transfer. The government policies and strategies have not adequately addressed the needs of urban SMEs.

The study offered policy implications for urban SMEs' growth and development in Zimbabwe. The government should set aside more resources to support the sector, including SME clustering and establishing more business incubation centres to facilitate technology and skills transfer. The government needs to revisit the stringent laws and regulations that stifle the growth of the SME sector. It should also balance the need for laws regulating the sector and the development of urban entrepreneurship. The government’s urban plans should consider building inclusive, resilient, and sustainable future cities by incorporating pressing climate change issues and scarcity of resources. There is a need for the more significant involvement of SMEs in public procurement and partnerships with the private sector to provide SME funding. In addition, the government should cluster SMEs, establish more business incubation centres to facilitate technology and skills transfer and knowledge hubs. It is also advisable to establish an SME financial vehicle to provide financial support for the sector.

Although the study contributes to urban SME research, its primary limitation is the use of a small sample drawn from the purposive sampling technique. This compromised the generalisability of the results. It also limits the applicability of the proposed policy recommendations. Consequently, the study recommends that future studies utilise larger samples drawn through probability sampling techniques to generalise the results. Future research studies should extend the scope of the study to include more cities and key stakeholders of the SME sector to get a balanced view of policy strategies. This may require the use of mixed-method research designs. It is also necessary for future studies to assess the impact of government policy on urban SME growth and development.

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