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Empowering Small Enterprises in Zimbabwe

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Empowering Small Enterprises in Zimbabwe

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Foreword

Zimbabwe is a transition economy which has been implementing a program of economic reforms since 1991. The reforms are aimed at improving the investment climate in the country so that the private sector can take fuller advantage of the new structure of incentives. In addition to the liberalization of pricing and marketing, business regulations have been simplified considerably in recent years, as a result of which there has been rapid growth in the number of small and medium sized enterprises.

This paper reviews recent developments within the small scale sector in Zimbabwe and highlights the progress made in improving their business climate. It also indicates that the liberalization agenda is far from complete and that, notwithstanding recent progress, there is considerable need to press ahead and remove the remaining regulatory and bureaucratic hurdles that increase the cost of doing business in Zimbabwe.

Private sector development, in general, and the development of small and medium enterprises, in particular, is an integral part of the Bank's country assistance strategy for Zimbabwe. The Bank is supporting the development of the sector through a variety of instruments ranging from the provision of credit to non-lending services, including advisory support, workshops and seminars.

Barbara Kafka
Country Director
Country Department 3
Africa Region
Abstract

This paper presents a situation analysis of small scale enterprises in Zimbabwe, examines the constraints faced by them, describes some of the changes that have taken place in the institutional and regulatory environment in recent years, under the structural adjustment program, and suggests an agenda for the future.

Given its colonial past, the Zimbabwean economy is characterized by a highly dualistic structure with ownership of modern, formal sector enterprises dominated by white Zimbabweans and multinational corporations with black Zimbabweans dominating subsistence farming and the informal sector. For several decades before independence, economic and social policy was geared to protect the interests of the white minority and it was not until the inception of the adjustment program in 1991 that constraints to private sector development started to be addressed in earnest. While good progress has been made in streamlining investment regulations and amending some restrictive pieces of legislation, the unfinished agenda remains large. In particular, the paper concludes that changing the rules which regulate the operations of the small-scale sector will not be enough if there isn't a change in the attitude of individuals implementing these policies. Over the years, civil servants and employees of local government and municipal councils have developed a deep distrust of the private sector as a result of which there has been a tendency to restrict private initiative rather than encourage it. There is therefore a dire need to re-educate public service employees in order to improve the channels of communication between the regulators and the end-users. There is also need to encourage the development of an entrepreneurial culture, on a national basis, if the process of economic empowerment is to really take off.
Introduction

As is the case in several parts of Africa, the Zimbabwean economy is characterized by a highly dualistic structure. On the one hand, there is the modern sector comprising commercial agriculture, mining, manufacturing and service establishments and, on the other hand, there is the traditional sector, dominated by small scale enterprises, consisting largely of communal farmers and other informal, non-farm economic activity. This duality is largely the result of Zimbabwe’s colonial legacy whereby the modern sector is dominated by the white community and by multinational corporations while most black Zimbabweans have traditionally sought livelihood through subsistence farming or by operating small scale enterprises. The economic policy environment prior to independence (in 1980), and for the decade following independence, perpetuated this polarized economic structure.

Indeed, Zimbabwe’s economic history can, broadly speaking, be categorized into four distinct periods during the past fifty years.

(i) Post-war Colonial Period (1945 to 1965). During this period the country experienced rapid economic growth, as did several other countries after World War II, as well as the growth and consolidation of a white settler population. A lot was achieved in the areas of infrastructure development for the benefit of all the people. Alongside the young economy, based primarily on mining and commercial farming, a good foundation for peasant agriculture also developed.

(ii) Isolation and War Period (1965 - 1980). In this era, the white settler community endeavoured to develop an economy based on the principals of segregation. In the face of international sanctions, the country made a Unilateral Declaration of Independence (UDI) during which the Government of the day adopted a centrally planned economy and introduced a plethora of restrictive legislation and practices. Economic and social policy was geared to protect the interests of the small group of settlers, resulting in the marginalization of the black majority through their exclusion from mainstream economic activity. The UDI regulatory regime
preserved existing enterprises through an elaborate system of quantitative restrictions on imports, high tariff barriers, foreign exchange rationing and onerous bureaucratic requirements for new entrants. Denied access to international markets, import substitution became the overriding industrial and commercial policy objective during this period.

(iii) Post-Independence Period (1980 - 1991). The new government, having won the liberation war, inherited the centrally-planned economy which meshed quite well with the Marxist leanings of the new leadership. During this period, the country saw a lot of growth in the public sector, as the Government embarked upon massive social programs aimed at redressing the wrongs of the country’s segregationist history. Much needed investments were made in health, education, and rural infrastructure. However, while this created a large pool of healthy, easily trainable workers, the Government’s negative attitude towards free-enterprise, and hence for entrepreneurial initiative, resulted in the stagnation of the private sector. The economy retained its dualistic structure, with the white minority dominating formal economic activity and little evidence of the emergence of a black entrepreneurial class. The elaborate maze of investment and price controls stunted economic growth and resulted in growing levels of unemployment necessitating the reforms of the next period.

(iv) The Reform Period (1991 - present). This period is characterised by the implementation of the Economic Structural Adjustment Program (ESAP), with the policy highlights summarised in Box 1.1. Trade liberalisation, agricultural pricing and marketing reform, and the simplification of the investment licensing regime have greatly improved the investment climate. Buoyed by good international commodity prices, the foreign exchange position of the economy has improved considerably with foreign exchange reserves amounting to approximately US$900 million by the end of 1996, sufficient to finance four months of import requirements. Several sectors of the economy have experienced reasonable growth, including tobacco, horticulture, mining, tourism, wholesale and retail trade, and the financial sector. In 1996, the economy grew at an overall rate of 8.1 percent, although from a low base in 1995, and a 5-6 percent growth is forecast for 1997.

However, the inability of Government to complement structural reforms with fiscal restraint has resulted in high domestic rates of interest and a growing domestic debt burden. The situation has been compounded by recurring droughts, in 1992 and 1995. While the private sector has, thus, been increasingly exposed to foreign competition as a result of trade liberalisation, its competitiveness has been hampered by high domestic rates of inflation and interest. Emerging entrepreneurs have found it extremely difficult to establish themselves in the present uncertain macroeconomic environment and there is increasing pressure on Government to put into place affirmative action programs aimed at empowering the black population and ensuring that the benefits of economic growth are equitably distributed.
Box 1.1: Economic Structural Adjustment Program (ESAP)

**Exchange and Trade Liberalisation.** Under ESAP, Zimbabwe has abolished most quantitative restrictions on imports, except for a small list of items which are prohibited for health and security reasons. Exporters are allowed to retain 100 percent of their foreign currency earnings in foreign currency accounts. The economy has moved to a market determined exchange rate system, whereby the exchange rate is determined on the basis of an inter-bank market. The first phase of tariff reform has also been initiated.

**Agriculture Pricing and Marketing Reform.** The pricing and marketing of most major crops has been liberalised with the exception of maize where, for food security reasons, exports are still monopolised by the Grain Marketing Board. Domestic trade in maize has been liberalised and GMB remains the buyer of last resort, at a market determined floor price. Several public enterprises such as the Cold Storage Commission, the Cotton Marketing Board, and the Dairy Board have been commercialised and are now operating as companies, registered under the Companies Act. Plans are underway to try and seek private partners in these and other publicly owned corporations; the Dairy Board has recently been privatized.

**Investment Policy.** Investment regulations have been simplified considerably and it is now easier to establish a business in Zimbabwe. Foreign investment is actively being pursued and the Government allows full repatriation of profits and dividends. Foreigners are allowed to invest in the local stock market, although foreigners may not own more than 35 percent of the equity in a particular company. Proceeds from the sale of shares are remittable in full, after deduction of a 15 percent withholding tax.

**Labour Regulations.** Labour regulations have also been simplified considerably and there is less government intervention in the hiring and firing of labour. Most wage negotiations are done on the basis of collective bargaining, although there is a minimum wage set by Government.

**Monetary and Fiscal Policy.** During the adjustment period, there has been a significant reduction in the marginal tax rate which has come down from over 60 percent to 37 percent. Most interest rates, with the exception of mortgage lending, have been liberalised. Government's fiscal policy, however, has not kept pace with the other developments in the economy and the fiscal deficit has continued to remain at about 10 percent of GDP. High central government borrowing, together with that of the other public enterprises, has strained the domestic financial system and has resulted in high nominal and real domestic rates of interest. This has adversely affected the private sector, particularly emerging entrepreneurs.

Preparations are presently underway to commence implementation of the second phase of the economic reform program, which will focus on the reform of the public sector, including an active program of privatisation, and further deregulation of the economy (discussed in greater detail in subsequent chapters).

**Defining the Small-Scale Sector**

At present, there is no universally agreed definition of the small-scale sector in Zimbabwe; consequently, the definition has many variants depending upon who is doing
the defining and the purpose for which the definition is being made. The various definitions proposed and used are generally based on numbers of employees, turn-over levels, capital base, fixed assets values and degree of "formalization". For example, as a criteria for providing funding, the Government of Zimbabwe defines a small enterprise as "a business enterprise with 100 or less employees, a capital base of less than Z$2 million, and fixed assets valued at less than Z$3 million". Similarly, small businesses support institutions, such as the Small Enterprise Development Corporation (SEDCO), define a small business as "an enterprise with 50 or less employees, and annual capital credit requirements of less than Z$100,000" (NORAD, 1993).

In addition, within this broadly defined small-scale sector, researchers, institutions and Government officials generally tend to distinguish between micro-enterprises, small enterprises and medium-sized enterprises. Medium-sized enterprises are more likely to exist within the “formal” economy and have between 50 and 100 employees. Micro and small enterprises are more likely to dominate the "informal" sector; such enterprises are not registered under the Companies Act or the Co-operative Companies Act and are not assessed taxation by the central government. This is particularly true for micro-enterprises employing less than 4 workers in both rural and urban areas.

**Scale and Nature of Small Scale Enterprises (SSEs)**

As discussed above, at independence the new Government of Zimbabwe inherited an economic structure characterised by acute imbalances, with most of the productive forces of the economy, outside of the low productivity "communal lands", in the hands of either the state, multinational corporations, the white settler community and, to a lesser extent, Asian citizens predominantly from the UK or South Africa. Sixteen years after independence, the ownership structure of business enterprises remains largely unchanged. According to one study, black Zimbabweans, who account for 95 percent of the population, own less than 1 percent of all industrial and commercial enterprises; white Zimbabweans on the other hand, at only 3 percent of the population, own 30 percent of business enterprises. According to the same report, Government ownership of the enterprise sector accounts for about 4 percent with the remaining 65 percent owned by multinationals such as the Anglo-American Corporation1. These numbers, however, need to be treated with caution since they probably underestimate Government’s ownership of assets through public enterprises, and do not account for the fact that indirect ownership of assets by black Zimbabweans is larger if assets owned by pension funds and the social security administration are taken into account. However, it is nonetheless true that large disparities exist with respect to the ownership of assets, including access to land and mineral wealth.

Studies on income and asset distribution in Zimbabwe confirm this pattern; according to Stenflo (1993) 50 percent of the population received less than 15 percent of total annual incomes and accounted for about 15 percent of total consumption in 1991, while the richest 3 percent of the population received 30 percent of total incomes and

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Table 1.1: Zimbabwe - Small Scale Sector, 1991

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Est'd 1991 Population</th>
<th>Percent</th>
<th>Est'd No. of SMEs</th>
<th>Percent</th>
<th>Est'd Employment in SMEs</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Density Areas</td>
<td>2,728,830</td>
<td>25.2</td>
<td>225,052</td>
<td>26.6</td>
<td>344,087</td>
<td>21.9</td>
</tr>
<tr>
<td>Low Density Areas</td>
<td>597,884</td>
<td>5.5</td>
<td>35,883</td>
<td>4.2</td>
<td>95,353</td>
<td>6.1</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
<td>6,884</td>
<td>0.8</td>
<td>43,922</td>
<td>2.8</td>
</tr>
<tr>
<td>Districts</td>
<td></td>
<td></td>
<td>2,583</td>
<td>0.3</td>
<td>22,914</td>
<td>1.5</td>
</tr>
<tr>
<td>Industrial Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>URBAN AREAS</td>
<td>3,326,714</td>
<td>30.8</td>
<td>270,382</td>
<td>32.0</td>
<td>506,276</td>
<td>32.3</td>
</tr>
<tr>
<td>District Councils</td>
<td>5,088,222</td>
<td>47.1</td>
<td>398,177</td>
<td>47.1</td>
<td>708,476</td>
<td>45.2</td>
</tr>
<tr>
<td>Rural Councils</td>
<td>1,501,953</td>
<td>13.9</td>
<td>90,047</td>
<td>10.7</td>
<td>175,556</td>
<td>11.2</td>
</tr>
<tr>
<td>Smaller Towns</td>
<td>685,559</td>
<td>6.3</td>
<td>60,224</td>
<td>7.1</td>
<td>122,610</td>
<td>7.8</td>
</tr>
<tr>
<td>Growth Points</td>
<td>207,000</td>
<td>1.9</td>
<td>26,604</td>
<td>3.1</td>
<td>55,546</td>
<td>3.5</td>
</tr>
<tr>
<td>RURAL AREAS</td>
<td>7,482,734</td>
<td>69.2</td>
<td>575,052</td>
<td>68.0</td>
<td>1,062,188</td>
<td>67.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10,809,444</td>
<td>100.0</td>
<td>845,434</td>
<td>100.0</td>
<td>1,568,464</td>
<td>100.0</td>
</tr>
</tbody>
</table>


accounted for 30 percent of total consumption. The Gini coefficient, which measures rising inequality from zero (absolute inequality) to 1 (absolute equality) has been estimated at 0.57 for Zimbabwe, which is among the highest in the world and is comparable to that in Brazil and South Africa.

Given their fragmented nature, not much is known about the SSE sector in Zimbabwe, although there have been a number of studies and surveys conducted in recent years. By far the most influential survey to be conducted within the sector is the 1991 GEMINI study, funded by USAID. As summarised in Table 1.1, the survey estimated that there were about 845,000 micro-enterprises in Zimbabwe in 1991, most operating in the informal sector and employing approximately 1.6 million people, i.e. about 30 percent more than those employed by the modern “formal” sector. According to the study, only about 6 percent of the small scale enterprises operated in the formal sector.

**Sectoral Distribution of SSEs**

The survey estimates presented in Table 1.1 are consistent with the results of similar surveys done for other African countries. According to the authors of the GEMINI report, there are 60 such enterprises per 1,000 inhabitants in Kenya and 77 in Lesotho, compared with about 80 in Zimbabwe. The numbers also do not appear to be out of line with those found in several Southern European economies (Bannock, 1991).
Table 1.2: SSE Sectoral Distribution

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail/Commerce</td>
<td>40</td>
</tr>
<tr>
<td>Service</td>
<td>20</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7</td>
</tr>
<tr>
<td>Construction</td>
<td>5</td>
</tr>
<tr>
<td>Mining</td>
<td>5</td>
</tr>
<tr>
<td>Other (including Tourism)</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: 1995 Sectoral Distribution of the Small Scale Sector, BESA

There is some disagreement about the sectoral distribution of the activities of the SSE sector in Zimbabwe, among the various studies conducted. The GEMINI survey found that, unlike in other African economies, the Zimbabwean SSE sector was dominated by manufacturing, which accounted for about 69 percent of the 845,000 establishments; 23 percent of the companies operated in the commercial sector (retailing and catering), 4 percent in construction, and the remaining 4 percent offering personal services, property rental, and transportation. More recent estimates by the Business Extension Advisory Service (BESA) of the Indigenous Business Development Centre (IBDC), summarised in Table 1.2, show a much smaller share for manufacturing and a much larger share for retail trade and commerce.

The limited degree to which indigenous Zimbabweans have exposure to the modern enterprise sector explains the types of businesses that dominate the SSE sector. Within the manufacturing sector, food processing activities such as baking, oil processing and grain milling are the predominant activities followed by metal fabrication and garment production. There are several small-scale enterprises that manufacture products with grass, cane, bamboo and other wood products. Dressmaking, crocheting, beer brewing, pottery, and brickmaking are other important activities in this sector. Within the service sector, passenger transport and personal services such as hair dressing are the most dominant activities. Other important activities in the sector include battery charging, radio and watch repairs, and shoe repairs.

As shown in the graph, most small-scale companies in Zimbabwe are sole proprietorships, representing about 62 percent of the sector. Thirty one percent of the establishments are limited liability companies, 3 percent are partnerships, and 4 percent are co-operatives. According to the follow-up 1993 GEMINI report (Box 1.2), women entrepreneurs accounted for about 85 percent of the small scale sector in 1993 and tended to be concentrated at the "micro" end of the spectrum of SSEs, predominantly in one-person-owned enterprises. Women constitute only about 1 percent each for the categories 5-9 and
1: Situation Analysis

Box 1.2: Other Characteristics of the Small Scale Sector

- 97 percent sell their products directly to the consumer, while 1 percent sell to rural commercial enterprises and 2 percent sell to urban and rural manufacturing enterprises.

- The average age of a small enterprise in Zimbabwe is 8.5 years; about 75 percent of these enterprises have been established since independence.

- As in other economies, mortality rates in the SSE sector are high with 48 percent of closures taking place within the first three years. Studies conducted in the UK and the Netherlands have found, for example, that 60 percent of small business closures take place within the first three years.

Source: GEMINI Report 1993

10-50 workers accordingly to the GEMINI study. As will be discussed later on in the report, while numerous studies acknowledge the value of the SSE sector as a potential vehicle for the economic empowerment of women, legal constraints and the traditional bias against women entrepreneurs have constrained the development of this sector.

Zimbabwe: Ownership Profile of Small Scale Enterprises

Government Policy on SSE Development

During the first ten years following independence, the policy environment confronting the small scale sector was highly restrictive and there were significant barriers to entry, which perpetuated the high levels of concentration of ownership of industrial assets. The socialist inclinations of the political leadership tended to discourage SSE development and, instead, placed greater emphasis on the development of co-operatives. In addition to the restrictive policy environment, a highly risk-averse financial system imposed onerous collateral requirements on the SSE sector, preventing them from financing potentially profitable projects. Although Government did attempt to address some of the institutional constraints through the establishment of organisations such as Small Enterprise Development Corporation (SEDCO), the Venture Capital Company of Zimbabwe (VCCZ), and the Credit Guarantee Company (CGC), most of these efforts were piece-meal and did not address the basic constraints facing the sector.

With the advent of the economic reform program in 1991, there has been a significant change in the Government’s attitude towards the private sector and the small scale sector is increasingly viewed as an important engine for employment creation and economic growth. Although a coherent overall policy stance for the small-scale sector still needs to be articulated, Government’s support for the sector has been repeatedly enunciated in various policy documents such as the Second Five Year National Development Plan, 1991-95, and the "Framework for Economic Reform" document announcing the structural adjustment program, which is concurrent with the plan period (1991-95).

In recent years, there is increasing awareness within 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 and elsewhere has shown that SSEs are more flexible and responsive to changes in the market, require relatively less capital, and therefore have the potential to generate significant levels

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of employment for skilled and semi-skilled labour. Evidence also shows that small enterprises create jobs more efficiently than larger corporations; a 1990 study conducted by the Confederation of Zimbabwe Industries (CZI) concluded that the cost of creating a job in a multinational company was Z$85,000 compared with Z$5,000 in a small business.

Support for SSEs has recently also been stressed in the draft industrial strategy document, which is presently under discussion and is expected to be finalised shortly by the Ministry of Industry and Commerce. Given their high labour-to-capital ratios, the draft strategy document recognises the SSEs as an important source for employment and recognises their "need to be encouraged to spread and grow in order to reduce unemployment". It is envisaged that support to the SSE sector can achieve many other goals such as the indigenisation of the economy, spreading employment to rural areas, and improving the situation of women. Among the potential benefits of SSE development cited are:

- mobilising and stimulating the vast potential for entrepreneurship;
- contributing to overall resource mobilisation by generating growth and employment;
- facilitating the process of adjustment in large enterprises, by emerging as competitive suppliers of products and services previously not available in the market place;
- stimulating an emerging business community and a more equitable distribution of income;
- decentralising activity from main industrial centres through creation of sustainable economic activities in rural areas, thus, alleviating urban migration and pressure on agricultural land; and
- bringing informal sector enterprises into the formal sector and thereby within the realm of regulation and taxation.

Indigenization and SSE Development

Indeed, in recent years, Government's support for the small-scale sector has increasingly been influenced by its desire to encourage the greater involvement of indigenous Zimbabweans in the economy, since the sector is dominated by indigenous businesses. The Government's objectives on indigenisation have been articulated by several Cabinet Task Force reports, which state that the principal objectives are to⁴:

Existing Institutional and Policy Framework

- economically empower the majority of Zimbabweans;
- create an economic system in which all Zimbabweans have the opportunity to participate fully in the economic development of their country, not only for their own economic and social uplifting, but leading to national economic expansion;
- create better and increased employment opportunities for the indigenous people;
- increase the nation's wealth through fuller utilisation of all the country's human resource capabilities;
- develop an economic structure that is self-sustaining, with active participation by indigenous people and with a high degree of sectoral linkages; and
- increase indigenous ownership of investment in the economy.

The need to economically empower black Zimbabweans (indigenization) has heightened Government’s awareness of the extent to which the indigenous business community has suffered historically on account of the imperfect policy environment, and the urgency of addressing issues relating to the variety of controls and the barriers to entry that have afflicted the sector. The principal constraints to the development of the SSE sector, cited by various studies, include access and cost of finance; limited markets; lack of management and entrepreneurial skills; lack of access to infrastructure; inappropriate technology; and a hostile regulatory environment. These constraints will be discussed in greater detail in the remaining sections of this report, together with a discussion of some of the measures adopted to deal with them.

Institutional Framework for SSE Development

Zimbabwe has a host of institutions which, in one way or the other, have geared themselves to meeting the objectives of the Government’s small enterprise development strategy. The principal responsibility for implementing Government’s policy towards the SSE sector rests with the Ministry of Industry and Commerce (MOIC) which, in addition to policy and strategy formulation, is also responsible for conducting research, disseminating information, and co-ordinating programs of enterprise development with the private sector, the NGOs, and the donor community. These are executed by the Enterprise Development and Consumer Affairs Division (EDCA) within the MOIC. In addition to MOIC, several other Ministries have departments which support programs aimed at developing the small scale sector including the Ministries of National Affairs, Employment Creation and Cooperatives; Local Government, Rural and Urban Development; Public Service, Labour and
Social Welfare; Lands and Water Development; Agriculture; Transport and Energy; Education; and the President's Office.

In addition, a variety of support organisations and financial institutions are involved in the sector including development banks, commercial banks, finance houses, NGOs, and donor agencies. A brief description of the activities of the key players in the SSE sector are discussed below.

**Small Enterprise Development Corporation (SEDCO).** SEDCO, which was established by Government in 1984, provides loans for the financing of fixed and working capital. The loans are repayable over 3 years (short term), 5 years (medium term) and between 5 and 10 years (long term). With the exception of certain specialised facilities that SEDCO participates in from time to time, and which carry different terms, the interest rate is generally fixed by Government and is presently 25 percent per annum. Security, in respect of SEDCO's financial assistance, is mainly in the form of Notarial General Covering Bonds, Mortgage Bonds and Personal Guarantees of shareholders and directors of the enterprise that are borrowing the funds. Lease financing is also available for the purpose of leasing machinery and equipment for periods of up to 3 months on a short term loan, up to 12 months for a medium term loan and up to 24 months for a long term loan. Training programs, focusing on business management, are also offered but are being phased out. SEDCO launched its Micro-Finance Scheme in 1994. The scheme, which targets the informal sector, involves lending amounts of up to Z$2,000 per person to groups of not less than 5 persons.

**Credit Guarantee Company (CGC).** CGC was established in 1978 to assist emerging businesses. Its shareholders consist of the Reserve Bank of Zimbabwe (RBZ), Zimbabwe Development Bank (ZDB) and five commercial banks. CGC's main role is to guarantee 50 percent of the loans granted to SMEs by the commercial banks. The 50 percent guarantee rises to 75 percent in the case of loans to businesses owned by women with the additional 25 percent guarantee being provided by a Canadian International Development Agency (CIDA) facility. Interest on the loans is charged at 1 percent above the prime rate. In addition to providing guarantees, CGC has also been asked to manage other special facilities made available by Government to SMEs. The most significant of these is the Z$400 million Small Business Sector Facility (SBSF) which was made available in 1994 at highly subsidised rates of interest (5 percent at a time when the prime lending rate exceeded 35 percent). Because of the concessionary terms of the facility, demand far exceeded the funds available and by the end of 1995 the facility had been fully drawn.

**Zimbabwe Development Bank (ZDB).** ZDB started its operations in 1984. It provides project finance as well as trade finance to small and medium sized enterprises. The average repayment period of its loans is between 4 and 5 years. ZDB is a shareholder in CGC and also operates the Zimbabwe Development Fund (ZDF) which is a venture capital trust fund financed mainly from dividend flows from the Government of Zimbabwe,
the Reserve Bank of Zimbabwe, and ZDB. ZDB operations are restricted by lack of funds and in 1994 its total portfolio amounted to Z$9 million.

**Venture Capital Company in Zimbabwe (VCCZ).** VCCZ's shareholders consist of insurance and private companies, commercial and merchant banks, the Reserve Bank of Zimbabwe (RBZ), the International Finance Corporation (IFC), and the Commonwealth Development Corporation (CDC). VCCZ started operating in 1991 and by August 1995 had a portfolio of 36 companies, 30 of which are ventures owned by indigenous entrepreneurs. Its investments are funded from an equity base of Z$50 million and shareholder loan stock of Z$900 million. VCCZ invests a minimum of Z$250,000 and a maximum of Z$2,000,000 in a single project although larger investments involving syndication with other investors can be arranged. Whilst the major part of these investments is in the form of equity, VCCZ is also in a position to provide loan capital in addition to the equity invested. VCCZ normally takes an equity interest of up to 49 percent in a project, although there are a number of investments where this percentage has been exceeded. The exit period from an investment is generally 5 years. About sixty percent of VCCZ's investments are in the manufacturing sector and it is presently focusing on sectors with perceived high growth potential, such as tourism and the financial sector.

**Agricultural Finance Corporation (AFC).** AFC finances small scale agricultural and agro-based projects with short-term and medium-term loans for the purchase of equipment and farm inputs. Medium-term loans of 2 to 5 years are made available for approved projects subject to payment of a deposit of 25 percent of loan amount; interest rates are set by Government and presently stand at 22 percent. AFC runs other specialised schemes such as the National Farming and Irrigation fund; the Tractor Irrigation fund; the Agro Industrial Scheme and the Rural Input Supply Scheme.

**Commercial Banks (Small Business Units).** In recent years, the commercial banks have set up in-house divisions or units which specialise in providing banking services to small scale entrepreneurs. Barclays and Zimbank have been the most active banks in the sector, with both institutions experiencing a significant increase in their exposure to the small scale sector. For example, at Barclays, for the period July 1994 - June 1995, there was a 9.6 percent increase in the number of small entrepreneurs supported and an increase of 16.9 percent in the value of loans to the sector compared to the previous year. During the period July 1995 - June 1996, there was a corresponding 47.3 percent increase in the number and an increase of 45.7 percent in the value of loans to the sector. The services provided by the small business units include the provision of short, medium and long term loans and limited forms of business training.

**Donors and NGOs.** Since Independence, numerous donor agencies have provided support to the small scale sector under various programs. Whilst the majority of these support programs have been in the form of technical assistance, donor agencies have also participated directly and indirectly in financial support programs. Donor agencies have provided a variety of grant assistance to NGOs for on-lending under NGO credit programs, mostly to micro businesses. Prominent amongst these NGOs are the Zambuko Trust,
Collective Self Finance Scheme (CSFS), and the Zimbabwe Women's Finance Trust (ZWIFT). ZWIFT is an affiliate of Women's World Banking (WWB).

Donor agencies have also provided financial support to the small scale sector under a number of guarantee schemes whereby the donor agency underwrites all or a portion of the loan made available to a SSE by a local financial institution or NGO. USAID and Barclays Bank presently have such a scheme which involves an amount of Z$600 million, of which 50 percent is guaranteed by USAID. The loan is available to finance, with certain exceptions, private manufacturing or commercial activity. The loan is made available up to a maximum limit of Z$40,000 to micro businesses (businesses employing a maximum of 5 employees) and up to a maximum limit of Z$1,500,000 to small businesses (businesses with total assets excluding land, buildings and equipment, which do not exceed Z$250,000). The interest rate is set at Barclay's minimum lending rate, which is presently (April 1997) at 26 percent per annum (inflation rates are presently at about 20 percent).

Another notable initiative is the US Government's Southern Africa Enterprise Development Fund (SAEDF), with a capital provision of US$100 million, which assists small and medium enterprises with capital in an effort to accelerate indigenization. The Government of India has similarly made a provision of US$5 million to develop small scale business at the country's growth points. The World Bank has recently approved the allocation of US$75 million to support small and medium sized entrepreneur development through the provision of loans, guarantees, and technical assistance. In addition, there are a number of organisations providing non-financial support programmes to the small scale sector. The programs are in the form of training, technical assistance and extension support to enhance business management and entrepreneurial skills of SSEs including business linkage facilitation. Donors funding such initiatives include USAID (through CZI); NORAD; UK-ODA; Irish and Austrian Aid (through BESA); the Friedrich Nauman Foundation and CIDA (through ZNCC); and UNDP (through EMPRETEC).
3 Constraints to SSE Development

The small scale sector in Zimbabwe has traditionally faced a variety of constraints on account of its historical circumstances. Constraints such as the lack of a suitable policy environment, the lack of management skills, lack of access to finance, lack of infrastructure, inappropriate technology and the attitude of local and municipal authorities have repeatedly been cited as major reasons responsible for SME failure and the unwillingness of informal establishments to enter the formal economy. These constraints are discussed in turn below.

Constraints To SSE Development

Legal and Regulatory Impediments. As discussed in Chapter 2, the small scale sector, as indeed the whole private sector, suffered from policy neglect for most of the first decade following independence and it was only with the advent of the structural adjustment program that efforts have been made to address the constraints facing the enterprise sector in a systematic manner. Despite these efforts, policy towards the sector is highly fragmented with the various Government agencies dealing with the sector lacking an overall sense of direction and co-ordination. Numerous legal and regulatory constraints still adversely affect the sector, notwithstanding efforts by the Deregulation Committee (whose activities are discussed in greater detail in Chapter 4).

Until the advent of the adjustment program in 1991, an extensive system of price controls prevented enterprises from charging prices in accordance with market conditions. Price increases required approval from Government which, sometimes, resulted in inordinate delays. In many instances, the prices awarded were not adequate to meet increased production costs rendering numerous enterprises unviable. This system of price controls has since been done away with, resulting in a significant improvement in the capacity of businesses to manage their own affairs by taking into account recent market developments.

Similarly, onerous labour regulations have historically served as a major disincentive for employment creation and have aggravated the anti-labour bias inherent in the policy regime. Prior to the introduction of the adjustment program, the fact that foreign
Box 3.1: Forming a Company in Zimbabwe

Company Search. Submit Form CR21 to the Chief Registrar of companies in order to conduct a name search to ensure that no other company has the same or similar name. Name approval is then granted. Fee: Z$30

Memorandum and Articles of Association. Submit Memorandum and Articles of Association to the Registrar’s office. This is a legal document stating the business to be undertaken by the company, rules binding the shareholders and the directors. Four copies are required covered in special paper and each tied with a ribbon. Minimum Fee: Z$300

Certificate of Incorporation. This is issued on satisfactory submission of the above, provided there are no errors. Processing time: 3 weeks, in principle.

Investment Certificate. Submit a project proposal to the Zimbabwe Investment Centre for registration, and attach company’s certificate of incorporation. An investment certificate valid for two years is issued. A ZIC license is only required for investments in excess of US$40 million.

Registrar. Notify the Registrar of the appointment of the company’s directors and secretaries.

Tax Authorities. Particulars of the company, and of its employees, have to be submitted to the tax authorities. Businesses with an expected turnover of Z$250,000 or more per year have to have a sales tax registration number.

To Operate a Factory. Obtain a license from the Department of Occupational Health, Safety and Workers Compensation, at a fee of Z$25.

Miscellaneous. In addition to the above, mining companies have to register with the Mining Commissioner’s office and food and catering companies have to register with their respective local authorities.

exchange and capital were priced below their true economic value resulted in companies often preferring to import capital equipment rather than employing more labour intensive techniques of production. This pro-capital bias was aggravated by Government’s labour market policies whereby minimum wages were often set way beyond those that could be justified by labour productivity and the high levels of local unemployment and by Government’s highly interventionist approach to the hiring and firing of labour. While the adjustment program has seen significant changes in Government’s approach to the labour market, such as the move towards collective bargaining as a tool for resolving wage disputes, there is still widespread concern among the private sector about the difficulty in shedding labour once engaged, given the Government’s tendency to intervene. While the real value of the minimum wage has been eroded in recent years, this nonetheless often exceeds the paying capacity of small entrepreneurs resulting in many SSEs preferring to remain one-man operations or relying only upon family labour.
Box 3.2: A Tour Operators Experience

The following is a list of the series of steps that an entrepreneur, who wanted to set up an inbound tour operating company had to go through, in order to start his operation, and the costs associated with the process.

- Company registration took 4 months, and cost Z$2,000 including payment to intermediaries;
- application approval for public liability insurance from an insurance company to cover the customers took 2 weeks and cost Z$1,000;
- obtaining a certificate of registration from the Ministry of Environment and Tourism cost an additional Z$100;
- guarantee form from a commercial bank required a payment of Z$1,000 (the bank will charge an additional Z$400 annually as guarantee fee);
- a tour guide operator or courier licence, organised by Zimbabwe Tourism Authority (ZTA) cost Z$1,500 and took approximately 2 months (the courier licence is currently not being offered as the curriculum is being revised); and
- operators permit from the Department of National Parks and Wildlife, with permission for use of vehicle, cost Z$8,000 and took approximately 2 months. Vehicle had also to be inspected and licensed by the Ministry of Transport to obtain a PSV number.
- In total, it took nine months for the entrepreneur to start operating and pre-start-up costs amounted to about Z$15,000.

Although a program is in place to address the myriad outdated regulations and restrictions that evolved during the colonial era, progress has been slow and piecemeal (see Chapter 4). These regulations include building codes, health regulations and zoning regulations, with the small scale sector generally unable to meet the high costs of compliance, both in terms of time and money.

**Registration and Licensing.** The process of registering a business and getting the necessary licenses can be a major deterrent for the small scale sector and is an important reason why informal units are often reluctant to becoming legal. The process of registering a company in terms of Chapter 190 of the Companies Act can be cumbersome. Although on paper the process of forming a company appears to be relatively easy and inexpensive (see Box 3.1), in reality the process can be extremely time consuming and expensive (see Box 3.2). It is not uncommon for the registration process to take upto a year, with the applicant having to visit numerous Government offices several times a year. In addition, staffing and capacity constraints within the Registrar’s office further serve to delay the process. On average, 1,000 applications are examined in the Registrar’s Harare office every month, but only half of these get registered. Indeed, given the bureaucracy associated with setting up a company, a small industry of consultants and lawyers has developed whereby ready-made (shelf) companies are sold to applicants at a cost of between Z$950 and Z$1,500.
Apart from registering a company, there are numerous other requirements related to the registering and licensing of companies within specific sectors, as Box 3.2 demonstrates. For example, entrepreneurs in the tourism sector have to comply with the requirements of the Tourism Act and the Parks and Wildlife Act which is administered by the Ministry of Environment and Tourism and the Department of National Parks and Wildlife Management. Should the tourism operator need transport permits, he/she needs to comply with the Road and Road Traffic Act administered by the Ministry of Transport and Energy. If an investment in accommodation and restaurant facilities is contemplated, licenses and permits have to be sourced from the Ministry of Local Government, Rural and Urban Development, the Ministry of Health, the Ministry of Justice, Legal and Parliamentary Affairs and the Ministry of Environment and Tourism. A similar multitude of organisations becomes involved if an investor is contemplating an investment in the mining sector or in the manufacturing sector. In addition to the sectoral ministries, considerable interaction is necessary with the public utilities, the Zimbabwe Investment Centre, the Department of Immigration, and the Department of Taxation before a venture can take off the ground.

While many of the bureaucratic requirements are necessary, entrepreneurs note that the processes are extremely time consuming. Moreover, there is a general lack of knowledge among the smaller entrepreneurs about what the requirements are, and which Government agencies to approach. Where permits and licences have to be received from a number of Ministries, the delays encountered in getting the necessary licences often results in the project becoming unviable. In order to make the regulatory and licensing requirements transparent, the Zimbabwe Investment Centre is discussing the possibility of conducting a “road map” study; this will provide potential investors with a comprehensive guide to local bureaucratic requirements on a sector-by-sector basis. The availability of a comprehensive list of these requirements in one place might also result in the policy makers appreciating the magnitude of the problem and ushering in change.

**Box 3.3: Experiences with Establishing a Restaurant**

An emerging entrepreneur thought that, with the expansion of the tourism sector, establishing a restaurant would be a profitable venture. After discussions with officials from the Ministry of Environment and Tourism and the Ministry of Industry and Commerce, she learnt that she would need to apply for a Food License for running a restaurant and a Liquor Licence to serve liquor. She was advised that the City Council would issue the Food License while she would have to deal with the Liquor Board for the Liquor Licence.

The City Council asked her complete a comprehensive six-page form and provide architectural plans for the restaurant, which had to be scrutinised for zoning regulations and approved by the Department of Physical Planning. After several visits to the Department, and after incurring Z$4,000 in architect related expenditures, her plans were approved after a delay of six months. Before the City Council agreed to give her a Food License she was made to go to the local Interpol office to have her fingerprints taken after which the City Health Department came to inspect her premises. She was finally given a Food Licence after a period of 9 months; the Liquor Licence by the Liquor Board took two and a half years.

Because of the delays in the approval process, this entrepreneur lost Z$300,000 for the rentals she was paying for the restaurant premises before she started operations.
3: Constraints to SSE Development

Financial Constraints. The two principal financial constraints affecting the small scale sector in Zimbabwe today are the lack of access to finance and the high cost of finance. Indeed, financial constraints are repeatedly cited as being among the most binding constraints for all segments of the private sector. Given Zimbabwe's historical legacy, and the dualistic economy, there has traditionally been limited interaction between the financial sector and emerging entrepreneurs. With the opening of the economy and the dismantling of numerous controls such interaction has increased, particularly through the small business units that have been established within most financial institutions. However, the financial system continues to remain extremely conservative with the perceived risk of financing small entrepreneurs being significantly greater than the actual risks. Most financial institutions are extremely reluctant to provide medium-to-long term loans to SSEs and the short-term loans provided generally mature long before the project begins to generate a stable cash-flow. In this regard, several emerging entrepreneurs have cited the important function performed by state-owned financial institutions, such as SEDCO, which were instrumental in providing initial support to enterprises which would otherwise never have been able to take off. According to a recent survey, of the 47 enterprises sampled which had used loans, 36 had received loans or guarantees from one or more parastatal or non-profit organisation, including 18 from SEDCO. Many of these organisations are now viable enterprises and are able to source financing from the commercial banking system.

In addition to the access issue, imperfections in the existing macroeconomic environment have resulted in rates of interest being inordinately high. High central government deficits equivalent, on average over the past five years, to 10 percent of Gross Domestic Product, and public enterprise losses, sometimes exceeding 2-3 percent of GDP, have been financed through large scale borrowing from the domestic money market resulting in double digit real rates of interest. The private sector has found it extremely difficult to cope with interest rates in excess of 30 percent and to find investment opportunities which would justify borrowing at the prevailing rates. In an attempt to provide short-term solutions to both the access issue and the price of capital, the Government of Zimbabwe has, from time to time, put in place facilities targeted at the SSE sector at highly concessional rates of interest. Two such facilities (for Z$100 million and Z$400 million) have, in recent years, been channelled to SSEs through the Credit Guarantee Facility. However, in both instances, the facilities have provided limited benefits to the target group since the highly concessionary interest rates resulted in a select, well-connected, group of entrepreneurs accessing the resources and, in some instances, the funds being used to refinance or retire existing high interest denominated debt. In other instances, the money was simply reinvested in the money market.

Management Skills. Lack of management skills and business know-how is a major constraint impeding the progress of the small scale sector. Several studies in Zimbabwe suggest that entrepreneurs in the SSE sector attach low priority to training and are often unwilling to participate in programs which require them to finance even a small proportion

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of their total training costs. While these entrepreneurs are extremely vocal about the lack of credit facilities and the high cost of capital, they are less aware of the importance of acquiring the skills necessary to run a business. Areas of weakness identified include financial management, operations management, cost accounting, marketing, and general business management.

While traditional types of training programs, such as seminars in “how to start and succeed in business” still have a role to play, analysis of SSEs in developing countries suggests that a powerful learning mechanism for emerging enterprises is learning by working on-the-job, often assisted by using local and retired business experts. The provision of matching grants to stimulate the use of domestic and foreign support services and to enable firms to travel overseas in order to establish international contacts, identify niches in the international marketplace and enhance competitiveness can be extremely valuable.

**Information, Technology and Infrastructure.** Most SSEs have problems accessing information and do not know where to go for assistance or how to access resources such as credit facilities. They are not aware of the procedures and documentation required when they apply for licences or where to go for information. While this constraint partly reflects the complexity of the regulatory environment and the multiplicity of bureaucratic requirements, discussed earlier, it is also a reflection of the poor managerial capacity that exists within the sector which prevents the SSEs from undertaking the research and analysis necessary for starting an enterprise.

Similarly, the lack of access to appropriate technology and equipment is central to some of the capacity problems encountered by the small scale sector. Surveys of the SSE sector often cite respondents complaining about not knowing where to go for procuring the most cost-effective technology to enable them to service their clientele. In this context, the recent establishment of the Leasing Company of Zimbabwe, and its overtures to the SSE sector, is a step in the right direction which will enable small businesses to get access to equipment, while at the same time reducing start-up costs. Similarly, initiatives such as the recent establishment by ENDA (an NGO) of its "Green Market" is another example of what can be done to assist the small scale sector. Under the ENDA project, a workshop has been established adjacent to a cluster of SSEs on land and infrastructure provided by the city of Mutare. Small scale entrepreneurs are given access to ENDA’s equipment for a fee, which varies depending upon the time spent on the equipment. There are plans to replicate this program in other growth points throughout the country. SEDCO is also working on a similar programme with the city of Harare at the Highfield suburb, where 800 sq. metres of land have been allocated for a workshop. The objective is to rent machinery to SSEs and to provide training to operatives; entrepreneurs will hire machinery with an option to buy.

In addition to the variety of bureaucratic regulations and delays discussed earlier, a host of other infrastructural constraints also inhibit the development and growth of the private sector in Zimbabwe. Accessing land and obtaining stands from the municipality, particularly commercial stands, can be very time consuming, a process which is aggregated
by the local authorities attitude towards outdated building regulations. The provision of electricity and water to business premises takes too long, while a wait of between three to five years for a telephone is not uncommon.

**Market Access.** Access to markets, both local and foreign, remains a significant constraint facing the small-scale entrepreneur. The SSE sector is not geared for exports and most entrepreneurs find the costs and complications of exporting onerous. The national trade promotion organisation, Zimtrade, has put in place a program aimed at training and assisting small exporters in penetrating export markets under a three-year technical assistance project funded by the European Commission. Of about 200 companies registered for the program, about 25 companies have so far successfully penetrated the export market, particularly within the SADC region. In the short to medium term, rather than attempting to get SSEs to export directly, it might be more realistic to provide them with the requisite training to enable them to act as sub-contractors to the final exporters. Such training programs should be aimed at enhancing competitiveness, improving product quality and increasing production efficiency. The experience of the Mzilikazi Craft Centre which, through technical assistance in product development and marketing, has been able to turn its operations around and emerge as a viable business, shows how appropriately designed training programs can have a beneficial impact.

Notwithstanding such training programs, the domestic market is likely to remain the primary market for the SSE sector for a long time to come and the untapped potential in the local market is considerable. For example, significant market access could be gained through a successful program of business linkages, i.e. sub-contracting and franchising. Whereas the policy environment in the past encouraged a high degree of vertical integration, the recent liberalisation has made this expensive and has thus created numerous opportunities for unbundling. For example, the largest tourism group in the country, the Zimbabwe Sun Hotels, has identified upwards of 40 areas where unbundling and sub-contracting would be a profitable proposition for all parties involved. These include opportunities ranging from providing laundry services to landscaping and from the repair of upholstery to the provision of poultry.

Similarly significant gains can be made by tapping the potential that exists within Government, which is presently in the process of identifying numerous areas for subcontracting and unbundling. SSEs in Zimbabwe are extremely keen to see the institution of affirmative action programs such as those instituted by the Small Business Administration and the Minority Business Development Agency in the United States. A similar program has been started by the Ministry of Public Construction and National Housing where building contracts less than Z$10 million are now reserved for indigenous entrepreneurs. Indigenous entrepreneurs are also given priority for all construction contracts, provided they are within 10 percent of the most competitive bid. However, a major shortcoming of the program is that there are frequent delays in the payments made by Government; this has negatively affected the cash flow position of contractors, some of whom have been rendered unviable as a result of the delays. Government’s payment procedures need to be streamlined if more SSEs are to take advantage of the program.
Tax Policies. High taxation is another issue raised by many SSEs and informal sector companies as impacting negatively on their decision of whether or not to "formalise" their activities. According to industry representatives, the tax regime does not distinguish between a large firm and a micro-enterprise and, consequently, the financial burden on the latter can be quite substantial. Although the corporate tax rate has been reduced from above 60 percent to 37.5 percent over the last six years, exemption levels and the tax bands have not been adjusted for inflation, requiring even very small establishments to pay upwards of a third of their income as tax.

On a more positive note, several small scale entrepreneurs have applauded recent Government efforts which are aimed at making fiscal policy more pro-active towards the SSE sector. Such measures include the 25 percent per annum special initial allowance on new capital goods for the first four years of a companies establishment; taxing companies located at growth points at 10 percent, instead of the 37.5 percent rate, for the first five years; allowing double-deduction for expenditures associated with export development; and giving businesses an allowance of up to Z$500,000 for investment in health, education and skills development.

The following additional improvements, which have simplified the dealings of the SSE sector with the tax department, have also been received favourably:

- the tax return form has been reduced from eight to six pages, and generally simplified;
- various credits have been replaced by a blanket credit, which has further simplified the form; and
- surcharges have been removed and Pay As You Earn (PAYE) is now the final tax.

Notwithstanding these improvements, entrepreneurs still feel that the tax return form is too long and cumbersome for the average SSE, leading to high fees paid to consultants to handle tax returns. They also complain about the high levels of corruption among tax department officials.

Miscellaneous Constraints. In addition to the constraints discussed above, survey results have highlighted numerous other impediments encountered by the small scale sector.

- The existence of monopolies negatively affects the SSE sector, particularly in the areas of telecommunications, electricity, air cargo and the mining and marketing of minerals. Most large monopolies are vertically integrated and appear to be reluctant to enter into business relationships with the SSE sector. Although Government has indicated that it will set up a Mergers and Monopoly Commission, this has not happened.
While there are numerous schemes which enable large companies to respond positively to emerging opportunities, smaller companies are regarded with suspicion and are not accorded similar facilities, e.g. the inward processing rebate (bonded warehouse) system, positive assistance from the officials of the Zimbabwe Investment Centre, etc. Similarly, delays associated with the duty drawback system, whereby it can sometimes take over nine months for duty to be refunded, are particularly costly for the SSEs.

Although Government has put in place a variety of institutions to address the constraints discussed above, most observers feel that progress has been slower than desirable. The experience with the Deregulation Committee established by Government to tackle the regulatory and legal constraints is an example of good initial progress but numerous subsequent delays. Progress with deregulation, and the experiences of the Deregulation Committee, are discussed in detail in the following chapter.
The Deregulation Program

One of the central aims of the Economic Structural Adjustment Program (ESAP) has been to create employment by stimulating investment and removing the impediments to growth. Consequently, for the small-scale sector, the removal of superfluous regulatory constraints has been a key element of the reform process. Indeed, the Government’s ESAP document explicitly admits that "the nation’s need for growth and employment opportunities can only be effectively and sustainably met" through immediate attention being given to "investment in small scale sector activities" and to the creation of an appropriate "framework within which the informal sector can operate".  

Accordingly, the Government of Zimbabwe decided to establish an inter-ministerial Deregulation Committee in September 1991 and charged them with the responsibility of addressing issues relating to the regulatory constraints being encountered by the small-scale sector. Chaired by the Ministry of Local Government, Rural and Urban Development, this Committee comprises representatives of the Ministries of Agriculture; Lands and Water Development; Finance; Health; Home Affairs; Industry and Commerce; Justice, Legal and Parliamentary Affairs; National Affairs, Employment Creation and Co-operatives; Public Service, Labour and Social Welfare; and Transport. The Committee’s principal mandate is to review the various acts of parliament and the statutory instruments and by-laws that have historically impeded the formation and development of small-scale and medium-scale businesses and to come up with specific recommendations and amendments aimed at reversing the situation.

During the past five years, the Deregulation Committee has approached this task by:

- commissioning research to identify problems/issues as seen by small-and-medium scale entrepreneurs in the informal and formal sectors of the economy, and

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In 1993, the Government established a Deregulation Project Team (DPT) within the Ministry of Local Government, Rural and Urban Development, through a technical assistance grant from the British Overseas Development Administration (ODA). Work under the project has been organised under four distinct phases with Phase 1 examining issues relating to the informal sector; phase 2 concerning itself with policies designed to encourage firms to graduate from the informal sector to the formal sector; phase 3 focusing on formal sector companies; and phase 4 addressing issues related to making markets contestable. Box 4.2 summarises the various areas examined under the different phases of the project.

Periodic reports prepared by the DPT have been submitted to the Deregulation Committee of Ministers (DCM) which has met on several occasions to discuss the reports and to make specific recommendations for Cabinet consideration. The process has resulted in several specific changes being made, which are discussed below.

**Amendments to Existing Legislation**

**The Company Act.** Prior to the amendment of 1993, at least two persons were required to form a company. This was viewed by several small-scale entrepreneurs as a constraint, since several of them were interested in forming sole proprietorships and did not want to look for partners for the sole purpose of registering a company. With the amendment to Section 8 of the Companies Act, this constraint was removed in 1993 and the formation of one-person companies is now allowed.

Similarly, before the 1993 Amendment of Section 154 of the Companies Act, it was not possible for a director of the company to borrow money from the company to pay for the shares allotted to him/her. This was the case even if the company wanted to lend the money. The Deregulation Committee felt that this section was unduly restrictive and

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**Box 4.1: Definition of Deregulation by the Deregulation Project Team**

Deregulation is the process of removing superfluous or unnecessarily restrictive regulations which inhibit economic activity. It may involve amending, repealing or replacing existing regulatory and administrative requirements, but always with a view to simplifying the regulatory framework, reducing burdens on business and facilitating development, innovation and enterprise. It will also involve resisting the introduction of new legislation which is unduly complex or restrictive. Deregulation does not mean the removal or reduction of necessary standards in the fields of environmental, consumer, health and labour protection.

- preparing "specific issue reports" that correlate the identified problems/issues with legislation and offer recommendations for legislative change.
affected small-scale entrepreneurs adversely. Accordingly, the section was modified allowing a director to borrow money to pay for the allotted shares.

**Private Business Corporation Act.** Notwithstanding the amendments made to the Companies Act, it is still regarded as excessively bureaucratic and a hurdle in registering small businesses. Accordingly, a Private Business Corporation Act is presently under preparation which is expected to reduce the complex, rigid, and costly formalities of registering a company. Some of the simplifications under consideration include (i) not requiring the companies to register a Memorandum of the objectives of the company and the Articles of Association, but rather to only submit a form with the statement of incorporation; (ii) not requiring the accounting officer of the registered company to be an accountant; and (iii) no longer requiring companies to appoint external directors.

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**Box 4.2: Phases of Deregulation**

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<th>PHASE 1: The Informal Sector</th>
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The Road Motor Transportation Act. The Urban Areas (Omnibus Services) Act of 1977 gave ZUPCO monopoly powers in the provision of urban passenger transport services. However, by the late 1980s, it was increasingly felt that ZUPCO was failing to cope with the increased demand for transport services, resulting in most urban commuters facing unbearable transport problems. For example, in Harare, it was not uncommon for commuters from some high density areas to queue for at least two hours to get transport to and from work.

While the ZUPCO monopoly was formally ended by the Presidential Powers (Temporary Measures) in 1986, it was the Road Motor Transportation (Emergency Commuter Omnibus) Regulations, passed in 1994, that replaced the Presidential Powers (Temporary Measures, 1986) and opened the urban passenger transport services sector to competition. The abolition of the ZUPCO monopoly allows any registered commuter omnibus operator to provide urban passenger transport services, subject only to roadworthiness and insurance considerations. The deregulation has created numerous jobs as hundreds of individuals have entered the urban passenger transport services sector. However, there is still limited participation by small scale entrepreneurs in the transport haulage sector, since the subsector is dominated by established companies, who also control the forwarding agencies as well. According to the Transport Operators Association, by the end of 1995, there were only about 600-700 small-scale operators in the transport haulage sector nationally.

Grain Marketing Act. The Grain Marketing (Control) Amendment Order of 1993 removed the restrictions on the movement of controlled agricultural products, such as maize and wheat within Zimbabwe. Before this deregulation, farmers and producers were required to sell the controlled agricultural products only to the Grain Marketing Board, to large commercial millers or their agents. The country was divided into agricultural zones and the movement of grain from one part of the country to another part was forbidden. With the change in legislation in 1993, numerous small scale entrepreneurs have started taking advantage of the trading opportunities that have arisen from the liberalisation of agricultural marketing. With farmers no longer required to sell maize to large millers, upwards of 12,000 hammer milling companies (as of the end of 1996) have mushroomed throughout the country and the maize meal processed through the hammer mills is now available to consumers at prices which are far below those charged by the large millers for super refined maize meal. The nutritional content of the hammer-milled maize is also higher.

Deregulation of Zoning. Before the 1995 deregulation of zones, laws restricted businesses to operate in certain areas. Some areas were designed as residential only, implying that it was illegal to operate businesses in such areas. The business designated areas were generally expensive for SSEs and not strategically positioned in relation to their clientele (e.g. it is very expensive for an SSE in the welding business to be located in the suburb of Graniteside, an industrial area). Numerous studies (Imani, 1990 and NORAD, 1993) have identified restrictive zoning regulations as a factor responsible for inhibiting
SSE development in Zimbabwe. Responding to this criticism, the Government has removed most zone regulations and it is now permissible to conduct a business from a residential area, provided that the business does not have adverse environmental implications (for example excessive noise). In order to further ensure that the physical planning system is supportive of SSE development, it has been recommended that the Regional Town and Country Planning Act of 1976 be examined critically and any inhibiting clauses amended accordingly. With the growth of the informal sector, the demand for affordable workspace, located in convenient areas, has grown substantially. It is, therefore, necessary that existing legislation be monitored continuously so that it responds to the changing requirements of the workplace.

**Control of Goods Act.** Before the Amendment of the Control and Goods Act, the import and export of goods was controlled through a rigid licensing system. Under the structural adjustment program, a gradual program of trade liberalisation has been implemented, as a result of which the importation and exportation of goods has been made much easier. Quantitative restrictions of imports have been abolished, with the exception of a few commodities which are restricted on health and security grounds. Exporting is actively being encouraged (indeed, exports have grown by 40 percent in US$ terms during the past five years), although a system of export licences is still in existence for agricultural commodities, which are considered to be essential for food security purposes. The liberalisation of trade has enabled the private sector, including SSEs, to easily import production inputs on the one hand and to start looking beyond the domestic market for selling their products.

**Architects (Professional Conduct) By-Laws.** Before the 1994 Amendment to the Architects By-Laws, an architect was not allowed to advertise and to publish in the telephone book or any directory, in bold type, the fact that he/she is an architect. Architects were also prohibited from practising as a company and could only operate as individuals or as partnerships. The inability to advertise made it difficult for individuals starting small business to identify architects who could help them in their designs (of buildings etc.) since these architects could not be easily identified or located (e.g. from the telephone directory). Recognising this limitation, the By-Laws were amended in 1994 and architects are now allowed to advertise and to form companies. This has had the effect of making architects much more accessible to emerging businesses.

**Labour Relations Act.** Historically, there has been significant Government intervention in the labour market with onerous minimum wage regulations and difficulties in retrenching workers. The 1985 Labour Relations Act regulated the termination of employment and stated that employment could not be terminated unless either (a) written approved was received from the Minister of Labour; (b) there was mutual agreement (in writing) between the employer and employee that the contract should be terminated; and (c) the employee was under a contract and the term of the contract had come to an end. Although employers could suspend an employee's contract if the employee "committed any of the prescribed acts of misconduct", the employer was still required to apply to the Labour Relations Officer to get clearance to terminate the contract. This process was time
consuming and frustrating and resulted in companies hiring a bare minimum number of employees for the functioning of their enterprises. The stringent labour regulations were also responsible for encouraging the private sector to adopt highly capital intensive techniques of production.

The 1992 Amendment to the Act (effected in January 1993) makes termination of employee contracts less cumbersome, as the minister's permission is no longer necessary in most cases. This is viewed as a positive move in improving the enabling environment for all business operations (including SSEs). Similarly, Government has moved away from setting minimum wages for most industries and now encourages collective bargaining. However, some of the earlier progress has been reversed slightly in 1996, with Government once again asking companies to seek Minister of Labour's permission in order to retrench employees. Such a move tends to defeat the purpose of the Labour Relations (Amendment) Act and deters small businesses to register, as companies fear that they may have problems in retrenching workers even when business conditions can no longer sustain the existing employment levels.

**Posts and Telecommunications (PTC) Act.** The PTC Act was deregulated in 1996 to allow private companies, other than the PTC, to manufacture hand-sets and install and repair telephone receivers. Several small businesses, such as Telecontract (Pvt) Ltd., have come into existence as a result and are taking advantage of opportunities in this expanding area. However, while there is a lot of interest in this area, numerous regulatory issues still remain to be resolved, such as the licensing and operations of cellular phones.

**Air Zimbabwe Act.** The deregulation of the Air Zimbabwe Act has facilitated the deregulation of the air transport industry and this has enabled the entry of an indigenous company, Zimbabwe Express Airlines (ZEX), into this very competitive area. Zimbabwe Express principally services the regional routes and has been rapidly expanding operations. Plans are underway for another indigenous company to service the Harare - Midlands route. However, cargo air transport is still controlled, with state-owned Affretair having a monopoly.

**Other Deregulation**

In addition to the legislative changes discussed above, there are a variety of other initiatives which have also been implemented at the instigation of the Deregulation Committee, although formal drafting is still being completed by the Attorney General’s office. Most of these changes have been introduced either through departmental circulars or by issuing statutory instruments.

**Restrictions on hawking and vending.** In a bid to keep the streets of major towns and cities clean, municipal authorities were, in the past, required to ensure that hawkers and vendors were not allowed to conduct commercial transactions within city boundaries. These restrictions were vigorously implemented resulting in small, informal sector businesses not finding markets in which to sell their goods. In recent years, many of the old
restrictions have been done away with and “informal trading” is no longer frowned upon. Permits for hawking and vending are now more readily available and several municipalities have identified areas within the city which can be used for selling products. This deregulation has seen a mushrooming of “people’s markets” throughout the country; for example, there are upwards of 20 such markets in Harare alone.

**The Liquor Act.** Before the Amendment of the Liquor Act in 1994, businesses operating bottle stores risked losing their liquor licences if beer was consumed on their premises. This was a major constraint to small businesses selling liquor in rural areas, and especially at growth points, where most customers are in the habit of buying beer and consuming it on the premises. Accordingly, the Act was amended in 1994 and this constraint removed. Furthermore, until recently, liquor licensing was centralised at the Liquor Licensing Board, based in Harare. This meant that whoever wanted to sell liquor had to be cleared by this central board, a process which took between six and twelve months on average. Consequently, the Liquor Act was further amended in June 1996, giving Local Authorities the powers necessary to issue the relevant licenses; the role of the Liquor Licensing Board has been transformed into that of a Board of Appeal.

In a similar vein, the monopoly that local authorities enjoyed in the sale of traditional opaque beer in designated areas, through Liquor Act No. 9 of 1984, has been dismantled and the sector has been opened to competition. As a result, several small scale entrepreneurs, particularly women, have embarked upon this rural-based business.

**Changes in the Pipeline**

**Land Survey and Transfer of Title to Land.** During the past few years, the acute shortage of qualified surveyors in the Surveyor General’s Office has resulted in inordinate delays in getting land surveyed and in applications for transfer of title. Several small businesses have been adversely affected by this since the lack of title has prevented them from being able to access credit facilities from the financial system, which usually requires collateral from emerging entrepreneurs. Although surveyors from the private sector have been recruited on a short-term basis to try and clear the backlog, the waiting period has grown as soon as the short-term assignments have ended. Budgetary restrictions have prevented the Surveyor General’s office from taking on additional staff. Low salaries make it very difficult for the Government to recruit suitably qualified staff since surveyors are in high demand within the private sector, which can afford to pay them three to four times the salaries offered by Government.

The deregulation team has recommended to Government that the manpower scarcity, budgetary constraints, and lack of equipment and transport in the Surveyor General’s Office, be urgently acted upon, and that additional surveyors in private practice be hired to clear the back-log of surveys. Furthermore, since it is perceived that the current practice of requiring a graduate surveyor to carry-out a trial survey and to sit for an examination before being licensed is a bottleneck in itself, the deregulation team has suggested that the four year university program for surveyors be restructured. Accordingly,
it has been suggested that the new program should comprise of three years of academic training which would lead to a degree in surveying, followed by a further one year of specialisation which would focus on providing surveyors with on-site practical experience. Under the new program, internship after graduation will not be required. The deregulation team has also recommended that residential and commercial stands located in township areas should also be surveyed, which is not the present practice, and the owners granted title deeds to enable such properties to be used as collateral against loans from financial institutions.

**Conducting Business with Government.** Small business operators continue to experience significant difficulties related to the tendering system and delays in receiving payments when they attempt to conduct business with Government or public sector institutions. The deregulation team has identified several actions that should be taken to facilitate doing business with Government. These include:

(a) that regulations relating to the procurement of goods and services by Government, currently contained in the "Financial Handbook", be legalised by integrating them in the legislation and by ensuring that these are strictly adhered to;

(b) that the regulations incorporate grievance procedures to be followed in circumstances of alleged non-compliance;

(c) that the regulations lay down methods of payment and payment deadlines to be adopted, in order to minimise delays; provide for the making of declarations by public officials of a potential conflict of interest; and provide penalties for corrupt practices; and

(d) that the implementation of Government policy on affirmative action be provided for in the regulations.

**Constraints Faced by Small Miners.** Small scale miners face numerous difficulties in acquiring mining rights and arranging for idle land encumbered by prior claims to be released for prospecting. They also face numerous marketing constraints; the current policy of the Reserve Bank of Zimbabwe which does not permit its agent, Fidelity Printers, to purchase gold from miners in amounts less than 50 grams discriminates against small producers and encourages activity on the black market.

It has therefore been recommended that these constraints be addressed with the Reserve Bank appointing more agents who, under the Gold Trade Act, are authorised to purchase gold in amounts under 50 grams. Furthermore, in order to facilitate the lawful possession and disposal of gold by gold panners, local authorities should be encouraged to issue small miners with the necessary permits, under the Mining Regulations of 1991, in a speedy manner and within a specified period. Several other aspects of the Mining Regulations might need to be re-examined including giving the holder an automatic option to renew the claim at the expiration of the initial period of agreement; limiting the number
of times the holder of a right to a mining claim may renew the right; making transparent the
reasons for rejecting an application to prospect on land; making it easier for small-scale
miners to obtain inspection certificates; reviewing access requirements to the Mining
Development Fund, which are unfavourable to small scale miners; and improving
environmental rehabilitation on mining locations.

Barriers to the setting up of Professional Practices. Individuals aspiring to
become professional architects and accountants face numerous difficulties and delays in
obtaining the necessary licenses and permits, and in establishing their practices,
notwithstanding some of the recent legislative changes. Accordingly, the Deregulation
Project Team has recommended that Section 15 of the Architects Act be amended to
include a provision for the setting up of an independent Examinations Board, whose sole
function will be to set and administer examinations on behalf of the council, in accordance
with the requirements of the Act, and speed up the process of certifying architects.
Similarly, it has been suggested that the Accountants By-Laws be amended to include a
policy of affirmative action aimed at increasing the number of articled clerks from those
ethnic groups currently under-represented in the profession. The existing “Thirteen Rules
of Conduct” are quite onerous and should be revised to allow healthy competition among
registered accountants.

Sales Tax System. Constraints imposed by the sales tax system impede the
graduation of informal sector companies to the formal sector and are a constraint on SSE
growth and development. For example, for a business to be able to obtain a sales tax
number, they have to prove that their annual sales are at least Z$250,000 as provided in the
Sales Tax Act. The procedures for proving that the sales of a business are at least
Z$250,000 per annum are cumbersome and involve a high degree of discretion on the part
of the tax authorities. Many small companies would like to “formalise” and obtain a sales
tax number since this allows a company to become part of the ring-system and purchase
supplies/inputs without paying sales tax up front which, at 15 percent and 25 percent, is
quite high. It has therefore been suggested that the Sales Tax Act be amended to allow all
registered companies to be issued with a sales tax number, regardless of annual turnover.

Customs Procedures. While cumbersome customs procedures are a hindrance for
all private sector establishments, they are particularly problematic for small-scale operators
who often lack the financial resources to recruit the services of intermediaries, such as
clearing and forwarding agents. Most SSEs complain that customs regulations are too
complex and the forms too cumbersome. Most complaints relate to the customs declaration
form (CD1 Form) and the Bill of Entry Form (Form 21). Several entrepreneurs have
suggested that there is a lot of duplication of information which is requested between the
various forms and recommend that the number of forms be reduced and each form be
accompanied by explanatory notes and handbooks facilitating the completion of the forms.

SSEs also complain about the numerous problems associated with the duty
drawback system and the system of inward processing rebates. In addition to the
complexity of Form 44, which is required by the customs authorities to accompany the
Payment Voucher and the application of Drawback of Duty, there have been significant delays in processing drawback payments. It is not uncommon for such payments to take between 9 and 12 months which, in an environment of high domestic rates of interest, imposes a significant tax on small entrepreneurs. Similarly, small entrepreneurs find it very difficult to access the inward processing rebate system since they are required by customs to maintain a bonded warehouse for the purpose. Customs authorities also do not like to entertain applications from a group of SSEs who might wish to jointly operate a bonded warehouse. There is need to re-examine the role of customs authorities and to redefine such role so that it is more pro-active. Customs officials tend to define their role rather narrowly, i.e. that of resource mobilisation, as opposed to private sector and export development.

The Gender Dimension. As has been indicated before, the financial system in Zimbabwe is extremely conservative as a result of which SSEs find it extremely difficult to access finance. The problem is exacerbated several fold if the entrepreneur is a women, and is married. In addition to traditional, cultural practices, which generally discriminate against women entrepreneurs, married women, under common law, are not allowed to enter into contracts in their own right and need the consent and support of their husbands. Similarly, husbands have to post surety in order to enable a wife to obtain a loan from a bank. In an attempt to address this discrimination, both the Post Office Savings Bank Act and the Building Societies Act contain provisions nullifying the effects of the common law in this regard. Women’s lobby groups have rightly recommended that, while positive, this is not sufficient and that the Banking Act needs to be amended to give married women legal right to have access to finance without the consent of their husbands.

The Deregulation Experience

As can be seen from the discussion above, solid progress has been made in improving the operating environment for the SSE sector during the period of structural adjustment, for which the Deregulation Committee can take a lot of credit. However, as is quite clear, the unfinished agenda continues to remain quite large. In particular, although a lot of changes have taken place through Ministerial Decrees and by issuing Statutory Instruments, the legislative process has lagged behind, with a substantial amount of legislation pending in the pipeline.

As the economy moves into the next phase of the adjustment program, the officials responsible for deregulation have also highlighted the need to move into the next phase of deregulation. A proposal has been structured, entitled “Deregulation: Project II”, whose objectives are to achieve:

- changes on the ground which reflect the new regulatory environment;
- linkages with related projects, such that the benefits of deregulation can be fully realised;
- mobilisation of a continuing process, which is self-perpetuating; and
- fewer, better, simpler, more facilitative regulations in the future.
In order to achieve these objectives, it will be important for the various actors to work together so that the administrative and legislative changes can be affected in a timely fashion. In particular, past experience has demonstrated that there is need for better liaison between the Deregulation Committee of Officials (DCO) and the Deregulation Committee of Ministers (DCM). While the DCO make specific recommendations to the DCM, through Issue Reports, there is no specific procedure for tracking any subsequent deregulation activity at the DCM level. Once the recommendations are made, the onus for initiating change shifts to the relevant Ministry/Department concerned, with the agency in question determining the pace of reform.

It has also become abundantly clear that merely changing the legislation and/or issuing statutory instruments announcing change will not be sufficient to change the situation on the ground. Legislative change will need to be accompanied by a change in attitude on the part of local authorities, in particular, who have spent a large portion of their lives regulating rather than facilitating. Similarly, small businesses will need to be made aware of the changes introduced and should fully understand their new rights and obligations, if they are to benefit from the liberalisation. Despite the introduction of the changes discussed above, there are numerous communities throughout the country where business is still being conducted according to the old rules. For example, liquor licensing amendments have not necessarily resulted in the speedy issuance of licenses since local authorities are either unaware of the change or are unwilling to break with traditions established in the past. Similarly, although trading hours have been deregulated, informal businesses are still given tickets for operating after 6:00 p.m. since they are not an officially recognised sector. Consequently, for the changes to be effective, the next phase of deregulation must go beyond the introduction of legislative change and ensure that changes take place on the ground. In this respect, the mandate of the Deregulation Project Team will often extend beyond its basic terms of reference and will require close co-operation and consultation with local authorities, small business organisations, NGOs and community based organisations.
The Road Ahead

As Zimbabwe embarks upon the next phase of its economic reform program, there is an increasing convergence of views about the importance of the SSE sector as a source of economic growth and employment creation. While, as discussed in previous sections, small-scale enterprises have benefited from the general improvement in the investment climate and the process of deregulation, there is a consensus that the sector continues to face numerous constraints and remains over-regulated. Over-regulation is a threat to the competitiveness of businesses world-wide, since unnecessary regulations impose costs and inflexibility which frustrate enterprise development, hamper innovation, deter investment and minimise opportunities for employment creation. While a regulatory framework is necessary, the policy makers should take considerable care to insure that the regulations in place are pro-active and do not impose disproportionate costs on businesses or the consumer. Some of the areas, which will be important for the future development of the SSE sector, are summarised below.

Policy Framework

A host of studies have been conducted by various donor organisations over the years, identifying the variety of problems encountered by small-scale enterprises in Zimbabwe. These studies have also been supplemented by analysis undertaken by Government, for example the 1992 study commissioned by the Ministry of Industry and Commerce, in collaboration with UNIDO, and the 1993 study conducted by the Ministry of Labour, Manpower Planning and Social Welfare with assistance from the ILO. However, the results of these initiatives have only been implemented in a piecemeal fashion because Government has not been able to synthesise the various recommendations and articulate a policy framework for the SSE sector. The absence of an agreed-upon policy has, on several occasions, resulted in contradictory messages being sent to the enterprises and has encouraged pressure groups to push for incentives which have been poorly designed and have not benefitted the sector. An example of one such incentive, discussed earlier in the report, has been the provision of highly subsidised lines of credit which did not reach the beneficiaries for which they were intended; were a heavy burden on the treasury, which is already battling a difficult fiscal situation; and were clearly not sustainable. Both the central
government and local authorities, should work together to develop and implement coherent policies, which will enable the small scale sector to survive on a commercial footing.

In articulating its policy, it would be desirable for Government to appoint a task force and commission it with the responsibility of articulating a comprehensive policy framework to cover all aspects of enterprise development, with particular emphasis on the small scale sector. In order to build the necessary consensus around the strategy, the task force should comprise representatives of the various stakeholders such as Government, the private sector, financial institutions, business organisations, trade unions, and academia. Building upon the surveys and studies already conducted, the task force would address the range of issues relating to enterprise development including financial constraints, the regulatory environment, business support services, skills development, etc. Some of the policies deserving particular attention are discussed, in turn, below.

The Tax Regime. The Government should pay special attention to tax regulations, because high tax rates encourage informal units to remain underground; hence, taxation should be more pro-business and less costly. Exemption thresholds and the tax bands have not kept pace with inflation and need to be revised. The issue of tax incentives for SSEs merits consideration, but subject to the overall macroeconomic constraint. The Irish experience could be one model to follow; under the Irish “Business Expansion Scheme”, if one invests in a high growth sector such as manufacturing, a tax break on personal taxation is offered for the amount invested.

Facilitating Trade. Unless a conducive trading environment is put in place, it will become difficult for SSEs to grow and penetrate new markets. In reviewing the regulatory framework, it will be important to ensure that (a) procedures for exporting and importing are simple and inexpensive; (b) schemes such as the duty drawback system and the inward processing scheme function efficiently and their administration is decentralised in all regions; and (c) the tariff regime is reviewed constantly to ensure that it responds to changing domestic and international circumstances.

Facilitating Investment. During the next phase of deregulation, greater emphasis should be placed on overhauling the entire regulatory framework, instead of the case by case approach used by the Deregulation Committee in the past. In order to facilitate investment, and the establishment of companies, the Companies Act needs to be made simpler, as has been discussed earlier. In order to make its requirements intelligible to the public, it should be translated into layman's language, preferably with copies translated into the two main vernaculars. Similarly, by simplifying the Memorandum and Articles of Association, the process of registration could be cut short, thereby making it easier to decentralise company registration to provincial or rural district levels, as the inspection of documents would not require specialised staff. Operationalizing the Private Business Corporation Act quickly would also allow some of these results to be achieved quickly.

Sector Specific Interventions. In addition to the overall policy environment, there are some sectors which will necessitate sector-specific interventions, if the role of small-
scale entrepreneurs is to be strengthened; therefore a sector specific road-map of several sub-sectors needs to be developed in order to identify potential constraints. For example, in the manufacturing sector, despite some improvements in recent years, there are still special problems posed by a variety of zoning restrictions and building codes which are aggravated by registration and licensing delays. In the tourism sector, in addition to the normal registration delays, there are problems associated with obtaining liquor licenses, as has been discussed earlier, and there are restrictions on trading hours. In the mining sector, there are restrictions placed on the mining of gold by small scale miners.

**Supporting Infrastructure.** The SSE sector has consistently identified infrastructure as one of the most important constraints facing the sector. With the gradual move towards private sector participation in infrastructure through BOT/BOOT type investments, complaints regarding access to critical services such as electricity and water should recede in coming years. Similarly, the licensing of private cellular operators should improve the provision of telephone services. It will be important to ensure that this momentum towards privatisation is maintained, with an appropriate regulatory framework put in place to ensure competitive pricing of services.

**Physical Planning and Provision of Workspace.** Markets, and other trading and manufacturing points for the SSE sector, should be made attractive. Local Authorities should consider revising their 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. Building standards should be revised in order to reduce the development costs incurred by the private sector, while at the same time creating structures that blend in well with the environment. There is no need to use expensive designs and building materials when erecting facilities for the informal sector; designs should be flexible and easy to relocate to other sites. A good example are the kiosks built by Coca Cola, currently sited near bus termini and parks in the centre of Harare. The Variations Committee of the Standards Association of Zimbabwe, which is funded by the Ministry of Local Government, should be in a position to guide such work. The policy should also make it easy for the private sector and other non-governmental organisations to participate in the development of facilities for the SSE sector, such as joint ventures between the central government and local authorities in order to make the facilities and services rendered affordable.

**Indigenization.** An important element in the development of the strategy will be the need to address the indigenization issue, and to harmonise recommendations with other indigenization related policies being developed by Government. While the objective of ensuring that black Zimbabweans are empowered to fully participate in the process of economic development is a noble one, it will be important to ensure that costly mistakes are avoided, other investors not antagonised and the benefits of any affirmative action programs put into place widely shared.
In Malaysia, there are clear institutional arrangements in place to deal with the small scale sector. These arrangements are designed to reduce duplication of effort, by reducing the number of players at the Government level. The Ministry of International Trade and Industry (MITI) specialises in market promotion and incentives for SMEs; the Ministry of Finance addresses issues related to financial assistance; the Ministry of Science, Technology and Environment provides technical assistance and research and development; while the Ministry of Human Resources and the Implementation and Co-ordination Unit in the Prime Minister’s Office, provide skills and management training in addition to addressing issues relating to infrastructure.

Institutional Reform

The existing institutional infrastructure for SSE support in Zimbabwe is highly fragmented and either needs to be rationalised or mechanisms put into place to ensure better co-ordination among the various agencies. Although, in principal, it is the Ministry of Industry and Commerce which takes the lead in matters relating to the sector, several other Government Ministries are also heavily involved in the sector. These include the Ministry of National Affairs, Employment Creation and Co-operatives, which manages several initiatives relating to the informal sector, small co-operatives, and small businesses owned and operated by women. Similarly, the Ministry of Labour and Social Welfare has a unit which deals with issues relating to micro-enterprise finance and, under the Social Development Fund and the Poverty Alleviation Action Plan, takes the lead in providing training to small scale entrepreneurs. While some overlap of functions and programs is inevitable, the present situation is unsatisfactory in that small entrepreneurs usually do not know where to go to have their problems resolved, resulting in considerable waste of time and frustration with the system.

Whereas the Zimbabwe Investment Centre (ZIC) has attempted to transform itself into a one-stop-shop and endeavours to provide foreign investors with a “road-map” of investment requirements, it lacks the capacity and the financial resources to perform a similar function for the small, domestic investor. Although ZIC, in recent months, has undertaken several domestic investment promotion missions, its role as a facilitator for the small scale sector is not well known and appreciated. Given the importance of the SSE sector, it is suggested that either ZIC create a unit which specialises in small scale businesses and serves as an information base for these entrepreneurs or for the Ministry of Industry and Commerce to set up such a department. Sector-specific “How to Start” manuals, which incorporate the legal framework, need to be developed and maintained by such a department. Consideration should be given to whether the Company Registration Department should continue to be in the Ministry of Justice, Legal and Parliamentary Affairs or be brought under the Ministry of Industry of Industry and Commerce, as is the case in South Africa. Alternatively, the department could be re-constituted as an autonomous body, commissioned by the Parliament.
Capacity Building

At Government Level. A major reason for the delays in the implementation of programs and the absence of a comprehensive policy of support to SSEs, is lack of capacity in Government. Civil servants have no tradition of proactive support to enterprises. The Ministry of Industry and Commerce (MOIC), for instance, has historically been at the centre of administrative controls through the Control of Goods Act - foreign currency allocations, price controls, trade bans via the negative list, and so on. Although several of the restrictive laws are no longer implemented, a pro-business culture has yet to emerge. A NORAD report on needs assessment, published in March 1995, revealed a serious lack of skills and abilities within MOIC, which severely limited its capacity in carrying out its new functions. Similarly, although the UNDP funded ASYCUDA Project on the computerisation of the Customs Department has enhanced its capacity in terms of facilitating the clearance of goods, there are still numerous complaints that the Customs department is more concerned with raising revenues than facilitating business enterprise.

On the positive side, there is ample recognition within Government that some of its departments are no longer equipped to effectively deal with their changing role, and numerous requests have been made to the donor community for assistance. For example, the Deregulation Team was provided with UK ODA-funded technical assistance to speed up the deregulation program. Donor funded technical assistance is also being provided to organisations such as the Zimbabwe Investment Centre, MOIC, the Central Statistics Office, and the National Economic Planning Commission. It is anticipated that the USAID-funded project on the computerisation of the Registrar’s Office will strengthen capacity and speed up processing time for the registration of companies. Similar interventions are necessary in the tax department, customs, the small business units of the financial institutions, etc.

At the SSE Level. For SSEs to take advantage of the new environment, it is clear that there is need for enhanced capacity building in most areas of their development. Government, the donor community and the private sector, need to do more in areas such as training, work-space technology transfer, research and development as well as encouraging quality standards. Special assistance, such as that provided in South East Asian countries, needs to be put in place. The areas of assistance provided to the small-scale sector in Malaysia points to the type of initiatives that would also be useful in Zimbabwe. These areas include:

(i) market promotion: vendor development, subcontracting, market penetration;
(ii) investment promotion: tax exemptions on industrial machinery, equipment and raw materials, double deductions on training, etc.;
(iii) technology development: designed to enable SSEs to get continuous access to advanced modern technology and upgrade their production capabilities;
(iv) human resource development: designed to address needs at entrepreneur, management and shop-floor levels, in order to reduce SSEs weakness in areas such as poor quality, small volume of output and late deliveries;
(v) financial assistance: based on product viability and use of modern management practices, e.g. credit guarantee schemes; and
(vi) infrastructure support: establishment of industrial parks in order to reduce the need for a large up-front capital outlay for infrastructure and to reduce the start-up time of a project from the normal 2 - 3 years to about one year.

Changing Attitudes

Numerous years of control and marginalization have resulted in a lack of entrepreneurial drive among most Zimbabweans. The education system, which is based on the old British model, has also not helped to create an environment which encourages and nurtures entrepreneurs. If the process of economic empowerment is to really take off, the development of an entrepreneurial culture will need to be encouraged on a national basis. While policy makers might be able to change the laws and the rules which regulate the operations of the small-scale sector, these changes will not be effective if there isn't a change in the attitude of the individuals implementing these policies. Over the years, civil servants and employees of local government and municipal councils have developed a deep distrust of the private sector as a result of which there has been a tendency to restrict private initiative rather than encourage it. There is a dire need to re-educate public service employees in order to improve the channels of communication between the regulators and the end-users. The law enforcers and the regulators need to learn how to facilitate business transactions and ensure that registration procedures and other bureaucratic requirements are implemented swiftly and in a manner which minimises the costs to the entrepreneur.

In a similar vein, the regulators and the policy makers must realise that it is in the national interest to ensure that the productivity of the small-scale sector increases so that such enterprises are able to graduate from the informal sector and take their rightful place in the formal economy. This will necessitate that the costs of “formalization”, i.e. the costs generally associated with dealing with bureaucracies such as the tax department, the registrar’s office, the customs administration, etc., are kept to a minimum. Care must be taken to ensure that the appropriate systems are in place such that small-scale entrepreneurs are able to access relevant information in a timely and cost-effective manner. The relevant Government authorities must be taught that they have an obligation to make available all the relevant set of rules and regulations to the SSE sector and to implement these in a fair and transparent manner.
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