AN ASSESSMENT OF THE CONTRIBUTION OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) TO THE MANUFACTURING SECTOR IN SMALL URBAN CENTRES OF ZIMBABWE: A CASE STUDY OF SMEs IN BINDURA TOWN.

BY

SIBANDA OWEN

A THESIS SUBMITTED TO THE DEPARTMENT OF GEOGRAPHY AND ENVIRONMENTAL SCIENCE OF THE UNIVERSITY OF ZIMBABWE IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF PHILOSOPHY IN GEOGRAPHY

2005
Abstract

This study was aimed at assessing the contribution of small and medium scale enterprises (SMEs) to the manufacturing sector in Bindura Town. The survey was carried out in three industrial sites, Chipadze Industrial Area, the Durawall and Trojan Road Industry. A total of 75 SMEs (30 in Chipadze Industrial Area, 25 in the Durawall and 20 in Trojan Road Industry), which represented 74% of manufacturing SMEs in Bindura town, were surveyed. It was observed that these SMEs were engaged in different manufacturing activities. The majority of the SMEs were involved in carpentry (43%) and steelworks (27%). The other manufacturing activities included softdrink manufacturing (11%), brickmaking (9%), clothing (5%), soap manufacturing (4%) and exercise book manufacturing (1%). The SMEs manufactured different products that were used by the public in the town. The 75 enterprises that were surveyed employed a total labour force of 342 workers. These were people who were directly linked to the operations of the different SMEs. Each SME created an average of 5 jobs in the town. This shows the potential of SMEs to create the much needed employment. The study has also revealed that SMEs are the major players in industrial development in small urban centres, in Bindura there were no large scale enterprises (LSEs) that were involved in manufacturing industry. Manufacturing industry was restricted to the SME sector. However the sector requires a lot of infrastructural and financial support for it to reach its full potential. There is a need to promote networking among the SME sector so that enterprises can realise economies of scale in their operations.
Dedication

To my family and friends. I love you all. Thank you for being there for me.
Declaration

“I hereby declare that this thesis submitted for the degree of Master of Philosophy at the University of Zimbabwe is my own original work and has not been previously submitted to any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged by means of a comprehensive list of references”.

Owen Sibanda

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### Abbreviations

<table>
<thead>
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<tbody>
<tr>
<td>ANOVA</td>
<td>Analysis of Variance</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia Pacific Economic Co-operation</td>
</tr>
<tr>
<td>BSMBD</td>
<td>Bureau of Small and Medium Business Development</td>
</tr>
<tr>
<td>CGCZ</td>
<td>Credit Guarantee Company of Zimbabwe</td>
</tr>
<tr>
<td>CMED</td>
<td>Central Mechanical Equipment Department</td>
</tr>
<tr>
<td>CSO</td>
<td>Central Statistical Office</td>
</tr>
<tr>
<td>CZI</td>
<td>Confederation of Zimbabwe Industries</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>EMCOZ</td>
<td>Employment Confederation of Zimbabwe</td>
</tr>
<tr>
<td>ESAP</td>
<td>Economic Structural Adjustment Programme</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus Group Discussion</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IBDC</td>
<td>Indigenous Business Development Corporation</td>
</tr>
<tr>
<td>IBWO</td>
<td>Indigenous Business Women’s Organisation</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>LSE</td>
<td>Large Scale Enterprise</td>
</tr>
<tr>
<td>MSMED</td>
<td>Ministry of Small and Medium Enterprise Development</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>PGI</td>
<td>Plate and Glass Industries</td>
</tr>
<tr>
<td>ROZ</td>
<td>Republic of Zimbabwe</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>RTA</td>
<td>Rural Traders Association</td>
</tr>
<tr>
<td>SAZ</td>
<td>Standard Association of Zimbabwe</td>
</tr>
<tr>
<td>SAP</td>
<td>Structural Adjustment Programme</td>
</tr>
<tr>
<td>SEDCO</td>
<td>Small Enterprise Development Corporation</td>
</tr>
<tr>
<td>SMBA</td>
<td>Small and Medium Business Administration</td>
</tr>
<tr>
<td>SBSU</td>
<td>Small Business Support Unit</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Scale Enterprise</td>
</tr>
<tr>
<td>SEPU</td>
<td>Small Enterprise Promotion Unit</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
</tr>
<tr>
<td>VCCZ</td>
<td>Venture Capital Company of Zimbabwe</td>
</tr>
<tr>
<td>ZDB</td>
<td>Zimbabwe Development Bank</td>
</tr>
<tr>
<td>ZESA</td>
<td>Zimbabwe Electricity Supply Authority</td>
</tr>
<tr>
<td>ZISCO</td>
<td>Zimbabwe Iron and Steel Company</td>
</tr>
<tr>
<td>ZNCC</td>
<td>Zimbabwe National Chamber of Commerce</td>
</tr>
<tr>
<td>ZWFT</td>
<td>Zimbabwe Women Finance Trust</td>
</tr>
</tbody>
</table>
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Definition of Terms

**Entrepreneur** – One who assumes the financial risk of the initiation, operation and management of a given business or undertaking. Someone who organises a business venture and assumes the risk for it.

**Female trade** – activities mostly dominated by females e.g crocheting and tailoring

**Formal activities** – industrial activities that are carried out within the legal framework of an economy.

**Informal activities** – In economics, the informal economy is a system of exchange used outside state-controlled or money-based economic activities.

**Male trade** – activities mostly dominated by males e.g carpentry, steel working and brick making

**Small and Medium Scale Enterprise** – a business enterprise employing a total of between 5 and 10 people. However it should be noted that this definition varies from place to place.

**Structure of SMEs** – the social and economic makeup of the enterprises. This includes the social characteristics of the entrepreneurs such as level of education, gender composition, and age profile of entrepreneurs, firm ownership and work experience of the entrepreneurs. The structure also looks at the economic characteristics of the enterprises such as sources of capital.
CHAPTER 1

INTRODUCTION

1.1 Background

The contribution of Small and Medium Scale Enterprises (SMEs) to the broader process of economic development is increasingly being recognised worldwide (Saeed, 2002; Wiebe, 2002). Once considered a relatively less important aspect of industrial development, SMEs are increasingly being viewed by governments, policy makers and international donors as critical to the industrial growth and development of economies, especially of developing countries. Several scholars have shown that in most developing countries, more than 30% of the labour force is employed in the SME sector (Saeed, 2002; Ilahi, 1999; Altbach, 1998). In addition, some researchers have shown that proportion of national industrial output accounted by SMEs has been growing since the mid-twentieth century (Wiebe, 2002).

The importance of SMEs in industrial and economic development came to light following the success stories of some East Asian and Western European countries such as Singapore, Taiwan, North Korea, Germany and Italy (Hallberg, 2001). A number of donor agencies and development analysts have called for intensive research in the role of SMEs in industrial and economic development (Havenga, 2001; Timmings, 1999; Helmsing, 1993). After the failure of large-scale enterprises (LSEs) to generate meaningful employment and industrial development, most governments in the developing countries have turned to
SMEs as an option. The SME sector is now regarded as the answer to most developmental problems in developing countries (Saeed, 2002; Wiebe, 2002).

SMEs now have a new role in industrial development (Helmsing and Kolstee 1993). Over the past few years, the SME sector has come out of its confines and has begun to raise and answer some of the major industrial development questions. The success of this sector can be improved by addressing sectoral/regional and macro-economic factors. There is need to consider the wider policy framework for the development of the SME sector.

The significance of the SME sector is not uniform throughout the world. It differs from country to country in accordance with the level, pattern and rate of change in economic development (Havenga, 2001; Kennedy and Hobohm, 2001; Timmings, 1999; Matshalaga, 1998; Helmsing, 1993).

This study seeks to assess the contribution of SMEs to the manufacturing sector in a small urban centre of a developing country. In assessing this contribution the study seeks to answer the following questions about SMEs:

1) What role does the SME sector play in industrial development?
2) What is the role of SMEs in the manufacturing chain?
3) Should government deliberately intervene to promote the growth of SMEs?
4) What are the strengths and weaknesses of the SME sector?

These questions will be answered in the context of a small urban centre (Bindura) in Zimbabwe.
1.2 Definition of SMEs
A lot of definitions have been put across to define SMEs. There is no universally accepted
definition of SMEs (Kim and Gallent, 2000; Tevera, 1998; Helmsing, 1993). The variables
used in the definitions of SMEs vary from country to country. In South Korea the definition
of SMEs is based on the number of employees found at an establishment. In Taiwan an
SME is defined according to level of capitalisation (Tevera, 1998; Kim and Gallent, 2000).
It can be argued that some definitions focus on measures such as number of employees and
volume of sales while others prefer to pay attention to total capital assets and capital per
worker.

SMEs in the Philippines are defined by the number of employees (Hammer and Del
Rosario, 1997, Table 1.1). In the Philippines, SMEs are defined as any business activity or
enterprise engaged in industry, agri-business and/or services whether single proprietorship,
co-operative, partnership or corporation.

Table 1.1: Definition of Enterprises in the Philippines

<table>
<thead>
<tr>
<th>Sector</th>
<th>Definition based on asset size</th>
<th>Definition based on number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>1,500,000 – 15,000,000 pesos</td>
<td>10 to 99</td>
</tr>
<tr>
<td>Medium</td>
<td>15,000,000 - 60,000,000 pesos</td>
<td>100 to 199</td>
</tr>
<tr>
<td>Large</td>
<td>Above 60,000,000 pesos</td>
<td>above 100</td>
</tr>
</tbody>
</table>

Source: (Hammer and Del Rosario, 1997.)

In Japan a SME is defined as an establishment employing fewer than 300 people (Wiebe,
2002; Ministry of International Trade and Industry (Japan), 2000). In some developed
economies such as Austria and Italy, SMEs are defined as establishments employing about
500 people (Grossruck, 2000). In developed economies SMEs have many workers whereas in developing economies SMEs have few workers.

In Zimbabwe the definition of SMEs is based on number of employees and asset base. The Ministry of Small and Medium Enterprises Development (MSMED), which was set up in 2002 by the Government of Zimbabwe, defines SMEs by reference to number of employees, total assets and legal structure (Republic of Zimbabwe, 2002). According to MSMED, the number of employees, asset base and the legal structure must be met for an enterprise to be classified as SMEs. Table 1.2 shows the definition of SMEs in Zimbabwe.

Table 1.2: Definition of Enterprises in Zimbabwe

<table>
<thead>
<tr>
<th>INDICATIVE PARAMETERS</th>
<th>Micro Enterprises</th>
<th>Small-scale Enterprises</th>
<th>Medium-scale Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of People</td>
<td>Asset Base</td>
<td>Legal Structure</td>
<td></td>
</tr>
<tr>
<td>All Sub-sectors</td>
<td>Less than 5</td>
<td>Not relevant</td>
<td>informal</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Less than 50</td>
<td>Less than $12 000 000</td>
<td>Formal</td>
</tr>
<tr>
<td>Other</td>
<td>Less than 30</td>
<td>Less than $600 000</td>
<td>Formal</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>50-70</td>
<td>$12 000 000-$24 000 000</td>
<td>Formal</td>
</tr>
<tr>
<td>Other</td>
<td>30-50</td>
<td>$6 000 000-$14 000 000</td>
<td>Formal</td>
</tr>
</tbody>
</table>

Source: (Republic of Zimbabwe, 2002)

While definitions of SMEs vary from country to country, they can also vary within the same country depending on who is providing the definition. In Zimbabwe the definition varies from organisation to organisation.
The Zimbabwe Development Bank (ZDB) defines a small-scale enterprise as a business with paid up capital in the range of Z$10 million to Z$30 million. However, this definition is too restrictive as it does not take into consideration sole proprietors, co-operatives and partnerships and businesses, which are unregistered. Some commercial banks define SMEs as businesses with a working capital of Z$5 million to Z$25 million and net fixed assets not exceeding Z$30 million (The Reserve Bank Review, 2003).

In this study, a workable definition of an SME is any enterprise, formal or informal, with between 5 – 20 workers. It would be difficult to use capital base because most owners are reluctant to divulge information pertaining to their capital. In Zimbabwe, an informal enterprise is defined as one whose operations are not registered in terms of the Company Act (Chapter 190) and the Factory and Works Act (Chapter 283). These informal enterprises do not pay any corporate tax in terms of the Income Tax Act (Chapter 181) and are not recorded in national economic statistics. Although most SMEs have not been registered or recorded in national economic statistics, their contribution to the national economy has been immense (Ministry of Industry and Trade, 1999; Mumbengegwi, 1993; Bango, 1990).

1.3 The Statement of the Problem

The growth of Small and Medium Scale Enterprises (SMEs) has drawn the attention of policy makers, economists, researchers and politicians (Saeed, 2002; Wiebe, 2002; Mumbengegwi, 1993). Since the attainment of independence in Africa, most governments paid little attention to SMEs as they regarded them as ‘inferior’, ‘unproductive’ and ‘incompatible’ with modern industrial development (Helmsing and Kolste, 1993).
Governments in most countries chose the socialist road of nationalisation and public enterprise expansion as a faster road to industrialisation. None the less, it has been noted that SMEs play an integral part in the development of manufacturing industry in peripheral regions of developing countries. SMEs can be located in areas where the large scale companies can not operate due to lack of infrastructure development (Cortes et al, 1987; North and Smallbone, 2000).

Zimbabwe, like many other African countries, has been biased against the contribution of SMEs to the development of the manufacturing sector. After independence only registered co-operatives could get access to financial support while individual businesses had difficulties qualifying for government’s programmes (Helmsing, 1991). Nevertheless the government in 2002 has since changed its attitude towards the SME sector resulting in the setting up of a ministry responsible for the operations of SMEs. This shows government’s commitment to developing the sector. The government has since realised the importance of the SME sector to industrial development in the country (The Reserve Bank Quarterly Review, 2003; ROZ, 2002). There is need to examine how the sector is contributing to industrial development in Zimbabwe.

The decline of gold and nickel prices on the world market in the late 80s and early 90s, saw many of the mines reducing their production. This led to a lot of retrenchments in the mining sector and the majority of these retrenchees later found themselves in the informal sector. This led to many SMEs proliferating in small urban centres such as Bindura Town.
1.4 Justification of the Study

Many studies have been carried out on SME development in developing countries (Tevera, 1998; Rasmussen, 1992; Tripp, 1989; Dawson, 1988; Yoshukuni, 1984). All of these studies mainly focused on the problems facing SMEs such as financial, social and institutional. Not much research has been directed at the contribution of SMEs to the economies of various countries especially their role in the manufacturing industry. There is thus need to build up research capacity in Africa capable of generating information regarding the contribution of SMEs to national development and how they have helped in developing the manufacturing sector in developing countries (Bebbington and Bebbington, 2001).

Helmsing (1993) argues that a lot of attention about SMEs is being paid to macro-policy dimensions of SME and to issues of efficiency of the SMEs. Most attention has been paid to researching the quantity dimensions of SMEs (i.e. how many). Little attention has been given to the long-term perspective of the role of SMEs in the economies of countries. This study seeks to examine the role that has been played by SMEs in the development of the manufacturing sector in a small urban centre in Zimbabwe.

The study has also been influenced by the present economic climate prevailing in Zimbabwe. Most researchers argue that SMEs prosper in economies that are in decline (Tevera, 1998; Dawson, 1988; Schmitz, 1989; Osei et al, 1993; Bebbington and Bebbington, 2001). The inflation rate was pegged at 114% as of April 2002 and it rose to over 600% during the study period, interest rates are soaring up, foreign currency reserves dwindle with each passing day and investment levels are close to zero (The Daily News, 9
April, 2002; *The Herald*, 20 March, 2002). Given such economic conditions, large-scale firms close down, or reduce their production levels. In such a situation SMEs tend to fill in the gap left by the large-scale enterprises (Pedersen, 1998; ILO, 1985; Helmsing, 1986; 1987).

Given the economic situation that Zimbabwe is in where LSEs find it difficult to operate because of the recession, a solution might lie in the SMEs. The government has pointed out that it was now shifting its policies from mainly supporting LSEs to SMEs (Republic of Zimbabwe (ROZ), 2002; *The Daily News*, 9 March 2002). The government’s commitment to the SME sector can also be noticed by the government’s creation of the Ministry of Small and Medium Enterprise Development (MSMED) in 2002. Thus it should be noted that a positive relationship exists between the performance of SMEs and the general economic performance. Many SMEs tend to enjoy good business when the GNP growth rate declines, as they are more flexible and easily able to adjust to declines (Dawson, 1988; Schmitz, 1989; 1990; Simon, 2001).

### 1.5 General and Specific Objectives of the Study

#### 1.5.1 General Objective

The general objective was to examine the contribution of SMEs to the manufacturing industry in Bindura.

#### 1.5.2 Specific Objectives

The specific objectives were to:
• examine the structure of SMEs in the economy of Bindura;

• identify the different manufacturing activities carried out by SMEs in the area;

• evaluate the contribution of SMEs to employment creation in the town;

• identify sources of raw materials for SMEs in the town;

• determine markets for SME products in Bindura;

• examine the growth and duration of operation of SMEs in Bindura;

• assess income gained by entrepreneurs in their different activities,

• assess major constraints facing the SMEs in their operations in Bindura; and

• propose and recommend strategies for stimulating growth of SMEs in Bindura.

1.6 Research Questions

The following research questions were formulated and investigated in this study:

1. What is the structure of SMEs in the town of Bindura?
2. What are the manufacturing activities that are found in Bindura?
3. How are SMEs contributing to employment creation in Bindura?
4. Where do SMEs source their raw materials?
5. What are the markets for SME products in the town?
6. What are the prospects for growth for SMEs in Bindura?
7. What are the earnings received by entrepreneurs in their enterprises?
8. What are the major constraints facing entrepreneurs in their operations in Bindura?
9. What strategies can be put in place to stimulate the growth of SMEs in Bindura town?
1.7 Conceptual Framework

Data collection and analysis within the study was based on the hypothesis that most manufacturing SMEs are found in small urban centres. This is because most large-scale enterprises tend to shun these areas citing viability problems. This study seeks to show that if SMEs are given a conducive environment they can contribute immensely to the growth and development of industry in small urban centres.

The important factor in the development of the SMEs is for the government to provide a conducive environment for operations of SMEs. The macroeconomic environment must enable the SMEs to be viewed as equal partners in the development process, not to be left on the fringes of economic development. A suitable environment encompasses incentives that attract the activities of SMEs, i.e. tax reductions, simplification of licensing by-laws, provision of loan facilities and low tariffs in case of international trade. It is also important to note that for the smooth operations of SMEs, infrastructure should be well developed. Infrastructure includes road networks, to allow the easier flow of inputs and outputs from the areas of operations. The availability of facilities such as water and electricity is an integral part in the development of infrastructure in the areas.
BENEFITS OF SMEs IN THE AREA
- labour intensive
- very efficient
- use less capital
- utilise local raw materials shunned by LSEs

OUTPUTS
- window frames
- furniture
- shoes, bags
- clothing, etc.

MANUFACTURING ACTIVITIES
- steel works (welding)
- capentry
- tailoring
- brick making
- shoe making
- drink making (i.e. freezits)
- basketry
- leather works

INPUTS
- capital
- labour
- raw materials
- infrastructure

FORMAL SMEs
- pay rates to council
- they have operational licenses.
- pay revenue to the local authorities
- registered in the council books

INFORMAL SMEs
- do not pay rates (electricity and water)
- do not have operational licenses.
- do not pay any revenue to the local authorities.

INCENTIVES FOR SMEs
- tax reduction and/or low tariffs
- simplification of licensing procedures
- provision of cheap loan facilities
- development of infrastructure
- provision electricity and water

IMPEDEMENTS TO SME DEVELOPMENT
- lack of infrastructure
- lack of access to financial resources
- prohibitive interest rates on loans
- obsolete technology

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- window frames
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- shoes, bags
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Figure 1.1 Conceptual Framework
Fig 1.1 shows the underlying relationships affecting the development of SMEs. Linkages between the SME sector and other sectors of the economy will be explored. There is a possibility of linkages between SMEs and other sectors i.e. other SMEs, LSEs and the agricultural sector. Vertical and horizontal linkages might exist in the area, some outputs from the SMEs can be used as inputs in some manufacturing industries, flexible specialisation can also exist whereby some large companies give part of their production to SMEs.

1.8 The Study Area

Bindura is located about 87km north-east of Harare. It is the provincial capital of Mashonaland Central (Fig 1.2). The town has a population of 33 000 people (Central Statistical Office (CSO), 2002). The sphere of influence of Bindura town extends to the north eastern parts of Zimbabwe, to areas that include Mukumbura, Mavhuradonha, Kaitano and other areas bordering Mozambique. Bindura is therefore the administrative centre of Mashonaland Central.

1.8.1 Economic Activities in Bindura

The main economic activities of Bindura town include mining, agriculture and small manufacturing industries. The major mines include Trojan (nickel), and Ashanti Gold Fields (gold). These mines are the major employers in the town, employing about 50% of the town’s working population (Town Council, 2002).
Figure 1.2: Location of Mashonaland Central Province in Zimbabwe
Gold panning is also a major economic activity in the town. Although it is illegal, gold panning is a very important economic activity in the town. It is estimated that a total of 50,000 people are engaged in this activity.

Agriculture is the backbone of the economy of the area. Bindura being in agro-ecological region 2, has good rains and soils which are suitable for crop production. The major crops grown around Bindura are tobacco, maize, cotton and wheat. The Cotton Company of Zimbabwe (Cottco) has opened up a ginnery in the town and is another major player in the employment creation in the town.

### 1.8.2 Industrial Activities

Industrial activities in Bindura are concentrated along Trojan road. The area is a distribution point for major industries. The major industries like National Foods, Astra Paints and PG Industries have warehouses in the area. It is from this area that they distribute their products to other areas in the province. Fuel companies also distribute their commodities from this area.

The other major activities are transport and car repairs. Bindura Haulage, Zimbabwe United Passenger Company (ZUPCO) and Central Mechanical Equipment Department (CMED) are the transport companies in the area. The other industrial activities concentrate on repairs of agricultural machinery and selling of agricultural inputs. In the industrial area there is no manufacturing industry.
1.8.3 SME Activities in Bindura

SME activities in Bindura are concentrated in three areas of the town. These are Chipadze Industrial Area, the Durawall and Trojan Road Industry (Fig 1.3). Chipadze Industrial Area is located closer to Chipadze high density, which is the most populous and oldest residential area in the town. Most SMEs have been developed in this area due to the availability of land from the town council, making it the hub of SME activities in the town.

The Durawall is a major site for SME activities. It was built in the late 1980s to house SME entrepreneurs. It was built on the model of industrial shells although it has poor infrastructure. The town council built this facility after realising that informal traders in Bindura had nowhere to operate from. However, few people were initially willing to operate from the Durawall arguing that it was far away from their traditional markets, even though it has recently become a very important site for SME activities in the town.

The Trojan Road Industry is a new site for SME activities. According to the town council, this site began as an illegal industrial area with entrepreneurs operating without town council’s approval. These entrepreneurs were working on land that was not officially given to them by the council. Nevertheless, over the years it has grown as more entrepreneurs joined this area. The town council has legalised this industrial area. This study focuses on SMEs in these three industrial sites in the town of Bindura.
Fig 1.3: The Study Area (Bindura Town)
1.9 Organisation of the Study

The thesis is organised into seven chapters. Chapter One forms the introduction, where the statement of the problem is given, a justification of the study provided, objectives to the study are outlined and a conceptual framework is set.

Chapter Two gives the literature review where the global, African and Zimbabwean situation on the activities of SMEs is given. The chapter also gives an overview of the contribution of SMEs to industrial development in Sub-Saharan Africa and Zimbabwe and it seeks to examine the main theoretical explanations pertaining to the emergence of the modern small-scale production.

Chapter Three discusses the research methodology. This methodology outlines the instruments used for data collection and details the sampling procedures done in the research. A brief overview of the methods used in analysing the collected data is also given in this chapter.

Chapters Four, Five and Six present the findings of the study. Chapter Four examines the social and economic structure of SMEs in the town. It also assesses the employment characteristics of SMEs in the town.

Chapter Five examines the sources of raw materials for various SMEs in Bindura. It also explores the markets for the various SME products. It also examines the duration of operation for different SMEs.
Chapter Six analyses the growth trends of SMEs and it identifies the factors inhibiting the development of SMEs in Bindura.

Chapter Seven presents a summary of the findings. It also gives conclusions on the findings and recommendations on what is to be done to encourage the development of the SME sector in the town.
CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

In most literature on SMEs it has been noted that SMEs are widely assumed to offer significant development potential to most developing countries (Macintosh, 2003; Saeed, 2002; Pedersen, 1998; Tevera, 1998; 1995; Rasmussen, 1992; Helmsing, 1993). It has been argued that SMEs can offer a better option for most of the developing countries. Unlike their counterparts (LSEs), SMEs are more flexible and can conform to changing economic climates. SMEs are also important in developing countries because they are labour intensive and they do not need much start up capital, which is scarce in the developing countries (Sunita and Mead, 2000; Mumbengegwi, 1993; McPherson, 1991)

SMEs have played a pivotal role in the development of the manufacturing sector in South East Asia and countries such as Japan, South Korea, Taiwan, Hong Kong and Malaysia owe their industrial development to SMEs (Sunita and Mead, 2002; Looyle, 1998; Tevera, 1998; Yung and Soulier, 1989). Evidence from the highly developed economies has also shown the importance of SMEs. Countries in Europe and North America have advanced programmes to encourage the development of the SMEs in peripheral regions (Kim and Gallent, 2000; Goodman and Bamford, 1989; Trigilia, 1989). In some African countries SMEs have also contributed to the manufacturing sector (Musampa, 1999). Just as in developed countries, SMEs tend to revive manufacturing industries in peripheral regions.
It should be noted that the development of SMEs is not uniform in all the parts of the world; the examples that are to be given do not present a classical picture of what is happening in every part of the world. Helmsing (1993) argues that given the variations in the level, pattern and rate of economic development in different parts of the world SMEs tend to vary from place to place. However, this does not stop the need to look at how other parts of the world have succeeded in their SME programmes. Before looking at the examples of SME programmes in some countries it is important to examine the different explanations that have been forwarded to explain the existence of the SME sector.

2.2 The Emergence of the Modern Small-Scale Production: Theoretical Explanations

It is currently an internationally accepted and acknowledged principle that the small and medium scale business sector is an essential factor in promoting and achieving industrial growth and economic development. Many authors have postulated and articulated various explanations for the development of the sector. This section seeks to examine the main theoretical explanations pertaining to the emergence of the modern small-scale production. There are five main theories that tend to explain this development: (i) recession push, (ii) demand growth or change, (iii) technological change, (iv) flexible specialisation, and (v) liberalisation theories.
Recession Push Theory

The oil shocks of the mid-1970s and the world recession of the 1980s had much negative impacts on the economies of both the developed and the developing countries. There was dramatic negative economic growth, deteriorating employment and social conditions (Choshi, 1996; Uribe-Echevarria, 1993; Rasmussen, 1992; Dicken and Lloyd, 1990; Sabel, 1986). According to the recession push theory, large scale enterprises were harder hit than small firms during this period of economic turbulence. Small enterprises continued to operate in these conditions and many workers who lost their jobs in the LSEs formed their own small enterprises (Choshi, 1996; Kaliyati, 1994; Regnier, 1993; Rasmussen, 1992).

The recession push theory seemed to have some shortcomings, it failed to explain that not all countries were affected by the recession, e.g. Japan and Central Italy (Loveman and Sengeberger, 1991).

The recession push theory tends to be similar to the labour supply theory, which argues that the small enterprise developed in response to the unemployment and that it functioned as a last resort for people who were not absorbed by the formal sector (Pedersen, 1998). Thus the urban informal sector will grow in periods of crisis when the formal sector contracts or grows too slowly to absorb the labour force. Pedersen (1998) argues that when formal employment grows the small enterprise sector is assumed to contract again and thus develop anti-cyclically to the formal economy. Most of the literature has taken this theory to interpret the growth of the informal sector after structural adjustment programmes (SAPs) (Pedersen, 1998; 1996; Brand et al, 1995).
Although the labour supply theory seems to be credible, it tends to have a number of empirical problems: it tends to limit itself to poorest and smallest enterprises and eliminate the more "modern" and capital intensive enterprises. These enterprises tend not to "die" even if the formal sector is back on track. They continue their operations unhindered by the availability of labour on the formal market. To the entrepreneurs in the small enterprises, owning their own business would be a priority than going back to search for formal employment that let them down before.

The recession push theory seems to be the ideal theory to explain the development of small enterprises in developing countries (Pedersen, 1998; 1996; Brand et al, 1995). In countries like Zimbabwe, Kenya, Malawi and Nigeria the development of the small enterprises was explained by the economic slumps in these countries. Nevertheless the development of the small enterprise sector can be explained by different theories but the recession push seems to be the best to explain small enterprise development in developing countries.

**Liberalisation Theory**

Government policies may encourage or discourage the development of small enterprises. In most developing countries, as have been noted earlier, state policies were biased towards the development of LSEs at the expense of small enterprises. LSEs benefited from trade protection, subsidised credit, domestic monopolies, access to technology and raw materials and subsidies from the government.

The liberalisation theory showed that government policies that favoured LSEs were a hindrance to the growth and development of the small enterprises. The theory advocated for the adoption of deregulation as a policy instrument. This meant the abolition or simplification of licensing
procedures, by-laws indicating where and how enterprises can operate, and numerous trivial fees and taxes (Choshi, 1996; Buvinic, 1993; Rasmussen, 1992; Bromley, 1985). A typical example of the deregulation is the experience of the small enterprise sector after ESAP when the Zimbabwean Government liberalised the economy (Tevera, 1995; Helmsing, 1993; Mumbengegwi, 1993).

**Demand Change or Growth Theory**

After the 1970s both the developing and developed countries experienced several changes relating to markets. In the Western Hemisphere consumerisation was at its peak, markets became saturated and were rendered unstable and fragmented. As income levels increased, consumer tastes became more differentiated (Choshi, 1996). As a result demand for customised and sophisticated products, which could not be mass produced, was triggered. Most firms were forced to produce in small batches, which was seen as the task for small enterprises (Rasmussen, 1992; Storper, 1990; Albertsen, 1988; Sabel, 1986).

This theory does not explain the development of small enterprises in developing countries where income levels are still very low. It is only applicable to small enterprises in developed economies.

**Technological Change Theory**

The thrust of this theory is that the advent and diffusion of technologies, based on micro-electronics, is seen to lower capital costs and a shrinkage of the efficiency gap between long and short runs of production, thereby enhancing the competitiveness of small enterprise production. (Choshi, 1996; Rasmussen, 1992; Loveman and Sengenberger, 1991; Uribe-Echevarria, 1991). Rasmussen (1992) argues that the demand and technological change theories seem to be weak, as they tend to develop
into some degree of market and technological determinism, where the empirical reality is deduced from the structural changes. This has led to these theories being superseded with other theories, in particular, the flexible specialisation theory.

**Flexible Specialisation Theory**

This theory tends to be in agreement with both the demand and technological theories. It stresses that there has been a collapse of uniform and stable mass markets and that there has been the introduction of new micro-electronic technologies in the production system. Flexible specialisation, which is a concept pioneered by Piore and Sabel (1984), refers to the manufacture of a wide range of products using flexible, general purpose machinery and skilled adaptable workers (Helmsing, 1993; Grotz and Braun, 1993; Dicken and Llyod, 1990; Oberhauser, 1990; Albertsen, 1988; Sabel, 1986; Sabel and Zeitlin, 1985).

Flexible specialisation theory differs from the demand and technological theories. The latter theories represent the concepts of mass production and flexible specialisation as empirical ideal types, which can be observed in pure or intermediate forms, whereas, in the former theory, they are represented as abstract concepts (Choshi, 1996; Loverman and Sengeberger, 1991). This difference is supported by Morris (1988), who argues that flexible response occurred independently of technological change. Small enterprises will take advantage of specialised production and related services because of the small batches and individual requirements (Choshi, 1996; Fafchamps, 1994; Rasmussen, 1992; Loverman and Sengeberger, 1991).
The above three theories i.e. demand change, technological change and flexible specialisation seem to be applicable to developed countries. The demand change was mostly triggered by change in markets after the 1970s and consumerisation, which was characterised by increase in incomes. This is only applicable in Western Europe and Northern America in the 1970s; most developing countries have not yet reached the stage of consumerisation and increased incomes. Brand et al, 1995; Choshi, 1996; Albertsen, 1988; Sabel, 1986). The technological and flexible specialisation theories also seem to be limited to explain small enterprise development in developed countries. The two theories show that for small enterprises to develop there should be skilled labour and high use of technology in the sector. This is applicable to small enterprises in countries in western Europe and the newly industrialised economies of Asia. In the developing world there is limited access to technology and skills, thus these theories are only limited to developed economies (Pedersen, 1998; 1996; Brand et al, 1995).

The above five theories capture the key issues that set the scene for the resurgence of scholarly and policy interest in small enterprise production in the last two decades. It should be noted that these theories are not universally applicable, e.g. the demand change theory cannot be applicable to developing countries. It better suits the developed economies where incomes are high. It can also be argued that some of these theories tend to work simultaneously.

2.3 An Overview of the Importance of SMEs in the World Economy

Havenga (2001) argues that the natural home of the business entrepreneur is the SME sector, which in recent times assumed a position of universal orthodoxy. SMEs feature as a dominant force in all the successful economies of the world. The impressive industrial performance of some Asian
countries i.e. Taiwan, Singapore, Hong Kong, Korea, Japan and Western countries has focussed the attention of policy makers and academic analysts on the prominent role played by SMEs in industrial development (Havenga, 2001; Radaev, 2001; Wiboonchutikula, 2001).

Data from various countries across the world show that SMEs are a dominant force in the industrial and economic development of most economies. In Japan out of a national total of 6.53 million private companies in 1994 SMEs accounted for nearly 6.47 million or 99% and of the 54.16 million people employed nation-wide, 41.42 million or 76.5% were employed by SMEs (Ministry of International Trade and Industry (Japan) 2000; Altbach, 1998).

Just like in Asia, SMEs have also played a pivotal role in the industrial development of most European states. In Turkey SMEs are predominant in the manufacturing sector. They account for 99.5% of overall manufacturing industry and 61.4% of total employees (Sogut, 1997). As in all European Union (EU) member states, the importance of SMEs for the Austrian economy is overwhelming. SMEs account for 99.8% of all enterprises in Austria (Grossruck, 2000). In 1993 of the 195 000 private enterprises, 500 were large scale while more than 194 500 were SMEs with more than 75% of all those employed. In the manufacturing sector SMEs have a share of 97.5% of all enterprises. Large-scale enterprises (LSEs) account for 2.5% of the entire manufacturing sector (Grossruck, 2000; Sogut, 1997).

SMEs have also played an important role in the industrial development of economies in transition. Economies in transition in this study will be defined as those economies that were once state controlled (former socialist) and have now opened their economies to international competition i.e.
Russia, Vietnam, North Korea and China. SMEs have been very instrumental in industrial
development of most countries in transition. Sakai and Takada (2000) argue that since the inception
of the *doi moi* (open door) policy at the sixth Congress of the Communist Party there has been an
influx of individual business in Vietnam. As a socialist country, Vietnam had made state owned
enterprises the mainstay of its industrial system.

Nhieam, Naem and Nguyean (2000) argue that since Vietnam is a developing country, SMEs play
an important role because they create jobs and change the structure of industry in the country.
Vietnamese SMEs account for 90% of economic concerns, 25% Gross Domestic Product (GDP) and
31% of industrial output. According to the Institute of Economic Management, 90% of local
companies and 34% of foreign invested companies in Vietnam are SMEs (Nhieam *et al*, 2000; and
Sakai and Takada, 2000).

In Poland and Russia SMEs have emerged as an important force in economic and industrial growth
(Radaev, 2001; Surdej, 2000). The good performance of the Polish economy in the 1990s is chiefly
due to the quality and quantity of the SME sector. In 1997 SMEs in Poland accounted for 62% of
the employment sector compared to 72% average of the EU countries.

The examples above show that SMEs have been very instrumental in the industrial development of
most countries both in developing and developed economies, capitalist and transitional economies.
The section below will now explore further the importance of SMEs in industrial development of
different countries ranging from Asia, Africa and Europe. The section will examine the importance
of SMEs in the manufacturing sector by region. From each region two countries will be used as case
studies. It should be noted that the countries that are to be used as case studies are not representative of their respective regions. They have been chosen because of the availability of literature on activities of SMEs in the manufacturing sector in the countries.

2.4 SMEs in Asia

As in most parts of the world SMEs have contributed to the economic development of Asian countries. Duff, Smith and Kemp (2000) argue that the SME sector has been the engine for growth in most if not all the economies of Asia. From the highly industrialised countries (Japan, South Korea, Taiwan and Singapore) to the lowly industrialised countries (Nepal, Laos and Indonesia), SMEs play a pivotal role in the manufacturing sector of the various countries.

Duff et al (2000) point out that generally SMEs account for over 85% of the total number of manufacturing establishments in Asia and make a significant contribution to its economic development, in addition to income and employment generation. In Indonesia, 88% of the total enterprises are SMEs and account for 32% of employment in the manufacturing sector.

SMEs are being promoted in developing countries like Indonesia, Philippines and Korea as they provide a seed bed for economic growth, stimulate indigenous entrepreneurship and lead to development in rural and semi-urban areas. Asian SMEs are more often owned and managed by family members, adopt a simple management structure and few administrative activities, do not undertake high-risk jobs, and are usually involved in the subcontracting market.
There is a widespread acceptance that SMEs play a significant role in the economic development of their respective countries (Duff et al., 2000). The most important contribution lies in the area of providing employment opportunities to the general population. In China, Chinese Taipei, Japan and Thailand, SMEs contribute over 70% of the employment. SMEs play also a strong role in upgrading indigenous enterprises, and contribute significantly to their countries’ economies and to the share of exports (Hammer and del Rosario, 1997).

Table 2.1: The role of SMEs in selected Asian Economies

<table>
<thead>
<tr>
<th>Economy</th>
<th>Number of SMEs in the Economy (%)</th>
<th>Employment in SMEs (%)</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>99.9</td>
<td>84.3</td>
<td>1998</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>98.2</td>
<td>60.7</td>
<td>1995</td>
</tr>
<tr>
<td>Indonesia</td>
<td>97.0</td>
<td>42.0</td>
<td>1993</td>
</tr>
<tr>
<td>Japan</td>
<td>99.1</td>
<td>79.0</td>
<td>1991</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>99.1</td>
<td>74.4</td>
<td>1997</td>
</tr>
<tr>
<td>Malaysia</td>
<td>96.0</td>
<td>40.0</td>
<td>1993</td>
</tr>
<tr>
<td>The Philippines</td>
<td>98.7</td>
<td>50.0</td>
<td>1998</td>
</tr>
<tr>
<td>Singapore</td>
<td>91.4</td>
<td>44.0</td>
<td>1991</td>
</tr>
<tr>
<td>Taiwan</td>
<td>96.4</td>
<td>69.9</td>
<td>1994</td>
</tr>
</tbody>
</table>

Source: (Duff, Smith and Kemp 2000).

Table 2.1 shows the role of SMEs in the economy of selected Asian economies. SMEs account for over 90% of the enterprises in the economies. Table 2.1 also shows that SMEs provide a large share of employment in the countries accounting for over 50% of total employment in most countries with the exception of Indonesia, Malaysia and Singapore (Hammer and del Rosario, 1997). Two countries from Asia will be studied so as to give detail on the activities of SMEs in Asia, these are Philippines and the Republic of Korea.
2.4.1 The Philippines

In the Philippines, SMEs comprise 99% of the total manufacturing establishments, contribute 50% in employment generation and 28.1% of the value-added in production (Duff et al, 2000). However, most of these SMEs are concentrated in the National Capital region and its nearby provinces namely Southern Tagalog Region and Central Luzon.

Recognising that small and medium scale enterprises have the potential for more employment generation and economic growth and therefore can help provide a self-sufficient industrial foundation for the country, the government has made it a policy to promote and strengthen the SMEs throughout the country. To this end, the government will undertake policies and programmes to spur the growth and development of SMEs throughout the country to attain countryside/rural industrialisation and in the long run achieve its vision of economic growth and industrialisation.

In the Philippines the SME sector is promoted and developed by the Bureau of Small and Medium Business Development (BSMBD) of the Department of Trade and Industry (DTI). According to BSMD data of 1994, the business establishments operating in the Philippines, both in the manufacturing and service sector, sum up to 228,786. The majority of the enterprises are micro enterprises with a total number of 207,158, followed by small enterprises with 19,261. The remaining balance belongs to the medium and large size categories with 1,165 and 1,202 enterprises respectively.

It is evident from the description given above that SMEs play a pivotal role in the development of the industrial sector in the Philippines.
2.4.2 SMEs in the Republic of Korea

In Korea an SME is defined as a company that employs less than 300 persons and whose asset base amount to less than 63.6 million euros. The total number of SMEs in Korea exceed 2.67 million, representing 99.1% of Korean businesses, and employ 8.2 million people, 74% of the national labour force (Small and Medium Business Administration Korea (SMBA), 1998).

There are more than 91,000 small and medium manufacturing enterprises in Korea which employ from 5 to 300 persons each. They represent 99.1% of all manufacturing companies. With a total of 1.9 million employees, they account for 69.3% of all manufacturing sector employees. The value of their production and their value-added activities amount to 177 billion Euro and 74.2 billion Euro, respectively, or 46.3% and 46.5% of the nation's totals in these areas (SMBA, 1998).

SMEs play a pivotal role in the manufacturing sector in Korea. Of special note, the most dominant companies among small and medium manufacturing enterprises are those, which employ from 5 to 49 persons each. These businesses represent 91.56% of all small and medium manufacturing companies. They also represent 58.7%, 42.9%, and 43.2%, respectively, of the employees, production and value-added activities.

SMEs engaged in seven manufacturing sectors - machinery and equipment, fabricated metal products, textiles, apparel and wool products, food and beverages, and rubber and plastic goods - representing 55.7% of all manufacturing firms in Korea. They are responsible for 42.8% of Korea's total exports. Table 2.2 shows that of the total SME exports, electronic and electric products account
for 27.1%, textiles 23.5%, machinery and transportation equipment 17.0%, plastic, rubber and leather goods 6.5%, iron, steel and metal products 6.6%, and others 19.3% (Duff et al, 2000).

Table 2.2: Exports of Korean SMEs

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution to SME export (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics and electric products</td>
<td>27.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>23.5</td>
</tr>
<tr>
<td>Machinery and transportation equipment</td>
<td>17.0</td>
</tr>
<tr>
<td>Plastic, rubber and leather goods</td>
<td>6.5</td>
</tr>
<tr>
<td>Iron, steel and metal products</td>
<td>6.6</td>
</tr>
<tr>
<td>Others</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Source: (Duff et al, 2000)

2.5 SMEs: Their Role in African Industrial Development.

The private sector has become the central focus for economic and industrial development in African countries. Two factors account for much of this new emphasis: the failure of the public sector – led economic and industrial development and globalisation (Kennedy and Hobohm, 2001). Until the 1970s, industrial development was strongly oriented towards government control of the development process. Many governments not only decided which industries would be created and financed, but who owned and operated the industries, exercising not only corporate governance responsibility but also operational and managerial responsibility.

Havenga (2001) argues that after the success of the private sector in some East Asian and West European countries, African governments have abandoned the centrally controlled policies to opt for free enterprises. Because of this SMEs, which are the backbone of the private sector, have been
widely recognised at all levels of development and make a significant contribution to economic development in general and in industrial development in particular (Kennedy and Hobohm, 2000 and Havenga, 2001). Most African governments have since recognised SMEs as the engine for both industrial and economic development. SMEs make up about 90% of Africa's enterprises (Havenga, 2001; Kennedy and Hobohm, 2001; Timmings, 1999).

Although SMEs have not been accredited as important components in the development of Africa, they have contributed much to many economies. Most literature on SMEs has proposed the need to create conducive environments that enable these enterprises to contribute to industrial and economic development (Tevera, 1998; Leys, 1992; Liedholm, 1990; Riddell, 1990). According to economists and researchers, the small-scale enterprise sector plays a crucial role in the industrial and economic development of developing countries. It is widely accepted that they perform a crucial role in the economy as they fill the economic niches left vacant by large enterprises (Pedersen, 1998; ILO, 1985; Helmsing, 1986, 1987). SMEs also tend to be located in small urban centres where LSEs can not operate from, thus they play a role in regional development. A number of donor agencies and developmental analysts are arguing that SMEs development should be a priority in the developmental policies in Africa (Briggs and Yeboah, 2001; Helmsing, 1993; Kilby, 1965).

Despite all these positive prospects about SME development in Africa, this sector has not been recognised. This is because most governments in Africa think that LSEs are the faster road to industrialisation. However, they forget that given the limited capital and massive unemployment in their economies SMEs can offer a better option since they are labour intensive and use limited capital resources (Grotz and Braun, 2000; Musampa, 1999). In some countries government policies
discriminate against SMEs as is the case in Tanzania where tax, regulatory and financial access constraints decrease as one moves up the hierarchy from small to large enterprises (Bagachwa, 1989). Helmsing and Kolstee (1993) argue that SMEs have not been high on the development agenda of many African governments.

As will be noted in the following sections, most African governments have realised that SMEs are a crucial part in the development of their economies. It should be noted that there is need to develop laid down procedures to enhance the development of SMEs. African governments should meet and discuss the way forward for SME development.

2.5.1 SMEs in the manufacturing sector in Zimbabwe

Zimbabwean manufacturing sector is regarded as one of the most advanced and highly diversified in Sub-Saharan Africa (SSA). The sector produced over 7000 separate industrial products with 50% of all manufacturing in the formal sector taking place in Harare and half of the remainder taking place in Bulawayo (Ministry of Industry and Trade, 1999; Mumbengegwi, 1993). Manufacturing industry in Zimbabwe has been restricted to major urban centres e.g. Harare, Bulawayo, Gweru and Kwekwe (Ministry of Industry and Trade, 1999; Ministry of Industry and Trade, 1998 and Mumbengegwi 1993). The manufacturing sector contributes about 17% to the Gross Domestic Product (GDP) and it employs 15% of the labour force (Ministry of Industry and Trade, 1998). These figures apply to the formal manufacturing sector. The Ministry of Industry and Trade (1999) argues that although figures from the informal sector are not reflected, SMEs contribute much to the manufacturing sector.
Mumbengegwi (1993) notes that SMEs contribute much to the manufacturing sector in small urban centres, their products are sold to the local market and they use local raw materials. In small urban centres the activities of formal industries are non existent or limited, thus much of the manufacturing activities occur in the informal sector which is dominated by SMEs.

SMEs in Zimbabwe are highly diverse and they operate in various market conditions. They vary in scale and operations. Bango (1990) argues that SMEs employ varied means of production ranging from quasi-cottage systems to automated assembly line systems. SMEs engage in different manufacturing activities, these include carpentry, textiles, tinsmithing, basketry, shoemaking, panel beating, drinks and brick moulding (Ministry of Industry and Trade, 1999; Ministry of Industry and Trade, 1998; Bango, 1990; Chiwera, 1990). The range includes growing profit-making enterprises as well as poorly managed establishments lacking the financial and managerial resources (Tevera, 1998).

McPherson (1991) estimates that 70% of SMEs in Zimbabwe are in manufacturing, 23% in trading and 7% in service sectors. Helm sing (1993) and McPherson (1991) both agree that linkages exist between SMEs and LSEs in the manufacturing sector. Helm sing (1993) argues that weak linkages exist between SMEs in manufacturing and LSEs in the same sector since the latter uses inputs generated by nature. McPherson (1991) observed that strong linkages exist between the two, since SMEs buy some inputs from LSEs and LSEs sometimes hire labour from the SMEs.

Sunita and Mead (2002) show that SME manufacturing is growing in Zimbabwe, 700 000 school leavers enter the labour market each year competing for at most 40 000 formal jobs. Those who are
not employed in the formal sector eventually join the informal sector. Approximately 4 million people are in informal employment and this shows the importance of SMEs in the economy of Zimbabwe (Sunita and Mead 2002).

Many studies have been conducted on small-scale enterprises in the country (Matshalaga, 1998; Tevera, 1994; 1998; Helmsing, 1986; 1987; Rasmussen, 1985). According to Rasmussen (1992) SMEs in Zimbabwe are handicapped because they compete against established large-scale enterprises that enjoy all the benefits of a protected sector. The studies on SMEs have produced interesting results, but they have been confined to large and intermediate urban centres, they have not been able to capture the situation in the small urban centres and rural areas (Matshalaga, 1998).

2.5.2 SME Sector in Zimbabwe

Unlike in other African economies the Zimbabwe SME sector is dominated by manufacturing. In most African economies it has been noted that retail sector dominates the other sectors. Fig 2.1 shows the different sectors in SMEs found in most African economies (Rasmussen; 1992). In studies carried out in Nigeria, Ghana and Tanzania (Helmsing et al 1993; Osei et al, 1993) SMEs tend to dominate the retail and services sectors.
Fig 2.1 Sectoral Distribution of SMEs in some African Economies (Nigeria, Ghana and Tanzania)

Source: (Rasmussen, 1992)

In Zimbabwe studies on SMEs carried out in most towns, the manufacturing sector is the dominant sector in the activities carried out by SMEs (Helmsing, 1993; McPherson, 1991). Rasmussen (1992) argues that of the 845,000 SMEs studied in Zimbabwe 69% were in the manufacturing sector, 23% (retail), 4% (construction) and 4 % (other).

2.5.3 Government Policy on SME development in Zimbabwe

During the first 10 years following independence in 1980, the policy environment confronting the SME sector was highly restrictive. Although the government attempted to address some of the institutional concerns through the establishment of the Small Enterprise Development Corporation (SEDCO), Venture Capital Company of Zimbabwe (VCCZ) and the Credit Guarantee Company of Zimbabwe (CGCZ), most of these efforts did not address the basic constraints facing the sector.
It is important to note that with the advent of the structural adjustment programme in 1991, there has been a significant change in the government's attitude towards the private sector. Government has promoted SMEs for at least three reasons:

(i) as a means to create more employment and income earning opportunities for the poor and thereby help contribute to a redistribution of income;

(ii) in order to achieve economic independence by engaging local entrepreneurs in industrialisation and;

(iii) in order to promote economic and industrial development of rural areas and small towns.

Matshalaga (1998) argues that when government launched the Economic Structural Adjustment Programme (ESAP) in 1991 it introduced policies that were meant to increase investment in the country. It nevertheless placed more emphasis on the promotion of the SME sector. Government's support for the SME sector has been seen in various policy documents i.e. the Second Five Year National Development Plan (1991 – 1995) and the Framework for Economic Reform (1991 – 1995). It placed more emphasis on the promotion of the SME sector. The major policy statement of ESAP was to improve the status of SMEs as it clearly states that, “...the informal and the small to medium scale formal business sectors of the economy together have the potential to make a major contribution to wealth and to employment creation” (GOZ, A Framework for Economic Reform 1991-1995)

The Economic Reform policy document explicitly recognises SMEs and the removal of barriers to development as a lay product and stimulus to improve economic efficiency. ESAP like most Structural Adjustment Programmes (SAPs) had four main packages:
(i) economic deregulation;
(ii) trade liberalisation;
(iii) macro-economic policies, and
(iv) social dimensions.

The first three policies affected the development of SMEs positively and negatively. These will be explored in detail below.

**Domestic deregulation and SME development**

Mumbengegwi (1993) argues that a shift away from government regulation of the economy to a market oriented policy regime created an "enabling environment" for SME development. Removal of government controls improved the business environment, enabling entrepreneurs to respond quickly to market opportunities and to promote competition that improved efficiency and productivity gains. The key areas of domestic regulation are:

(i) relaxation of investment approval,
(ii) relaxation of labour market regulations relating to hiring and firing,
(iii) free-up of prices,
(iv) replacement of minimum wage legislation by collective bargaining process with no parameters being set by government, and
(v) review of restrictive local government by laws on SMEs.

Deregulation of the economic environment increased the SME sector via two processes: (i) productivity gains and (ii) lateral expansion. The first four measures of deregulation improved the
efficiency of the operations of existing SMEs than creating new enterprises. The effect of the last measure is more likely to promote new enterprises especially of the informal-sector type.

The government reviewed Local Authority regulations, licensing systems and by-laws that hinder the development of SMEs. The government was to relax cumbersome licensing systems and legislation to promote SME development in rural areas and small towns.

**Trade Liberalisation and SME development**

Tariff barriers imposed a lot of problems for both LSEs and SMEs development. Foreign exchange allocation and important licensing regulations were the key instruments used to effect important substitution. The removal of these Tariff barriers and introduction of instruments to protect domestic industries led to the development of SMEs.

However, it should be noted that in respect of outputs, SMEs competed vigorously with imports. Despite liberalisation the SME sector continues to face barriers to entry, forced by oligopolistic behaviour and by the fact that LSEs enjoy economies of scale.

**Macro - Economic Policies and SMEs**

Macro-economic policies include fiscal and monetary policies, they involve:

(i) cutting government spending to reduce the budget deficit;

(ii) removal of subsidies to parastatals;

(iii) implementation of cost recovery measures for government-provided social services especially in health and education; and
(iv) monetary policy in the past was administrative, but was to become more market driven, in particular, interest rates were to be determined by supply and demand for money so that real interest rates were to be positive.

Although the above measures were supposed to benefit the SME sector it was realised that some actually worked against SME development. These measures reduced domestic demand as most people were retrenched from the government. Domestic income was eroded by the retrenchments and this imposed a demand side constraint on the development of SMEs. The fall in real incomes decreased the demand for SME products.

The government established many institutions to help with financial and institutional support to the SMEs i.e. the Zimbabwe Development Bank (ZDB), VCCZ, CGCZ and SEDCO to offer financial services to SMEs (Matshalaga, 1998). In the 1992/3 fiscal year, as part of the social dimension of ESAP, government provided Z$100m in addition to the SDF which is disbursed through commercial banks, SEDCO and finance houses (Masuko, 1998).

Masuko (1998) argues that various SMEs institutional support and co-ordination arrangements emerged in the late 1980s and early 1990s as part of the indigenisation lobby. By 1989, a group of black entrepreneurs or business pressure groups evolved. The pressure groups formalised themselves to form the Indigenous Business Development Centre (IBDC), Indigenous Business Women’s Organisation (IBWO), Women in Business (WIB), Rural Traders Association (RTA) and the Zimbabwe Women Finance Trust (ZWFT). Older business lobbying organisations such as the Confederation of Zimbabwe Industries (CZI), Employment Confederation of Zimbabwe (EMCOZ)
have established SMEs special programmes after 1990. The CZI launched the Small Enterprise Promotion Unit (SEPU) to help SMEs realise their dream. The Zimbabwe National Chamber of Commerce (ZNCC) also launched the Small Business Support Unit (SBSU) to give financial and institutional support to SMEs.

Although a number of institutions have been set up to assist SMEs, the criteria used for the selection of beneficiaries, such as collateral security, leaves out a lot of deserving cases (ILO, 1985). The beneficiaries are also supposed to draft out project proposals and this leaves out the illiterate entrepreneurs. The mere location of the financial institutions in the major cities with no branches in small urban centres shows that the institutions do not serve the interests of SMEs in small urban centres (Matshalaga, 1998).

Despite setbacks, SMEs in developing countries are set to do much in the development of the ailing economies. Zimbabwe in particular, which is faced by one of its worst economic problems, should promote SMEs to move from the economic quagmire.
CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines various methods employed to collect and analyse primary and secondary data, which constitute the methodological framework of the study. The chapter further explains and justifies why the research methods were selected ahead of others.

3.2 Data Sources

A wide range of primary and secondary data sources were used in the study. Since the study was aimed at achieving two broad goals, which are: (a) to examine the manufacturing activities of SMEs (b) to identify ways of incorporating the SME sector into the mainstream economy, data collection was done using various sources i.e. primary and secondary data sources.

There has been growing concern among geographers on the use of at least two research methods in obtaining geographical data. Social scientists have appreciated the limitations of using one method in undertaking a research. Bulmer (1983:275) postulated that:

"The human reality must be apprehended by a variety of viewpoints not by one alone because this very reality is always in part an image, and only by encouraging different perspectives and approaches can one obtain the needed richness of imagery and theory".

This research was undertaken using three main research methods, namely questionnaire interviews, observation and focus group discussions (FGDs). The use of these methods would enable the
collection of quality data and various viewpoints, which could make the research more credible and closer to reality.

3.3 Pilot study

A pilot study was carried out in Bindura town between 15 and 18 August 2003. Ten questionnaires were administered among SMEs in the town. Four were administered in Chipadze Industrial Area, three in the Durawall and three in the Trojan Road Industry. The pilot study allowed the major research instruments (questionnaires and interview guides) to be tested in the field. It also gave an opportunity for research assistants to be trained in conditions similar to those that they were to encounter in the actual survey. After the pilot study a number of changes were made to the questionnaire.

3.4 Primary Data Sources

3.4.1 Sampling Procedure

Sample surveys were carried out in the sample sites in Bindura Town, these are the Chipadze Industrial Area, the Durawall and Trojan Road Industry. In a reconnaissance study carried out between 15 and 18 August 2003 all the SMEs involved in manufacturing activities were identified and these constituted the sampling frame. According to the Bindura Town Council there are about 102 SMEs that were engaged in manufacturing activities in the town. This was also confirmed in a reconnaissance study that was carried out in the town, these represented the sampling frame. This study interviewed SMEs that were only involved in manufacturing activities. SMEs were used in this study as the units of data collection and analysis. It was not possible to involve all the 102 SMEs in the town because of the lack of human and financial resources.
3.4.2 Sample Size

The following formula for determining the sample size was used:

(a) Calculating sample size for a population of less than 10 000

\[
    n^* = \frac{n}{1 + \left( \frac{n}{N} \right)}
\]

where:
- \(n^*\) = necessary sample size
- \(n\) = desired sample size when population is less than 10000
- \(N\) = estimated population size
- \(n/N\) = the sampling fraction.

Source (Mutambirwa, 2002).

Using this statistical formula a total of 75 SME units out of the 102 were selected for the study, from the various points in the town. This sample size represented approximately 74% of SMEs in Chipadze Industrial Area, the Durawall and Trojan Road Industry. This was done so that there could be uniformity in the samples in the areas, and this could be easy for comparing the data from the three study areas. The Chipadze Industrial Area had a total of 41 enterprises involved in manufacturing and 30 were selected for the study. In the Durawall area, 25 out 34 of the SMEs were selected and in Trojan Road Industry a total of 20 out of 27 SMEs involved in the manufacturing industry were selected for the survey. The sample of 74% of the total SME units produced results that were fairly representative of the SME activities in Bindura. This size of sample was also considered adequate because as Payne (1983) argues, a survey that involves 5-10 percent of the population is fairly representative of the whole especially where the total from which sampling is being done is less than 10 000.
3.4.3 Sampling Method: Simple Random Sampling

The researcher developed a list of SMEs that are involved in manufacturing activities operating in each of the sample sites. In each of the sample sites each SME was allocated a number and then using a random number table, 75 SMEs were chosen. It should be noted that the process was done in each site separately. This ensured that there was no bias in choosing the SMEs for the survey, each SME had an equal opportunity of being chosen for the survey.

3.4.4 Questionnaire Interviews

The questionnaire (see Appendix 1) was the chief tool of gathering field data. A total of 75 questionnaires were administered in the study area, 30 in Chipadze Industrial Area, 25 in the Durawall and 20 in Trojan Road Industrial Area. The questionnaire sought to capture information on different manufacturing activities in Bindura, sources of raw materials, markets for these SMEs and identifying the major constraints inhibiting the SMEs from contributing to the manufacturing sector.

The questionnaire comprised both open ended and closed questions. This was done to allow flexibility from respondents. It was felt that if a closed questionnaire were to be used in the collection of data it would limit the responses from the respondents. Thus the open-ended questions would open a new avenue that might have been over looked by the researcher.

The questionnaires were administered over a period of two weeks in October 2003. The face-to-face interview method was used to administer questionnaires. Four research assistants who were fluent in Shona and English helped the researcher to conduct the interviews. The face-to-face interview method was used because it yields a high return rate unlike other methods such as the postal and telephone survey (Frankfort-Nachmias and Nachmias, 1996). Also, the method was employed because it allows the interviewee to use probes thereby improving the quality of responses.
In this study, an entrepreneur is defined as the owner of the enterprise. S/he is the one who pays rates if any to the town council. The questionnaires were administered to the owners of the enterprises. In the event of the absence of the owner the researcher had to come back at another time. For this research, owners of the enterprises completed all the questionnaires.

For each target population, standard questionnaires were administered to ensure that all respondents were asked exactly the same set of questions in the same sequence thereby making it possible to quantify and compare responses. The Statistical Package for the Social Sciences (SPSS) software package was used to process and analyse questionnaire data. Responses were numerically coded and inputted into an SPSS data editor. Several data analysis functions were used to generate frequency tables, cross-tabulations and other descriptive statistics showing the most popular responses.

The questionnaire was used to elicit information on the following: -

i) information on profiles of the SMEs;

ii) length of SMEs in operation;

iii) source of funds for the SMEs;

iv) source of raw materials;

v) whether they use foreign currency;

vi) where they draw their market;

vii) how the local and central government is assisting the operations of SMEs;

viii) what they would like to be done to improve their operations; and

ix) the number of people employed in the SMEs.
3.4.5 Interviews

Interview schedules were developed for key informants from the major parties involved in the provision of institutional services and economic policy development for SMEs in the town. The parties that were interviewed include:

- representatives of government funded organisations i.e. Small Enterprises Development Corporation (SEDCO) and
- key informants from the local authority in Bindura (Bindura Town Council).

SEDCO was chosen to participate in this research because they have an office in Bindura and they are involved in programmes that assist in the development of SMEs in the country. At SEDCO the interview was conducted with the regional officer responsible for enterprise development in Bindura (see Appendix 4).

Authorities from the Bindura town council were also interviewed. The key informants from the town council were the Chief Secretary, the Town Engineer and the Town Clerk. These were chosen because of their involvement in issues regarding the welfare of SMEs. The local authorities of Bindura town were interviewed because they have done a number of projects aimed at assisting the SME sector. In the council the Town Clerk was the chief interviewee because his office is directly responsible for activities of SMEs in the town (see Appendix 3). The interviews were carried out because they assisted in the identification and development of policy issues.
3.4.6 Focus Group Discussions (FGDs)

A focus group discussion is a group interview where a small number of people are brought together as a resource group to discuss specific questions about a topic. Focus Group Discussions (FGDs) are a vital source of social data, they are a means to obtain qualitative data in an interactive context. Although geographers have advocated for quantitative data analysis, it has been acknowledged that qualitative methods can be of value in Geography (McDowell, 1988). Thus geographers have come to realise that qualitative methods can reveal the social processes and power relations that lie beneath geographical patterns (McDowell, 1988). Goss (1990:115) refers to FGDs as

“...a tool for alternative research because they are social events, involve reflexive and liminal experiences, and are potentially empowering for participants. Focus group research involves organised discussion with a selected group of individuals to gain information about their views and experiences”.

Powell. (1996: 499) define a focus group as

“A group of individuals selected and assembled by researchers to discuss and comment on, from personal experience, the topic that is the subject of the research”.

The focus group discussions were essentially qualitative data gathering sessions where the interviewer directed the interaction and inquiry on the activities of SMEs in the town, using a structured discussion guide (Appendix 2). A tape recorder was used to record the proceedings of the focus group discussions and the information on the tapes was later transcribed for inclusion in the data analysis. Three focus group discussions were conducted, one in Chipadze Industrial Area, one in the Durawall and one in the Trojan Road Industry. Each focus group discussion lasted 90 minutes.
3.4.6.1 Selection of participants to the FGDs

The selection of the participants to the focus group discussions was stratified such that different manufactures were represented. In each of the study areas one FGD was selected. The participants were randomly selected from the list of entrepreneurs in each area. Each group comprised men and women, the rationale being that any gender issues that may exist in urban SMEs could be included in the study. Each focus group discussion lasted 90-120 minutes.

In Chipadze Industrial Area the focus group discussion was conducted with 15 entrepreneurs who represented 50% of the sampled entrepreneurs in the area. Of these fifteen, 5 were female and 10 were male. In the Durawall 12 entrepreneurs took part in the FGD, 3 females and 9 males. In the Trojan Road Industry 10 entrepreneurs participated in the discussion, 3 females and 7 males.

The focus group discussions enabled the researcher to find underlying explanations to some issues and trends identified during questionnaire administration. The FGDs were carried out after questionnaire administration was completed in the study area. FGDs provided a qualitative dimension to the quantitative data obtained from the questionnaire survey.

The following topics were discussed:

i) The operational limitations of the entrepreneurs;

ii) An analysis of various manufacturing activities that are found in the area;

iii) A clarification of the social and economic impacts of the SMEs in the area;

iv) Sources of external support for the entrepreneurs; and

v) How best can the SMEs be integrated in the main stream economy?
3.5 Timing of the research

The research was carried out during the period spanning from 21st-30th of October 2003. The timing of the research was also important because at the end of the year the entrepreneurs were able to give figures on their earnings, number of items and their customers over the year.

3.6 Secondary Data Sources

Secondary sources of data were used to supplement data from the survey. Data from the Ministry of Small and Medium Enterprise Development (MSMED) was used to examine the trends in the development of SMEs in the country.

The council provided information on how the local government was helping in the development of the SME sector in the area. The council provided data on the number of SMEs in the area, because it collects some form of tax from the entrepreneurs. SEDCO office in Bindura, assisted with a lot of information on how they were assisting the development of SMEs in the town.

Books, newspaper articles, journals and magazines were also consulted. Secondary data was also obtained from CZI, Ministry of Industry and International Trade, and other organisations.

For an international perspective on the development of the SME sector in other countries data was obtained from various websites on the internet which include those of the United Nations Industrial Development Organization (UNIDO), European Union (EU), Association of South East Asian Nations (ASEAN), Asia Pacific Economic Co-operation (APEC) and various other organisations. These websites predominantly discuss the development of SMEs in various corners of the world. It
is important to note how SMEs are developing in other parts of the world. This provided an insight to future researchers on how other countries are developing their SME sectors.

### 3.7 Data Analysis

After collecting data from the field, responses from the entrepreneur questionnaires were numerically coded and inputted into the SPSS and Microsoft Excel software packages for computer aided analysis. Data from focus group discussions was transcribed from the tape recordings of the sessions and classified according to the order of questions on the focus group discussion schedule and the most frequent views and opinions were noted. Data from interviews with key informants was also classified according to the order of the questions on the interview schedule and important quotes from interviewees were noted for direct citation in data analysis. Data collected from field observations was recorded separately and used in the analysis where it was applicable.

Analysis of variance (ANOVA) was used to test the hypothesis formulated and determine goodness of fit of regression models computed in the study. Simple regression was used to quantify and establish the nature of the relationships between various variables in the research i.e. duration of operation, earnings and number of employees.

### 3.8 Limitations of the study.

Most of the entrepreneurs in Bindura were not forthcoming on information relating to the production in their enterprises. Information on earnings was given as estimates, the entrepreneurs were not willing to divulge such information. The failure by the entrepreneurs to give this information might
be because of unavailability of the information since most of the entrepreneurs in SMEs do not keep records. Only one entrepreneur out of the seventy five that were surveyed allowed the researcher access to records on his sales over the years.

The political environment in Bindura was also a great limitation in the study. There was polarisation in the town that the researcher had to be careful in the questions asked. In discussions relating to the part played by government in assisting SMEs, entrepreneurs became very vocal when anyone criticised the way government is letting down SMEs. When one entrepreneur in a focus group discussion argued that government was virtually doing nothing to assist them, another one said,

“*Iwe unoti government haina zvairi kuita sei? Unoita nezvei? Ndimi muri kuda kutengesa nyika muchingoshora hurumende.*” (How can you say the government is doing nothing? What are you up to? Its people like you who are saboteurs and always criticise government).

Such comments showed that the political environment in the town was very polarised. This limited the response from other entrepreneurs since they were not free to discuss any points that had anything to do with government.
4.1 Introduction

In a survey that was carried out in Bindura town, it was discovered that there were no manufacturing activities in large scale enterprises. Manufacturing industry was only found in small and medium scale enterprises. The mining sector is the major industrial activity in the town, the major mines being Trojan Nickel Mine and Ashanti Goldfields. The Cotton Company of Zimbabwe (Cottco) is the other major industrial activity that offers employment to many people in the town.

4.2 Social and Economic Characteristics of the SME Entrepreneurs

It is vital to assess the social and economic characteristics of the entrepreneurs involved in the study as this might help in analysing the different manufacturing activities they are carrying out. This section examines the characteristics of the entrepreneurs who were surveyed in this research.

4.2.1 Gender Composition

The gender distribution of the entrepreneurs showed that males dominated most of manufacturing activities carried out in Bindura (Fig 4.1). In Chipadze Industrial Area 89% were males and 11% were females. In the Durawall 80% were male and 20% were female and in the Trojan Road Industry 82% were male and 18% were females. The traditional belief of reserving physically strenuous jobs exclusively for men was apparent in the SMEs (Choshi, 1996; Sunita and Mead, 2002). No females were represented in the "male trade". Most women were found in less strenuous jobs such as, softdrink manufacturing, soap manufacturing, clothing and exercise book manufacture
etc. Females dominated their "female trade". The definition of “female” and “male” trades was based on the activities that were carried out by the different sexes. However possible explanation for the variation might lie in the fact that women have limited access to capital to start up businesses thus they tend to be concentrated in activities that require limited start up capital.

![Graph showing gender composition in different areas.](image)

**Fig 4.1 Gender Composition**


The dominance of males in the SME sector is a reflection of trends in other areas where studies on the sector have been carried out (Pedersen, 1998; Helmsing, 1993; Osei *et al* 1993; McPhersen, 1991). These studies revealed that males dominated in most SME activities. In African society women roles are limited to household chores and men are thought to be the ones who should be involved in income generating projects. However this kind of thinking has since changed since women can also be involved in activities that were earlier dominated by men (Pedersen, 1998).
4.2.2 Level of Education of Entrepreneurs

The survey revealed that the majority of the entrepreneurs in the sample sites had at least attained formal education. In the Durawall 20% of the entrepreneurs had no formal education, all these were males and there were no females in this group. Males represented 30% of the people with primary education while women represented 5% of entrepreneurs with primary education. In the Durawall 35% (males) and 5% (females) of the entrepreneurs had secondary education. No entrepreneurs had any technical education in the Durawall (Table 4.1).

Table 4.1: Level of Education of Entrepreneurs (%)

<table>
<thead>
<tr>
<th></th>
<th>Chipadze Industrial Area</th>
<th>Durawall</th>
<th>Trojan Road Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>No Primary</td>
<td>13</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Primary</td>
<td>20</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Secondary</td>
<td>37</td>
<td>13</td>
<td>32</td>
</tr>
<tr>
<td>Technical Education</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Research Data (2003)

In Chipadze Industrial Area 37% (males) and 13% (females) had secondary education, 20% (males) and 7% (females) had primary education, 13% (males) had no formal education. In Chipadze all the women had at least attained formal education, 10% (males) had technical education, no woman had attained technical education. The dominance of males can be explained by culture where males are given preference over females in terms of education.

In Trojan Road Industry 20% (males) and 5% (females) had no primary education, 30% (males) and 5% (females) had primary education and 35% (males) and 5% (females) had secondary education.
No entrepreneurs in Trojan Road Industry had attained any technical education. Of particular interest were the 3 entrepreneurs from Chipadze Industrial Area who had attended various technical colleges to learn the trade they were involved. These were mostly involved in carpentry and steelworking. As will be shown later there seems to be a relationship between level of education and the growth of some of the SMEs in the survey.

The higher the educational standard of entrepreneurs the higher the chance for the enterprise to be successful, as has been suggested elsewhere entrepreneurs with higher educational training standards are more likely to survive economically in a more ‘turbulent’ business environment. And more educated entrepreneurs tend to run their business establishments professionally. In the survey it was noted that the most successful entrepreneurs in Bindura were those who had higher educational qualifications. This does not mean that those with lower educational qualifications were not doing well in their business.

4.2.3 Age Profile of Entrepreneurs

It was apparent from the survey that people in the middle age were mostly involved in the various manufacturing activities in the town. In Chipadze Industrial Area the 36-45 years age group had 40% males and 7% females. In the Durawall the age group had 36% males and 8% females and in Trojan Industrial Area the age group represented 40% males and there were no females in this age group (Table 4.2). This is the economically active people and it shows that the majority of the entrepreneurs in Bindura were in their prime age.
Table 4.2: Age Profile of Entrepreneurs (%)

<table>
<thead>
<tr>
<th></th>
<th>Chipadze Industrial Area</th>
<th>Durawall</th>
<th>Trojan Road Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>15-25 Years</td>
<td>7</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>26-35 Years</td>
<td>23</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>36-45 Years</td>
<td>40</td>
<td>7</td>
<td>36</td>
</tr>
<tr>
<td>46-55 Years</td>
<td>7</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>&gt;56 Years</td>
<td>3</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>20</strong></td>
<td><strong>80</strong></td>
</tr>
</tbody>
</table>

Source: Research (2003)

An interesting phenomenon arose during the analysis of the data. It emerged that Trojan Road Industry and the Durawall had the oldest entrepreneurs, whilst Chipadze Industrial Area had few people in the 46-55 and above 56 years age groups. This can be a good indicator for Chipadze Industrial Area because it means that the majority of the entrepreneurs were in their prime ages and were the most economically active. The age difference is very important because if entrepreneurs are in their prime age they tend to invest more and run their business more professionally than those who are older. Osei et al (1993) states that the younger generation tend to invest in their enterprises because they view the SMEs as business whereas the older generation tend to venture into SMEs after retrenchment and view SMEs as a way of passing time.

The age distribution of entrepreneurs in the survey indicates that owners of SMEs are a young cohort. The age distribution shows that nearly 42% of respondents in the survey are younger than 35 years of age. An average age of 35 years, a mode of 38 years and a median of 35 years indicate a population that is fairly distributed. These findings were the same as found in other studies Osei et al (1993) in a study in Ghana and Rasmussen (1995). The survey has shown that SME entrepreneurs represent a population in the prime age. The possible explanation for this may be unemployment in
the town of Bindura. Many people in the town are unemployed because the formal industries like mining have been retrenching and thus many people tend to revert to the informal sector to start up their small businesses.

4.2.4 Previous Work Experience

In Chipadze Industrial Area it was observed that 30% of the entrepreneurs had work experiences related to their present line of business. This means that these had worked in companies that were involved in manufacturing activities related to what they are doing at present. This had a strong bearing on the operations of their business. The work experience proved handy as the entrepreneurs used the expertise they gained in running their business. A total of 47% had been working in other trades not related to their present business, while 23% had no work experience at all (Fig 4.2).

In the Durawall and Trojan Road Industry the situation was different, only 24% and 10% of the entrepreneurs respectively had work experience related to their present business. It was realised that in the two areas a total of 40% and 65% respectively had no work experiences. This means that these people were being involved in businesses that they knew little about. This can have implications on the development of their enterprises.
Another important point that should be noted is that the entrepreneurs who had work experience not related to their present business were also doing well, compared to those who had no work experience. An explanation for this can be attributed to the fact that the former have been through a work environment and they know that they have to work hard if their business is to succeed.

During FGDs entrepreneurs who had previous work experiences in their current trades reported that they were doing very well. Most of these entrepreneurs were found in the carpentry and the steel works. Some of the entrepreneurs had actually worked for established companies in the various cities of Zimbabwe. Some of the experience these entrepreneurs gained from their former employers has become handy in their operations.
4.2.5 Sources of Capital

Capital is a vital component in the operations of any business venture. It actually plays a crucial role in the success and failure of a business. Thus it is very important to note the sources of capital for the various entrepreneurs in the manufacturing sector.

All entrepreneurs argued that most of the capital was gained from informal sources e.g. personal savings, family members and relatives. In Chipadze Industrial Area 60% of the entrepreneurs used their personal savings to begin their businesses, whereas 23% used retrenchment packages and 17% borrowed from relatives capital to start up various activities. In the Durawall it was 80%, 12% and 8% and in Trojan Industry it was 75%, 20% and 5% respectively (Fig 4.3). This shows that most of the entrepreneurs in Bindura had problems in accessing capital to start and run their businesses. This impacted negatively on the growth and development of various SME activities in Bindura town.

![Figure 4.3: Sources of Capital](source)

Source: Research Data (2003)
All the surveyed entrepreneurs never received any form of financial assistance from the formal sectors that are supposed to assist them financially. These include government departments, non-governmental organisations (NGOs) and financial institutions. This unavailability of loans has impacted negatively on most SMEs as they are struggling to find the much needed capital to expand and start new business ventures.

4.3 The Economic Characteristics of SMEs in the Manufacturing Sector

The composition of Bindura's manufacturing industry shows that for a small town, Bindura has got a diversified manufacturing sector. According to the Central Statistical Office (CSO) (2000), there are about 11 nationally recognised industrial groups in the manufacturing sector. These are listed in Table 4.3 below.

Table 4.3: CSO's Industrial Groups in the Manufacturing Sector.

<table>
<thead>
<tr>
<th></th>
<th>Foodstuffs</th>
<th>7</th>
<th>Paper, Printing and Publishing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Cloth and Footwear</td>
<td>8</td>
<td>Drinks and Tobacco</td>
</tr>
<tr>
<td>3</td>
<td>Wood and Furniture</td>
<td>9</td>
<td>Textiles (Cotton Ginning)</td>
</tr>
<tr>
<td>4</td>
<td>Metal and Mineral Products</td>
<td>10</td>
<td>Non-Metallic Mineral Products</td>
</tr>
<tr>
<td>5</td>
<td>Chemical and Petroleum Products</td>
<td>11</td>
<td>Other Manufacturing</td>
</tr>
<tr>
<td>6</td>
<td>Transport Equipment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CSO (2000)
Of the industrial groups mentioned in Table 4.3, four were not present in Bindura. These were, non-metallic mineral products, textiles (Cotton Ginning), transport equipment and paper, printing and publishing.

There are many different reasons why the above mentioned groups were not present in Bindura, i.e. the technological know-how and expertise to operate some of the industries, e.g. chemical and petroleum products, non-metallic mineral products, textiles and paper, printing and publishing. The relatively limited market size and centrifugal forces from already established firms in Harare seem to hamper the development of this industrial group. The unavailability of raw materials and capital to invest in the various industries has also hampered the development of the manufacturing sector in Bindura town.

Table 4.4: Manufacturing Activities in Bindura

<table>
<thead>
<tr>
<th>Manufacturing Activity</th>
<th>Chipadze Industrial Area</th>
<th>Durawall</th>
<th>Trojan Road Industry</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>Carpentry</td>
<td>16</td>
<td>1</td>
<td>10</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Clothing</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Steelworks</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Brickmaking</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Softdrink Manufacturing</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Soap Making</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Exercise Book Manufacture</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>6</strong></td>
<td><strong>20</strong></td>
<td><strong>5</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2003)
A total of 75 SMEs were interviewed, the predominant industrial group in Bindura was carpentry, which represented 43% of the interviewed SMEs (Fig 4.4). In Chipadze Industrial Area carpentry represented 57% of the manufacturing activities, in Durawall and Trojan Road Industry carpentry represented 40% and 25% respectively (Fig 4.4). In this group the products that were produced include sofas, wardrobes, room dividers, doors, beds and coffins.

It is important to note that males dominated the majority of the manufacturing activities in all the study sites (Table 4.4). In Chipadze a total of 17 entrepreneurs were engaged in carpentry 16 were male and only 1 was female. In the same activity in the Durawall and the Trojan Road Industry no women were engaged in carpentry. In steelworks only 1 woman from Trojan was engaged in steelworking, whereas in Chipadze Industrial Area and the Durawall no woman was engaged in steelworking. Women were more pronounced in activities such as softdrink manufacturing, soap manufacturing, clothing and exercise book manufacture. Plates 4.1-4.3 show some of the products manufactured by the entrepreneurs in Bindura. Plates 4.1 and 4.2 show Durawall panels that were produced in the Chipadze Industrial area. Most people in Bindura were buying their building materials from the area. During informal interviews with people in Aerodrome a new residential suburb in Bindura most of the people said that items like sliding gates (Plate 4.3) were cheaper in Bindura than to buy them from Harare. There was no where that they could buy gates besides from the SME entrepreneurs.
Plate 4.1: Durawall Panels (Chipadze)

Plate 4.2: Durawall panels and pillars (Chipadze)
Many reasons can be attributed to the development of the carpentry sector as a major activity, the readily available market that covers a radius of not less than 100km. Bindura being the provincial capital of Mashonaland Central provides services to the province. People from as far as Mount Darwin, Rushinga and surrounding areas come to buy most of their furniture from Bindura. The availability of raw materials in the town has actually led to the growth of the sector. Timber was readily available in Bindura. Plate and Glass (PG) Industries has a shop in the town that provides timber to the SMEs. It was cheaper to get timber from the local PGI, thus many entrepreneurs have resorted to carpentry as the major activity.
The second major manufacturing activity was steel working, which represented 20% of the manufacturing activities in Chipadze Industrial Area. Steel working represented 24% and 40% in the Durawall and Trojan Road Industry respectively. Just like carpentry, most entrepreneurs in this group were manufacturing a variety of household and industrial items. These include window frames, door frames, scotch carts, burglar bars, door screens and different types of gates. It is in this group where most of the entrepreneurs had previous work experiences in their trades. The entrepreneurs had worked in various steel companies in Harare and had later quit to start their own businesses. This has paid dividends as most of these entrepreneurs are now producing state of the art products. Plates 4.4-4.9 show part of the products that were manufactured in the different SMEs in the town. The window and door frames (Plate 4.4) that were manufactured by the SMEs were up to standard. Customers preferred to buy window frames from SME entrepreneurs than from the
established companies. Newly resettled farmers said that they were getting a lot of items from the SMEs. These included scotch carts (Plate 4.5) and other farming equipment. In informal interviews held with farmers who were buying scotch carts it was realised that SMEs were convenient because of their proximity to the farmers and their items were cheaper than those that were found in most hardware shops in the town.

Plate 4.4: Window Frames and burglar bars (Durawall)
Plate 4.5: Scotch carts (Chipadze)

Plate 4.6: A Kitchen Unit (Chipadze)
Plate 4.7: Coffee tables and chest drawers (Trojan)

Plate 4.8: Freezits manufactured in Chipadze
Clothing represented 3% of activities in Chipadze Industrial Area. In the Durawall and Trojan Road Industry it represented 8% and 5% respectively. Brickmaking was also another manufacturing activity that was found in Bindura. The bricks that were moulded were mainly sold in the town and surrounding areas. The bricks included farm bricks (commons) and cement bricks, durawall panels and posts were manufactured. Soft drinks were also manufactured in the study areas, the most popular being the freezits. Soapmaking was also available in the three areas, in Chipadze Industrial Area it accounted for 3% of the manufacturing activities whereas in the Durawall and Trojan Road Industry it accounted for 4% and 5% respectively. Only female entrepreneurs were involved in soapmaking. Exercise book manufacturing was only found in Chipadze Industrial Area.
4.3.1  Firm Ownership and Employee Characteristics

Firm ownership concerns the way in which a business is controlled, managed and how its capital is raised and who bears the risks and how profits are divided. Firm ownership has a strong bearing on the operations of enterprises. In Chipadze Industrial Area 60% of the entrepreneurs were sole proprietors, 30% (Partnership) and 10% (Private Company). In the Durawall 84% were sole proprietors, 12% (partnership) and 4% (Private Company). In the Trojan Road Industrial Site 88% were sole proprietors and 12% were partnerships (Fig 4.5).

The dominance of individual ownership over the other types of ownership shows that most of the entrepreneurs established their business as family business. There are many advantages of individual ownership over the other ownership. In individual ownership the entrepreneur has incentives to improve his business compared to partnerships where there is a pooling of resources.

Ten percent of the enterprises in Chipadze Industrial Area were private companies that were registered according to Article 30 of the Companies Act and in the Durawall it was 4%. This is a very interesting phenomenon since it is widely accepted that SMEs are always operating in the informal sector. The presence of these enterprises has shown that given time and a conducive economic environment SMEs in the informal sector in the town can graduate into formal SMEs and the process may continue until large companies are born. This theory can be substantiated by the fact that all the private companies had been operating for more than ten years.

There were more private companies in the Chipadze Industrial Area because this area represents entrepreneurs who had bought industrial stands from the town council. They had title deeds to the
land they were working on. This scenario differs with type of ownership in the Durawall and the Trojan Road Industry, in the former the town council built an Industrial Shell and leases out the stands to the entrepreneurs, who pay rent to the council. The entrepreneurs in the Trojan Road Industry were working on council land with no permission. According to the town council these people were using the land without the authority of the council. The council has decided not to remove these entrepreneurs but to support them since they are contributing to industrial development in Bindura.

![Figure 4.5: Firm Ownership](image)

**Figure 4.5: Firm Ownership**


It emerged in the survey that type of ownership can have an impact on the growth and development of an enterprise. As will be shown later the enterprises in Chipadze Industrial Area were more successful than enterprises in the other sites. This can be attributed to the fact that the entrepreneurs
in Chipadze Industrial Area were owners of the land and they operated their enterprises more professionally than the other entrepreneurs in the other sites. Entrepreneurs in Chipadze invested a lot of capital compared to their counterparts in the Durawall and Trojan Road Industry. They had the motive to see their businesses expand and to make more profit.

### 4.3.2 Firm Employee Characteristics and Labour Availability

SMEs have been castigated for their failure in creating adequate job opportunities for the growing number of unemployed youths in the small towns. Although this might be true the importance of SMEs in job creation should not be overlooked. The sample of entrepreneurs surveyed employed a total of 342 workers. An average of 4.6 job opportunities per each enterprise were created in the town. This figure shows that SMEs had a relatively poor performance in terms of creating job opportunities compared to studies carried out by Osei et al (1993) in a similar study in Ghana and Choshi (1996) who did a research in Northern Province of South Africa. These two studies showed that in small urban areas SMEs should at least employ 5-10 people if they are to make any significant contribution to employment creation. Osei et al (1993) states that if a SME employs more than 5 people it ceases to be family based, as it tends to employ more people who are non-relatives. Although many can argue that 342 people are insignificant to alleviate unemployment, it should be borne in mind that the majority of the SMEs that were interviewed were lacking proper support to expand their businesses. If proper support mechanisms are offered to the SMEs they might create more employment opportunities.
Despite this low creation of jobs SMEs still contributed much to the provision of jobs to the unemployed in the town. All SMEs employed full time employees, which showed some seriousness on the part of the entrepreneurs to operate their businesses. The town council in Bindura argued that SMEs had assisted in providing some meaningful employment to hundreds of people in the town. According to the Bindura Town Council all the SMEs in the town were employing a total of 1500 people.

Males dominated the employee sector in the SMEs. Of the 342 employees, 294 (83%) were males and 48 (17%) were females (Table 4.5). Males dominated manufacturing activities that are termed as "male activities" such as wood and furniture and steelworks. Women dominated manufacturing activities like tailoring, softdrink manufacture, soap making etc.

It should be noted that 60% of entrepreneurs were employing non-family members and were engaging full time employees. This indicates a paradigm shift of the enterprises from being predominantly family based to being broader based. Full time employment shows that the entrepreneurs were serious about their businesses. Eighty eight percent (88%) of the employees were paid at the end of every month. However it was noted that if sales were down some entrepreneurs reduced the wages of their employees.

In the FGDs it was argued that the SME sector was failing to create more jobs, due to the unavailability of support from various stakeholders. Many entrepreneurs argued that the government, financial sector and private sector were not giving assistance to the sector. The Ministry of Small and Medium Scale Enterprises which was set up by the government to look into the requirements of SMEs has virtually done nothing to assist the development of SMEs in the area.
Table 4.5: Labour Characteristics in the SMEs

<table>
<thead>
<tr>
<th>Manufacturing Activity</th>
<th>Jobs</th>
<th>Sex</th>
<th>Employment</th>
<th>Relationship with Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Male</td>
<td>Female</td>
<td>Full Time</td>
</tr>
<tr>
<td>Carpentry</td>
<td>234</td>
<td>220</td>
<td>14</td>
<td>200</td>
</tr>
<tr>
<td>Cloth and Footwear</td>
<td>11</td>
<td>2</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Steelworks</td>
<td>60</td>
<td>50</td>
<td>10</td>
<td>55</td>
</tr>
<tr>
<td>Brickmaking</td>
<td>14</td>
<td>10</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Softdrink Manufacturing</td>
<td>13</td>
<td>6</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Soapmaking</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Exercise book Manufacture</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>342</strong></td>
<td><strong>294</strong></td>
<td><strong>48</strong></td>
<td><strong>301</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2003)

In terms of job creation SMEs involved in carpentry employed a total 234 people which represented 68% of all the people employed in the SMEs that were surveyed in Bindura (Table 4.5). A simple explanation for this can be that 43% of the SMEs in the sample sites were involved in woodworking activities. Steelworking activities employed 60 people which represented 18% of the people employed in the study area. This does not mean that steelworking was not an important activity. Another explanation for the high number of people employed in the carpentry industry can be the much needed labour in the process of manufacturing goods. It was also realised that the majority of the entrepreneurs were using inferior tools in their trade thus they needed a lot of labour.
Table 4.6: Number of People Employed in Each Site

<table>
<thead>
<tr>
<th>Manufacturing Activity</th>
<th>Chipadze Industrial Area</th>
<th>Durawall</th>
<th>Trojan Road Industry</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carpentry</td>
<td>135</td>
<td>75</td>
<td>24</td>
<td>234</td>
</tr>
<tr>
<td>Clothing</td>
<td>-</td>
<td>7</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Steelworks</td>
<td>20</td>
<td>30</td>
<td>10</td>
<td>60</td>
</tr>
<tr>
<td>Brickmaking</td>
<td>4</td>
<td>7</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Softdrink Manufacturing</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Soapmaking</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Exercise book Manufacturing</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200</strong></td>
<td><strong>100</strong></td>
<td><strong>42</strong></td>
<td><strong>342</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2003)

Steelworking employed fewer people as could have been expected (Table 4.6). This can be explained by the fact that most of the entrepreneurs in this trade were using capital equipment in the production of their goods. This use of machinery eliminated the need of a high number of people in the trade. Other manufacturing activities like brickmaking, tailoring and softdrink manufacturing employed few people because of the use of machinery in their processes. In Chipadze Industrial Area where the major manufacturers of freezits were located it was realised that the company employed only 2 people despite the fact that they were the leading producers of freezits. This was because of the high technology machinery, which only required 2 people to operate.

The SMEs created employment for various people in the town. In FGDs many entrepreneurs argued that if they received assistance from the government they would definitely employ more people. The participants argued that they were failing to expand their businesses because of lack of funding. If government gave them financial assistance they would expand and employ more people in the town. One participant during the FGDs said,
“Dai hurumende yaitipawo rubatsiro rwemari ndinofunga kuti dai tchikwanisa kupinza vanhu mabasa.” If we were to get financial assistance from the government I think we could have been able to employ more people.

The entrepreneurs stated that what they needed was support so that they would expand their business and in the long run employ more people.
CHAPTER 5

SOURCES OF RAW MATERIALS AND MARKETING IN THE SMEs

5.1 Introduction

The sources of raw material for SME enterprises were also identified, as this was important to the operations of different enterprises in the town. The section also goes on to examine the markets for SME products and how the various entrepreneurs were marketing their products to reach their markets.

5.2 Source of Raw Materials

Entrepreneurs sourced raw materials from within and outside the town of Bindura. The major source of raw materials in all the industrial sites was Bindura followed by Harare (Fig 5.1). In Chipadze Industrial Area the majority (60%) of the entrepreneurs got their raw materials in Bindura, while 30% got their raw materials from Harare and 10% sourced raw materials from other areas other than Harare and Bindura. In the Durawall 84% of the entrepreneurs sourced their raw materials in Bindura, 12% from Harare and 4% from other areas. In Trojan Road Industrial Area 88% of the entrepreneurs sourced their raw materials from Bindura, while 10% from Bindura and 2% from other areas other than Harare and Bindura. Harare was the most important source of raw materials outside the province because of its proximity and its large sphere of influence.

Entrepreneurs from SMEs bought their raw materials from large-scale enterprises in the town. The notable examples were PG Industries and ZISCO (Zimbabwe Iron and Steel Company). PG
Industries were the major supplier of raw materials to entrepreneurs who were involved in the manufacturing of wood and furniture products. ZISCO supplied almost all the enterprises that were involved in steelworks and welding with raw materials. However it should be noted that wholesalers also provided raw materials for the entrepreneurs, the notable wholesalers being Savva and Mashco.

Fig 5.1: Source of Raw Materials

Source: Research Data (2003)

Some enterprises got their raw materials from Harare, because they could not be found in Bindura. The notable examples are those involved in tailoring, soap making and softdrink manufacturing. The fabrics required in the cloth making enterprises were cheaper in Harare; the city provided a wider selection for fabrics. In soap making raw materials like caustic soda and tallow were only available in Harare according to the entrepreneurs. Those who were engaged in soft drink manufacturing the got their additives and containers for the drinks from Harare. Some materials were brought from within the province.
It is important to note that 30% of entrepreneurs from Chipadze Industrial Area sourced their raw materials from Harare. In the Durawall and Trojan Road Industry only 12% and 10% respectively sourced raw materials from Harare. This shows the difference between the entrepreneurs of the areas. These entrepreneurs were adventurous business people who were prepared to use money to go outside of Bindura to buy materials from Harare. The other entrepreneurs in the Durawall and Trojan Road Industry had lamented the unavailability of funds to source raw materials outside Bindura. This explained why enterprises in Chipadze Industrial Area were producing better items compared to their counterparts. However this does not mean that Bindura was not an important source for raw materials for entrepreneurs in Chipadze Industrial Area. In all the industrial sites, Bindura was the major source of raw materials.

If classical locational theories (i.e. Weber’s Industrial Location Theory) are applied to the location of SMEs in relation to the sources of raw materials, it can be argued that the application was very limited. In Bindura the sources of raw materials were located closer to the market (SMEs) rather than SMEs being located closer to the source of raw materials. In interviews with the SME entrepreneurs it was learnt that the sources of raw materials namely PG and ZISCO only came to Bindura after the SME sector was well developed, so it would be difficult to explain the locational theories in the context of SMEs in Bindura.

5.3 Market

The success of the enterprises in the town seemed to be determined by the extent to which they established strategic linkages with the local community and the districts in the province. Bindura being the capital of Mashonaland Central provides primary services to the province. People from
places like Rushinga, Mt Darwin, Mkumbura, Madziwa and other districts came to buy most of their products from Bindura. It is cheaper to buy goods from Bindura than to travel to Harare. This ready market has led to the proliferation of many SMEs providing services to the people (Fig 5.2).

![Fig 5.2: Markets for SME Products](image)

Source: Research data (2003)

Some enterprises in Chipadze Industrial Area and the Durawall had gone further to carve a niche in Mt Darwin where those enterprises in the other industrial sites had failed to reach. The fact that 20% of entrepreneurs in the area were selling products to people in Mt Darwin showed that they were successful in marketing their products. It was realised that these entrepreneurs who were selling to Mt Darwin had been in the business for a long time and had now been able to market their goods even further. Thus these enterprises had ceased to be localised but were now going regional in terms
of the spatial extent they were covering. This can also be supported by the fact that 5% of the enterprises in Chipadze Industrial Area were selling products to people in Harare. This shows that this industrial site was made up of people who were now looking beyond Bindura itself as a source of customers.

In Bindura town the market for various products was diverse. For steel and wood products the market included the local public, hardware shops, general dealers and schools. The major markets for steel products were the people who were building houses in various suburbs in the town. SMEs were producing window frames, door frames, doors and burglar bars. A visit to the suburbs under construction i.e. Chiwaridzo, Chipindura and Aerodrome confirmed that most people were choosing to buy building material from SMEs than from established dealers in the town. The main reason for people opting to buy from SMEs than established enterprises was the difference in prices.
Figure 5.3 The flow of market for SME products in Bindura.
All the enterprises in the industrial sites identified Bindura as their main market for their products. In Chipadze Industrial Area 40% of the enterprises sold their products to Bindura residents, while 5% identified Harare as their market. In the Durawall 75% of the entrepreneurs identified Bindura as their market, while 1% sold some items to Harare. In Trojan Road Industry it was 84% and no entrepreneur from Trojan Road Industry sold their products to Harare. The other important markets were Shamva and Glendale. This can be explained by their proximity to Bindura town (Fig 5.2 and Fig 5.3).

Figure 5.3 illustrates the trade routes for SME products in Bindura. The size of the market is determined by the thickness of the flow line. Fig 5.3 shows that Mount Darwin was the major market for SMEs products and that as you move away from Bindura the market diminishes. The sphere of influence of Bindura is also contained by the large influence of Harare, so it tends to supply the smaller towns near or around it. The pattern of the linkages also follows the roads networks linking Bindura and its hinterland. The major markets lie on the Harare highway and links up all the small towns, which are the market for SME products.

In a survey of 20 households who were building their houses in Chipindura, 15 households argued that they bought much of their building materials from SMEs. In Chiwaridzo and Aerodrome 10 people who were also building houses in the town argued that it was viable to buy from SMEs than LSEs or Harare. They could not afford to buy from hardware shops where prices were exorbitant. One customer of the SME products had this to say,
SMEs attracted a lot of buyers because most of their products were affordable to the public. Most entrepreneurs sold their products on credit, thus given the hardships people are experiencing it was easier to buy on credit than on cash. In FGDs that were held most of the entrepreneurs showed that this credit facility had boosted their sales. Another advantage of their credit scheme was that there was no interest that was charged on items bought on credit. Such packages attracted the public to buy from the SMEs.

The resettlement programme has also proved to be a blessing to most entrepreneurs in the SME sector. New farmers from the surrounding resettlement areas came to the SMEs for most of their requirements. All the manufacturing activities have benefited immensely from the resettlement programme. Notable examples of items bought from SMEs include building material, furniture, doors, bricks, scotch carts and water carts.

Established schools in Bindura were also markets for various products from the SME sector. Most schools were now ordering some desks, tables and chairs from SMEs. Some school authorities in the area argued there was no reason for them to order services from outside the town when they could get the same services at cheaper rates from the SMEs. New schools in the resettlement areas also provided a lucrative market to the SMEs. Two entrepreneurs had a tender to supply four new
schools in the resettlement areas with furniture while two others were providing building material. This shows the importance of the SMEs to the surrounding community. The community has also gained confidence in the products produced in the SME sector.

Soap making proved to be another important business among entrepreneurs. There was a ready market for the soap that was produced by the different entrepreneurs. The soap from SMEs was cheaper compared to the traditional soap manufactured by LSEs. By the time this survey was carried out, a bar of soap from a supermarket was selling for more than ZS4000, whilst a bar from the SMEs cost between ZS2000 and ZS3000. It was viable for the public to buy from the SMEs who were cheaper. The soap manufactured by the SMEs was popular compared to the traditional soap from the supermarkets.

In interviews carried out with the manufacturers of soap, they pointed out that they got many customers because they were cheap and convenient to their customers. SMEs were actually selling pieces of soap to customers who could not afford to buy the whole bar, this was not possible with supermarkets who were only selling bars. Some entrepreneurs claimed that they were selling their soap to some owners of shops who were in turn selling it at a higher price to unsuspecting members of the public. The manufacturers of soap, lamented the competition from cheap South African soaps which were going for between $1 500 and $2 000, that had flooded the Zimbabwean market especially the one called elangeni. This was the major threat to the survival of the soap manufacturers.
Entrepreneurs involved in the manufacturing of soft drinks were also realising brisk business in the town. The market comprised of individuals and some general dealers. The popular drinks that were produced were “freezits” because of the large market. Vendors were now buying from local producers who were cheaper compared to supermarkets and wholesalers. Some general dealers were now buying from the SMEs and sell the drinks in their shops.

Generally Bindura town was the major market for most products that were produced by the SMEs. During interviews with the entrepreneurs it was realised that the only way the SMEs could penetrate the market was by producing quality goods. There is need for the SMEs to form a body that checks the quality of their products before they can be sold to customers. Many customers who were interviewed during the research repeatedly encouraged SMEs to come up with quality products to attract customers. Furniture was the most cited product where SMEs had to improve.

One SME located in the Chipadze Industrial Area had a showroom where it sold the various items it was producing (Plate 5.1). The showroom competed with major shops where furniture was being sold at exorbitant prices. Many people were now opting to buy from the SMEs because their prices were far much cheaper than in the furniture shops. The other advantage of the SME products was that the entrepreneurs offered their products on credit with no interest levied on the purchased items. Due to the high inflation, most people cannot buy on credit in established shops, thus the SME sector has provided a better option to the public in the town. To show the great difference in prices between SMEs and furniture shops, a 5-piece set of sofas cost an average of $2.5 million in furniture shops whereas a similar set was costing $850 000 from several SMEs (As of December 2003).

Although most people may argue that the quality from SMEs is lower than that of furniture shops,
the fact that people are buying from the SMEs is an indicator that the public is appreciating SME products.

**Plate 5.1: Showroom selling SME furniture**

![Showroom selling SME furniture](image)

### 5.4 Marketing Strategies

The entrepreneurs used different strategies to advertise, market and sell their products. The most common method of advertising was the use of notice boards and signposts (Plate 5.2 and Plate 5.3). The most dominant form of marketing was word-of-mouth and door-to-door methods. All the entrepreneurs argued that customers who were satisfied by the products they bought also played a part in the marketing of the products since they told other people about the products.
In the FGDs it was established that the production of quality products and giving satisfactory service to the customers were other ways in which entrepreneurs could gain the confidence of their market. During the FGDs one entrepreneur from Chipadze Industrial Area argued that entrepreneurs were their own enemy since they were producing sub-standard products. He said,

“Isu tisu tiri kudzinga macustomer edu tega. Vanouya sei kana tichingogadzira zvinhu zvenhando. Ngatigadzirei zvinhu zvakanaka tikwezve macustomer.” (We scare away our customers by making substandard products. Let us make quality products to attract customers).

Plate 5.2: A freezits manufacturer advertising (Chipadze Industrial Area)
No entrepreneurs advertised in the provincial paper, the *Nehanda Guardian*. Most argued that it was very expensive to advertise in the paper. During the FGDs with entrepreneurs it was realised that the *Nehanda Guardian* could prove to be the best place to advertise their products. The entrepreneurs said that billboards as shown in Plate 5.2 and 5.3 were very effective in advertising. Nevertheless it was agreed by all the entrepreneurs that effective marketing of products can maximise their sales.

In FGDs, entrepreneurs felt that it was important for them to have fairs and exhibitions where they can showcase their products. An annual agricultural show that showcased every year in the town could be the best place where the SMEs can showcase their products. Entrepreneurs said that they have never been called to showcase their products at the show. In an interview with the show organisers, it was learnt that if the SME entrepreneurs wanted to take part in the show they had to
approach the show organisers. The organisers said that they would be happy to have the SMEs as part as their annual event as this could add diversity to the show which is mainly concerned with agricultural production.

### 5.5 Duration of Operation

The duration of operations varied from entrepreneur to entrepreneur. In the Chipadze Industrial Area 10% of the entrepreneurs had been in operation for less than a year and 43% of the entrepreneurs had been in operation for between 1-5 years. This represented the majority of the entrepreneurs. A total of 30% of the entrepreneurs had been in the business for about 6-10 years and 17% had been in the business for more than ten years (Figure 5.4). In the Durawall 52% of the entrepreneurs had been in operation for between 1 and 5 years while the figure was 55% in Trojan Road Industry. Only 4% of the entrepreneurs in the Durawall had been in operation for more than 10 years. In Trojan Road Industry 5% of the entrepreneurs had operated for more than 10 years (Fig 5.4).

The majority of the entrepreneurs who had operated for more than 10 years were those involved in the manufacturing of wood products. The woodworking industry can be said to be the “oldest” manufacturing activity compared to the others. However the majority of the entrepreneurs who had been in operation for more than 10 years were found in the Chipadze Industrial Area.
If a life cycle of the enterprises was to be developed using the duration of operations it can be concluded that the SMEs that are in Trojan Road Industry were in their early stages of development (Stage 1), while those in the Durawall were in the developing stage (Stage 2) and those in Chipadze Industrial Area can be classified as in the advanced stage (Stage 3). It should be noted that this classification is only applicable to SMEs in the area. The basis for this classification is on the duration of operations of the various enterprises. In saying that the SMEs in Chipadze Industrial Area are in advanced stage does not mean that these have no problems, they are being compared to their counterparts in the town.
Table 5.1: Relationship between Duration of Operation and Level of Education

<table>
<thead>
<tr>
<th>Duration of Operation</th>
<th>Level of Education</th>
<th>No Primary Education</th>
<th>Primary Education</th>
<th>Secondary Education</th>
<th>Technical Education</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1 year</td>
<td></td>
<td>9</td>
<td>9</td>
<td>4</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>1-5</td>
<td></td>
<td>7</td>
<td>16</td>
<td>17</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>5-10</td>
<td></td>
<td>4</td>
<td>4</td>
<td>20</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>&gt;10 years</td>
<td></td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20</td>
<td>29</td>
<td>45</td>
<td>6</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Enterprises that were operated by people who had a higher level of education tended to be in operation for a long time. Of the 75 enterprises only 6 (8%) had been in the business for more than 10 years, of which 3 had attained at least secondary school level and 3 had technical training. All entrepreneurs who had no formal education and had only attained a primary school education could not operate their enterprises for a long period. (Table 5.1). This shows the importance of education in the operations of SME activities.

Another important observation from the survey was that entrepreneurs who had experience in the activity that they were involved in tended to last long in the business. This goes on to show that it is very important for entrepreneurs to at least have experience in the activity they are involved in. During the FGDs most entrepreneurs argued that for them to last in the business there was need of at least following some basic business ethics, i.e. keeping records and auditing their books. This does not mean that people without or with low levels of education are bad managers of their enterprises.
Enterprises who realised growth in their output were those who had been in operation for a longer period.

It is important to note that enterprises who were realising an increase in their outputs were those who had been in business for a long time (Table 5.2). Only 2% of the entrepreneurs who had operated for less than a year were realising growth in their business activities while a total of 20% of enterprises in the same category were not realising any significant growth. In the 1-5 years category only 3% of the enterprises were realising growth in their business, a total of 37% of enterprise in this group reported that they were not realising any growth in their operations.

It was realised that in all the sample sites 17 (22%) enterprises had been in operation for between 6-10 years and these reported positive development in their operations, of these 8% were not realising growth. Only 7 (8%) enterprises had been in operation for more than 10 years, and in this group no entrepreneur reported having any problems in the growth of their operations. So it can be concluded that the longer the enterprise has been in operation the more chances of it expanding its operations. Thus there was a positive relationship between duration and increase in output.

Table 5.2: Relationship between Increase in Firm’s Output and Duration of Operation (%)

<table>
<thead>
<tr>
<th>Duration of Operation</th>
<th>Increase in Firm's Output</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>&lt;1 years</td>
<td>2</td>
</tr>
<tr>
<td>1-5</td>
<td>3</td>
</tr>
<tr>
<td>6-10</td>
<td>22</td>
</tr>
<tr>
<td>&gt;10 years</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
</tr>
</tbody>
</table>
It is important to note that in the study area the majority of the enterprises that reported that they were not realising growth were those that had been in operation for less than one year and 1-5 years. A total of 58% of the enterprises that reported slow growth were in this category. Only 8% of those that had been in operation for between 6-10 years reported slow growth in firm’s output. All those that have been in operation for more than 10 years reported that they had realised growth in their operations.

Enterprises that had been in operation for long periods succeeded because of their long relationship with customers. It was also realised that operation for long periods had actually led to some enterprises curving a permanent niche in the market. Some of the entrepreneurs were so experienced in their activities thus they produced quality products compared to the upcoming entrepreneurs. They had a stronger survival rate compared to new comers.

5.5.1 The Relationship between Duration of Operations and Number of Employees in SMEs

The study showed that there was a relationship between duration of operation of entrepreneurs and the number of employees in the SMEs (Figs 5.5-5.7). The null hypothesis put forward in this research was that there was no significant relationship between number of employees in an SME and the duration of that SME. ANOVA was used to test the hypothesis formulated and determine goodness of fit of regression models computed (Figs 5.5-5.7). Simple regression was used to quantify and establish the nature of the relationship between duration of operation and number of employees. For curve estimation, the linear method was used because unlike the logarithm, quadratic and exponential methods it best fitted the data. The relationship between duration of
operation and income in the study area and regression equations computed to explain the relationships are shown in Figures 5.5–5.7.

Figure 5.5: Relationship between Duration of Operation and Number of Employees in Chipadze Industrial Area

Figure 5.6: Relationship between Duration of Operation and Number of Employees in the Durawall
The research showed that there was a positive relationship between duration and number of employees in a SME. SMEs who had been in operation for a long time employed a lot of people. This research showed that in Chipadze Industrial Area the longer the enterprise has been in operation the more the number of employees that were employed by the enterprise ($R^2=0.886$) at 0.05 significance level (Fig 5.5). In the Durawall it was ($R^2=0.840$) (Fig 5.6) while in the Trojan Road Industry it was ($R^2=0.863$) (Fig 5.7) all at 0.05 significance level. The simple models shown (Fig 5.5-5.7) were all statistically significant and they show that as the duration of operation increases so does the number of employees at an enterprise. In conclusion the null hypothesis was rejected and the alternative hypothesis was accepted which states that there is a relationship between duration of operation and number of employees in an enterprise.
CHAPTER 6

GROWTH TRENDS AND FACTORS LIMITING GROWTH OF SMEs IN BINDURA

6.1 Introduction

The growth of SMEs in Bindura was limited to some enterprises while others were not realising any growth. Many factors have been put across for the lack of development of the SME sector in the town. This section examines the growth trends in the SMEs and it assesses factors limiting the growth of the SME sector in Bindura.

6.2 The Growth and Expansion of the SMEs

Of the 75 enterprises that were surveyed only 26 (34%) were realising growth in their activities. A total of sixty six percent of the enterprises (66%) were not realising any growth at all, in terms of production and expansion of business. This was because of several reasons that will be explored in detail in section 6.4. It is important to note that of these 26 enterprises that were realising growth 14 were located in the Chipadze Industrial Area, 8 in the Durawall and 4 in Trojan Road Industry.

It was realised that contrary to many observations in some studies, where SMEs in small towns developed during economic hardships, in Bindura the case was different (Riddell 1990; Rasmussen 1995; Looyle 1998). The macroeconomic environment i.e. high inflation, high interest rates and limited disposable income among the people, was having a negative impact on most SMEs in the town. Socio-economic, financial and political factors were cited as major reasons for the non-
performance of some entrepreneurs. These reasons will be explored in detail in the coming sections of this chapter.

However, despite of the problems faced by some enterprises, it was encouraging to note that some enterprises were developing. Some entrepreneurs were actually expanding their activities to other small settlements surrounding the town. Unavailability of infrastructure was actually hindering their expansion.

6.2.1 A Case Study of One Successful Entrepreneur in Bindura Town

One entrepreneur produced records to show the products they were producing from the year 2000 up to the year 2003. This case is a good example of how successful some entrepreneurs have become in their activities. The entrepreneur was from the Chipadze Industrial Area.

![Fig 6.1: The Production of Window Frames from 2000 and 2002 (one entrepreneur)](image)

Source: Research Data (2003)
The success of most entrepreneurs was based on the availability of a constant and growing market. Between 2000 and 2002 there was an increase in the production of window frames. This shows the presence of a market for the finished products. In all the years there was continued growth in the number of window frames produced per month. It is important to note there was a sharp increase in the production between September and December of every year. These are the months when most employees receive their bonuses; thus they come to buy products. The same trend was also envisaged in the production of door frames, where there was an increase, from 2000 to 2003 (Fig 6.1).

![Graph showing production of window and door frames from 2000 to 2002.](image)

**Fig 6.2: The Production of Door Frames from 2000 and 2002 (one entrepreneur)**

Source: Research Data (2003)

It is important to note that at the end of the year 2000 there seemed to be a constant number of items produced for both door and window frames. This shows that the market for the products was still
low. However, for the years 2001 and 2002 there was a major boom in the production of window and door frames. This may be a result of an increase in the number of customers, and the high prices in the hardware shops were pushing people to buy from the SMEs. The entrepreneur who provided the data argued that the reason for the increase in the production of window and door frames after the year 2000 was the growing number of people requesting the products. The high rate of inflation had also been a blessing in disguise for the entrepreneurs because it was now cheaper for the public to buy from them than to buy from established hardware shops.

The above case study of the growth of production is not an isolated case in the town. Ninety nine percent of the entrepreneurs were very reluctant to give some data on their production and other operations. This does not mean that all the entrepreneurs were enjoying success in their operations, some were failing to expand their businesses because of many reasons. This will be looked in greater detail in the coming chapters.

![Production Trends among Entrepreneurs](image)

**Fig 6.3: Production Trends among Entrepreneurs**

Source: Research Data (2003)
Another important thing to note in terms of the growth of the various enterprises was their ability to continue to manufacture their products (Fig 6.3). The survey established that 72% and 75% of entrepreneurs in the Durawall and Trojan Road Industry respectively manufactured items only on demand. If no one required an item they did not produce it. Only 28% and 25% of the entrepreneurs in the Durawall and Trojan Road Industry continued to produce their items whether on demand or not. However in Chipadze Industrial Area 67% of the entrepreneurs manufactured their items continuously regardless of it being in demand or not and only 33% produced on demand. This shows that the entrepreneurs in Chipadze Industrial Area had the capacity to continue production, this is an indicator of their confidence in their market. They know that the products they produce will be bought. This is different to the entrepreneurs in the other two areas they do not produce continuously for fear of no one buying their products.

6.3 Earnings among entrepreneurs in Bindura

The null hypothesis put forward in this study is that there is no significant difference between the incomes made in the three areas by entrepreneurs. The hypothesis was put forward because there was need to examine if there was any significant difference in the earnings made by the entrepreneurs in the three study sites. One Way ANOVA was used to test the hypothesis formulated. The calculated value obtained was 7.050 and the critical value obtained was 3.123 and the P value of 0.001598 at 0.05 significance level. On the basis of this information the null hypothesis was rejected and the alternative hypothesis which stated that there was significant difference in the income made in the different study areas was accepted.
Entrepreneurs argued that their earnings were very minimal compared to the high prices they were being charged for raw materials. The survey showed that in Chipadze Industrial Area there was a mean annual income of $12.5 million per SME. In the Durawall and Trojan Road Industry the mean annual incomes were $8.4 million and $6.2 million respectively. Entrepreneurs from Chipadze Industrial Area had higher earnings compared to the other two areas. This can be explained by the fact that the entrepreneurs from Chipadze invested more in their operations and returns were high. As has been shown earlier in section 4.3.1 the entrepreneurs from Chipadze own the pieces of land and they had the will power to make profit.

It is important to note that the data pertaining to sales is very biased since the entrepreneurs were not forced to disclose their sales statistics. Most of the entrepreneurs reported these figures from their heads and thus it would be difficult to verify if these figures were accurate. However the figures are important because they give a background of what is really happening in the enterprises.

### 6.3.1 Relationship between Duration of Operation and Income

The study showed that there was a relationship between duration of operation and the income in the SMEs. This hypothesis was put forward to examine if there was a relationship between the number of years an enterprise has been in operation and the income generated by the enterprise. The null hypothesis put forward in this research was that there was no significant relationship between income in an SME and the duration of that SME. ANOVA was used to test the hypothesis formulated and determine goodness of fit of regression models computed (Figs 6.4-6.6). Simple regression was used to quantify and establish the nature of the relationship between duration of
operation and the income. The relationship between duration of operation and income in the study area and regression equations computed to explain the relationships are shown in Figures 6.4 – 6.6.

Fig 6.4 Relationship between Duration and Income (Chipadze Industrial Area)

Fig 6.5 Relationship between Duration and Income (Durawall)
ANOVA was used to test hypotheses formulated and determine goodness of fit of regression models computed. For curve estimation, the exponential method was used in Fig 6.4 because unlike the logarithm, quadratic and exponential methods it best fitted the data. In Figs 6.5 and 6.6 the logarithm and linear methods were used. The simple model shown in Figure 6.4 ($R^2=0.808$), which was statistically significant shows that income among entrepreneurs increases as duration of operation increases. Figures 6.5 and 6.6 also show a similar relationship, where ($R^2=0.816$) for the Durawall while it was ($R^2=0.871$) for the Trojan Road Industry. All the three models are statistically significant.

The simple models shown (Fig 6.4-6.6) were all statistically significant and they show that as the duration of operation increases so does the income in an enterprise. In conclusion the null
hypothesis was rejected and the alternative hypothesis was accepted which states that there is a relationship between duration of operation and number of employees in an enterprise.

It can be argued that Figs 6.4 to 6.6 show the importance of location in the development of the enterprises in Bindura. Fig 6.4 shows an exponential relationship between duration and income. Fig 6.5 shows that the entrepreneurs tend to operate in fits and starts. It shows that these rely mainly on the provisions of services from the local government. Most of these entrepreneurs have been in operation for between two and six years.

6.4 Factors Limiting the Operations of SMEs in Bindura

The survey came up with a number of reasons why SMEs in Bindura were failing to contribute to their full potential to the development of the manufacturing sector in the town. During FGD interviews it was stated that if the sector had been given support from the government, financial sector, NGOs and the local council there could have been success in the sector. Many factors were identified as major constraints in the development of the manufacturing sector in Bindura (Fig 6.7).

6.4.1 Institutional and Government Support

The government, which has been emerging as the major player in the support for the development of SMEs, has failed to lead by example in the assistance of the sector in Zimbabwe. In all the sites entrepreneurs identified lack of government support as their major stumbling block to their success. In Chipadze Industrial Area 33% of the entrepreneurs argued that government had done nothing in assisting them in their operations. In the Durawall and Trojan Road Industry 36% and 35% respectively argued that government had no interest in their operations.
The entrepreneurs argued that they heard that the government had set aside Z$1 billion to assist in the operations of SMEs and other players in the informal sector throughout the country in 2003. Nevertheless none of the entrepreneurs from Bindura had received any financial assistance from the government. In FGDs it was established that the main reason why the entrepreneurs were not getting the loans was lack of collateral security. All the entrepreneurs argued that the government was virtually doing nothing to assist them in their operations. During FGDs one entrepreneur said,

“Hurumende hapana zvairi kumboita kutibatsira. Tinongonzwa kuti kune mari iri kupiwa vanhu asi hapana yati yasvika kuno. Kana iyo Ministry yemaSMEs hatizivi"
In the interviews that were carried out with the entrepreneurs it was argued that had the government been faithful in its promises, the entrepreneurs could have by now expanded their operations. They expected the government to assist them with loans, infrastructure and other institutional mechanisms that would ensure the growth and development of the informal sector in the town.

The town council was also not doing much to provide a workable environment that could lead to the development of the sector. The late provision of water and electricity to the SMEs was also hampering the development of the enterprises. The town council was not providing appropriate sites where the Zimbabwe Electricity Supply Authority (ZESA) could come and supply the electricity. Nonetheless the town council had done a lot of projects to assist the development of SMEs. A member of the town council argued that the council was providing land to most SMEs to do their work. An example was the site that was being developed in Chiwaridzo where the town council had built a durawall that will house the different SMEs.

In an interview with the Town Clerk of Bindura it was realised that the council was making frantic efforts to encourage local large enterprises like Trojan Mine, Ashanti Goldfields and Cottco to come up with projects that can assist in the development of SMEs. The major thrust of these projects would see these big companies building industrial estates that will house the SMEs. It is ironic that the LSEs like Trojan Mine and Ashanti Goldfields had so far been doing nothing to assist in
operations of these SMEs and that the majority of the entrepreneurs interviewed in Bindura were former workers of these mines. Thus the mines should assist their former employees. The Trojan Road Industry is closer to Trojan Mine and should at least get some form of assistance from the mine which had benefited from the labour of these entrepreneurs before they were laid off. There is need for corporate social responsibility to assist the entrepreneurs with their operations.

6.4.2 The Financial Services Sector

All the entrepreneurs who were interviewed argued that they had no access to loans from financial institutions. Lack of loans was identified as the major setback to the development of the SME sector in the town. The financial institutions in the town argued that only their offices in Harare processed loans. Their branches had no authority to give loans to members of the public.

Entrepreneurs argued that the major constraint was the unavailability of loans to finance their operations. The unavailability of loans meant that they could not afford to purchase raw materials and other necessary wares that could be used in the operations. In Chipadze Industrial Area 23% of the entrepreneurs identified the unavailability of loans as a major constraint in their operations. In the Durawall and Trojan Road Industry 36% and 35% respectively argued that unavailability of loans was hindering the development of their enterprises. It should be noted that inaccessibility of loans was the major constraint in all the areas. Entrepreneurs argued that there were no banking institutions that were offering loan facilities to them.

It should be noted that the impact of the unavailability of loans was mostly felt in Trojan Road Industry and the Durawall. In Chipadze Industrial Area the entrepreneurs were better positioned to
operate with low financial assistance. This is because most entrepreneurs had relied mostly on retrenchment packages as their initial capital injection when they started their businesses (Fig 4.3). This initial capital injection has helped the entrepreneurs to have sound businesses over the years. In contrast entrepreneurs from the other sites had mostly relied on personal savings and borrowed money to start businesses. It was realized that in Bindura there was a loan shark who was charging as much as 300% interest on loans. At the same time SEDCO was charging 50% interest on loans. Ten entrepreneurs said that they had accessed loans from the loan shark because they had failed to access any loans from SEDCO. This can impact negatively as they have to pay back money borrowed with the interest.

SEDCO a government funded agency that is supposed to give loans to entrepreneurs had done nothing to assist SMEs with loans. In FGDs it was argued that the presence of SEDCO in Bindura was unjustified. All the entrepreneurs that were interviewed reported that they had never accessed any loan from the agency. The entrepreneurs argued that it was better for the office to go back to Harare because it had failed the sole purpose that it was created for, that is giving loans. In an FGD one entrepreneur said,

*Chii chinonzi SEDCO? Inomboita nezvei chaizvo? Kuendako kopedza nguva. Ndaedza kukwereta mari kubva kuSEDCO since 1999. Hapana chavakandipa. Hatitombozivi kuti varikumboitei muno nekuti hapana munhu wandinoziva amboti apiwa mari navo. (What is SEDCO? It is a worst of time to go there. I have tried since 1999 to get a loan from them but I have failed. We do not even know why they are here in the first place, because they have not assisted anyone).*
In an effort to get a balanced view SEDCO representative in Bindura who operates from Harare, argued that the entrepreneurs were failing to meet the basic requirements for one to access a loan. The representative argued that for one to access a loan they were supposed to submit a project proposal and should have guarantee that they will pay back the loan. Applicants were also supposed to show records on their projects and collateral security in case of failing to repay the loan. The representative argued that all of the entrepreneurs in the town who had applied for loans, failed to meet the requirements thus they failed to access the loans. When asked how many had applied and how many had been successful the representative said he was not at liberty to divulge the information. Asked if all the entrepreneurs in Bindura did not qualify for the SEDCO loan the representative was not forthcoming.

In an interview with an official in the Ministry of Small and Medium Enterprise Development it was established that SEDCO was doing a sterling job in assisting SMEs in the country. When the situation in Bindura was highlighted to the official, he professed ignorance of the situation. He said that all he knew was that SEDCO was doing a good job. This shows that there was poor communication between SEDCO and the Ministry. SEDCO falls under the MSMED and is supposed to report to the Ministry. There was poor coordination in the Ministry. So SEDCO had failed to address the issue of financial assistance in Bindura.

Thus it can be argued that there were no linkages between the SME sector and the financial sector in Bindura. The unavailability of linkages between the two has led to a low purchasing power for the entrepreneurs. If they had access to loans the entrepreneurs could be able to buy more raw materials for their manufacturing activities.
6.4.3 **Access to Technology**

There was lack of adequate and up-to-date equipment in the SME sector. In Chipadze Industrial Area 37% of the entrepreneurs showed that lack of appropriate technology was also a hindrance to their operations. In the Durawall and Trojan Road Industry 24% and 25% respectively argued that lack of technology was a hindrance to the development of their enterprises. The limited availability of machinery affected the entrepreneurs’ capacity to expand their production. Entrepreneurs argued that if they had access to up to date technology they could improve their operations and increase the output of their products. Entrepreneurs involved in the manufacture of wood products argued that there was need for them to get access to new technology so that they can manufacture quality and many products. However it was very encouraging to note that SMEs in Bindura were using some machines in their operations (Plate 6.1-6.4).

**Plate 6.1: A brick moulding machine (Chipadze)**
Plate 6.2: A Freezit Making Machine (Chipadze)

Plate 6.3: Freezit Making Machine (Chipadze)
Plate 6.1 shows brick moulding making machine. This machine produced more bricks than using the manual hand moulding tools, which were used in the Durawall and the Trojan Road Industry. In the freezit making business it was found that the entrepreneur in Chipadze had also advanced technology compared to the others in the other sites. Plates 6.2 and 6.3 show the machinery used in freezit manufacturing in Chipadze Industrial Area while Plate 6.4 show freezit making machine from the Durawall. Comparing these two machines it was seen that the one from Chipadze was more advanced and produced 10000 freezits per hour while the Durawall machine produced 500 freezits per hour. This shows the disparities in terms of technological availability among the SMEs in Bindura.
It is interesting to note that Chipadze Industrial Area had more entrepreneurs who were prejudiced by the unavailability of new technology. The implication is that entrepreneurs in Trojan Road Industry and the Durawall had superior technological know how than those in Chipadze Industrial Area. The reason why more entrepreneurs in Chipadze Industrial Area needed more technology is that they wanted to replace the present machinery. The entrepreneurs argued that they now needed state of the art machinery to assist them in producing quality products. A case in point is one entrepreneur involved in brick making, he had needed advanced machinery that molded more bricks compared to the one he was using.

The impact that the use of obsolete technology had on the quality of output and production efficiency was great. Other problems that most entrepreneurs mentioned included lack of technological know-how to repair the machines, they also cited unavailability of spare parts in Bindura. The entrepreneurs had to travel all the way to Harare to repair their machines. This proved to be costly in terms of money and man-hours lost travelling to and from Harare.

Another activity that also needed new technology was the production of steel products. Entrepreneurs were using obsolete machines to produce their products. Entrepreneurs were actually sharing some of their tools they use in the business. This sharing of tools among entrepreneurs was leading to the loss of many man-hours as entrepreneurs waited for other entrepreneurs to finish using the machines. Thus entrepreneurs were appealing to the government and private sector to offer them loans they can use to buy the tools they need in their operations.
Such problems relating to machinery could be associated with lack of access to finance. With no access to finance, entrepreneurs could not buy sophisticated machines to expand their activities.

6.4.4 Infrastructure

Lack of infrastructure was another problem faced by most entrepreneurs, 7% of the entrepreneurs in Chipadze Industrial Area, 12% in the Durawall and 10% in Trojan Road Industry identified lack of infrastructure as affecting their operations. A visit to some of the enterprises confirmed the need to offer the SMEs with a suitable working condition. It is important to note that the issue of provision of infrastructure was mostly pronounced in the Durawall and Trojan Road Industry. This is because entrepreneurs in these areas solely depend on the town council for the provision of infrastructure. In the Durawall the entrepreneurs cannot make any physical improvements to their structures because they belong to the council. In the Trojan Road Industry entrepreneurs have not been offered any assistance from the local government. In Chipadze Industrial Area the situation was different because the entrepreneurs own the premises they are working in, thus they improve their own industrial sites.

Entrepreneurs in Chipadze Industrial Area argued that the most important infrastructural development they required was the extension of the tarred road so that it covers all the industrial area. It was discovered that the tarred road was only found in the old parts of the industrial area. The industrial area is however expanding so there was need to put tar on the new roads so that the area would be accessible even during the rainy season. During FGDs some entrepreneurs who have businesses in the new area argued that the unavailability of the tarred road was hampering their operations during the rainy season. The entrepreneurs also argued that ZESA was taking long to
connect electricity in their establishments. However it was discovered that all entrepreneurs in the area had access to electricity.

In Trojan Road Industry entrepreneurs argued that they needed industrial shells like the Durawall where they can carry out their operations. In the Durawall the main problem was the unavailability of concrete surfaces. The entrepreneurs argued that they needed concrete surfaces so that they can be able to work even during the rainy season.

In interviews that were carried out most entrepreneurs argued that there was need for the local government to build suitable sites for their operations. Such sites should ensure that entrepreneurs do their business regardless of weather conditions. The Town Clerk concurred with the entrepreneurs and he said that the only limiting factor was the unavailability of funds to develop the areas. But he argued that council was looking for alternative sources of funds to develop the areas.

6.4.5 Markets
The whole purpose of forming a business is to produce and market products efficiently. The effect of lack of capital on the marketing of SME products was also in evidence. Many entrepreneurs showed interest in marketing their products, but felt that advertising in the provincial paper was very expensive. As a result entrepreneurs depended on the less expensive and time consuming methods such as door–to–door and word–of–mouth marketing. This type of marketing did not reach many people and it was only restricted to areas surrounding the town. Thus there was need for the entrepreneurs to advertise in the local provincial paper so that they can reach other people in the province other than Bindura.
All entrepreneurs argued that the slow repayment of debts by some customers was a serious threat to the growth of their businesses. The entrepreneurs relied on deposits and repayments to buy materials. If repayments were not made, production was likely to drop, as the entrepreneurs would not have capital to buy raw materials. Entrepreneurs had to go out and collect the debts, which was time consuming and very costly.

Competition from established business also threatened the survival of most SMEs in the town. The entrepreneurs argued that they had to compete for customers with the established businesses. To win these customers SMEs were supposed to produce quality products that could compete with those from the established businesses.

In interviews that were carried out with the various entrepreneurs it was argued that economic hardships have also forced their market to dwindle. Potential customers were now failing to come and buy from the SMEs because their income was eroded by the high inflation rates.

6.4.6 Economic and Political Environment

The prevailing macro economic environment was also affecting the operations of different industrialists in the area. The high interest rates pegged at 150%, runaway inflation rates which was 345% (as of October 2003) and the high cost of raw materials were all affecting the operations of various industrialists. The high interest rates meant that it was now very costly to borrow money because you would be charged an interest rate of more than 100%.
The political environment in the town also played a role in the development of the sector. Some entrepreneurs were not doing their business freely due to political persecution in the area. This was because of the polarisation of the political environment in the town. It was difficult to get loans from the government once you were labeled as an opposition party member. One entrepreneur actually had his business destroyed after he was seen wearing opposition regalia. Thus there was need for the town leaders to separate party politics and economic development. All the entrepreneurs should have equal access to services provided by the town authorities and government.

6.5 Ways of improving the operations of the SMEs in Bindura

The SME sector in Bindura could be developed if only a conducive environment can be developed in the town. A lot of factors have been hindering the development of SMEs in the town. Most entrepreneurs argued that Bindura town had a lot of potential in the development of a vibrant SME manufacturing sector. A successful manufacturing sector led by SMEs can lead to the birth of LSEs. SMEs have been viewed as the seedbed for future industrial development (Havenga, 2001; Looye, 1998; Helmsing, 1993).

The government should take a leading role in the assistance of SMEs. The government should make available funds that are accessible to all entrepreneurs regardless of their religious beliefs or political affiliation. The requirements for the loans must not be time consuming and rigorous to the entrepreneurs as is the case with loans from most financial institutions. It was very disturbing to note that no entrepreneurs had received any form of assistance from the government. The government is supposed to lead by example so that other players would assist the sector. International studies have shown that unless the government is committed, the SME sector will
continue to be a shadow of the formal industrial sector (Grossruck, 2000; Martin, 2002; Pedersen 1998).

In developed countries governments have pursued programmes of industrial development in peripheral regions, the notable examples include Italy and Austria. In the former the government came up with an integrated programme to develop industry in the Mezzorgino region in Southern Italy which is a peripheral region. The programmes included the provision of infrastructure such as industrial estates and shells. This has seen a lot of small firms developing in this area (Grossruck, 2000; Brusco 1989; Trigilia, 1989). In Austria the government also provided SMEs with developed infrastructure and industrial shells for their activities (Grossruck, 2000; Sogut, 1997). Thus the Zimbabwean government should formulate an integrated programme that can assist SMEs in their operations.

The local government should also assist in the operations of the SME sector. Infrastructural development should be a priority for the local government. The town council in Bindura provided SMEs with land for their operations, although this can be applauded there is need to do more so that SMEs will have some where to carry out their operations. The town council should provide industrial estates and shells for the SMEs, these should have electricity, water and other necessities.

Entrepreneurs should then pay monthly rentals to the council for these services. In this case both the SMEs and the council will benefit because the council will realise the much needed revenue from the rentals. In the Northern Province of South Africa the local government developed industrial estates for the operations of SMEs, and it was realised that the SME sector in this region benefited a
lot from this programme (Choshi, 1996). Thus Bindura Town Council can also assist the SME sector by provision of such infrastructure.

The availability of a railway line in Bindura can stimulate the development of industry in the town. It was realised that the railway line that passes through Bindura from Harare to Shamva was not being utilised in the town. The presence of this railway line can be a great advantage to industrial development. It provides a link with Harare. This could make it easier for the transportation of bulk goods between the two centres. It was realised that the railway line was only utilised by the mining companies. The local authorities can actually exploit the railway line to stimulate the development of industry in the town.

A number of different stakeholders have an interest in the development of SMEs. These include government ministries, private sector, NGOs and individuals (Fig 6.5). The involvement of these different agencies in the provision of assistance to SMEs tends to result in a lack of continuity as well as lack of co-ordination. There is therefore a need to make sure that all stakeholders involved in the assistance of SMEs follow a laid down procedure to avoid duplicating of services to the SME sector. Most entrepreneurs in Bindura showed that they did not know that there were any agencies that could assist in their operations. It was realised that in the town there was an office of SEDCO which is a government funded institution, and yet some entrepreneurs did not know of its existence. Most surveyed entrepreneurs also professed ignorance of the existence of a Ministry of Small and Medium Scale Enterprises that was set up specifically to look at the ways of developing the SME sector. There is need on the part of all service providers to SMEs to co-ordinate their efforts if their impact is to be felt by the intended beneficiaries.
There is need to set up SME Support Centres in Bindura to provide all the necessary information to the various entrepreneurs in the town. It was disturbing to note that the entrepreneurs in the town did not have a committee that was set up to look into their operations. The SME Support Centres may be the right representation for the entrepreneurs as it offers the SMEs a platform to air their grievances. Currently the SMEs had no representation at meetings that concern their welfare.

Government backed industrial bodies such as Small Enterprise Development Corporation (SEDCO), Venture Capital Company of Zimbabwe (VCCZ) and the Credit Guarantee Company of Zimbabwe (CGCZ) and industrial bodies such as Confederation of Zimbabwe Industries (CZI) and Zimbabwe
National Chamber of Commerce (ZNCC) which offer assistance to SMEs in the form of training and information should be supported by government. And there is need to improve their services to the SME sector.
CHAPTER 7

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

This study sought to assess the contribution of small and medium scale enterprises (SMEs) to the manufacturing sector in Bindura town. It has been realised that most peripheral and small towns both in developing and developed countries tend to lag behind in terms of industrial development compared to other areas. Bindura being a small town was no exception, large companies have been reluctant to locate to the town to do their business, thus this has led to the development of SMEs that try to cover this gap.

7.2 Summary

The study has shown that the SME sector can be very instrumental in the development of industry in small urban centres such as Bindura. In a survey that was carried out in the town no large scale enterprise that was engaged in manufacturing activities was identified. SMEs were the backbone of the manufacturing sector in the town. The survey was centred on three industrial sites these were Chipadze Industrial Area, the Durawall and Trojan Road Industry. A total of 75 SMEs, 30 in Chipadze Industrial Area, 25 in the Durawall and 20 in Trojan Road Industry were surveyed in the study and it was realised that these SMEs were engaged in different manufacturing activities. The majority of the SMEs were involved in carpentry (43%) and steelworks (27%). The other manufacturing activities included softdrink manufacturing (11%), brickmaking (9%), clothing (5%), soap manufacture (4%) and exercise book manufacture (1%). These were the main manufacturing
activities that were in Bindura. The SMEs manufactured different products that were used by the public in the town.

The SME sector in Bindura provided employment to some people in the town. Of the 75 enterprises that were surveyed a total of 342 jobs were created. These were people who were directly linked to the operations of the different SMEs. The SMEs created an average of 4.5 jobs in the town. This shows the potential of SMEs to create the much needed employment.

The research revealed that there were many factors that were hindering the development of the sector in Bindura these include the lack of government support, unavailability of loans, lack of support from local authorities and under developed infrastructure. There was need to support the SME sector so that it can realise its full potential. The chief culprit was the government, which has failed to offer any assistance to the various SMEs. The local authorities in Bindura were assisting the sector, however their assistance was uncoordinated and unplanned, there was need for the local government to come up with an integrated programme to assist the SMEs.

The study showed that there were weak linkages between the SME sector and the financial institutions. All the interviewed entrepreneurs reported that they did not receive any assistance from financial institutions. They all had applied for loans from various institutions but were turned away. The major reason for the failure of getting loans included unavailability of collateral security on the part of the entrepreneurs. Many entrepreneurs had no collateral security and this meant that they could not access loans from banks. Many entrepreneurs argued that there was need for government
to assist SMEs in accessing loans from financial institutions, the government can be the surety in case the entrepreneurs fail to pay back the loans.

The study has established that SMEs offer better options for the public in times of economic hardships. While prices in established enterprises continue to rise, SMEs offer cheaper goods. This however does not mean that goods from the SMEs are of poor quality. Many members of the public have shown that given the high inflationary environment in Zimbabwe it was viable to buy goods from the SMEs. Their credit terms were affordable, they did not charge interest on goods on credit. Most people who were building houses benefited from the SMEs, they have bought building material i.e. window frames, door frames and doors from the SMEs. Most of these items cost less than 50% of the price in most established enterprises.

7.3 Conclusion

The study has shown that the SME sector is a very important component of industrial development in small urban centres. The study showed that in Bindura there were no large scale manufacturing activities. All the manufacturing activities were restricted to the SME sector. This shows the importance of the SME sector in industrial development in small urban centres. Since LSEs tend to shun operating in small towns, the vacuum is usually filled by SMEs as was the case in the town of Bindura.

Despite the importance of the SME sector in Bindura it was realised that the sector was poorly developed. The sector lacked support from the local government and the central government to enable it to realise its full potential. Entrepreneurs in the Trojan Road Industry argued that the town
The council was virtually doing nothing to assist in their operations. There is need for local council to mobilise other private players in the town to assist in the development of the SME sector in the town.

The study also showed that SMEs do not develop solely because of their internal capabilities. The success of the sector depends on a lot of factors. There is need for all stakeholders to be involved in the development of the sector. In Bindura town it was realised that the SME sector was poorly developed due to a host of problems. There was no co-ordination among the SMEs themselves. The government and local government were not doing much to assist the operations of SMEs in the town.

However for SMEs to develop to their full potential there is need for support from all the players in the country, i.e. government, local authorities, private sector and NGOs. It was disturbing to note that in this survey none of the entrepreneurs had received support from government. The government should take a leading role in supporting the sector, so that the other players would join in. There is also need to engage SMEs in the different programmes that need to be implemented. It was remarkable to note that only 11% of the entrepreneurs knew of the existence of the Ministry of Small and Medium Scale Enterprises. This shows that the government was not doing enough to advertise itself to the SMEs in different areas. There is need for the government to publish newsletters that target SME entrepreneurs and give them information on how government assists in their operations. The newsletters should also contain information on various stakeholders who can assist in the operations of SMEs.
Another critical area of concern relates to the organisational dimension of SME production. From international experience it has been argued that programmes intended to promote and develop small enterprises should facilitate the creation of clusters of small enterprises (Brusco, 1989; Trigilia, 1989; Grossruck, 2000). This policy proposal is based on the assumption that if small enterprises are grouped together they obtain economies of scale and scope similar to those large enterprises. The success of such clusters is believed to be through the joint design of products, purchase of raw materials, joint use of equipment, transport vehicles, joint production, financing, marketing, advertising, distribution, research and development. Thus there is need to ensure that SME are located in the same localities, as this will ensure easier development of infrastructure that is needed by the various SMEs. As noted earlier building of industrial shells and industrial estates can achieve these goals.

It would be interesting to give an explanation to the development of the SME sector in Bindura based on the theories that have been described in section 2.2 of this thesis. There are two theories that seem to give a satisfactory explanation to the sector in Bindura, these are the recession push theory and the liberalisation theory. The recession push theory argues that SMEs developed in response to the unemployment created by turbulent economic conditions. In Zimbabwe there is rising unemployment and the formal sector is failing to employ all the people. As a last resort these people join the SME sector as a survival strategy. The Town Council argued that since the SAPs of the early 1990s the mining sector has retrenched a lot of people and these people have been operating in the informal sector ever since. The development of the sector in Bindura can also be explained by the liberalisation theory where government introduces policies that encourage the growth of the sector. The theory advocated for the adoption of deregulation as a policy instrument.
This meant the abolition or simplification of licensing procedures, by-laws indicating where and how enterprises can operate. Although the above theories may not be true reasons of the development of the SME sector in Bindura they assist policy makers on how the sector has been developing in the area.

In conclusion it can be argued that the development of SMEs requires an integrated approach in terms of provision of support services, finance, marketing, training and networking of enterprises. The government should take a leading role in this area, so that other stakeholders can follow suit.

## 7.4 Recommendations

The SME sector does not develop solely because of its own internal capabilities. The success of this sector is affected by a host of external factors. Generally the sector needs an overall enabling environment, which allows SMEs to operate efficiently. As have been noted earlier the SMEs form the backbone of manufacturing sector in Bindura. SMEs make a significant contribution to economic development in general and in industrial development in particular.

Thus the importance of the SME sector should not be overlooked in the development of industrial growth in developing countries. For the sector to reach its full potential there is need to set up policies that favour the development of SMEs. This section looks at the recommendations that can pave a route to the development of the sector in small towns in developing countries. However, special emphasis will be placed on the study area.

The study has shown that the SME sector in Bindura is failing to reach its full potential because of many factors such a financial, economical and institutional. There is need to come up with policies
that foster the development of SMEs in the town. The basic framework for fostering the development of SMEs can be divided into four parts:

(1) basic support systems must be in place before further progress can be made;
(2) more assistance is required with certain external resources;
(3) SMEs need assistance with some internal resources; and
(4) Entrepreneurs should receive more assistance with start up capital.

There is need for an overall framework for fostering the development SMEs (Fig 7.1). The legal and taxation system must support the growth and development of small firms. In Bindura most entrepreneurs were complaining that the local town council was charging very high rates to the SMEs. This has deterred the development of many entrepreneurs as they have failed to come up with the required levies. There is need to relax the taxation system by charging low taxes or giving tax rebates so that it encourages the growth of the SME sector this could attract more players in the SME sector.

In terms of external resources, there is need for the government and local town council to source assistance from the private sector so that the manufacturing sector in Bindura can be developed. All the entrepreneurs argued that lack of funding was the major hindrance to their development. SMEs also need assistance in terms of technology, new technology increases efficiency of production in the SMEs. The survey showed that most entrepreneurs were using obsolete technology in their operations.
The survey showed that there was no networking among the SMEs that were interviewed. Subcontracting which is a major characteristic of a successful SME sector was non-existent in Bindura. The major reason for this absence was the lack of supporting industries in the town. Supporting industries are mostly bigger companies that assist the development of the SME sector.
Supporting industries also provide machinery and manufacturing firms with material processing services such as cutting, pressing, polishing and plating. This was not present in Bindura.

In terms of internal assistance there is need for training the entrepreneurs on how to run efficient business. A few entrepreneurs that were surveyed showed that they had been trained on how to run their enterprises. The training would help to improve the quality of management. Entrepreneurs may also be trained to perfect their trades in different vocational training colleges like the Chindunduma Training Centre (Mount Darwin), Ruwa Vocational Training Centre and the Kaguvi Training Centre in Madziwa. Thus government has to build more of these colleges to train most of these entrepreneurs. The entry requirement for these colleges should not be only formal education such as 5 O levels but experience can also be used as a requirement.

7.4.1 Improving Access to Finance

Lack of finance is one of the major difficulties facing SMEs. It is difficult for the SMEs to borrow from banks, which prefer to lend to established businesses. To improve the situation the government has to provide security for loans provided to entrepreneurs. It can act as a surety for loans given to SMEs, just like it is doing for farmers accessing loans from Agribank. The government must follow up on SEDCO to make sure that it provides assistance to entrepreneurs in small towns. In the survey most of the entrepreneurs who approached SEDCO for financial assistance were turned away because of lack of collateral.

The Venture Capital Company of Zimbabwe (VCCZ) must also be decentralised so that it caters for the entrepreneurs who are out of big towns. The government has to provide venture capital so that
SMEs has access to financial assistance. There is also need to make sure that VCCZ and SEDCO reach the grassroots, where financial assistance is needed most, rather than being restricted to large cities, so a nation-wide network has to be established so that all SMEs have access to capital.

Improving financial assistance will have a ripple effect on the operations of the entrepreneurs as it will enable them to access high technology and thus improving the products they produce. Capital is the heartbeat of any industrial activity, without it there is no survival. Therefore the availability of finance to the SMEs will ensure their survival in the harsh economic environment they are operating in.

### 7.4.2 Development of Premises

Most SMEs in Bindura do not have their own premises to carry out their operations. Currently most of the entrepreneurs are operating from open spaces in the town, whilst some are operating from the "durawall" that was built by the town council. The facility offered by the town council has no necessary facilities to allow manufacturing activities to take place. Entrepreneurs have argued that the structure is too small for their operations. It is difficult for the entrepreneurs to invest in this structure since it does not belong to them. Finding premises is therefore a major problem for the entrepreneurs. To help solve this problem the town council can:

1. Offer the SMEs some land around the town so that they can set up their businesses in this area.
   
   This land can be allocated during the ongoing land distribution programme. However there is need to service the land before handing it over to the entrepreneurs.
(2) Government can build industrial shells or industrial estates to offer industrial premises to the different SMEs in the town. This has worked in some developing countries like South Africa, where the government encouraged the SMEs to be located in these estates.

If industrial premises are available in Bindura this can improve the quality of the products that are manufactured in the sector. At the moment SMEs are operating in a tough environment.

7.4.3 Technology Transfer and Supporting Industries. (SI)

The technological level of most if not all the SMEs in Bindura was very low. Obsolete technology was evident in most of the enterprises that were surveyed. Some entrepreneurs were exchanging some of their tools, as some had no access to some of these tools. It is important that manufacturers of building material and furniture upgrade their processing technology so that they can compete with established businesses. They can even supply the foreign market if they get the required support from government and private sector.

There is need for SMEs to receive more assistance with technological transfers. Research can be carried out to identify the necessary technology required in the town. It is also important to have centres that would assist in the training of entrepreneurs on how to use different tools in their various trades. Established companies that are involved in similar activities as those of some SMEs such as carpentry and steel working should take the initiative to go to small towns to assist with the technological transfer since these companies have the capacity and access to get new technology. Such companies include Springmaster and TEDCO, these can subcontract some of the SMEs so that they can be technological transfer from the LSEs to the SMEs.
Technical Support Centres should be established to enable SMEs to share production and testing equipment, and receive training in production technology and information technology. It is important to have an organisation that will assist the entrepreneurs with quality control, as this will ensure good quality products that will be sold to the public. This organisation can be in the mould of the Standards Association of Zimbabwe (SAZ) to ensure that SMEs follow ethical procedures in the production of their various products.

As have been noted earlier there was no subcontracting and networking between SMEs and LSEs in the town. This shows that industrial development in Bindura is very low. The unavailability of established businesses has affected negatively the development of the SMEs. Bindura can attract LSEs if the town council offer incentives to the companies. The presence of infrastructure such as roads, and the railway line can be used by the town council to lure investors to the town. Bindura being a provincial capital can be attractive to some companies. The council can offer cheap land, low taxes and rentals as a way of attracting bigger companies that will in turn stimulate the development of SMEs through subcontracting and flexible specialisation. This can be seen in the development programmes in developed countries where governments encouraged large companies to locate in peripheral regions so that these companies will act as stimulants to SME development. This was successful in Italy, Turkey and Austria (Goodman et al, 1989; Triligia, 1989; Sogut, 1997).

7.4.4 Training

Most interviewed entrepreneurs in Bindura showed that they lack managerial and technical skills to operate their enterprises. There is need to develop policies for developing the entrepreneurs in order to improve the quality of management. There is also need to train more government employees involved in SME development. This would ensure that all sectors involved in the development of
SMEs have basic information on how to develop the SME sector. If the above recommendations are to be followed it would do a lot of positive development to the SME sector in Bindura. The town has a lot of potential in the development of the SME sector.
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APPENDICES

APPENDIX 1 THE QUESTIONNAIRE

University of Zimbabwe

I am a student from the Department of Geography and Environmental Science and I am assessing the contribution of Small and Medium Scale Enterprise (SMEs) to the Manufacturing Sector in Small Urban Centres with specific reference to Bindura Town. I would be grateful if you answer the questions below that might help me achieve my objectives.

1  Sex of the entrepreneur

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
</tr>
</tbody>
</table>

2  Age of entrepreneur

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>&lt;20</td>
<td></td>
</tr>
<tr>
<td>20-35</td>
<td></td>
</tr>
<tr>
<td>36-50</td>
<td></td>
</tr>
<tr>
<td>&gt;50</td>
<td></td>
</tr>
</tbody>
</table>

3  Level of education of the entrepreneur

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No Primary education</td>
<td></td>
</tr>
<tr>
<td>Primary Education</td>
<td></td>
</tr>
<tr>
<td>Secondary education</td>
<td></td>
</tr>
<tr>
<td>Tertiary Education</td>
<td></td>
</tr>
</tbody>
</table>

4(a) Do you have any training related to the business activity that you are involved in?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

4(b) If yes to 4(a) where did you get the training

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------
4 (c) If no to 4(a) how did you learn the trade you are involved?

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------

5(a) How many employees do you have?

<table>
<thead>
<tr>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
</table>

5(b) Do you have any employees with tertiary or professional qualifications, including apprenticeship training?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

5 (c) If employees are not trained how do they acquire the necessary skills to perform their duties?

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------

-------------------------------------------------------------------------------------------------------------

6 How long have you been operating?


7 What is the type of your business?

<table>
<thead>
<tr>
<th>Sole Proprietor</th>
<th>Co-operative</th>
<th>Private Limited</th>
<th>Company</th>
<th>Other (Specify)</th>
</tr>
</thead>
</table>
8. What is your firm involved in?

<table>
<thead>
<tr>
<th>Craft</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Carpentry</td>
<td></td>
</tr>
<tr>
<td>Shoemaking</td>
<td></td>
</tr>
<tr>
<td>Welding</td>
<td></td>
</tr>
<tr>
<td>Basketry</td>
<td></td>
</tr>
<tr>
<td>Drinkmaking</td>
<td></td>
</tr>
<tr>
<td>Brickmaking</td>
<td></td>
</tr>
<tr>
<td>Steelworks</td>
<td></td>
</tr>
<tr>
<td>Tailoring</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

9(a). Where do you source your raw materials?

<table>
<thead>
<tr>
<th>Location</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bindura</td>
<td></td>
</tr>
<tr>
<td>Harare</td>
<td></td>
</tr>
<tr>
<td>Shamva</td>
<td></td>
</tr>
<tr>
<td>Glendale</td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>

9(b). How easy is it to assess the raw materials?  

10. Where do you sell your products?

<table>
<thead>
<tr>
<th>Location</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bindura</td>
<td></td>
</tr>
<tr>
<td>Harare</td>
<td></td>
</tr>
<tr>
<td>Shamva</td>
<td></td>
</tr>
<tr>
<td>Glendale</td>
<td></td>
</tr>
<tr>
<td>All the above centres</td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>

11(a). How do you market your products?

<table>
<thead>
<tr>
<th>Method</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic media</td>
<td></td>
</tr>
<tr>
<td>Newspapers</td>
<td></td>
</tr>
<tr>
<td>Magazines</td>
<td></td>
</tr>
<tr>
<td>Signposts</td>
<td></td>
</tr>
<tr>
<td>Word of mouth</td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>
11(b) Is your way of marketing your products effective?

Yes
No

11(c) If no to (b) what can be done to improve the marketing of your products

12(a) Who are the main buyers of your products?

Lower class
Middle class
High class
All the above

12(b) Give reasons

13(a) Has there been an increase in your firm’s output over the years?

Yes
No

13(b) Give reasons

14(a) Has your firm expanded (i.e. employees and capital base) over the years?

Yes
No
14(b) Give reasons--------------------------------------------------

15(a) Do you export any products?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

15(b) If yes state them -------------------------------------------

15(c) If no, why, and do you foresee your firm exporting in the near future-----------------

16(a) Do you use foreign currency in your operations?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>
16(b) If yes what do you use it for------------------------------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------------------------------

17(a) Rank your main competitors in the business

<table>
<thead>
<tr>
<th>Option</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Small and Medium Enterprises</td>
<td></td>
</tr>
<tr>
<td>Large Scale Enterprises</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td></td>
</tr>
<tr>
<td>Enterprises outside Bindura</td>
<td></td>
</tr>
<tr>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

17(b) How are you surviving the competition in the business------------------------------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------------------------------

18(a) Do you have access to new technology?

<table>
<thead>
<tr>
<th>Yes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

18(b) If yes how has this contributed to the development of your business------------------------------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------------------------------

18(c) If no how has this affected the operations of your business------------------------------------------------------------------------------------------------------------------------

------------------------------------------------------------------------------------------------------------------------
18(d) What are you doing to access the technology? 

19(a) Do you benefit from the operations of Large Scale Enterprises (LSEs) or vice versa? 

Yes  
No

19(b) Explain 

20 How do you benefit from the operations of other SMEs in the town? 

21 How have your operations benefited from the fast track land resettlement programme? 

22 How can the linkages between SMEs and other sectors be strengthened? 

24(a) Do you get loans from banks? 

Yes  
No
24(b) If yes was it easy to get the loan?

24(c) If no why did you not access the loan from the bank?

24(d) How does the unavailability of loans affect the operations of your business?

25 Do you get any assistance from the government?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

26 What type of assistance do you expect from the government?

27 How is the local government/council assisting in your operations?

28 Are there any Non Governmental Organisations (NGOs) assisting in your operations?

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
28 What are the main problems you are facing in your operations?

<table>
<thead>
<tr>
<th>Access to technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to loans</td>
</tr>
<tr>
<td>Infrastructure</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

30 What can be done to overcome the problems mentioned above?

31 How is the SME sector contributing to the community in Bindura?

32 What are your monthly sales?

THANK YOU FOR YOU’RE YOUR COOPERATION
APPENDIX 2 TOPIC GUIDE FOR FOCUS GROUP DISCUSSIONS

1. Is it easy to register with the town council when you want to operate a business?
2. What are the procedures for registration?
3. Which is the main manufacturing activities that are found among SME entrepreneurs?
4. How do you access raw materials that are needed for your operations?
5. What assistance do you get from the town council to smoothen your operations in Bindura?
6. How has the government assisted you in your operations?
7. What sort of assistance do you expect to get from government and town council?
8. Has the private sector assisted you in your operations?
9. What are the main hindrances to your operations?
10. What can be done to improve your operations?
11. Given the harsh economic conditions in the country how are you surviving?
APPENDIX 3 QUESTIONNAIRE FOR TOWN COUNCIL AUTHORITIES

University of Zimbabwe

I am a student from the Department of Geography and Environmental Science and I am assessing the contribution of Small and Medium Scale Enterprise (SMEs) to the Manufacturing Sector in Small Urban Centres with specific reference to Bindura Town. I would be grateful if you answer the questions below that might help me achieve my objectives.

1  Approximately how many SMEs are registered with your council?-----------------------------

2  How can one register if they want to operate their SMEs?----------------------------------

3  What have done to encourage the operations of SMEs in Bindura town?---------------------

4  How does the town council benefit from the operations of SMEs---------------------------

5  How is council assisting SMEs in their operations-----------------------------------------

6  How do people in Bindura benefit from the activities of SMEs------------------------------

-------------------------------------------------------------------------------------------
<table>
<thead>
<tr>
<th></th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Do you think SMEs has the potential to induce industrial development in Bindura?</td>
</tr>
<tr>
<td>8</td>
<td>What can be done to assist the operations of SMEs in Bindura?</td>
</tr>
</tbody>
</table>
I am a student from the Department of Geography and Environmental Science and I am assessing the contribution of Small and Medium Scale Enterprise (SMEs) to the Manufacturing Sector in Small Urban Centres with specific reference to Bindura Town. I would be grateful if you answer the questions below that might help me achieve my objectives.

1. How does your organisation define a Small and Medium Scale Enterprise (SME)?

2. What are the requirements for SMEs to get loans?

3. Is it easy for SMEs to access loans from your association?

4. How many SMEs have applied for loans from your organisation?

5. Of those who applied for loans how many have succeeded?

6. How many SMEs have failed to get loans?

7. What are the reasons for their failure to assess the loan?
8 What have you done to assist the operations of SMEs in Bindura?

9 What do you think can be done to assist in the development of SMEs that are engaged in manufacturing activities?

10 As an organisation what do you think are the prospects of the SME sector in Bindura?

11 Do you think SMEs can lead to industrial development in small urban centres like Bindura?
I am a student from the Department of Geography and Environmental Science and I am assessing the contribution of Small and Medium Scale Enterprise (SMEs) to the Manufacturing Sector in Small Urban Centres with specific reference to Bindura Town. I would be grateful if you answer the questions below that might help me achieve my objectives.

1. How do you define a SME as a Ministry?

2. What is your role in SME development in places like Bindura?

3. How has your ministry assisted in the development of SMEs in small urban areas like Bindura?

4. Do SMEs have a role to play in the development of manufacturing industry in Zimbabwe?
5 How can SMEs contribute meaningfully to industrial development in urban areas like Bindura?

6 How can SMEs be integrated in the main stream economy?

7 How can the activities of SMEs be encouraged in small urban centres like Bindura?

8 How do communities in Bindura benefit from the activities of SMEs that are engaged in manufacturing activities?

THANK YOU FOR YOUR COOPERATION