

FinScope MSME Survey Zimbabwe 2012



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The survey was carried out under the auspices of the **Ministry of Small and Medium Enterprises and Cooperative Development** and funded by the Multi Donor Trust Fund headed by the World Bank.

A **Steering Committee** chaired by the Ministry of Small and Medium Enterprises and Cooperative Development was set up, which comprised representatives from FinMark Trust, ZIMSTAT, Ministry of Industry and Commerce, Ministry of Finance, Ministry of Youth Development, Indigenisation and Empowerment, Ministry of Gender, Women Affairs and Community Development, Ministry of Tourism, Bankers Association of Zimbabwe, Insurance Council of Zimbabwe, Insurance and Pensions Commission, Reserve Bank of Zimbabwe, Zimbabwe Association of Microfinance Institutions, Confederation of Zimbabwe Industries, Zimbabwe National Chamber of Commerce, and Zimbabwe Council for Tourism. These stakeholders played an integral role in the design of the survey questionnaire and provided valuable insight into the MSME sector.

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Acronyms and abbreviations

AU	The African Union
BOP	Balance of Payments
COMESA	Common Market for Eastern and Southern Africa
DiMAF	Distressed Industries and Marginalised Areas Fund
EA	Enumeration Area
ESAP	Economic Structural Adjustment Programme
Est.	Estimate
GDP	Gross Domestic Product
HH	Household
IDP	Industrial Development Policy
IG	Inclusive Government
LSE	Large Scale Enterprise
MFI	Micro-Finance Institution
MSME	Micro, Small and Medium Enterprises
MSMECD	Ministry of Small and Medium Enterprises and Cooperative Development
MTP	Medium Term Plan
NSSA	National Social Security Authority
PAYE	Pay as you earn
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SPSS	Statistical Package for Social Sciences
SEDCO	Small Enterprises Development Corporation
SEDCO Act	Small Enterprises Development Corporation Act (2012)
SME	Small and Medium Enterprise
SNV	Netherlands Development Organisation
STERP	Short Term Economic Recovery Programme
VAT	Value-added tax
ZAMFI	Zimbabwe Association of Micro-Finance Institutions
ZIDB	Zimbabwe Infrastructure Development Bank
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZIMRA	Zimbabwe Revenue Authority

Definitions

TERM	DEFINITION
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum
Adults	Those people aged 18 years or older
Banked	Individuals using one or more traditional financial products supplied by commercial banks
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money
Demand-side barriers	Demand-side barriers to access financial services relate to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions
Enumeration Area (EA)	Enumeration area (EA) is a well identified territorial unit containing the prescribed population size (usually about 80 to 120 households) in which enumeration is to be carried out by a single enumerator within a specified period of enumeration. Each EA has a unique 10 digit geo-code that reflects the province, district, ward and land use sector in which it is located
Formal products	Products provided by government regulated financial institutions such as commercial banks, insurance companies and microfinance institutions
Formal other	Financial products/services supplied by formal financial institutions which are not banks
Formally included	MSME owners using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products
Financial access landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance
Financially served	MSME owners using one or more formal and/or informal financial products/services
Financially excluded	MSME owners who are not using any formal or informal financial products/services
Financial inclusion	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal
Informal products	Financial services provided by individuals and/or associations which are not regulated by government such as savings clubs and private moneylenders
Informally only served	MSME owners who are not using any formal financial products but who are using one or more financial products/services supplied from an informal source, such as a savings club or informal moneylender
Informally served	MSME owners who make use of informal financial products (regardless of whether or not they use formal financial services and products)



TERM	DEFINITION
MSME	Micro, small and medium enterprises (MSMEs) are defined by the number of employees (according to the Small Enterprises Development Corporation Amendment of 2011) including individual entrepreneurs (0 employees), micro businesses (1 to 5 employees), as well as small businesses (6 to 30/40 employees – depending on the sector) and medium size businesses (31/41 to 75 employee. MSMEs also include agricultural activities if 50% or more of the produced goods are sold
Insurance	Payment of a premium for risk of an event happening, where payout is made if or when the event occurs
Savings	Safeguarding and accumulating wealth for future use
Supply-side barriers	Supply-side barriers to access to financial services relate to factors inherent to financial service providers that prevent individuals from using their services such as location of access points and the cost of using their services
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments

Note: Some graphs add up to more than 100% due to multiple mentions, i.e. the respondent could give more than one answer. As such, the graph includes overlaps in responses and cannot be added to 100%.



Executive summary

This report provides a synthesis of the findings from the FinScope MSME Survey, which was carried out in Zimbabwe in 2012. This study was initiated by the Zimbabwe Ministry of Small and Medium Enterprises and Cooperative Development and FinMark Trust, with funding provided by the Multi Donor Trust Fund, led by the World Bank. The primary aim of the research was to describe the micro-, small-, and medium- business sector in Zimbabwe as well as the key challenges MSME owners face (with particular focus on their financial service's needs) – and as such close the information gap, which exists especially for unregistered businesses (mainly individual and micro entrepreneurs). This information helps to identify and design appropriate support programmes for the whole sector; determining policy direction and relevant financial products and services to address the needs of the MSME owners in Zimbabwe.

The survey involved a comprehensive listing exercise and interviewing a nationally representative sample of 3 222 MSME owners (18 years and older; including those who employ 75 people or less, as well as individual entrepreneurs without any employees).

This research report provides an overview of the whole project, its topline findings and the issues arising from the study. In particular it contributes to the understanding of critical factors impacting small-scale entrepreneurial activity in Zimbabwe.

Key findings

PEOPLE: An estimated 5.7 million people work in the MSME sector in Zimbabwe, including 2.8 million MSME owners (18 years and older) and about 2.9 million employees (any age). Only 22% of employees work full-time. Although paid employees are mainly male, unpaid workers are mainly female (many of them are spouses working in the business). The MSME owners are usually middle aged (73% are over the age of 30). Basic demographics such as gender and location broadly reflect the distribution of the total adult population. As such, 53% of MSME owners are female (mainly individual entrepreneurs engaged in agricultural activities), and 66% of MSME owners are located in rural areas. MSME owners generally have good levels of education (71% some secondary education or more), and are usually heads of households (65%). Often, income from entrepreneurial activity is supplemented by other sources of income such as another business or salaried job. The main motivation to start the business is driven by need, meaning the businesses are survivalist rather than opportunity based. Although business owners have largely positive attitudes towards the business, many are worried about sustainability. MSME owners usually work long hours but have low levels of income.

BUSINESSES: The 2.8 million MSME owners own an estimated 3.5 million businesses (meaning, some business owners have more than one business). They are mainly individual entrepreneurs without any employees (about 71%) and micro-businesses with 1 to 5 employees (24%). The sector is driven by agricultural activities (43%), wholesale and retail (33%). Most of the businesses are located in the rural areas (66%), and operate mainly from residential premises (39%) and farms (22%). They are largely informal (85% are not registered or licensed) and relatively young (40% are in the start-up and 31% are in the growth phase; in total 71% have been in operation for 5 years or less).

FINANCIAL INCLUSION: About 57% of MSME owners are financially included. That means they use/have financial products/services to manage their business finances, i.e. using formal and/or informal product/services, including savings, borrowing, and/or insurance, excluding those who save at home and those who borrow from family and friends. This means that 43% of MSME owners are financially excluded, i.e. they do not use any financial products/services, neither formal nor informal, to manage their business finances; however, they might borrow from family and friends, and/or save at home. Only 18% are served by formal institutions, including products/services from commercial banks and other formal non-bank institutions. Informal financial mechanisms (e.g. savings groups) push out the boundaries of financial inclusion as every second MSME owner uses informal mechanisms to manage their business finances. 72% of MSME owners save, mainly at home. Only 15% borrow money, mainly from family and friends. Main drivers for savings and borrowing relate to growing/expanding the business. Main barriers, in turn, relate to monetary reasons (low/irregular income). Although MSME owners face a number of risks, most are not insured (80%). Financial inclusion is higher among small and medium size businesses, women (mainly through the use of informal mechanisms, i.e. their involvement in savings groups etc.), registered/licensed businesses, and in urban areas and main urban centres (Bulawayo and Harare).

CHALLENGES: Main challenges reported by MSME owners relate to access to finance/sourcing money, lack of raw material and operational space/working facilities. The following challenges affect financial inclusion: affordability (income from MSME is too low/irregular; bank charges are too high, insurance is too expensive), appropriateness (many MSMEs lack required formality and documentation such as address and financial records to open a bank account), and accessibility/proximity in rural areas (banks are too far away). Other challenges include informality (not being registered/licensed), limited use of sophisticated marketing strategies, and the fact that many businesses are necessity driven (rather than opportunistic) which affects growth and sustainability of the businesses.



I Introduction and background

I.1 Background to the FinScope MSME study

It is widely acknowledged that micro, small and medium enterprises (MSMEs) are significant contributors to job creation, development and poverty alleviation. Given the crucial role of MSMEs in the national economy, it is in the common interest to harness and optimise this potential by putting into place strategies to mobilise and enable MSME growth and development. To do so, it is imperative that these interventions are targeted and evidence-based. However, the lack of accurate and reliable information about the sector and the challenges it faces, have been identified as the key constraints in achieving this objective.

It is in pursuit of this objective that the Zimbabwe Ministry of Small and Medium Enterprises and Cooperative Development with support from the Multi Donor Trust Fund led by the World Bank, and FinMark Trust (FMT) initiated the FinScope MSME Survey Zimbabwe 2012.

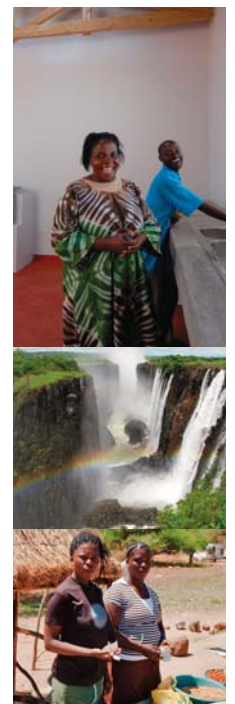
The FinScope MSME Survey is a nationally representative survey developed by FinMark Trust focusing on MSME owners and their financial services needs. The aim of this survey is to build a comprehensive body of evidence. The objectives of the Zimbabwe FinScope MSME Survey include the following:

- To assess the size and scope of micro, small, and medium enterprises (MSME) in Zimbabwe;
- To describe the levels and landscape of access to financial products and services (both formal and informal);
- To identify the most binding constraints to MSMEs development and growth with a focus on access to financial markets;
- To identify and describe different market segments with specific development needs in order to stimulate segment-related innovation; and
- To propose recommendations regarding financial assistance to MSMEs and financial policies.

FinScope MSME Zimbabwe was designed to engage a broad range of stakeholders in a comprehensive and intensive consultative process. This process has enriched the survey and the shared results have contributed meaningfully to members who have a common interest in MSME development and financial inclusion, as well as to the overall growth and development of the country. The study was funded by the Multi Donor Trust Fund led by the World Bank, and implemented by the Research Continental-Fonkom (RCF) with the support of ZIMSTAT and FinMark Trust. A Steering Committee chaired by the Ministry of Small and Medium Enterprises and Cooperative Development was set up which comprised of representatives from FinMark Trust, ZIMSTAT, RCF, Africa Corporate Advisors, Ministry of Industry and Commerce, Ministry of Finance, Ministry of Youth Development, Indigenisation and Empowerment, Ministry of Gender, Women Affairs and Community Development, Bankers Association of Zimbabwe, Insurance Council of Zimbabwe, Insurance and Pensions Commission, Reserve Bank of Zimbabwe, Zimbabwe Association of Microfinance Institutions, Confederation of Zimbabwe Industries, Zimbabwe National Chamber of Commerce, and Zimbabwe Council for Tourism. These stakeholders played an integral role in the design of the survey questionnaire and provided valuable insight into the MSME sector.

This report summarises the findings of the FinScope MSME Survey Zimbabwe 2012. It has been written with the following objectives in mind:

1. To provide background information on FinScope MSME as a tool and to describe how it can be used to build inclusive financial markets;
2. To provide insight on the methodology used in the FinScope MSME Survey Zimbabwe 2012 so that users of the survey can understand the implementation arrangements and the rigorous approach to sampling that produced the data set;
3. To present high level findings of FinScope MSME Zimbabwe 2012 to enhance stakeholders understanding of the current state of financial access, and to use this understanding as a baseline to inform and guide future developments; and
4. To make recommendations to stakeholders (financial sector and policymakers) as to how to improve financial access.



Findings are reported in a manner comparable to FinScope reports in other countries. However, there is a wealth of data contained in this survey that has not been covered in this report. It is therefore recommended that stakeholders review the data available to see how it can help them to address financial and development questions that are significant to them.

This report is complemented by a brochure and a launch presentation. The main findings of this survey were presented to the public on the 19th June 2013 at the Rainbow Towers Conference Centre in Harare, Zimbabwe.

About FinMark Trust

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in March 2002 and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust is a not-for-profit independent trust whose purpose is 'Making financial markets work for the poor; by promoting financial inclusion and regional financial integration'. In pursuit of its purpose, FinMark Trust supports institutional and organisational development which increases access to financial services in Africa, by conducting research to identify the systemic constraints that prevent financial markets from reaching out to poor consumers and MSME owners, and by advocating for change on the basis of research findings.

About FinScope MSME Survey

The FinScope MSME Survey is a research tool developed by FinMark Trust focusing on small businesses and their financial services needs. It was first piloted in South Africa in 2006 and since then the survey methodology has been applied in Zambia (2008), South Africa (2010), Tanzania (2010), and Malawi (2012). The Mozambique survey results have not been launched at yet.

1.2 Methodology of the study

The survey population refers to MSME owners in Zimbabwe. MSMEs are defined by the number of employees (according to the Small Enterprises Development Corporation Amendment of 2011). This includes individual entrepreneurs (without any employees), micro-businesses (with 1 to 5 employees), as well as small- and medium- size businesses (6 to 75 employees)¹. A nationally representative sample of MSME owners was drawn from the Zimbabwe adult population, including those who:

- Are 18 years or older;
- Perceive themselves to be business owners/generating an income through business activities; and
- Employing 75 people or less as well as entrepreneurs without any employees.

FinScope MSME Survey Zimbabwe 2012 is based on a nationally representative sample of 3 222 individuals. All provinces in Zimbabwe were covered. The sample frame was provided by ZIMSTAT based on the 2002 Master Sample and recent population estimates. Weighting of the data was also conducted by ZIMSTAT. The Zimbabwe 2002 Master Sample was used to boost the weights to the population estimates. The population for 2011 was then compared with the population projections. These figures were validated by the ZIMSTAT sampling unit.

Sampling strategy: A multi-stage sampling approach was used, including an initial listing phase.

Sampling units: Enumeration areas (EAs) are the primary sampling units, qualifier households (those with business owners) are secondary sampling units, and individuals selected by the KISH GRID from a list of eligible respondents (business owners) at every selected qualifier household are tertiary and ultimate sampling units.

A total of 500 Enumeration Areas (EAs) were sampled using probability proportional to household size (PPS) based on the Master sample developed by ZIMSTAT after the 2002 census. These EAs included 194

¹ Note: The definition for small-and medium-size businesses depends on the sector and has been taken into consideration here (small: 6 to 30/40 employees, medium: 31/41 to 75 employees). The term 'employees' here includes all people working in business – both paid and unpaid (excluding the business owners).

urban and 306 rural areas. All households in the selected EAs were then listed constituting over 57 000 households. Within the households, all MSME owners were identified (18 years and older; employing 75 people or less, as well as individual entrepreneurs). Within each selected EA, six to seven qualifier households (with MSME owners) were systematically selected from the listed MSMEs. Within the selected households, where there was more than one business owner; a Kish Grid was used to randomly select the qualifying household member with whom to complete the interview (this individual was the ultimate sampling unit). A total of 3 222 interviews with MSME owners were conducted by Research Continental-Fonkom during September 2012. More detailed information about the survey methodology is provided in Appendix A.

The table below provides a summary of the methodology applied.

Table 1: Methodological overview

Logistics	Details
Methodology	Face-to-face, pen and paper interviews were conducted among MSME owners in Zimbabwe
Definition of MSME owners	Survey of MSME owners, defined as individuals who are: <ul style="list-style-type: none"> ■ 18 years or older; ■ Perceiving themselves to be business owners/generating an income through some business activities; and ■ Employing 75 people or less, as well as individual entrepreneurs without any employees
Sample size	n=3222, representative on national, urban/rural, and provincial level Sample drawn by ZIMSTAT based on 2002 Master Sample
Sampling frame	Listing exercise, population stratified by location (urban/rural)
Sample area selection	500 Enumerator Areas (EAs) were selected using probability proportional to size (PPS), interviews were conducted in 194 urban and 306 rural EAs
Household qualification	6 – 7 households were selected from each EA using systematic random sampling
Respondent selection	Final respondent to interview was selected using a Kish Grid
Questionnaire length	± 75 minutes
Fieldwork	September 2012
Data management	Weighting was done by ZIMSTAT using the 2002 Master Sample and population estimates for 2011. Data validation was done using the Finscope Consumer Survey Zimbabwe results and the 2012 population census data. A sample of 10% back checks was selected during field work to ensure collection of good quality data. Data analysis was done in Statistical Package for Social Sciences (SPSS)
Implementation	The study was funded by the Multi Donor Trust Fund led by the World Bank and implemented by Research Continental-Fonkom with support from ZIMSTAT and FinMark Trust

2 Country context: MSMEs and the financial sector in Zimbabwe

This section is based on a literature review conducted by Africa Corporate Advisors (Private) Limited contextualising the financial sector in Zimbabwe. An understanding of the structure of the financial services system in Zimbabwe is critical to the understanding of the state of financial inclusion in Zimbabwe. The following section contains an overview of a range of financial services and mechanisms available to MSMEs in Zimbabwe, including both formal and informal mechanisms. In addition, the World Bank *Doing Business Report*² and *Enterprise Survey 2011 Zimbabwe*³ provides useful information regarding the formal private sector in Zimbabwe, including SMEs (excluding businesses that are not registered/licensed, agricultural activities, and individual entrepreneurs). While the *Doing Business Report* measures the regulations applying to SMEs through their life cycle, the *Enterprise Survey* assesses the constraints to private sector growth through interviews with manufacturing and services firms with 5 or more employees operating in the formal non-agricultural private sector. The *Enterprise Surveys* cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures. As such, the *Doing Business report* and the *Enterprise Surveys* data create statistically significant business environment indicators that are comparable across countries. Findings are available on the World Bank website.

The table below summarises other key statistics from Zimbabwe (source: World Bank country data)⁴.

Table 2: Key statistics (World Bank)⁴

	Key statistics
Total population	12,75 million (2011)
Total adult population (18+ years)	5,9 million (2011) FinScope Consumer Survey Zimbabwe 2011
Life expectancy	51 years
Adult literacy (15+ years)	92% (2010)
GDP	US\$ 9,656 billion (2011)
GDP growth	9,3% (2011)
Ease of doing business rank	170 out of 185 countries (2012)

2.1 Economic context

From 1998 to 2008 Zimbabwe's economy was affected by severe challenges such as a period of hyperinflation, which resulted in a sharp decline in the value of the Zimbabwe dollar. Other challenges included shortage of raw materials, low level of investment, inadequate delivery of public infrastructure and basic social services, and a decrease in formal sector employment. The adoption of a multicurrency system (especially US\$) marked a significant shift in Zimbabwe's economy. This was supported by numerous policy changes and emergency plans which focused on "reconstruction with equitable growth and stability" under the Three Year Macro-Economic Policy and Budget Framework 2010-2012. Other significant changes include the reform of monetary and fiscal policy frameworks and institutions such as the Reserve Bank of Zimbabwe (RBZ).

² <http://www.doingbusiness.org/data/exploreeconomies/zimbabwe#starting-a-business>

³ <http://www.enterprisesurveys.org/Data/ExploreEconomies/2011/zimbabwe>

⁴ Source: <http://www.worldbank.org/en/country/zimbabwe>

2.2 MSME support institutions in Zimbabwe

It is clear that MSMEs have become an important and indispensable component of the Zimbabwean economy through their contribution to employment creation, poverty alleviation and sustainable development. A variety of challenges, however, continue to hamper a majority of MSMEs from realising their potential and significantly contributing to national development. Among these challenges are limited access to affordable finance, the lack of adequate skills and market information, and poor management skills, which have emerged as the greatest impediments. A number of institutions are active in trying to bridge these identified gaps in the MSME sector: The table below shows some of these MSME support institutions.

Table 3: Examples of MSME support institutions in Zimbabwe

Name	Service provided	Nature of institution
Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD)	Policy formulation Facilitating linkages between SMEs and LSEs Skills and management training	Public
Small Enterprise Development Corporation (SEDCO)	Skills and management training Credit Market information	Public
Confederation of Zimbabwe Industry (CZI)	Financial support Market information Advocacy	Association
ZimTrade	Trade promotion and development Training	Public
Indigenous Business Women's Organisation	Financial support Information	NGO
Zimbabwe National Chamber of Commerce (ZNCC)	Market information Training	Association
Zimbabwe Youth Council (ZYC)	Skills and management training Information	NGO
EMPRETEC	Training	Private
Zimbabwe Economic Policy and Research Analysis Unit (ZEPARU)	Research	NGO
National Chamber of SME	Representing SMEs	Public
SME Association of Zimbabwe	Market access information Training Representing SMEs	Association
Netherlands Development Organisation (SNV)	Research	NGO
Zimbabwe Association of Micro-Finance Institutions	Advocacy Research	Association

Source: Interviews conducted by African Corporate Advisors with RBZ, commercial banks, ZAMFI, MSMECD, and SME Association of Zimbabwe.

2.3 Banking industry and financial services

Access to low cost financing is widely regarded as a critical ingredient for the growth of all MSMEs. Globally, the commercial banking sector is regarded as the main tool of extending viable and sustainable credit to the MSME sector. Though the banking sector has been slow to embrace the MSME sector as evidence from FinScope Consumer Survey 2011 would suggest, a significant number of banks are arguably increasing their exposure to MSMEs.

As of 2012 Zimbabwe had 26 operational banking institutions, 16 asset management companies and 157 micro-finance institutions. The table below summarises the architecture of Zimbabwe banking sector.

Table 4: Architecture of the banking sector in Zimbabwe

Type of institution	Number
Commercial banks ⁵	17
Merchant banks	4
Building societies	4
Savings bank	1
Finance houses	0
Discount houses	0
Total banking institutions	26
Asset management companies	16
Microfinance institutions	157

Source: Reserve Bank of Zimbabwe <http://www.rbz.co.zw/publications/banksurveillance.asp>

The institutions listed above are available in Zimbabwe to provide financial services to MSMEs in Zimbabwe with the exception of a few that once existed but have since closed down. The purpose of these different types of the institutions is discussed below.

Registered banking institutions

Commercial banks: Commercial banks in Zimbabwe carry out business through a network of branches, agencies and mobile facilities. Authorised and regulated along with merchant banks, finance houses and discount houses under the Banking Act Chapter 24:01, commercial banks offer a wide range of services, including current and savings deposit accounts, loans and overdraft facilities, foreign exchange trading and facilities, financial advice and the provision of facilities for the purchase and sale of investments, as well as funds transfer and payment services. After having to start from a near zero-base (following the hyperinflationary period and the introduction of the multi-currency system), the banking sector has witnessed significant growth in deposits and loans (and presumably client base) since dollarisation (and the adoption of a multicurrency system). Possibly as a reflection of the growing confidence in the banking sector and improvements in the economic sector, 2012 witnessed an annual bank deposits growth rate of 19.4%⁶. Liquidity remains a challenge in the banking sector with 60% of bank deposits being demand deposits forcing the majority of banks to increasingly turn to foreign sources of capital. According to the Ministry of Finance (2012, page 57)⁷ from January-October 2012 banks distributed 19% of their loans to agriculture, 18% to individuals while manufacturing and mining sector got 17% and 9% of the loans respectively.

Merchant banks: Merchant banks offer wholesale banking services to complement those offered by commercial banks. They are specialists in money and capital markets as well as fee-based services such as corporate finance, underwriting of securities and portfolio management. They also provide trade financing through acceptance credit, offshore financing facilities and foreign exchange facilities. Merchant banks only hold reserve accounts with the Reserve Bank of Zimbabwe but are not part of the clearinghouse. Due to increased integration of banking services and as financial markets become more sophisticated and players seek to provide all services under one roof, merchant banks in Zimbabwe have tended to 'graduate' into commercial banks but retaining their wholesale banking business through corporate banking divisions.

⁵ Excludes Barbican Bank which was re-licensed but is not yet operational.

⁶ Ministry of Finance (2012). *The 2013 National Budget Statement*, Ministry of Finance, Harare p.54

⁷ Ministry of Finance 2012. *The 2013 National Budget Statement*, Ministry of Finance, Harare.

Building societies: Building societies are involved in savings and fixed deposits, share deposits and mortgage lending. They are authorised and regulated by the central bank through the Building Societies Act, Chapter 24:02. Traditionally, they lend for residential and commercial mortgages, purchase treasury bills, place funds in the money market and finance low-income housing projects. However, like in other countries in Africa with a shortage of long-term finance, and exacerbated by the economic decline, the mortgage market has shrunk dramatically.

Finance houses: Finance houses specialise in offering asset based financial instruments in the form of hire purchase and lease hire advances to individuals and corporates. While finance houses in Zimbabwe are deposit taking institutions, many of them have over the years been acquired and subsequently merged into and operate as divisions of commercial banks. Also because of the lower minimum capital required for licensing, finance houses (along with discount houses) have become a route to establishing merchant or commercial banks. The asset-backed finance business is slowly picking up but the commercial banks are now active players in this market as well.

Discount houses: Discount houses' main business is to discount and hold bills with funds borrowed at call from banks. The bills are then re-discounted with the banks at the Reserve Bank of Zimbabwe. Discount houses are not members of the clearinghouse. As banking business has been redefined over the years and the treasury activities of the banking institutions have developed into *de facto* discount houses, the remaining discount houses have upgraded their licenses to become merchant banks and commercial banks. As a result, the number of discount houses in Zimbabwe has decreased from six in 2005 to currently none.

Other financial service providers to MSMEs

Development finance institutions: Two development finance institutions have been created by the Government of Zimbabwe to serve the needs of micro, small and medium sized enterprises. Two institutions namely the Small Enterprise Development Corporation (SEDCO) and the Infrastructure Development Bank of Zimbabwe (IDBZ) deserve further attention.

- SEDCO, a state enterprise established in terms of the Small Enterprise Development Act of 1984 is mandated to spearhead the development of viable small and medium enterprises (SMEs) through the provision of financial assistance, business management training and business infrastructure to enable SMEs to make a significant contribution to national development. The body receives funds from the Reserve Bank of Zimbabwe and the SME Revolving Productive Fund. Its prominent financial product for SMEs is the microfinance product, the 'loan book' that small businesses can benefit from. The organisation has however been facing major capital injection constraints and is therefore offering micro-loans ranging from US\$500 to a maximum of US\$ 5000.
- The Infrastructure Development Bank of Zimbabwe (IDBZ) was constituted in terms of the Infrastructure Development Act in 2005 to assist and promote the development of Zimbabwe. This is achieved through the provision of bonds and guarantees, long term loans and project finance, working capital, lease and trade finances. Even though the Zimbabwe Development Bank (ZDB), the predecessor of the IDBZ, initially focused on the construction and transport industry, IDBZ now also claims to support lower income market segments.

Money lenders: All moneylenders are governed by the Money Lending and Rates of Interest Act (Chapter 14:14) and are licensed and regulated by the Reserve Bank. They offer small personal loans at high interest rates, usually higher rates than the market rate charged on credit cards or on bank overdrafts. Moneylenders are an important source of credit to a category of borrowers who would normally be refused credit by most financial institutions because their income may be at or below the poverty threshold or whose credit score indicates that the borrower might be unable to repay the loan. Examples of these are NISSI, Zambuko Trust, SHD Savings and Credit Company and SHDF, Organisation for Rural Associations for Progress (ORAP), Women Development Credit Scheme (Harare), and Pundutso.

Microfinance institutions: Microfinance institutions (MFIs) are organisations that provide microfinance services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. MFIs range from small non-profit organisations to departments of large commercial banks. The microfinance sector in Zimbabwe has generally been affected by the unfavourable macroeconomic environment. The licensing process for microfinance institutions has been revamped in order to reduce the turnaround time for licensing to a period less than one week provided all the required documentation is available. With regard to bank charges and deposit rates, the RBZ continues to promote market determined charges and interest rates for bank products and services, albeit cognisant of the need to balance viability of the banking sector and accessibility to affordable banking services by the public and corporates.

Insurance providers: Zimbabwe's economic crisis also affected the insurance industry as clients' policies were rendered virtually worthless by the hyper-inflationary environment. Since the adoption of the multicurrency regime, however, the sector has been on a steady recovery path. It has been observed, justifiably by ZAMFI and SNV (2009:32)⁸ that the insurance industry is dominated by a small number of big organisations notably First Mutual, ZIMNAT, Old Mutual and NICOZ Diamond. Notwithstanding this, micro-insurance has emerged as a new subsector of the insurance industry. Some of the service providers in this subsector and their products are as follows: Evolution Group (providers of Mbijana Mbichana funeral assurance), Cell Insurance (Honeygold Agrisure – small holder agriculture insurance), CBZ Life Assurance (CBZ Funeral cash plan), ZB Life Assurance – (funeral cash plan), Credsure (micro-insurance for motor vehicles), New Eagle Insurance (Hospital cash plan), Altfin Insurance (Medlife – medical insurance), Nyaradzo Funeral Assurance (Scorepack funeral assurance), Moonlight Funeral Assurance, and Zimre Holdings. These service providers have been able to reach out to low income groups and the rural population who constitute a significant proportion of the MSME owners. This has enabled MSME owners to manage risks around events that may occur such as loss of crops or animals, business failure, theft and damages as well as risks that will occur as a result of death and illness.

Money Transfer Agencies (MTAs): MTAs offer various ways through which MSMEs can pay their suppliers, workers, as well as receive payments from their customers (both local and international). In the case of transferring money internationally, available platforms such as the Western Union have enabled MSMEs and a greater proportion of the unbanked population to receive and send money across and within the country's borders. Locally, banks such as CABS, Barclays and Tetrad have also availed platforms for transferring money which is linked to their banks that MSMEs are yet to fully exploit. These bank linked money transfer channels include CABS' Texta Cash, Barclays' Cash Send and Tetrad's E-Mali amongst others. The rapid improvements in accessibility to communication technology have also enabled cellphone network service providers to tap into the largely unbanked MSME sector and rural population through the provision of mobile money transfer services. Apart from Econet's EcoCash (which has an estimated 2,3 million registered users since its launch in September 2011 and transferring around US\$200 million every month), network service providers such as Telecel and NetOne have also launched mobile money transfer platforms largely targeting MSMEs and the unbanked.

Savings and Credit Co-operatives Societies (SACCOS): These are member-owned organisations that mobilise savings from and lend to their members. Registered and governed by the Cooperative Societies Act (Chapter 24:05), SACCOS are regulated by the Ministry of Youth Development, Indigenisation and Employment (MYDIE). SACCOS are generally well established institutions that are relatively stable, i.e. 70% of the SACCOS are aged between 7 to 10 years, and 30% are more than 10 years in business. They have a significant outreach in the country, covering urban, peri-urban and rural areas. In fact, they have experienced recent growth especially in the rural areas (agro- and enterprise based). The interest rates are usually low compared to other financial services providers, and they lend both for business and consumption.

⁸ ZAMFI and SNV (2009). Microfinance Recovery Study. Available online at URL: http://www.snvworld.org/sites/www.snvworld.org/files/publications/microfinance_sector_recover_study_-_zimbabwe.pdf

3 Overview of size and scope of the MSME sector in Zimbabwe

The size of the MSME sector in Zimbabwe is portrayed by a number of indicators, such as the number of MSME owners, the number of businesses they own, the number of people they employ in their main businesses, and the total estimated turnover, etc. The following figure gives a broad overview of the sector:

Figure 1: MSME sector in Zimbabwe – overview



Source: FinScope MSME Survey Zimbabwe 2012

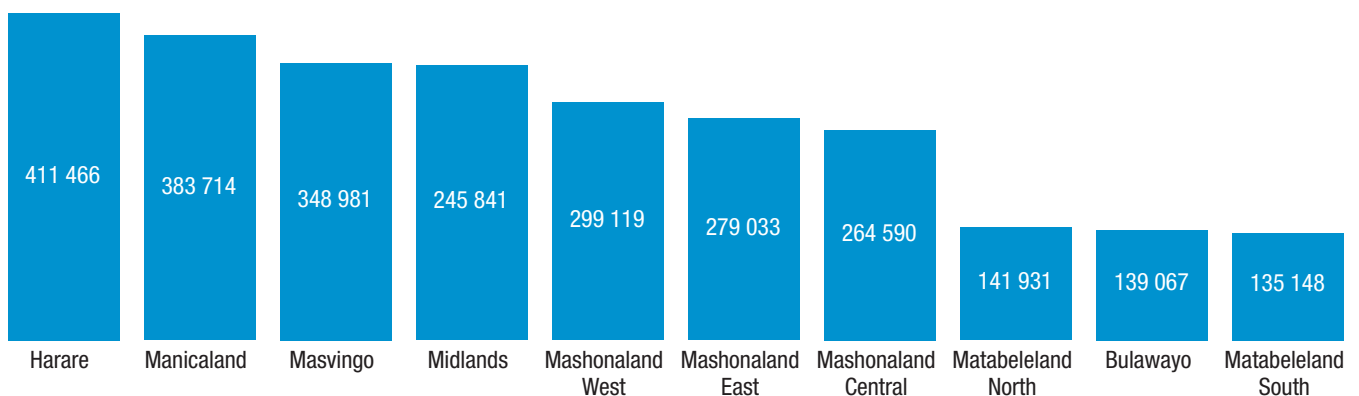
Note: The following chapters, figures and tables are based on findings of the FinScope MSME Survey Zimbabwe 2012.

There are 2.8 million MSME owners in Zimbabwe (18 years and older), owning 3.5 million businesses, employing a total of 2.9 million people (all ages, excluding the business owners themselves). As such, the sector contributes significantly to employment with a total of 5.7 million people working in the sector. Considering an estimated adult population of about 5.9 million, almost all adults in Zimbabwe engage in small business activities (either as individual entrepreneurs, MSME owners, or employees). Furthermore, it contributes to poverty alleviation as survivalist businesses play a vital role, especially as a buffer against slipping into deeper poverty and as such reducing individual and household vulnerability. The estimated turnover of the MSME sector in 2012 is estimated to be at least US\$ 7.4 billion⁹.

3.1 MSME owners

As illustrated in Figure 2, Harare has the highest number of MSME owners (= about 411 466). However, only 38% of the adult population in Harare engage in business activities, compared to 56% in Mashonaland East as illustrated in the Figure 3.

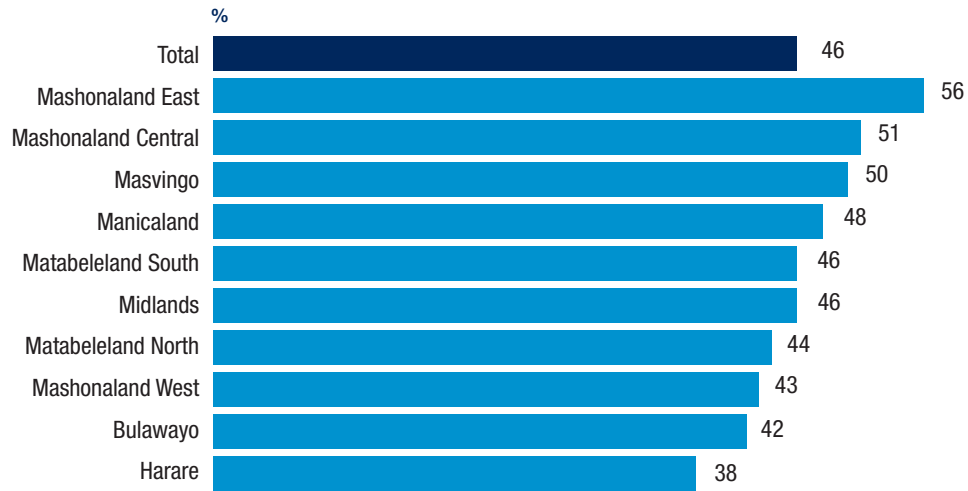
Figure 2: Estimated number of business owners



⁹ Note: This only includes the 65% of MSME owners who reported their turnover

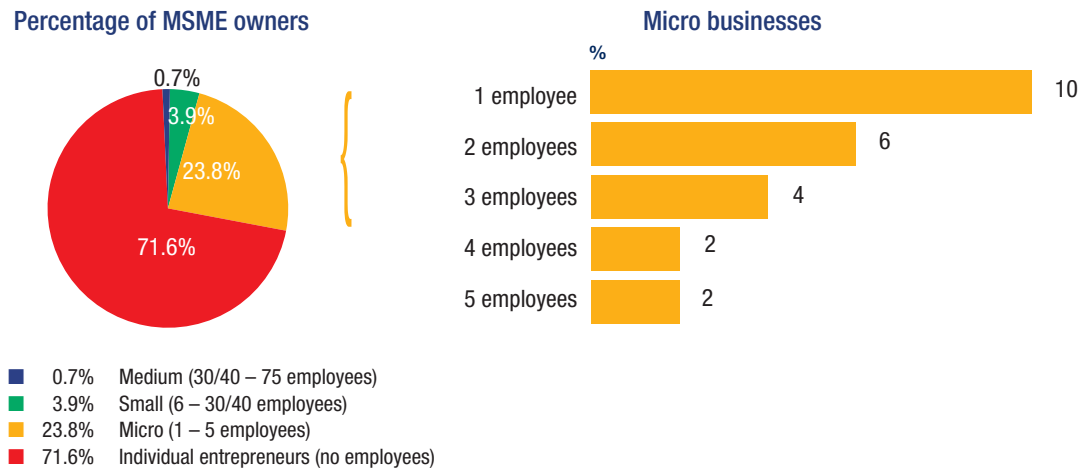
¹⁰ Using population figures per province from the FinScope Consumer Survey Zimbabwe 2011

Figure 3: Percentage of MSME owners among total adult population by province



The majority of MSME owners (71%) are individual entrepreneurs, meaning they do not have any employees in their business (= about 2 million) while 29% of MSME owners employ people in their business (= about 800 000). Using the MSME definition by number of employees as explained above, 24% of MSME owners run micro-businesses (employing 1 to 5 people), while 4% can be classified as small-businesses (employing 6 to 30/40 people, depending on the sector), and only 1% are medium-size businesses (employing up to 75 people).

Figure 4: Distribution of MSME owners by business type



As summarised in table 5, Manicaland has the highest proportion of individual entrepreneurs. 84.8% of businesses in Manicaland do not have any employees compared to 71.6% in total.

Masvingo has the highest proportion of micro businesses. 37.8% of businesses in Masvingo can be classified as micro-businesses compared to 23.8% in total.

Mashonaland West has the highest proportion of small businesses. 6.2% of businesses in Mashonaland West can be classified as small businesses, compared to 3.9% in total.

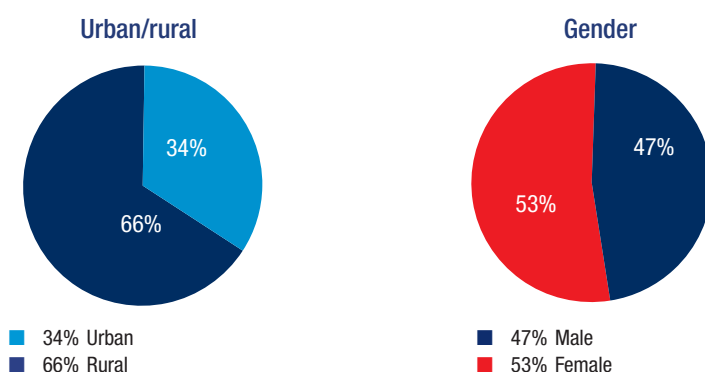
Bulawayo has the highest proportion of medium-size businesses. 3.8% of businesses in Bulawayo can be classified as medium-size businesses compared to 0.7% in total.

Table 5: Distribution of MSME owners by business type and province

Province	Estimated number/ percentage of MSME owners	MSME definition by size				Total
		No employees	Micro	Small	Medium	
Bulawayo	Estimated number	103 106	26 127	4 508	5 326	139 067
	% within province	74.1%	18.8%	3.2%	3.8%	100.0%
Manicaland	Estimated number	325 256	49 095	9 363	0	383 714
	% within province	84.8%	12.8%	2.4%	0.0%	100.0%
Mashonaland Central	Estimated number	203 183	53 799	6 655	953	264 590
	% within province	76.8%	20.3%	2.5%	0.4%	100.0%
Mashonaland East	Estimated number	185 928	79 742	10 849	2 514	279 033
	% within province	66.6%	28.6%	3.9%	0.9%	100.0%
Mashonaland West	Estimated number	216 232	63 976	18 534	377	299 119
	% within province	72.3%	21.4%	6.2%	0.1%	100.0%
Matebeleland North	Estimated number	108 499	31 100	2 332	0	141 931
	% within province	76.4%	21.9%	1.6%	0.0%	100.0%
Matebeleland South	Estimated number	98 974	31 968	4 206	0	135 148
	% within province	73.2%	23.7%	3.1%	0.0%	100.0%
Midlands	Estimated number	231 019	88 809	20 672	5 341	345 841
	% within province	66.8%	25.7%	6.0%	1.5%	100.0%
Masvingo	Estimated number	199 132	131 164	15 116	3 569	348 981
	% within province	57.1%	37.6%	4.3%	1.0%	100.0%
Harare	Estimated number	295 773	98 444	16 051	1 198	411 466
	% within province	71.9%	23.9%	3.9%	0.3%	100.0%
Grand Total	Estimated number	1 967 102	654 224	108 286	19 278	2 748 890
	% within province	71.6%	23.8%	3.9%	0.7%	100.0%

The distribution of MSME owners broadly reflects the distribution of the total adult population in Zimbabwe. 53% of MSME owners are female (compared to 47% who are male) and the majority reside in rural areas (66% of MSME owners reside in rural areas compared to 34% in urban areas).

Figure 5: Distribution of MSME owners by location and gender



Consistent with the high literacy levels in the country, the majority of MSME owners have fairly good levels of education (71% have some secondary education and better), but acquired their business skills mainly informally (73%) through internal networks (family, friends, other business owners) or whilst managing the business, which indicates that a great need for specific business training exists (over and above their school education).

Figure 6: Distribution of MSME owners by levels of education

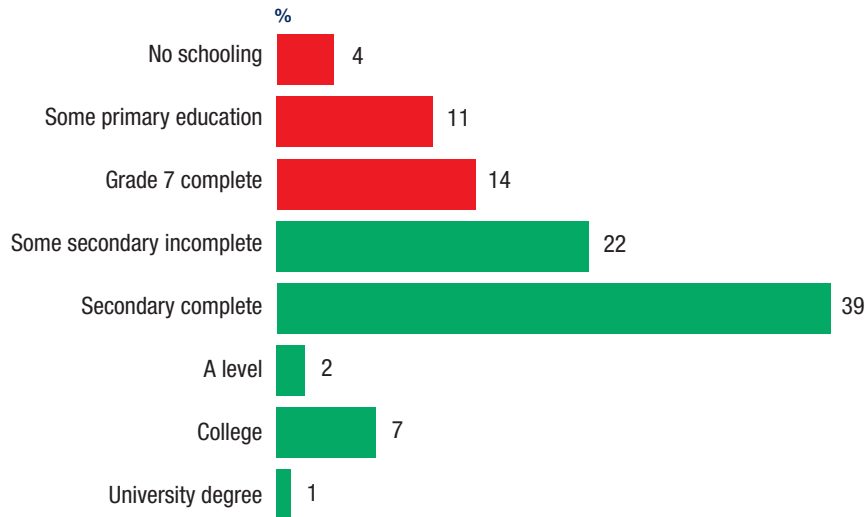
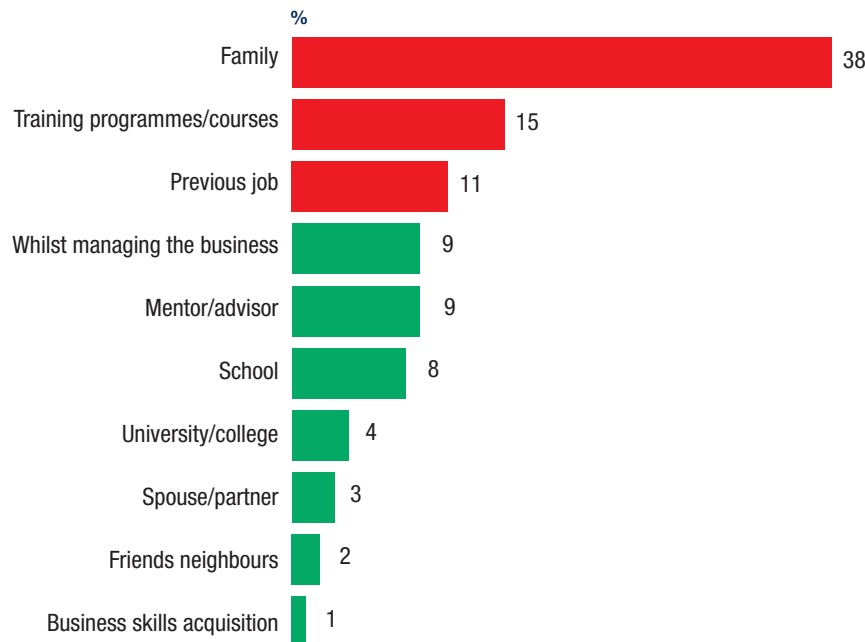
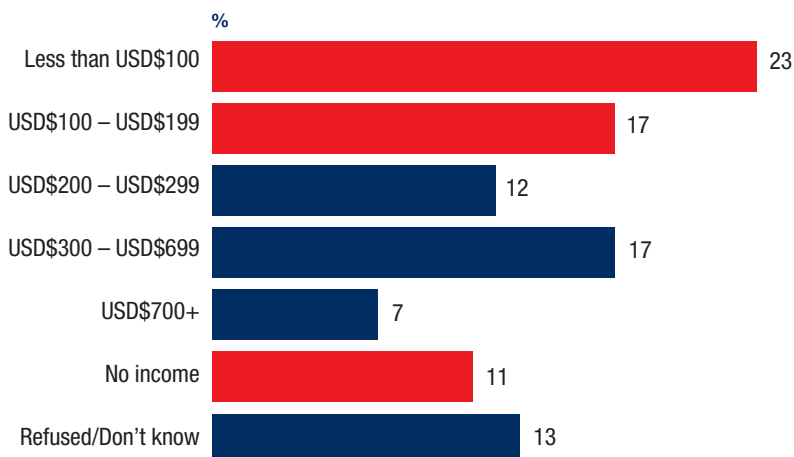


Figure 7: Distribution of MSME owners by source of skills acquirement



The survey shows that 73% of MSME owners are over 30 years of age, which might indicate that they are more experienced and economically settled. At the same time, these business owners are often heads of households (66%). Thus, many started their business to provide for their families, wanting to generate more income, escape unemployment and poverty. This needs-driven motivation (63%), however, does not fulfil its promise as many MSME owners in fact have low levels of monthly income (40% earn less than US\$ 200 a month, 11% do not have a monthly income) even though many work full-time, i.e. 8 hours or more (50%), six to seven days a week (69%). Nevertheless, survivalist businesses play a vital role acting as a buffer against slipping into deeper poverty and as such reducing individual and household vulnerability. For 49%, these businesses are their only source of income.

Figure 8: Distribution of MSME owners by monthly income¹¹



Looking at individual entrepreneurs and MSME owners with employees separately reveals small differences in demographics as summarised in the table below.

Table 6: Overview of demographics – individual entrepreneurs versus business owners with employees

Business owners: 2,8 million

2 million (71%)
Individual entrepreneurs

800 000 (29%)
Business owners with employees

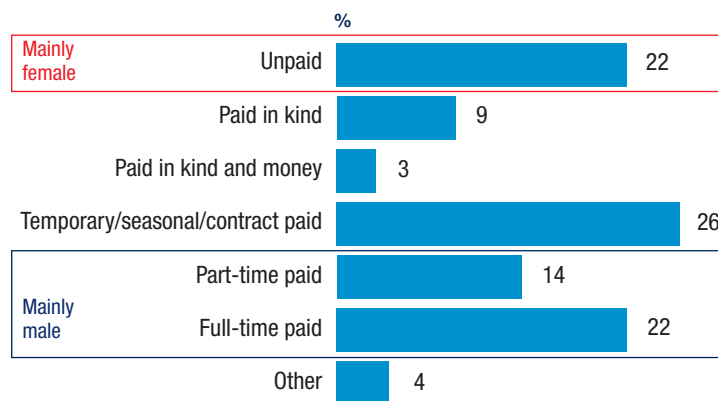
	2 million (71%) Individual entrepreneurs	800 000 (29%) Business owners with employees
Gender	47% are male	46% are male
Age	28% are 30 years or younger	30% are 30 years or younger
Education	31% have primary education or less (including 4% without any formal education)	28% have primary education or less (including 7% without any formal education)
Position in the household	66% are heads of households	64% are heads of households
Sources of income	49% reported that the business is their only source of income	48% reported that the business is their only source of income

¹¹ This includes all sources of personal monthly income and is not limited to the income generated by the business. Those who do not have a monthly income might engage in seasonal business activities (e.g. agriculture).

3.2 Employees¹²

The majority of MSME owners do not have any employees (71%). The remaining 29% of MSME owners (about 800 000) employ a total of 2.9 million people. The majority of their employees are male (59%). About 24% of MSME owners employ 1 to 5 employees (= micro-businesses). The remaining 4% employ more than 5 people (=small-and medium-businesses). It is interesting to note that 22% of employees in the MSME sector are unpaid. The majority of those unpaid workers are female, many of which are probably the spouses of MSME owners. About 1 in 4 (26%) people are temporary staff, seasonal, or on contract. The survey also found that only 22% of employees in the sector are full-time paid employees. The majority of those employees are male. The figure below summarises the information on employees.

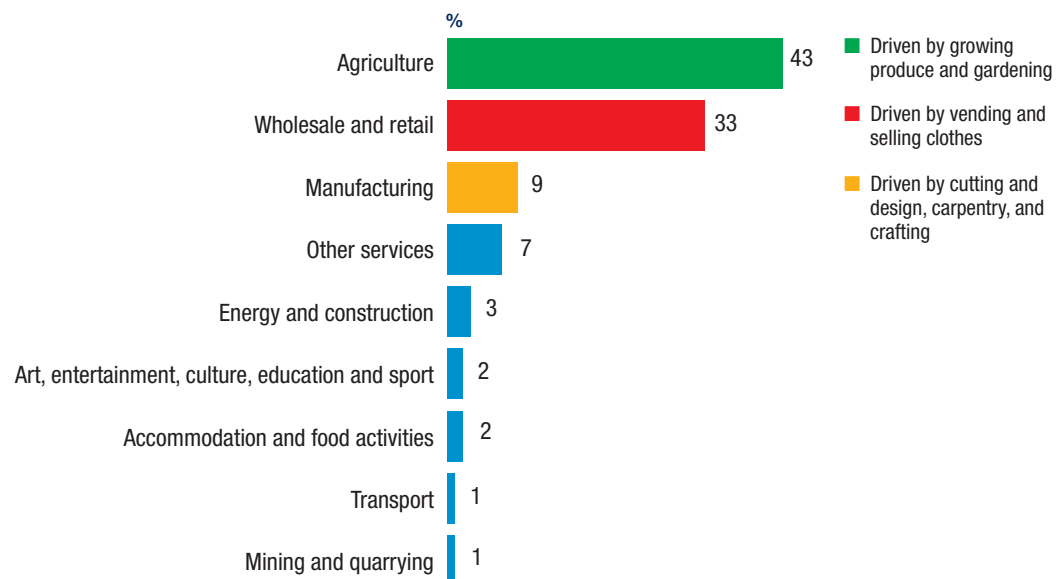
Figure 9: Paid versus unpaid employees



3.3 Nature of businesses

Business sector: The MSME sector in Zimbabwe is largely driven by agriculture, wholesale and retail. About 43% of MSME owners work in agriculture¹³, while 33% of MSME owners reported to work in wholesale and retail. Another 9% of MSME owners work in the manufacturing sector.

Figure 10: Business sector (self-classified)

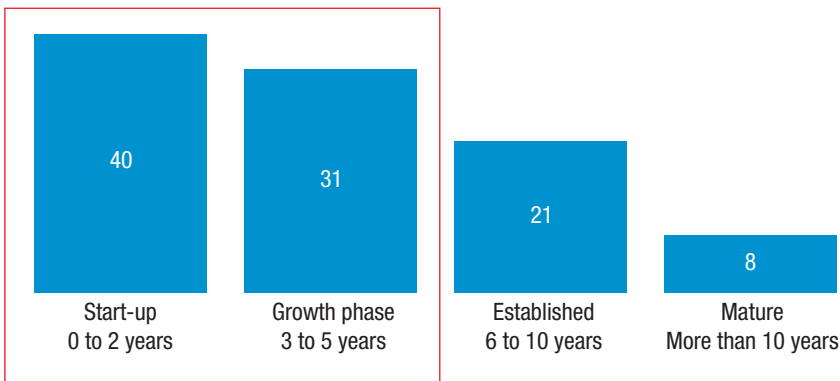


¹² Note: This includes all people working in the business (paid and un-paid workers).

¹³ Note: Business sector classification is self-reported. Agricultural activity was taken into consideration here if 50% or more of the produced goods are sold.

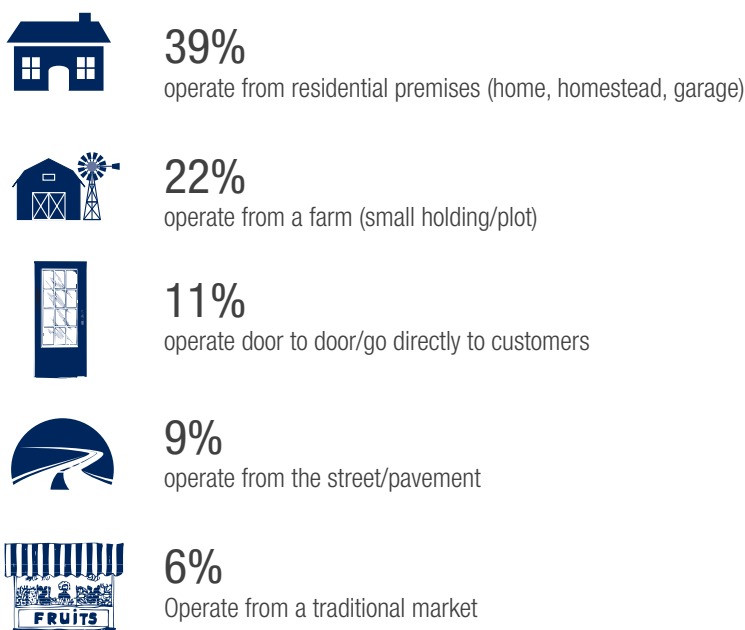
Age of the business: MSMEs in Zimbabwe are relatively young. As shown in the figure below, the majority of MSME owners (71%) reported that their business is 5 years or younger, including 40% that are in the start-up phase (0 to 2 years in operation), as well as 31% that are in the growth phase (3 to 5 years in operation). About 21% of MSMEs have been in operation for 6 to 10 years and a further 8% have been in operation for more than 10 years.

Figure 11: Age of businesses



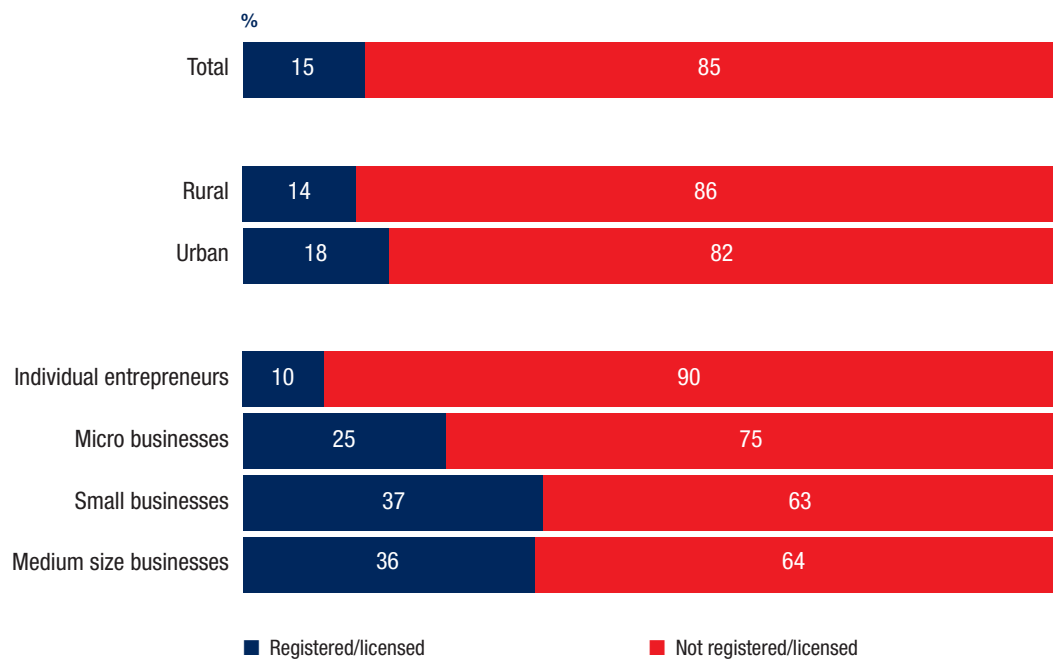
Business location: Many MSME owners operate their business from residential premises (39%), indicating that there might be a lack of available and/or affordable operational space/working facilities. It might also be out of choice considering the nature of the business (e.g. small, informal). A further 22% operate from farms (small holdings/plots), which relates to the high percentage of MSME owners that engage in agricultural activities. While 11% go directly to their customers (operate door-to-door), 9% operate as street vendors, and 6% work in a traditional market setting.

Figure 12: Main operating locations



Registration/licensing: In total, only 15% of MSME owners reported that their business is registered/licensed, mainly with the local council/authority. This number is driven by the high percentage of individual entrepreneurs – the large majority of which are not registered (90%). A quarter of micro businesses are registered/licensed, while more than every third small and medium size business is registered/licensed as illustrated in the figure below. The proportion of MSME owners with registered/licensed businesses is slightly higher in urban areas, probably due to better accessibility of registration/licensing facilities, possibly better enforcement, as well as the higher proportion of small and medium size businesses in those areas.

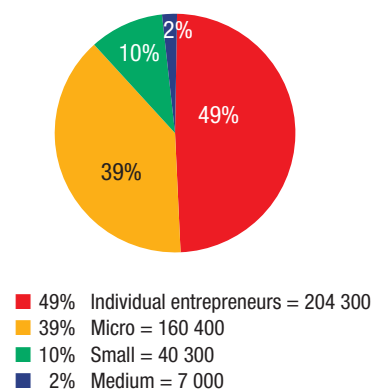
Figure 13: Proportion of MSME owners with registered/licensed businesses



As mentioned above, in total 15% of MSMEs are registered/licensed, which is an estimated 412 000 licensed/registered businesses in Zimbabwe. Of those 412 000 businesses, almost 50% are individual entrepreneurs as illustrated below (=about 204 300). While 39% of registered/licensed businesses can be classified as micro-businesses (=about 160 400), 10% are small-businesses (= 40 300) and only 2% are medium-size businesses (= about 7000).

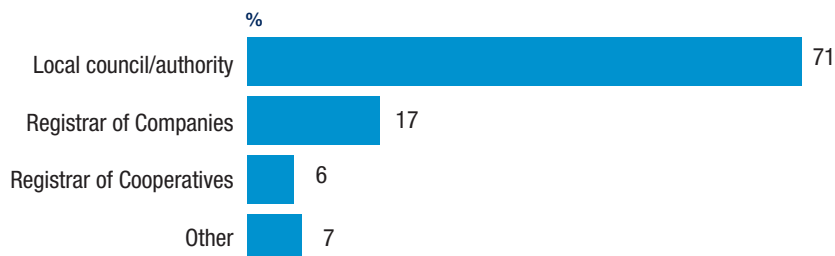
Figure 14: Distribution of registered/licensed businesses by business type

Total number of register/licensed businesses: about 412 000



The majority of those businesses are licensed with the local council/authority. Only 17% are in fact registered with the Registrar of Companies, while 6% are registered with the Registrar of Cooperatives, and about 7% are registered/licensed with other institutions.

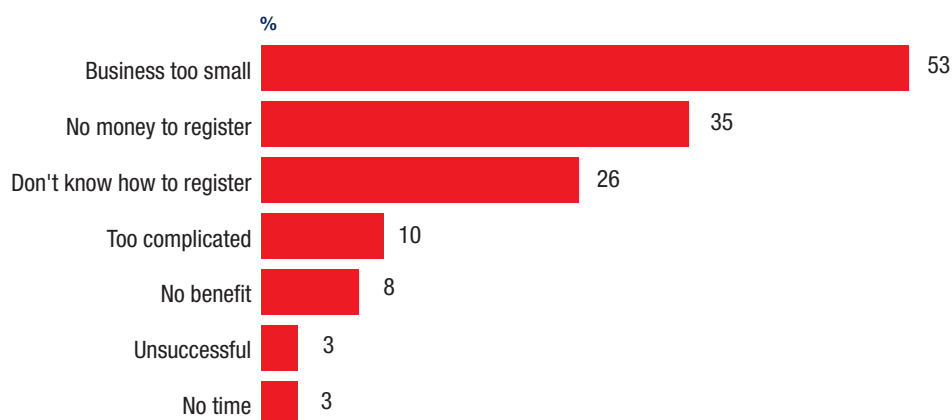
Figure 15: Distribution of registered/licensed businesses by institution



According to the 'Doing Business in Zimbabwe' study conducted by the World Bank the registration process is rather cumbersome and expensive with an average duration of 90 days and a minimum cost of US\$ 685¹⁴ (excluding travel expenses and other additional costs the MSME owner might incur). Taking into account that about 40% of MSME owners have a personal monthly income of less than US\$ 200 – this might not be affordable.

This reflects the challenges raised by MSME owners who have not registered/licensed their business. The main barriers to registration/license as reported by MSME themselves relate to monetary reasons ('Business is too small' as reported by 53% and 'No money to register' 35%) and a lack of knowledge/complexity of the registration process (26% do not know how to register and 10% reported that it is too complicated).

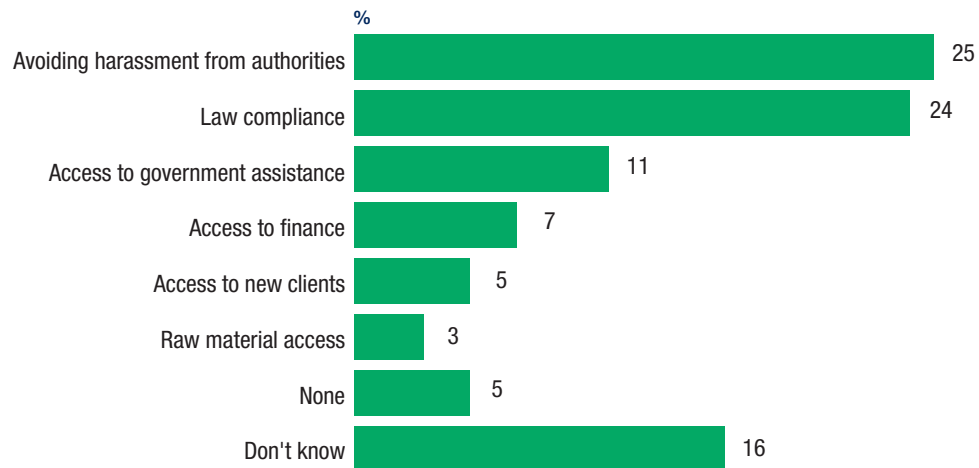
Figure 16: Reasons for not registering/licensing



¹⁴ Source: <http://www.doingbusiness.org/data/exploreeconomies/zimbabwe#starting-a-business>

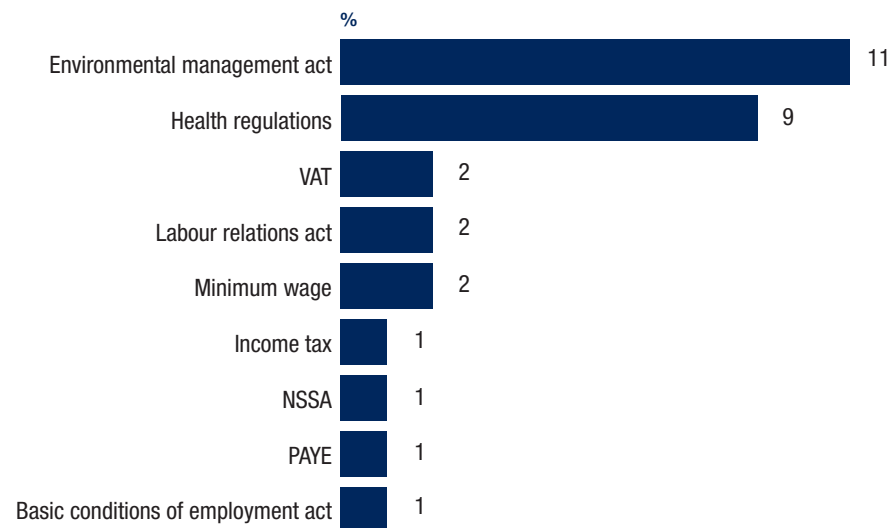
On the other hand, the perceived benefits do not seem to outweigh these challenges. Only 11% reported that registering/licensing their business would help to access government assistance. Access to finance (7%), new clients (5%), and raw materials (3%) can be used as proxy for 'real'/tangible benefits, whereas avoiding harassment from authorities and law compliance might not seem as attractive, yet was reported by almost a quarter of MSME owners as shown in the figure below.

Figure 17: Perceived benefit of registering/licensing



The majority of MSME owners do not comply with many regulations. For example, only 9% comply with health regulations, and a mere 1% follow the basic conditions of the Employment Act. Only 2% reported that they are registered with ZIMRA and pay VAT – which indicates a huge opportunity for the Government of Zimbabwe.

Figure 18: Compliance of MSME owners



The estimated turnover of the MSME sector in 2012 amounts to a minimum of US\$ 7.4 billion. This figure only includes 65% of MSME owners who actually reported their turnover. Thus, it is expected that the total annual turnover of the sector is probably higher. It also needs to be considered that only 51% of MSME owners keep financial records.

The turnover of MSME owners who use formal financial products/services amounts to a minimum of US\$ 3.9 billion. That means that almost half of the sector's turnover (minimum of US\$ 3.5 billion) is circulated outside the formal financial system.

Table 7: Estimated turnover (2012) by sector and business size

Sector	Turnover (US\$)
Agriculture	1.9 billion
Retail	3.3 billion
Other sectors	811 million
Manufacturing	564 million
Services	539 million
Mining	234 million
Business size	Turnover (US\$)
Individual entrepreneurs	3.1 billion
Micro	3.1 billion
Small	1.2 billion
Medium	30.6 million
TOTAL	7.4 billion

Comparing Zimbabwe with other countries in the region shows that the proportion of MSME owners compared to the total adult population is much higher in Zimbabwe. On average 46% of adults (18 years and older) are MSME owners in Zimbabwe, compared to 17% in South Africa (16 years and older), and only about 13% in Malawi. Levels of registration/licence in Zimbabwe can be compared with those of South Africa. However, Zimbabwe has a much higher proportion of individual entrepreneurs.

Table 8: Size and scope of the MSME sector – country comparison of key statistics

	South Africa (2010)	Malawi (2012)	Zimbabwe (2012)
Business owners	16 years and older 200 employees or less	18 years and older 100 employees or less	18 years and older 75 employees or less
Estimated adult population	33,5 million	6,1 million	5,9 million
Estimated % of adult population that owns MSMEs	17%	13%	46%
Number of MSME owners	5,6 million	760 000	2,8 million
Number of MSMEs they own	6 million	1 million	3,5 million
% of MSME owners with registered/licensed businesses	17% (only CIPC)	3%	15%
Number of employees	6 million	1 million	2,9 million
% of individual entrepreneurs	67%	59%	71%
% of businesses with employees	33%	41%	29%

4 Financial inclusion¹⁵

4.1 Overview

In total, 43% of MSME owners (about 1.2 million) are financially excluded, i.e. they do not use any financial products or services (neither formal nor informal) to manage their business finances. If they borrow, they borrow from friends and family; if they save, they save at home. On the other hand, 57% of MSME owners are financially included (about 1.6 million), i.e. they use financial products or services (formal and/or informal) to manage their business finances. Every second MSME owner (50%) have/use informal mechanisms to manage their business finances, while 18% are formally served, including both banked and other formal non-bank products/services (14% of business owners are banked and 7% of business owners have/use other formal non-bank products/services). The overlaps in product usage need to be considered here. Thus, the figure below adds up to more than 100%. The overlaps are depicted using circles, whereas the dark blue depict banked, yellow describes the usage of other formal non-bank products/services, and green the uptake of informal products/services such as savings groups. Product uptake for those who use bank products/services is driven by cash related transactions (cash withdrawals and deposits) as well as savings. While other formal non-bank products/services are driven by formal insurance, informal mechanisms are also largely driven by savings (e.g. savings groups), particularly among female MSME owners.

Figure 20: Financial inclusion overview

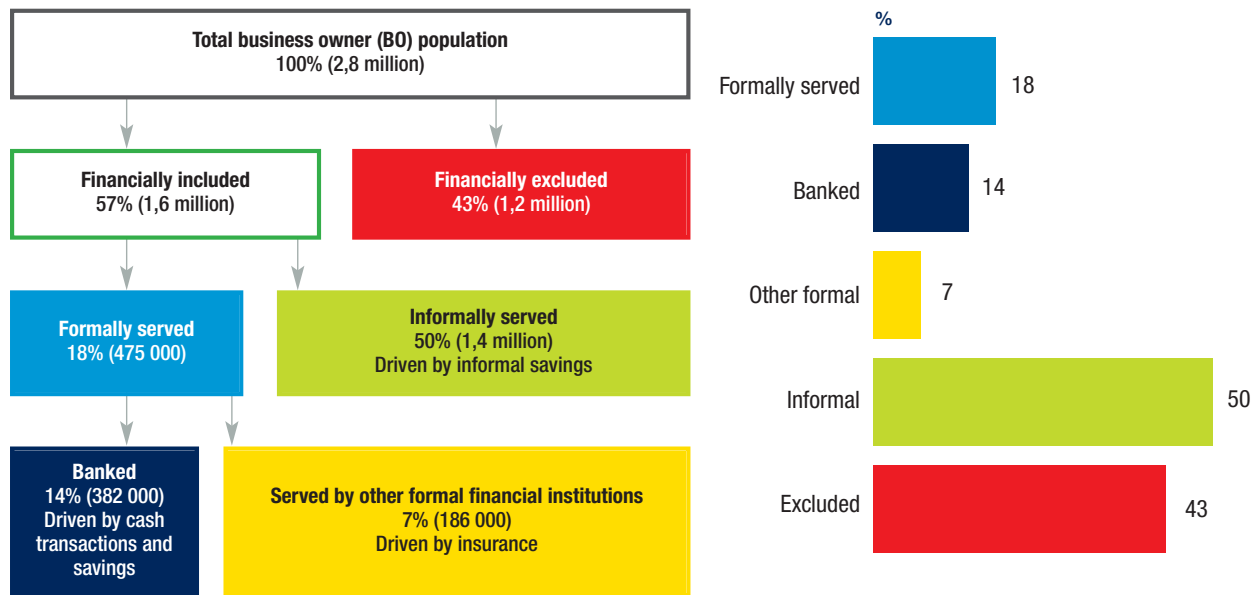
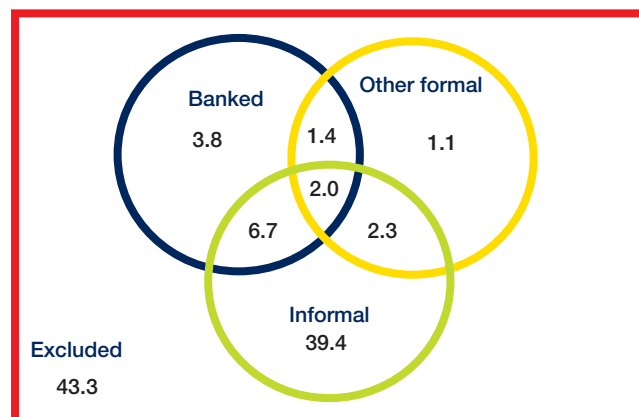


Figure 21: Overlaps in product usage

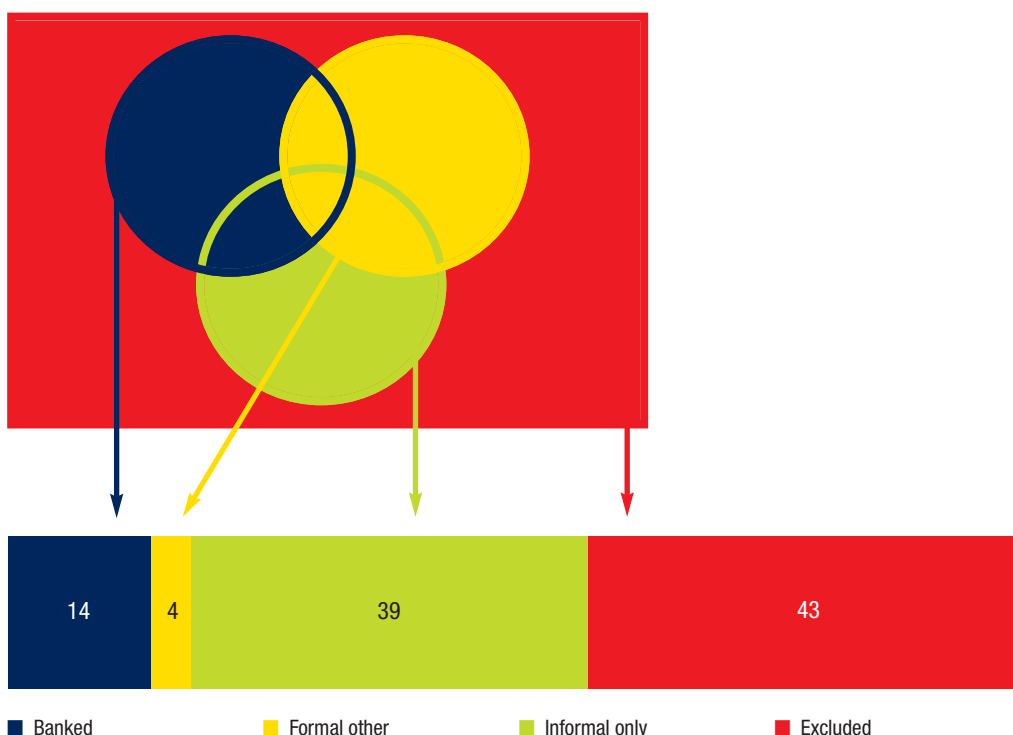


¹⁵ The analytical framework used here is explained in Appendix A.

In calculating the Access Strand, the overlaps are removed and a hierarchical approach is used in order to depict:

- The percentage of business owners who are banked (**banked**) – identifying business owners using commercial bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products as well as bank products = **14%**
- The percentage of business owners who are formally served but who are not banked (**other formal**) – identifying business owners using financial products from formal financial institutions which are not commercial banks such as microfinance institutions or insurance companies. This excludes bank usage, but is not exclusive in terms of informal usage – these business owners could also be using informal products = **4%**
- The percentage of business owners who are not formally served but who are informally served (**informal only**) – business owners using informal financial products or mechanisms only. This is exclusive informal usage and does not include business owners who are within the banked or other formal categories of the access strand that also use informal services = **39%**
- The percentage of business owners who are **excluded/un-served** – business owners using no financial products to manage their financial lives – neither formal nor informal and depend only on family/friends for borrowing and save at home if they save for business purposes = **43%**

Figure 22: Construction of the Access Strand



As shown above, informal financial mechanisms play a vital role for MSME owners in Zimbabwe, pushing out the boundaries of financial inclusion.

Comparing the Access Strand across location, provinces, business size, and gender reveals that levels of financial inclusion are higher:

- in urban areas (64%) compared to rural areas (53%);
- in the main urban centres Bulawayo and Harare (both with 68%) compared to more rural provinces such as Matabeleland North with 41% inclusion;
- among medium-size businesses (92%) compared to small- (82%) and micro-businesses (69%) as well as individual entrepreneurs (51%);
- among registered / licensed businesses (71%) compared to those that are not registered / licensed (54%); and
- among women (58%) compared to men (56%).

Figure 23: Access Strand by location and gender

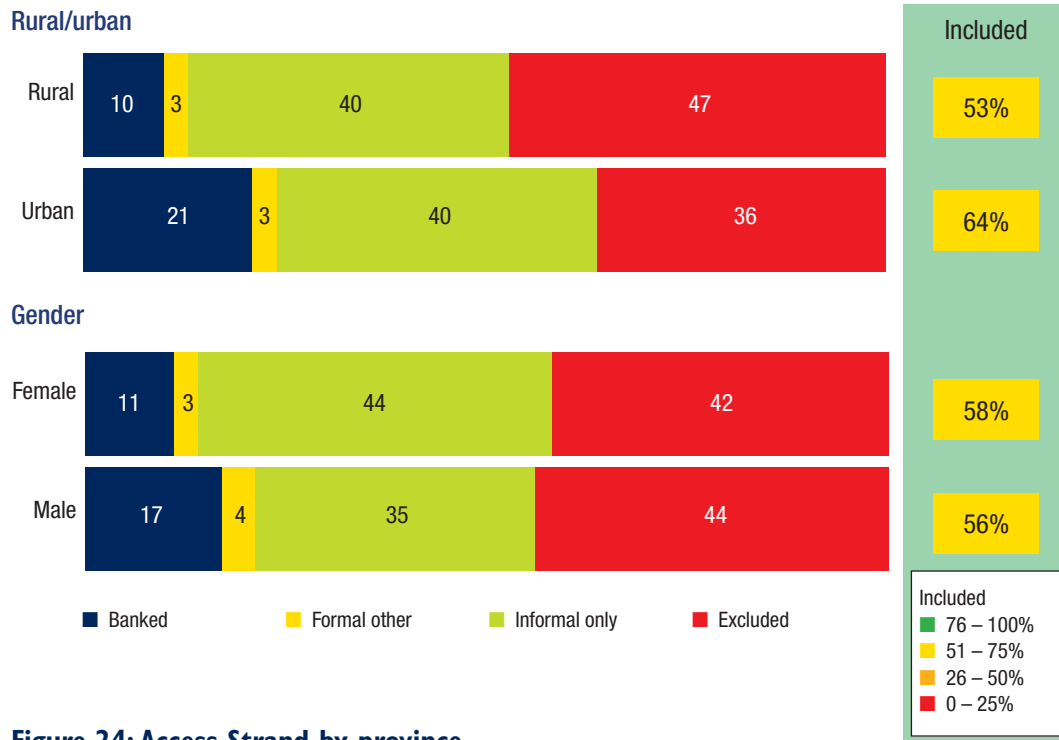


Figure 24: Access Strand by province

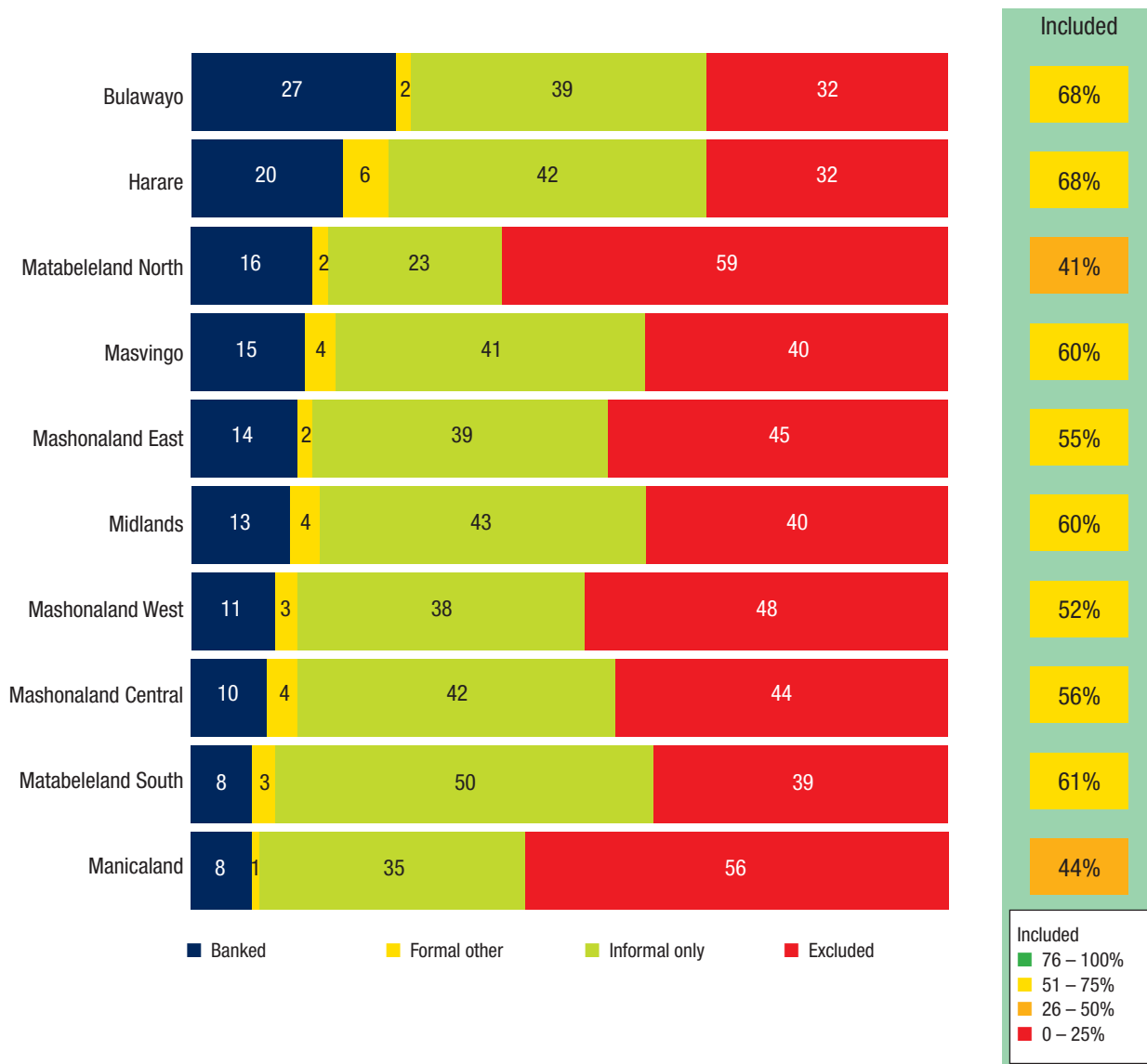
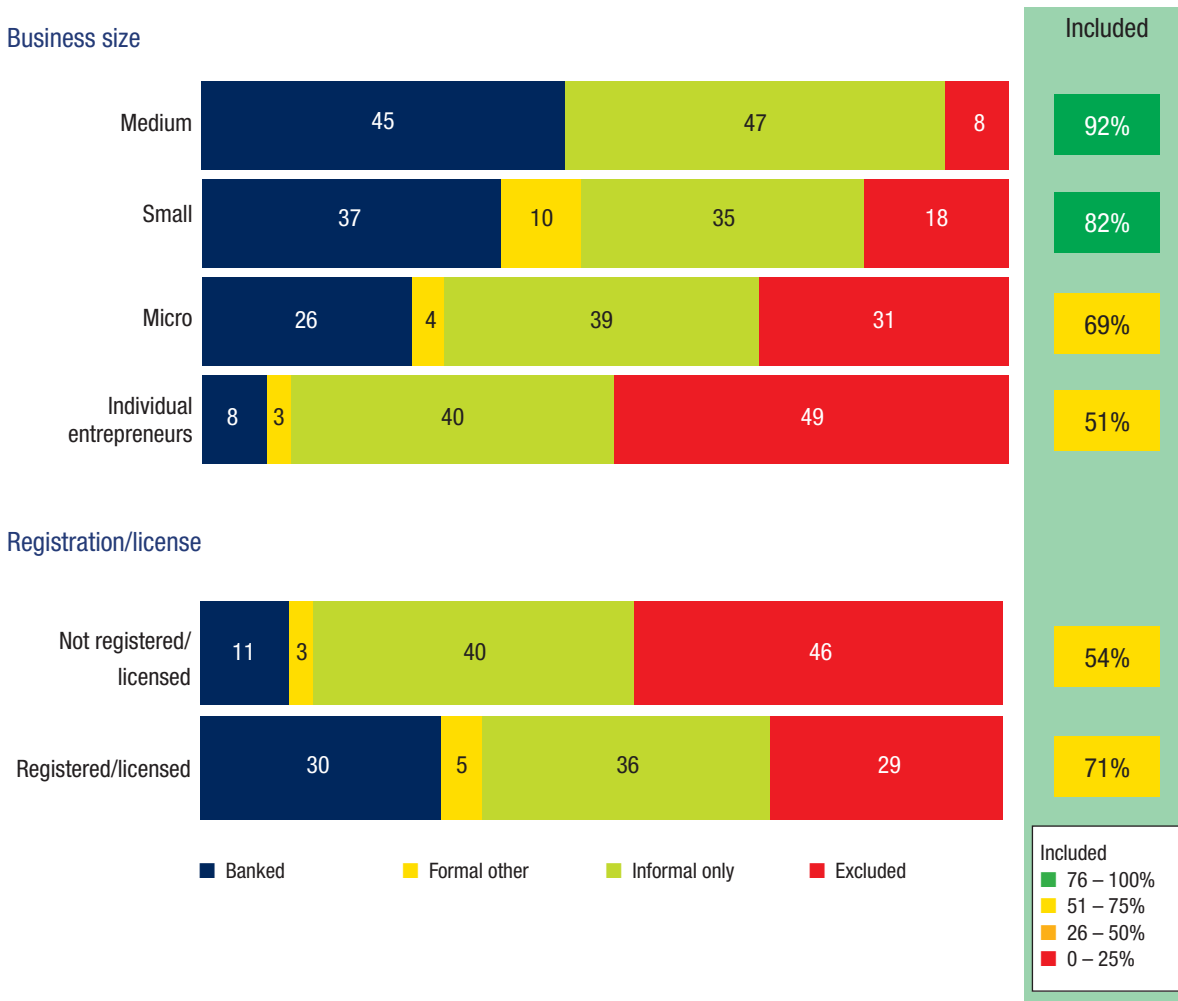
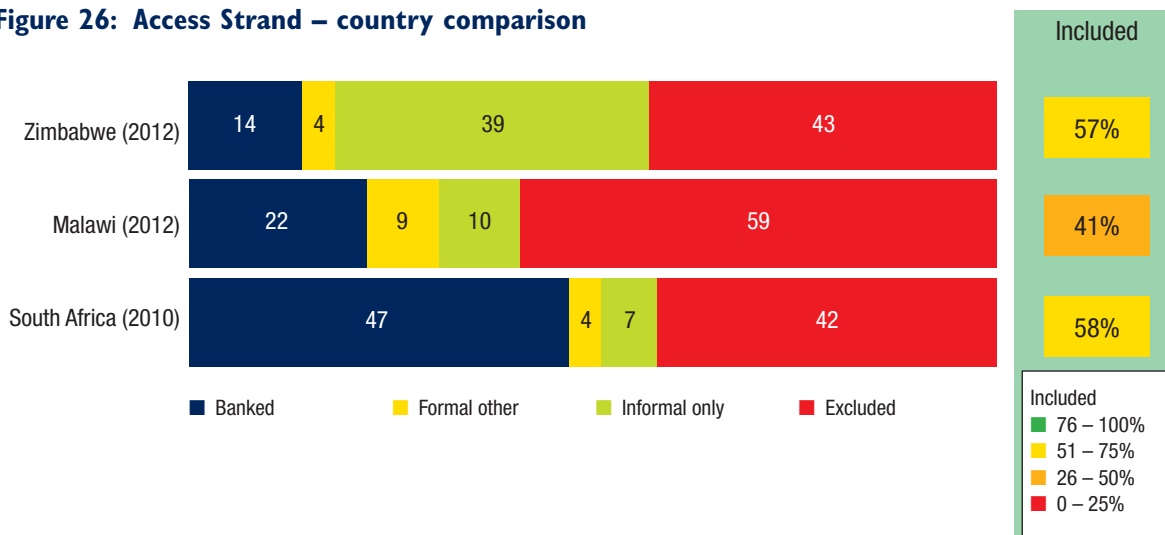


Figure 25: Access Strand by business size and registration/license



Country comparison: Comparing the Access Strand of MSME owners in South Africa and Zimbabwe show very similar levels of financial inclusion (57% in Zimbabwe compared to 58% in South Africa). However, in Zimbabwe informal mechanisms play an important role, with 39% of Zimbabwean MSME owners who only use informal mechanisms to manage their business finances compared to only 7% in South Africa. The uptake of formal financial products/services (both banked and other formal non-bank) is higher in South Africa (51% in South Africa compared to 18% in Zimbabwe). Given the historical events that affected the formal financial sector in Zimbabwe, this is not surprising.

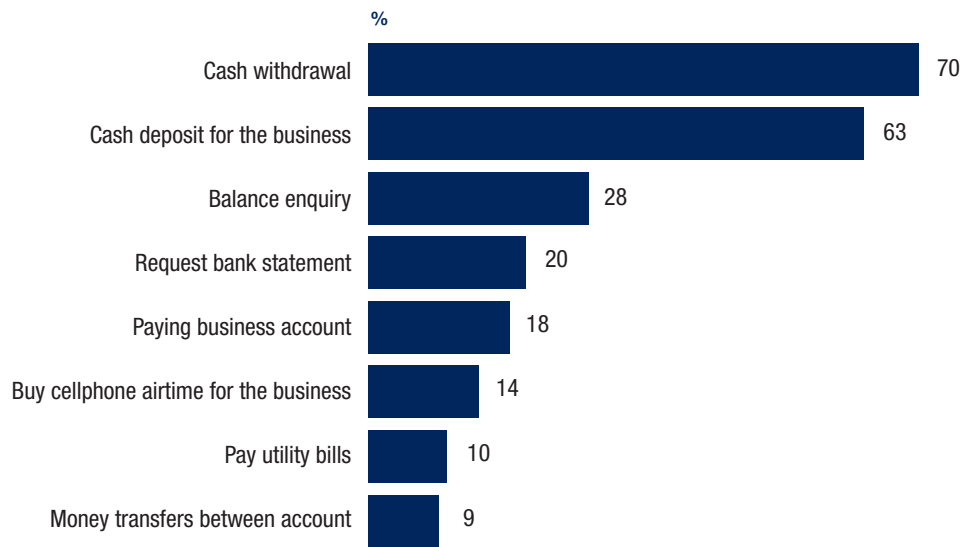
Figure 26: Access Strand – country comparison



4.2 Banking

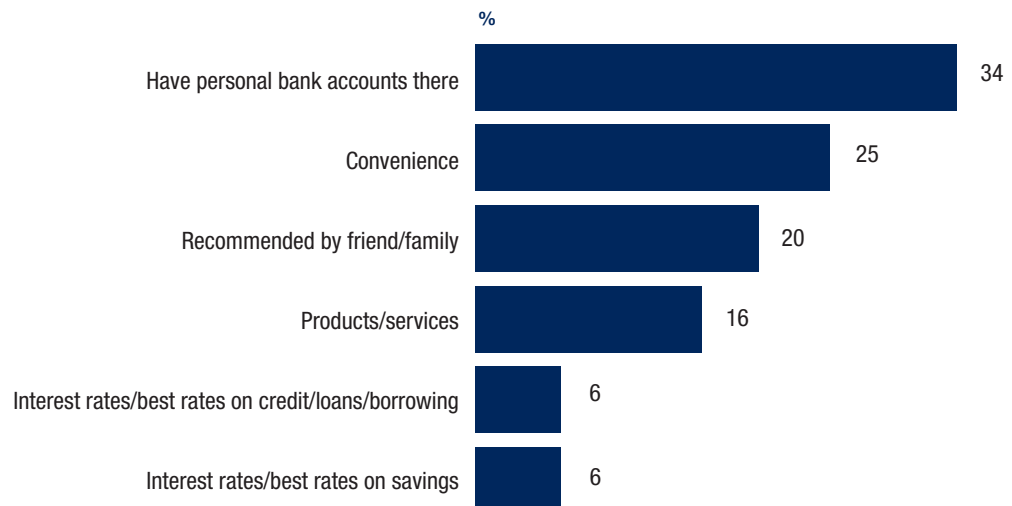
The majority of MSME owners do not use any products or services from a commercial bank (86%). 14% of MSME owners use products/services offered by a commercial bank, and only 3% use an account in the name of the business. Banking is largely driven by cash transactions (withdrawals and deposits) as illustrated below. About 70% of MSME owners who are banked use cash withdrawals and 64% cash deposit for their business. As shown in the FinScope Consumer Survey 2011, Zimbabwe is a largely cash based economy. Enquiries of bank balances and statements are also fairly common.

Figure 27: Key drivers to product uptake (banking)



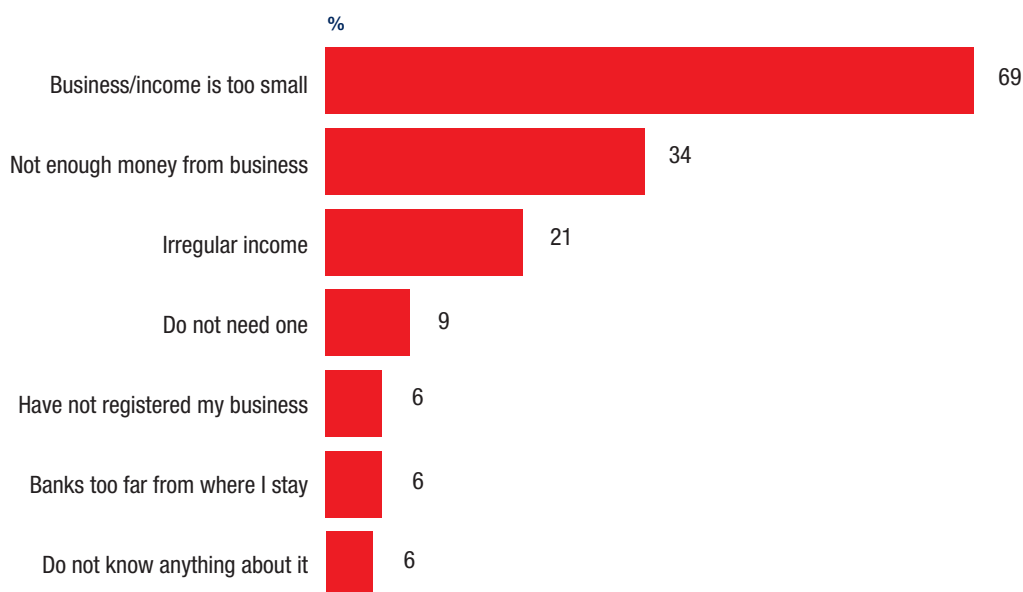
Drivers: The main reasons given for opening a bank account in the name of the business at a particular bank relate to the existence of a personal account at the same bank as reported by over a third of MSME owners together with convenience (bank is available – a quarter of MSME owners) and referrals/recommendations (from friends and family). Only 16% chose to open a bank account in the name of the business at a particular bank because of its product offering.

Figure 28: Key drivers for banking choice



Barriers: On the other hand, the main barriers to having a bank account in the name of the business relate to monetary reasons, i.e. because the income is too low/irregular as shown in the figure below – which is not surprising given the low levels of monthly income. Only 6% of MSME owners reported that they are not banked because banks are too far away (accessibility – proximity) while 5% reported that they do not know anything about it which indicates a lack of financial literacy / knowledge about banks and their products. In addition, MSME owners require numerous documents to open their account, such as identification document, proof of address, business registration/licence, other business documents (e.g. Articles of Association, etc.), as well as a certain income to cover bank charges, minimum balance required, etc.

Figure 29: Key barriers to having a bank account in the name of the business



4.3 Borrowing and credits/loans

In total, only 15% of MSME owners borrowed money/have taken goods on credit in the past 12 months for business purposes (that excludes money used to start or take over the business), or are currently repaying or owing money/goods for their business. Only 2% of MSME owners borrow from a bank and 2% borrow from other formal non-bank institutions. On the other hand, 4% borrow from informal groups, and 8% borrow from family and friends as illustrated in the figure below.

Figure 30: Borrowing overview



In constructing the Credit Strand the overlaps in financial product/service usage are removed, resulting in the following segments:

- MSME owners who do not borrow (85%);
- MSME owners who only borrow from friends and family (7%) and do not use any formal or informal mechanisms to obtain credit;
- MSME owners who borrow from informal sources such as money lenders but do not borrow from formal sources (bank or other formal non-bank institutions) (4%) – however, they might also borrow from friends and family; and
- MSME owners who borrow from formal institutions (total 4%: 2% from other formal non-bank and 2% obtain credit from commercial banks) – they might also borrow from friends and family.

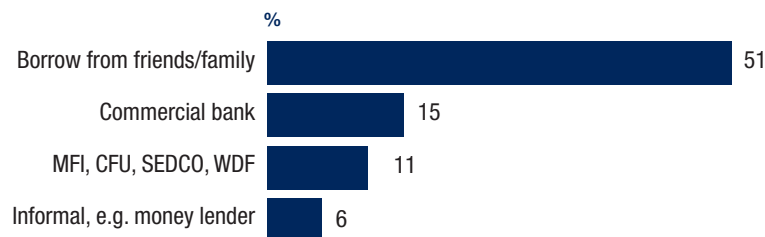
As shown in the figure below, there are hardly any overlaps in borrowing mechanisms.

Figure 31: Credit Strand



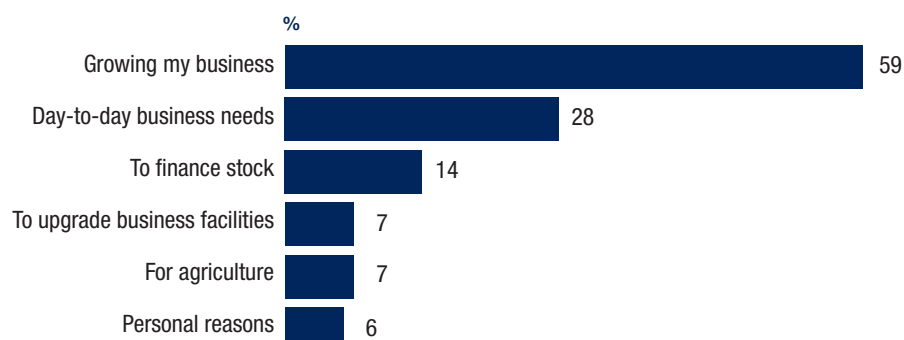
Borrowing mechanisms: Of those who borrow (15%), about (51%) borrow from friends and family. A quarter of MSME owners who borrow obtained loan(s) from a bank (15%) and only 6% borrow from informal mechanisms such as money lenders.

Figure 32: Borrowing mechanisms (of those who borrow)



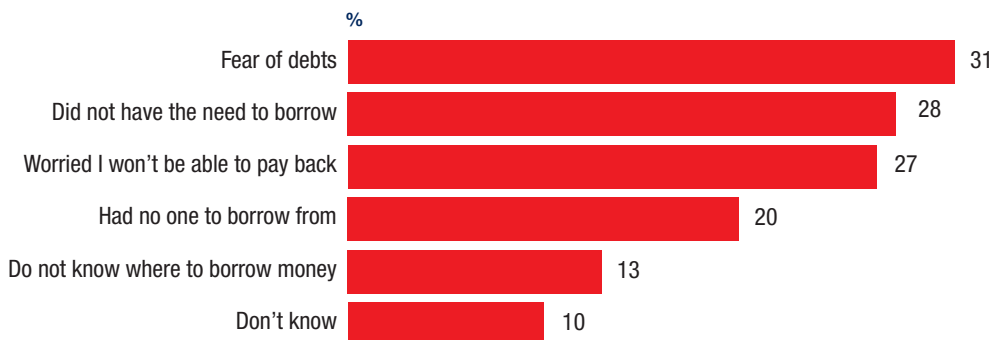
Drivers: MSME owners mainly borrow to grow their business (59%) and for day-to-day business needs (28%), while 14% borrow to finance stock, 7% to upgrade their business facilities and another 7% for agricultural purposes.

Figure 33: Reasons for borrowing (key drivers)



Barriers: The majority of MSME owners do not borrow (85%), mainly because they fear that they won't be able to pay it back. 31% fear debts, while 27% are worried they won't be able to pay it back. 20% reported that they do not have anyone to borrow money from, and 13% do not know where to borrow money. 28% do not borrow because they do not have the need. Many of those who reported that they do not have the need to borrow cover expense with savings rather than borrowing.

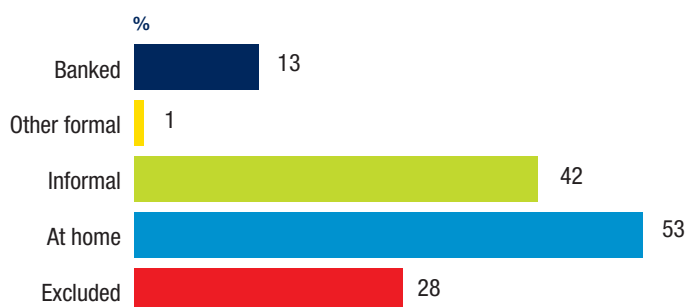
Figure 34: Reasons for not borrowing (key barriers)



4.4 Savings and investments

The majority of MSME owners in Zimbabwe save (72%). 13% save with a bank and 1% save with another formal non-bank institution. About 42% save using informal mechanisms such as savings groups/clubs, while 53% save at home.

Figure 35: Savings overview

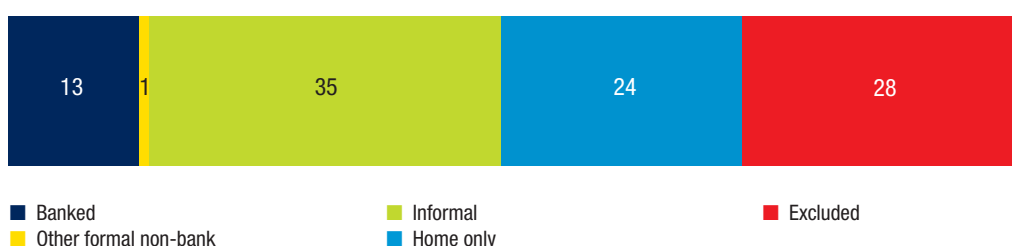


In constructing the Savings Strand the overlaps in financial product/service usage are removed, resulting in the following segments as shown in the figure below:

- MSME owners who do not save (28%);
- MSME owners who only save at home (24%) and do not use any formal or informal mechanisms;
- MSME owners who save through informal sources such as savings clubs but do not save using formal products/services – however, they might also save at home;
- MSME owners who save through formal institutions (14%) – they might also be part of savings clubs, and/or save at home.

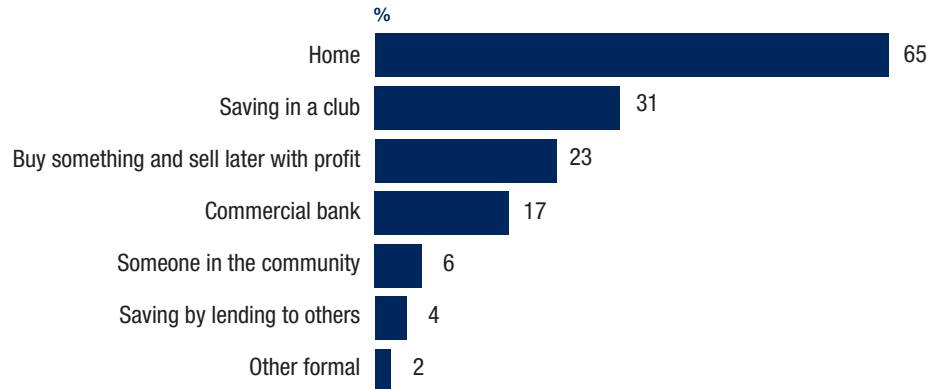
Comparing this with the figure above shows that there are several overlaps, especially looking at the usage of informal mechanisms (e.g. savings groups) and savings at home.

Figure 36: Savings Strand



Savings mechanisms: 72% of people save – the majority (65%) save at home/secret place, with 31% saving in a club, and 23% saving through buying something and selling it later. 17% save through a commercial bank, and 6% save with someone in the community.

Figure 37: Savings mechanisms (of those who save)



Drivers and barriers: MSME owners mainly save to have money when they need it (49%) and to expand the business (40%). The results also show that 28% of MSME owners do not save, mainly because of monetary reasons. Of those who do not save, 74% reported that the business is not making enough money to save, while 23% claimed that all the money is put back in the business and hence there is no surplus to save.

Figure 38: Reasons for saving (key drivers)

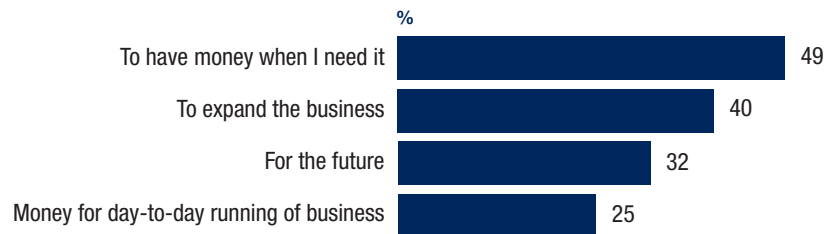
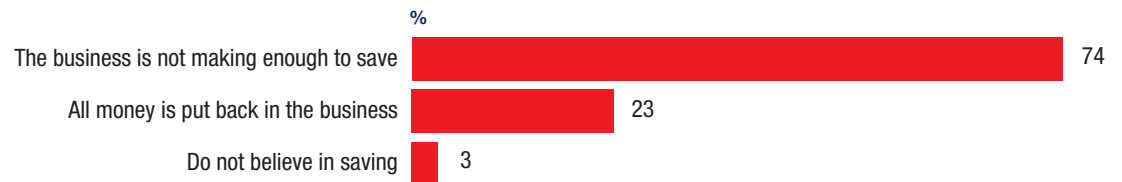


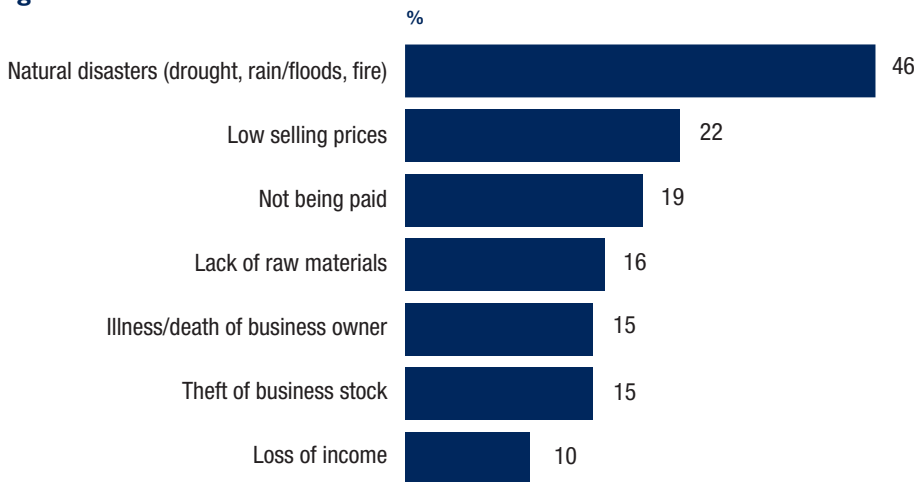
Figure 39: Reasons for not saving (key barriers)



4.5 Insurance and risk management

MSME owners face a number of risks, such as natural disasters (drought, rain/floods, and fire) as reported by 46% of MSME owners, as well as low selling prices (22%). Given the high percentage of business owners who work in the agricultural sector and the high (perceived) risk for natural disasters, there might be a great need for affordable agricultural insurance. Other risks include not being paid (19%), lack of raw materials (16%), illness or death of the business owner (15%), theft of business stock (15%), and/or loss of income (10%).

Figure 40: Main risks



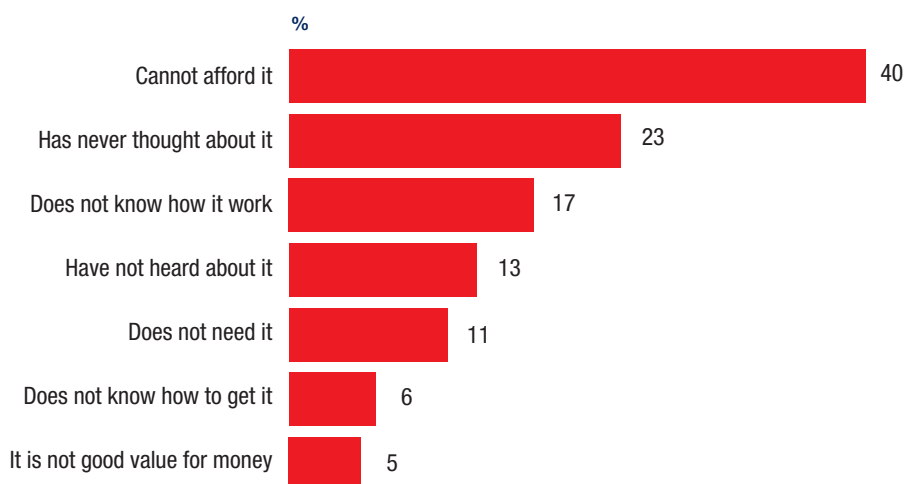
Despite these risks, the majority of MSME owners (80%) are not insured as illustrated in the Insurance Strand below. 15% only use informal mechanisms, i.e. burial societies, while only 5% are formally insured against defined risks. Of those who have insurance, 38% have a funeral plan and 34% are a member of a burial society.

Figure 41: Insurance Strand



Barriers: Key barriers to insurance uptake relate to affordability and lack of knowledge about insurance. 40% reported that they are not insured because they cannot afford it, 23% have never thought about it, while 17% do not know how it works, and 13% have never even heard about it. On the other hand, 6% do not know how to get it – which indicates the need for knowledge about insurance.

Figure 42: Reasons for not having insurance (key barriers)



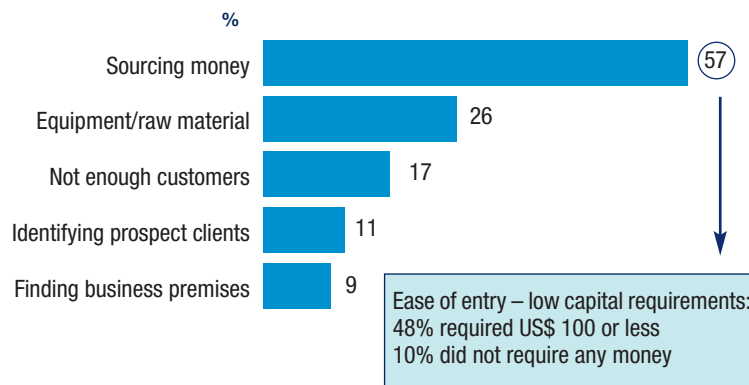
5 Key challenges

Key challenges mentioned by MSME owners mainly refer to sourcing money during start-up, management and operation, as well as growth. Other challenges include equipment/raw material, not enough customers, transport (e.g. moving stock), finding business premises or operational space, too many competitors, and being owed money/debtors.

5.1 Starting the business

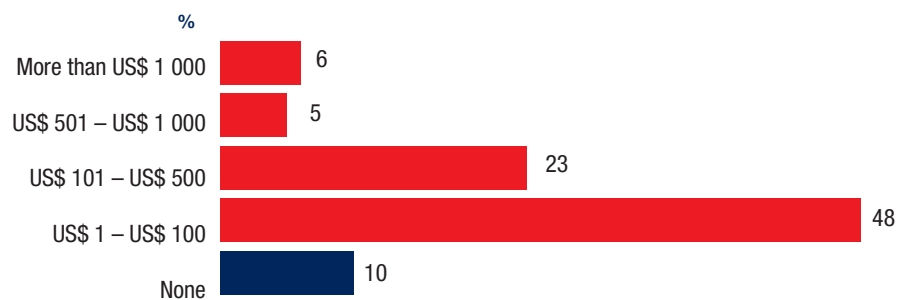
In total, 57% of MSME owners reported to have problems sourcing money when starting their business. Other challenges during the start-up phase include the lack of equipment/raw materials (as reported by 26%), not having enough customers (17%) and problems identifying prospective clients (11%), as well as finding (the right) business premises (9%).

Figure 43: Main constraints to starting the business



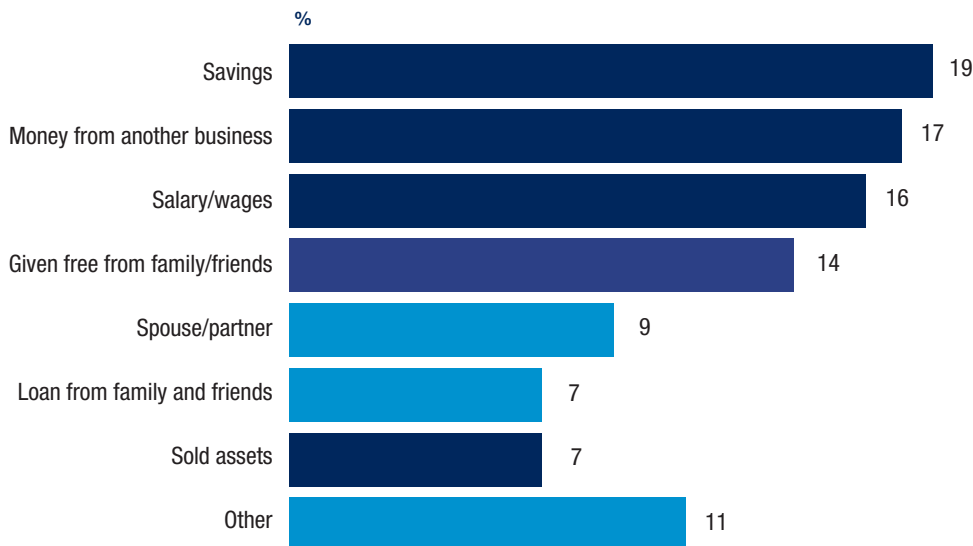
The majority of MSME owners (58%) required US\$ 100 or less to start their business (including those who did not require any start-up capital). A further 23% required between US\$ 101 and US\$ 500. Only 6% required more than US\$ 1 000 to start their business.

Figure 44: Finance required for starting the business



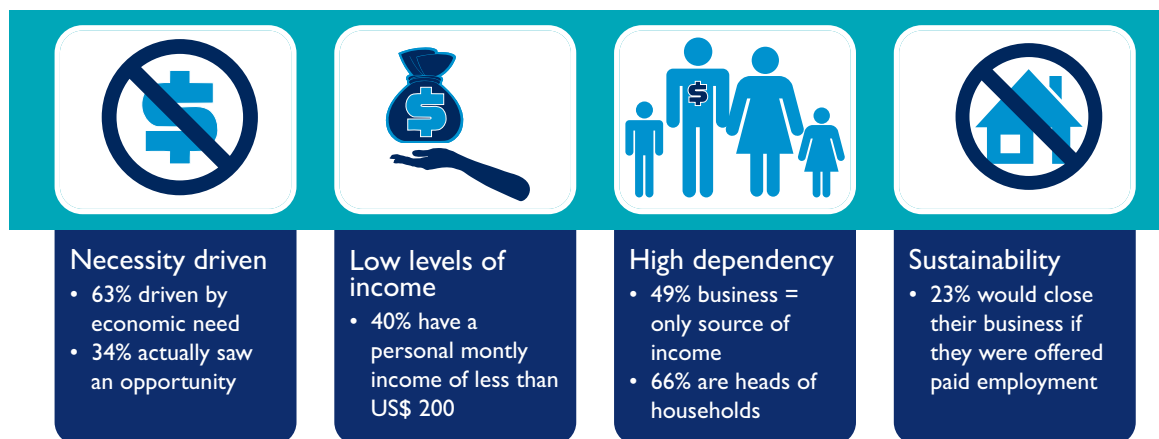
Those who did require start-up capital, mainly generated it themselves (59%), including own savings (19%), money from other businesses (17%), salaries/wages (16%), or sold assets (7%), while 14% were given the business for free from friends/family to run. Given the high percentage of family-run businesses, that is not surprising. A further 9% receive the money for the business start-up from their partner/spouse, and 7% borrowed money from friends or family.

Figure 45: Main sources of money to start the business



The motivation to start a business is mainly driven by the need to secure livelihoods, rather than seeing an opportunity. 63% of business owners reported that their main motivation to start their business was driven by economic need (e.g. to provide for their families, to escape poverty and unemployment, to substitute income), while 34% actually saw an opportunity. However, MSME owners have low levels of income but high levels of dependency with 40% having a personal monthly income of less than US\$ 200. 49% reported that their business is the only source of income. 66% are heads of households and often the main income earner. This needs to be taken into consideration when looking at business growth and sustainability.

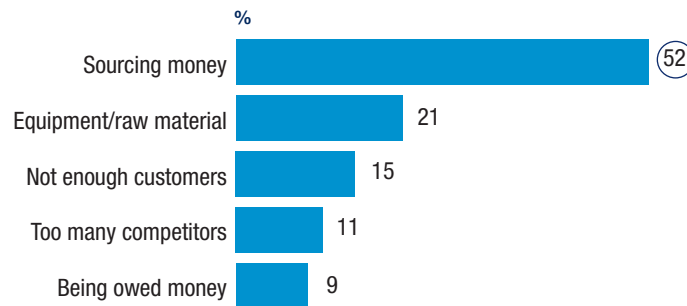
Figure 46: Motivation to start the business versus realities



5.2 Operation and management

Sourcing of money is perceived to be the biggest challenge for business owners. About every second business owner (52%) reported to have problems sourcing money and 21% reported to have challenges with equipment/raw material. Further, MSME owners claimed not to have enough customers (15%) and too many competitors (11%) which might be related to the limited use of sophisticated marketing techniques.

Figure 47: Main constraints to managing the business



In addition, the existing business acumen of MSME owners needs to be taken into consideration. Business acumen here is defined as 'the keenness and quickness in understanding and dealing with a business situation in a manner that is likely to lead to a good outcome' (Reilly and Reilly 2009:1)¹⁶. As business acumen cannot be measured directly, various proxies are used here to estimate levels of business acumen, such as levels of education and skills training, business experience (here: age of MSME owners), their understanding of financials, access to formal financial services, their level of (in)formality, their use of marketing techniques in promoting their business, as well as various attitudes and perceptions.

Education and skills training: As previously mentioned, levels of education are relatively good in Zimbabwe compared to other countries in the region. As such, only 31% have primary education or less (including 5% who have no schooling). However, the majority (73%) acquired the necessary business skills informally (through informal networks such as family and friends, previous job, or while managing the business), while only 27% acquired the skills formally (through a training programme, school, university/college) – which indicates the need for tailored business skills and management programmes.

Business experience: The majority of businesses are young (5 years or younger) – but many MSME owners are older than 30 years which might indicate a higher level of experience. Only 28% are 30 years or younger.

Understanding of financials: Almost every second MSME owner (49%) does not keep financial records, and only 8% reported to have up-to-date financial/accounting records. 29% did not know their turnover, and only 6% have a written business plan. That might be related to the nature of the business (small-scale, survivalist businesses) and/or the lack of financial literacy/capability. The insufficient understanding of financials affects operation and management of the business on a daily basis. In addition, it affects future planning and hence sustainability and growth of the business which indicated a great need for support in this area.

Access to formal financial services: The majority of MSME owners do not have a bank account for business purposes, which prevents them from saving through and/or borrowing from commercial banks. Only 3% have a separate business bank account in the name of the business. Often, business and personal finances are mixed up, which affects financial management of the business.

Informality: 85% are informal, i.e. they are not registered / licensed, which does not mean that they are less business savvy. However, formalisation of the business requires a relatively large sum of money and a number of documents which the majority of MSME owners do not have.

Limited use of sophisticated marketing strategies: The majority (82%) rely on word-of-mouth to advertise their business, and 14% do not market or advertise their business at all – which indicates a great need for support in this area.

Attitudes: Despite the challenges mentioned above, the majority of MSME owners have positive attitudes towards their business. 83% are decisive (agreed with the statement: if you make up your mind to do something you do not let anything stop you; and you are happy to take charge of and see things through), 68% are flexible if further change is warranted in the future (agree with the statement: you would easily consider venturing into a new business), and 75% regularly assess their competitors.

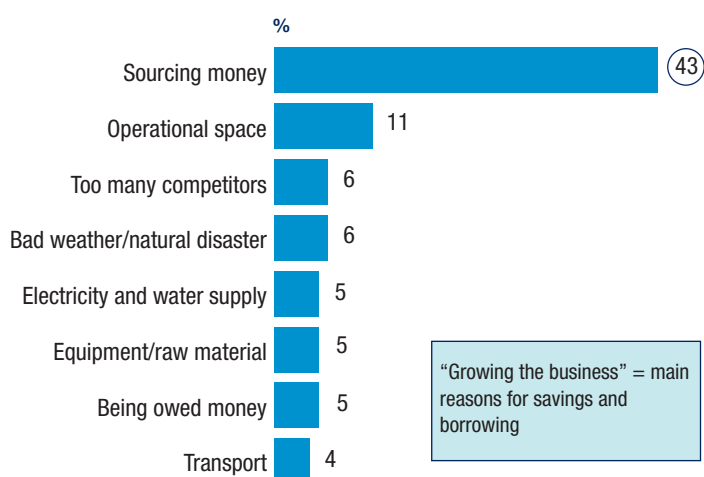
5.3 Growing the business

Growing the business was reported to be the main reason for saving and borrowing. As access to finance is challenging (reported by 43%), many business owners rely on savings and other forms of income. Other constraints to growing the business mainly refer to space to operate (11%), and bad weather/natural disasters (6%) which is not surprising considering the large number of MSME owners that engage in agricultural activities.

In addition, MSME owners reported the following challenges:

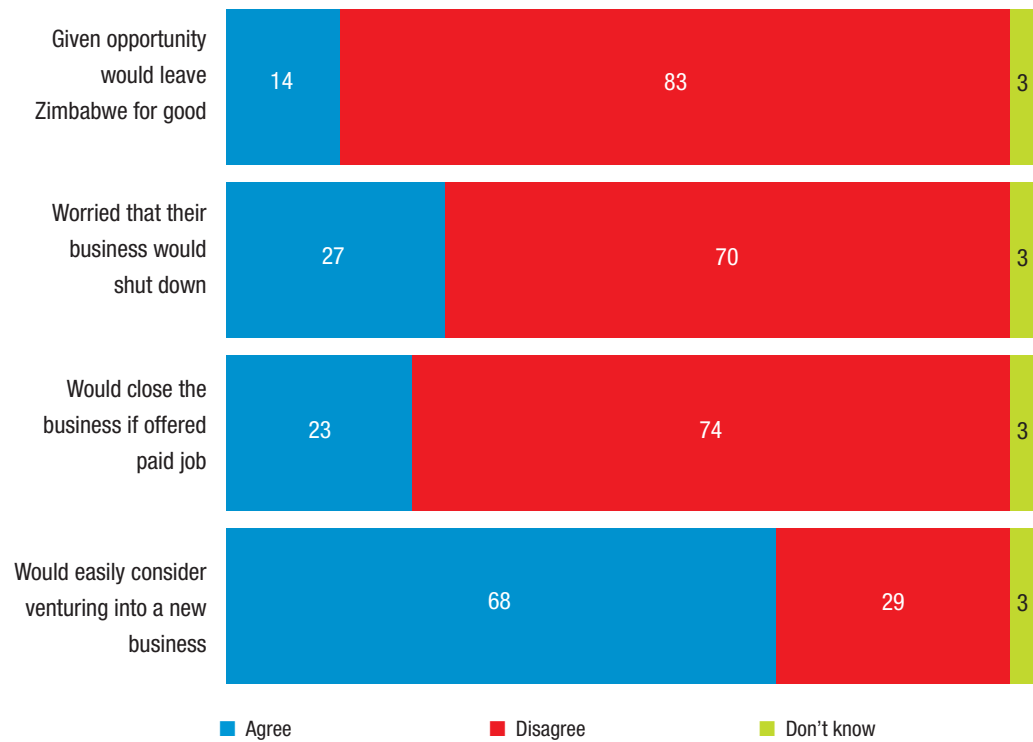
- Too many competitors (6%);
- Problems with electricity and water supply (5%);
- Lack of equipment and raw materials (5%);
- Being owed money (5%); and
- Inadequate transport (4%).

Figure 48: Main constraints to growing the business



Sustainability versus risk diversification: Survivalist entrepreneurs might prefer to invest in new business(es) instead of growing the existing one which affects the sustainability of businesses. It is interesting to note that 23% would close their business if offered paid employment, and 68% would easily venture into a new business.

Figure 49: Perceptions of MSME owners

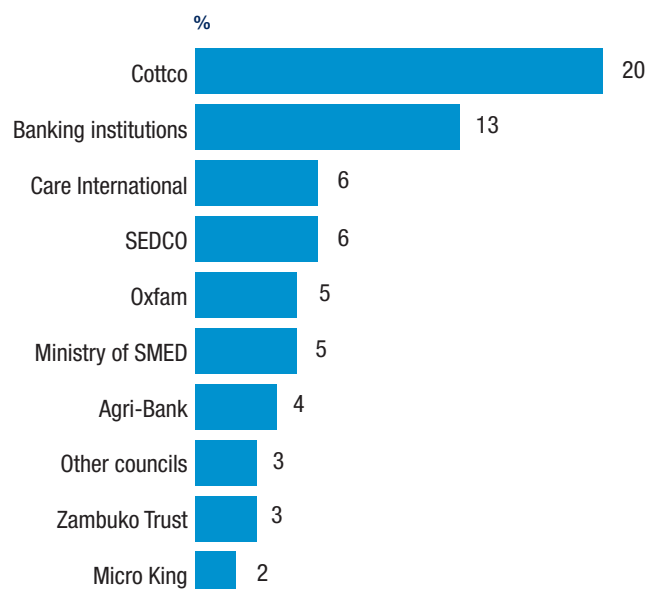


5.4 Business support

Despite these numerous challenges MSME owners face, only 9% have ever used business support (besides the support received from internal networks such as family and friends). Of those who received business support, 72% positively reported that the help they received was useful.

Of those who used business support 20% used support provided by Cottco, while 13% used bank institutions. NGOs, such as Care International and Oxfam also play an important role with 6% and 5% respectively. 5% received support from the Ministry of Small and Medium Enterprise and Cooperative Development.

Figure 50: Main business support mechanisms used by those who used any support



6 Conclusions and recommendations

This study found that the sector is driven by individual entrepreneurs and micro-enterprises. The majority of MSME owners are located in rural areas, mainly engaging in agriculture, retail and wholesale related activities, which are largely driven by female entrepreneurs. Uptake of formal financial products and services is low (especially in rural areas), and financial inclusion is driven by informal mechanisms (e.g. savings groups, burial societies, etc.).

The MSME sector plays an important role in addressing unemployment in Zimbabwe with a total of 5.7 million people working in the sector (including the MSME owners). Further, the sector contributes significantly to poverty alleviation. Although effects on wealth creation are limited given the low levels of income among the majority of MSME owners – survivalist businesses play a vital role as a buffer against slipping into deeper poverty and reducing individual and household vulnerability.

Given this crucial role of MSMEs, and especially of survivalist businesses, it is imperative to create an enabling environment by putting into place strategies to support upward mobility and growth of these businesses to mature into more sophisticated formalised enterprises. To do so, it is important that these interventions are targeted. MSME support programmes can only be meaningful if they target specific segments within this broad sector that range from informal survivalist businesses to formal, more sophisticated small- and medium-size businesses. As found in this survey, the majority of business activities in Zimbabwe can be characterised as survivalist businesses and hence focus should be given to those. Furthermore, it is important that interventions are evidence-based. However, the lack of accurate and reliable information about these businesses and the challenges they face, have been identified as the key constraints in achieving this objective. There is an information gap especially for businesses that are not registered and as such have not been captured in the system (90% of individual entrepreneurs and 75% of micro-businesses are not registered/licensed)¹⁷. This could be a stumbling block in terms of identifying and designing appropriate support programmes for the whole sector; determining policy direction and relevant financial products and services to address the needs of the MSME owners in Zimbabwe.

This survey builds a comprehensive body of evidence focusing on MSME owners (especially individual entrepreneurs and micro-businesses) and their financial needs, and has identified the following challenges and recommendations thereafter:

6.1 General recommendations

Need for interventions that focus on growth and sustainability: The age of the business can be used as a proxy for sustainability/maturity of the business given the lack of other baseline data¹⁸. As found in this survey, the majority of businesses are young (in operation for 5 years or less). This might also be related to the introduction of the multicurrency system in 2009. Limited upward mobility and sustainability of businesses has been associated with many factors, including the effects of policy and regulations directed at the MSME sector; the macroeconomic environment (e.g. the availability of paid wage employment versus the need to take up self-employment/entrepreneurial activities), and industry specific factors (e.g. vulnerabilities of the agricultural sector versus professional services sector). In addition, individual characteristics of the MSME owner play a vital role. As such, business success is based on clear and positively motivated business intentions. As found in this survey, however, the motivation to start a business is often driven by need (to provide for their family, unemployment, poverty, etc.) rather than seeing an opportunity. It is apparent that a large number of adults in Zimbabwe are compelled to enter informal/survivalist/necessity driven self-employment. Many MSME owners would therefore take up paid employment (if offered) or venture into a new business. As such, most profits are absorbed by the household to smooth consumption (the majority of MSME owners are heads of households; often the business is the only source of income), or invested into other business activities rather than into the core business to diversify risk. By design many of these entrepreneurial activities are not motivated by growth but by survival. Interventions focusing on business growth and sustainability need to take these issues into consideration as part of the strategy exploring factors that are required to transform entrepreneurial survivalist activities into sustainable businesses.

¹⁷ The World Bank Enterprise Survey explores formal small- and medium-size businesses in Zimbabwe.

¹⁸ Data generated from this survey can be used as a baseline. Following a repeat survey it can then be compared, assessing the maturity of those businesses (higher percentage of businesses in the growth and mature phase).

Need for education and training: Entrepreneurial action is linked to business acumen and sound business management skills. Although the majority of MSME owners in Zimbabwe have good levels of education, many of them rely on their own networks (friend, family, and other MSME owners) to acquire the necessary business skills. While every second MSME owner claimed to keep financial records, only 8% have up-to-date financial and accounting records and many did not know their turnover. Often business and personal finances are mixed up. As such, there is a great need for tailored training programmes focusing on financial capability. It needs to be considered, however, that financial capability requires behaviour change. Hence, appropriate and relevant interventions need to be designed timeously, at different phases of the business life cycle taking into consideration different audiences. Three broad categories are start-ups, survivalist businesses (which are the majority of MSME owners), and established businesses. Basic concepts that should be included here focus on entrepreneurial and basic MSME management competencies, modern accounting and financial management systems, looking at business versus personal finances (only 3% have a separate bank account in the name of the business), and different financial services options (many MSME owners reported that they have not thought about insurance, for example, and do not know where and how to get it). In addition, MSME owners require a basic understanding of financial regulations, legal and tax issues (only 2% are registered with ZIMRA), and understand related resources they can resort to in a situation of financial stress.

Need for formality: For the purposes of this survey, the term 'informal businesses' refers to enterprises that are not registered and/or licensed with any government institution within Zimbabwe. Uncertainties, the scale of business activities, as well as the costs and complexities of registration affect the motivation to formalise the business. In Zimbabwe, incomes from formal employment tend to be low and hence secondary incomes are essential. Incomes from entrepreneurial activities provide an important opportunity to 'top-up' incomes, and they are often based on activities that can be fitted around a main job. A quarter of MSME owners reported to generate additional income from another job / business. As such, owners of 'top-up' businesses might not see the need to register their entrepreneurial activities. Another reason for resisting formalisation is that the processes and requirements of registration can be complex and expensive. This is a particular issue where educational levels are low and entrepreneurs have to engage help in completing the paperwork required (29% of MSME owners have primary education or less). Owners of survivalist businesses might not see the need for registering their business activities as the associated cost registration and compliance might exceed the limited income. About 35% of MSME owners reported that they do not have the money to register their business activities, 26% don't know how to register, and 10% reported that it is too complicated. Further, there are low levels of awareness as to what the benefits of registration are. To reduce complexities and travel costs, it might be useful to introduce a 'one-stop-shop' model where MSME owners can register/license their activities in one go. In addition, incentives such as support with writing a business plan, access to finance, operational space, and new customers (i.e. marketing) could be offered. There is need to ensure that MSME owners understand the importance and benefits of registering their businesses, that the process is transparent and easy, and that the cost is affordable. There is an opportunity to come up with incentives and a formalisation model which would suit the needs of the sector while contributing towards their financial inclusion, the use of micro-franchising, loan booths, the advent of ninety nine year leases and the formation of SACCOs.

Figure 51: Need for formalisation – costs versus benefits

Cost and complexity of registration process

- About 90 days
- At least US\$ 685
- Multiple steps



- ✓ Reduce registration costs
- ✓ Communicate registration process
- ✓ Reduce complexities



Perceived benefits of registration

- Avoid harassment from authorities
- Law compliance
- Access finance/government assistance



Incentives:

- ✓ Help to access finance and operational space
- ✓ Education and training (e.g. help to compile a business plan)
- ✓ "One-stop-shop"

Need for revised labour laws: Although MSME owners do not perceive labour laws as a main constraint, policies affecting the hiring and firing of employees might contribute to the willingness/ability to employ full-time paid staff. As found in this survey, the majority of MSME owners do not have any employees (72%) and only 4% of MSME owners employ more than 5 people. Often businesses are embedded in networks of family and kin and rely on people who work in the business without pay. In fact, only 22% are full-time paid employees. There is a need to create an enabling environment for MSME owners which encourages quality employment across the sector. Labour policies that are positively perceived on macro-level, might affect MSME owners, in particular informal micro-businesses. These effects are worth exploring further.

Need for operational space: The majority of MSME owners operate from residential premises, not only due to the nature of businesses but also due to the lack of operations space. The lack of operations space was reported as a key challenge when growing the business. Although operational space is a challenge itself, there is also another challenge with the actual cost that is often associated with acquiring the space. Hence, there is need for intervention from different stakeholders on how to tackle the operational space issue with regard to availability and affordability.

Need for marketing and market linkages: Many MSME owners identified too many competitors. However, having enough customers / identifying prospective clients is a key challenge for business start-up, operation, management and business growth. The majority of entrepreneurs (82%) do not use sophisticated marketing practices, but rely on word-of-mouth to advertise their business. An additional 14% do not market their business at all. This indicates the great need to support MSME owners in their venture to market their products and services. Common marketing techniques for small businesses include networking, customer referrals, local business directories, local radio, road-side billboards, and print (e.g. local newspapers). Although internet marketing might seem to be a cost effective option (e.g. website, email marketing, as well as social media), only 3% have access to internet. SMS marketing could be utilised for marketing purposes as the majority of MSME owners have access to cellphones (80% in total, and 90% in major urban centres such as Harare and Bulawayo). However, that might not be feasible / affordable to all MSME owners.

6.2 Financial inclusion specific recommendations

Need for credit/loans: Only 2% of MSME owners in Zimbabwe borrow from a commercial bank. In a predominantly cash-based economy²⁰ such as Zimbabwe, where access to formal financial services is problematic (as income is too small / irregular; or banks are too far away), managing enterprise liquidity presents a number of challenges. Sourcing money was reported as a key challenge when starting, managing and growing the business. Lenders have a range of requirements – of which the majority of MSME owners do not fulfil, such as formal registration (15% of MSME owners are registered/licensed), a bank account (14%), a business plan (6%), and financial records (51%). Although the majority of MSME owners save (and these savings could be used as cash collateral), information about the amount of savings is not available. From a supply-side perspective, these requirements and other information are needed to establish credibility of the business and to be able to calculate the risk accordingly. As already known, the lack of reliable information is linked to the high administrative costs of small-scale lending. Credit markets are segmented by the relative costs of engagement for the provider – as these costs rise, the provision of credit declines. Using existing business models, where the information normally used to assess risk is absent, risk evaluation becomes less robust and the risk assessment process becomes based on uncertainty, thus raising the cost of the engagement. The uncertainty introduced by irregularity and low levels of income as well as insufficient credit and other information (e.g. business address, owners ID, up-to-date financial records) results in murky risk-profiles. Often the accounts of enterprises are inseparable from those of the household as the household may use funds borrowed for business purposes. As a result the expected loss and revenue no longer lend themselves to estimation, and the risk to lenders in these circumstances is very high. As such, many credit providers cannot operate with traditional models of risk in this segment of the market. Efforts that assist in furthering the access to information required by credit providers will contribute to reducing the barrier of access to credit for MSMEs.

²⁰ The majority of MSME owners are paid in cash. They pay their employees in cash. And banking is driven by cash related transactions such as cash withdrawals and cash deposits.

Examples include small-business credit bureaux, using any historical data on client financial behaviour or credit-related variables that can be used to calculate the risk of extending credit, or even alternative models for credit scoring, like psychometric scoring. A focus on policies and technologies that contribute to improving the information available to lenders may reduce the lending constraints. Credit bureaux improve the information available in making credit decisions and supply credit information to lenders. Similarly, credit technologies that better use currently available information (such as scoring) can improve the information position of the lender. Partial credit guarantees (PCGs) can be another mechanism of risk transfer and risk diversification. PCGs allow enterprises with insufficient collateral to access the lending market. Additionally, by being able to access loans these enterprises are able to establish a repayment record, providing the borrower with a credit history, which in itself can lessen the need for collateral. Finally, by extending more loans to smaller businesses, lending institutions gain experience in managing these types of loans, encouraging further development in this market segment. However, access to credit brings additional risk to a market due to the risks associated with unaffordable credit. There is a need to balance access to credit with responsible credit provision. Responsible credit provision can be encouraged by an appropriate regulatory framework that restricts certain practices and behaviours, while at the same time empowering and protecting consumers. A well-functioning credit market needs a simple and transparent regulatory framework that is relatively easy to comply with. A well-defined legislative framework will enable an effective credit market where reputable credit providers serve responsible credit seekers, so that over time, access to finance is improved. Excessively onerous and costly compliance requirements, which increase the cost and risk for credit providers, is likely to lead to higher cost of credit for consumers and lower returns for providers, and reduced access over time.

Need for long-term savings and investments: MSME owners save for a number of reasons. Most of them, however, are related to day-to-day needs and household consumption rather than long-term investments such as productive assets for the business, which is understandable considering the uncertainties many businesses face and the daily hardship (low levels of income, high number of dependents). Rebuilding confidence in the financial services sector is vital as most people are currently keeping their savings at home or save with informal groups.

Need for low-cost banking products: The cost of services (including bank charges and minimum balance) appears to be a problem among MSME owners in Zimbabwe. Low-cost or free accounts for the lowest income market segment would be a way to boost the financial inclusion of the very poor. This type of service could also be vital for enabling people to save through formal mechanisms and build an asset base. Restoring confidence in the financial institutions and the ability to freely access one's own funds are critical for product uptake.

Need for mobile financial services: The low levels of formal financial inclusions and the high uptake of cellphones (as used by 80% of MSME owners in Zimbabwe) indicates an opportunity for mobile financial services. A shift towards greater intentional and appropriate use of technology (e.g. cellphones) enabling electronic transactions brings material benefits to governments, private sector, individuals and communities—in terms of reduced costs, improved transparency, enhanced security, and access to financial services. Advances in technology and recognition of the benefits of innovation in electronic payment provide the opportunity to look beyond the traditional brick-and-mortar bank branch models of servicing customers. From a policy and regulatory perspective, attention is necessary to ensure that there is an enabling environment for these 'beyond branch' models to develop, which requires understanding of the money management habits and economic networks of MSME owners. Consideration is required on how far the regulation should go in determining the branchless banking framework, which models of branchless banking are economical and should take into account how far they will go in reaching the unbanked or under-banked population.

Need for agricultural finance and insurance: As shown in this survey, the sector is largely driven by agricultural activities (43%). The FinScope Consumer Survey Zimbabwe 2011 also indicated that farming and fishing is a main source of income for 29% of adult Zimbabweans. Given the seasonal nature of this work and the high vulnerability due to various risks such as natural disasters and low selling prices, most MSME owners face uncertainties (and as such are often not able to employ full-time staff). Although more people residing in rural areas rely on farming and fishing, access to agricultural finance and insurance is limited. There is a need for affordable and flexible solutions, including loan and savings products to cover seasonal input (e.g. fertiliser, seeds, labour, etc.) and fixed assets (e.g. tractors, implements, land

improvements). In addition, there seems to be a demand for tailored affordable agricultural insurance could help to address some of the risks and uncertainties MSME owners face.

Need to leverage informal financial services: Every second MSME owner in Zimbabwe uses informal mechanisms to manage their business' finances (mainly for saving purposes), compared to 18% who are served formally. As such, informal services such as savings clubs play a vital role in the financial services continuum, often as precursors for those who cannot be reached formally. Informal services are often used throughout and beyond the transition from informal to formal. But ultimately, informal services become marginal or supplemental. For MSME owners in Zimbabwe, the move to formal brings a number of advantages that informal cannot provide. Principle among these is the element of credibility. This element extends from funders (access to credit), to potential investors or business partners, to customer engagement. A formally registered business, for example, that implements some prudentially accepted level of account management and reports to a regulatory body give certainty to stakeholders engaging with the business. In addition, consumers generally should have access to some level of consumer protection where a business is formally registered, providing consumers with added comfort in engaging with the business.

Appendix A: Survey methodology and approach

Defining MSMEs

In this survey, MSMEs are defined by the number of employees according to the Small Enterprises Development Corporation (SEDCO) Amendment of 2011²¹. This definition includes individual entrepreneurs (without any employees), micro-businesses (with 1 to 5 employees), as well as small-businesses (6 to 30/40 employees – depending on the sector) and medium-size businesses (31/41 to 75 employees)²². This study also includes agricultural activities if 50% or more of the produced goods are sold.

Table 9: Examples of classification of MSMEs

	Micro	Small	Medium
Agriculture	1 – 5	6 – 30	31 – 75
Manufacturing	1 – 5	6 – 40	41 – 75
Retail	1 – 5	6 – 30	31 – 75

Note: The SEDCO classification also takes other indicators into consideration to classify MSMEs, such as maximum total turnover in US\$ and maximum gross value of assets in US\$. A formula is used to combine all indicators and classify MSMEs accordingly (as described in the Fifth Schedule). As these figures are rather unreliable, the FinScope survey only uses the number of employees to define the business as agreed upon by the Steering Committee. Further, it includes all employees, not only full-time employees, to estimate the total number of people working in the sector.

Questionnaire

The FinScope MSME Survey methodology was first piloted in South Africa in 2006. It has since been implemented in Zambia (2008), Tanzania (2010), South Africa (2010), and Mozambique (2012). The South African questionnaire was used as a benchmark for the Zimbabwe MSME questionnaire. The questionnaire was then adapted to the Zimbabwean context. By design the questionnaire is intended to involve a range of stakeholders, thereby enriching the survey tools through a process of cross-cutting learning and sharing of information. The design of the questionnaire was guided by the Steering Committee. The design process entailed several revisions while maintaining continuity on the content for the indicators on trend and monitoring analysis of changes in the financial systems over time. The final questionnaire was signed off by all relevant parties involved. It was then translated from English into Shona and Ndebele. The questionnaire was used in the training of enumerators and is complemented by a detailed training manual. The questionnaire was then piloted internally and in the field. Insights and feedback from supervisors during the pilot were taken into account for further revision before the questionnaire was finalised. The final version was adopted and accepted and ready to be used in the field.

²¹ Government of Zimbabwe 2011. Small Enterprises Development Corporation Amendment of 2011, Fourth Schedule, Section 2. The 2010 Amendment (which contains the same classification as the 2011 amendment, Chapter 24:12, Forth Schedule, Section 2, page 16) is available online at URL: http://www.sedco.co.zw/index.php?option=com_docman&task=cat_view&gid=12&Itemid=8

²² Note: The definition for small-and medium-size businesses depends on the sector and has been taken into consideration here. The term 'employees' here includes all people working in business – both paid and unpaid (excluding the business owners).

The questionnaire includes the following broad sections:

Table 10: Questionnaire structure

Topic	
Introduction and screening	
A	Nature of the business Economic activity, ownership, location, etc.
B	Getting involved in your own business Reasons for opening the business, main constraints, etc.
C	Employees in the business Number of employees, nature of employment, labour relations, etc.
D	Customers Client base, marketing practices, etc.
E	Registration/compliance of business
F	Formal product penetration Usage of formal financial products
G	Banking penetration Usage of banking products, main constraints
H	Credit and loans Usage of credits and loans, reasons for borrowing, main constraints
I	Savings and investments Saving mechanism, reasons for saving and investments, main constraints
J	Risks and insurance Main risks (perceived and experienced) and coping mechanisms, usage of insurance products
K	Money management within the business Transactions, terms and conditions, etc.
L	Record keeping Methods of payment, financial record keeping processes, business turnover, etc.
M	Import and exports
N	Business support Awareness of and access to small business support mechanisms
O	Skills of the business owner/company resources
P	Psychographics and business performance Perceptions and attitudes regarding business performance, and main constraints
Q	Demographics Age, gender, education, income, etc.

Sampling

This survey is national representative. The sample frame was provided by ZIMSTAT. The survey included a comprehensive listing exercise, listing over 57 000 households in 500 Enumeration areas (EAs), identifying almost 16 000 MSME owners, of which 3 222 were interviewed. Business owners with more than 75 employees were not interviewed.

Sampling population: The survey population refers to MSME owners in Zimbabwe, who are:

- 18 years or older;
- Perceive themselves to be business owners/generating an income through small business activities; and
- Employ 75 people or less as well as individual entrepreneurs without any employee.

Sampling units: Enumeration areas (EAs) are the primary sampling units, qualifier households (those with MSME owners) are secondary sampling units, and individuals selected by the KISH GRID from a list of eligible respondents (business owners) at every selected qualifier household are tertiary and ultimate sampling units.

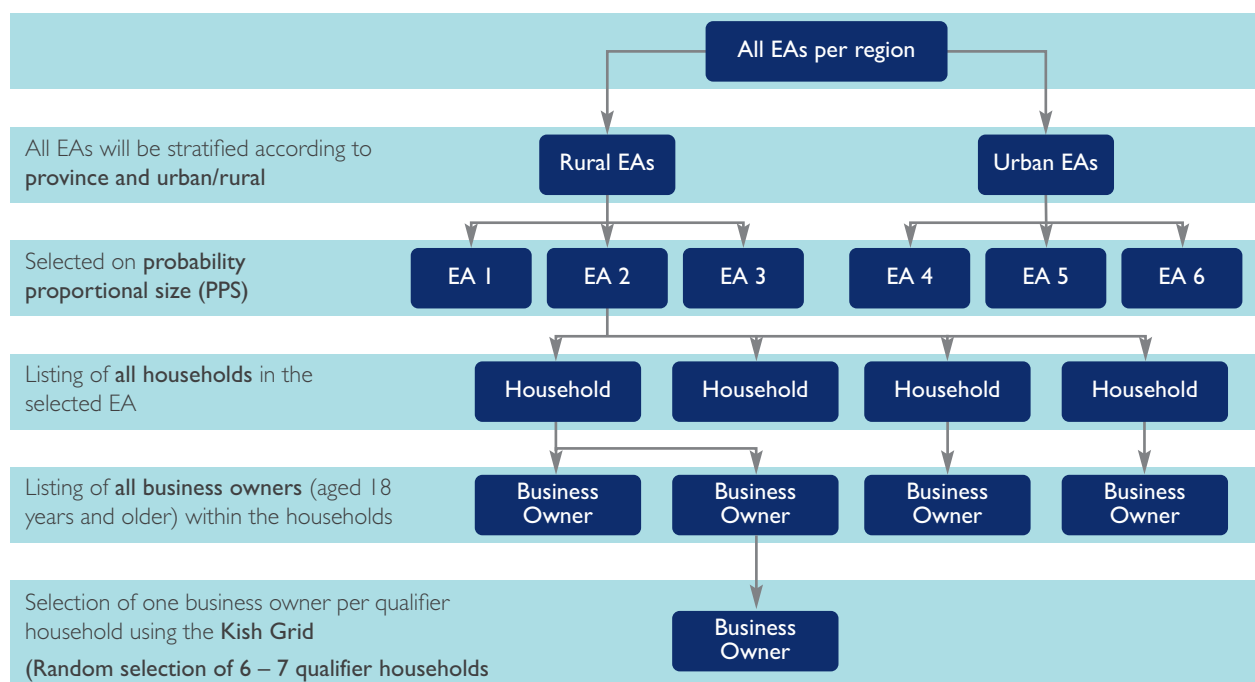
Primary sampling units (PSU): At the first stage the sampling frame was made up of Enumeration areas (EAs). EAs are the smallest geographical units that consist of about 80 to 120 households. Each EA has a unique 10 digit geo-code that reflects the province, district, ward and land use sector in which it is located. For the purpose of this survey the sampling frame excludes non-household population, people residing on state land (national parks, safari areas, etc.) and in institutions, and these account for less than one percent of the population.

Secondary sampling units (SSU): Prior to every survey, a list of households in the selected EAs is established. In addition, a comprehensive listing exercise was conducted, listing all the households in the selected EAs, identifying qualifying households, i.e. those with MSME owners. This is used as the frame for the second stage systematic selection of households.

Tertiary Sampling Units (TSUs): One MSME owner per selected household is eligible to participate in the survey and Kish Grid was used to select one eligible respondent from a list of all eligible household members (if there was more than one MSME owner in the household).

Sampling strategy: A multi-stage sampling approach is used as illustrated in the figure below, including an initial listing phase.

Figure 52: Sampling approach



A list of all census enumerator areas (EAs) was obtained, stratified by region and urban/rural. A total of 500 EAs were sampled using probability proportional to household size (PPS) based on the master sample developed by ZIMSTAT after the 2002 census, including 194 urban and 306 rural areas. Then all households in the selected EAs were listed. Within the households, all MSME owners who are 18 years or older (employing 75 people or less, as well as individual entrepreneurs without any employees) were identified and this was used as the main sampling frame. Within each selected EA, six to seven qualifier households (with MSME owners) were systematically selected from the listed MSMEs. Within the selected households, where there was more than one business owner, the Kish Grid was used to randomly select the qualifying household member with whom to complete the interview (this individual was the ultimate sampling unit). The MSME owner was asked about the number of businesses they own. If they own more than one business, the MSME owner was requested to identify the main business, i.e. the business the MSME owner spent the most time working in or on.

Sample size: A total of 3222 face-to-face interviews were conducted in 500 EAs. The detailed sample distribution is provided in the table below.

Table 11: Sample allocation of EAs

Province	Urban	Rural	Rural
Bulawayo	31	0	31
Manicaland	13	55	68
Mashonaland Central	5	36	41
Mashonaland East	6	44	50
Mashonaland West	16	36	52
Matabeleland North	5	22	27
Matabeleland South	4	22	25
Midlands	17	42	58
Masvingo	7	47	54
Harare	92	1	93
TOTAL	194	306	500

Table 12: Sample allocation rural/urban by province

Province	Urban	Rural	Rural
Bulawayo	185	0	185
Manicaland	73	377	450
Mashonaland Central	53	221	274
Mashonaland East	54	279	333
Mashonaland West	129	217	346
Matabeleland North	27	153	180
Matabeleland South	25	139	164
Midlands	112	278	390
Masvingo	47	310	357
Harare	542	1	543
TOTAL	1 247	1 975	3 222

Note: The original sample included 3000 MSME owners. RCF conducted an additional 222 interviews.

Training and pilot

The team of enumerators was recruited from all provinces in Zimbabwe. A total of 100 enumerators were shortlisted. Academically all had at least advanced level education and market research experience with various research houses most notably with ZIMSTAT. The shortlisted personnel attended a 10 day training workshop at the Research Continental-Fonkom offices from the 17th to the 26th of September 2012. The briefing session covered background, objectives, methodology, sample, survey instruments and a day to pilot the study. At the conclusion of the training, the final selection of enumerators was done. Enumerators were selected based on performance on written tests, participation in training, prior experience and level of education. The training workshop was attended by representatives from FinMark Trust, the Ministry of Small and Medium Enterprises and Cooperative Development, ZIMSTAT, and the Steering Committee. The actual training was conducted by Mr. Ushe, the Research Director for Research Continental-Fonkom. Honourable Minister of Small and Medium Enterprises and Corporate Development Mrs. S.G. Nyoni officially closed the training session and announced the commencement of fieldwork on the 26th of September 2012 at the Jameson Hotel.

Data collection and management

A total of 16 teams composed of a supervisor, four enumerators and a driver embarked on the data collection process from the 28th September 2012. The data collection started in Harare with twelve teams followed by Bulawayo with four teams. This was done to closely monitor the field challenges, capacity of the teams and the quality of work produced before the teams could be dispatched to other provinces. Each province had two teams to cover it. Each team had a quota of one EA a day.

Generally each field day involved the following process:

- Identifying the EA, establishing the boundaries
- Deploying enumerators from the north western corner
- Enumerators listing all existing household (stickers were placed on listed HH)
- Establishing HH status whether a business exist or not
- Supervisor verifying completeness of listing
- Compile total HHs, total HH with MSME owners, total MSME owners in EA
- Systematic Selection of 6 HHs with SMEs to be interviewed
- Interviews with selected/qualifying HHs and respondent

Quality control

Quality assurance was carried out by RCF quality controllers. In addition, independent quality checks were conducted by representatives from ZIMSTAT, the Ministry, as well as FinMark Trust. These field visits had the following objectives:

- Verify the status of field work
- Assess the quality control procedures implemented in field
- Observe implementation of field procedures
- Back checking of listing procedures
- Observe interviews by accompanying enumerators
- Identify challenges in field and suggest solutions

Further, all questionnaires were back checked in office, and 10% of call backs were conducted. Very few omissions were detected and these were rectified by calling back respondents. This was due to on-spot-checks done by supervisors during field work. Thus all questionnaires received by the quality controller officer were clean.

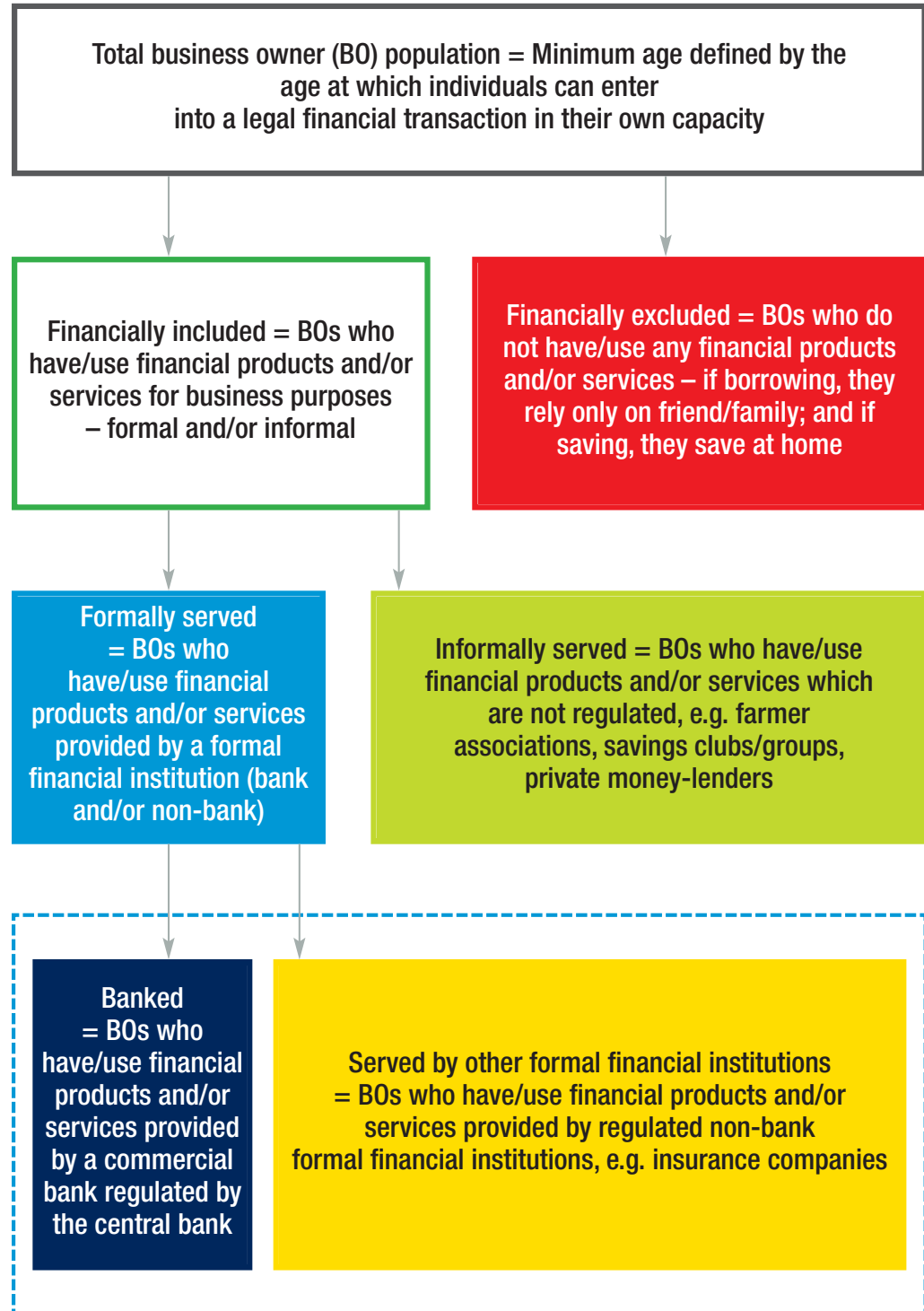
Weighting

Weighting was conducted by ZIMSTAT. The Zimbabwe 2002 Master Sample was used to boost the weights to the population estimates. The population for 2011 was then compared with the population projections. These figures were validated by the ZIMSTAT sampling unit. Details regarding the sample and weights can be requested from ZIMSTAT.

Data analysis and reporting

The analysis followed a standard analysis plan based on the questionnaire and the objectives of this survey. The financial inclusion section, however, uses the FinScope analytical framework, which is applied to all FinScope MSME surveys for the purpose of comparative study (see Appendix B).

Appendix B: Analytical framework for financial inclusion





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