



**DETERMINANTS OF EXPORT PERFORMANCE AMONG SMALL TO MEDIUM  
ENTERPRISES IN ZIMBABWE**

**BY**

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## **DECLARATION**

I, Tapuwa Roseline Karambakuwa, Student Number S215271017 hereby declare that **DETERMINANTS OF EXPORT PERFORMANCE AMONG SMALL TO MEDIUM ENTERPRISES IN ZIMBABWE** is my own original work. All the sources used or quoted have been indicated and acknowledged by means of complete references. It has not previously been submitted for assessment or completion of any postgraduate qualification to another university or for another qualification.

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## **ABSTRACT**

There is consensus that Small to Medium Enterprises (SME) exports play a critical role in the development of economies. It has been widely acknowledged in empirical research done around the world that small businesses make a significant contribution to economic development, employment, competitiveness and the reduction of regional disparities. However, empirical literature gives conflicting evidence on the determinants of export performance among SMEs.

The study contributes towards the debate on SME exports by: (i) investigating the variables that determine export performance among SMEs in Zimbabwe (ii) establishing the competitiveness of Zimbabwe's exports and (iii) ascertaining the major constraints faced by SME exporters in Zimbabwe. The researcher gathered data from 120 SMEs and 10 institutions in Zimbabwe for the period 2009 to 2015. SME samples were chosen from Harare, Mashonaland Central and Mashonaland East provinces while all 10 of the institutions were chosen from Harare province. Convenient non-probability sampling method was used to select SMEs while stratified sampling technique was applied in the selection of institutions. Both qualitative and quantitative research methods were employed.

For the quantitative approach, panel data ordinary least squares method was used in the form of the gravity model of trade. Export intensity (used as a measure of exports) was regressed against support institutions, business ownership, research & development, educational years, use of export processing zones, product type, export years, firm size, firm age, gender, distance from trading partner, Gross Domestic Product (GDP) of trading partner, and GDP of Zimbabwe. The random effects estimation method was used, basing on results from the Durbin-Wu-Hausman test. The null hypothesis was based on the premise that the variables under study do not determine export intensity of SMEs in Zimbabwe. Other null hypothesis were that the major constraint faced by SME exporters in Zimbabwe is not access to finance and that Zimbabwe's exports are not competitive in the mining, agricultural and manufacturing sectors. The revealed comparative advantage index was computed to measure the competitiveness of Zimbabwe's exports.

For the qualitative approach, the study used the triangulation method which involved combining and utilising the questionnaire, interviews and focus group discussions. The results from the study indicated that following variables increased export intensity of Zimbabwean SMEs; business ownership, use of export processing zones, export years, firm size, and GDP of trading partner. The following variables have an inverse relationship with the export intensity of Zimbabwean SMEs: gender, distance from trading partner and research & development. The results also indicated that these further variables do not determine the export intensity of SMEs in Zimbabwe: support institutions, years of education, product type, firm age and GDP of Zimbabwe. The major constraint faced by exporting SMEs in Zimbabwe is limited access to finance. Zimbabwe is competitive in the agricultural and mining sector exports, but not in manufacturing sector exports

The policy implication of the findings is that SME support needs to go beyond support institutions when it comes to SME export promotion. Further SMEs in the agriculture and mining sectors need to be promoted for export growth since Zimbabwe is competitive in these sectors. However the manufacturing sector cannot be ignored, since many economies have developed due to exports of manufactured products and a country needs to have balanced export growth in both primary and manufacturing sectors. In order to have motivated, career SME exporters, entrepreneurship education should begin from primary school right up to university so as to improve entrepreneurial aspirations, attitudes and behaviour in the long run.

Keywords Small to medium enterprises, export performance, export intensity

## **DEDICATION**

This thesis is dedicated to my husband Ngonidzashe. I also dedicate it to my sons Tinotenda, Tinashe, Tadiwanashe and my mother Vincentia.

Thank you for all your support and encouragement.

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## **LIST OF ABBREVIATIONS OR ACRONYMS**

ACP	African Caribbean and Pacific
AAG	Affirmative Action Group
COMESA	Common Market for Eastern and Southern Africa
COMTRADE	Common Format for Transient Data Exchange
CZI	Confederation of Zimbabwe Industries
DRC	Democratic Republic of Congo
EAC	East Africa Community
ECOWAS	Economic Community of Western African States
EPAs	Economic Partnership Agreements
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GDP	Gross Domestic Product
IDBZ	Infrastructure Development Bank of Zimbabwe
IDP	Industrial Development Policy
IEEA	Indigenisation Economic Empowerment Act
ILO	International Labour Organisation
IMF	International Monetary Fund
MOIC	Ministry of Industry and Commerce
MSMECD	Ministry of Small and Medium Enterprise and Cooperative Development
OECD	Organisation for Economic Co-operation and Development
PCSMED	Portfolio Committee on Small and Medium Enterprise Corporative Development
PTA	Preferential Trade Agreement
RBZ	Reserve Bank of Zimbabwe
RCZ	Research Council of Zimbabwe
RTA	Regional Trade Agreement
SADC	Southern Africa Development Community
SAZ	Standards Association of Zimbabwe

SIRDC	Scientific, Industrial, Research and Development Centre
SMEDCO	Small to Medium Enterprises Development Cooperation
SME	Small to Medium Enterprises
SMEAZ	Small and Medium Enterprises Association of Zimbabwe
SMME	Small, Micro and Medium Enterprises
STERP	Short Term Emergency Recovery Programme
TIPS	Technological and Commercial Information Promotion System
TFTA	Tripartite Free Trade Area
TPZ	Tobacco Processors Zimbabwe
UN	United Nations
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Programme
USA	United States of America
USAID	United States Aid for International Development
USD	United States Dollar
UK	United Kingdom
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation
ZESA	Zimbabwe Electricity Supply Authority
ZIA	Zimbabwe Investment Authority
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority
ZIMSTATS	Zimbabwe National Statistics Agency



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction

Export performance has been defined by Shoham (1996) as the result of a firm's actions in export markets. Leonidou *et al*, (2002), state that the most commonly used measures of export performance are export proportion of sales or export intensity, export sales growth, export profit level, export sales volume, export, market share and export profit contribution. Gemunden (1991) notes that there are more than 700 explanatory variables that have been advanced in the literature as determinants of export performance.

Following Sousa (2004), export intensity is calculated by dividing export sales by total sales, then expressing the result as a percentage. The advantage of using export intensity over export turnover as a measure of export performance is that it represents the export dependence of the company and facilitates comparison between companies of different sizes, industries and countries (Sousa, 2004).

For the purposes of this study, export intensity is used as the measure of export performance. Promoting exports from all sectors of the economy including SMEs is paramount as it is widely recognised that small businesses make a significant contribution to economic development, employment, competitiveness and the reduction of regional disparities (Audretsch & Keilbach, 2004). SME internationalisation signifies the global importance of SMEs to domestic and global economies (Ajayi 2016).

The first section of this chapter provides background of the study and some background information on SME export performance, followed by the problem statement of the study. Thereafter the study and objectives and research questions are discussed, followed by hypothesis, significance of the study, delimitations, assumptions and layout of the rest of the study.

## 1.2 Background of the study

SMEs around the world are increasingly making a significant contribution to the export growth of countries in developed, emerging and developing economies. The European Union has emerged as a leader in SME export performance, with SMEs contributing 34% of total exports. However the average share of SME exports in the United States is much lower at 12% (US International Trade Commission, 2010). The United States exports more from industries with low SME export shares, while the EU exports slightly more from industries with high SME export shares (US International Trade Commission, 2010).

Further, SMEs contribute significantly to GDP of countries. In Senegal the SMEs contribute up to 20% of national value added while in Nigeria, 95% of formal manufacturing activities and 70% of industrial jobs are provided for by SMEs (OECD, 2014). In Morocco, 93% of all industrial firms are SMEs and they account for 30% of exports. Given this information, the study of SME export performance is of importance since they are an important source of export revenues in some economies.

Countries such as Singapore, Hong Kong, South Korea and Taiwan have experienced phenomenal economic growth after shifting growth focus from foreign investment to home-grown enterprises. Therefore the ability of home-grown SMEs to develop into large, national corporations will determine the next phase of economic growth for these countries (Sum *et al*, 2004). SMEs play a crucial role towards the achievement of economic and industrial development and this has been widely acknowledged in empirical research done across the world (US International Trade Commission 2010). In addition to bringing revenue for the country, there are several benefits of exporting for SMEs.

Exporting SMEs have been found to outperform non-exporting SMEs in terms of number of workers, wages, productivity, and technology intensity (US International Trade Commission 2010). Further, exporting SMEs have greater access to new markets, improved resource utilisation and productivity, and increased exposure (OECD, 2014). To promote exports, there is a need for sound government policies and the stabilisation of a competitive real exchange rate.

It is also necessary to have an outward-oriented, market-friendly trade regime which ensures the removal of import controls and tariffs and streamlined bureaucratic procedures among other

measures so as to facilitate exports, including those from SMEs (OECD, 2014). A new international environment for SME exports from developing countries has been created by globalisation, providing opportunities for SME exporters from developing countries in the form of an international marketplace for goods and services that seems indifferent to national borders and state regulation (OECD, 2004). New opportunities for SME exports from developing countries have been created with the removal of trade barriers, access to a global pool of new technologies, skills, capital, markets and hence faster export growth and profits than ever before (OECD, 2004).

Companies are being led by demand from customers to begin exporting, and the growth in the use of online channels for exporting, thus globalisation opens up new opportunities for export expansion and growth to about 5% to 10% of SMEs in developing economies (Wignaraja, 2003). However in addition to demand, supply-side factors also determine export performance. Because of supply side constraints, developing countries, especially the LDCs were unable to take up opportunities for trade under preferential trading regimes, such as the generalized system of preferences (GSP) (UNCTAD, 2005). Thus supply capacity constraints should be addressed by improving the technological content of the export sector as indicated by the positive influence of FDI contribution to capital formation on export performance. (UNCTAD, 2005).

FDI strongly contributes to the transformation of the composition of exports and affect export performance positively (UNCTAD, 2002). FDI inflows into Singapore and China for example, have helped to increase significantly the technological content of exports by supporting strongly the development of export supply capacity, including knowledge-based industries (UNCTAD, 2005). Where FDI does contribute to the technological upgrading and structural evolution of the export sector, the structure of the sector is an important ingredient of export performance both at the early stage of development of the export sector and at a later stage (UNCTAD, 2005). The global trade arena has experienced a phenomenal shift as a result of information and communication technologies (ICTs) (Zimtrade, 2015).

SMEs the world over are being equipped with skills to adopt ICTs fully to advance their exports. One of the pillars of SME competitiveness is “connect” – having access to and being

able to use the internet and other ICTs for business (International Trade Centre, 2016). Technology enables companies to tap into much larger international markets and to source raw materials from a broader range of suppliers, in reducing communication costs as businesses can now conveniently identify markets, communicate with buyers/suppliers and make online payments (Zimtrade, 2015).

The paradigm shift in SME support has been gradual, with initial efforts dating back to the early 1950s worldwide. India was a leader in SME development, with extensive support structures dating back to 1954. In the 1980s focus was placed on specific sub-sectors and activities through which most of the assistance and subsidies were given to technology-oriented manufacturing and service SMEs. Globalisation and trade liberalisation caused another paradigm shift where a holistic approach to SME competitiveness took priority. However in some of the developing countries there is no SME development strategy (OECD, 2014).

Countries have varying export promotion programmes targeted at enhancing SME export performance. OECD member countries provide programmes to address financial barriers to SME exporting activities through the provision of credit guarantees, pre-shipment financing, and facilities to augment working capital (OECD, 2014). Further, SMEs in OECD countries are helped by governments to identify foreign business opportunities, locate or analyse markets, and contact potential foreign customers and partners. Some OECD governments also reduce procedural and bureaucratic obstacles to exporting and they also seek ways to simplify exporting and facilitate trade.

However, despite all the government and institutional support programmes for SME exporting activities, the OECD also noted that there are “persisting low user-level perceptions of the effectiveness of public sector support programmes” (OECD, 2014). The reason for this could be that there is inadequate input from programme users, inadequate levels of awareness of specific programmes among the target user communities and other stakeholders, and low-quality implementation and delivery of programme services (OECD, 2014).

SME support institutions and the government are important because they coordinate SME activities, provide the necessary technical and financial support and help the SMEs develop. So as to further SME export competitiveness, countries can develop a national strategy for export



development and promotion, led by the appropriate ministry with the participation of all key stakeholders (OECD 2014). Institutions ensure optimal resource allocation and that rules are observed (Rodrik, 2008). There is a positive link between support institutions and SME development (Hall & Jones, 1999).

Institutions are important in determining export performance. Better institutions are expected to guarantee better protection of property rights, which becomes essential as production becomes more and more capital-intensive (UNCTAD, 2005). Better institutions are also likely to be associated with more efficient administration and in particular regulation (UNCTAD, 2005). The institutional framework explains intercountry variations in growth rates of real per capita gross domestic product (Scully, 1988). Crick & Czinkota (1995) add that direct assistance includes export consultancy, seminars and export financing.

Direct assistance to SMEs also encompass awareness creating, research support, export preparation and development, among others. Indirect assistance encompasses economic infrastructure in the form of hardware, for example, machinery leasing or software. Direct and indirect support for SMEs include access to foreign market information, financial assistance, SME management advisory services, help with research and development, providing SMEs with a better business environment and facilitating, networking and subcontracting. Government involvement in SME activities is dominant in the United Kingdom, Ireland, Canada, Finland and Germany (Carter & Jones-Evans, 2012).

Since countries have different challenges, opportunities, resources and priorities for change, SME export development strategies are country- and-context specific. However there are some SME development lessons which apply to regions and countries despite their level of development. Firstly a key requirement for the development of SMEs is peace and stability, and secondly SME development requires a crosscutting strategy; all stakeholders should play their part (OECD, 2014).

Thirdly, dialogue and partnerships between the stakeholders is essential (public sector, private sector and civil society). Fourthly, investments in physical infrastructure and business services and the implementation capacity of policy makers, local-level administrators and support

structures determine success. Finally it is necessary to enhance women's ability to participate in SME development as women account for an important share of private sector activity and contribute most to poverty reduction (OECD, 2014).

According to the US International Trade Commission (2010), there are several factors that have motivated SMEs around the world to become exporters. Firstly, SMEs desire to grow by expanding beyond the domestic market so as to increase profits, expand market size and strengthen market position. Exporting helps SMEs to diversify their business operations so as to insulate them against periods of slower growth in the domestic economy. In Germany, successful SME exporters were often associated with being regular suppliers of components to larger firms in foreign markets.

Secondly, the US International Trade Commission (2010) reports that SME firms with competitive advantages that are knowledge-related appear more motivated to pursue international business activities. SMEs with managers or owners who have an international background are particularly motivated to export. Thirdly, SMEs are motivated to export so as to search for new technology, skills, and resources and to market their new innovations. The third aspect motivating SME exports is personal connections and business contacts in other markets.

Table 1.1 provides information on the SME shares of manufactured exports in selected East Asian and African developing economies and OECD countries between 1990 and 2003.

**Table 1.1 SME shares of manufactured exports in developing and OECD economies**

<b>Economy</b>	<b>Year</b>	<b>Definition of an SME</b>	<b>Percentage of SME-manufactured exports</b>
<b>Developing economies</b>			
Taiwan	early 1990s	<100 employees	56
China	early 1990s	<100 employees	40-60
Korea	1995	<300 employees	42.4
Vietnam	early 1990s	<200 employees	20
India	1991-92	<Rs 30 M investment in plant & machinery	31.5
Singapore	early 1990s	<100 employees	16
Malaysia	early 1990s	<75 employees	15
Indonesia	early 1990s	<100 employees	11
Thailand	early 1990s	<100 employees	10
Mauritius	1997	<50 employees	2.2
Tanzania	2002	<50 employees	<1.0
Malawi	2003	<50 employees	<1.0
<b>OECD economies</b>			
Denmark	early 1990s	<500 employees	46
France	1994	<500 employees	28.6
Sweden	early 1990s	<200 employees	24.1
Finland	1991	<500 employees	23.3
Japan	1991	<300 employees	13.3
USA	1994	<500 employees	11
Average for six OECD countries			24.4

*Source: Wignaraja, Ganesh (2003).*

With reference to Table 1.1, it is interesting to note that SMEs contributed a greater share of manufactured exports in more industrialised East Asian economies (56% in Chinese Taipei, more than 40% in China) than the less industrialised African economies (less than 1% in Tanzania and Malawi) (OECD, 2004). This shows that countries in sub-Saharan Africa are lagging behind significantly in promoting exports by SMEs as compared with Asian and OECD countries.

There are however challenges faced by SMEs in efforts to achieve increased export performance. The four top barriers to SME access to international markets are shortage of capital to

finance exports, problems identifying foreign business opportunities, limited information to locate and analyse markets, and inability to contact potential foreign customers (OECD, 2008).

SME export performance is hampered by limited access to finance. Such businesses face difficulty in obtaining both trade finance and working capital. This problem often prevents them from financing purchases by foreign buyers. At the same time foreign buyers choose suppliers that are able to extend credit, usually large established firms (US International Trade Commission, 2010). To strengthen SME access to trade finance at competitive interest rates, export credit guarantee schemes and specialist soft loans for SME export activities can be created by governments. Government should encourage state-owned banks such as SME development banks, as well as private enterprises such as commercial banks and venture capital funds, to provide financial services tailored to SME export-related needs (OECD, 2004).

The domestic barriers to exporting activities by SMEs include government regulation, access to finance, transport costs, the small scale of SME production and lack of economies of scale, which all limit export potential. The foreign barriers include foreign government regulations, knowledge of foreign markets (or the lack of it) and language and cultural barriers, fixed costs, such as the costs of exploring and testing new markets, R&D and product localisation (US International Trade Commission, 2010).

To maintain competitiveness and hence increased export performance, SMEs in developing countries need to adjust to the competitive strategies of MNCs in different countries. They also need to adjust to public and privately set standards (e.g. sanitary and phytosanitary standards), changes in international tastes, prices and competitive conditions (OECD, 2004). SMEs from less advanced countries produce more homogeneous products that are easily targeted affected by trade barriers, thus an important step in improving market access requires the further lowering of trade barriers for developing countries at all stages of development (UNCTAD, 2005).

SMEs suffer from size-based policy biases in legal and regulatory frameworks and governance issues, such as bureaucracy and corruption, access to finance and property rights (Shiffer & Weder, 2001). An ideal microeconomic environment that is conducive to business is important

for SMEs to perform well on exports. The ideal microeconomic environment should be characterised by simplified legal and regulatory frameworks, good governance, absence of corruption, accessible finance, suitable infrastructure, a flexibly skilled and healthy labour force, an appreciation of enterprise in society at large and access to non-labour inputs at competitive prices (OECD, 2014).

The health of the SME workforce and the level of entrepreneurship in some developing and transition countries, especially in sub-Saharan Africa, are under threat because of diseases such as HIV/AIDs, malaria and tuberculosis. Other problems hampering SME competitiveness and export performance are increased costs due to increasing health-related absenteeism, reluctance among business owners in providing on-the-job training to their employees, and a lower level of skills (OECD, 2004).

Even though trade liberalisation has reduced other trade barriers – tariffs and quantitative restrictions – SMEs face new barriers in the form of technical barriers to trade, (e.g. food safety and animal and plant health standards) and sanitary and phytosanitary standards. In developing countries, technical advisory and consultancy services are scarce and expensive and it is also expensive to obtain services for ISO9000 or ISO14000 certification. Further, private testing facilities are virtually unavailable to SMEs

### **1.2.1 SME performance in Zimbabwe**

The 1990s in Zimbabwe was a decade in which the country adopted the Economic Structural Adjustment Programme (ESAP). There was significant research done pertaining to the SME sector, since this sector was viewed as a safety net for those retrenched in formal sector employment under ESAP (Simpson *et al*, 2010). The U.S. Agency for International Development (USAID), conducted three countrywide surveys of SMEs in Zimbabwe. The first survey, conducted in 1991, established that the country had a total of 845 000 SMEs employing about 1.6 million people in small-scale manufacturing, trade and services.

The second USAID study, conducted in 1994, indicated that the number of SMEs had increased to 942 000, with a 14.4% increase in the number of people employed. During the period 1991-95 there were hardships in Zimbabwe induced by external shocks in the form of ESAP and the 1991 drought. These factors mediated the operating environment of the SMEs in Zimbabwe. The growth of the SME sector was driven by an increase in labour supply caused by

retrenchments associated with ESAP, which had been launched two years earlier (Simpson *et al*, 2010).

The third and last countrywide USAID survey of the SMEs established that Zimbabwe lacked a robust middle-sized enterprise sector, as evidenced by the low percentage of SMEs which were able to graduate to the middle over the period 1994-98 (USAID 1998). Most of the SMEs operated in easy-entry, low-profitability segments and remained dominated by single-worker employment structures. In a way, the three USAID studies highlighted a steady rise in the SME sector of the Zimbabwean economy. The introduction of the multi-currency system and accompanying stabilisation of the economy in 2009, together with the creation of the government of national unity, affected SME growth positively (Simpson *et al*, 2010). In Zimbabwe, SMEs employ more than 60% of the country's workforce and contribute about 50% of the country's gross domestic product (Ruzivo Trust, 2015).

### **1.2.2 Historical development of SME policy framework in Zimbabwe**

To support and develop SMEs, the government of Zimbabwe created the Ministry of Small to Medium Enterprises and Cooperative Development (MSMECD). The ministry is responsible for SME policy formulation and implementation, facilitating linkages between SMEs and other stakeholders, and skills and management training for SMEs, developing a regulatory framework for SME development and the promotion and monitoring of financing schemes for SMEs.

The ministry also facilitates linkages between SMEs and large-scale enterprises, researches investment and marketing opportunities and maintains an SME database (MSMECD, 2015). MSMECD also has a Small and Medium Enterprises Revolving Fund, which it administers through the Small and Medium Enterprises Development Corporation (SMEDCO). In addition, the government put in place several programmes to support SMEs supported by the Zimbabwe Development Bank (ZDB), the Credit Guarantee Company of Zimbabwe, the Agricultural Development Bank (Agribank), and the Venture Capital Company of Zimbabwe. The government also created Zimtrade, a quasi-government organisation responsible for promoting trade in Zimbabwe.

Agribank is a government-owned bank specialising in lending money to SMEs, including exporting SMEs, among other functions. However the bank's main thrust is bridging the finance gap for small-scale farmers. Agribank micro-finance offers micro-saving and micro-lending products and services to help small businesses grow. SMEs can use Agribank microloans and the Agribank unifund investment account for savings (Agribank, 2016).

The performance of SMEs in Zimbabwe and elsewhere is determined by internal factors which include the formulation and implementation of strategies and control of these strategies by the SME (Nyamwanza, 2014). So export competitiveness is not only a question of correctly manipulating marketing mix elements, but also a function of commitment of resources and attitudes (Muranda, 2003). Hence SMEs can make government policies and direct assistance successful when they play a part in strategic planning and strategy implementation (Nyamwanza, 2014). However, Zou & Stan (1998) concluded that in addition to internal factors, there were also uncontrollable external determinants of SME export performance: industry characteristics and foreign and domestic market characteristics.

The government of Zimbabwe has made several policy interventions to promote businesses, including SMEs, and to solve the economic problems faced by the country. These policy interventions were mostly implemented after the Economic Structural Adjustment Programme (ESAP), which ended in 1995. The policies included the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) from 1998-2000, the Millennium Economic Recovery Programme (MERP) which followed soon after and the Short-Term Emergency Recovery Programme (STERP) in 2009.

These programmes, as with ESAP, aimed at promoting trade liberalisation, among other objectives, but however, businesses hardly had time to adjust to the policies when more were added. Thus the programmes did not have a significant influence on SME performance and despite these programmes, the economy of Zimbabwe continued to deteriorate (Mufudza *et al*, 2013). Trade liberalisation in Zimbabwe which began during ESAP opened opportunities for SME exporters. For example the deregulation of cotton ensured that new SME players entered the cotton market. There was an increase in SMEs as they sought to absorb the retrenched in sectors such as manufacturing and welding (Tekere, 2001).

The government created export processing zones (EPZs) in 1987 through an Act of Parliament and they were managed and administered by the Export Processing Zones Authority. EPZs were governed by the Export Processing Zones Act (Chapter 14:07) of 2002. The SMEs setting up in an EPZ were given tax breaks or exemptions as an incentive to export by the government. Exporting SMEs benefited from Zimbabwe's export processing zones, as the exporters who operated within export processing zones benefited in the form of concessional rates and exemptions on income tax, customs duty, capital gains tax and value-added tax (Government of Zimbabwe 2015). To achieve benefits from EPZs, the strategies used included the creation of an enabling legal and regulatory environment, investment promotion, financial assistance, market promotion, technology and infrastructure support, entrepreneurship, skills development, and institutional reform (Nyoni, 2002).

In 2004, the government released an SME policy which ensured co-ordination of the different SME policies and programmes at national level, provided an appropriate institutional mechanism to facilitate SME development efforts, and ensured SME growth over the long term rather than dependence and rationalised SME support programmes (Nyoni, 2002).

### **1.2.3 Zimbabwe's economic background**

In Zimbabwe during the 1980s, government policies were generally aimed at loosening trade restrictions and building a strong export drive (Mhone & Bond, 2001). The government provided export incentives to the manufacturing sector through the Export Incentive Scheme. Through this scheme, introduced in the early 1980s, exporters were paid 9% of the value of exports (free on board value).

In 1983 direct local market allocation (DLMA) was introduced to allocate foreign currency to all other importers. Price controls over several goods and services were also introduced to check the abuse of dominance through excessive pricing. In 1987 the government introduced the open general import licence (OGIL) system which ensured that import licences were only given for priority areas, mostly inputs for those sectors with assured export volumes (Ndlela & Robinson, 1995).



The Economic Structural Adjustment Programme (ESAP), between 1990 and '95 saw the performance of the economy being affected negatively by the nature of some of the reforms. Liberalisation of the economy entailed movement from import substitution to export-led growth for Zimbabwe, since openness to trade and free market policies are fundamental in promoting exports (World Bank, 1987). The removal of trade barriers increased competition from imports. Thus, production volumes in the manufacturing sector declined by more than 9%, leading to a decline in exports (Ndlela & Robinson, 1995).

The manufacturing sector's real contribution to GDP fell by 18% from a peak of Z\$4.530 billion in 1991 to Z\$3.724 billion in 1995 (Mhone & Bond, 2001). As a strategy to mitigate some of the effects of ESAP, the Export Retention Scheme (ERS) was introduced in the mid-1990s, allowing exporters to retain some proportion of the foreign currency they earned. After ESAP, the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) was introduced from 1996 to 2000, but also failed to have a noticeable improvement to the export sector. This was followed by the millennium economic recovery programme (MERP). The policies between 2000 and 2008 were generally interventionist to deal with hyperinflation and to boost private sector performance (UNDP, 2008).

Because of increased retrenchments and a significant increase in the unemployment rate, a significant number of Zimbabweans have been pushed into the SME sector merely to survive, or in other cases have moved to other countries. This has led to a rapidly increasing number of SMEs in the country. Zindiye *et al* (2012) postulates that SMEs offer the best alternative means of livelihood for the majority of the people in Zimbabwe. SME support becomes of paramount importance since SMEs have become a vehicle for economic emancipation and sustainable development. The SME sector in Zimbabwe is a major player in national development and employment creation (Zindiye *et al*, 2012).

There are several conditions necessary for improved SME export performance. Firstly, sound macroeconomic policies are necessary to ensure predictability in the business environment. The government needs to implement sound and consistent macroeconomic policies so as to ensure macroeconomic stability in the form of low inflation, low budget deficit, and stable and competitive exchange rates in an economy (OECD 2014). In Zimbabwe, SME export performance has been affected negatively by the poor economic performance that Zimbabwe has

experienced from 2000 to the present. SMEs are generally finding it difficult to export competitively due to these problems. The economic environment in Zimbabwe has been volatile over the past decade, characterised by hyperinflation and shortages, which escalated during the period 2007-08.

The country has experienced astronomical inflation levels, further worsening the economic environment. From 2001 to '06 Zimbabwe experienced rates of inflation above 100% a year, and it rose to over 500% in 2006 (McIndoe, 2009). In 2008, inflation monthly growth rates were above 100 000% (Zimstats, 2015). The inflation was caused by increased money supply and the black market for foreign exchange (Makochekanwa, 2007). The effect of inflation and exchange rates on SME growth and performance is more than on larger enterprises due to lower hedging opportunities available to smaller firms, so policy makers have to be aware of these size biases (Shiffer & Weder, 2001).

The year 2008 was characterised by contested elections in Zimbabwe which further worsened the country's economic performance. However, in February 2009 the country introduced the multicurrency system, with the US dollar being the official currency, followed by the South African rand. The price ceilings and foreign exchange controls were removed and the economy stabilised somewhat. Also in that year a government of national unity was established (it lasted until 2013), incorporating the major political parties in Zimbabwe, which further stabilised the country politically and economically.

However, the Reserve Bank of Zimbabwe (RBZ) has been incapacitated with regard to controlling money supply since Zimbabwe's adoption of the multicurrency system in 2009. So RBZ cannot implement effective monetary policy measures to address the export performance of Zimbabwean businesses. In 2016 the RBZ announced that it intended to give 5% export incentives to exporters in the form of bond notes. However the imminent introduction of bond notes has faced severe resistance from ordinary Zimbabweans who fear the return of the Zimbabwean dollar.

Even though the SME sector has contributed to Zimbabwe's economic growth as pointed out by Nyamwanza (2014), more could have been achieved by SMEs in terms of business and export growth if the right economic conditions had been prevailing. SME export performance

in Zimbabwe is also affected negatively by the complex regulatory environment and the country's multiple bureaucratic requirements. For example when registering a business, the processes can take a long time to complete and can be expensive for the SMEs (Zindiye *et al*, 2012).

The small-scale manufacturing exporters who dominate Zimbabwe have high risk aversion. They practice constrained pursuit of exports and target less lucrative and unsustainable developing markets (Muranda, 2003). They are risk-averse because they are small in size, have little export experience and they lack adequate research and development and market research activities, which leaves them exposed (Muranda, 2003).

The taxation system in Zimbabwe is said to favour large-scale businesses over SMEs, because the reporting demands of taxation are too frequent and highly bureaucratic, requiring a high degree of business resources which may not be always available to SMEs (Ndlovu, 2002). It is of paramount importance to have an enabling legal, regulatory and administrative environment conducive for SME export growth where property rights are clearly recognised, contracts are easily enforced, and a fair, simple, transparent and low-compliance-cost tax system is operational (OECD, 2014). The Indigenisation Economic Empowerment Act (IEEA), signed into law on 17 April 2008 threatened the legal, regulatory and administrative environment in Zimbabwe conducive for SME export performance.

IEEA specifies that all companies operating in Zimbabwe with share capital more than US\$500 000 should arrange for 51% of their shares to be owned by indigenous Zimbabweans. Those that fail to comply risk losing their operating licences (Zimbabwe Government, 2008). The legislation provides preferential procurement from domestic companies. The IEEA worsened the economic situation in Zimbabwe as it scared away potential investors. Some firms are shutting down and moving out of the country.

SMEs are able to access domestic, regional and global markets easily if there is investment in infrastructure such as transport, telecommunications, energy, water and sanitation (UNCTAD, 2005). In addition, SME finance should be accessible with labour regulations being balanced and flexible and gender equality being recognised. Empirical studies show that human capital is a significant determinant of SME export growth. For SME export performance to improve,

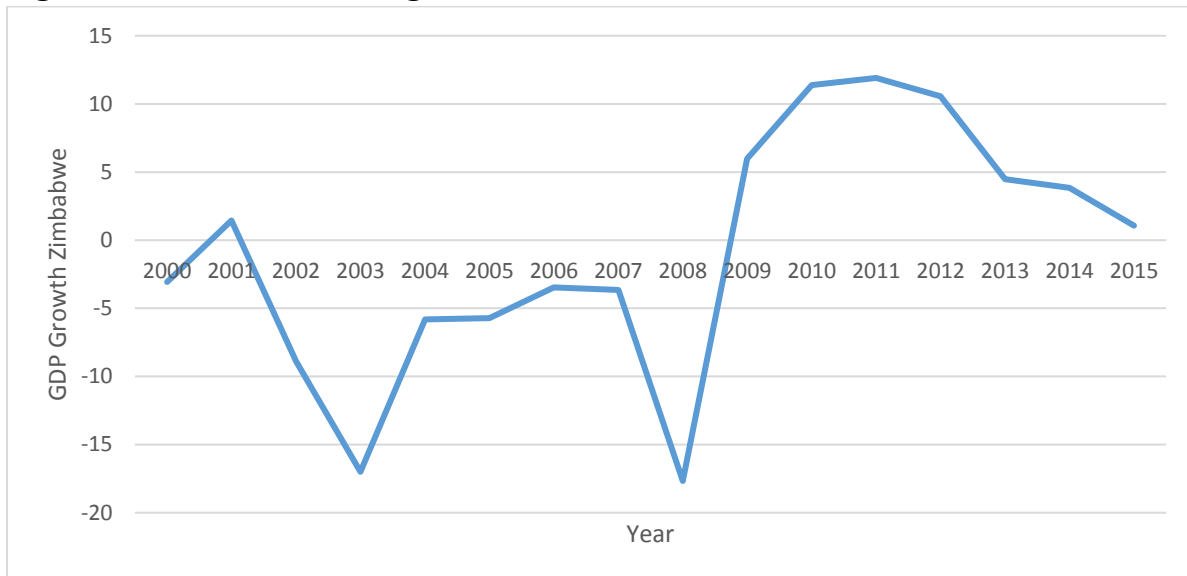
the SMEs need technical assistance in the areas of quality management and productivity improvement so that they comply with product standards and regulations applied in export markets (UNCTAD, 2005). SMEs are also able to cope with the competitive pressures that come with trade liberalisation and globalisation due to the level of skills they have (Bassanini & Scarpetta, 2001).

SMEs in Zimbabwe face various constraints to finance as they are regarded by creditors and investors as high-risk borrowers due to low levels of assets and low capitalisation, vulnerability to market fluctuations and high mortality rates. The information asymmetry arising from SMEs' lack of accounting records makes it difficult for creditors to assess SME creditworthiness for potential funding. Since SME loans are small, SME financing becomes an unprofitable business and this discourages potential financiers (UNCTAD, 2005).

To worsen the situation of low funding for SMEs, Zimbabwe is no longer receiving financial assistance from the IMF and World Bank due to its failure to pay its debts, and to sanctions. On September 24 2001 Zimbabwe was declared ineligible to use the IMF's general resources and was removed from the list of countries eligible to use resources under the IMF's Poverty Reduction and Growth Facility due to defaults in repaying previous loans (IMF, 2001). In addition to suspension from IMF funds, other donor countries drastically reduced funding for Zimbabwe due to failure to service previous loans and the poor relations between Zimbabwe and the Western countries. This caused a shortage of capital needed in the country for onward lending and increased production. In addition, the country lacks foreign investors due to some of its political and economic policies which are not investor friendly.

Zimbabwe's gross domestic product (GDP) growth trend since the year 2000, reflects its poor economic performance, is shown on Fig 1.1.

**Figure 1.1 Zimbabwe's GDP growth rate**



*Data Source: World Bank World development indicators (2015)*

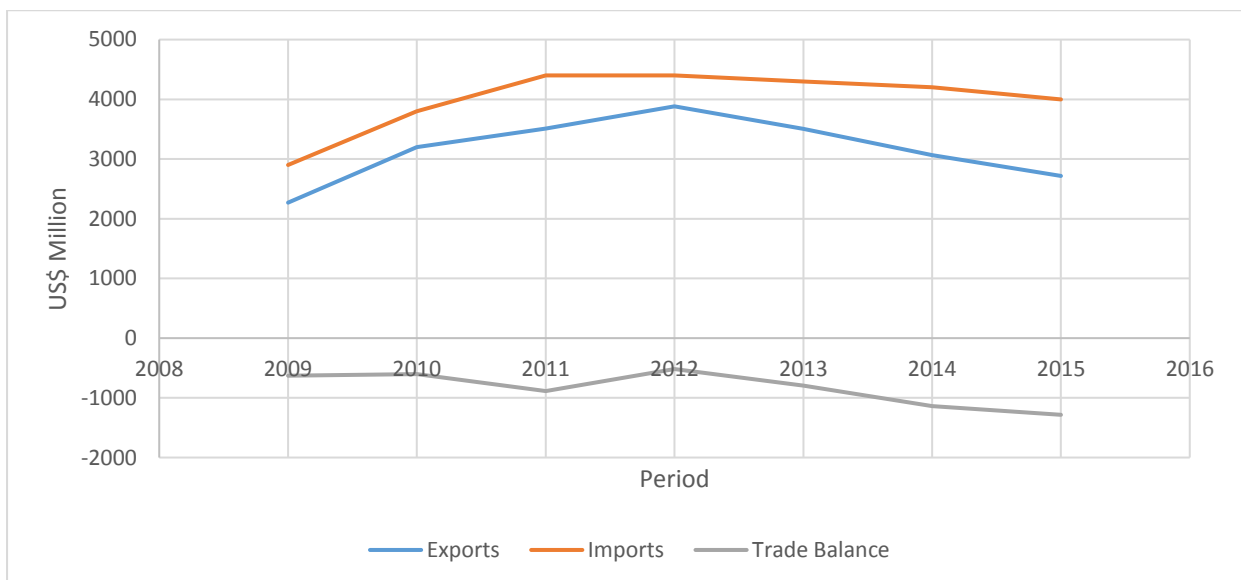
Fig 1.1 shows the context within which exporting SMEs operate in Zimbabwe. As shown, Zimbabwe's GDP growth was positive in 2001 and from 2009 when the inclusive government was formed and the country adopted US dollar as its major currency. The GDP growth has largely fluctuated in the negative, with significant falls recorded in 2003 and 2008. The significant increase between 2009 and 2011 of about 12% GDP growth gave the country some relief. However GDP growth has been falling again since 2011 to the extent that it may soon be in the negative again as it was close to 1% in 2015. Zimbabwe's economy is dominated by imported goods and prices are mostly determined by foreign inflation levels, for instance inflation levels in South Africa, Zimbabwe's major trading partner.

Further Zimbabwean SMEs are exporting from an environment in which the currency in use, the US dollar, is more valuable than the currencies of regional trade partners, making their goods more expensive. Since the end of 2015, the South African rand has been depreciating against the US dollar. The effect is to make Zimbabwe's goods in South Africa and in the region expensive and uncompetitive. The real exchange rate is significant in determining export performance since overvalued currency translates into a direct loss of price competitiveness for exporting firms, while on average a 1 per cent real depreciation could increase exports by 6 to 10 per cent (UNCTAD, 2005). The situation is worsened by the cost of production, which is

high in Zimbabwe owing to high taxes and high interest rates, high cost of labour and utilities and high distribution costs. The volume of Zimbabwe’s exports has been in decline each year since 1998 while both contracting exports and imports have shifted away from the EU to the South African market (Kaminski & Ng, 2011).

Zimtrade (2015) also indicates that Zimbabwe’s capacity to export is declining and this has worsened over the past two years. The declining export capacity has worsened Zimbabwe’s balance of payments (BoP) position. Fig 1.2 shows Zimbabwe’s merchandise trade history from 2009 to 2015.

**Figure 1.2 Zimbabwe’s merchandise trade trend**



*Source WTO time series data (2015)*

With reference to Fig 1.2, Zimbabwe experienced balance of payments (BoP) deficit from 2009-15 with exports being less than imports for the whole period. Clearly Zimbabwe has been importing more than exporting over the years. Fig 1.2 shows that Zimbabwe recorded a smaller trade deficit in 2012 as the economy improved under the government of national unity. Zimbabwe’s trade deficit however worsened in 2013. The years 2014-15 recorded further worsening of the BoP in merchandise trade, which stood at more than US\$1 billion as at the end of 2015.

To try to mitigate the BoP deficit, the government of Zimbabwe now uses import substitution, and offers temporary protection through tariffs during the industrial development policy implementation period (Zimbabwe's Industrial Development Policy, 2012-2016). This involves raising tariffs, which is inconsistent with Zimbabwe's obligations under the WTO, ACP-EU, SADC and COMESA treaties even though they are allowable remedies. Recently the government passed Statutory Instrument 64 of 2016 which bars imports of a number of commodities without an import permit. However this has worsened relations with major trading partners, with South Africa threatening to retaliate.

It is within this context that SMEs in Zimbabwe are operating and exporting. The circumstances with respect to the economy of Zimbabwe as explained above – as a result of which large firms are moving out of the country and investment is declining – have forced a large number of people to resort to small-scale businesses to earn a living. So the number of SMEs in Zimbabwe has increased sharply since 2000. Large companies either downsized or closed. In other words, there was capital flight from the country, leading to high unemployment and retrenchments. Faced with unemployment, many people in Zimbabwe resorted to starting SMEs, which are largely family-owned and a significant number of them are run informally.

Most SME owners in Zimbabwe were pushed into starting small businesses as a result of desperate situations such as a failure to secure employment (Nyamwanza, 2014). Although the government regards SME owners as self-employed, the reality is that unemployment and poverty is high in Zimbabwe. Large numbers of people are flocking to surrounding countries – mainly South Africa, Botswana and Namibia – for better opportunities. This self-employment conceals realities of unemployment and poverty in Zimbabwe. SME businesses are mainly in the retail, mining, agriculture and manufacturing sectors in the country.

Sum *et al* (2004) point out that prioritising the development of SMEs can make a country competitive and achieve economic growth. SMEs are the means through which accelerated economic growth and rapid industrialisation can be achieved (Harris & Gibson, 2006). Despite the important role of small businesses in the Zimbabwean economy, a significant number of registered SMEs are not exporting. They have mostly been inward-looking, with just a few

active in the export market. However, a number of cross-border traders, particularly to South Africa and Botswana, have been notable over the past few years. So SMEs in the market are struggling to use export opportunities fully due to the economic and political problems Zimbabwe faces.

Since a significant number of large corporates have moved out of Zimbabwe, mainly as a result of macroeconomic and political instability, it makes sense to argue that small businesses have a space they can use in the export market. A number of support institutions have provided support to exporting SMEs: the government, quasi-government bodies, financiers and SME lobby groups. Government participation in SME export support has increased in the past few years, as is evidenced by the creation of the Ministry of Small to Medium Enterprises, among other initiatives (Irwin, 2011). Chapter 2 contains a detailed explanation of the SME support strategies that have been employed by the Government of Zimbabwe.

### **1.3 Problem statement**

For any country, including Zimbabwe, exports are important because they generate income, boost production, lead to industrial growth, create employment domestically and reduce the country's BoP deficit. To boost exports, a country must use its comparative advantage by producing the goods it is efficient at making, and exporting the surplus. Small business export growth is essential for the development of economies with limited capital, like Zimbabwe. SMEs are a means through which accelerated economic growth and rapid industrialisation can be achieved (Harris & Gibson, 2006).

SMEs around the world are increasingly making a significant contribution to countries' export growth in developed, emerging and developing economies. In the European Union, SMEs contribute 34% of total exports and in Morocco, they account for 30% of exports. Given this background it is disheartening to note that while total exports are increasing in other parts of the world, driven by SMEs, exports in Zimbabwe are actually falling. The volume of Zimbabwe's exports has been in decline each year since 1998 (Kaminski and Ng, 2011). Zimtrade (2015) also indicates that Zimbabwe's capacity to export is declining and this has worsened over the past two years, worsening Zimbabwe's BoP position.



Given the failure of SME sector to capture opportunities in Zimbabwe's export sector, the government established institutions to assist small businesses to export. These include Zimtrade, the Ministry of Small and Medium Enterprises and Cooperatives, and Small and Medium Enterprise Development Corporation (SMEDCO). The government has also introduced programmes supported by the Zimbabwe Development Bank (ZDB), the Credit Guarantee Company of Zimbabwe, the Agricultural Development Bank (Agribank), and the Venture Capital Company of Zimbabwe. The Export Processing Zones Authority of Zimbabwe and SIRDC are other government institutions meant to promote SME exports.

Several financial institutions have also offered loans to exporting SMEs over the years. The Zimbabwean government, under the economic programme Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET), introduced in 2013, considers export promotion for SMEs a key element in value addition and beneficiation. Its focus on SME export promotion is mainly in the mining, agriculture and manufacturing sectors. The Infrastructure Development Bank of Zimbabwe, the Commercial Bank of Zimbabwe and the Central African Building Society (CABS) also offer loans to exporting SMEs.

Microfinance institutions such as MicroKing Finance, Zambuko Trust and Yambukai Finance have been advancing loans to the exporting SMEs over the years. SMEDCO offers business loans for SMEs, including those which export, and capacity building, which includes training, mentoring, creating market linkages and other business extension services. The French Development Agency and private shareholders extended two facilities worth US\$20 million in support of SMEs through the National Merchant Bank (NMB) and CABS. This allocation was aimed at facilitating long-term growth and development for SMEs. As at the end of September 2014, the government and CBZ Bank Ltd had disbursed US\$11.4 million to various SMEs under the micro finance and small and medium enterprises projects.

Non-governmental organisations like the UN Food and Agriculture Organisation, and World Vision International have funded SME projects through Stichting Nederlandse Vrijwilligers (SNV Netherlands). This support particularly targets agricultural sector SMEs, allowing the

implementation of projects which involve contract farming arrangements with smallholder farmers in an effort to stimulate SME export growth. Through the project, smallholder farmers receive capacity building support, input supply and extension services so that they produce specific crops for the export market.

Given that there has been support for SMEs, the SMEs have failed to increase their exports significantly so as to play their part in reducing Zimbabwe's perpetual BoP deficit over the years, as shown on fig 1.2. This failure is also despite the fact that SME exports are actually increasing in most parts of the world. So it becomes important to establish the significant variables that determine SME exports in Zimbabwe. To do so, the study unpacks the variables indicated in the research hypothesis found in section 1.6, using the gravity model of trade. It is also of importance to establish the competitiveness of the three major sectors in Zimbabwe – mining, agriculture and manufacturing – as most of the exporting SMEs in Zimbabwe are in those sectors, and to ascertain the major constraints these SMEs face. Given this scenario, the next section presents the research objectives.

#### **1.4 Research objectives**

1.4.1 The primary objective of the study is to ascertain the determinants of export intensity among SMEs in Zimbabwe from 2009 to 2015.

In order to achieve the primary objective, the following are the specific objectives;

- a) To assess the effectiveness of interventions by SME support institutions in promoting the export intensity of SMEs in Zimbabwe.
- b) To ascertain the relationship between SME business ownership and the intensity of exporting in Zimbabwe.
- c) To determine the effectiveness of research and development among Zimbabwean SMEs in promoting export intensity.
- d) To determine the relationship between the years of education of SME owner or manager and export intensity.
- e) To determine the influence of export processing zones on the export intensity of Zimbabwean SMEs.

- f) To determine the relationship between the number of years that the SME has been exporting and its export intensity.
  - g) To ascertain the significance of product type in determining the export intensity of Zimbabwean SMEs.
  - h) To assess the relationship between the age of a firm and its export intensity among SMEs in Zimbabwe.
  - i) To assess the significance of firm size in determining export intensity among SMEs in Zimbabwe.
  - j) To assess the relationship between gender and the export intensity of SMEs in Zimbabwe.
  - k) To determine the significance of distance from one's trading partner on the export intensity of Zimbabwean SMEs.
  - l) To determine the relationship between the gross domestic products of Zimbabwe's trading partners and the export intensity of Zimbabwean SMEs.
  - m) To determine the relationship between Zimbabwe's gross domestic product and the export intensity of Zimbabwean SMEs.
- 1.4.2 To ascertain the major constraints faced by SME exporters in Zimbabwe.
- 1.4.3 To assess the competitiveness of Zimbabwe's exports in the mining, agricultural and manufacturing sectors.

## **1.5 Research hypotheses**

1.5.1 The major hypothesis is that the variables under study do not determine export intensity of SMEs in Zimbabwe. The following are the specific hypotheses on individual variables under study.

- a)  $H_{01}$ : Support institutions do not determine the export intensity of SMEs in Zimbabwe.  
 $H_{A1}$ : Support institutions determine the export intensity of SMEs in Zimbabwe.
- b)  $H_{02}$ : SME business ownership does not determine the export intensity of SMEs in Zimbabwe.

H<sub>A2</sub>: SME business ownership does determine the export intensity of SMEs in Zimbabwe.

- c) H<sub>03</sub>: Research and development by SMEs does not determine export intensity in Zimbabwe.

H<sub>A3</sub> Research and development by SMEs does determine export intensity in Zimbabwe.

- d) H<sub>04</sub> The years of education of the SME owner or manager do not determine export intensity in Zimbabwe.

H<sub>A4</sub>. The years of education of the SME owner or manager do determine export intensity in Zimbabwe.

- e) H<sub>05</sub>: Export processing zones do not determine the export intensity of SMEs in Zimbabwe.

H<sub>A5</sub>: Export processing zones do determine the export intensity of SMEs in Zimbabwe.

- f) H<sub>06</sub>: The years of exporting do not determine the export intensity of SMEs in Zimbabwe.

H<sub>A6</sub>: The years of exporting do determine the export intensity of SMEs in Zimbabwe.

- g) H<sub>07</sub>: Product type does not determine the export intensity of SMEs in Zimbabwe.

H<sub>A7</sub>: Product type does determine the export intensity of SMEs in Zimbabwe.

- h) H<sub>08</sub>: The age of a firm does not determine the export intensity of SMEs in Zimbabwe.

H<sub>A8</sub>: The age of a firm does determine the export intensity of SMEs in Zimbabwe.

- i) H<sub>09</sub>: The size of a firm does not determine the export intensity of SMEs in Zimbabwe.  
H<sub>A9</sub>: The size of a firm does determine the export intensity of SMEs in Zimbabwe.
- j) H<sub>010</sub>: Gender does not determine the export intensity of SMEs in Zimbabwe.  
H<sub>A10</sub>: Gender does determine the export intensity of SMEs in Zimbabwe.
- k) H<sub>011</sub>: The distance from a trading partner does not determine the export intensity of SMEs in Zimbabwe.  
H<sub>A11</sub>: The distance from a trading partner does determine the export intensity of SMEs in Zimbabwe.
- l) H<sub>012</sub>: The gross domestic product of Zimbabwe's trading partners does not determine the export intensity of SMEs in Zimbabwe.  
H<sub>A12</sub>: The gross domestic product of Zimbabwe's trading partners does determine the export intensity of SMEs in Zimbabwe.
- m) H<sub>013</sub>: The gross domestic product of Zimbabwe does not determine the export intensity of SMEs in Zimbabwe.  
H<sub>A13</sub>: The gross domestic product of Zimbabwe does determine the export intensity of SMEs in Zimbabwe.
- 1.5.2 H<sub>0</sub>: The major constraint faced by SME exporters in Zimbabwe is not access to finance.  
H<sub>A</sub>: The major constraint faced by SME exporters in Zimbabwe is access to finance.
- 1.5.3 H<sub>0</sub>: Zimbabwe's exports are not competitive in the mining, agricultural and manufacturing sectors.  
H<sub>A</sub>: Zimbabwe's exports are competitive in the mining, agricultural and manufacturing sectors

### **1.6 Delimitation of the study**

The study focuses on SME export performance of SMEs in Harare, Mashonaland Central and Mashonaland East provinces in Zimbabwe for the period 2009 to 2015.

### **1.7 Significance of the research**

The significance of the study is its relevance and contribution to the body of scientific knowledge. SME export performance is of paramount importance as it is necessary for any country, including Zimbabwe, to increase exports and generate income. A failure to increase exports can be disastrous for any country as it will reduce income while worsening the BoP position. Despite the abundance of literature on SMEs, there are few if any studies on SME export performance in Zimbabwe, so SME export performance remains an under-researched subject in Zimbabwe. Against this background, the thesis contributes to the current debate on promoting SME exports, adds to the body of knowledge, closes the knowledge gap within the existing literature and provides a comprehensive analysis of SME export promotion in Zimbabwe.

The findings from this study are expected to make a meaningful contribution to discussions on the promotion of SME exports. The findings are expected to be used as input to government policy on exporting SMEs. The work is also expected to contribute to the literature on SME exports from Zimbabwe. The thesis contributes to the current debate on SME export performance with particular reference to Zimbabwe. Several stakeholders can benefit from the study findings. These include SMEs, SMEDCO, Zimtrade, microfinance institutions, other SME support institutions, investors, civil society, developmental partners, the banks, the Ministry of Small to Medium Enterprises and other government ministries. The study provides suggestions on ways to improve SME export performance in Zimbabwe. These findings can also be used in other developing countries.

This study comes at a time when the role of SMEs in generating export revenue worldwide and in Zimbabwe is being increasingly recognised. Zimtrade (2015) indicates that Zimbabwe's export capacity is declining and that this has worsened over the past two years. The country is experiencing a serious balance of payments deficit due to the fall in exports and an increase in imports. So the country needs to engage all sectors, including SMEs, to improve its export performance. The findings can be used to enhance the role of SMEs in improving export performance so as to reduce the BoP deficit. There is also high unemployment in Zimbabwe at

the moment, as most investors have left the country due to the harsh economic and political environment.

Unemployed people have resorted to running SMEs to earn a living. Recommendations from this study will help them become successful exporters. The findings will be used to determine how best to increase export intensity for SMEs in developing countries like Zimbabwe which intend to boost SME exports so that they can develop sustainability, thereby reducing poverty. Using results from the research, decisions can be made on which variables to change so as to improve the export intensity of exporting SMEs. This study explores whether effort is being expended in the right places so as to improve SME export performance. This study distinguishes itself from others in that it gives a broad understanding of the export side of SMEs. Previous studies were mostly interested in the development of SMEs generally, without being specific on SME export promotion.

Studies in other countries have identified determinants of SME export performance. For example in Pakistan, Nazar *et al* (2009) identified and classified the firm-level controllable determinants of export performance: management characteristics; the firm's characteristics; and export marketing strategic capabilities. Filatotchev (2009) concluded that the export performance of high-technology SMEs in emerging markets depended on their investment in R&D, international experience, global networks and knowledge transfer from abroad.

Zou & Stan (1998) concluded that export performance is influenced by controllable factors like export marketing strategy, management attitudes and perceptions. There are also uncontrollable internal determinants of export performance: management characteristics, the firm's characteristics and competencies, and uncontrollable external determinants: industry characteristics, foreign and domestic market characteristics (Zou & Stan, 1998). However, these findings were based on data from other countries and may not be applicable to the Zimbabwean experience. To the researcher's knowledge no studies in Zimbabwe have been undertaken exclusively on SME export performance. This thesis will close the knowledge gap in existing literature.

In Zimbabwe, previous studies have analysed SME development without specifically zeroing in on SME export performance. For example, (Zindiye *et al*, 2012) postulate that government

and other institutions are playing a positive role on the performance of SMEs and that the duty drawback system and skills training are the most important initiatives for the growth of SMEs in the manufacturing sector in Harare, Zimbabwe. Muranda (2003) points that small-scale exporters do not have adequate research and development or market research, leaving them exposed. Muranda (2003) further concludes that Zimbabwe's exporters are essentially small to medium and that size, experience, and risk aversion are the characteristics that contribute strongly to perceived constraints. Strategies to achieve SME growth include the creation of an enabling legal and regulatory environment, investment promotion, financial assistance, market promotion, technology and infrastructure support, entrepreneurship, skills development, and institutional reform (Nyoni, 2002).

The methodology employed by other studies is quantitative (econometric investigation) or a combination of both qualitative and quantitative method. The explanatory and survey design employed in this research allows for the use of both qualitative and quantitative analysis and uses primary as well as secondary data (Gujarati, 2005; Wooldridge, 2006). The gravity model of trade is used to determine the impact of the following variables on export intensity of SMEs in Zimbabwe; support institutions, business ownership, research & development, educational years, use of export processing zones, product type, export years, firm size, firm age, gender, distance from trading partner, GDP of trading partner, and GDP of Zimbabwe. The qualitative analysis allows for analysis of constraints faced by exporting SMEs in Zimbabwe and determination of Zimbabwe's export competitiveness. This brings the benefits of combined research approaches to the study as they complemented one another.

### **1.8 Layout of the study**

The thesis is organised as follows: Chapter 1 contains the introduction, comprising the background to the study, SME export performance in Zimbabwe, the research problem, the research objectives and questions, the research hypothesis, the significance of the study, the assumptions of the study, the delimitation of the study, and the limitations and definitions of terms. Chapter 2 contains strategies for SME development while Chapter 3 contains literature on international trade in Zimbabwe. In Chapter 4 the theories behind firms and entrepreneurship are discussed. In Chapter 5, theoretical and empirical literature on exports is analysed. Chapter 6 presents the research methodology, comprising qualitative and quantitative research methodologies.



Triangulation and the gravity model of trade are explained in the chapter. Chapter 7 contains presentation of qualitative findings. In Chapter 8 the results from the econometric model on determinants of export intensity among SMEs in Zimbabwe are presented. The competitiveness of Zimbabwe's exports by sector is analysed in Chapter 9 while Chapter 10 is the final chapter which contains the summary, conclusions and recommendations of the thesis.

### **1.9 Summary of the chapter**

Chapter 1 contains a discussion of the background that lay the foundation of the study. The background shows the context within which exporting SMEs in Zimbabwe operate. The chapter also presents the research problem and the hypothesis within which the study is done. In the chapter, the research objectives and research questions were raised. The assumptions of the study and delimitations were also discussed. Chapter 2 follows with different strategies employed by governments towards SME development.

## CHAPTER 2

### STRATEGIES FOR SME DEVELOPMENT

#### 2.1 Introduction

The chapter contains an analysis of strategies for SME development by countries in Asia, Europe, North America, Latin America, Australia and Africa. Further, initiatives by the government and the various SME support institutions in Zimbabwe on SME development are also discussed in the chapter. The development of SMEs can increase the export intensity of the SMEs. Growth of small businesses is essential for the development of economies with limited capital, such as Zimbabwe. SMEs are the means through which accelerated economic growth and rapid industrialization can be achieved (Harris & Gibson, 2006).

Prioritising the development of SMEs can make a country competitive and enable it to achieve economic and export growth due to existence of a pool of competent local SME enterprises to provide operational support in materials, product design, and support services to multi-national corporations operating in a country (Sum *et al*, 2004). Export promotion programmes enable managers to get the necessary information, competencies about export markets, export techniques and processes in order to compete successfully on international markets (Wilkinson & Brouthers, 2006)

It is widely recognised that entrepreneurship and small businesses make a significant contribution to export competitiveness, economic development, employment and the reduction of regional disparities (Audretsch & Keilbach, 2004). SMEs are sustainable forms of diversifying the economy and narrowing the gap between rural and urban development, and they alleviate poverty (Fritsch & Mueller, 2008). In developed countries, SMEs are providing around 50% of productive employment and over 50% of private sector turnover (Luetkenhorst, 2004). Shamsuddoha *et al* (2009) postulates that export development programmes help to make companies more competitive which, in turn results in an improvement in internationalization outcomes. SME development is therefore critical for SME export growth.

Promoting SMEs has been one of the best strategies for achieving economic development and the barriers to entry are small for these businesses (Kazem & Van der Heijden, 2006).

Furthermore, smaller organizations are also seen as being quicker and more nimble than their larger counterparts due to structural simplicity, streamlined operations, and by limiting their competitive moves to narrow domains (Chen & Hambrick, 1995). According to Dean *et al* (1998), small businesses formations appear to be less deterred by traditional entry barriers such as industry concentration, vertical integration, and product differentiation and the small businesses are adept at pursuing strategies built upon the strengths of speed, flexibility, and niche-filling capabilities.

In Africa, nearly 80% of firms in Democratic Republic of Congo (DRC) are SMEs while in Kenya SMEs employed some 3.2 million people in 2003 and this accounted for 18% of national GDP (OECD Development centre 2015). In Senegal, the SMEs contribute to 20% of national value added while in Nigeria, 95% of formal manufacturing activities and 70% of industrial jobs are provided for by SMEs (OECD Development centre, 2015). In Morocco, 93% of all industrial firms are SMEs and they account for 30% of exports thereby enhancing the country's foreign outreach.

In sub-Saharan Africa, SMEs account for up to 78% on non-agricultural employment, 61% of urban employment and 92% of new jobs (Commission for Africa, 2005). Private sector led growth is based on SMEs and 80-90% of investments in developing countries are home grown (Hallberg 1999). Luetkenhorst (2004) specifies that small businesses are a key agent of structural change, reducing marginalisation and achieving a more equitable income distribution. There are several definitions of SMEs, as indicated in the next section.

## **2.2 Defining SMEs**

A standard definition of the SME sector has been provided by the World Bank's SME department, which views small enterprises as those formal sector entities with up to 50 employees and total assets and total annual sales of up to US\$3 million (World Bank, 2014). SMEs are complex to define because the sector is diverse, it varies in terms of industry, methods of operation, efficiency, size of resources used and nature of markets served. Different countries classify SMEs differently and that the classification differs in relation to the number of employees, value of total assets and the value of total annual sales (Fan, 2003). There are a number of terms used interchangeably to define SMEs: micro-enterprise, small businesses,

small firms, small scale enterprises, small enterprises, micro and small enterprises, medium and small-scale industry (Dorfling, 2001).

Lucas (2002) specifies the qualitative and quantitative criteria for defining an SME. Table 2.1 shows the qualitative and quantitative characteristics as specified by Lucas (2002).

**Table 2.1: Characteristics of qualitative and quantitative criteria of definitions of SMEs**

Qualitative criteria	Quantitative criteria
Independent management	Number of employees
Proprietorship and management in one	Turnover
Small market share	Assets; net asset value or total assets
No access to money markets	Ownership interest
Personalised and easy-going management	Net income or profit
Manufacture of general products by simple production processes	Shares issued
Use of local raw materials	Capital investment
Technical skills and moral integrity of the owner and his/her family	Investment in plant and machinery
	Total personnel remuneration

*Source: Lucas (2002)*

As indicated on Table 2.1 there are eight qualitative criteria and nine quantitative criteria for defining SMEs internationally. Lucas (2002) defines the qualitative criteria of an SME as an entity which is individually owned and managed, continuous and economically viable, geared to a profitable return on capital, effort and risk and applies to a wide range of enterprises that are often subjective and broad-based. The quantitative criteria on the contrary involve many more differences in terms of interpretation of the small enterprise sector and it relies on clearly defined statistical parameters (Lucas 2002). These include sales turnover, number of employees, capital, assets, net worth and specific industry wide measures. The quantitative criteria involve many more differences in terms of interpretation of the small enterprise sector

and is more precise than the qualitative criteria. Increasingly, the need to incorporate quantitative and qualitative measures in defining SMEs has been accepted (Lucas (2002)

However statistical definitions of SMEs vary from country to country. For example in the European Union and OECD countries, the upper limit for an SME is 250 employees; in the US it is 500 employees. In Australia small firms have fewer than 20 employees and medium firms 20 to 200, while in the Netherlands SMEs have fewer than 100 employees.

Having defined SMEs, it is imperative to understand the underlying issues pertaining SME exports. The next section is a discussion on the development of SME exports.

### **2.3 Development of SME exports**

SME export promotion is a critical aspect for development of economies. In promoting SME exports, there is need for organisations to adopt a marketing approach when they map out their support programmes, which entails examining what the needs of companies are, and deciding what can be done to meet them (Hibbert, 1990). These views are echoed by Leonidou *et al* (2007) who note that the organizations promoting internationalisation must fully understand the profile of their target audience, its needs and uses, while seeking to avoid overly general initiatives that fail to cater for specific sectorial requirements.

Empirical literature gives conflicting evidence on the determinants of export performance (Hiep & Nishijima, 2009). According to Wagner (2001), a firm's probability to export increases with firm size, even though there are small firms that export. This finding concurs with a finding by Chetty & Hamilton (1993) who found significant evidence of a positive relationship between firm size and exports. However these findings contradict with findings by Barber & Alegre (2007) who analysed a sample of French firms and found the effects of size to be statistically insignificant in determining export intensity.

Likewise, there are also conflicting findings on the effects of firm age on export performance of firms. Majocchi *et al*, (2005) found out that older firms are more export intensive in Italy while Fryges (2006) observed that newer firms are more export intensive in Germany and UK. It is necessary to understand the determinants of export intensity to ensure that export promotion initiatives target the right places and achieve the desired results. With successful

export promotion, economic growth of countries can be achieved. Countries also strive to improve on export performance so that they do not have adverse BoP positions. Atherton & Sear (1997) add that any assistance provided to organisations has to take into account the industry's particular features considering that an inflexible approach would not align with the industry's needs and context. The usefulness of export promotion programmes depends on the extent to which organizations can adapt to the changes that take place.

Effective participation of SMEs in a developing economy has many advantages, as demonstrated in the successful development of such countries as Taiwan and, earlier, Japan (Berry *et al*, 2002). In Latin America institutional support for SMEs and professional expertise are sought through an executive committee consisting of people from business associations, development banks and government agencies concerned with the SME sector.

Further SME support in Denmark is provided through the Cooperation Network Programme. The programme was launched after it was observed that although SMEs were the backbone of the Danish economy, they were ill equipped to deal with global competition (Humphrey & Schmitz, 1995). SERCOTEC, the SME promotion agency in Chile, takes the assumption that the biggest problem for SMEs is not small size but isolation. Thus the state's role is to stimulate and coordinate the participation of public and private actors in the locality.

The SME promotion agency in Chile thus spearheads interface between SMEs, institutions and markets by developing a program to channel funds to groups of SMEs wishing to export (Kauffmann, 2005). Taiwan's SME-based export experience was facilitated by a relative abundance of small international trading companies (Levy, 1994). Evidence suggests that when enterprises are assisted in the initial stages of export, they can often carry on subsequently by themselves (Roberts & Tybout, 1995).

#### **2.4 International SME export initiatives**

A number of SME export initiatives have been implemented by different countries worldwide. OECD countries are in support of small enterprise development to the extent that a quarter of all public support programmes target the SMEs (Dorfling, 2001). The aim of the OECD countries is to promote entrepreneurship and the governments use small enterprise agents to channel the support. The OECD countries create one stop shops that disseminate information

about regulations and administration requirements to the small enterprises. The countries also focus on assisting the SMEs to export through government export credit, export information and assistance schemes. Furthermore, OECD governments focus on improving access to finance by the SMEs, giving them tax relief incentives, and providing government loans and grants for innovation by the SMEs (OECD Development Centre, 2015).

Countries such as Germany, New Zealand, Japan and Iceland even allocate above half of their public support programmes to small enterprises. The use of electronic commerce has increased among SMEs and the OECD governments also have programmes to encourage the use of e-commerce (OECD Development Centre, 2015). Countries in different continents have contributed to SME development through various programmes, which are discussed in the next section. Several initiatives have been made by international governments to promote SMEs. This section looks at these initiatives. The SME promotion initiatives by Asian countries are discussed in section 2.4.1.

#### **2.4.1 Asia**

A number of Asian countries have implemented programmes specifically to promote SMEs: Japan, Republic of Korea, Nepal, China and Hong Kong, Thailand, India, Singapore, Malaysia and Vietnam. Another country that has implemented SME support programmes is Bangladesh, which is discussed in the following section.

##### **2.4.1.1 Bangladesh**

In Bangladesh, the major indicators of small and medium enterprises (SMEs) are replacement costs and number of workers (Bangladesh National Industrial Policy, 2010). The Bangladeshi economy has about six million SMEs that contribute about 25% of the GDP and between 80% and 85% of industrial employment (Bangladesh National Industrial Policy, 2010). There are several organisations involved in SME development in Bangladesh.

These are the National Taskforce on SME Development, SME Cell, the Ministry of Industries, the SME Foundation, the Bangladesh Small and Cottage Industries Corporation (BSCIC), the Bangladesh Industrial Technical Assistance Centre (BITAC), the Bangladesh Council of Scientific and Industrial Research (BCSIR) and the Business Promotion Council (BPC). The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and numerous

chambers of commerce and SME-based sectoral trade associations are involved in promoting SMEs. Bangladesh has also declared some SME sectors as booster sectors (Abdin, 2014)

To ensure SME-friendly infrastructural support in a particular area, the government is establishing industrial estates through the Small and Cottage Industries Corporation (BSCIC) and its export processing zones (EPZs) through the Bangladesh Export Processing Zone Authority (BEPZA). BSCIC and EPZs have developed 79 industrial estates and eight EPZs respectively (Abdin, 2014). Japan has also implemented SME support programmes, as discussed in the next section.

#### **2.4.1.2 Japan**

Exporting SMEs in Japan receive assistance from the government in the form of subsidies, financing, guidance and advice. SMEs in Japan constitute the majority of enterprises in all sectors and a large proportion of SME manufacturers contribute to Japan's exports. To promote the SME sector, Japan's Small and Medium Enterprise Agency was established in 1948 and on the legislative front, the Small and Medium Enterprise Basic Law was amended in 1999 to redefine SMEs as a source of economic growth and dynamism for Japan.

SMEs have been increasingly recognised by the government as an important sector for the economy (The Economist, 2010). Nearly 5 600 Japanese SMEs export products on their own and the number has grown steadily in recent years (The White Paper on Small & Medium Enterprises in Japan, 2011). The Organisation for Small and Medium Enterprises and Regional Innovation supports SME start-ups in new business development, support for SME growth and development, providing safety nets and infrastructure.

The India-Japan SME Business Council provides SMEs with information on export opportunities and trade matters in general. The council was jointly initiated by Small and Medium Business Development Chamber of India (SME Chamber of India), the Maharashtra Industrial and Economic Development Association (MIEDA) and the India International Trade Centre (IITCIndia). The council is supported by the SME Export Promotion Council, the Packaging Industry Association of India (PIAI), the SME Technology Development Council and the SME Business Management Institute.



The council organises trade promotional activities in India and Japan for SMEs, arranges trade missions and organises buyer-seller meetings and business matchmaking. SMEs are educated on market, taxation and business opportunities. The council also undertakes market surveys and research and also organises annual activities like the SME Partnership Summit, the SME Investment Summit, the SME Technology and Innovation Summit and the SME Product Expo in each country. Nepal's programmes on SMEs are discussed in the next section.

#### **2.4.1.3 Nepal**

The Industrial Enterprises Act of 1997 provides for the upward revision of the investment ceiling for small industries. In addition, micro-enterprises are exempted by the government from paying VAT and it has been made easier for SMEs to register and obtain licences. In its ninth five-year plan (1997-2002), the Nepali government implemented various policies to assist SMEs. These include the implementation of an integrated techno-economic programme for small industries, tax concessions to medium and larger industries that involve small industries in backward linkages, entrepreneurship and industries. The next section is a discussion of SME support in the Republic of Korea.

#### **2.4.1.4 Republic of Korea**

The Korean government has implemented various measures to promote SME exports. In 1996, it established the Small and Medium Business Administration (SMBA) to strengthen support given to SMEs. The measures implemented by the government were focused on providing financial assistance and tax incentives, technological development, fostering technical human resources, and encouraging joint research and development activities among SMEs, academia and research institutes (ILO, 1999). The national SMME organisational support structure is led by the Ministry of Industry and Energy. China has also implemented SME support programmes, as discussed in the next section.

#### **2.4.1.5 China**

In China SMEs are promoted by a government agency called the Bureau of China International SME Fair. The agency organises a yearly SME fair, a technology fair, a world conference, a boutique fair, seminars and workshops, and works with environment-friendly SME development, providing loans to young entrepreneurs as well as start-up loans. China has introduced

policies geared towards SME export development. The Chinese government encourages producing SMEs to increase exports independently.

The government has ensured that improvements in the availability of finance for the sector through increasing lending to Chinese SMEs. The government has ensured a raising of the level of technology used by SMEs. Policies have ensured a restructuring of SMEs, better-quality products from SMEs and environmental protection. All this has increased the competitiveness of SMEs, hence increasing exports (ILO 1999). An analysis of programmes for SMEs in Hong Kong is discussed in the next section.

#### **2.4.1.6 Hong Kong**

In 1996, the government of Hong Kong set up the Small and Medium Enterprises Committee, to identify issues affecting the development of SMEs in Hong Kong, and to suggest measures for supporting and facilitating their further development (ILO, 1999). Market access is one of the key areas identified by the committee where SMEs need assistance. Other areas are human resources development, financing, information access, technology support, market access, environmental support, quality support, and physical infrastructural facilities. The Hong Kong Productivity Council established an SMME Centre in December 1997 to provide focused support and one-stop information to SMMEs.

The Industry Department provides a free one-stop information service for government licences, permits, certificates, and approvals required for business operation (ILO, 1999). The SME Export Marketing Fund (EMF) offered by the Hong Kong Special Administration Region government aims at helping small and medium enterprises (SMEs) in Hong Kong to expand their businesses through active participation in export promotion activities. Thailand also has SME promotion programmes which are discussed in the next section.

#### **2.4.1.7 Thailand**

In Thailand, the Ministry of Industry coordinates the government's major strategy in support of small and medium industry. The government, through financial institutions, made 35 billion baht available to facilitate the financing of the SME sector. Financial institutions also provide finance to SMEs in Thailand, for instance the Bank of Agriculture and Agricultural Cooperatives, the Krung Thai Bank, the Small Industry Finance Corporation and the Industrial

Finance Corporation of Thailand (ILO, 1999). In the next section, India's programmes towards SMEs are elaborated.

#### **2.4.1.8 India**

According to government estimates, MSMEs account for around 8% of India's GDP, about 45% of the manufacturing output and 40% of the country's exports. The sector is also the second-largest source (after agriculture) of employment in India. (Dewan, 2014). Sharma *et al* (2006), add that SMEs sector provides about 80% of employment in industrial production in India. The Small & Medium Business Development Chamber of India (SME Chamber of India) works for the growth of SME exports in the manufacturing and service sector.

Among the chamber's major objectives is export promotion for SMEs and enabling connectivity with buyers, importers, investors and strategic business partners from abroad. The SME Chamber is present in various countries and supports SMEs in identifying emerging business and collaboration opportunities in Arabian Gulf countries, Africa, North and South America, Japan and European countries.

The chamber is also in the forefront of resolving SMEs' issues and problems (SME Chamber of India, 2015). The Indian government offers services and inputs to SMEs on a subsidised basis (usually given free of charge), since the small enterprise sector was regarded as needing special help to overcome its weaknesses (Levitsky, 1996). The Indian model, after being successful for 20 years, was used as a blueprint in the organisation of institutions in many African and Asian countries, largely because UNIDO (United Nations Industrial Development Organisation) considered this model to be relevant to these countries (Levitsky, 1996). An analysis of programmes on SMEs in Singapore is discussed in the next section.

#### **2.4.1.9 Singapore**

The Small and Medium Enterprise (SME) Agency of the Ministry for International Trade and Industry is responsible for developing SMME policies, and specific measures pertaining to SMEs are implemented by government and other institutions working in close collaboration with the SMME Agency (OECD, 2000). In 1989, the Singaporean government devised a Small and Medium Enterprise Master Plan, which called for an integrated multi-sectoral approach to the promotion of small enterprises.

Aspects included in the plan are special financing arrangements, preferential tax treatment, the establishment of support institutions, improvement of technology, informalisation, management and labour conditions, assistance with exporting, and promotion of co-operation, networking and subcontracting (ILO, 1997). Singapore, Hong Kong, South Korea and Taiwan have attracted international attention due to their phenomenal economic growth. In these countries, the primary mode of economic growth shifted from foreign investment to the expansion of home-grown enterprises (Sum *et al*, 2004). Malaysia and Vietnam have also implemented SME support programmes, as discussed in the next section.

#### **2.4.1.9 Malaysia and Vietnam**

In Malaysia the SME Corporation is a government agency that develops and promote SMEs. The institution assists SMEs to adopt new technology, increase productivity, automate, select appropriate technology and machinery, and update production processes and production management

In Vietnam the Agency for Enterprise Development under the Ministry of Planning and Investment is responsible for SME development and promotion. The agency assists SME entrepreneurs through creating linkages with technology suppliers, regulatory consultations, establishing industry export and high-technology zones, and publishing a business directory, a directory of SME associations, a directory of SME experts and a directory of SME loan products offered by SME banks.

Countries in Europe, Australia, North America, Latin America and Africa have also implemented various SME support programmes, which are discussed in the following sections.

#### **2.4.2 Europe**

The European Union (EU) supports exporting activities by SMEs within the EU through financial assistance in the form of grants, loans and loan guarantees. Non-financial assistance is offered to SMEs in the EU in the form of business support programmes and services. The EU gathers data for SMEs, arranges meetings with potential business partners, facilitates commercial access to technological research and facilitates access to business and research financing. Further, it provides advice on legal, trade, and intellectual property issues and advocates on behalf of European SMEs in foreign markets (OECD, 2009).

The EU member countries also provide SMEs with officially supported export credits through private or government-supported export credit agencies. EU countries maintain their own national embassies around the world that, among other things, support SMEs from the respective countries, as well as gathering data and information about markets in the countries where the missions are based.

In addition to financial and non-financial assistance, the EU implemented a legal framework to support European SMEs by adopting the Small Business Act for Europe (SBA for Europe) in June 2008, with the stated objective of putting “SMEs at the forefront of decision-making, to strengthen their potential to create jobs in the EU and to promote their competitiveness both within the Single Market and in the global markets.” The SBA for Europe comprises several different elements designed to improve the legal and administrative environment for SMEs throughout the EU (OECD, 2009).

In Europe there are a number of small enterprise programmes which are coordinated by national governments through government ministries. SME development strategies in Europe focus on a more forceful promotion of international trade and developing the domestic economies by giving greater autonomy to domestic economic actors (OECD, 2000). Several countries in Europe have actively implemented programmes to promote small enterprises, including Belgium and Luxembourg. France has ensured that the mandate of the Ministry of Enterprises and Economic Development includes small enterprise policy, while in the Netherlands, entrepreneurship and small enterprise issues are dealt with by the Ministry of Economic Affairs.

The European Union, France, Belgium, Ireland and the Netherlands have all established a number of business incubators (ILO, 1997). SMEs in the United Kingdom are supported through the Department of Trade and Industry’s (DTI’s) Strategic Framework. The DTI framework is responsible for reviewing all government support schemes for small business and developing of services, reducing the burden of regulation on small business and pursuing effective EU measures aimed at releasing the potential of small businesses.

The Small Business Service (SBS) was set up to provide a platform where small businesses can be heard, to improve the quality and coherence of small business support, and to help small businesses in dealing with regulation issues. The SBS provides small business owners with

easy access to a range of services and ensures the best support for small businesses (OECD, 2000).

The Polish Foundation for the Promotion and Development of Small and Medium Enterprises is a semi-government apex institution which is responsible for supporting and developing small and medium enterprise competitiveness. The foundation has developed programmes of SME support in the areas of improvements in legal and fiscal regulations, better access to training, information on marketing, technology, aid programmes and other matters, access to finance and the development of physical facilities, including business incubators (ILO, 1997).

### **2.4.3 Australia**

Both the federal government, the state governments and the territorial governments influence the small business environment and the delivery of small enterprise support programmes and services in Australia. The federal government maintains a supportive business environment for SMEs through its macroeconomic policy, which includes tax reforms and legislative changes.

In addition, the federal government also supports small businesses through its institution called Aus-Industry. Since 1999-2000 the federal government has supported the establishment of new small business incubators, with 70 incubators already having been established (OECD, 2000). State governments provide information and advisory services to small enterprises and facilitate funding for SMEs from private organisations.

### **2.4.4 North America**

In the United States of America (USA) the federal government mostly designs and implements policies for small businesses through its institution the Small Business Administration (SBA), which also offers a number of financing programmes for small firms. There are more than 500 business incubators estimated to be operating across North America to support small businesses. To support small manufacturing firms to become globally competitive, the Manufacturing Extension Partnership (MEP) was set up in 1988.

The US government supports exporting activities by SMEs through three basic types of financial assistance Firstly, the US supports SMEs through financing in the form of loans, lease financing and loan guarantees meant for exporting activities Secondly the US government supports SMEs by providing them with insurance and risk mitigation policies that cover export

transactions and overseas investments. The insurance covers losses from non-payment, non-convertibility of currency, asset expropriation and political violence. Thirdly, exporting SMEs are supported through grants (US International Trade Commission, 2010).

Through the MEP, SMEs adopt new and advanced technologies, techniques and business best practices, implemented through a national network of Manufacturing Extension Centres. Small Business Development Centres provide management support to existing and potential small business owners through counselling, training and technical assistance, while Small Business Information Centres provide the latest in high-technology hardware, software and telecommunications. The Service Corps of Retired Executives (Score) provides free expert problem-solving to small businesses (OECD, 2000).

The US also supports the exporting activities of SMEs through other non-financial export promotion programmes in the form of online and customised market research, support for exhibitors taking part in selected overseas and domestic trade shows to attract qualified business partners, fee-based programmes to introduce exporters of US products to qualified buyers and distributors, individualised counselling, and advocacy and training programmes (US International Trade Commission, 2010).

The Canadian government promotes small enterprise access to international markets. Information about government programmes and services is provided to small enterprises. The government also ensures the reduction of regulatory and tax burdens on small enterprises, and provides adequate access to financing for SMEs. The government has increased bank participation in small enterprise lending, and increased its participation in small enterprise financing at where it is most needed (OECD Development Centre, 2015).

#### **2.4.5 Latin America**

In recent years, Latin American countries have focused their efforts on export assistance to SMEs to such an extent that important breakthroughs have been made by clusters in Latin America (Dawson & Jeans, 1997). At first the Latin American countries pursued import substitution policies, but later implemented export orientation to stimulate exports. Six Latin American countries – Mexico, Venezuela, Argentina, Brazil, Chile and Colombia – launched their initiatives in the 1960s to assist SMEs financially (ILO, 1999). The countries worked

with the aid of international agencies like the ILO, the World Bank, and the Inter-American Development Bank to overcome the constraints faced by small enterprises.

Small exporters in Brazil managed to create links within the region as well as with other regions through the Centre for the Support of Small and Medium-Sized Enterprises (SEBRAE), which is generally seen as the most important achievement for SMME development in Brazil (Saia, 2005). SEBRAE focuses on four primary areas of operation: training, credit and capital, entrepreneurial culture, and domestic and sectoral development (Saia, 2005).

#### **2.4.6 Africa**

In Africa, Tanzania and Kenya were among the first countries to adopt programmes oriented towards supporting small enterprises, soon after independence in the mid-1960s. SMEs in Africa employ more than 40% of all new entrants into the labour force as they are labour-intensive (Ongori & Migiro, 2010). In Kenya, a baseline survey carried out in 1999 established that the SME sector employed 5.1 million people, accounting for 74% of total employment. The Kenyan government created an SME policy framework in 2003 to promote employment creation, income generation and poverty alleviation (Nyamwanza, 2014).

Most independent states in Southern Africa have programmes to support small industries under which the support organisations are dependent on government financing and policy. Small enterprise business associations seem to have developed in several African countries, encouraging their governments to consult with the sector on all policy issues and to provide various kinds of assistance to members (Levitsky, 1996).

The key institutions for the development of SMMEs in South Africa were the Ntsika Enterprise Promotion Agency, Khula Enterprise Finance and Khula Credit Guarantee, the National Small Business Council, and provincial SMME desks. Ntsika Enterprise Promotion Agency (Nepa) played a central role in the institutional structure for SMME since it was the implementation agency for all non-financial entrepreneurial services and facilitated and acted as a wholesaler of delivery programmes to support SMMEs in South Africa (Graaff, 1996).

Khula Enterprise Finance is another South African institution that facilitates and expands access to finance for SMME development (Rogerson, 2004). Khula has promoted growth and prosperity by increasing access to finance for SMMEs, particularly those that were previously



disadvantaged. The National Small Business Council (NSBC) was established in South Africa to promote the interests of the SMME sector at national, provincial and local levels and to develop recommendations for national and provincial economic policies affecting SMMEs (Graaff, 1996).

So SMEs are successful in South Africa, Mauritius and North Africa, mainly because of fairly modern financial systems and clear government policies in favour of private enterprise. However, as Kaplinsky (1994) observes, not all SMEs can handle the stringent requirements of quality, just-in-time delivery and so on that go with hand in hand with competitive exporting. Kauffmann (2005) postulates that SMEs are weak in Africa because of small domestic markets, undeveloped regional integration and very difficult business conditions. Difficult business conditions include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. In addition Kauffman (2005) points out that Africa's SMEs have little access to finance and this hampers their emergence and eventual growth.

The SME's access to formal finance is limited due to adequate financial facilities. The financial system in most of Africa is underdeveloped and so provides few financial instruments for SMEs. SMEs also find it difficult to meet the conditions set by financial institutions, which regard SMEs as risky clients due to the lack of guarantees and information about their ability to repay loans. For SMEs, the main sources of capital are their retained earnings, informal savings, microfinance institutions and loan associations.

However, these sources are unpredictable, insecure and have little scope for risk sharing because of their sectoral focus. SMEs work in clusters which are highly active, to enable member firms to seek finance together and provide collective guarantees to financial institutions. Some SMEs even set up their own financial bodies. Since clusters have frequent interaction with financial institutions and also can build good reputations, it becomes easier to obtain loans at lower rates of interest. SME clusters are common in African countries including South Africa, Kenya, Nigeria, Tanzania and Zimbabwe (Kauffmann, 2005).

## **2.5 The context of the SME sector in Zimbabwe**

In Zimbabwe, SMEs are defined by the Ministry of Small to Medium Enterprises Development (MSMECD) as those businesses which are registered in terms of their legal status and employing anywhere between six and 100 workers and an annual sales turnover of a maximum of US\$830 000 (MSMECD, 2015). SMEs are governed through the Small to Medium Enterprises Act of 2011, Chapter 24.12. For the purpose of this study, the definition of SMEs by MSMECD Zimbabwe is adopted.

There is no SME database in Zimbabwe, so it is difficult to ascertain a definite figure for the number of exporting SMEs. However the number of unregistered SMEs surpasses that of registered ones (Zindiye, 2012). The Zimbabwean government classifies small businesses into three categories namely micro, small and medium enterprises (MSMECD, 2015). The micro enterprises are the smallest, usually operating in the open or in makeshift structures, without proper records. They operate on a survivalist basis and usually do not export, so were excluded from this research. The small enterprises are more established, and some are found in the export sector. There are usually a few employees who operate within a structure, and such a structure can access loans from financial institutions.

Medium enterprises are the largest SMEs, often characterised by a number of employees. There is separation of management from ownership and most SME exporters fall into this category (MSMECD, 2015). Small to medium enterprises are found in the manufacturing, retail and transport, mining, energy, transport, construction and service sectors of the economy (Ruzivo Trust, 2015). SMEs employ more than 60% of the country's workforce and contribute about 50% of the country's gross domestic product (Ruzivo Trust, 2015)

An estimated 70% of the MSME sector is micro and informal, leaving 30% that are small to medium enterprises. In terms of representation, several associations – for instance, the Zimbabwe Cross Border Traders Association (ZCBTA), has 6 000 registered members, of which 72% are women. Empowerment groups represent the sector, for example the Affirmative Action Group (AAG).

In Zimbabwe the SME sector is crucial for poverty alleviation, spreading employment to rural areas, improving the situation of women and increasing indigenous ownership of investment

in the economy (Nyoni, 2002). They are also key to the promotion of economic growth and export growth. SMEs are more flexible and responsive to changes in the market than larger firms. They require relatively less capital and so have the potential to generate significant levels of sustainable employment for skilled and semi-skilled labour (Ndlovu, 2004, Fiegenbaum & Karnani, 1991).

Zimbabwe's SMEs have gained greater importance because of the country's economic challenge, dating back to 2000 (Nyamwanza, 2014). In Zimbabwe most large organisations carried out retrenchments over the years due to poor economic performance. In addition, a significant number of large organisations have moved out of Zimbabwe to other countries. There is also low foreign direct investment, as investors shy away from the unfriendly economic situation and certain unpopular government policies, like the indigenisation policy which forces companies to have 51% domestic ownership.

These factors have resulted in the country's having a high rate of retrenched and unemployed people who have established their own small business enterprises in order to survive. Some have also ventured into the export business. So the SME sector is now an important player economically in Zimbabwe and is expected to make a significant contribution to the country's economic development. The sheer size of the SME sector demands attention from both policy makers and development practitioners (Reinecke & White, 2004).

The Zimbabwean government devised policies to support SMEs, to address the problem of unemployment. Improvements in the conditions under which SMEs operate could contribute to national economic and social development (Reinecke & White, 2004). Although developing countries like Zimbabwe are increasingly aware of the potential contribution of SMEs to the national economy, the resources devoted to SME support are likely to remain modest. Moreover, one of the government's main roles in SME support is providing necessary infrastructure.

One source of finance for SMEs in Zimbabwe is remittances by nationals working abroad. In addition, there is interdependence between SMEs and large firms in the form of partnerships. Large firms help SMEs obtain finance more easily by transferring resources in the form of money and factors of production. Partnerships between SMEs and major companies can also

help SMEs earn export credits, which are especially important in countries like Zimbabwe that have weak institutions.

Zimbabwe's export processing zones (EPZs) or free trade zones (FTZs) were established in 1987 through an Act of Parliament. They are managed and administered by the Export Processing Zones Authority. EPZs are governed by the Export Processing Zones Act of 2002. Chapter 14:07. Exporters who operated in EP zones are given tax exemptions. By 2004, projects under EPZs created more than 32 000 jobs and US\$172 million worth of investments. (Zimbabwe Government Online, 2015).

## **2.6 Development of SME support institutions and programmes in Zimbabwe**

Zimbabwe has various government support programmes aimed at supporting the SME sector through organisations like the Small Enterprise Development Corporation (SMEDCO), the Zimbabwe Development Bank, the Credit Guarantee Company of Zimbabwe, the Agricultural Development Bank (Agribank), and the Venture Capital Company of Zimbabwe Representative bodies like the Zimbabwe Cross Border Traders Association (ZCBTA), the Informal Business Association, the Informal Traders Association of Zimbabwe and the Standards Association of Zimbabwe (SAZ) represent SMEs interests.

The SME sector also receives government support through various policy documents like the Framework for Economic Reform, the Zimbabwe Programme for Economic and Social Transformation (Zimprest); and the Economic Recovery Programme. (Nyoni, 2002) In addition, the Zimbabwean government, through the Ministry of Industry and International Trade and the Ministry of Youth Development, Gender and Employment Creation, established a policy document on supporting SMEs in July 2002.

Zimbabwe's SME policy (2004) is mainly aimed at generating sustainable employment, reducing poverty, stimulating economic growth and generating foreign currency earnings. The policy also aimed at creating an enabling environment for doubling the number of small business entities in Zimbabwe by the year 2007 (Zindiye *et al*, 2012).

The SME Policy (2004) ensured the co-ordination of the different SME policies and programmes at national level, provided an appropriate institutional mechanism to facilitate SME development efforts, and ensured SME growth over the long term, rather than dependence and

rationalised SME support programmes. Strategies to achieve this included the creation of an enabling legal and regulatory environment, investment promotion, financial assistance, market promotion, technology and infrastructure support, entrepreneurship, skills development, and institutional reform (Nyoni, 2002).

Zimbabwe's small business sector received tax relief from the government, and so was not subjected to the full rate of tax, including corporate and capital gains tax. SMEs were also given a five-year grace period on taxation in their start-up phase. Tax breaks were provided for companies that subcontract to SMEs and local authorities and utilities were encouraged to identify incentives that encourage small businesses to establish themselves and register (Zindiye *et al*, 2012).

The Zimbabwean government provided credit finance to SME-friendly financial institutions and provided a guarantee fund for SMEs (Hinton *et al*, 2006). The government also encouraged a culture of saving among SMEs through the formation of cooperatives and credit unions. To counter the problems hindering market penetration encountered by SMEs, the Zimbabwean government facilitated pre-investment studies sector-specific to SMEs, and facilitated the creation of business associations to advise SMEs on market opportunities (Nyoni, 2002).

The Zimbabwean government, through the local authorities, created market trading and manufacturing points for the small business sector and also created business incubators that reduce the need for a large up-front capital outlay for infrastructure support. In addition, SMEs receive skills development and training at shop floor, management and entrepreneurial level (Zindiye *et al*, 2012). The government also pays special attention to the growth and development of SMEs through initiatives like cluster-based development, the gender dimension, youth development and rural focus (Nyoni, 2002).

The International Labour Organisation (ILO) supports SME development in Zimbabwe by training SME entrepreneurs through programmes like Start Your Business (SYB), Start and Improve Your Business (SIYB) and Expand Your Business (EYB) and provides start-up capital for SMEs. (Chuma-Mkandawire, 2004). Given the role of SMEs in the economy and the failure of small businesses to capture opportunities in the export sector, the government established institutions to assist small businesses. Support institutions are important because they

coordinate SME activities, provide the necessary technical and financial support and help the SMEs develop.

Institutions ensure optimal resource allocation and that rules are observed. There is a positive link between institutions and economic development (Hall and Jones 1999). Cross country empirical analyses, in combination with micro-level studies, provide strong support for the overwhelming importance of institutions in predicting the level of development in countries around the world (Hall and Jones, 1999). SMEs in Zimbabwe have historically failed to realise their full potential and significantly increase exports due to lack of institutional support.

With increasing unemployment in Zimbabwe and high poverty, SMEs are the bridge between poverty and survival. The majority of families in Zimbabwe depend on income from SMEs. The government observed the need to support SMEs that created the ministry of small to medium enterprises. The informal sector became recognised and SMEs who were willing were allocated designated places from which they operate. The growth of the SME sector in Zimbabwe in recent years has meant that attention needs to be given to the sector as it is significantly contributing to employment and GDP growth.

There are several factors that inhibit SME export performance in Zimbabwe. These include a lack of quality infrastructure and the fact that most SME owners in Zimbabwe were pushed into starting small businesses as a result of desperate situations like a failure to secure employment (Nyamwanza, 2014). Ideally SMEs that are competent set their goals and work hard to achieve them. Competence is vital to SME export growth so that a business can compete internationally.

Because most SMEs were started due to the unemployment push, one may not rule out the suggestion that a number of SMEs in Zimbabwe are not competent enough to export (Nyamwanza, 2014). An observation has been made by World Bank (2014) is that SMEs have not always made the difference that might have been expected in some countries, as entrepreneurial activity remains limited, poverty high and growth stagnant (Irwin, 2011). This observation can be applied to Zimbabwe's economy which registered initial growth soon after the adoption of multiple currencies, but the economy is now stagnant again and exports continue to fall.

For SMEs wishing to export from Zimbabwe, the major hurdles of entry they face are meeting the costs of gathering information in foreign markets and establishing marketing channels. Previously, the government took little part in SME export support due to its highly centralised administrative systems (Irwin, 2011). Government participation in SME export support has increased over the past few years, as evidenced by the creation of the Ministry of Small to Medium Enterprises, among other initiatives. This has been made possible by the realisation that SMEs can contribute to increased exports and hence a reduction in the BoP deficit (Irwin, 2011).

SMEs in Zimbabwe need to be aggressive to develop their export capacity. As pointed out by (Levy, 1994; and Scitovsky, 1985), the development both of the SME sector in general and of its export capacity can be enabled by a vigorous community of traders. For example, in Taiwan, a vigorous community of traders identified markets and aggregated goods from dispersed producers for sale in bulk to foreign buyers (Young, 1994). In addition, the arrival of export buyers in Zimbabwe could promote collective action towards exports, particularly in pursuit of better transport, improved customs, information on external markets and trade fairs. So foreign buyers can jump-start dormant SMEs into production.

As explained by Reinecke & White (2004), the sheer size of the SME sector demands attention from both policy makers and development practitioners through export promotion programmes. The goal of export promotion programmes is to enhance export performance by improving the capabilities, resources, and strategies and overall competitiveness of firms (Czinkota, 1996). Shoham (1996) defined export performance as the result of a firm's actions in export markets.

Leonidou *et al* (2002) state that the most used measures of export performance are proportion of sales exported (or export intensity), export sales growth, export profit level, export sales volume, export market share and export profit contribution. For the purposes of this study, export sales volume is used as the measure. Growth among small businesses is essential for the development of economies with limited capital, like Zimbabwe. SMEs are the means through which accelerated economic growth and rapid industrialisation can be achieved (Harris & Gibson, 2006).

Given this role of SMEs in the economy and the lesser extent to which small businesses were capturing opportunities in the export sector, the government, NGOs and the private sector established institutions to assist small businesses. The institutions provide support for SMEs in Zimbabwe in various forms, including export promotion, affordable finance, skills training and market information.

The Zimbabwean government, under the current economic blueprint, Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zimasset, 2013), considers support for SMEs as a key element in value addition and beneficiation. Its focus on SME support is mainly in the mining, agriculture and manufacturing sectors. Through various policies and support schemes, the government has made attempts to increase exports from SMEs.

These policies are important for Zimbabwe's SMEs because policies designed for large enterprises may fail to apply to the SME sector. As pointed out by Sum *et al* (2004), prioritising the development of SMEs can make a country competitive and achieve economic growth. Even though institutional support is critical for the growth of SME exports in Zimbabwe, SME policies alone do not always deliver the desired results.

The World Bank has observed that SMEs have not always made the difference that might have been expected: entrepreneurial activity remains limited, poverty high and growth stagnant (Irwin, 2011). The behaviour of SMEs within their internal business environment can greatly influence the survival and growth in exports for SMEs, for example, strategy formulation and implementation and the ability to control some factors directly over other factors (Nyamwanza, 2014). A number of institutions in Zimbabwe provide support for SMEs in various forms. The SME support institutions in Zimbabwe are mentioned below.

## **2.7 The Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD)**

To support and develop SMEs, the Zimbabwean government created the Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD). This is a government institution responsible for SME policy formulation and implementation, facilitating linkages



between SMEs and other stakeholders and skills and management training for SMEs, developing a regulatory framework for SME development, and promoting and monitoring financing schemes for SMEs.

The ministry also facilitates linkages between SMEs and large-scale enterprises, researches investment and marketing opportunities and maintains an SME data base (MSMECD, 2015). MSMECD identifies and facilitates entrepreneurship and business management training requirements among SMEs. The ministry also provides business advisory and support services for SMEs and identifies both domestic and external markets for SMEs. MSMECD facilitates formulation and strengthening of clusters and associations, and creates and strengthens enterprise culture through encouraging initiative, creativity, productivity and quality.

MSMCED also facilitates linkages between large enterprises, SMEs and cooperatives. There are several SME funding facilities used by MSMECD. Under the ministry, a Micro Enterprise Development Fund was created to assist SMEs that were finding it difficult to meet the terms and conditions required by financial institutions when applying for loans. So the ministry launched the programme in collaboration with a non-governmental relief organisation from Germany named HELP.

MSMECD, through the Ministry of Industry and International Trade, and in conjunction with the Ministry of Youth Development, Gender and Employment Creation, established a policy document for the support of (SMMEs), which was approved by the Cabinet in July 2002 (Zindiye *et al*, 2012). MSMECD also has a Small and Medium Enterprises Revolving Fund, which it administers through the Small Enterprises Development Corporation (SMEDCO).

## **2.8 Zimbabwe Investment Authority**

The Zimbabwe Investment Authority (ZIA) was set up in 2006 to process applications for investment licences in Zimbabwe. This includes applications by SMEs from other countries wishing to invest in Zimbabwe. ZIA is responsible for planning and implementing investment promotion strategies for the purpose of encouraging investment by domestic and foreign investors. It is also responsible for supervising, monitoring and evaluating the implementation of approved investment projects. ZIA also promotes and co-ordinates investment activities in

enterprises or sectors of the economy that are of strategic importance to national development or require additional investment for the purpose of any sectoral objectives.

Further, ZIA recommends the granting of additional incentives, where necessary, outside of existing policy investment procedures, and also advises on all matters relating to investment in Zimbabwe so as to enhance the development of the economy. ZIA is also responsible for implementing and monitoring special economic zones (SEZs), formerly known as Zimbabwe's export processing zones (EPZs) or free trade zones.

The special economic zones are about to be implemented to ensure free trade for organisations (including SMEs) operating within the prescribed areas to promote exports. The special economic zones follow the establishment of the export processing zones (EPZs) implemented in 1995, aimed at promoting foreign direct investments, which translated into an increase in manufactured exports. EPZs are discussed in detail in Chapter 5.

### **2.9 Oxfam Zimbabwe**

Oxfam Zimbabwe is a non-governmental organisation (NGO) which helps smallholder farmers, especially women and young people in different programmes. Oxfam builds the capacity of civil society and women's organisations so as to influence policy formulation and policy implementation that would ensure improved access to and control of water, land and agricultural resources by rural SME women (Oxfam 2015).

Oxfam also seeks to facilitate the development of value chains to enable smallholder farmers, especially women, to enter into profitable agricultural value chains. Oxfam also seeks to invest in integrated natural resource management approaches in order to ensure food security and viability of the businesses of farming SMES. Some of the SMEs that receive the support are in the business of exporting agricultural products, while some have the capacity to export the agricultural products if given such support (Oxfam 2015).

### **2.10 Empretec Zimbabwe**

Empretec Zimbabwe is an organisation set up in 1992 to develop entrepreneurship among SMEs. It was set up as a joint initiative of United Nations Development Programme (UNDP)

and the Zimbabwe Investment Centre. Empretec has managed to develop some of the successful entrepreneurial SMEs in Zimbabwe, including SMEs that export products and services (Empretec 2015).

To achieve this, Empretec has partnered with multilateral and bilateral agencies and the private sector in Zimbabwe and has raised funding to assist SMEs from several traditional and non-traditional donors and sponsors. Empretec has a capacity-building programme aimed at promoting the creation of sustainable SME support structures. Empretec helps promising SMEs in Zimbabwe to build innovative and internationally competitive products. It has trained more than 15 000 people and its activities has created more than 20 000 jobs nationwide since its inception (Empretec 2015).

Empretec is also actively supporting SMEs in other parts of Africa. In efforts to promote entrepreneurs, Empretec awards the most successful entrepreneurs; one of the awards offered is Micro Entrepreneur of the Year. Empretec has been credited for creating an entrepreneurial culture and helping to create recognition and respect for the SME sector in Zimbabwe. Empretec is also professionally respected and considered a main player in the development of the SME sector as it developed excellent relations with major players in the SME sector (Empretec, 2015).

### **2.11 Zimtrade**

Zimtrade is a quasi-governmental organisation responsible for promoting trade in Zimbabwe. It is an organisation interested in export development, export promotion and capacity building. It assists SMEs from various sectors to export and these sectors include leather, footwear and leather goods, clothing and textiles, horticulture, engineering, furniture, agricultural inputs and implements, processed foods and beverages, building and construction, pharmaceuticals, packaging, arts and crafts, motor vehicle components, jewellery and household and electrical goods (Zimtrade, 2015).

On SME export promotion, Zimtrade facilitates the marketing of products and services from Zimbabwean SMEs in the global market. Zimtrade also facilitates and organises participation by SMEs in promotional events such as regional and international trade fairs, and offers trade advisory services to SMEs. To ensure that SMEs are equipped with exporting skills, Zimtrade

offers export training programmes and tailor-made sector specific exposure missions in order to groom companies and develop skills necessary to export (Zimtrade, 2015).

The export marketing training programme encompasses export market research, export product development and packaging, export documentation, inco-terms and trade agreements, export costing and terms of payment, export promotion strategies and negotiation skills and closing sales techniques. Through Zimtrade, the Zimbabwean government assists small businesses to attend international and regional trade fairs so that they can enhance their export knowledge and to increase exports through distribution networks. However in spite of all these activities, the Zimbabwean government's support of SMEs has been piecemeal and unco-ordinated (Nyoni, 2002).

### **2.12 SNV Netherlands**

Over and above the institutional support to SMEs in Zimbabwe, non-governmental organisations (NGOs) like Stichting Nederlandse Vrijwilligers (SNV Netherlands) play an important role in the promotion of SME exports in Zimbabwe. The UN Food and Agriculture Organisation and World Vision International fund SME projects through SNV Netherlands. This support particularly targets the agricultural sector SMEs in that projects which involve contract farming arrangements with smallholder farmers are implemented (SNV Netherlands, 2015).

Through the project, smallholder farmers receive capacity building support, input supply and extension services so that they produce specific crops for the export market. In addition SNV works with the Danish Development Agency (DANIDA) and the Ford Foundation to help SMEs develop and expand business opportunities in various sectors of the economy (SNV Netherlands, 2015).

Together with an organisation called Hivos, SNV Netherlands created the Zimbabwe Agricultural Development Trust (ZADT) in 2010. ZADT provides loan capital to financial institutions that on-lend to value chain actors which in turn have direct linkages with smallholder farmers. This ensures growth in exports by those farmers. SNV works with actors in key value chains including companies, smallholder producers, agro-input suppliers and service providers to bring quality products sustainably to agriculture markets (SNV Netherlands, 2015).

SNV's work is supported by donors and development partners like FAO, DANIDA, the Ford Foundation, World Vision Zimbabwe, European Union, DFID and AusAid. SNV focuses on value chain financing and inclusive business, which enable smallholder farmers to realise improved production, income and access to international and domestic markets through contract farming arrangements (SNV Netherlands, 2015).

SNV also focuses on ensuring that exporting smallholder farmers achieve improved production systems, marketing arrangements and information in the livestock sector. SNV also ensures improved production and income from small-scale farmers who export bananas, vegetables and other plantation crops through increased market linkage facilitation and contract farming. Banana farmers have been linked to buyers and farm productivity has increased by 210%, while 12 private sector contracting companies have contracted 8 036 smallholder farmers to produce 11 different types of crops destined for specific markets (SNV Netherlands, 2015).

Three commercial banks are participating in the scheme with a total of €4 million so far channelled to value chain actors through the commercial banks. In the tea sector, more than 1 500 smallholder farmers have increased production by almost 30%, with the assistance of SNV Netherlands, and farm gate prices have gone up. Further, the tea farmers are undergoing certification by two international certification institutions to ensure increased tea exports. SNV Netherlands is also creating sustainable business partnerships in various fields between established corporations and SMEs, including exporting SMEs, under the inclusive business (IB) programme. These fields include livestock production, crop production and plantations.

### **2.13 The Standards Association of Zimbabwe (SAZ)**

The Standards Association of Zimbabwe (SAZ) undertook a support programme to enable SMEs to produce products to the required and expected standards so as to achieve accreditation to ISO 9000 and other standards. Meeting these standards increases the global competitiveness of SMEs as they are able to offer quality products, so increasing their exports.

On technology, the government worked with institutions like the Scientific, Industrial, Research and Development Centre (SIRDC) and the Centre for Innovation and Enterprise Development (CIED) in Zimbabwe to strengthen their programmes to assist SMEs technologically. This was done by providing information and appropriate technologies necessary for SMEs technological advancement, so as to enhance the quality and competitiveness of their products.

## **2.14 Commercial Banks**

Commercial banks in Zimbabwe are authorised under the Banking Act, Chapter 24:01. The commercial banks offer these services to SMEs: current and savings deposit accounts, loans and overdraft facilities, foreign exchange trading and facilities, financial advice, provision of facilities for the purchase and sale of investments and funds transfer and payment services. Growth in bank deposits has grown significantly since the introduction of the multi-currency system, even though confidence in the banking sector in Zimbabwe is still very low.

The banking sector faces liquidity shortages with 60% of bank deposits being demand deposits forcing most banks to turn increasingly to foreign sources of capital (FinScope MSME Survey Zimbabwe, 2012). CBZ and Agribank are among the commercial banks that actively support SMEs in Zimbabwe. Previously financiers, government and other stakeholders supported large exporting organisations, leaving out SME exporters. However this scenario is changing in all world economies as the focus shifts towards small business development (Scarborough & Zimmerer, 1996).

SMEs need access to low-cost finance for them to realise growth in the export sector. In Zimbabwe the banking sector was slow to embrace SMEs, as most banks preferred to give loans to salaried clients with perceived guaranteed repayments. However a significant number of banks are increasing lending opportunities to SMEs (FinScope Consumer Survey Zimbabwe, 2011). As of 2012 there were 26 operational banking institutions and 157 microfinance institutions in Zimbabwe (FinScope MSME Survey Zimbabwe, 2012).

### **2.14.1 The Agricultural Bank of Zimbabwe**

The Agricultural Bank of Zimbabwe (Agribank) is a government-owned bank which specialises in lending money to SMEs, including exporting SMEs, among other functions. However the bank's main thrust is bridging the finance gap for small-scale farmers. Agribank micro finance offers micro saving and micro lending products and services to help small businesses grow. SMEs can use Agribank microloans and the Agribank unifund investment account for savings (Agribank, 2016).

### **2.14.2 Commercial Bank of Zimbabwe Ltd (CBZ)**

The Commercial Bank of Zimbabwe Ltd (CBZ) is another government bank supporting SMEs. CBZ has a small to medium enterprises (SMEs) unit, which is a functional unit within its corporate and merchant banking division. The unit specialises in offering financial support to sole proprietors and registered business companies in Zimbabwe, which have an asset base of US\$10 000.00 to US\$2 million, employs five to 75 people with an annual turnover of US\$60 000. 00 to US\$5 million among other requirements.

In addition to the SME unit, CBZ's microfinance unit also provides financial support for SMEs. The microfinance unit was established in March 1996 as a result of a tripartite agreement between the UK Department for International Development (DFID), which provided funding, CBZ, which implemented the project and Corporate Assistance for Relief Everywhere (Care) Zimbabwe, which provided technical assistance.

This allocation was aimed at facilitating the long-term growth and development of SMEs. The government and CBZ, as at the end of September 2014, had disbursed US\$11.4 million to various SMEs under the micro-finance and small and medium enterprises projects. CBZ also works with other organisations like the Danish International Association Agency (DANIDA), which provide loan guarantee funds, the Southern Alliance for Indigenous Resources (Safire) and the Zimbabwean government.

### **2.15 Central Africa Building Society (CABS)**

Central Africa Building Society (CABS), one of the major banking institutions in Zimbabwe, has an SME banking unit which is responsible for analysing the interests of SMEs. The CABS SME banking unit encourages SMEs to develop a banking culture in business. This is done through the provision of various transactional accounts. The CABS SME loan is designed to help SME businesses grow by offering affordable loans ranging from US\$5 000 to US\$50 000. In addition, the SME loan is offered together with an employee benefits package from Old Mutual to ensure that small to medium businesses attract and retain experienced and dedicated staff. The repayment term is 36 months (CABS, 2016).

According to CABS (2016) the economic transformation of Zimbabwe cannot be completed without the active participation of small and medium enterprises. The French Development

Agency and private shareholders extended two facilities worth US\$20 million in support of SMEs through the National Merchant Bank (NMB) and CABS (CABS 2016).

SMEs that export can use various CABS facilities. These are real time gross settlement (RTGS), which is a system of money transfer between two banks in real time and payments are settled in real time, normally within 24 hours of being effected. Exporting SMEs also use the international transfers facility under which SMEs can make and receive payments in foreign currency (CABS 2016).

### **2.16 Development finance institutions**

The Zimbabwean government created two development finance institutions to serve the needs of SMEs, namely SMEDCO and the Infrastructure Development Bank of Zimbabwe (IDBZ). SMEDCO, formerly known as the Small Enterprise Development Corporation (SEDCO) is a state enterprise established in terms of the Small Enterprise Development Act of 1984. The aim of SMEDCO is to spearhead SME development by providing financial assistance, business infrastructure, credit and market information and business management training. This would enable SMEs to significantly contribute to the development of the nation and to experience growth in their exports. SMEDCO is sponsored by the Reserve Bank of Zimbabwe and the SME Revolving Productive Fund.

SMEDCO focuses on the promotion and facilitation of the development of SMEs in Zimbabwe. It provides business management and entrepreneurship training to develop SME professional skills. SMEDCO aims to stimulate and increase exports from the small enterprise sector (Fifteen, 2004). Through SMEDCO, a number of loan facilities have been channelled to SMEs, including the SME Revolving Fund, the Reserve Bank of Zimbabwe (RBZ) Productive Facility, the Loan Booth Programme, the People's Shops Programme, the Business Infrastructural Development Programme and Business Management and Entrepreneurship Training (Fifteen, 2004). However SMEDCO has been facing major capital injection constraints. It grants loans ranging from US\$500 to US\$5 000 to SMEs, but these micro-loans are however inadequate for SMEs.

In addition to SMEDCO, the Infrastructure Development Bank of Zimbabwe (IDBZ) was constituted in terms of the Infrastructure Development Act in 2005 with the aim of assisting



and promoting the development of Zimbabwe. The Zimbabwe Development Bank (ZDB) is the predecessor of the IDBZ and focused on the construction and transport industry. However, IDBZ now supports micro-businesses. The Infrastructure Development Bank of Zimbabwe (IDBZ) offers a US \$30-million SME loan facility (MSMECD 2015).

The government also created programmes supported by the Zimbabwe Development Bank (ZDB), the Credit Guarantee Company of Zimbabwe, the Agricultural Development Bank (Agribank), and the Venture Capital Company of Zimbabwe. Governments are motivated to spend public funds on helping small businesses be innovative and the public support either alleviates SMEs' credit constraints directly or signals to investors with less information that the SME has profitable projects (Stiglitz & Weiss, 1981).

### **2.17 Money lenders and microfinance institutions**

Money lenders in Zimbabwe offer small personal loans at interest rates higher than market rates. The Reserve Bank of Zimbabwe licenses all money lenders, and the money lenders are governed by the Money Lending and Rates of Interest Act (Chapter 14:14). The money lenders play a significant role as they are a source of finance for exporting SMEs that normally fail to access credit from banks due to low income or low credit score.

There are several money lenders in Zimbabwe. Examples of these money lenders are Nissi, Zambuko Trust, SHD Savings and Credit Company and SHDF, the Organisation for Rural Associations for Progress (Orap), the Women Development Credit Scheme (Harare), and Pundutso (FinScope MSME Survey Zimbabwe, 2012).

Microfinance institutions in Zimbabwe provide microfinance services to SMEs and low-income clients who have traditionally lacked access to banking services. Some large commercial banks also have microfinance departments, such as CBZ, and there are both profit- and non-profit-making organisations in the microfinance sector. Microking Finance offers working capital loans to SMEs. Since 2007, the company locates itself where SMEs are concentrated and gives loans. There are 157 registered microfinance institutions in Zimbabwe (Ruzivo Trust, 2015).

Zambuko Trust is one of Zimbabwe's microfinance institutions, established in 1991. The microfinance institution provides financial and non-financial services to the economically active poor. Zambuko's clientele is predominantly SMEs that require working capital.

### **2.18 Money transfer agents (MTAs)**

Through MTAs, SMEs can pay their suppliers and workers, in addition to receiving payments from their customers, Money transfer agents like Western Union enable international transactions for exporting SMEs. Domestically, banks like CABS, Barclays and Tetrad have also provided platforms for transferring money. The most popular money transfer method domestically is by mobile phone. In addition to Econet's EcoCash (with an estimated 2,3 million registered users since its beginning in September 2011 and transferring about US\$200 million every month), network service providers like Telecel and NetOne have also launched mobile money transfer platforms, targeting largely MSMEs and the unbanked (FinScope MSME Survey Zimbabwe, 2012).

### **2.19 Savings and Credit Co-operatives Societies (SACCOS)**

SACCOS are member-owned organisations that mobilise savings and lend the money to their members. The SACCOs are registered and governed by the Cooperative Societies Act (Chapter 24:05) and are regulated by the Ministry of Youth Development, Indigenisation and Employment (MYDIE). 70% of the SACCOS are aged between 7 to 10 years, and 30% are more than 10 years in business thus they are relatively stable. The SACCOs cover urban, peri-urban and rural areas. SACCO interest rates are usually low compared to other financial services providers, and they lend both for business and consumption (FinScope MSME Survey Zimbabwe, 2012).

### **2.20 Partner institutions**

Partner institutions like large export firms have been coming forth to help develop the SME export sector through partnership arrangements. An example is Rollex, a company specialising in exporting horticultural products, which subcontracted farmers in Mashonaland East to grow peas for export. However, despite Rollex support, these small farmers exports have not increased in number, neither are they able to stand on their own without Rollex.

The SMEs have also invested in research and development by purchasing equipment and receiving capacity building support from government, financiers, partners and NGOs like SNV Netherlands. In the small-scale tobacco farming sector, where farmers grow tobacco for export, several tobacco companies like Tobacco Processors Zimbabwe (TPZ) support small-scale tobacco farmers by supplying inputs and money which they recover when the farmers sell their crops.

### **2.21 Other institutions**

There are other institutions that support SME exports directly and indirectly. Among them is the Confederation of Zimbabwe Industry (CZI), which provides financial support, market information and advocacy to exporting SMEs. The Indigenous Business Women's Organisation exists to advance women's interests, predominantly in business. It offers financial support and information to SMEs owned mostly by indigenous women. The Zimbabwe Youth Council (ZYC) offers skills and management training and information to young people who run SMEs in the export sector. Another institution, Zimbabwe Association of Micro-Finance Institutions (Zamfi) provides SMEs with advocacy and research.

The Scientific and Industrial Research Development Centre (SIRDC) is another government institution supporting SMEs. It was established by the Government of Zimbabwe in February 1993 under the provisions of the Research Act of 1986 to support research and development in Zimbabwe. This R&D is for the benefit of the manufacturing, service, agricultural and mining sectors of Zimbabwe. SIRDC was created to provide Zimbabwe with technological solutions for sustainable development. In addition to SIRDC, the Research Council of Zimbabwe (RCZ) is a statutory body established by Act of Parliament in 1984 to coordinate, promote and direct research in the country and advise the government in this regard.

Several financial institutions have also offered loans to SMEs over the years. Under the SIRDC, the Zimbabwean Technological and Commercial Information Promotion System (TIPS) provides trade-related information, consultancy services, capacity building and mentoring to small and medium enterprises (SMEs). The objective of TIPS is to promote sound business leadership in SMEs in Zimbabwe and the wider region and to promote effective and efficient operational behaviours within SMEs.

The Small and Medium Enterprises Association of Zimbabwe (SMEAZ) advances the interests of entrepreneurs involved in the running of SMEs. The association has a value chain business linkages programme meant to encourage greater interactivity between SMEs and their large counterparts and among SMEs themselves. It advances the cause of SMEs through activities like promotion and development of markets, sourcing and channelling of capital and technical assistance to SMEs. SMEAZ represents exporting and other SMEs in various forums and also offers market access information, training and to SMEs.

## **2.22 Challenges faced by SMEs in Zimbabwe**

In Zimbabwe 5.7 million people are dependent on the SME sector, contributing more than 60% to GDP (Finscope MSME survey 2012). Zimbabwe's SMEs face a number of challenges which impair their growth in exports. The major challenges faced by SMEs are limited access to finance or lack of capital, limited access to markets, limited operating space and inhibitive municipality by laws (MSMECD, 2016). Zindiye *et al*, (2012) also point the following challenges faced by SMEs: inadequate and old equipment, insufficient resources to execute planned activities, lack of appropriate management skills to run their business entities, limited access to loans, inhibiting legal frameworks, limited access to markets which are dominated by large companies, poor quality products and bureaucracy with regard to registration. However, formalisation on SME businesses has brought the benefits of improved access to markets, better quality operating space and reduced harassment from local authority agents (MSMECD, 2016).

One major challenge faced by exporting SMEs in Zimbabwe is limited and expensive transport infrastructure (Zindiye *et al*, 2012). Most African countries, many of which are LDCs, are characterized by poor transport infrastructure, and they are poor export performers. Yet the size and the growth of the export capacity of a country depends critically on the availability of physical infrastructure, ranging from roads and ports to energy and telecommunications (UNCTAD, 2005). Thus, African countries need to invest in transport infrastructure in order to raise their supply capacity (UNCTAD, 2005). Levels of trade flows observed for African countries are relatively low, essentially because of poor transport infrastructures and this is worse in landlocked countries because of their geographical handicaps (Limão and Venables, 2001).

SMEs in Zimbabwe also lack the necessary human resources skills, marketing skills, financial management skills and general management skills to ensure the continued survival of the sector in the country. Most SME owners need training in the running of their business so as to improve entrepreneurial skills to grow business and operate in a more professional manner (MSMECD, 2016). The SMEs fail to produce quality products which meet international standards due to their inability to purchase quality raw materials as a result of financial constraints. Thus they cannot compete in a globalised world (Nyoni, 2002). Zimbabwe's SMEs are not benefiting from group lobbying and advocacy on issues affecting their businesses as only a small percentage are affiliated to a business membership organisation or association (MSMECD, 2016).

In 2013, the findings of the Portfolio Committee on Small and Medium Enterprise Corporative Development (PCSMECD), revealed that the interest rates charged by SMEDCO on SME loans are too high, leading to failure by SMEs to grow as they struggle to repay the loan. PCSMECD (2013) also argues that most of the infrastructure being used by many SMEs is in a dilapidated state or is grossly inadequate to support the assigned population allocated to it. This has caused small and medium enterprises to continue operating in undesignated and illegal areas, making them vulnerable to raids by national or municipal (local government) police. PCSMECD cited a number of the legal instruments that do not promote the success of SMEs, such as the Regional and Town Planning Acts of 1976 and 1994, Statutory Instrument 216 of 1994 and the Environmental Management Act.

Various studies of the SME sector in sub-Saharan Africa have pointed to tremendous obstacles which stifle the graduation of small firms to middle-sized entities or the visible middle. As a result, most countries in Africa lack a robust middle-sized enterprise sector in a phenomenon described as the "missing middle" (UNDP, 2010). The missing middle concept in Zimbabwe was confirmed in the USAID surveys on SMEs in Zimbabwe conducted in the 1990s (USAID 1991; 1994; 1998).

### **2.23 Concluding Remarks**

As has been discussed in the chapter, SME export promotion is vital, since SMEs contribute significantly to economic development and employment creation. Countries like Morocco, Congo and Nigeria have SMEs dominating the industrial sector. SMEs also appear to be less deterred by traditional entry barriers like industry concentration, vertical integration and product differentiation, and they have the strengths of speed, flexibility, and niche-filling capabilities. For SME assistance to be effective, the assistance provided to the SMEs has to take into account the industry's particular features, considering that an inflexible approach would not align with the industry's needs and context. The usefulness of export promotion programmes depends on the extent to which SMEs can adapt to the changes that take place.

It has been noted in this chapter that there has been an increase in international support programmes for SMEs. For OECD countries these programmes include one-stop shops that disseminate information, export assistance, improved access to finance, government loans and grants for innovation and tax relief incentives for SMEs. A number of Asian countries have also implemented programmes specifically to promote SMEs: Japan, the Republic of Korea, Nepal, China and Hong Kong, Thailand, India, Singapore, Malaysia, Vietnam and Bangladesh. Other countries in Europe, Australia, North America, Latin America and Africa have also implemented various SME support programmes.

However in Africa, SMEs are weak because of small domestic markets, undeveloped regional integration, very difficult business conditions and limited access to finance, as noted in the chapter. The main sources of capital for African SMEs – retained earnings, informal savings, microfinance institutions and loan associations – are unpredictable and insecure. Some SMEs nevertheless, work in clusters which are active, to enable member firms to seek finance together and provide collective guarantees to financial institutions.

The various government support programmes put in place to support the SME sector in Zimbabwe were highlighted. The government and other institutions have implemented several programmes in an effort to increase SME exports in Zimbabwe. The institutions provide support for SMEs in Zimbabwe in various forms, including export promotion, affordable finance, skills training and market information. The small business sector in Zimbabwe

receives tax relief from the government and the government also provides credit finance to existing SME-friendly financial institutions.

Also noted in the chapter is that Zimbabwe has an SME policy aimed mainly at generating sustainable employment, reducing poverty, stimulating economic growth and generating foreign currency earnings. The SME policy also aims to create an enabling environment so as to double the number of small business entities in Zimbabwe. Zimbabwe's SMEs have also benefited from several trade agreements the country has signed with other trading partners, through increased access to markets.

It has been noted in the chapter that the Zimbabwean government, through local authorities, created market trading and manufacturing points and business incubators for SMEs. The creation of the Ministry of Small to Medium Enterprises was one of the government's initiatives to ensure SME development and promotion. The government established a Small and Medium Enterprises Revolving Fund, which it administered through SMEDCO which focuses on the promotion and facilitation of the development of SMEs in Zimbabwe. The chapter also elaborated government programmes on SME promotion supported by ZDB, the Credit Guarantee Company of Zimbabwe, Agribank and the Venture Capital Company of Zimbabwe. Other institutions discussed in the chapter, for instance the ILO, support SME development in Zimbabwe by training SME entrepreneurs through various programmes. The Zimbabwe Investment Authority (ZIA) processes applications for investment licences by SMEs from other countries wishing to invest in Zimbabwe. Oxfam Zimbabwe is a non-governmental organisation which helps smallholder farmers, especially women and young people, in exporting agricultural products, among other programmes.

Another institution discussed in the chapter is Empretec Zimbabwe, which has managed to develop entrepreneurial SMEs in Zimbabwe, including SMEs that export products and services. The institution contributing most to SME development is Zimtrade, a quasi-governmental organisation responsible for promoting trade in Zimbabwe. Zimtrade facilitates the marketing of products and services from Zimbabwean SMEs in the global market, organises participation by SMEs in promotional events like regional and international trade fairs and gives trade advisory services to SMEs.

The role of SNV Netherlands was discussed, an NGO which provides smallholder farmers with capacity-building support, input supply and extension services so that they produce specific crops for the export market. SNV enables smallholder farmers to realise improved production, income and access to international and local markets through contract farming arrangements. The Danish Development Agency (DANIDA) and the Ford Foundation also help SMEs to develop and expand business opportunities in various sectors of the economy.

The discussion included the Standards Association of Zimbabwe (SAZ) which enables SMEs to produce products to the required and expected standards so as to achieve accreditation to ISO 9000 and other standards. SIRDC provides information and appropriate technologies necessary for SMEs' technological advancement so as to enhance the quality and competitiveness of their products. Several banking and financial services institutions in Zimbabwe that provide finance to SMEs were discussed in the chapter: the Agricultural Bank of Zimbabwe, the Zambuko Trust, the Central Africa Building Society, the Commercial Bank of Zimbabwe Ltd, development finance institutions and the Infrastructure Development Bank of Zimbabwe. Moneylenders and microfinance institutions also provide finance to SMEs.

Also discussed in the chapter is the role of money transfer agents through which SMEs can pay their suppliers and workers, in addition to receiving payments from their customers and savings and credit co-operative societies (Saccos), which are member-owned organisations that mobilise savings and lend the money to their members. Partner institutions like large export firms have come forward to help develop the SME export sector through partnership arrangements. SMEAZ advances the cause of SMEs through activities like promotion and development of markets, sourcing and channelling of capital and technical assistance to SMEs.

The discussion in the chapter ended by highlighting several factors that inhibit SME export performance in Zimbabwe, including a lack of quality infrastructure, costs of gathering information in foreign markets and establishing marketing channels, high interest rates, limited access to loans and inhibiting legal frameworks, poor quality products and bureaucracy with regard to registration.



## CHAPTER 3

### INTERNATIONAL TRADE IN ZIMBABWE

#### 3.1 Introduction

The chapter presents an exposition of international trade in Zimbabwe. As has been noted, the volume of Zimbabwe's exports has been in decline each year since 1998 (Kaminski & Ng, 2011). Zimtrade (2015) indicates that Zimbabwe's capacity to export is declining and this has worsened over the past two years, worsening Zimbabwe's BoP position. It therefore becomes necessary to have an in-depth understanding of international trade activities in Zimbabwe, hence this chapter. The following aspects are analysed in the chapter: the role of exports in Zimbabwe, Zimbabwe's major trading partners, major export destinations for Zimbabwe, export market concentration, Zimbabwe's trade history, exports by sector, trade liberalisation, Zimbabwe's trade agreements and finally export processing zones.

#### 3.2 Role of Exports

Exports are important because they generate income, boost production, lead to industrial growth, create employment domestically and reduce balance of payments (BoP) deficit in a country (OECD, 2014). Exports bring in the much needed foreign currency and induce greater efficiency in use of resources and increase a country's economic growth. As business moves resources from industries with comparative disadvantage to those with comparative advantage to manufacture export goods, total exports, output and GDP increases as well as savings and investment (OECD, 2014). Increasing returns to scale from specialisation lead to increased output and decreased unit cost of production, making industry more efficient and competitive thereby improving the quality of goods. In order to boost exports, a country must utilise its comparative advantage by producing the goods that it is efficient at, and exporting the surplus.

The contribution of exports to Zimbabwe's economic growth improved after 1980 as indicated by an increase in the export-GDP ratio from an average of 23% between 1982 and 1990 to an average of 32% between 1991 and 1997 and over 40 % for 1998 before declining again. (Zimstat, 2015). The economy of Zimbabwe was at its best in 1996/1997 with increased exports, after which the country went through almost a decade of progressive economic contraction from 2000-2008 (Saungweme, 2013).

The major problem that Zimbabwe is facing is a huge trade deficit caused by poor performance of exports and this has been exacerbated by a huge import bill which is mostly consumptive (Zimtrade, 2015). Furthermore, Zimbabwe's export performance has declined over the years such that it is operating below its export potential.

There are a number of reasons why the country is operating below its export potential. One of the reasons is that minerals, which constitute the bulk of Zimbabwe's exports, have been affected by the falling international commodity prices. Other reasons why exports have fallen include high cost of transport, strengthening of the US Dollar, the erratic supply of macroeconomic enablers, political and economic instability among others. Over the last decade or so, traditional surpluses in agricultural products and industrial raw materials have either diminished or disappeared turning Zimbabwe into a net importer of agricultural products (Saungweme, 2013).

Estimates taken from the Reserve Bank of Zimbabwe show that in 2015, manufactured exports declined by about 7% compared to 2014. From 2014 to 2015, the leather and footwear subsector registered the highest decline of 71% followed by horticulture, which registered a decline of about 43%. The furniture subsector recorded a decline of 42%, engineering 40%, food 27% and agricultural inputs 17%. These results indicate that Zimbabwe's capacity to export is declining and this has worsened over the past two years (Zimtrade, 2016).

However there have been increases in export capacity in a few sectors. The clothing sub-sector registered an increase in exports of about 70% in 2015 compared to 2014. The beverages sub-sector also registered an increase of 13% in 2015. While this is a positive development, it is still far below Zimbabwe's potential. According to Zimbabwe's Industrial Development policy (2012-2016), the government of Zimbabwe currently adopts import substitution and offers temporary protection through tariffs during the industrial development policy implementation period.

This involves raise in tariffs, which is inconsistent with Zimbabwe's obligations under WTO, ACP-EU, SADC and COMESA treaties even though they are allowable remedies. Recently the government passed statutory instrument 64 of 2006 which bars imports of a number of

commodities unless one obtains an import permit. This has caused discontent among Zimbabwe's trading partners particularly South Africa, since the SI 64 is violating some provisions of bilateral trade agreements. The next section contains a discussion of Zimbabwe's major trading partners.

### **3.3 Zimbabwe's major trading partners.**

South Africa is Zimbabwe's single largest trading partner, accounting for at least 40% of total exports and 60% of total imports (Eurostat, 2012). Traditionally, the European Union (EU) used to be the major export destination for Zimbabwe, accounting for two-thirds of total exports. Between 1994 and 2000, the EU was taking almost half of Zimbabwe's total exports and accounted on average for 24% of Zimbabwe's imports during this period. By 2008, these shares fell to 21% for exports and 7% for imports.

There was a great shift in major destination of Zimbabwe's exports from the EU to South Africa, beginning in 2000. However this shift was not the result of the emergence of new export capacity, as exports in real terms were stagnant, if not falling, but redirection of exports from the EU to other countries, mainly to neighbouring South Africa. The presence of Zimbabwean exporters in EU markets fell somewhat precipitously (Kaminski & Ng, 2011).

Zimbabwe has a national trade policy document, (2012-16) which specifies that Zimbabwe is a member of Common Market for Eastern and Southern (COMESA), the Southern Africa Development Community (SADC), the African-Caribbean-Pacific-European Union (ACP-EU), the Global System of Trade Preferences (GSTP) and the World Trade Organisation (WTO), and regulation of trade is mainly through the Competition and Tariff Commission (CTC) the investigating authority for unfair trade practices in Zimbabwe.

### **3.4 Major export destinations for Zimbabwe's products**

There are various export destinations for Zimbabwe's products. Table 3.1 shows the major export destinations of Zimbabwe's products in descending order.

**Table 3.1 Major export destinations for Zimbabwe's products in 2015 (thousands of US\$)**

<b>Export destinations of Zimbabwe's goods</b>	<b>Exported value 2015</b>	<b>Trade balance 2015</b>	<b>% Share in Zimbabwe's exports 2015</b>
World	2 704 096	-3 298 136	100
South Africa	19 22 395	-3 82 488	71.1
Mozambique	408 884	238 068	15.1
United Arab Emirates	147 956	68 255	5.5
Zambia	92 154	-185 324	3.4
Botswana	30 799	-24 177	1.1
Belgium	18 816	-25 658	0.7
Namibia	13 743	-5 763	0.5
Israel	13 688	6 658	0.5
Netherlands	4 578	-11 110	0.2
China	4 436	-453 724	0.2
DRC	3 688	3 624	0.1
Malawi	3 468	-40 938	0.1
USA	2 313	-67 395	0.1
UK	2 104	-96 088	0.1

*Source: ITC Trade Map (2015)*

Data from Table 3.1 indicates that total exports for Zimbabwe stood at US\$2,7 billion in 2015 with more than 70% of the commodities destined for South Africa. South Africa is the major destination of Zimbabwe's exports because of the well-developed trade and transport networks between the two countries. Geographically the countries are very close to each other. Mozambique, also a near neighbour, is the second-largest destination for goods from Zimbabwe, followed by United Arab Emirates. Data from table 3.1 also shows that the United Kingdom, which used to be one of Zimbabwe's closest trading partners due to a shared colonial history, imports only 0.1% of Zimbabwean goods. The next section discusses the major goods exported by Zimbabwe in 2015. Appendix 5 contains more information on export destinations for Zimbabwe.

### 3.5 Major exported goods by Zimbabwe in 2015

Zimbabwe exports a number of commodities. However it is important to understand the major exported goods by the country. Table 3.2 shows the major goods exported by Zimbabwe in 2015.

**Table 3.2 Major goods exported by Zimbabwe in 2015 (thousands of US\$)**

<b>Product code</b>	<b>Product label</b>	<b>Value in 2015</b>
1	Tobacco and manufactured tobacco substitutes	893 739
2	Precious stones, metals, coins, etc	846 017
3	Ores, slag and ash	228 036
4	Iron and steel	164 963
5	Sugars and sugar confectionery	101 820
6	Cotton	59 108
7	Salt, sulphur, earth, stone, plaster, lime and cement	58 262
8	Mineral fuels, oils, distillation products, etc	41 544
9	Wood and articles of wood, wood charcoal	30 981
10	Coffee, tea and spices	23 214
11	Nickel and articles thereof	22 412
12	Edible fruit, nuts, peel of citrus fruit, melons	16 209
13	Machinery, nuclear reactors, boilers, etc	13 819
14	Works of art, collectors pieces and antiques	13 391
15	Fish, crustaceans, molluscs, aquatic invertebrates	12 518
16	Electrical, electronic equipment	11 431
17	Paper and paperboard, articles of pulp, paper, board	11 402
18	Raw hides and skins (other than pelts), leather	11 060
19	Furniture, lighting, signs, prefabricated buildings	7 706
20	Articles of iron or steel	7 429
21	Other exports	129 035
	<b>Total exports</b>	<b>270 4096</b>

*Source ITC Trade Map (2015)*

The data in table 3.2 indicate that tobacco and manufactured tobacco substitutes is the major group of commodities exported by Zimbabwe in 2015. The data indicate that in 2011 tobacco and manufactured tobacco substitutes had the highest exports. Precious stones, metals and coins recorded the second-highest exports. Most of the commodities in the table are agricultural products and minerals.

An analysis of Table 3.2 shows that Zimbabwe mainly exports primary commodities, that is agricultural and mining products. The table shows that Zimbabwe does not have many exports in the manufacturing sector, which is a sign of lack of value addition and industrial development. The list of commodities on Table 3.2 does not contain ICT goods, yet a country's innovation capacity is reflected by trade in high-technology goods (International Trade Centre, 2015).

The share of ICT goods on Zimbabwe's imports and exports has been generally low. The International Trade Centre (2015) states that one of the pillars of SME competitiveness is having access to and being able to use the internet and other ICTs for business. With technology, companies have access to larger international markets and are able to source raw materials from a broader range of suppliers.

In addition, technology helps in reducing communication costs as businesses are able to identify markets conveniently, to communicate with buyers/suppliers and make online payments. Accordingly the use of ICT is a critical factor for success in innovation, competitiveness and growth (Zimtrade, 2015). Table 3.3 shows the share of ICT goods on Zimbabwe's imports and exports.

**Table 3.3 Share of ICT goods on Zimbabwe imports and exports**

Share of ICT goods	2005	2010	2013	2014
Share of ICT goods, % of total exports	0.08	0.04	0.04	0.06
Share of ICT goods, % of total imports	2.47	5.53	3.78	3.87

*Source: UNCTAD, International Trade and Development Statistics (2015)*

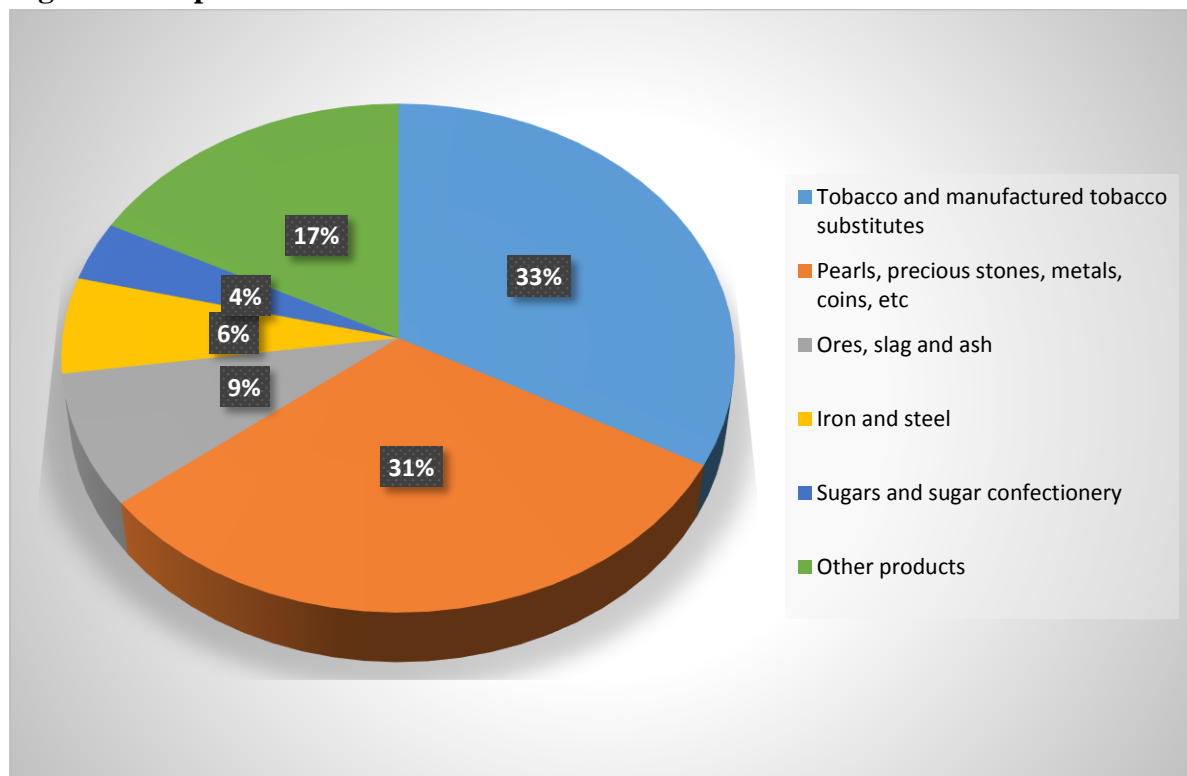
Information on Table 3.3 shows that ICT goods constitute a very small percentage of Zimbabwe's imports and exports. So this limits Zimbabwe's capacity in innovation, competitiveness

and growth. In addition, Zimbabwe is a net importer of ICT goods. The next section is a discussion of Zimbabwe's export market concentration for 2015.

### 3.6 Export market concentration for Zimbabwe

Zimbabwean total exports have become less diversified and increasingly concentrated on a few minerals. The number of exported items above US\$500 000 has declined significantly, indicating the disappearance of small and medium enterprises in the export sector (Kaminski & Ng, 2011). Figure 3.1 shows Zimbabwe's export market concentration.

**Figure 3.1 Export market concentration for Zimbabwe**



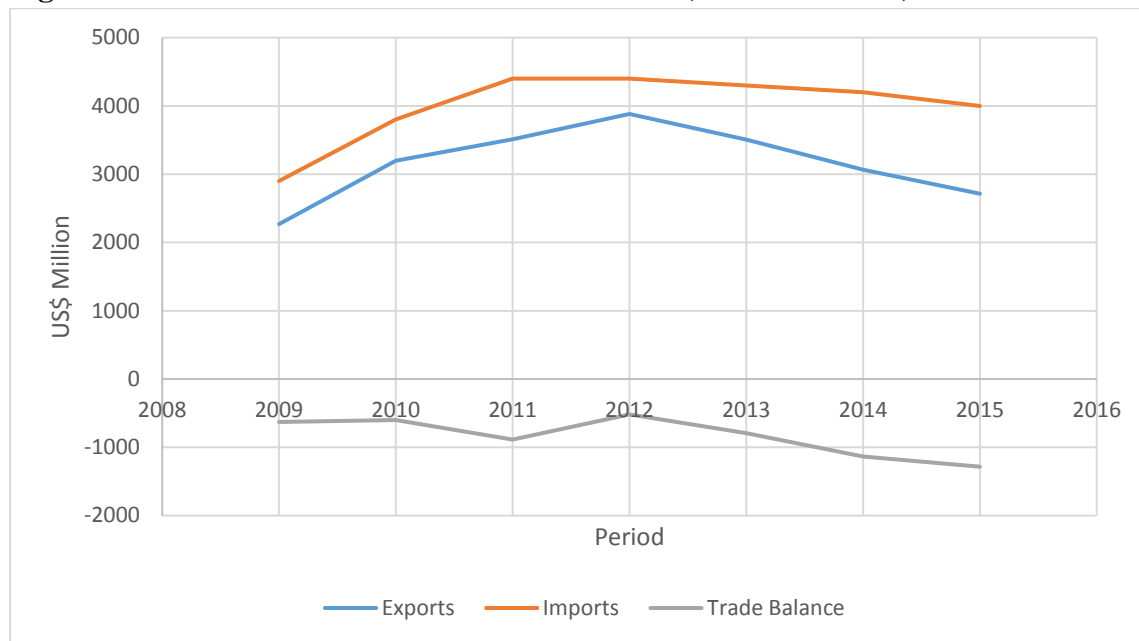
*Source ITC Trade Map (2015)*

With reference to Figure 3.1, two groups of products – tobacco and manufactured tobacco substitutes, and precious stones metals and coins, constitute 64% of Zimbabwe's exports, clearly showing that Zimbabwe's exports have become less diversified. The five categories highlighted in Figure 3.1, constituting a total of 83% of exports, contain barely any manufactured products. This shows that Zimbabwe relies mainly on exporting primary products with very little value addition.

### 3.7 Zimbabwe's trade background

Zimbabwe has perpetually had a trade deficit for the period under study, 2009-15, meaning that it has been a net importer of goods. This means the country has been importing more than it was exporting. Figure 3.2 shows Zimbabwe's trade history, clearly indicating the trade balance in figures.

**Figure 3.2 Zimbabwe's total merchandise trade (millions of US\$)**



*Source: WTO time series data (2015)*

With reference to Figure 3.2, Zimbabwe experienced a trade deficit over the seven years from 2009-15, with exports being less than imports for the whole period. Clearly Zimbabwe has been importing more than exporting over the years. Table 3.4 shows that Zimbabwe recorded a lesser trade deficit in 2012 – US\$518 million – as merchandise exports increased to US\$3.8 billion due to the improvement of the economy under the government of national unity. The slight recovery in 2012 was also caused mainly by tobacco and mineral exports which increased during the period.

However Zimbabwe's trade deficit began increasing again in 2013 to US\$793 million, due to a sudden decrease in exports. By 2015 trade deficit stood at over US\$1.2 billion and the gap between imports and exports continued to widen as exports continued declining while imports

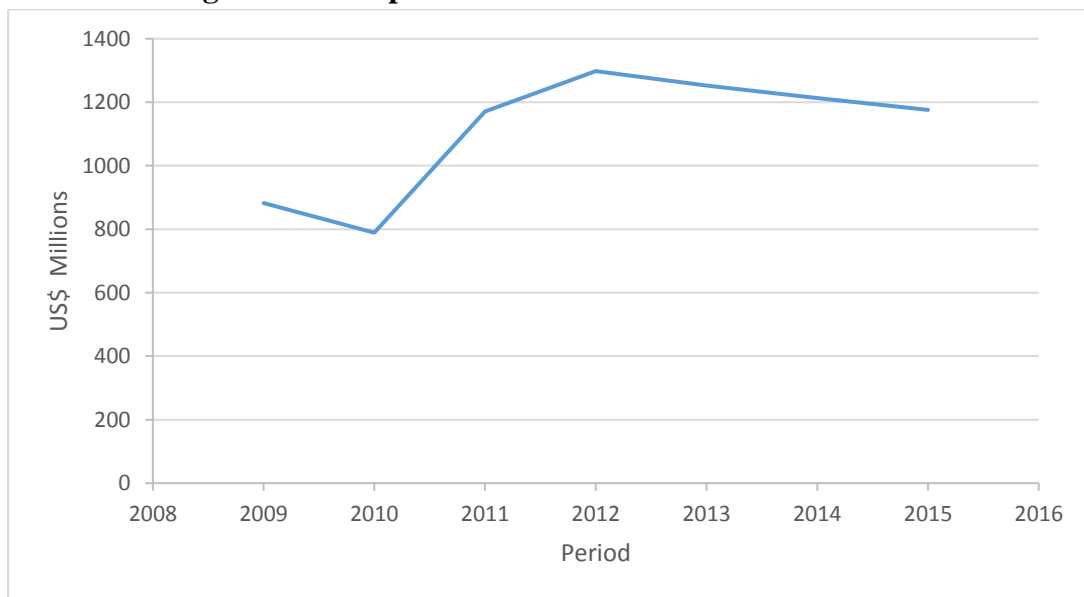


were almost constant. The next section gives an analysis of the share of exports from the agricultural sector.

### 3.8 Agriculture sector exports in Zimbabwe

Agriculture is one of the three main export sectors in Zimbabwe and this research seeks to determine the competitiveness of the agricultural sector among other sectors. This section analyses the total exports from the agriculture sector in Zimbabwe and the export trend. Figure 3.3 shows the trend in agricultural exports over the years.

**Figure 3.3 Trend in agricultural exports in Zimbabwe**



*Source WTO time series data (2015)*

As shown in Figure 3.3, Zimbabwe started recovering in terms of agricultural exports in 2011 when exports increased to US\$1 171 million. This recovery trend continued with an increase in agricultural exports until 2013, when a fall in exports was recorded. The year 2015 recorded a further fall in agriculture exports and the trend indicates a continued fall in exports from this sector unless measures are taken by the government.

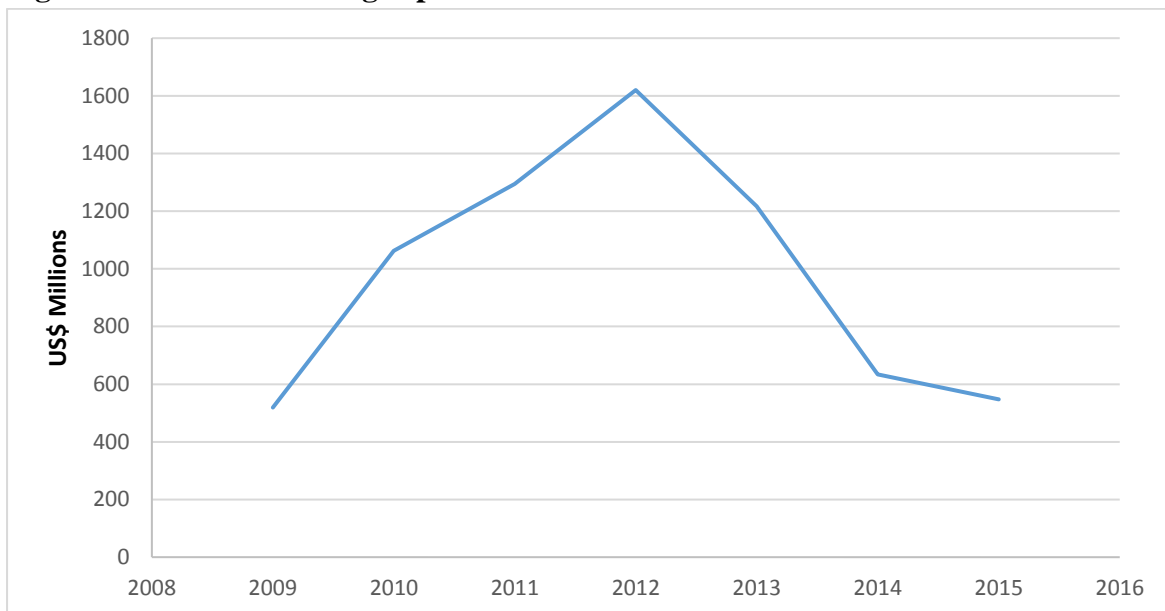
This decline in Zimbabwe's agricultural exports is in tandem with a report by UNCTAD which specifies that developing countries exporters of agricultural commodities have been faced with additional difficulties arising from their weakening position in global value chain (UNCTAD, 2005). Necessary measures to rectify this situation include undertaking commercially

meaningful reform in agriculture, including substantial improvement in market access for developing countries, phasing out of export subsidies and substantial reduction in trade-distorting domestic support; liberalizing of modes of supply of export interest to developing countries (UNCTAD, 2005). The next section gives an analysis of mining sector exports.

### 3.9 Mining sector exports in Zimbabwe

In addition to agriculture, mining is also one of the main export sectors in Zimbabwe. One of the objectives of this research is to determine the competitiveness of the mining sector among other sectors. This section analyses the total mining sector exports from Zimbabwe and the sector's export trend. Figure 3.4 shows mining sector exports over the years.

**Figure 3.4 Trend in mining exports in Zimbabwe.**



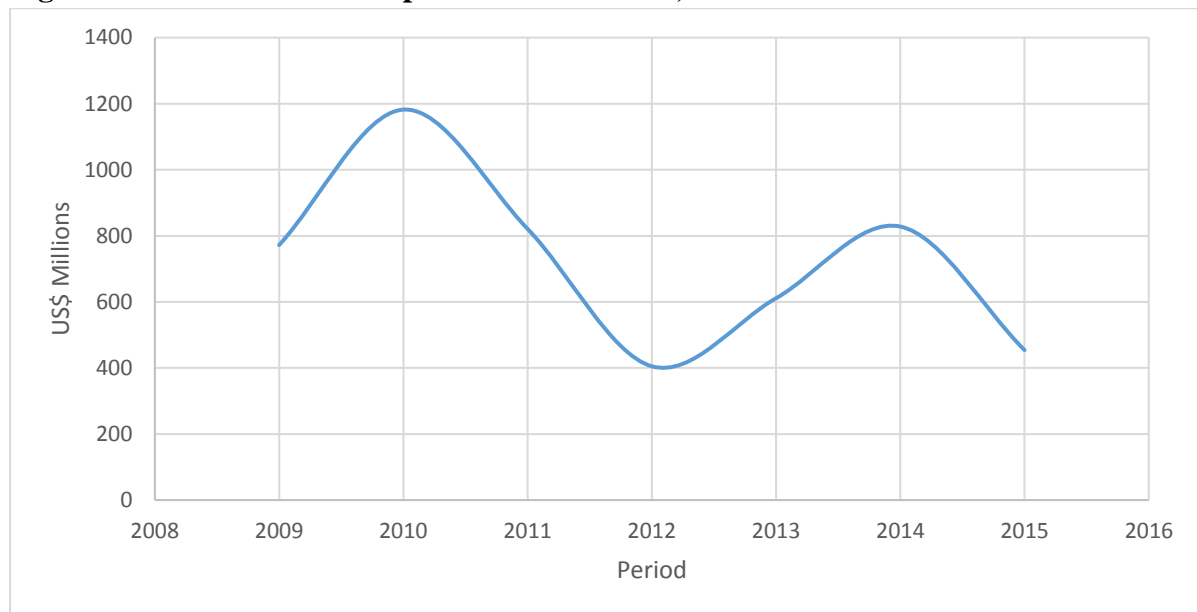
*Source: WTO time series data (2015)*

During the period under study, the mining sector reached its peak in 2012, followed by a sharp decline in mining sector exports. This was caused by the indigenisation policy, which mostly targeted mines. Thus between 2012-14 the country experienced a steep decline in mining exports as indicated in Figure 3.4, from US\$1 620 million in 2012 to US\$634 million in 2014. The year 2015 witnessed further decline in mining sector exports in Zimbabwe. The next section carries an analysis of the contribution of the mining, manufacturing and agriculture sectors to total merchandise exports.

### 3.10 Manufacturing sector exports in Zimbabwe

Manufacturing is also one of the main export sectors in Zimbabwe. The research also seeks to determine the competitiveness of the manufacturing sector in Zimbabwe. This section analyses the total exports from the manufacturing sector in Zimbabwe as well as the export trend of the sector over the study period. Figure 3.5 shows the manufacturing sector exports over the years.

**Figure 3.5: Manufactured exports for Zimbabwe, 2009 to 2015**



*Source: Calculated from World Bank Indicators and ZIMSTAT database (2015)*

The trend in the manufacturing sector exports for Zimbabwe (Figure 3.5) show that there was only a slight recovery in 2010 following use of multi currencies in the country, but significant declines in manufactured exports were recorded from 2011-12. The small recovery in 2014 could not be sustained to 2015, implying that in 2015, manufactured exports had decreased from the 2009 level by about 41.2% to about US\$453.9 million. The trend indicated a possibility of further decrease in exports for the sector. The next section carries a comparison of the contributions made by the three major sectors to merchandise exports.

### 3.11 Agriculture, mining and manufacturing exports as a percentage of merchandise trade

The section carries an analysis of the contribution made by each sector to merchandise exports in Zimbabwe. The purpose is to identify the sector contributing the most to exports and that

contributing the least. Table 3.4 indicates the contribution by each sector to merchandise trade from 2009-15.

**Table 3.4 Agriculture, mining and manufacturing exports as a percentage of merchandise trade**

Year	Agriculture exports as a percentage of merchandise trade	Mining exports as a percentage of merchandise trade	Manufacturing exports as a percentage of merchandise trade	% contribution of agriculture, mining and manufacturing sectors to merchandise exports
2009	39	23	34	96
2010	25	33	36	94
2011	33	37	23	93
2012	33	42	10	85
2013	38	35	17	90
2014	40	21	27	88
2015	43	20	17	80

*Source: Calculated by Author using WTO time series data (2015)*

With reference to Table 3.4, agriculture dominated in terms of contribution to merchandise exports since it had the highest contribution in 2009, 2013, 2014 and 2015, of 39%, 38%, 40% and 43% respectively. The contribution of agriculture to merchandise exports has been increasing as it contributed 25% in 2010, reaching a high of 43% in 2015. In second position was mining, with the highest contribution to merchandise exports in 2011-12 at 37% and 42% respectively. The least was manufacturing, which only contributed the most to exports in 2010 and contributed as little as 10% in 2012.

Information on Table 3.4 reaffirms the assertion that the agriculture, mining and manufacturing sectors dominate the merchandise export sector, as their contribution to SME exports ranged between 85% and 96% from 2009-15. Given that the manufacturing sector is lagging behind in its contribution to merchandise exports, it is imperative to explore the use of capacity of the manufacturing sector. This is carried out in the next section.

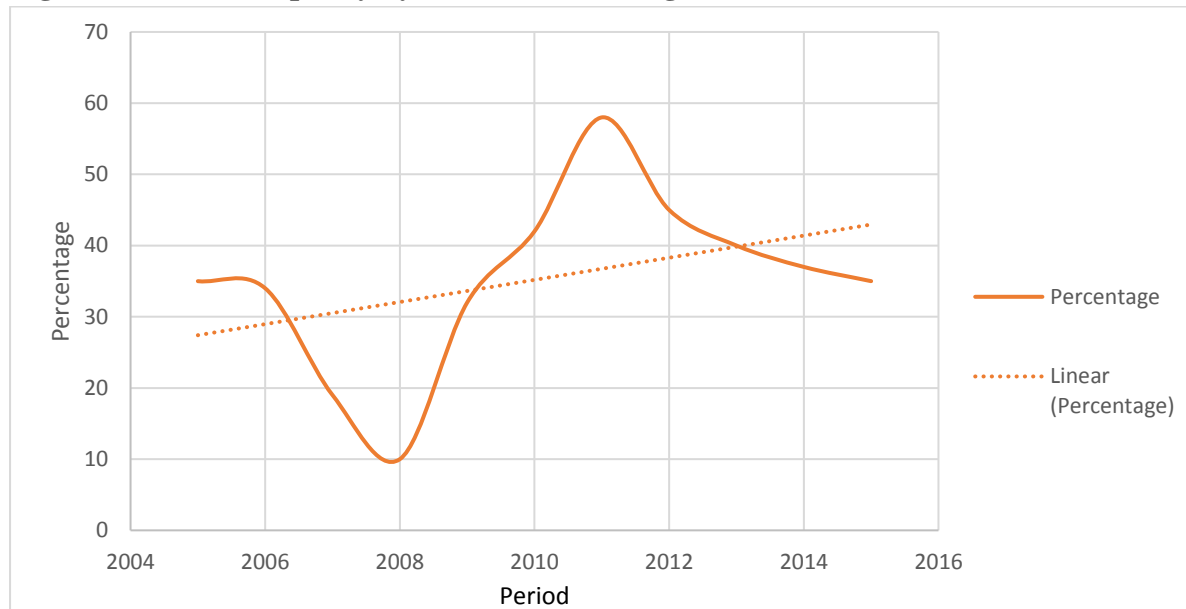
### **3.12 Use of capacity of the manufacturing sector**

Manufacturing sector performance can be measured by use of capacity, which generally measures the portion of the installed plant that is being used. According to the Confederation

of Zimbabwe Industries (CZI) use of capacity of the manufacturing sector declined from 44.9% in 2012 to 34.3% in 2015. The major constraints to capacity use are low domestic demand, high cost of doing business, competition from imports, capital constraints and antiquated machinery.

In the same vein, the contribution of the manufacturing sector to GDP at current prices has been declining since the introduction of the multicurrency system dominated by the US dollar in 2009. The share of the manufacturing sector in GDP decreased from about 12.7% in 2009 to only about 9% in 2014 (Zimstats, 2015). This was a result of many company closures and downsizing of operations due to the difficult macro-economic environment in Zimbabwe. Figure 3.6 shows capacity use by the manufacturing sector in Zimbabwe.

**Figure 3.6: Use of capacity by the manufacturing sector in Zimbabwe, 2005-15**



*Source: Calculated using Zimstat exports database (2015)*

As indicated in Figure 3.6, the manufacturing sector’s capacity use was generally low between 2005 and 2015 as it was mostly below 50%. In 2008 capacity use actually fell to 10%. However capacity use increased to 58% in 2010-11 because of the multicurrency system and goodwill created by the government of national unity. From 2012-15, the manufacturing sector’s capacity fell and by 2015 it was 35%. This was due to closures and scaling down by some manufacturing companies due to the high cost of doing business in Zimbabwe, and government

policies that are not investor-friendly. However the trend line shows an increase in capacity during the period 2005-15. The next section carries a discussion of trade liberalisation in Zimbabwe which aimed at increasing exports.

### **3.13 Trade Liberalisation in Zimbabwe**

Trade liberalisation encompasses the removal of all trade barriers between countries. There are potential gains from trade liberalisation in the form of trade creation and trade diversion, as promulgated by Viner (1950) on the formation of a customs union. According to Keesing (1967), free trade brings individuals in developing countries into contact with new technologies, products and skills. Producers in the regional bloc benefit from trade diversion as they capture the markets, which were supposed to be captured by highly efficient producers outside the trading bloc. Hence trade liberalisation leads to increased exports for a country.

However there are negative outcomes of trade liberalisation. Trade diversion short -changes consumers they are forced to buy expensive products, which would not have been the case if there had been no preferential trade agreements. There is also revenue loss, due to tariff liberalisation brought about by the FTA (Makochekanwa, 2012). Tariff revenue contributes to more than a third of the national revenue of these countries (Makochekanwa (2012). The United States Agency for International Development (USAID) (2005) noted that the effect of trade liberalisation varies from country to country. For example, Bangladesh after implementing trade and financial liberalisation, witnessed a rapid growth in manufactured exports and female employment while in the Philippines, trade liberalisation has led to “production of poverty”, including high rates of unemployment, and bankruptcies among small and medium enterprises and small farms (USAID, 2005).

Between independence in 1980 and the era of economic liberalisation which began in 1992, Zimbabwe’s economy consisted of few banks giving loans to established firms and working class. The Economic Structural Adjustment Programme (ESAP) was introduced between 1992 and 1995 to liberalise the economy and the financial sector saw the entry of various players including microfinance institutions and money lenders to service SMEs. Liberalisation of the economy entailed movement from import substitution to export led growth for Zimbabwe since

openness to trade and free market policies are fundamental in promoting exports (World Bank, 1987).

Through ESAP, quantitative controls on trade were abolished and tariffs were reduced. However liberalization of imports further worsened the BoP position of Zimbabwe. In addition, there was removal of the following as part of trade liberalization; export incentives, import licenses and foreign currency controls. The government aimed to achieve GDP growth of 5% during 1991-95, raise savings to 25% of GDP, raise investment to 25% of GDP, reduce the budget deficit from over 10% of GDP to 5% by 1995, reduce inflation from 17.7% to 10% by 1995 and above all achieve export growth of 9% per annum over 5 years from 1991 (World Bank, 1995).

Trade liberalisation in Zimbabwe aimed at achieving an expansion of exports through diversion of resources from the domestic to the export sector, leading to faster growth of GDP. The Zimbabwe dollar was devalued seven times by more than 400 percent between 1991 and 2000. In 2003 the government created a special regime for tobacco and gold exporters in response to an increasingly overvalued exchange rate that the country was facing (World Bank, 1995). However, drought, depressed incomes and high interest rate worsened trade performance of Zimbabwe during the ESAP era (World Bank, 1995). For trade liberalization to be a success, it should be undertaken strategically with a clear national development programme. It should not be undertaken just for the sake of it and it should not be driven by outside forces as was the case with Zimbabwe

ZIMPREST was introduced soon after ESAP from 1998-2000 and this was the second phase of trade liberalization. This was followed by the millennium economic recovery programme (MERP). Even though the policy on ZIMPREST and MERP was promotion of trade liberalization, in practice the government took measures indicating trade policy reversals for example tariff rationalization and reintroduction of price controls in 1998 where the government increased tariffs (Tekere, 2001). In an effort to protect local manufacturing, to restore foreign exchange market stability and to generate revenue, government of Zimbabwe increased tariffs on finished goods with local substitutes or those considered luxuries in October 1998.

Trade liberalization opened opportunities for small scale exporters, for example deregulation of cotton ensured that new players entered the cotton market. However, firms such as Cone Textiles and Julie White were not prepared for competition, thus they closed. There was an increase in SMEs as they sought to absorb retrenches in sectors such as manufacturing, welding among other sectors. Other policies later adopted by the government of Zimbabwe were the Short-Term Emergency Recovery Program (STERP) in 2009, which led to 5.7 percent growth in real GDP in fiscal year 2009 – 2010, the Medium Term Policy (MTP), Industrial Development Policy and the Trade Development Policy. The policies between 2000 and 2008 were generally interventionist to deal with hyperinflation and to boost private sector performance (UNDP, 2008).

Achievements of South East Asia strongly support the view that export led growth policies serve as an engine for enhancing social welfare, economic growth and economic integration (UNCTAD, 1998). With greater openness, small economies tend to have higher shares of trade in their GNP when compared to large countries and their gains from trade are most likely to be higher than those that restrict trade (Kuznets, 1973). Zimbabwe has a number of trade agreements, aimed at liberalising trade and increasing exports. These are discussed in the next section.

### **3.14 Zimbabwe's Trade Agreements**

Zimbabwe is a signatory to a number of trade agreements, some bilateral, some multilateral. These agreements have helped to increase exports for Zimbabwean exporters including SME exporters. However, some of the agreements have proved to be deficient in respect of areas, such as rules of origin and other trade-support mechanisms to facilitate trade, and to foster economic co-operation (MOIC, 2012). This section analyses the various trade agreements in which Zimbabwe is a signatory.

#### **3.14.1 COMESA AND SADC Free Trade Agreement**

Since the 1990s, all COMESA and SADC countries have been liberalising their trade and foreign exchange regimes unilaterally under market economic reforms supported by the IMF and the World Bank (MOIC, 2012). Zimbabwe is a member of COMESA and SADC and the country undertook further trade liberalisation measures through regional economic integration.



COMESA was initially established in 1981 as the Preferential Trade Area for Eastern and Southern Africa (PTA) within the framework of the Organisation of African Unity (COMESA, 2010).

In November 2000, COMESA launched its free trade area, with duties on a wide range of goods reduced to 0. Zimbabwe complied with the COMESA trading protocol, opening up its economy by liberalising 80% of its tariff lines (MOIC, 2012). To harness the wider benefits of integration, COMESA deepened its regional integration from FTA to a customs Union and Zimbabwe made commitments to the customs union. Furthermore, SADC attained Free Trade Agreement in January 2008; although the actual launch of the SADC FTA was done in August 2008 (SADC, 2008). Zimbabwe supplies a variety of products to SADC, chief among them being tobacco, cotton, oil cake and soya beans, maize, live bovine animals, coniferous wood, cotton seeds, light manufactures, and imports in exchange fuels, vehicles, explosives, chemicals machinery, plastics, paper and steel (MOIC, 2012).

Further, Zimbabwe has bilateral trade agreements with Botswana, Namibia, Malawi, South Africa, Mozambique and China (SADC, 2016) These agreements are aimed at broadening the scope for market access on the basis of reciprocity, with the exception of the agreement with South Africa that is not reciprocal, Ministry of Industry and Commerce (MOIC, 2012). These agreements are explained in the section that follows.

### **3.14.2 Zimbabwe – Botswana trade agreement**

The bilateral trade agreement between Zimbabwe and Botswana was ratified in 1988 ensuring reciprocal duty free trade on all products grown, wholly produced, or manufactured wholly or partly from imported inputs subject to a 25% local content requirements.

### **3.14.3 Zimbabwe - Namibia trade agreement**

A reciprocal trade agreement between Zimbabwe and Namibia came into effect in 1993, subject to rules of origin which require at least 25% local content for manufactured goods and that Zimbabwe and Namibia should, as exporters, be the last place of substantial manufacturing. Other eligible products include mineral and vegetable products, live animals and their products.

#### **3.14.4 Zimbabwe - Malawi trade agreement**

The agreement between Zimbabwe and Malawi was implemented in 1995. This is a reciprocal trade agreement, with 25% domestic value added requirements. Arrangements are characterized by implementation problems, in particular with regards to rules of origin, and no dispute settlement mechanism.

#### **3.14.5 Zimbabwe - South Africa trade agreement**

Zimbabwe has a bilateral trade agreement with South Africa. A duty free regime or preferential tariff quota which applies to items including dairy products, potatoes, birds, eggs. Specified types of woven fabric, for example cotton are subject to concessional tariff rates when they meet the specified levels of Zimbabwean content, 75% in most cases.

#### **3.14.6 Zimbabwe – Mozambique trade agreement**

The bilateral trade agreement between Zimbabwe and Mozambique was signed in January 2004 and became operational on 1 March 2005. Its objective is to eliminate tariff and non-tariff barriers and also to cooperate in customs and trade promotion. The agreement provides for duty free trade between the two members with the rules of origin specifying a 25% domestic value added. However, the items excluded from the arrangement are refined and unrefined sugar, specific soft drinks, firearms, ammunition and explosives, motor vehicles and cigarettes.

#### **3.14.7 Zimbabwe-China trade agreement.**

Zimbabwe and China have also signed various bilateral trade agreements in 2011 and in 2014. In terms of these agreements goods originating from Zimbabwe do not attract customs duty and surtax in China and goods originating from China enter Zimbabwe duty and surtax free as well. The products covered by the Zimbabwe - China agreements are goods grown, produced or manufactured in the territory of either contracting party.

They include mineral products, agricultural products, live animals, products from live animals, forest products, fish and other fish products and scrap and waste resulting from manufacturing operations within that country. To be covered under these agreements, manufactured goods should attain a minimum local content of 25%. This means that the component of local materials including local labour used in the manufacturing process of a product should be at least 25% (ZIMRA, 2015). Further to bilateral agreements, Zimbabwe is a signatory to a number of multilateral trade agreements discussed below.

### **3.14.8 The Lome Conventions**

Zimbabwe is a member of the African Caribbean Pacific (ACP) group of nations that signed trade agreements with European Union (EU) under the generalised system of preferences. The country joined the Lome Conventions with the EU upon independence in 1980. The Lome Conventions were international aid and trade agreements between the African, Caribbean Pacific Countries and the European Union with the aim of providing the basic framework for economic cooperation between the EU and ACP countries.

There were a total of four Lome Conventions signed in 1975, 1979, 1985 and 1989. The Conventions sought to assist ACP states' development and promote close relations with EU through preferential non reciprocal tariffs for exports to the EU markets, better market access and better market prices (European Commission, 2013). Through commodity protocols, the ACP countries were guaranteed markets for, beef, sugar, rum and bananas based on a quota and the prices of the commodities was fixed to minimise fluctuations in ACP income.

The EU compensated ACP countries for falls in prices through the stabilisation of export receipts on agricultural products (STABEX), which gave funds to offset losses on a wide number of agricultural products; cocoa, coffee, groundnuts, tea and others, as a result of crop failures and price falls. In addition, a country heavily dependent on a particular mineral and suffering export losses could access loans which were designed to lessen a country's dependency on mining. These loans were called SYSMIN (European Commission, 2013). ACP countries also received financial aid from the EU.

### **3.14.9 The Cotonou Agreement**

The Lome Conventions were replaced by the Cotonou Agreement which was signed in 2000 between the African, Caribbean Pacific Countries and the European Union. As an ACP country, Zimbabwe was also a member of the Cotonou Agreement. The fundamental principles of the Cotonou Agreement were equality of the partners, ownership of development strategies, participation and dialogue, fulfilment of mutual obligations, differentiation and regionalization. The agreement was designed to establish a comprehensive partnership, based on three complementary pillars namely development cooperation, economic and trade cooperation, and the political dimension. Through the Lome Convention and Cotonou Agreement, exports from

the ACP countries were given generous access to the European market. However, preferential access failed to boost local economies and stimulate growth in ACP countries and the proportion of EU imports from ACP countries dropped from 7% to 3% of EU imports (European Commission, 2013).

#### **3.14.10 Economic Partnership Agreements (EPAs)**

Economic Partnership Agreements (EPAs) were established between EU and ACP countries, establishing a framework of reciprocity which is fully compatible with WTO trading rules. EPA negotiations were launched in September 2002. According to the General Agreement on Tariffs and Trade (GATT) XXIV, reciprocity and free trade should be phased in progressively and asymmetrically with the EPAs within a reasonable period of time.

The ACP - EU EPAs are economic arrangements meant to eliminate trade barriers by full abolition of tariff and non-tariff restrictions so as to increase trade. They are a response to continuing criticism against the non-reciprocal and discriminating preferential trade agreements offered by the EU that were incompatible with WTO (Farber & Orbie, 2009).

#### **3.14.11 COMESA-EAC-SADC TFTA Agreement**

In 2015, Zimbabwe became a signatory of the Tripartite Free Trade Area (TFTA) agreement signed in Egypt, between SADC, EAC and COMESA ensuring free trade between these groupings thereby creating markets for SMEs. The signatories adopted a developmental approach to the Tripartite Integration process that is anchored on three (3) pillars namely:

- i. Market integration based on trade liberalisation resulting in the Tripartite Free Trade Area.
- ii. Infrastructure Development to enhance connectivity and reduce costs of doing business. Improving the efficiency of the internal trade and transport network (road, rail, water and air and including ICT and Energy) and addressing supply side constraints.
- iii. Industrial development to address the productive capacity constraints. Creating an enabling environment (addressing the regulatory and legal framework); value addition; diversification; enhancing productivity and competitiveness; and the development of programmes which will result in structural changes (COMESA, 2016).

The first phase of TFTA covers negotiations on the following areas: tariff liberalisation, rules of origin, dispute resolution, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies, technical barriers to trade and sanitary and phytosanitary measures. Movement of business persons is dealt with during the first phase of negotiations as a parallel and separate track. The second phase covers negotiations on the following areas: trade in services, intellectual property rights, competition policy, and trade development and competitiveness. (COMESA, 2015).

#### **3.4.12 WTO Agreements**

As a member of WTO, Zimbabwe is a signatory of various WTO agreements. These are agreements on agriculture, subsidies, textiles and clothing, rules of origin, customs valuation and trade related investment measures. Further there are also WTO agreements on sanitary and phytosanitary measures, safeguards and antidumping (WTO 2015). These WTO agreements have opened export markets for member countries, however the implementation of some WTO agreements has also proved to be expensive for some of the countries UNCTAD (2005). Further, there is an increasing realisation that certain WTO agreements such as TRIPS, TRIMs and subsidies leave a limited range of choices available to developing countries in terms of policies and instruments to pursue development (UNCTAD, 2005). To further promote exports the Export Processing Zones were implemented in Zimbabwe and these are discussed in the next section.

#### **3.15 Export processing zones**

Balasubramanyam (1988) defines an export processing zone (EPZ) as an enclave or geographical area outside the customs territory of a country, where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the country. EPZs are also known as free trade zones, special economic zones and industrial development zones. In practice, the types of zone activities include bonded warehouses, export processing and assembling, border or port trade, and trade-related transport or financial services (UNCTAD, 1999).

According to the ILO the first EPZ was set up in Spain in 1929. Since the 1960s, EPZs have increasingly been introduced in developing countries as part of export-orientated industrialis-

ation strategies. Goods entering the export processing zone may be processed, stored and manufactured without any payment of customs duties or local taxes. Similarly, these goods may be exported without payment of duties. However, if these goods are sold on the country's domestic market, they are liable to the payment of customs duties and taxes (Balasubramanyam, 1988).

According to the World Bank (2001) there are a number of constraints to the successful establishment of EPZs. These are unfriendly geographical location, inadequate infrastructure, poor government services, unskilled labour, questionable incentives and a bureaucratic management-style. To attract foreign and often multinational firms into the EPZs, various incentive packages are offered by the host country, including duty-free export and import, tax holidays, tax exemptions and reductions, exemption from labour laws, simplified administration procedures and fewer regulations, improved infrastructure and facilities, free repatriation of profits and advantageous geographical location (UNCTAD, 1999).

Balasubramanyam (1988) states that the arrival of foreign firms into duty-free zones can provide developing countries with a number of potential benefits: creation of employment opportunities, improved capability of foreign exchange earnings and trade expansion. EPZs also provide developing countries with improved communication services and infrastructure, transfer of more advanced foreign technologies and know-how, and increased business opportunities for domestically owned firms supplying production inputs to foreign firms (Balasubramanyam, 1988).

However, EPZ's impose two costs on the host country. Firstly the direct costs of establishing EPZ's infrastructure and subsidised services, and secondly, indirect costs in the form of foregone government revenue and national income, due to the exemption from taxes and import/export duties (Jauch & Keet, 1996). Such costs are better spent on job creation in the small-scale manufacturing sector or other large job creation programmes in the broader economy (Jauch & Keet, 1996).

The introduction of an EPZ by a country is regarded as a signal of that country's departure from import substitution towards an export-orientated economy, integrating national economies into the global economy (Jauch & Keet, 1996). Countries in East Asia, Central America and the Caribbean basin have successfully used EPZs as an instrument for economic

development (World Bank 2001). This has largely been due to a competent workforce, good infrastructure and an effective management strategy. The governments of most Southern African countries regard EPZs as a suitable strategy for finding a niche in the global economy (Jauch & Keet, 1996).

However, attempts to use EPZs in sub-Saharan Africa have, with the exception of Mauritius, been significantly less successful due to the poor state of the African workforce, and the unavailability of adequate infrastructure (Jauch & Keet, 1996). In South Africa, the most common forms of EPZs are industrial development zones (IDZs) which are promoted by the Department of Trade and Industry (DTI). IDZs are geographically defined areas in which incentives are offered to manufacturing firms to establish themselves.

Zimbabwe's export processing zones were established in 1987. They were governed through the Export Processing Zones Act (Chapter 14:07) and were managed and administered by the Export Processing Zones Authority. The exporters that operated within EPZs were given concessional rates and exemptions on income tax, customs duty, capital gains tax and value-added tax. Exporting SMEs also benefited from Zimbabwe's export processing zones (EPZs). So by 2004 projects under EPZs had created more than 32 000 jobs and US\$172 million worth of investments (Zimbabwe Government online 2015). In 2007 the Export Processing Zones Act was repealed and substituted with the Zimbabwe Investment Authority Act, effectively ending export processing zones.

The Ministry of Finance and Economic Development seeks to re-introduce export processing zones with a new name, special economic zones, to incentivise exporters. The Special Economic Zones Authority will be responsible for implementing SEZs, which are similar to export processing zones. The government also seeks to introduce monetary incentives for exporters. However, further to pursuing the special economic zone as an export-led growth strategy, the government has also been seen recently pursuing the import substitution strategy to promote domestic producers by gazetting a statutory instrument (SI 64) which controls the importation of goods. One has to apply for an import permit to import the specified goods. Thus it becomes a matter of concern whether the policies will be successful when such policies are implemented at the same time.

### **3.16 Conclusion**

The chapter presented a background of international trade in Zimbabwe. Zimbabwe's major export destinations are South Africa, Mozambique and the UAE, with South Africa accounting for 71% of Zimbabwe's exports. The major goods exported by Zimbabwe in 2015 were tobacco and manufactured tobacco substitutes, followed by precious stones, metals and coins. Zimbabwe mainly exports primary commodities, that is agricultural and mining products. ICT goods constitute a very small percentage of Zimbabwe's imports and exports, and this limits Zimbabwe's capacity for innovation. Two groups of products – tobacco and manufactured tobacco substitutes, and precious stones metals and coins – constitute 64% of Zimbabwe's exports, clearly showing that Zimbabwe's exports have become less diversified. Zimbabwe has perpetually had a trade deficit for the period under study, 2009-15, meaning that it has been a net importer of goods.

Tobacco and manufactured tobacco substitutes are the commodities with the highest RCA in Zimbabwe of 137.26 in 2005. This shows that Zimbabwe is very competitive in growing export tobacco. The manufacturing sector does not possess comparative advantage in Zimbabwe and manufacturing sector capacity has generally been low between 2005 and '15 as it was mostly below 50%. Manufactured imports make up a higher percentage of trade than manufactured exports in Zimbabwe. In the manufacturing subsectors, clothing and beverages performed well in 2015 compared with other subsectors.



## CHAPTER 4

### FIRM THEORY AND THEORY OF ENTREPRENEURSHIP

#### 4.1 Introduction

This chapter presents the theory of the firm and the theory of entrepreneurship. The theory of the firm plays a significant role in explaining the internal organisation, the boundaries, existence of the firm as well as how a firm determines its optimal combination of resources (GEM, 2002). Thus the analysis of the firm theory increases understanding of the internal organisation of exporting SMEs in Zimbabwe. The theory of the firm also enables an understanding of how exporting SME firms in Zimbabwe can determine optimal combination of resources (or assets).

Entrepreneurship theories are analysed so as to enable an understanding of the entrepreneurial behaviour of the exporting SMEs. The economic theory of the firm ignores entrepreneurship, thus, in this chapter both the theory of the firm and the entrepreneurship theories are analysed. There are two major sections in this chapter. Section 4.2 explains the theories of the firm namely the neo classical theory, structure conduct performance model, behavioural theory, Coase and Williamson's theories, Alchian & Demsetz theory, principal agent theory, evolutionary theory and managerial theory. The second section, 4.3, of the chapter explores entrepreneurship theories namely French classicals, British classicals and neo classicals, Schumpeterian school, Austrian school, neo Austrian views and theory of x-inefficiency.

#### 4.2 Firm Theories

There are a number of theories of the firm and these theories are discussed in this section. The neoclassical theory of the firm is the first one to be discussed. In the last few decades, the theory of the firm has become one of the fastest growing areas in applied microeconomics (GEM, 2002).

##### 4.2.1 The neoclassical theory of the firm

The neoclassical theory of the firm views the firm as a black box rational entity that transforms inputs into outputs, with imaginary production and demand functions (Andreosso & Jacobson, 2005). The theory models the firm as a single actor making uncomplicated decisions, like decisions on the level of output to be produced. The decisions are trivial mathematical calculations based on the underlying data, so they are not real decisions. The firm may, in the

long run, choose an optimal size and output mix which is, however, determined by the characteristics of the production function which are economies of scale, scope, and sequence.

So the firm is a set of cost curves, and the theory of the firm is a mere calculus problem and there is no role for the entrepreneur (Andreosso & Jacobson, 2005). The neoclassical theory describes how markets may produce efficient outcomes, assuming a perfect market (Debreu, 1959). This means the structure of the organisation is of no concern, since market contracting solves all incentive and coordination issues.

The neoclassical firm aims at profit maximisation and the whole economy can operate efficiently through markets as agents enter into contracts with each other. So the neoclassical firm is a profit-maximising entity operating in an exogenously given environment which lies beyond its control. The firm's profit is generated through satisfying wants by producing a good or a service on a given market and at a given price. There is no room for entrepreneurship in this theory (Andreosso & Jacobson, 2005).

Within the neoclassical model of the price system, the firm's only role is to allow input owners to convert inputs into outputs in response to market prices. It is not concerned with decisions with respect to issues like buying, governance structure, stakeholder incentive structures, strategy and evolution. Thus, according to Demsetz (1983), the fundamental preoccupation of economists was with the price system, hence little attention was paid to the firm as a separate, important, economic entity.

The neoclassical firm produces only for outsiders, there is no on-the-job or internal consumption, no self-sufficiency, no managers or employees to indulge in on-the-job consumption (Demsetz, 1995). According to the theory, firms reach maximum profit when marginal revenue is equal to marginal cost.

The main weakness of the neoclassical theory of the firm is that it does not reflect the real-world firm owned by shareholders and run by a team of professional managers, who face an uncertain future. The theory assumes complete information and, as a result, there is no agency problem, and no concern for transaction costs (Cyert & Hedrick, 1972). Behavioural economists have criticised the assumption of the theory of perfect rationality, arguing that the

existence of organisations such as firms was primarily a matter of economising with bounded rationality (Simon & March, 1958; Cyert & March, 1992). In reality, managers make decisions based on information that is far from perfect. In the neoclassical system there are no real-world problems of firms considered, and there is no internal decision-making process at all (Cyert & Hedrick, 1972). During the 1960s, standard neoclassical theory was criticised for ignoring conflicts of interest between owners and managers.

The firm makes decisions based on information received from the market, so market information determines the behaviour of the firm and there is no role for managers or employees. Arrow (1974) emphasised various limitations of the market mechanism and argued that firms can be understood in terms of market failures which arise under conditions of externality, economies of scale and information asymmetries. The organisation does not face any problems and there is no room to analyse the internal decision-making process (Cyert & Hedrick, 1972).

The neoclassical theory assumes that there are no physical assets controlled by the firm, implying no ownership of the firm. The neoclassical firm can be one person and the optimal combination of inputs is done by independent owners of the inputs who are motivated solely by market prices. The neoclassical approach is also criticised for its profit maximisation assumption. Since the early 1930s, research has cast doubts on the profit maximisation principle (Cyert & Hedrick, 1972).

One of the first criticisms to the neoclassical theory of the firm as a profit-maximising centre was presented through findings from research into manufacturing firms' price and output decisions. The findings were that firms appeared not to aim at profit maximisation as they equated marginal cost and marginal revenue (Hall & Hitch, 1939). The neoclassical theory of the firm provides no rationale for the existence of the firm and some important questions are left unanswered by the theory (Foss, 1996). Williamson (1975) and Coase (1937) questioned the view that technologies are determinative of economic organisation and they produced the transaction cost theory of the firm.

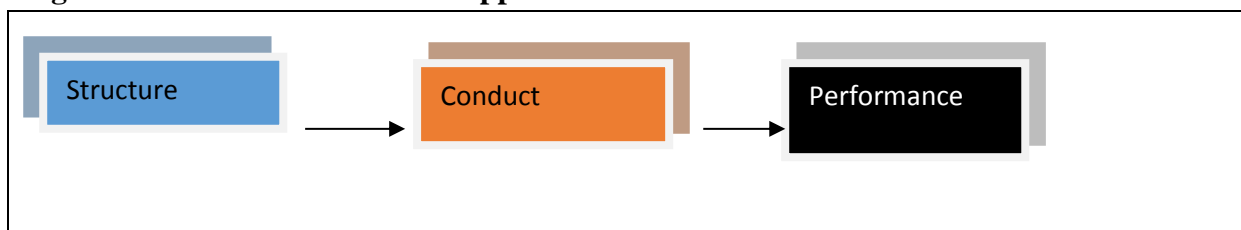
Closely related to the neoclassical theory of the firm is the structure conduct performance (SCP), model which is discussed in the next section.

#### 4.2.2 Structure conduct performance model (SCP)

The structure conduct performance or SCP approach was first published by the economists Chamberlin (1933) and Robinson (1933). The SCP approach specifies that the structure of markets influences the conduct of firms, which in turn influences firm performance. Structure is a set of variables that are relatively stable over time and change relatively slowly. They affect the behaviour of sellers and/or buyers. Also, the structure of the market is determined by the nature of the product and the technology available.

There have been some attempts to link the SCP framework back to the neoclassical theory. The traditional SCP approach is straightforward in its line of reasoning and is comfortable with the identification of structural characteristics (Jones & Sufrin, 2011). Mason (1939) refers to the SCP approach as a process which matches the structural characteristics of the market against the models of perfect competition, monopoly, monopolistic competition and oligopoly. The traditional SCP approach is illustrated in fig 4.1.

**Figure 4.1: The traditional SCP approach**



*Source: Ferguson & Ferguson (1988)*

Based on Figure 4.1, assumptions about the performance of the firm can be deduced from conduct, which is determined by characteristics of the market structure. The definition of market structure is influenced by the number and size distribution of competing firms. The structure of the industry causes conduct by the participants in the industry and conduct explains market performance. Table 4.1 summarises various market structures.

**Table 4.1: Summary of market structures**

<b>Criterion</b>	<b>Perfect competition</b>	<b>Monopolistic competition</b>	<b>Oligopoly</b>	<b>Monopoly</b>
Number of firms	Many firms – no firm can influence the market price	So many firms that each firm thinks others will not detect its actions	So few that each firm must consider the others' actions and reactions	One firm
Nature of the product	Homogeneous	Heterogeneous	Homogeneous/heterogeneous	Unique product with no close substitutes
Entry	Completely free	Free	Varies from free to restricted	Completely blocked
Information	Complete	Incomplete	Incomplete	Complete
Collusion	Impossible	Impossible	Possible	Irrelevant
Firm's control over the price of the product	None	Some	Considerable but less than in monopoly	Considerable but limited by market demand and the goal of profit maximisation
Long-run economic profit	Zero (normal profit)	Zero (normal profit)	Can be positive	Can be positive

*Source: Mohr & Fourie (2008).*

As indicated on table 4.1, there are four types of markets and the markets are analysed by the way in which their attributes fit into the SCP framework. In a perfectly competitive market,

there is a large number of competitors, so firms act independently in determining output levels. The price is not determined by firms but by the market.

In addition to perfect competition, there is monopolistic competition, where a large number of firms are engaged in vigorous price competition. The products are differentiated, unlike under perfect competition, thereby allowing the firm to set prices to some extent. This ability to set prices is, however, limited by the availability of close substitutes which drive profits down to a normal risk-adjusted rate of return in the long-run (Hirschey, 2003).

Oligopoly market structure consists of a few equal-sized firms, which collude on price and advertising. Thus oligopolies realise higher prices and lower output as compared with perfect competition markets. Oligopolies may compete among themselves, thereby lowering prices to an almost perfectly competitive price. In an oligopolistic market structure, an analysis of conduct is an essential element of the SCP approach (Ferguson & Ferguson, 1988).

A monopoly is the only firm in the market. Since there are no close substitutes for its product, the monopolist demand curve is a market demand curve. The monopolist's pricing decision is governed by the strengths and weaknesses of market demand (Ferguson & Ferguson, 1988).

Structure differs under perfect competition, monopolistic competition, monopoly and oligopoly markets. In the SCP approach, structure is described as the characteristics and relevance of individual markets operating within the economy (Papatheodorou, 2006). Conduct is the way in which buyers and sellers behave, both among themselves and among each other, and the reasons behind the behaviour. Conduct focuses on how organisations set prices. Firms choose their own strategic behaviour, investment in research and development, pricing policies, advertising levels, collusions and mergers.

The conduct of the firms is determined by the market structure. Under perfect competition there are many competitors and the price equals marginal cost, thus normal profits. All firms sell an identical product and are firms are price takers. The firms have a relatively small market share and the industry is characterised by freedom of entry and exit. Because of the characteristics listed, perfect competition is both an efficient and welfare-enhancing market structure.

With monopolistic competition, a large number of firms are engaged in vigorous price competition. The main difference between perfect competition and monopolistic competition is that products are differentiated under monopolistic competition, giving the monopolistically competitive firm an opportunity to set the price. However the availability of many close substitutes limits this price-setting ability and drives profits down to a normal risk-adjusted rate of return in the long-run (Hirschey, 2003).

The oligopoly market structure is characterised by a small number of equal-sized firms, and firm behaviour is likely to be decided collusively. Compared with perfect competition, oligopolies produce at a higher price and lower level of output. Oligopolists may compete for increased market share and as a result the price is kept close to the perfectly competitive level, increasing efficiency and welfare. In an oligopolistic market structure, an analysis of conduct is an essential element of the SCP approach (Ferguson & Ferguson, 1988).

In a monopoly there are high barriers to entry, thus there is one product and only one firm in the market. No rivalry or competition for the monopolist, so there are no close substitutes for the firm's product. So the demand curve facing a monopolist is a market demand curve. The monopolist charges where price is higher than marginal cost and enjoys excellent profits. The monopolist's pricing decision is governed by the strengths and weaknesses of market demand (Ferguson & Ferguson, 1988).

In the traditional SCP model there are three main elements of the market structure. These are the degree of seller (and buyer) concentration, the degree of product differentiation within individual markets and the condition of entry and exit (Andreosso & Jacobson, 2005).

The third aspect, performance, is measured by comparing the results of firms in the industry in terms of their efficiency (Lipczynski *et al*, 2009). Different ratios are used to assess different profitability levels. Profitability, growth, quality of products and service, technological process and productive and allocative efficiency are considered. Government policy can operate on structure and conduct performance variables. If there are few large firms on the market, competition is stifling and consumer welfare is negatively affected. The government can intervene to promote competition and prevent abuse of market power.

It is because of its emphasis on structure and not on the firm that the SCP framework has been attacked. The weakness of the SCP model is that it is unidirectional, so the reverse can occur from performance to structure. The SCP approach can be applied only if the structure of the market is stable. If firms are in disequilibrium, it creates difficulties in tracing the causal linkages between structure, conduct and performance (Ferguson & Ferguson, 1988). However, in practice, market stability is unlikely. Exogenous factors outside the model, such as government policy, can affect conduct and performance. In addition, the model focuses on industry structure and ignores inherent firm structure.

The SCP model assumes that short-run profit maximisation is the firm's objective, but it is not always so. It does not allow current industrial structure to be affected by past changes and ignores issues like ownership patents, foreign- and indigenous-owned firms, gender, firm size and firm experiences, and historical processes (Ferguson & Ferguson, 1988). Haines (1970) found that the firms that appeared to be most profitable were SMEs rather than large firms, so contradicting the approach that indicates a relationship between the size of the firm and its profitability.

However, Marcus (1969) found that the size of a firm influences profitability in some but not in all firms. The Chicago school criticised the SCP paradigm model for being non-theoretical and for having diverged too far from the basic neoclassical price theory (Stigler, 1968). Many of the results of empirical tests showed that causal relationships were contradictory, raising questions about the linearity of the structuralist approach. The possibility was identified, for example, of behaviour and performance affecting market structure (Andreosso & Jacobson, 2005).

The next section contains a discussion on the behavioural theory of the firm. The behavioural theory of the firm is a departure from the neoclassical and the SCP model.

#### **4.2.3 Behavioural theory of the firm**

The behavioural theory of the firm recognises the complexity of organisational decision-making. Central to behaviourism was a critique of the rationality assumption underlying neoclassical economics (March & Simon, 1958). The theory introduced the concept of bounded rationality, in which firms cannot have perfect knowledge about all the possible options and



their outcomes. Such perfect knowledge is essential in the neoclassical theory so that the best option can be chosen (Andreosso & Jacobson, 2005).

A decision taken within bounded rationality arrives at an option that satisfies identifiable criteria. The firm has multiple objectives driven by different constituencies and constrained in various ways by external factors. The behavioural theory views the firm as a coalition of managers, workers, shareholders, customers, suppliers, bankers and any others with different interests in the firm. For the coalition to survive, there have to be compromises on the demands of each of the members (Andreosso & Jacobson, 2005).

Members suffer from bounded rationality and each has some notion of what would be a satisfactory outcome, thus for the survival of the coalition, the choice of options must be based as much as possible on achieving the range of satisfactory outcomes defined by different constituencies. In an environment of complexity. Imperfect information and uncertainty, it is impossible to identify the precise set of actions required to maximise profit, thus managers may settle for a satisfactory profit (satisficing) following rules of thumb and decision making conventions depending on past experience (Simon, 1959).

Side payments are used to resolve conflicts through bargaining between the groups, for example the adoption of new technology may be achieved by increasing wages to thwart worker resistance. If side payments are inadequate, workers may go on strike, key personnel may leave, shareholders may withdraw, suppliers may cease to supply and banks may refuse to grant loans to the firm. When there is organisational slack, side payments exceed what is strictly necessary to hold the firm together and the parties benefit (Lipczynski *et al*, 2009).

The business environment is complex, with imperfect information and uncertainty, so the goals of an organisation cannot be reduced to simple formulae. Decisions emerge from bargaining between numerous individuals and groups, pursuing multiple and conflicting objectives (Lipczynski *et al*, 2009).

Closely related to the behavioural theory of the firm are transaction cost theories of the firm by Coase and Williamson, which are represented in the next sections.

#### **4.2.4 Coasian transaction cost theory of the firm**

Ronald Coase (1937) developed the transaction cost theory of the firm which predicts when certain economic tasks would be performed by firms, and when they would be performed on the market. The theory of the firm traces its existence back to Coase's 1937 article "The Nature of the Firm". According to Coase, people begin to organise their production in firms when the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm. "Within a firm, market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur . . . who directs production" (Coase, 1937).

According to Coase, markets could in theory carry out all production, and what needs to be explained is the existence of the firm. Coase's main reason to establish a firm is to avoid some of the transaction costs of using the price mechanism. These include discovering relevant prices, costs of negotiating and writing enforceable contracts for each transaction, re-negotiating contracts and costs caused by asymmetric information, and asset specificity. Coase notes that government measures relating to the market tend to increase the size of firms, since firms internally would not be subject to such transaction costs.

Coase (1937) posits that the size of the firm is dependent on the costs of using the price mechanism to coordinate economic activities, and on the costs of organisation of other entrepreneurs. Discovering what the relevant prices are is the most obvious cost of organising production through the price mechanism (Shugart, 1990). According to Coase, as additional transactions are removed from the market and handled administratively within a firm, the planning and coordination costs increase and the risk of failing to make the best use of resources also increases.

The rising costs represent decreasing returns to the entrepreneur and the growth of the firm stops when the cost of organising an extra transaction within the firm equals the same cost on the open market or the costs of organising another firm. Even though Coase's theory was of significance, the weakness pointed out was that it lacked the empirical content. However, the theory managed to shift focus from treating the firm as a technological 'black box' to the

analysis of the transactions that constitute the activities of firms in the economy (Shugart, 1990). Coase generated interest in knowing the boundaries of the firms.

Cheung (1987) added other costs of using the price system, thereby extending Coase's analysis. According to Cheung (1987), when there are no firms, consumers or households would be forced to co-ordinate the assembly of complex products themselves by buying the individual components from specialists. This causes several problems for the consumers due to increased information costs, considering that information is imperfect (Cheung, 1987). In addition, firms did not supersede markets, but one form of contract was replaced with another. Williamson (1975) also made major contributions to Coase's transaction cost framework by introducing new elements as seen in the following explanations.

#### **4.2.5 Williamson's transaction cost theory of the firm**

According to Oliver Williamson (1971), transaction costs emanate from asset specificity, bounded rationality and opportunism. Firms exist to cut on these costs. Asset specificity in production is where assets are specific to each other such that their value is much less in a second-best use. If the transaction is recurring or lengthy, re-negotiation may be necessary, further increasing the transaction costs. Opportunism is another source of transaction costs. A purchaser may require a particular investment from a supplier which would be profitable for both, but after the investment has been made the purchaser can attempt to re-negotiate the contract so that the supplier may make a loss on the investment. Bounded rationality is the condition under which limited information is available on the market.

The cost of delegation limits firm size. Milgrom & Roberts (1990) specify that the increased cost of management as due to the incentives of employees to provide false information beneficial to themselves, resulting in costs to managers of filtering information, and often the making of decisions without full information. This increases as the firm grows. Williamson points out that some business relationships require that one of the parties to the transaction invest in an asset highly specialised to the transaction. When transactions are not frequent, contracts or other formal mechanisms are usually unnecessary. For parties to make investments in physical or human capital, there should be prospects of a long-term relationship.

Some criticism has been raised regarding Williamson's transaction cost theory. The major objection raised is that it ignores trust and assumes the need to safeguard against opportunistic behaviour. Transaction cost economics points that trust is not a reliable instrument of governance and it does not go beyond calculative self-interest – if it does, it will not survive the markets (Williamson, 1993).

The possibility of trustworthiness should not be neglected and should be given as much attention as opportunism (Nooteboom, 2002). There is inconsistency in the manner in which Williamson deals with bounded rationality, uncertainty and time (Nooteboom, 2002). The theory also neglects innovation and learning. Williamson's theory is criticised for its treatment of bounded rationality; there is uncertainty concerning future contingencies. This is addressed in the Alchian & Demsetz theory.

#### **4.2.6 Alchian & Demsetz**

Alchian & Demsetz (1972) argued that technological non-separability is the main factor responsible for firm existence. The firm exists to monitor, measure and allocate the benefits of team performance. Alchian & Demsetz (1972) point out that the firm emerges because extra output is provided by team production. Several resource types are employed, the final product is not the sum of the separate contributions of each cooperating resource and it is not the same individual who owns resources that are used.

Alchian & Demsetz (1972) pointed out increased incentive for team members to shirk as a cost to the organisation. The team needs to be managed so that metering problems and shirking can be overcome. So monitoring as is necessary. However, it can only be encouraged effectively if the monitor has an incentive from the production process. Monitors may themselves shirk, so to solve the problem of shirking, the team does not hire the monitor but the monitor hires the team. The monitor keeps the residual or profit which can increase if shirking is reduced, thus the monitor has incentive to keep shirking at minimum.

Thus, the firm is an entity which brings together a team which is more productive working together than at arm's length through the market. However, asymmetric information within the firm must be overcome Alchian & Demsetz (1972). To be an effective residual claimant, the

monitor must also be the central party common to all contracts with inputs, have the right to observe input behaviour, be able to alter team membership and have the right to sell the residual claim (Demsetz, 1982). The weakness in Alchian & Demsetz's argument, according to Williamson, is that it assumes that outputs cannot be related to individual inputs. So team production cannot offer an explanation for the existence of firms. In the next section, the principal agent theory is discussed.

#### **4.2.7 The principal agent theory**

The principal agent theory retains the neoclassical assumption of maximisation rationality while focusing on assumptions in the form of contracts between the principal and the agent. The theory specifies that the firm is a legal entity with a production function, contracting with outsiders and insiders. There are two main actors: the principal who is the owner of the firm, and the agent, who is the manager (Andreosso & Jacobson, 2005).

The principal agent theory explains friction between the principal and the agent – that is, manager or employee, due to asymmetric information. This friction requires precise measurement of the performance of the agent and incentive mechanisms. The transaction environment is risky and the principal may know things not known to the agent, and vice versa. There is unbounded rationality despite information asymmetry, since contracts are drawn to specify the obligations of both principal and agent and to take all possible relevant future events into consideration.

Contracts are drawn up to align the agent's interests with the principal's interests, for instance tying a manager's salary to firm performance. Chandler (1992b) specifies that the agency theorist's concerns are with owners' and managers' problems of coping with asymmetric information, measurement performance and incentives. The problem of moral hazard arises when the objectives of the agent are different from those of the principal and the principal cannot easily tell the extent to which the agent is acting self-interestedly in ways diverging for the interests of the principal.

The principal agent theory has several weaknesses. It is difficult to engineer incentive mechanisms and the theory relies on complicated incomplete contracts. In addition, the theory ignores

transaction costs and does not allow for firm evolution. The evolutionary theory of the firm addresses these shortcomings.

#### **4.2.8 Evolutionary theory of the firm**

The evolutionary theory of the firm is associated with Nelson & Winter (1982) and it specifies that a firm survives because it can cope with market uncertainty by using effective skills and routines. Skills are capabilities for a smooth sequence of coordinated behaviour, and a decision needs to be made about which skill to use. In addition to skills, routines are an important component of the firm. These include norms of communication and culture within a firm, human resources procedures, and research and development.

Nelson & Winter (1982) see routines as the genes of an organisation that serve in three ways: as organisational memory where information is stored by doing the routine regularly, as a truce where individual staff members cooperate with the routines instead of exercising self-interested or opportunistic behaviour, and as targets for managerial effort seeking to control the use of skills or other routines.

A competitor's routines can be imitated by a firm and the routines can be classified as short-run operating characteristics, investment strategies, or search policies. The evolutionary theory of the firm thus places emphasis on production capabilities and process as well as product innovation. Under pressure from its environment, a firm should develop more efficient routines over time so as to survive and grow. Knowledge about how to undertake various tasks is necessary.

There is less emphasis on the actions of an individual economic agent. In times of rapid technological change, firms can compete and add value using their specific processes, knowledge and the previous decisions they have taken (Teece *et al*, 1997). A firm needs to focus on improving its internal technical organisational and managerial processes in order to survive and create wealth in the face of changing technology, rather than looking for ways to keep rivals out of markets or raise their costs. The next section presents the managerial theory of the firm.

#### **4.2.9 Managerial theory of the firm**

The managerial theory emphasised the complex nature of the modern corporate firm. Berle & Means (1932) described the diminishing influence of shareholders in the decision-making processes of large corporations in the United States. Much of the decision-making was left to the manager, whose objectives could be different from those of the firm owners. The reasons for managers' being preoccupied by sales or revenue maximisation rather than by profit maximisation are that increased sales reflect increased market share, market power and reduced vulnerability.

In addition, increased sales reflects good company performance and the financial market and retail distributors are more responsive to firms with rising sales (Baumol, 1967). The difference between maximum possible profit and minimum constrained profit is called "sacrificeable", as these profits are voluntarily given up by the firm in order to increase sales revenue (Baumol, 1967). The sacrifice is done quietly and only in ways which do not look like sacrificing so as not to attract other firms in the same market, which would create the threat of takeovers (Baumol, 1967).

#### **4.2.10 Nexus of contracts theory**

The nexus of contracts theory was put forward by a number of economists and legal commentators. The most notable ones were Jensen & Meckling (1976). This theory states that corporations are a collection of contracts between different parties who are primarily shareholders, directors, employees, suppliers, and customers. The theory builds on the idea that rational, self-interested individuals can bargain with one another in the absence of coercive forces.

Thus, under certain objective circumstances, rational self-interested agents will choose cooperation over predation. The nexus of contracts theory claim accurately depicts the nature of the corporation. The theory holds that corporations are actually "legal fictions" that are "socially constructed" in order to minimise "contracting costs" associated with cooperatively negotiating the conflicting interests of contractors, most notably the cost of monitoring compliance (Jensen & Meckling, 1976).

The nexus of contracts approach takes realism seriously by emphasising legality. As has been pointed out, Alchian & Demsetz observed that that much of the production in a firm is "team production" in that several specialists produced the end product. It is difficult to monitor the

effort of individual workers in a team who have an incentive to shirk by reducing their effort and the shirkers do not bear the full costs.

The nexus of contracts approach specifies that a firm was simply a complex set of market contracts only distinguished from ordinary spot market contracts by the continuity of association among input owners (Cheung, 1987). Basing on the nexus of contracts approach, some theorists call for an abandonment of the concepts of the “entrepreneur” and “the firm”, respectively. A discussion on the property rights approach follows.

#### **4.2.11 The property rights approach**

The property rights approach focuses on the distinction between specific and residual rights and is an extension to the transaction cost approach (Barzel, 1989; Hart, 1995; Hart & Moore, 1990). Ownership grants residual rights of income and control, as specified in the Alchian Demsetz approach, thus ownership of physical assets becomes important (Grossman & Hart, 1986). In contracts the owner is the one who has the right to decide on the final disposition of assets and if disposition of an asset increases the value of the firm, the surplus is received by the asset owner.

Thus Hart (1995) recommends that an asset be owned by the firm with the greatest potential of a surplus from that asset. The firm has the power over its employees to appropriate their quasi-rents and remove access to the corporate assets. This power inherent in controlling access to physical assets has led property rights theorists to define the firm in terms of the ownership of physical assets, where ownership denotes residual rights of control and income (Hart 1995).

The next discussion entails the production theory.

#### **4.2.12 The production theory**

Laidler (1972), in the production theory of the firm, postulates that small firms are inefficient because they do not operate at the minimum efficient scale where economies of scale are enjoyed. The theory further asserts that if firms do not find a way of increasing their scale so as to be able to enjoy economies of scale, they remain uncompetitive and hence have a high likelihood of failing.

The theories of the firm examine how a firm determines its optimal combination of resources or assets but do not indicate where resources originate, who brings them together and how. All



this is done by the entrepreneur, and much of modern economic theory does not include the role of the entrepreneur (Hellmann, 2005). Thus, firms venture into entrepreneurship and the study of firms would seem incomplete without an analysis of the entrepreneurship theory. The next section therefore is an analysis the theories of entrepreneurship.

### **4.3 Theories of entrepreneurship**

Some classical economists, particularly Jean-Baptiste Say (1803) believed in entrepreneurship. Say (1803) believed that the entrepreneur takes risk and uncertainty and that profit is the reward for it. Schumpeter (1934) viewed the entrepreneur an innovator who brings new combinations of production and challenge constraints. So this section discusses work by the French classical, Schumpeterian, British classical and neoclassical and Austrian schools.

#### **4.3.1 French classical school**

Early entrepreneurship thinkers were French economists. Cantillon (1755) is recognised as the first to use the term entrepreneurship. He introduced the economic system theory, based on classes of actors which include entrepreneurship. The entrepreneurs were viewed as financially dependent on others (Carter & Jones-Evans, 2012). Individuals who purchased a good at a certain price used that good to produce a product, then sold that product at a certain price, could be considered entrepreneurs. Successful entrepreneurs were individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts (Cantillon 1755). Cantillon's economic system theory emphasises risk and uncertainty.

Say (1803), originated the theory of production and distribution which was constructed on human industry, capital and land, and identified human industry as key to production. Say divided human industry into the effort, knowledge and applications of the entrepreneur and viewed the entrepreneur as the coordinator of the system and intermediary between all agents of production. To be successful, an entrepreneur needed to be able to assess the needs of the market and know how to meet them. The entrepreneur takes risk and uncertainty and profit is the reward for it.

Cantillon (1755) and Say (1803) saw entrepreneurship as being a catalyst to economic development. According to them, entrepreneurs play a key role in economic development. Together

with landowners and workers they can lead the way to economic development. Entrepreneurs bring together the different factors of production, moving resources from less to more productive areas.

#### **4.3.2 British classical and neoclassical schools**

The classical school of thought includes Smith (1776), Ricardo (1817) and Mill (1909) and did not start with a strong appreciation of entrepreneurship (Barreto, 1989). The neoclassical school includes economists like Walras, Marshall and Dobb, who neglected entrepreneurship (Kirzner, 1979). Barreto (1989) points out that the failure by British economic thought to consider the role of the entrepreneur was unfortunate and untimely and may have led to the neglect of the subject in modern-day economics.

The contribution of Alfred Marshall (1842-1924) to entrepreneurial theory was limited. Marshall states that an entrepreneur is merely a manager who has to forecast correctly changes in production and consumption, who has to be able to judge continuously and undertake risk boldly. Marshall treated profit as a single undifferentiated surplus, so relegating entrepreneurship to a special type of skilled labour – that is, management. John Maynard Keynes (1883-1946) continued the neo-classical tradition by ignoring the entrepreneur as the agent of economic progress. Keynes treated the entrepreneur as a financier, being the residual claimant to profit and as a decision-maker facing uncertainty.

Walras (1834-1910) did not contribute to enterprise theory. He developed the theory of general static equilibrium, implying that in perfect competition, the entrepreneur neither gains nor loses, but breaks even. So Walras reduced the entrepreneur to a mere mathematician selecting among various combinations of factors of production.

#### **4.3.3 Schumpeterian school**

Schumpeter (1883-1950) focused on the theory of economic development and the role of the entrepreneur in the development process. He focused on how capitalism destroys existing structures and markets, the concept of creative destruction which is now seen as one of the crucial functions of entrepreneurial activity within an economy. Schumpeter viewed the entrepreneur an innovator who brings new combinations of production and challenge constraints. New

combinations can happen in both existing and new firms, but typically in new firms. Businesses and individuals, after carrying out new combinations, cease their entrepreneurship and revert to normal economic activity.

Entrepreneurs need special characteristics and skills and need to adapt to different environments. Schumpeter (1934) points out that understanding what drives the differences in people's ability to cope with ambiguity, uncertainty, change and risk could help to explain why some people are more entrepreneurial than others. On risk-taking, Schumpeter argues that entrepreneurs only bear risk when they fund themselves, and carry some of the risk burden when someone else invests in a business.

When the economy is stable it is easier to predict the future. Entrepreneurs who innovate in the market carry more risk than those who do not. An innovative venture is the reallocation of existing resources to a new application (Schumpeter, 1934). The entrepreneur is "the man of action". However he is not an inventor, but instead introduces "new ways of using existing means". The adoption of new combinations represents innovation as it brings new commodities into existence.

Schumpeter saw the entrepreneur as the endogenous factor that disrupts the market equilibrium from within, so enforcing economic development. What is important is for the entrepreneur to envision a new combination in some part of the economy and not behave like a static person. The entrepreneur must be alert to hitherto unperceived opportunities, brought by the lure of pure entrepreneurial profit.

#### **4.3.4 Austrian school**

The Austrian school specified that uncertainty and risk are important features of economic systems, allowing entrepreneurs the opportunity to make profit, and so building on the French classical school. Carl Menger (1840-1921) stressed that one could not stand ready to supply entrepreneurial services since the calculating and decision-making abilities of an individual made his entrepreneurial function unique. Menger also pointed out the intertemporal coordination of the factors of production performed by the entrepreneur and thereby laid the foundation for subsequent Austrian theories of enterprise.

Following from Menger, Knight (1921) analyses how economic agents respond to uncertainty. His theory is fundamentally similar to the Coasean theory as they both stress the need for flexibility in an uncertain and hard-to-predict world. For Knight, intelligence and entrepreneurship are both responses to uncertainty, to situations in which there is no correct procedure for deciding what to do (Foss, 1996). Control is selecting someone to do the controlling. Knight (1921) tried to explain the real market system as it actually operates and argued that supply and demand cannot be in equilibrium, as other forces change market conditions.

Knight (1921) made a distinction between insurable risks which do not possess an element of uncertainty, and non-insurable risk which possesses true uncertainty. Insurable risk can be shifted by the entrepreneur to a third party, so it is of no significance to entrepreneurship. Entrepreneurship is the skilful interpretation and the bearing of responsibility for successful or otherwise interpretation of market change. On risk and uncertainty, Knight (1921) argues that entrepreneurship is a type of decision requiring action in the face of unknown future events.

Knight points out that the firm arises as a result of specialisation in judgment. This was disputed by Coase (1937), who raised the point that Knight's theory cannot by itself distinguish when authority and control will be exercised through contracts in output. According to Knight (1921), a manager becomes an entrepreneur when his performance requires that he exercise judgement involving liability to error and assume responsibility for the correctness of his judgment. Entrepreneurial profits can only exist when errors have been made and these profits depend on whether an entrepreneur can spot errors made by other market participants in the evaluation of productive factors.

#### **4.3.5 Neo-Austrian views**

Mises (1881-1972) specified that human action always involved uncertainty since what resulted from human choice was embedded in the future and in the unknown. To make changes in a constantly changing economy required the bearing of uncertainties, and in a dynamic economy, entrepreneur meant “. . . acting man exclusively seen from the aspect of uncertainty inherent in every action and every actor is always an entrepreneur” (Mises, 1949).

Thus Mises saw every decision-maker as an entrepreneur and associated entrepreneurship with a function rather than a person with special qualities. Another Neo-Austrian author was Kirzner (1979), who held that entrepreneurial decisions are the driving force behind the market. Individuals in markets do not always make logical decisions and these are often based on irrationality or subjective preferences.

An individual's propensity to be alert to opportunities and to identify which goals to pursue first defines the entrepreneurial element of decision-making (Kirzner, 1973). Entrepreneurship involves perceiving future market conditions, setting out a course of action, making decisions and achieving anticipated outcome. The entrepreneur can take advantage of market disequilibrium by facilitating a profitable exchange with buyers or sellers willing to pay higher or lower prices.

People can take advantage of imperfect information in the market – they do not need to own anything to make a profit. The pure entrepreneur is a decision-maker whose entire role arises out of his alertness to unnoticed opportunities (Kirzner, 1979). There has been criticism regarding Kirzner's ideas. The major difficulty with his formulation is that it does not distinguish between the bearing of uncertainty and present known opportunities to exploit price differences that exceed transaction costs. By ignoring uncertainty and denying risk, the theory cannot explain entrepreneurial losses but only explains entrepreneurial gains.

#### **4.3.6 Theory of X-inefficiency**

The theory of X-inefficiency, introduced by Leibenstein (1978), follows in principle Kirzner's theory of alertness. Leibenstein believed in a world of imperfections. These imperfections present themselves as opportunities to the entrepreneur. Thus, the greater the imperfection, the wider the scope for entrepreneurial activities. Unlike Kirzner, who believed that entrepreneurs had a tendency to bring equilibrium to the market, Leibenstein (1978) believed that entrepreneurs can work towards perfecting markets but also towards creating barriers to others and hence lead to more imperfect markets than before. Thus entrepreneurial activities do not have to propel markets towards equilibrium.

#### **4.3.7 Concluding remarks**

The chapter discussed the theories of the firm and entrepreneurship. The theory of the firm plays a significant role in explaining the internal organisation of firms, including SMEs for the purpose of this study, while entrepreneurship theories enable an understanding of the entrepreneurial behaviour of SMEs. It has been noted that the neoclassical theory of the firm views the firm as a black box rational entity that transforms inputs into outputs and describes how markets may produce efficient outcomes, assuming a perfect market.

In this framework the structure of the organisation is of no concern and the firm's only role is to allow input owners to convert inputs into outputs in response to market prices, while assuming profit maximisation. There is no room for entrepreneurship in this theory. As noted earlier, the neoclassical theory unrealistically assumes that the optimal combination of inputs is done by independent owners of the inputs who are motivated solely by market prices and information. The theory also unrealistically assumes no agency problem, no concern for transaction costs, no role for managers or employees, no ownership of the firm and no room to analyse the internal decision-making process.

Closely related to the neoclassical theory of the firm is the structure-conduct-performance (SCP) model, which specifies that the structure of markets influences conduct of firms, which in turn influences firm performance. The weakness of the SCP model is that the reverse can occur, from performance to structure. Further, the SCP model assumes that short-run profit maximisation is the firm's only objective, which is not always the case. The chapter also discussed the behavioural theory of the firm, which recognises the complexity of organisational decision-making by introducing the concept of bounded rationality. The firm is a coalition of people with different interests and there have to be compromises about the demands of each of the members.

Also analysed in the chapter is Coase's transaction cost theory of the firm, which predicts when certain economic tasks would be performed by firms to avoid some of the transaction costs, and when they would be performed on the market. It has been noted that Coase's theory managed to shift focus from treating the firm as a technological 'black box' to the analysis of a firm's transactions. However, as discussed in the chapter, the weakness of Coase's theory was that lacked empirical content. According to Williamson, transaction costs emanate from

asset specificity, bounded rationality and opportunism, and firms exist to cut these costs. The major objectives raised against Williamson's theory are that it ignores trust, that there is inconsistency in the theory and that the theory neglects innovation and learning.

The chapter also presents the Alchian & Demsetz theory, which specifies that the firm exists to monitor, measure and allocate the benefits of team performance, since extra output is provided by team production. The increased incentive for team members to shirk is a cost to the organisation and the team needs to be managed. So monitoring is necessary; however it can only be encouraged effectively if the monitor has an incentive from the production process. Other firm theories discussed in the chapter are the principal agent theory, the evolutionary theory, the managerial theory, the organisation and human resources theory and the nexus-of-contracts theory. There was also discussion of the property rights approach, the production theory and the technological capabilities theory.

In addition to firm theories, theories of entrepreneurship were also discussed in the chapter. These include the French classical school, which viewed successful entrepreneurs as individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts. The entrepreneur takes risk and acts in uncertainty, and profit is the reward for it. The theory viewed entrepreneurs as key players in economic development as they have individual property rights as capitalists.

Similarly, the Schumpeterian school viewed the entrepreneur an innovator who brings new combinations of production and challenge constraints. Understanding what drives the differences in people's ability to cope with ambiguity, uncertainty, change and risk could help to explain why some people are more entrepreneurial than others. Schumpeter saw the entrepreneur as the endogenous factor who disrupts the market equilibrium from within, thereby enforcing economic development.

The Austrian School, as discussed in the chapter, specifies that uncertainty and risk are important features of economic systems allowing entrepreneurs the opportunity to make profit. Entrepreneurship is a type of decision requiring action in the face of unknown future events.

Also discussed is the Neo-Austrian view which regards every decision-maker as an entrepreneur and associated entrepreneurship with a function rather than a person with special qualities. The entrepreneur can take advantage of market disequilibrium by facilitating a profitable exchange with buyers or sellers willing to pay higher or low prices. However Kirzner's Neo-Austrian view cannot explain entrepreneurial losses; it only explains entrepreneurial gains.

The theory of X-inefficiency describes a world of imperfections – imperfections that present themselves as opportunities to the entrepreneur. So the greater the imperfections, the wider the scope for entrepreneurial activities. Finally, the British classical and neoclassical schools failed to consider the role of the entrepreneur.



## CHAPTER 5

### LITERATURE REVIEW ON EXPORTS

#### 5.1 Introduction

This chapter provides theoretical literature on the determinants of exports and trade between countries. The chapter also presents empirical literature with particular reference to determinants of exports. The chapter is divided into three major sections which are as follows: Section 5.2 presents various trade theories, section 5.3 presents export performance theories while section 5.4 gives empirical literature from various countries on the determinants of exports. Concluding remarks are presented at the end of the chapter.

#### 5.2 Trade Theories

The section presents various theories of trade. These trade theories explain the determinants of exports between countries by giving an in-depth understanding on why a country would specialise in exporting particular commodities. The theories presented in this section are as follows: mercantilism, absolute advantage, comparative advantage, Heckscher-Ohlin, modern theory, overlapping demands, product cycle, export performance, resource based theory and contingency theory.

##### 5.2.1 Mercantilism

Mercantilism was a system of trade which was dominant in Europe between 1500 and 1750. It was spurred by geographical explorations which provided new trade opportunities, culminating in the discovery of precious metals and the rise of the merchant class (Appleyard *et al*, 2014). Thomas Munn (1571-1641) was the most influential mercantilist writer, who dominated Western European economic policy from the 16th to late 18th centuries. The mercantilists believed that the economy was operating at less than full employment, which meant that increase in money supply would stimulate the economy, resulting in output and employment growth (Appleyard *et al*, 2014).

Precious metals – gold and silver – circulated as medium of exchange and were the basis of a country's wealth. Cheap raw materials and low wages encouraged low-cost exports to ensure a favourable trade balance. The mercantilists employed the labour theory of value in which

labour was the only factor of production. Since labour was critical to production, the governments stimulated population growth by encouraging large families, giving child subsidies and marriage incentives. The mercantilists viewed the merchant class as the group most critical to the successful functioning of the economic system.

International trade was a zero sum game: one country's gain was at the expense of the other country. There was no mutually beneficial trade, as exports were good and imports bad as the countries sought to accumulate precious metals from exports and avoid loss in precious metals through imports (Dwivedi, 1999). The doctrine of mercantilism demanded a positive balance of trade, so countries discouraged imports and encouraged exports to increase wealth by acquiring precious metals. So exports of precious metals were severely restricted and punishable. Critical to the maintenance and increase of power of a nation were a strong army, a strong navy and an active merchant marine.

Government control of foreign trade was important for ensuring the military security of the country. This doctrine was the cause of frequent European wars and motivated colonial expansion as countries sought to extract more precious metals from colonies, as well as raw materials and agricultural products, and also a market for their products (Sawyer *et al*, 2004). The government controlled exchange and use of precious metals, known as bullionism, and restricted imports through tariffs and quotas while exports were subsidised. Governments issued trading rights, and trade monopolies increased profitability and trade balance.

The paradox of mercantilism however was its pursuit of power at the expense of the poor, meaning that rich nations had large numbers of very poor people. Precious metals were accumulated at the expense of current consumption as feudalism gave way to centralised monarchies. The idea of bullionism was seen as naïve in the early 18th century and state monopolies were disappearing. In view of the weaknesses of mercantilism, classical writers like Adam Smith and David Hume challenged mercantilism and advanced the notion of free trade. Classical theorists saw no need for government intervention in trade and so propagated free trade. The classical theories of trade are discussed in the following section.

### 5.2.2 Absolute advantage theory

Adam Smith (1776) wrote *The Wealth of Nations*, which challenged mercantilism, and perceived that a nation's wealth was reflected not in its holding of precious metals but in its ability to produce final goods and services. Thus self-interest served as a catalyst while competition served as a regulator. In this case there was little need for government control of the economy. The government's role was to ensure that individuals pursued their own activities within the precepts of law and order while respecting property rights.

Adam Smith believed that there was an "invisible hand" in the economy which brought together the producers and the consumers. There was this no need for government intervention in the economy (Appleyard *et al*, 2014). Smith (1776) formulated the mutually beneficial trade concept of absolute advantage, under which two trading partners both gain from trade. The basis of trade is the ability of a country to produce a good using fewer resources than another country (Sawyer *et al*, 2004).

Absolute advantage theory may be illustrated as two countries producing two goods, barter trade and homogenous labour. Labour is fixed in both countries, is fully employed and is the only factor of production: the labour theory of value. The theory also assumes that goods move freely between countries and cost of transportation is zero. Labour can move freely within a country but is immobile between two countries while production costs and the technology for producing goods are constant. Table 5.1 illustrates the theory of absolute advantage.

**Table 5.1: Illustration of Smith's absolute advantage theory**

Labour requirements and absolute advantage

Country	Cloth	Wine	Price ratios before trade
England	1hr/yard	4hr/bbl	1W : 4C
Portugal	2hr/yard	3hr/bbl	1W : 1.5C

Source: Appleyard (2014)

Table 5.1 shows that a barrel of wine exchanged for four yards of cloth in England, while in Portugal one barrel of wine exchanged for 1.5 yards of cloth. England had absolute advantage

in producing cloth as it required less labour for cloth, while Portugal required less labour for wine, so having an absolute advantage in wine. Both countries are better off specialising where they have absolute advantage and can produce at a low cost while importing the commodity that can be produced cheaply abroad.

Each country transfers one worker into the production of the good in which it has absolute advantage. The gain from specialisation and trade is the increase in world output, which is allocated between the two countries through international trade and reduction in production costs. For England, it would obtain wine from Portugal for three yards of cloth rather than four yards at home while Portugal benefits also benefits as it acquires cloth at  $\frac{1}{3}$  barrel of wine instead of  $\frac{2}{3}$  barrel of wine at home.

Smith's ideas were crucial for early classical thought and also for changing the view of international trade (Sawyer *et al*, 2004). However Smith failed to answer the question as to why trade would occur if one country had an absolute advantage in production of both goods. David Ricardo responded to that question by presenting the theory of comparative advantage.

### **5.2.3 Comparative advantage**

David Ricardo (1817) introduced the concept of comparative advantage in the book *The Principles of Political Economy and Taxation*. The theory showed that gainful trade is possible even if one of the countries has absolute advantage in both goods but has comparative disadvantage in producing one of the commodities (Sawyer *et al*, 2004). Labour is the only factor of production and is homogeneous all over the world. Labour theory of value, i.e. rate of exchange between any two goods, is determined by their labour cost. Factors of production are fully mobile within the country but are completely immobile between the countries. No trade barriers and no transport costs.

A two-country, two-commodity model was used by Ricardo to show this theory. The first nation should specialise in the production and export of a commodity in which absolute disadvantage is smaller and import the commodity in which absolute disadvantage is greater. Table 5.2 illustrates the comparative advantage theory.

**Table 5.2: Illustration of Ricardo’s comparative advantage theory**

	<b>United States (US)</b>	<b>United Kingdom (UK)</b>
Wheat (bushels/hour)	6	1
Cloth (yards/hour)	4	2

*Source: Salvatore (2014)*

The UK has comparative advantage in cloth since UK labour is half as productive in cloth but six times less productive in wheat with respect to the US. The US has comparative advantage in wheat since its absolute advantage is greater in wheat than in cloth. It would make sense for the countries to engage in trade because if the US exchanges 6W for 6C with the UK, it would gain 2C since domestically it exchanges 6W for 4C. The UK gains since the 6W it gets from US would require six hours to make at home. It can use the six hours to produce 12C and gives up only 6C for 6W from the US (Salvatore, 2014). The opportunity cost theory, based on comparative advantage, is explained in the next section.

#### **5.2.4 The opportunity cost theory**

Harbeler (1935) was an economist who based the theory of comparative advantage on opportunity cost theory. According to this theory, the nation with lower opportunity cost in the production of a commodity has a comparative advantage in that commodity (and a comparative disadvantage in the second commodity) (Salvatore, 2014).

To illustrate this, an example can be used of trade between Zimbabwe and Mozambique. The labour theory of value was used in which price of a commodity depends exclusively on the number of labourers used in production. Table 5.3 illustrates comparative advantage using the opportunity cost concept.

**Table 5.3: Comparative advantage using opportunity cost concept.**

Labour cost per unit (man-hours)

	Man-hours to produce <b>RICE</b>	Man-hours to produce <b>MAIZE</b>
Zimbabwe	30	60
Mozambique	50	75

*Source: Author's illustration using opportunity cost concept adapted from Salvatore (2014)*

With reference to Table 5.3, Zimbabwe can produce both rice and maize more efficiently because the labour cost is lower. However Zimbabwe has a comparative advantage in rice production and a comparative disadvantage in maize. The opportunity cost concept is used to demonstrate this, assuming that the measurements are in kilograms. The cost of rice production is 0.5 (30/60) of maize in Zimbabwe while the cost of rice production in Mozambique is 0.67 (50/75) of maize, thus higher. For Zimbabwe, the cost of maize production is twice that of rice (60/30) while for Mozambique the cost of maize is less (1.5).

The opportunity cost of rice (the cost of foregoing maize for rice) is lower for both Zimbabwe and Mozambique than that of maize. However the opportunity cost of rice in Zimbabwe is lower than that of Mozambique and the opportunity cost of maize in Mozambique is lower than that of Zimbabwe. Thus, Zimbabwe has comparative advantage in rice while Mozambique has comparative advantage in maize. If Zimbabwe shifts 30 man-hours from rice to maize it produces only 0.5kg of maize, but if it shifts 60 man-hours from maize to rice it produces 2kg of rice. Table 5.4 shows the calculations of gains from trade.

**Table 5.4 Calculation of gains from trade using opportunity cost.**

<b>COUNTRY</b>	<b>DOMESTIC BARTER TRADE</b>	<b>EXTERNAL BARTER TRADE</b>	<b>NET GAIN</b>
ZIMBABWE	1kg rice = 0.5kg maize	1kg rice = 0.67kg maize	0.17 kg maize (0.67kg – 0.5kg)
MOZAMBIQUE	1kg maize = 1.5kg rice	1kg maize = 2kg rice	0.5kg rice (2kg – 1.5kg)

*Source: Author's illustration using opportunity cost concept adapted from Salvatore (2014)*

With reference to the example given in table 5.4, Zimbabwe, exporting 1kg rice to Mozambique is getting 0.67kg maize instead of 0.5kg at home, while Mozambique exporting 1kg maize to Zimbabwe gets 2kg rice instead of 1.5kg at home. The theory of comparative advantage, though very significant to the explanation of trade, has its own disadvantages. First it assumes homogeneity in labour but the reality is that labour is not homogeneous since it varies in skill and productivity, thus the theory incorporates an unrealistic assumption. In reality, labour is not the only factor of production, but Ricardo assumes that capital is either insignificant or used in fixed proportions to labour, which is unrealistic.

Ricardo ignored the demand side and looked only at the supply side of trade by assuming that two countries will trade as long as there is comparative advantage. The cost of transport was ignored, yet it is an important determinant of international trade. Complete specialisation and international division of labour as assumed by Ricardo is not possible, since it is limited by the sizes of countries and the nature of goods (Dwivedi, 1999). The theory does not show causes of differentials in comparative costs or why production possibility curves of various countries differ. The Heckscher-Ohlin (H-O) theory of trade, which explains the causes of comparative advantage, emerged as a response to the weakness of the comparative advantage theory.

### **5.2.5 The Heckscher-Ohlin (H-O) theory of trade**

Eli Heckscher and Bertil Ohlin developed the H-O theory in the 20th century to explain the causes of comparative advantage. While absolute and comparative advantage theories looked at production costs, the H-O theory redirected basis for trade to factor abundance (Sawyer *et al*, 2004). The H-O theory predicts that countries export the products whose production use the

country's abundant factors intensively and import products using scarce resources intensively. It explains why relative prices differ between countries before trade.

A country is relatively labour-abundant if it has a higher ratio of labour to other factors than does the rest of the world. A product is relatively labour-intensive if labour costs are a greater share of its value than other products. Heckscher & Ohlin predicted that the key to comparative costs lies in factor proportions (Dwivedi, 1999). A country is said to be capital abundant if the ratio of available capital (K) to available labour (L) exceeds the ratio of available capital to available labour in the next country, that is, when  $K/L_1 > K/L_2$ .

The country size or physical units do not matter in this case, but relative amounts of factors (Dwivedi, 1999). The assumptions of the H-O theory are that income levels, taste patterns and demand conditions are the same in different countries. There is neither government intervention nor transport cost, while the same technology is used in different countries. The theory also assumes perfect competition, full employment of all factors of production and full mobility of each factor of production within a country and complete immobility internationally (Sawyer *et al*, 2004).

To illustrate the H-O Theory, assuming countries A and B, if cloth costs \$2 a metre in country A and 50c/m elsewhere, while wheat costs 70c/kg in country A and \$1/kg elsewhere, it means country A has more of factors that wheat uses intensively and relatively less of the factors that cloth uses intensively, than the rest of the world. If land is the factor used more intensively by wheat and labour is the factor used more intensively by cloth and all costs are land and labour costs, the H-O theory predicts that country A imports cloth and exports wheat, since wheat is land-intensive and the country is abundant in land. With no trade, land rents more cheaply in country A than elsewhere, while labour is more expensive in the country and wages are higher. Thus the following ratio reflects this scenario;

$$\frac{\text{country A land supply}}{\text{country A labour supply}} > \frac{\text{rest of world land supply}}{\text{rest of world labour supply}}$$

*Source: Sawyer et al (2004)*



The implications of the H-O theory are that trade tends to increase the price of the abundant factor of production in each country and to decrease the price of the scarce factor. This is because foreign demand for the export commodity causes its output to increase, which in turn increases demand for the abundant factor which is used intensively in the production of that commodity. Trade leads to a reduction in the difference in prices of any particular factor of production between countries.

The H-O theory was later refined by Samuelson and referred to as the factor proportions theory. The weakness of the H-O theory is that it assumes identical quality of factors to the extent that factor endowments of different countries may be measured in homogeneous units. However, factors of production are neither homogeneous nor of identical quality (Sawyer *et al*, 2004).

The H-O theory assumes that a difference in realistic factor prices reflects a difference in relative factor endowments, thus the theory assumes that factor abundance in the physical sense is the same as factor abundance in the economic sense, which is not so in real life. Other unrealistic assumptions of the theory are that it assumes constant returns to scale in both countries and perfect competition, assumes no transport cost, no government intervention, the same incomes and taste patterns, the same technology and immobility of factors of production (Dwivedi, 1999). Perhaps the most outstanding critic of the H-O theory was Wassily Leontief who came up with the Leontief paradox. As much as the H-O theory emphasises factor intensity as a basis for trade, Leontief produced findings contradicting the H-O notion.

Leontief tested the H-O theory using 1947 trade data from the US. Since the US is a capital-abundant country, Leontief expected US imports to be labour-intensive and exports capital-intensive. Contrary to the H-O theory, he found out that the US was importing capital-intensive goods and exporting labour-intensive goods. This result was called the Leontief paradox since it contradicted the H-O theory (Dwivedi, 1999).

However other economists raised this critique of Leontief's findings: the year in question (1947) was not a typical year since the US economy was still recovering from the war. The choice of industries for the study was biased in favour of labour-intensive industries and against capital-intensive ones. The methodology of the study was criticised by other economists.

Leontief's findings are not only typical of the US but also of Zimbabwe, which is abundant in labour but imports labour-intensive goods (Dwivedi, 1999). The next section analyses the modern or standard theory of trade.

### **5.2.6 Modern/standard theory of trade**

The theories of absolute and comparative advantage, together with the H-O theory, assume constant costs. This is a situation in which the amount of a good that a country must forego to produce each additional unit of another good remains constant. With constant costs a straight-line production possibility frontier (PPF) is used, but in the real world, constant costs may be unrealistic (Salvatore, 2004). A country may have increasing opportunity cost as more of a good is produced since, as the nation produces more of a commodity, it must use resources that become progressively less efficient or less suited (Salvatore, 2004).

Thus, a country must give up more and more of the second commodity to release enough resources to produce additional unity of first commodity. Opportunity cost is the slope of the PPF and with increasing costs, the shape changes at every point on the curve. The PPF is concave as trade is under increasing opportunity costs (Salvatore, 2004). The next chapter analyses the overlapping demands theory, which is a departure from the other theories discussed so far such as the H-O Theory. The overlapping demands theory emphasises tastes and income levels as determinants of trade.

### **5.2.7 Overlapping demands/spillover theory**

Staffan Linder (1961) developed the overlapping demands hypothesis – a dramatic departure from the H-O theory. Linder's theory is demand-oriented, unlike the H-O theory, which is supply-oriented. The overlapping demands theory suggests that tastes of consumers are conditioned strongly by their income levels. So trade in manufactured goods is likely to be greatest among countries with similar tastes and income levels. Firms are oriented towards producing goods with a large domestic market, and export the same goods. So foreign trade is a spillover effect of domestic production and markets will be found in countries with tastes and income levels similar to the first country (Sawyer *et al*, 2004).

High-income countries will likely trade with other high-income countries. The same applies to low-income countries, since there is a high probability of overlapping demands. Countries with

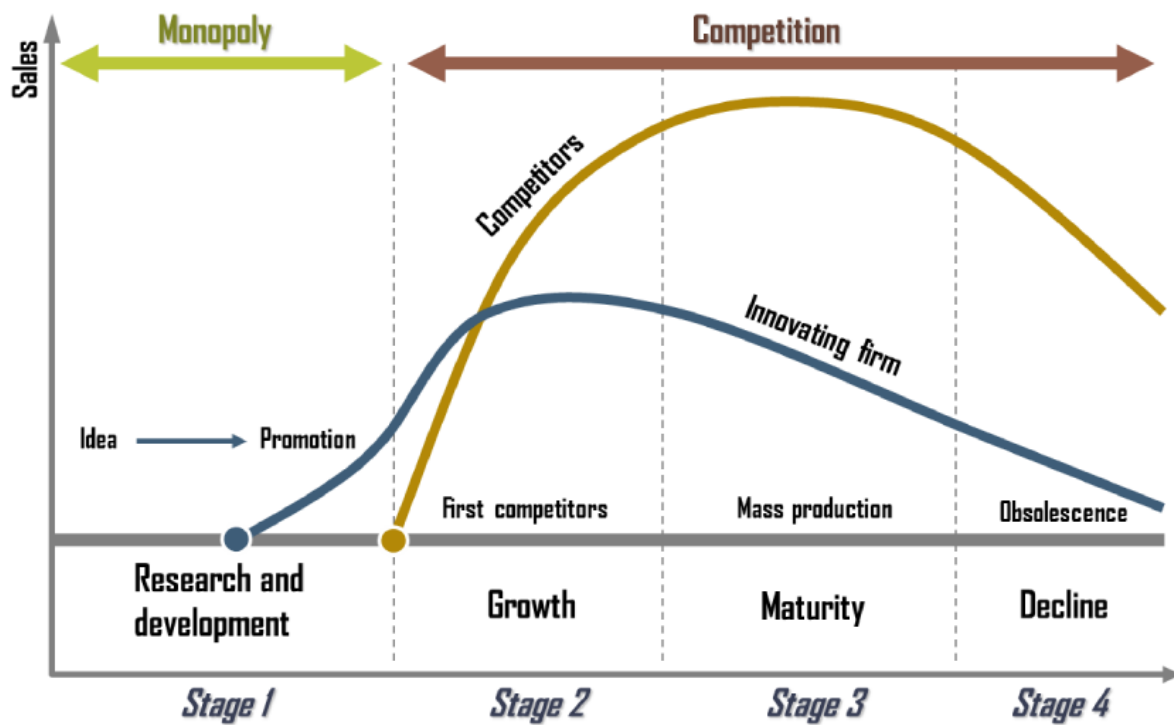
low income will demand lower-quality goods while those with high income demand higher-quality goods. So the overlapping demands theory implies that intra-industry trade (trade in essentially the same commodities) would be more intense among countries with similar incomes.

It has however been observed that contrary to Linder's theory, there is a growing amount of intra-industry trade between developed and developing nations. The reason is that in developing countries, there are high income earners while in developed countries there are also low income earners (Sawyer *et al*, 2004). A theory that explains intra-industry trade is the product cycle theory of trade, which is explained in the next section.

### **5.2.8 The product cycle theory of trade**

The product cycle theory –a further departure from the overlapping demands theory – was developed by Venon (1966) to account for the reasons for and duration of the technological gap between countries to explain the difference between countries that trade. The theory specifies that industrialised countries specialise in producing new goods based on technological innovations. Some countries tend to innovate and export newly invented goods, while other countries are imitators that produce and export goods which are familiar to the international economy (Venon 1966). Figure 5.1 illustrates the product life cycle theory.

**Figure 5.1 Product life cycle**



Source: Rodrigue (2015)

With reference to Figure 5.1, the life of a product has four major stages: Stage 1 is the introduction, where research and development for the product takes place. Stage 2 is the stage for product growth. During the stages of introduction and growth, goods are produced and introduced in a developed country, requiring heavy R&D expenses, highly skilled labour and refinement in production. They are consumed only in that country. Firms seek familiarisation with the product and the market and there is no international trade. (Appleyard *et al*, 2014).

During Stage 2 there is product stabilisation in design and production (maturity). At this stage the standards and characteristics of the product begin to emerge and mass production techniques emerge while economies of scale are realised. Innovating countries consider investing in other developed countries (Appleyard *et al*, 2014). Stage 3 is marked by complete standardisation and production in a developing country. The product loses its distinctiveness for the innovating country. The production process is familiar and it now requires unskilled, low-cost labour, capital and raw materials and becomes a common good. The comparative advantage shifts from the innovating country to a country with cheap labour. Production and export of the

product shifts from the developed country to the less developed country in the form of foreign direct investment or the sale of the patent. The developed country may import the product from the developing country (Appleyard *et al*, 2014). So the several trade theories discussed explain the benefits of international trade. Following trade theories, the research analyses export performance theories in the next section.

### **5.3 Export Performance theories**

The section presents the export performance theories, which explain the determinants of export performance by firms. The theories presented are the resource based theory and the contingency theory.

#### **5.3.1 Resource-based theory**

The resource-based theory was developed by Penrose (1959) and postulates that firm growth could be influenced by the extent of the firm's resources. So firms with access to more resources, usually larger firms, had a tendency to grow more rapidly than smaller firms. The resources embrace physical capital and intangible capital covering technological assets, human capital, organisational capital and social capital.

According to the resource-based theory, for a firm to achieve competitive advantage, it should possess key resources, and the firm should deploy these resources effectively in its product markets. The essential elements of the resource-based view are sustainable competitive advantage and superior performance, and the characteristics and types of advantage-generating resources and strategic choices by the management (Fahy, 2000).

The firm's decision to export can be explained by the resource-based view of the firm. Firms are summarised as different bundles of valuable resources that are unique and difficult to imitate or substitute (Newbert, 2007). The differences in the size of such resources would critically determine inter-firm variation in the capabilities for internationalisation (Roxas & Chadee, 2011).

#### **5.3.2 Contingency theory**

The contingency theory was developed by Lawrence & Lorsch (1967). It was later enhanced by Mintzberg (1979). According to this theory, export performance can be considered to depend not only on the internal forces of a company but also on the context in which the company

operates. The development of internal features in organisations is affected by the amount of uncertainty and rate of change in an environment. Scott (2001) adds that in the contingency theory the best way to organise depends on the nature of the environment to which the organisation relates and organisations whose internal features best match the demands of their environments will achieve the best adaptation.

#### **5.4 Empirical literature review**

The section discusses the empirical literature review on determinants of exports among SMEs in Zimbabwe. The purpose of an empirical literature review is to understand findings by other researchers on determinants of exports and identify the contribution of this research to the literature on trade.

##### **5.4.1 Literature from countries belonging to the Organisation for Economic Co-operation and Development (OECD)**

This section analyses empirical literature on determinants of exports from OECD countries. Various authors have expressed different views pertaining to the determinants of exports in the OECD countries.

An analysis of the effect of industry characteristics on a firm's export intensity in Portugal was carried out by Reis & Forte (2016). The researchers used a sample of 19 504 Portuguese manufacturing firms, of which 7 930 were exporting, during the period 2010-13. Panel data was used for estimation. The empirical results showed that a firm's export intensity is determined by some industry characteristics: labour productivity, export orientation and concentration, as well as firm characteristics in the form of labour productivity, and the size and age of the firm.

The conclusion from the research was that a firm's export intensity is affected positively by the export orientation of the industry, as well as by the firm's labour productivity (Reis & Forte, 2016). This confirmed the belief that firms and governments need to direct their policies towards increased productivity in order to improve competitiveness in foreign markets. To enhance the positive effects of these policies, the policies should be directed towards industries with the highest export focus.

Freund *et al* (2016) investigated how trade costs affect exporters of different sizes and productivities in the US. They evaluate whether variations in trade costs across markets affect the

exports of SMEs and large firms differently. A simple gravity regression was estimated so as to understand the responsiveness of SME exports to trade costs. Using the assumptions of the gravity model, exports were assumed to be positively correlated with market size and negatively correlated with distance.

Freund *et al* (2016) assessed whether trade costs like distance, FTAs, or the absence of a common language affect SME and large-firm exports differently. The results imply that variation in trade costs across markets affects SME exporters in a very similar way to large firms. Longer delays in customs or higher tariffs depress both SME and large-firm exports. FTAs or common borders encourage SME exports in the same way that they encourage large-firm exports. Thus, reducing barriers to exports is unlikely to change the ratio of SME exports to large firm exports – rather, it would increase both proportionately.

Further, Zou & Stan (1998) provided an updated review and synthesis of the empirical literature between 1987 and '97 of the determinants of exports. The studies included in the review were identified by a systematic process that combined electronic means with manual search. The search yielded 50 articles. The review took a hybrid approach that combined the vote-counting technique with the narrative approach.

The findings by Zou & Stan (1998) were that both better and poor export performance should be attributed to management. The research suggested that exports are influenced by both controllable and uncontrollable internal determinants. Controllable internal determinants are export marketing strategy, management attitudes and perceptions. Uncontrollable internal determinants of exports are management characteristics, the firm's characteristics and its competencies. There are also uncontrollable external determinants of exports, namely industry characteristics, and foreign and domestic market characteristics.

The resource-based view (RBV) of the study of exports was done by Beamish & Dhanaraj (2003). The researchers used the results-based view of the firm to develop a more conceptually rigorous and parsimonious model of export strategy and exports. A parsimonious model of export strategy and exports drawing on the resource-based theory of the firm was developed in the paper and it was tested empirically with US and Canadian SME exporters' data. Using a

structural equation modelling approach, the authors tested the conceptual framework on empirical data from US and Canadian small and medium-sized exporters. Strategy and export performance were treated as two distinct constructs.

Beamish & Dhanaraj (2003) took the Schumpeterian view that firm size has a direct relationship with innovation and technological intensity. The research did a comparative study of two economies with dissimilar export profiles, using a similar structural equation model to provide a strong external validity of the model. The data used in the empirical test was based on survey questionnaires posted to a sample of 385 Canadian firms and 500 in the US. The research used a second-generation multivariate analysis technique known as structural equation. So Beamish & Dhanaraj (2003) did not reject the null hypothesis that the model presented in the paper was a good fit with the data. The results indicated that enterprise, technological intensity and firm size were good predictors of export strategy, and export strategy influenced firm exports positively (Beamish & Dhanaraj, 2003).

Monteiro *et al* (2013) carried out a study that was to contribute to a better understanding of the relationship between export performance – measured using different proxies (percentage of exports to sales or export intensity, export growth, export profit level, export market share) – and the size of the firm, measured through several indicators (the sales level, the number of employers, the sales/employers ratio, the level of investment in R&D). The researchers used the questionnaire on a sample of 19 firms, representing 6.3% of the population. The firms had 268 employees and €44.708 million as sales volume.

Monteiro *et al* (2013) divided the firms in groups: above the average number of employees, below the average number of employees, above the average sales volume and below the average sales volume. The research found that if the proxies used to measure the firm size determinant are varied, even when fixing the export performance proxies there were opposite signals of the effect of the determinant in the export performance.

Yannopoulos (2010) reports on the usefulness of the export assistance programmes available to Canadian exporting firms by the Canadian government. The null hypothesis was that the usefulness of export assistance programmes differs among Canadian SMEs of different sizes. The survey method of data collection was used. A total of 448 firms based in the Niagara region



of Canada were posted a questionnaire containing questions related to their exporting activities. The number of participants who completed the questionnaires was 137, a response rate of 30.6%.

Most of the participating firms employed fewer than 200 employees. In terms of the number of years involved in exporting, firms ranged from 1 to 85. Respondents were presented with a total of 12 questions related to support and advice services that are available to exporters and were asked to respond by indicating whether they found these services useful, not very useful or neutral. Support services included training in a variety of export-related matters, assistance with language and sales, market and product information.

Yannopoulos (2010) found out that not all government support services are equally useful or used to the same degree by Canadian exporters, as some of these services are found to be more and others less useful to the firms that took part in the study. So the research did not reject the null hypothesis that usefulness of export assistance programmes differs among Canadian SMEs of different sizes.

Francis *et al* (2003) studied the effect of export promotion programmes on firm competencies, strategies and performance, focusing on Canadian high-technology SMEs. The study clarified the ways in which export promotion programmes bolstered the export competence and export activities of firms, using a survey of small and medium-sized Canadian high-technology firms. For the study, firms were stratified by sub-sector and geographical region, and a sample of 500 firms was drawn. The researchers used a self-administered survey questionnaire, accompanied by a letter encouraging the firm to take part in the survey, as well as follow-up telephone calls. A total of 183 responses to the survey were received, representing a 37% response rate.

The results from Francis *et al* (2003) showed that greater use of export assistance programmes contributed to the achievement of export knowledge and product market objectives. Export assistance programmes appeared to have their greatest effect for firms at the beginning and developing stages of their export activity, and made more limited contributions to firms that were either essentially non-exporters or experienced exporters. Since data used was cross-sectional, there is a possibility that there might be long-term effects of programmes that were not addressed. Export assistance was found to have its most wide-ranging effect on both

sporadic and active exporters. Use of export assistance was associated with greater export competence.

Hart *et al* (1994) explored the relationship between marketing research activities and the amount of export experience possessed by a firm. Two major types of activities were identified: formal marketing research (surveys, seminars and so on), and informal marketing research (customer/distributor visits *et cetera*). Hart *et al* (1994) found that the spread of export activity, in terms of the number of geographical regions covered, is associated with the importance of background information and the use of informal market research. The findings suggest that companies, once they have entered into export activity, rely on personal contact with distributors, agents, customers and competitors to gather information concerning the markets they serve.

Hart *et al* (1994) also found that one of the most practical ways in which smaller firms might reduce risk when engaged in export operations, and so help them become more profitable and offer opportunities for growth, is to make use of a wider range of information sources and to be more rigorous in data collection. The results from Hart *et al* (1994) suggested that for companies to have any chance of increasing their success rate in export activities, a constant process of evaluation needed to be undertaken to ensure that the widest and most appropriate range of data sources were consulted, and that the methods of collection were compatible with both the type of information to be gathered and with the use to which information is to be put.

Katsikeas *et al* (2000) proposed a simplified model of export performance. The studies sought to critique and assess export performance measurements. To achieve this, the researchers reviewed and evaluated a number of articles of relevant empirical studies. The research used gaps identified in the evaluation to develop guidelines for export performance measure. The research suggested a contingency approach in their application. They found that background variables – environmental, organisational and managerial factors – have an effect on the marketing strategy, which influences export performance.

Babakus *et al* (2006) developed and empirically tested a model depicting the relationships among perceived environmental uncertainty, domestic and foreign networking, and export performance in Nordic countries. For the research, a sample of SMEs from Finland, Sweden and Norway was used. Data were collected via postal surveys from random samples of SME owners and managers. The research obtained usable responses amounting to 75 from Finland, 111 from Sweden and 71 from Norway.

The findings of the research were that uncertainty about supplier markets was a significant driver of domestic networking activities of SMEs. Foreign networking showed a significant positive effect on SMEs' export performance. The research found that firm size had positive influence on networking and export performance.

Berry *et al* (2002) concluded that there are a number of reasons for the failure of government support to small businesses. These include lack of awareness, uneven distribution, the high cost of searching for support services which has not been mitigated, and cumbersome administrative requirements of government programmes resulting in user fatigue and high levels of disappointment. In addition to the factors mentioned above, an important reason for the failure of government programmes to support small businesses is poor delivery, specifically the incompetence of the people delivering government support (Berry *et al* 2002).

Mauriel (2009) aimed to determine the factors French wine SMEs should focus on to improve their export performance. A theoretical model was built and used to structure an empirical analysis. The researcher used a questionnaire to collect data from 214 companies in the French wine industry. The questionnaire was pre-tested on 10 companies and was divided into eight thematic parts. Likert scales and dummy variables were used. The response rate was 29% and only companies with a turnover higher than €3 million were taken into account.

Export performance was the dependent variable and the correlation matrix was used to provide an indication of how variables were related to each other. Mauriel (2009) carried out a stepwise linear regression analysis to test the weight of several available quantitative and dummy variables on export performance. Analyses of variance (Anova) was used to confirm whether

linear relationships existed between the quantitative variables representing export performance and qualitative variables.

Mauriel (2009) found innovation, export commitment, export competencies and producing region were significantly and positively related to export performance indicators. Relationships with business partners had significant effect on export performance, except in the case of co-operatives. The export performance of French wine SMEs was positively influenced by the size of the company as well as the orientation and commitment of management towards the export activity. However, decision-maker characteristics of export performance did not have a significant effect on export performance. The weakness of the model used by Mauriel (2009) was that financial determinants of export performance were missing in the literature.

Several authors (Miesenbock 1988; Moini 1995; Wagner; 1995) concluded that the larger a company is, the higher its export performance is. They suggested that large enterprises have greater resources for gathering information on markets in foreign countries and for dealing with the uncertainties that prevail in foreign markets. They also argue that trade liberalisation leads to SME growth. This is similar to the general theory which suggests that size is capable of affecting a firm's export performance positively.

Several authors (Miesenbock 1988; Moini 1995; Wagner; 1995) concluded that the larger a company is, the higher its export performance is. They suggested that large enterprises have greater resources for gathering information on markets in foreign countries and for dealing with the uncertainties that prevail in foreign markets, who argues that despite SMEs' smaller access to resources when compared with bigger organisations, they experience more growth opportunities and a higher flexibility, which may improve export performance. Castaldi *et al* (2003), in a study of the French wine industry, hypothesised that firm size does not systematically affect export performance positively since small and successful exporting firms are to be found in the French wine industry.

Firm experience – the age of the company – gives the company more maturity in terms of management, international transactions and business partnerships, and is seen as influencing export performance (Majocchi *et al*, 2005). Ursic & Czinkota (1984) argue that the youngest companies, disadvantaged on the domestic market in terms of costs and access to resources,

can concentrate their efforts on exports and gain high performance. Cooper & Kleinschmidt (1985) argued that diversification of companies is preferred in enhancing export performance.

Export commitment – the general willingness to allocate the required resources to export development – appears to be a determinant of export performance in SMEs. Export commitment includes taking part in public export promotion programmes, trade shows, trade missions or gathering information on foreign markets (Cavusgil 1984). Wilkinson & Brouthers (2006) carried out a study on the relationship between the use of export promotion programmes and export performance in American SMEs and found that export promotion programmes enabled managers to obtain the necessary information, competencies about export markets, export techniques and processes so as to compete successfully on international markets.

Export orientation as a determinant of export performance was studied and empirically tested by Rose & Shoham (2002). Their finding was that firms that operated and reacted to changes occurring in their environment were more able to catch international opportunities available. A sign of export orientation and commitment is when managers consider international business and perceived profit opportunities as a priority. This is supported by Castaldi *et al* (2003) who, in their study of the US wine industry, confirmed the relationship between export commitment and export performance. They found significant correlation coefficients between two components of export commitment and export performance in US wine firms: resource commitment (positive), and considering the domestic market as a priority (negative).

Remaud (2006) further confirmed the importance of export orientation during a study that made a comparison of wine SMEs from three different countries (New Zealand, Australia and France). The results showed that a proactive attitude, export knowhow, market orientation and innovation have a positive effect on export competitiveness. The attitudes of the decision-maker, perceptions and characteristics play a role in the export success of SMEs where the manager is usually also the owner (Coudrec & Remaud, 2003). The education level, age and international experience of the manager are positive factors for export performance since a higher educational level provides the manager with a greater awareness of international issues and the reality of business life (Bellaaj & Akrou, 2005).

According to Brouthers & Nakos (2005), the positive effect of age can be explained by the fact that the manager has greater experience, has built a network around him and so is more able to face the obstacles met on international markets, while on the contrary, older managers may also be less open to international development and business practices. Younger managers could bring dynamism and a new approach. The manager's expertise and export commitment play a positive role in export performance (Favre-Bonte & Giannelloni, 2007).

Expertise means that the manager necessarily has the useful knowledge to decide what to do to get on and conquer new markets with success. Research done by Obben & Magagula (2003) found a link between export propensity, language proficiency and the frequency of business trips in Swaziland SMEs as they make communication with foreign partners easier.

Environment-related determinants also affect export growth for SMEs (Holzmuller & Stottinger, 1996). These determinants constitute constraints and opportunities a company must face and manage when exporting. Exchange rate fluctuations also affect SMEs because the tools necessary to manage exchange risk are expensive and most SMEs cannot afford these tools. A study by Majocchi *et al* (2005) concluded that the devaluation of the European currency had a positive influence on Italian SMEs. Aaby & Slater (1989) noted that export performance is determined by the environment and the strategy. However, strategy is influenced by firm characteristics and competencies.

Dean *et al* (1998) studied the effect of trade barriers on SME export performance and concluded that barriers to trade made access to the market difficult for new exporters. These barriers could be legal, financial, political or even trade-related and are linked to the structure of the industry. According to Wilkinson & Brouthers (2006), entry barriers affect the export performance of SMEs negatively since they make it difficult to reach a market where there are many barriers.

Moini (1995) concluded that exports are influenced by the perception of export barriers. So when barriers are perceived to be high, the manager of the SME is less confident about undertaking exports. So the more a manager perceives an export barrier as being high, the poorer the export performance. Belso-Martinez (2006) studied the relationship between industrial districts and export performance in SMEs and found a positive and significant link between the location

of the firm in the district as well as competitors and institutional networks on the one hand and the export performance of Spanish SMEs on the other hand. Aylward (2004) highlighted that belonging to a dynamic cluster where there is innovation, a high concentration of suppliers, appropriate public structures (education, financial support, research) led to better export performance.

The relationships between the exporter and his business partners, like distributors or customers, is important in the improvement of the export performance by small exporters (Beamish *et al*, 1993) SMEs can also use co-operative strategies to expand their knowledge of the export markets and reinforce their resources. This can contribute to improvement in their export performance (Haahti *et al*, 2005).

Several authors have carried out studies on SME exports from different parts of the world. This section analyses literature on SME exports from countries in Africa, Asia and South America, while the following section analyses literature specifically from African countries.

#### **5.4.2 Literature from Asian countries**

The section gives an empirical analysis of determinants of exports in Asian countries. Kaur (2016) carried out an analysis of competitiveness and performance of South Asian Association for Regional Cooperation (SAARC) countries in services exports covering the period 2002-13. The revealed comparative advantage methodology was used. The results showed that due to supportive institutions and infrastructure, India managed to produce and export modern services and gained comparative advantage and specialisation. Results also showed that India had emerged as the largest SAARC country in exports of services, especially after the formation of the WTO (Kaur 2016). The study suggests that India should invest in research and the development of new technologies to produce quality services to improve its position further in world services exports.

Using the logit model, Pradhan & Zohair (2015) analysed two selected states in India and found that differential performance in manufacturing exports could be related to the states' contrasting heterogeneity in terms of economic development, infrastructure, skill, knowledge and subnational policies. The findings also suggest that firms' exports in different states are shaped by a number of firm-level parameters like firm age, firm size, research and development

(R&D) intensity, foreign ownership, domestic business group affiliation and the policy variable capturing fiscal incentives (Pradhan & Zohair (2015)).

Gupta *et al* (2015) explored the determinants of exports of IT companies in India from 2000 to 2012 using company-level data. Panel data regression was used for the study, as methodology. The regression results showed that world demand and real effective exchange rate affected company exports. Foreign capital, however, had a negative coefficient, highlighting substitution relation between export and domestic demands.

Filatotchev (2009) examined factors affecting the export orientation and export performance of high-technology SMEs in an emerging economy. A sample of 711 SMEs from China was used. The research hypothesis was that export performance of the SME is positively associated with research and development (R&D) intensity and that R&D intensity is significantly associated with export performance. The empirical findings indicated the consistent positive effect of R&D on export performance.

Filatotchev's research (2009) concluded that export orientation and export performance of high-technology SMEs in emerging markets depended not only on their investment in R&D, but also on entrepreneur-specific factors like international experience, global networks and knowledge transfer from abroad. So the research revealed that both export orientation and performance are positively associated with the presence of an entrepreneur with international experience. This finding contrasted with the findings from earlier studies of Chinese industry, which found either that R&D intensity was not significant, or that it had a negative effect on the export performance of Chinese firms (Buckley, Clegg & Wang, 2002).

In Pakistan, Nazar *et al* (2009) identified and classified the firm-level controllable determinants of export performance. They produced with an export performance model which may help SMEs to enhance their export performance in the export market. In the model they synthesised export performance determinants as put forward by other researchers. The findings of the research were that determinants of export performance of SMEs were classified into three main categories: management characteristics; firm's characteristics; and export marketing strategic capabilities.



Management characteristics that affect the export performance of a firm are attitudinal characteristics, skill-based characteristics and behavioural characteristics. A firm's characteristics and competencies – like firm size, technology level, and knowledge – also affect SME export performance. Lastly, export performance is affected by export marketing strategic capabilities like the use of international marketing research, product capabilities, segmentation and targeting (Nazar *et al*, 2009).

#### **5.4.3 Literature from South American countries**

This section presents literature from South American countries on determinants of exports. Oura *et al* (2016) investigated the impact of innovation capacity and international experience on the export performance of SMEs located in an emerging country, Brazil. The researchers used the resource-based view and the dynamic capabilities approach as theoretical frameworks. The data were analysed through partial least squares structural equation modelling. The results indicate that international experience has a greater influence on SMEs' export performance than innovation capacity, showing that it is possible to overemphasise the role of innovation in the export performance of SMEs.

Lengler (2015) examined the determinants of customer orientation and the quadratic effects of customer orientation on exports of Brazilian small and medium-sized enterprises in an emerging market economy. Non-linear relationships were measured. The research findings suggested that technological intensity and competitive intensity are the key determinants of success in an export market (Lengler 2015). The findings from the research also pointed to the fact that the relationship between customer orientation and export performance is quadratic rather than linear.

A study of Chilean SMEs by Alvarez (2004) concluded that the differences in companies' commitment to exporting influenced export performance because it is linked to an unequal access to information and managerial competencies, or even by export barriers perceived by managers. Companies adopting an export-oriented management are more likely to experience better export performance.

Fugazza & Molina (2016) conducted empirical investigations into the major determinants of patterns and duration of trade relationships of 96 countries from the developing south, the

emerging south and the north for the period 1995-2004. The results of the study were that the duration of trade relationships increases monotonically with the level of economic development of the exporting country. The results also revealed that initial export value is positively correlated with export survival and that the relationship between export duration and product type illustrated the competition patterns characterising products. The results also revealed that developing south economies' fixed costs of exports increased the duration of exporting, while the fixed costs decreased the duration of exporting in emerging south and northern countries.

Anderson & Marcouiller (2002) estimated the reduction in import demand in several countries, using a structural model in which insecurity acted as a hidden tax on trade. This paper built a structural model of import demand in an insecure world and estimated the model using data collected by the World Economic Forum. The research findings were that inadequate institutions constrain trade as much as tariffs do. In addition, corruption and imperfect contract enforcement dramatically reduce international trade.

Further findings were that the omission of indices of institutional quality biased the estimates of typical gravity models. This obscured the relationship between per capita income and the share of total expenditure devoted to traded goods. (Anderson & Marcouiller 2002). Cross-country variation in the effectiveness of institutions and the consequent variation in the prices of traded goods were found to offer an explanation for the fact that high-income, capital-abundant countries traded disproportionately with each other.

#### **5.4.4 Literature from African countries**

This section analyses literature from several African countries on determinants of SME exports. The literature presented is from Nigeria, Uganda and Zimbabwe.

##### **5.4.4.1 Literature from Nigeria**

Udah *et al* (2015) evaluated the determinants of agricultural export growth in Nigeria. Time series secondary data were used and the study adopted regression analysis on micro- and macro-economic variables. The findings from the research point to the fact that export intensity is positively related to agricultural exports, and international trade is an instrument in achieving agricultural growth and wealth to the nation. Infrastructures that promote massive agricultural production should be pursued vigorously (Udah *et al*, 2015). The infrastructures to promote trade should include functional ports, power supply, telecommunication, agro-allied industries,

sound security outfit and a good road network. With massive agricultural production, economies of scale are generated and there is surplus which enables the economy to be agriculturally export-oriented (Udah *et al*, 2015).

Ajayi (2016) provides an empirical analysis so as to understand how institutional factors could affect export performance of the Nigerian agricultural sector's SMEs. The relationship between entrepreneurial orientation, networking capability, institutional environment factors and export performance of 235 Nigerian agricultural firms was assessed empirically. The results indicated a strong positive relationship between entrepreneurial orientation, networking capabilities, institutional environment factors and the export performance of the agricultural sector SMEs in Nigeria.

The results from the research by Ajayi (2016) suggest that these variables have a direct effect on the export performance of Nigerian agricultural SMEs: the ability of agricultural SMEs to be proactive and innovative and to take risks. Networking capabilities and institutional environment factors also have a direct effect on the export performance of Nigerian agricultural SMEs. The institutional environment factors, like government policies, procedures and regulations could lessen the influence of entrepreneurial orientation and networking capabilities on Nigerian agricultural SMEs' export performance (Ajayi, 2016).

Yusuff *et al* (2013) investigated whether there was a difference between factors influencing small business performance among women-owned and men-owned enterprises in informal economy in Lagos, Nigeria. The purposive survey method was used and the results showed that the factors that affected women-owned business were significantly different from factors that affected men-owned businesses.

Mambula (2002) studied the factors hindering the growth performance and development of small-scale enterprises in Nigeria and implications for policy.

Both qualitative and quantitative methodology was used. The conclusion made was that relevant institutions need to operate in a cohesive and cooperative manner to develop small businesses. The government needs to provide small businesses with infrastructure, procure from small businesses and provide subsidies. Lending institutions also need to help small businesses financially. In addition, the businesses need to create networks so as to help each other.

Okpara *et al* (2008) investigated the effect of export orientation on the performance of SMEs in Nigeria. A survey method was used to collect data from SMEs. The sample comprised firms listed by the Manufacturers Association of Nigeria. Usable survey results were obtained from 89 SMEs, of which 53% were exporting firms and 47% non-exporters. The survey instrument contained questions about the firms' attitudes toward exporting, performance, and growth.

The authors used a five-point Likert scale to ask questions, and the instruments were measured for reliability first. Three instruments were used to gather data: an export entrepreneurial orientation questionnaire, a strategic decision-making process questionnaire, and a questionnaire on the firm's level of performance. The results of the research showed that firms with higher export orientation were exporters and outperformed those with low export orientation. The results of the research suggested that export orientation affects SMEs' growth and performance.

Firms that are proactive in export orientation were found to be more likely to export and adopted more competitive decision-making style and strategy than those with a conservative orientation. Based on the findings, it was concluded that entrepreneurial orientation was an important aspect to be considered by SMEs when developing an export market.

Literature on SME promotion in Uganda is discussed in the next section.

#### **5.4.4.2 Literature from Uganda**

Kazooba (2006) investigated the reasons for small enterprise failure in Uganda. The descriptive survey method was used. The study concluded that administrative problems were the major cause of failure for small businesses in Uganda. These administrative problems were poor recordkeeping and a lack of basic business management experience and skills.

#### **5.4.4.3 Literature from Zimbabwe**

Generally there have been very few studies on SMEs in Zimbabwe. Also, authors studying Zimbabwe's SMEs have focused on SME competitiveness and growth, but not specifically on SME export performance. So there is very little literature to discuss pertaining SME exports. This study seeks to fill this gap by providing literature on SME exports in Zimbabwe.

Zindiye *et al* (2012) investigated the influence of support by the government and other institutions on the performance of small and medium enterprises (SMEs) in the manufacturing sector in Harare, Zimbabwe. A sample of 241 SME owners or managers took part in the study. The researchers applied the simple random sampling technique for the study. A structured questionnaire and structured interviews were used. Ordinal multinomial logit models were used to test for the effects of explanatory variables on those responses that had more than two categories.

For the binary responses, ordinary logit models were used. To assess or evaluate the association among the response factors, log-linear modelling was used. Chi-square was used to test for association. All tests were carried out at a 5% significance level. These statistical tools were used since the data contained some categorical variables where responses are classified. The results indicated that government and other institutions are playing a positive role on the performance of SMEs despite the prevailing difficult economic conditions. Based on the results from Zindiye *et al* (2012), it can be concluded that duty drawback system and skills training are the most important initiatives for the growth of SMEs in the manufacturing sector in Harare, Zimbabwe.

Muranda (2003) investigated the relationship between firm characteristics and export constraints in SME manufacturing sector in Zimbabwe. A survey of 124 manufacturing companies in Zimbabwe was taken, revealing that Zimbabwe's export growth has fallen. The conclusion from the study was that Zimbabwe's exporters are essentially small to medium and that size, experience, and risk aversion are the characteristics that contribute strongly to perceived constraints. Muranda (2003) observed five constructs underpinning the current constraints to growth and competitiveness. These are inadequate experiential knowledge, inadequate technical skills, uncompetitive pricing, operational capacity, and an unsupportive business environment. The next section contains a discussion of the contribution of the research to literature on exports.

### **5.5 Contribution of the research to literature on exports**

As has been pointed out, there have been very few studies on SMEs in Zimbabwe. Authors studying Zimbabwe's SMEs have focused on SME competitiveness and growth, but not specifically on SME export performance. For example, studies on SMEs in Zimbabwe were carried out by Zindiye *et al* (2012), who concluded that government and other institutions are playing a positive role on the performance of SMEs despite the prevailing difficult economic conditions.

Muranda (2003) concludes that Zimbabwe's exporters are essentially small to medium and that size, experience and risk aversion are the characteristics that contribute strongly to perceived constraints. The five constraints to growth and competitiveness are inadequate experiential knowledge, inadequate technical skills, uncompetitive pricing, limited operational capacity and an unsupportive business environment (Muranda 2003). So there is very little literature to discuss pertaining to SME export performance in Zimbabwe. Empirical studies on SME export performance have been carried out in other countries, but not in Zimbabwe.

For example, as has been noted in Pakistan, Nazar *et al* (2009) identified and classified the firm-level controllable determinants of export performance: management characteristics; firms' characteristics; and export marketing strategic capabilities. Filatotchev (2009) concluded that export performance of high-technology SMEs in emerging markets depended on their investment in R&D, international experience, global networks and knowledge transfer from abroad.

This study seeks to fill the existing gap by providing literature on SME export performance in Zimbabwe. The research provides literature on the factors influencing export performance in Zimbabwe. The research also provides literature on the competitiveness of Zimbabwe's exports in the manufacturing sector and on the major constraints faced by SME exporters in Zimbabwe.

### **5.6 Concluding remarks**

The chapter presented empirical and theoretical literature on trade. The first section contains an analysis of various trade theories, followed by a presentation of export performance theories

in the second section. Empirical literature was presented in the the section of the chapter. The doctrine of mercantilism constituted early ideas on trade. Mercantilism's major weakness was that only exports were encouraged while imports were discouraged. This to a large extent compromised gains from trade. Adam Smith regarded mercantilist policies as ill-informed policies as these proved to be too much state controlled to the detriment of trade.

Free trade was the main idea of the classical economists, among whom Adam Smith and David Ricardo were significant. In accordance with Smith's thinking, trade was possible as long as one of the trading partners could produce one of the goods at a lower cost. Smith's philosophy formed the basis of the so-called absolute advantage concept. However he failed to explain a situation where a trading partner had absolute advantage in both goods. This was explained by Ricardo with the comparative advantage theory, through which he demonstrated that trade was possible in such a scenario.

The international trade discourse went beyond Smith and Ricardo's philosophy to issues relating to factor endowment. It is against this background that the H-O model emerged. H-O theory demonstrated that a country specialises in producing a commodity using abundant factor endowment. This means that a country with abundant production factor should specialise in labour-intensive methods of production and import goods which have low factor endowment.

However, the H-O theory did not go without some criticism. Leontief challenged the H-O model by pointing out that a country with abundant factor of production can import goods which are produced using the factor which is available in abundance in that particular country. For example the US, with capital intensity, imported goods which were produced by capital-intensive methods and exported goods produced by labour-intensive methods, although the criticism was later attacked. Other theories – product life cycle and spillover theory – have also been analysed in the chapter.

International trade plays an integral part in the global economy and the theories discussed in this chapter play a significant role in explaining international trade, despite their weaknesses. Clearly there is no outright correct or incorrect theory. One cannot apply a particular theory

exclusively as the theories cut across and there is a cross-pollination of the theories. For example one cannot use the comparative advantage theory and ignore the H-O theory.

The theories are relevant to Zimbabwe as they all explain determinants of SME exports in one way or another. In the chapter, an analysis was made of empirical literature on export performance, export orientation and export intensity from the Organisation for Economic Co-operation and Development (OECD) and from African, South American and Asian countries. The purpose is to understand the determinants of export performance in other countries.

The chapter also analysed empirical studies on determinants of export orientation, export performance and export intensity. Mauriel (2009) concluded that the export performance of French wine SMEs was positively influenced by the size of the company as well as the orientation and commitment of management towards the export activity. Okpara *et al* (2008) concluded that entrepreneurial orientation was an important aspect to be considered by Nigerian SMEs when developing an export market.

For Canadian SMEs, Francis *et al* (2003) concluded that greater use of export assistance programmes contributed to the achievement of export knowledge and product market objectives. The studies that focused on determinants of SMEs export performance focused on other countries, but very little research has been carried out to determine factors influencing SME exports in Zimbabwe. This study seeks to fill this gap.



## CHAPTER 6

### RESEARCH METHODOLOGY

#### 6.1 Introduction

This chapter explores and presents the research methodology used in the study in fulfilling the research objectives presented in chapter 1. Both quantitative and qualitative research methods were used. The chapter is organised as follows: in section 6.2 the research design is explained, in 6.3 the population is elaborated while in section 6.4 the sampling procedure is explained. In section 6.5 the qualitative method used is explained. Section 6.6 presents the quantitative method employed to establish determinants of exports among SMEs in Zimbabwe. Section 6.7 explains the various indicators used to measure competitiveness of Zimbabwe's export sectors.

#### 6.2 Research design

To fulfil the objectives of the study, a highly structured approach is necessary, hence the researcher used a three-pronged approach to the study involving explanatory research, survey research and desk research. An explanatory approach has the advantage of studying problems to explain the relationship between variables (Creswell, 2003). The approach ensures that the researcher is independent of what is being researched, which ensures the application of controls to ensure the validity of the data (Gujarati, 2003). The researcher can move from theory to data, so giving clear insights on the subject matter. The explanatory research allowed the use of both primary and secondary data and both qualitative and quantitative research methods. To complement the explanatory research method, the survey data analysis was used. As an inductive approach, the survey data research method enabled the researcher to be part of the research process, giving a close understanding of the context.

Because of the survey method, data was collected from a sizeable population in an economical way and questionnaires enabled comparison of the data (Saunders *et al*, 2007). The limitation of the survey method is that there is a limit to the number of questions, and data may not be as wide-ranging as in other research strategies. The explanatory and survey methods addressed the microeconomic component of the study. Desk research was used to further widen the scope of the study and to address the macroeconomic component of the study. Each method was used for a different research objective, bringing the benefits of multiple approach to the study.

### **6.3 Population**

In Zimbabwe there are no records to show the total number of exporting SMEs. There is general consensus that there is a dearth of up-to-date metrics on the size and nature of the SME sector in Zimbabwe (UNDP, 2010) The Zimtrade directory of exporters is the document that is closest to showing exporters in Zimbabwe, however the directory shows all exporters, not just SME exporters. Some of the listed exporters have since stopped exporting due to the difficult economic conditions in Zimbabwe. Yet there are also a number of exporters that are not listed in the Zimtrade directory.

### **6.4 Sampling procedure**

Wood & Harber (1990) define sampling as the process of selecting a portion of the population to represent the entire population. The researcher used the convenient non-probability sampling method to select SMEs to include in the sample, because of the lack of accurate records in Zimbabwe on SME exporters. The stratified sampling technique was applied in the selection of institutions.

#### **6.4.1 Selection of respondents**

The sample size comprised 120 exporting SMEs in Zimbabwe. Most of the SME respondents, 60%, were from Harare Province. These were selected mainly from the industrial areas of Msasa, Graniteside and Workington in Harare and were mainly in the arts, manufacturing, construction and electronics exports sectors. In addition, 26% of the respondents were selected from the Bindura and Mazowe districts in Mashonaland Central, comprising mainly small-scale miners and farmers.

Lastly, 14% were chosen from Mashonaland East province. These were mostly farmers around the Marondera and Macheke areas. In addition, 10 institutions that support SMEs were interviewed. All 10 of the institutions were chosen from Harare since most companies in Zimbabwe are headquartered in Harare. Two focus group discussions were held with a total of 53 SMEs owners and managers, one in Harare and another in Mashonaland Central Province. The researcher ensured that the sample was representative of the total population of the SMEs and SME support institutions in the export sector. As indicated earlier, the study made use of qualitative research methods and quantitative research methods. The next section is a discussion of qualitative research method employed.

## **6.5 Qualitative method**

The qualitative research method was employed to collect data on constraints faced by SME exporters and data on characteristics both the respondents and the SME businesses. SPSS 16.0 was used to process qualitative data. The following are the qualitative data collection techniques used.

### **6.5.1 Primary data collection technique – triangulation**

Primary data were collected by the researcher and one trained fieldworker. The fieldworker was a BSc Economics graduate who underwent two days' training in data collection and interviewing techniques under the direct supervision of this researcher. The primary data collection technique used was triangulation. Several scholars have defined triangulation down the years. For example, Cohen & Manion (1986) define triangulation as an “attempt to map out, or explain more fully, the richness and complexity of human behaviour by studying it from more than one standpoint”.

According to O'Donoghue & Punch (2003), triangulation is a “method of cross-checking data from multiple sources to search for regularities in research data”. Triangulation helps to enhance the validity and reliability of the study and increase the credibility and validity of the results. Denzin (1978) identified four basic types of triangulation: data triangulation (involves time, space and persons), investigator triangulation (involves multiple researchers in an investigation), theory triangulation (involves using more than one theoretical scheme in the interpretation of the phenomenon) and methodological triangulation (involves using more than one method to gather data).

In this study, the methodological triangulation was used. Greene & Caracelli (1997) define methodological triangulation as the use of more than two methods in studying the same phenomenon under investigation. There are two types of methodological triangulation: the between and the within method. Triangulation overcomes challenges caused by a single method and single observer bias (Denzin, 1978). It increases the researcher's depth and understanding of a phenomenon under investigation by combining multiple methods (Fielding, 2012).

To observe Denzin's (1978) triangulation, three methods of qualitative data collection were used: questionnaires, interviews and a focus group discussion (Babbie and Mouton, 2010). The

researcher gathered primary data from 2009 to '15, since the years immediately before 2009 in Zimbabwe were characterised by high economic instability and a possible lack of credible SME data.

### **6.5.2 The questionnaire**

The questionnaire (Appendix 2) was developed specifically to collect the required data from SMEs. The questionnaire was divided into four sections, A to D. Section A focused on demographic data, Section B focused on SME business characteristics, Section C focused on support institutions and access to finance, and Section D focused on research and development. To avoid errors in the questionnaire, it is important to pre-test it (Babbie & Mouton, 2010).

Using a questionnaire ensured that data was analysed more scientifically and objectively. The results of the questionnaire were also quickly and easily quantified by the researcher. The questionnaires were initially distributed to 125 SMEs. However 120 SMEs returned completed questionnaires, while the other five did not. Before distribution, the questionnaire was pre-tested in a pilot study using 10 SMEs to eliminate the possibilities of error.

#### **6.5.2.1 Reliability and internal consistency of the questionnaire**

When using Likert-type scales it is imperative to calculate and report Cronbach's alpha coefficient for internal consistency and reliability for any scales or subscales one may be using (George & Mallery, 2003). Internal consistency is the extent to which tests or procedures assess the same characteristic, for example skill or quality. It is a measure of the precision of the measuring instrument used in a study. Cronbach's alpha is a coefficient (a number between 0 and 1) that is used to rate the reliability of an instrument.

The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale and the more reliable the research instrument is (George & Mallery, 2003). Based on the formula  $rk/[1 + (k - 1)r]$ , where k is the number of items considered and r is the mean of the inter-item correlations, the size of alpha is determined by both the number of items in the scale and the mean inter-item correlations. George & Mallery (2003) provide these rules:

- ≥ .9 = Excellent,
- ≥ .8 = Good,
- ≥ .7 = Acceptable

$\geq .6$  = Questionable

$\geq .5$  = Poor, and

$\leq .5$  = Unacceptable.

To test for the reliability and internal consistency of the research instrument used in this study, Cronbach's alpha reliability coefficient was calculated and the results obtained are presented in Chapter 7.

### **6.5.3 Interviews**

Hornby (1995) defines an interview as a meeting between two people to discuss important matters, usually rather formally. In addition to the questionnaire, interviews were also used to collect data. The research used the interview method because it has the advantage of a high response rate. There is room for probing and clarification, by means of which respondents can explain and expand their views.

The presence of the interviewer ensured that no-one else contributed to the answering of the questions besides the particular respondent. Non-verbal responses can be observed and noted. Some questions were rephrased and asked in vernacular to enable the interviewer to gain a clearer understanding. The researcher's facial expressions, voice projection and intonation or probing helped the respondent predict what the researcher was looking for.

The research made use of structured interviews. Ten SME support institutions were interviewed. The support institutions interviewed were in these sectors: government, quasi-government, SME associations and financial institutions. The interview guide (Appendix 3) had four parts, A to D. Part A pertained to demographics, Part B to the institution's characteristics, Part C to research and development, and Part D to other support given to SMEs.

### **6.5.4 Focus group discussions**

The study of focus groups originated in American marketing (Fern, 2001). By the middle of the 20th century, advertising companies were hiring marketing firms to survey the public to establish what kinds of products and services were most appealing. While providing a great deal of useful information, the surveys did not explain why products held so little appeal for

some people, nor did these surveys suggest how products on the market might be altered to elicit greater consumer support.

The focus groups approach gained popularity as it allowed participants to explain the reasons behind their reaction to products. Such groups were then adopted as policy-setting instruments by politicians interested in responding to “the voice of the people”. It took a while for academic research to catch on to the usefulness of focus groups, and even when academia did begin to realise the potential of this approach, there was initially no standard methodology for gathering data. It was not until the late 1980s and early '90s that the social sciences recognised focus group interviews as important data sources (Vaughn, Schumm & Sinagub, 1996).

The participants in the focus groups were selected by using a snowball sampling technique, by which interested persons helped by providing the names of other potential participants (Lindlof, 1995). The participants were owners of small businesses in various sectors and represented different types of businesses. The aim was to solicit information from a heterogeneous group so as to avoid biases.

In this study, two focus group discussions were held with a total of 53 SME owners and managers, one in Harare and the other in Mashonaland Central Province. The aim of the focus group discussions was to gain qualitative data from the respondents. The focus group discussion in Harare was held at the premises of one of the SMEs and there were 32 SME owners and managers in attendance. The focus group discussion in Mashonaland Central was held in the predominantly farming and mining community at Glendale Shopping Centre and there were 21 SME owners and managers in attendance.

There were therefore more than 20 participants in each of the focus groups, as recommended in various sources (Kitzinger & Barbour, 1999; Lindlof, 1995). The researcher explained the background and purpose of the research to the participants, who were allowed to speak freely on their perceptions and attitudes concerning SME export intensity in Zimbabwe.

The participants were also asked to elaborate on strategies they believed support institutions and the government should implement to promote SME exports in Zimbabwe, and the constraints that they faced in the export business. The results of the focus group discussions are

reported in Chapter 7 of this thesis. As indicated earlier, the study makes use of both the quantitative and qualitative methods. In the next section, the quantitative method is presented.

## **6.6 Quantitative method**

For quantitative data analysis, the study used the gravity model of trade, using random effects, panel data ordinary least squares. The study made use of panel data over time to control for heterogeneity and the data were processed using the e-views 8 statistical package. Both primary and secondary data was used in the gravity model.

### **6.6.1 Data sources for the gravity model regression**

For gravity model regression, time series data was downloaded from the websites of the following institutions: the World Bank, the World Trade Organisation, ITC Trademap, the Zimbabwe National Statistics Agency and the United Nations Conference on Trade and Development (UNCTAD). In addition, secondary data was obtained from the records supplied by SMEs and support institutions while the primary data incorporated in the model was obtained from questionnaires.

### **6.6.2 Panel data**

Panel data framework was used in this study. The researcher collected panel data for the period 2009 to '15. Panel data helps to disentangle time-invariant and area-specific effects so as to capture the relationships between relevant variables over time (Hsiao 2006). It can control for heterogeneity while giving more informative data. It also gives the ability to monitor the possible unobservable specific individual effects, thereby removing the problem of biased OLS estimates in the event that there is correlation. According to Hsiao (2006), panel data blends inter-individual differences and intra-individual dynamics, giving it several advantages over cross-sectional or time-series data.

These advantages are that it usually contains more degrees of freedom and more sample variability than cross-sectional data, hence improving the efficiency and accuracy of econometric estimates. In addition, panel data capture the complexity of human behaviour better than a single cross-section or time series data (Hsiao 2006). They are used to control the impact of omitted variables and for covering dynamic relationships. Panel data simplify computation and

inference in analysis of non-stationary time series and avoids measurement errors. The e- views statistical software was used to analyse data.

### 6.6.3 The gravity model of trade

The study used the gravity model of trade to analyse the significance of several variables of small to medium enterprise export intensity in Zimbabwe. The gravity model of trade specifies that volume of trade between two countries is proportional to their economic sizes or incomes and is inversely related to geographical distance between the countries. Other variables like institutions will be added to the model. The concept of the gravity model is based on Newton's (1667) Law of Universal Gravitation which relates the force of attraction between two objects to their combined mass and distance. Tinbergen (1962) and Pöyhönen (1963) first applied the gravity model to assess and analyse international trade flows.

Linnemann (1966) pointed out that there are three main factors to be considered when considering theoretical aspects of the gravity model of trade. These are the total potential demand for imports of a country in the world market, the total potential supply or exports of a country to the world market and actors that create resistance to trade and thus affect the degree of trade intensity – tariff barriers, distance and transport costs. Linnemann (1966) justified the use of the gravity model by arguing that it is a reduced form of a four-equation partial equilibrium model of export supply and input demand with prices excluded. The basic gravity model is specified as follows:

$$Trp = \frac{\alpha(Y_r Y_p)^{\beta_1}}{(Dist_{rp})^{\beta_2}}$$

Where  $r \neq p$

$Trp$  – shows total merchandise between country r and p

$Y_r$  – country r's national income

$Y_p$  – country p's national income

$Dist_{rp}$  – distance between country r and p's commercial centres.



$\beta_1$  is expected to be positive.  $Y$ , a country's income, is expected to be positive, since high  $Y$  means higher ability to produce and export. Distance is another determinant of bilateral trade between country  $r$  and country  $p$ .  $\beta_2$  is expected to be negative since it is a coefficient of transport costs which are a factor resistant to trade.

#### **6.6.4 Previous empirical studies on gravity model of trade**

There are several empirical studies that used the gravity model of trade. Baxter & Kouparitsas (2006) carried out research on 92 countries to establish the determinants of international trade. Potential trade determinants measured were the standard gravity variables, endowments of factors of production, level of economic development, measures of barriers to trade, exchange rate volatility, currency union and similarity of industrial structure.

Their research found that bilateral factor endowments are robust determinants of trade and that the higher the trade the more equal the endowments across two countries are. Bilateral trade was found to be lower if two countries shared the same level of development and had similar industrial structures. Fixed exchange rates were found to be positively related to bilateral trade.

Achey (2006) used the gravity model on 146 countries for five-year sub-periods between 1970 and 2000 to investigate the determinants of trade flow volumes between various countries of the world. The findings showed that most estimated coefficients were statistically significant. GDP, GDP per capita, common frontier, common official language, common currency and common colonial past had a positive effect on volume of bilateral trade while geographical distance had a negative effect on the volume of trade. The adjusted quality of the model (adjusted  $R_2$ ) was high, at 71%.

Anderson & Van Wincoop (2003) showed in their study that incorporating multilateral resistance measures like trade barriers could greatly improve gravity model estimation. They argued that measuring multilateral resistance using remoteness variables based on measures of distance did not capture border effects, So it was much better to consider the effect of trade barriers on prices in solving the gravity model. However, according to Feenstra (2004), the contribution by Anderson & Van Wincoop is difficult to implement and so has not been widely adopted.

Feenstra showed that the same results as Anderson & Van Wincoop (2003) could be generated by the inclusion of country-specific fixed effects with little loss in efficiency. However this approach by Feenstra has a weakness in that it does not allow for multilateral resistance to be calculated explicitly. To solve this, Baier & Bergstrand (2005) came up with an alternative solution which gives results consistent with Anderson & Van Wincoop (2003) while allowing for multilateral resistance terms to be solved. This solution uses a Taylor series expansion to approximate for price effect terms.

To analyse Bangladesh's trade flows with its trading partners, Rahman (2004) applied a generalised gravity model. Panel data estimation techniques were used and the study concluded that Bangladesh's trade was positively determined by openness of trade, size of economies and per capita GDP differential of trading countries. Exports were largely determined by the openness of Bangladesh's economy, the exchange rate and the total import demand of partner countries. Bangladesh's trade was affected negatively by transport costs.

Martinez-Zarzoso & Nowak Lehmann (2003) applied the gravity model to assess Mercosur-European Union trade and trade potential. They used panel data to test 20 countries from Mercosur and the EU and concluded that variables added to the standard equation – infrastructure, income differences and exchange rate – were important determinants of bilateral trade. They discovered that the fixed effects model was preferred over the random effects model.

The determinants of trade in COMESA were tested by Geda *et al*, (2002). The conclusion from the study was that all the standard gravity model variables had plausible and statistically significant coefficients, except for proximity. In addition, good macroeconomic policies determine bilateral trade in Africa. De Groot *et al* (2004) studied the effect of institutions on trade flows, using a gravity model approach, and so incorporated factors like geographical proximity, language, trade policy and common history as explanatory factors for variation in bilateral trade. A focus was also made on the relevance of the quality of governance and the extent of familiarity with the resulting framework of rules and norms in explaining variation in bilateral trade patterns.

Geda *et al* (2002) carried out a test to determine whether institutional homogeneity and institutional quality had an independent effect on the volume of trade between pairs of countries. The results were that having a similar institutional framework promoted bilateral trade by 13%, on average. Better-quality formal institutions tended to coincide with more trade. Depending on whether one was an importer or an exporter, an increase in overall institutional quality of one standard deviation from the mean led to an estimated increase of 30% to 44% in bilateral trade.

### **6.6.5 Empirical gravity model specification**

The basic gravity model variables are a country's national income, the national income of the trading partner and distance between the country and its trading partner. The three basic gravity model variables in the model are Zimbabwe's GDP and the trading partner's GDP, which were both expected to have a positive relationship with export intensity, and distance, which was expected to have a negative relationship with export intensity.

#### **6.6.5.1 The augmented gravity model**

Augmenting the gravity model with the proper variables is crucial so as to obtain better estimates and reduce the effect of omitted variable bias (Diaz & Delgado, 2013). The augmented gravity model includes other variables accounting for additional factors that may affect SME export intensity: export processing zones, years of education, years of exporting, the firm's age, its size, gender, research and development, product type, support institutions and business ownership.

Some of the variables in the augmented gravity model are presented in the log-linear form to allow for the interpretation of coefficients as elasticities. However dummy variables are not expressed in log form. According to Gelman & Hill (2007), the coefficients on the natural log scale are directly interpretable as approximate proportional differences. Including dummy variables for groups controls for a certain amount of heterogeneity that might be correlated with the (time-constant) elements of the variable ( $x_{it}$ ) (Wooldridge, 2006).

Following Martinez-Zarzoso (2003), the model is specified as follows:

$$\begin{aligned} \text{Exp Int}_{it} = & \beta_0 + \beta_1(\text{Support\_inst}_{it}) \\ & + \beta_2(\text{Bus\_own}_{it}) + \beta_3(\text{Lnr\_d}_{it}) + \beta_4(\text{Educ\_yrs}_{it}) \\ & + \beta_5(\text{Epz\_s}_{it}) + \beta_6(\text{Exp\_yrs}_{it}) + \beta_7(\text{Prod\_type}_{it}) + \beta_8(\text{Firm\_age}_{it}) + \\ & \beta_9(\text{Firm\_size}_{it}) + \beta_{10}(\text{Gender}_{it}) + \beta_{11}(\text{Lndist\_tp}_{it}) + \beta_{12}(\text{Lngdp\_tp}_{it}) + \\ & \beta_{13}(\text{Lngdp\_zimb}_{it}) + U_{it} \dots \dots \dots 6.1 \end{aligned}$$

**6.6.5.2 Dependant variable – export intensity**

According to Leonidou *et al* (2002), the most-used measures of export performance are export proportion of sales or export intensity, export sales growth, export profit level, export sales volume, export, market share, and export profit contribution. For the purposes of this study, export intensity is used as the measure of export performance, which is the ratio indicating the percentage of export sales in total sales. Export intensity is one of the most commonly used indicators in export research. Following (Sousa, 2004), export intensity is calculated as follows:

$$\text{Export Intensity} = \frac{\text{Export Sales}}{\text{Total Sales}} \times \frac{100}{1}$$

The advantage of using export intensity over using export turnover is that it cancels the size effect, represents the export dependence of the company and facilitates comparison between companies of different sizes, industries and countries (Sousa, 2004). Gemunden (1991) noted that there are more than 700 explanatory variables that have been advanced in the literature as determinants of export performance.

**6.6.5.3 Explanatory variables**

- Support institutions (Support\_inst<sub>it</sub>) – is a dummy variable representing support from institutions. It assumes 1 if the SME has received institutional support and 0 if otherwise. The support includes training, technical or financial assistance by institutions like the government, banks, micro-financiers, donors and so on, on SMEs.
- Business ownership (Bus\_Own<sub>it</sub>) – the variable indicates whether the respondent is the business owner. It assumes 1 for business owner, 0 otherwise.
- Research and development (lnR\_D<sub>it</sub>) – is the expenditure on research and development and capacity building by SMEs and their sponsors. The research assumed that the higher the amount spent by the SME on R&D, the higher the export intensity.

- Years of education ( $Educ_{it}$ ) – comprises primary and secondary school and tertiary education. This variable indicates the number of years the respondent has spent pursuing education. The research assumed that the more the years in education, the higher the export intensity.
- Export processing zones ( $EPZ_{sit}$ ) – this is a dummy variable representing export processing zones or free trade zones affecting trade between Zimbabwe and its partners. They are a result of government intervention. The variable takes the value of 1 if the SME has operated in an export processing zone or 0 otherwise.
- Years of exporting ( $Exp_{it}$ ) – this variable measures the business's period of exporting in years. The research assumed that the more the years of exporting, the higher the export intensity.
- Product type ( $Prod_{type_{it}}$ ) – the variable shows the type of product exported. It is a dummy variable with 1 non-manufactured product, 0 otherwise.
- Firm age ( $Firm_{age_{it}}$ ) – the variable measures the number of years the business has been operating or its age. The research assumed that the more years in business, the higher the export intensity.
- Firm size ( $Firm_{size_{it}}$ ) – the variable shows the size of the firm. It is measured by the total number of employees in the firm.
- Gender ( $Gender_{it}$ ) – variable shows the gender of respondent. It is a dummy variable with 1 male, 0 female.
- Distance (kilometres) from trading partner in natural logs ( $Indist_{tp_{it}}$ ) – distance appears as a proxy for transport costs. For countries that are close to each other, transport costs are lower than those far from each other. The coefficient is expected to be negative since it is a resistance factor which reduces export intensity between countries. It is expected to have a negative effect on export intensity.
- Gross domestic product of trading partner (US\$) in natural logs ( $Ingdp_{tp_{it}}$ ) is the income of Zimbabwe's trading partner country and an indicator of the trading partner's capacity to consume domestically produced and imported goods. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. Data are in current US dollars.

- Gross domestic product Zimbabwe in natural logs ( $\ln \text{gdp\_zimbi}_i$ ) – is a measure of Zimbabwe's income and capacity to produce goods for domestic and export markets and indicates the range of product varieties available for export. It is measured in nominal terms and expressed in US dollars. The coefficients of GDP are expected to be positive as income affects trade flows positively. It is an indicator of the size of a country in the model and measures that country's trading capacity. GDP is predicted to affect bilateral trade positively. The information was obtained from the World Bank website (2006).
- $U_{it}$  is the error term

#### **6.6.5.4 Limitations of the gravity model of trade**

The gravity model of trade used in this study has been successful empirically; however it has faced some criticism. Applying gravity models to trade was initially criticised as lacking basis and foundation from trade theory, although the models exhibited high statistical explanatory power (Matyas *et al*, 2000). Critics also argued that gravity did not incorporate models of international trade such as Ricardo's comparative advantage or the Heckscher-Ohlin (H-O) model as the basis for trade (UNCTAD, 2012). Cyrus (2007) criticised the specification of the gravity model, especially when using the ordinary least squares techniques in that causality between income and trade is not clear.

The gravity model's theoretical foundations had some initial weaknesses, but later on the model improved thanks to advances in empirical work and literature. In later years connections were made between the gravity and the H-O theory (Deardoff 1998). Even though standard trade theories explain the reasons for trade, they cannot explain why some countries' trade links are stronger than others and why the level of trade between countries tends to increase over time. So the gravity model of trade has been used in many studies aimed at analysing the bilateral flows of trade and analysing the effects of regional trading arrangements on trade.

Despite some criticism, the literature shows that the overall advantages of the gravity model outweigh its weaknesses. Currently the main regressors used – GDP and distance – are supported by a wide range of theoretical models (Deardoff 1998). Linnemann (1966) justified the

use of the gravity model by arguing that it was a reduced form of a four-equation partial equilibrium model of export supply and input demand, with prices excluded.

### 6.6.6 Fixed effects model

Fixed effects explore the relationship between predictor and outcome variables within an entity. Each entity has its own individual characteristics that may or may not influence the predictor variables (for example, being a man or a woman could influence one’s opinions regarding certain issues). Fixed effects removes the effect of time-invariant characteristics so that the net effect of the predictors on the outcome variable can be assessed. Another important assumption of the fixed effects model is that time-invariant characteristics are unique to the individual and should not be correlated with other individual characteristics.

The fixed effects approach assumes that although the intercept may differ across individuals, each individual’s intercept does not vary over time. The model assumes that slope coefficients are constant across the firms over time. Fixed effects regression enables one to control for omitted variables that differ between cases but are constant over time. It allows one to use the changes in the variables over time to estimate the effects of the independent variables on the dependent variable, and is the main technique used for analysis of panel data. The fixed effects regression model follows:

$$Y_{it} = +\beta_{1i} + \beta_2 X_{2it} + \beta_3 X_{3it} + u_{it} \dots\dots\dots 6.2$$

The subscript i is on the intercept term in the equation to suggest that the intercepts of the firms may be different due to special features like managerial style or philosophy (Gujarati, 2005).

#### 6.6.6.1 Least squares dummy variable fixed effects

In this method, a dummy variable is used to account for individual effects in fixed effects estimation. For the intercept to vary between firms – i e to account for individual effect – a dummy variable is used, as follows, assuming four firms:

$$Y_{it} = \alpha_1 + \alpha_2 D_{2i} + \alpha_3 D_{3i} + \alpha_4 D_{4i} + \beta_2 X_{2it} + \beta_3 X_{3it} + u_{it} \dots\dots\dots 6.3$$

To avoid falling into the dummy trap, the number of dummy variables used in the above equation is limited. Using dummies to estimate the fixed effects is also known as least squares

dummy variable model. Time effect can be allowed for because of technological changes, changes in government regulations, wars and so on.

The drawbacks of the least squares dummy variable fixed effects model are as follows:

- The use of a dummy variable for each cross-sectional unit generates a loss in degrees of freedom.
- With many variables in a model, there is always the possibility of multicollinearity which might make precise estimation of one or more parameters difficult.
- With time-invariant variables like sex and ethnicity, the least squares dummy variable approach might not be able to identify the effect of such time-invariant variables.
- The classical assumption of error term  $u_{it} \sim N(0, \sigma^2)$  might have to be modified.

### 6.6.6.2 Within-groups fixed effects

Using the model, the mean values of the variables in the observations on a given individual are calculated and subtracted from the data for that individual. If  $\alpha_i$  is correlated with any of the  $X_j$  variables, the regression estimates from a regression of Y on the  $X_j$  variables will be subject to omitted variable bias. Even if the unobserved effect is not correlated, with any of the explanatory variables, its presence will in general cause OLS to yield inefficient estimates and invalid standard errors.

The mean values of the variables in the observations on a given individual are calculated and subtracted from the data for that individual.

Given the following equation

$$Y_{it} = \beta_1 + \sum_{j=2}^k \beta_j X_{jit} + \alpha_i + \delta t + \varepsilon_{it} \dots\dots\dots 6.4$$

Subtracting the following mean values:

$$\bar{Y}_i = \beta_1 + \sum_{j=2}^k \beta_j \bar{X}_{ij} + \alpha_i + \delta \bar{t} + \bar{\varepsilon}_{it} \dots\dots\dots 6.5$$

The following is obtained;

$$Y_{it} - \bar{Y}_i = \sum_{j=2}^k \beta_j (X_{jit} - \bar{X}_{ij}) + \alpha_i + \delta(t - \bar{t}) + \varepsilon_{it} - \bar{\varepsilon}_i \dots\dots\dots 6.6$$



The unobserved effect disappears.

### 6.6.7 Random effects model

The rationale behind the random effects model, also known as the error components model, is that, unlike the fixed effects model, the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model. Random effects assume that the entity's error term is not correlated with the predictors, which allows for time-invariant variables to play a role as explanatory variables (Gujarati, 2005). The random effects approach assumes that individual specific constant terms are randomly distributed across cross-sectional units and the units are drawn from a large population.

Taking equation 6.3, instead of treating  $\beta_{1i}$  as fixed, the assumption is that it is a random variable with a mean value of  $\beta_1$ . Thus the intercept value of an SME can be expressed as follows:

$$\beta_{1i} = \beta_1 + \varepsilon_i \quad i = 1, 2, \dots, N \dots\dots\dots 6.7$$

where  $\varepsilon_i$  is a random error term with mean value zero and variance  $\sigma_\varepsilon^2$ . The SMEs have a common mean value for the intercept (*i.e.*  $\beta_1$ ) and the individual intercept values for each company are reflected in the error term (Gujarati 2005).

Substituting 6.7 into 6.2 the following random effects equations are obtained:

$$Y_{it} = \beta_1 + \beta_2 X_{2it} + \beta_3 X_{3it} + \dots + \beta_k X_{kit} + \varepsilon_i + u_{it} \dots\dots\dots 6.8$$

$$= \beta_1 + \beta_2 X_{2it} + \beta_3 X_{3it} + \dots + \beta_k X_{kit} + w_{it} \dots\dots\dots 6.9$$

$$\text{Where } w_{it} = \varepsilon_i + u_{it} \dots\dots\dots 6.10$$

$w_{it}$  is an error term with two components:  $\varepsilon_i$ , the individual specific error component and  $u_{it}$ , the combined time series and cross-section/individual-specific components.

The following assumptions must hold if the estimator is efficient:

$$\varepsilon_i \sim N(0, \sigma_\varepsilon^2)$$

$$u_{it} \sim N(0, \sigma_u^2)$$

$$E(\varepsilon_i u_{it}) = 0 \quad E(\varepsilon_i \varepsilon_j) = 0 \quad (i \neq j)$$

$$E(u_{it}u_{is}) = E(u_{it}u_{jt}) = E(u_{it}u_{js}) = 0 \quad (i \neq j; (t \neq s) \dots \dots \dots 6.11$$

The individual error components are not correlated with each other and are not autocorrelated across both cross-section and time series units.

From the assumptions in 6.11, it follows that;

$$E(w_{it}) = 0 \quad \text{and} \quad \text{var}(w_{it}) = \sigma_{\varepsilon}^2 + \sigma_u^2 \dots \dots \dots 6.12$$

This is a crucial assumption of the random effects model. It is necessary for the consistency of the random effects model. It can be tested using the Hausman test.

### 6.6.8 Choosing between the fixed and random effects models

The differences between the fixed effects model (FEM) and the random effects model (REM) is that in FEM each cross-sectional unit has its own fixed intercept value, in all N such values for N cross-sectional units. However in REM, the intercept  $\beta_1$  represents the mean value of all the cross-sectional intercepts and the error component  $\varepsilon_i$  represents the random deviation of individual intercepts from the mean value (Gujarati 2005).

Because FE allows for arbitrary correlation between  $X_{ji}$  and  $\alpha_i$  while random effects does not, FE is widely thought to be a more convincing tool for estimating *ceteris paribus* effects (Wooldridge 2011). Observed characteristics that remain constant over time for each individual are retained in the regression model when the random effects model is used to estimate.

Thus, random effects is used when as many time-constant controls as possible are included among the explanatory variables (Wooldridge 2011). However the precondition for using random effects is that the observations need to be drawn randomly from a given population (Dougherty 2014). This research used the random effects model since there are observed characteristics that remain constant over time for each individual.

Results from the Durbin-Wu-Hausman test show whether one should use the fixed or random effects approach in the estimation of a model. To use the random effects test, the unobserved effect should be distributed independently of the  $X_j$  variables. One uses the random effects estimates unless the Hausman test rejects it (Wooldridge 2011).

#### **6.6.8.1 Durbin-Wu-Hausman test (1978) – fixed v random effects test**

The Durbin-Wu-Hausman test is carried out to determine whether to use OLS or instrumental variable (IV) estimation in models where there is suspected measurement error or endogeneity (Dougherty 2014). The following is the hypothesis for the test:

- $H_0$  :  $\alpha_i$  are distributed independently of  $X_j$
- $H_A$  :  $\alpha_i$  are not distributed independently of  $X_j$

If the null hypothesis is not rejected, then both random and fixed effects are consistent but fixed effects is inefficient as it involves estimating unnecessary dummy variable coefficients (Dougherty 2014). So the random effects model should be used if we fail to reject the null hypothesis. Rejecting the null hypothesis means random effects estimates are subject to unobserved heterogeneity bias and so differ systematically from fixed effects estimates (Dougherty 2014). In that case rejecting null hypothesis means the fixed effects model should be used. Under the null hypothesis, the test statistic has a chi-squared distribution.

In order to assess the trade competitiveness of Zimbabwean organisations, the revealed comparative advantage index was computed. The next section discusses the indicators used to measure the competitiveness of Zimbabwe's export sectors.

#### **6.7 Competitiveness of Zimbabwe's export sectors**

Competitiveness is defined as the set of institutions, policies and factors that determine the level of productivity of a country (World Economic Forum, 2016). Competitiveness has also been defined as the ability to have productivity advantages over competitors without any subsidies or protection (Enright *et al*, 1996). The 2016-17 Global Competitiveness Report assesses the competitiveness landscape of 138 economies, providing insight into the drivers of their productivity and prosperity. Zimbabwe's GCI ranking currently stands at 124 out of 138 countries (World Economic Forum GCI Report 2016). This shows that Zimbabwe is lagging behind in terms of competitiveness.

The competitiveness of a country's export sectors is very important for any country, since a country that is not competitive can easily miss out on opportunities in the international market presented by regional integration and various trade agreements. Such trade agreements have

also reduced trade barriers, meaning that countries have to compete fiercely with their trade partners. This means that low competitiveness can force firms in an uncompetitive country to lose markets. Trade competitiveness is no longer about viewing exports and export performance in isolation, but viewing it as the result of strong interdependencies between imports and exports, as well as international flows of capital, investment and know-how (World Bank, 2015).

This study uses a number of indicators to determine the competitiveness of Zimbabwe's exports in the mining, agricultural and manufacturing sectors. These are the revealed comparative advantage (RCA) index, export growth, terms of trade, high-technology exports, unit labour cost and innovation capacity. These indicators are presented in the next section.

### **6.7.1 Revealed comparative advantage (RCA) index**

The revealed comparative advantage (RCA) is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. RCA is a measure that nations can obtain from the current output and existing trading pattern and is used to predict sectoral effects of trade liberalisation for a particular nation (Barry *et al*, 2001). According to Goldin (1990) a country has a comparative advantage in the production of a specific good if it has an endowment of the factor used to produce it and that such a factor is used more intensively.

Widgren (2005) contends that the logic of using RCA is to assess the comparative advantage of a given country's specialisation in exports in relation to some reference group. RCA is based on the assumption that the product pattern of trade is a clear proof of the international differences in different countries' relative costs, including non-price factors, used in their production, and the differences "reveal" the comparative advantage of the trading nation. RCA can be boosted by changes in the structure, increased world demand of such commodities and specialisation (Batra & Khan, 2005).

The revealed comparative advantage (RCA) index is used to assess a country's export potential. With the RCA index, it is possible to determine whether a country is extending the products in which it has a trade potential and to assess trade potential with new partners. With the RCA measure a country can focus attention on other products that can be exported successfully.

Unless there is intra-industry trade, it is unlikely that countries with similar RCA profiles have high bilateral trade intensities. The RCA index of country *i* for product *j* is often measured by the product's share in the country's exports in relation to its share in world trade. The following RCA index was developed by Balassa (1965):

$$RCA_{ij} = \frac{x_{ij}/X_{it}}{x_{wj}/X_{wi}}$$

Where  $x_{ij}$  and  $x_{wj}$  are the values of country *i*'s exports of product *j* and world exports of product *j* and where  $X_{it}$  and  $X_{wt}$  refer to the country's total exports and world total exports. An  $RCA \geq 1$  demonstrates that a country has revealed comparative advantage in the production of the product, so the exporting nation is relatively specialised in producing and exporting the product line under consideration. An RCA index of  $\leq 1$  shows that a country has no revealed comparative advantage in the production of the product. The results of the RCA computation are presented in Chapter 9 of this thesis.

### **6.7.2 Export growth**

One of the measures of sector competitiveness is the growth rate of exports. The study thus makes use of export growth as a measure of competitiveness. A competitive firm should be able to penetrate the export market, as competitiveness embraces elements of the international market. The growth in sector exports also implies underlying highly productive (and competitive) labour and capital inputs into the system, which also contributes to overall national competitiveness.

Exporting firms tend to be able to provide finance for imports of capital goods that cannot be produced domestically through foreign currency earnings (Torayeh, 2011). To be able to export into the international market, domestic firms should be able to obtain high standards of service from their suppliers, so as to create downstream competitive advantages, including exerting pressure for improved infrastructure provision, maintenance and management.

### **6.7.3 High-technology exports**

While manufactured exports generally measure the competitiveness of the sector, competitiveness is also determined by the quality of the exported products. One measure of manufacturing sector competitiveness is the levels as well as growth rates of high-technology exports. The ability to manufacture and to export high-technology products under the current competitive global market is generally an indication of a country's innovation power (Gökmen & Turen, 2013). A firm exporting mostly low-technology products which are to be processed further in the destination countries would not be as competitive as the firm that is exporting high-quality exports. So a country that exports mostly semi-manufactured and low-technology manufactured products is not as competitive as the country that specialises in further processing the product and exporting it.

### **6.7.4 Terms of trade**

A country's terms of trade also reflect some measure of a country's competitiveness, as these try to factor in the price element. The terms of trade is defined as the ratio of export prices to import prices, using the conventional definition of the net barter approach (Des Vignes & Smith, 2005). An increase in the terms of trade suggests an increase in international competitiveness, while the opposite is equally true. If domestic firms are extracting more in the international market relative to what other firms are extracting, the domestic firms would be regarded as being more competitive compared with their foreign counterparts.

### **6.7.5 Data Sources for competitiveness measure**

In order to measure competitiveness of Zimbabwe's exports, data used to calculate the indicators discussed above was downloaded from the websites of the following institutions: World Bank, ITC Trademap, and the Zimbabwe National Statistics Agency. The next section presents the chapter conclusion.

## **6.8 Conclusion**

The chapter presented the methodology used in the study. Both qualitative and quantitative research methods were used to identify factors affecting the export intensity of SMEs in Zimbabwe. As discussed in the chapter, the researcher gathered data from 120 exporting SMEs from three provinces and from 10 SME support institutions in Zimbabwe for the period 2009 to '15. The researcher chose to gather data from 2009 onwards since the years immediately before that were characterised in Zimbabwe by high economic instability and a possible lack

of credible SME data. Both primary and secondary data sources were employed. Secondary data were collected from various websites and from SME records. Quantitative data were processed using the e-views 8 statistical package, while qualitative data was processed using SPSS 16.0.

The convenient non-probability sampling method was used to select SMEs to include in the sample, because of the lack of records in Zimbabwe on SME exporters. The stratified sampling technique was applied in the selection of institutions. It was discussed in the chapter that the methodological triangulation method was used to gather primary data through questionnaires, interviews and focus group discussions. As discussed in the chapter, the participants in the focus groups were selected using snowball sampling and two focus group discussions were held. Ten SME support institutions were interviewed. The chapter presents Cronbach's alpha reliability coefficient to show that the questionnaire used in the study is reliable.

For quantitative data analysis, the study used the gravity model of trade, using random effects, panel data ordinary least squares. The three basic gravity model variables were Zimbabwe's GDP and the trading partner's GDP, which were both expected to have a positive relationship with export intensity, and distance, which was expected to have a negative relationship with export intensity. The augmented gravity model includes other variables: export processing zones, years of education, years in exporting, the age of the firm, its size, gender, research and development, product type, support institutions and business ownership.

To determine whether to use fixed or random effects estimation, the chapter presented the Durbin-Wu-Hausman test in which the random effects model should be used if one failed to reject the null hypothesis. Also discussed in the chapter are the measures used to determine the competitiveness of Zimbabwe's export sectors: the revealed comparative advantage index, export growth, high-technology exports and terms of trade.

The results from the study are presented in chapters 7, 8 and 9. In Chapter 7, the results of the survey are presented, while in Chapter 8 the results of the empirical gravity model estimation are presented. Chapter 9 presents the results of the research on the competitiveness of Zimbabwe's export sectors. The following chapter presents findings from the survey.





## CHAPTER 7

### PRESENTATION OF QUALITATIVE FINDINGS

#### 7.1 Introduction

The chapter presents, interprets and discusses the qualitative findings from the study. The chapter is structured as follows: Section 7.2 presents on the reliability and the internal consistency of the questionnaire, section 7.3 presents the demographic characteristics of the respondents and section 7.4 presents the background characteristics of the SME businesses. In section 7.5, the results on subjective perceptions by the SMEs on reasons for embarking on export business and the extent to which distance from markets affect the choice of export destination are presented. Section 7.6 presents the findings from focus group discussions on constraints faced by SME exporters and strategies for SME export promotion in Zimbabwe. The perspectives of support institutions on SME export support are presented in section 7.7.

#### 7.2 Reliability and the internal consistency of the questionnaire

Before discussing the results, it is important to present on the reliability and consistency of the research instrument used. In order to test for the reliability and the internal consistency of the questionnaire used in this study, Cronbach's alpha reliability coefficient was calculated and the results obtained are presented on table 7.1 which follows.

**Table 7.1 Cronbach's alpha reliability coefficient**

Average inter-item covariance	.7960532
Number of items in the scale	32
Scale reliability coefficient	0.9432

*Source Calculated by researcher*

Cronbach's alpha for the judgmental questions in the questionnaire relating to the determinants of exports among SMEs in Zimbabwe was 0.94. The closer Cronbach's alpha is to 1 the more reliable the research instrument is. In accordance with George and Mallery's (2003) rules alluded to above, it can be concluded that the research instrument used in the study was reliable. The next section is a presentation of demographic characteristics of the respondents.

### 7.3 Demographic characteristics of the respondents

This section presents the demographic characteristics of the respondents namely the SME owners and managers. The demographic characteristics presented are age of respondent, province, education, gender and business ownership. Information on the demographic characteristics of the respondents was obtained using the questionnaire.

#### 7.3.1 Age of Respondents

SME owners and managers were asked their age. The respondents' ages in years are presented in Table 7.2.

**Table 7.2: Respondents' age**

Age range	Number of respondents	Percentage
18-25	12	10%
26-35	36	30%
36-45	46	38%
46-55	21	16%
56-65	5	6%
<b>Total</b>	<b>120</b>	<b>100%</b>

*Source: Survey data (2015)*

Results presented on Table 7.2 show that the highest proportion of respondents, 38%, are within the 36-45-year group. This indicates that the operators in the sector are young and resilient. The respondents are within the economically active group.

#### 7.3.2 Gender of the respondents

The respondents were asked to indicate their gender. The information on gender is presented on Table 7.3 which follows.

**Table 7.3 Gender of respondents**

Gender	Frequency	Percentage
Male	78	65%
Female	42	35%
<b>Total</b>	<b>120</b>	<b>100%</b>

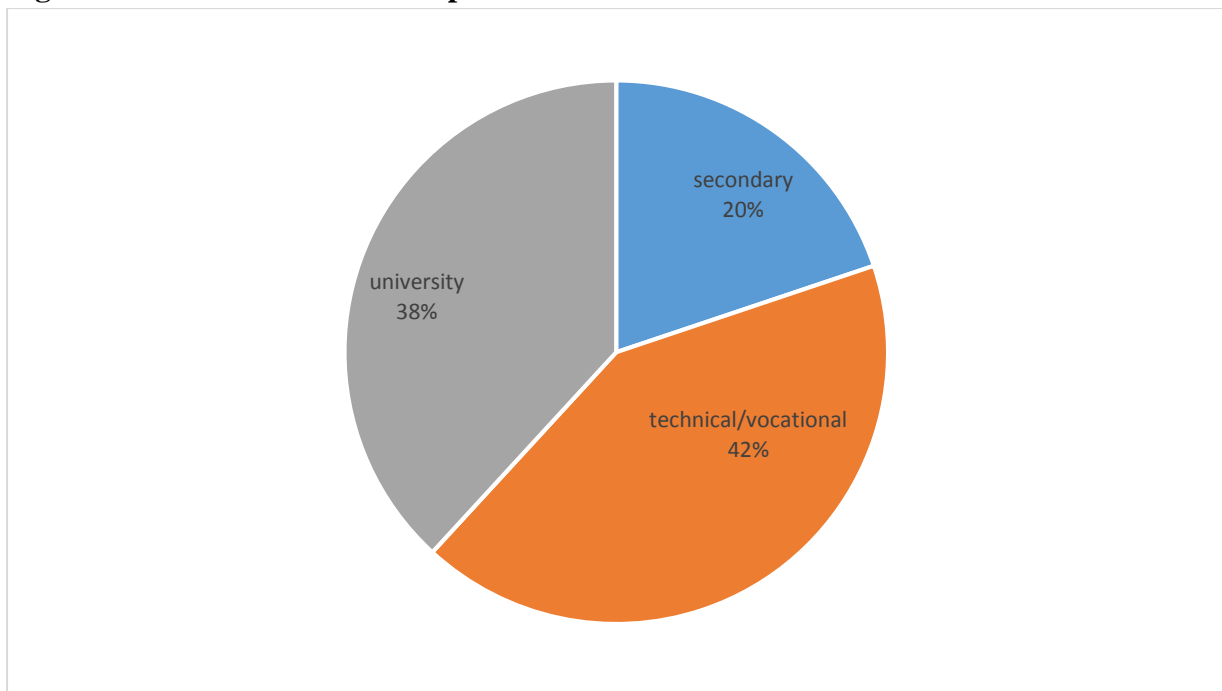
*Source: Survey data (2015)*

The results from the survey show that more than half of the respondents, 65%, were men while women constituted 34% of the sample. Clearly the sector is male dominated, which is not surprising since most businesses in Zimbabwe are led by men. So the Zimbabwean sector is still mainly patriarchal in this respect.

### **7.3.3 Educational level of respondents**

The respondents were asked to indicate their level of education. Figure 7.1 shows the education levels of the respondents.

**Figure 7.1 Education level of respondents**



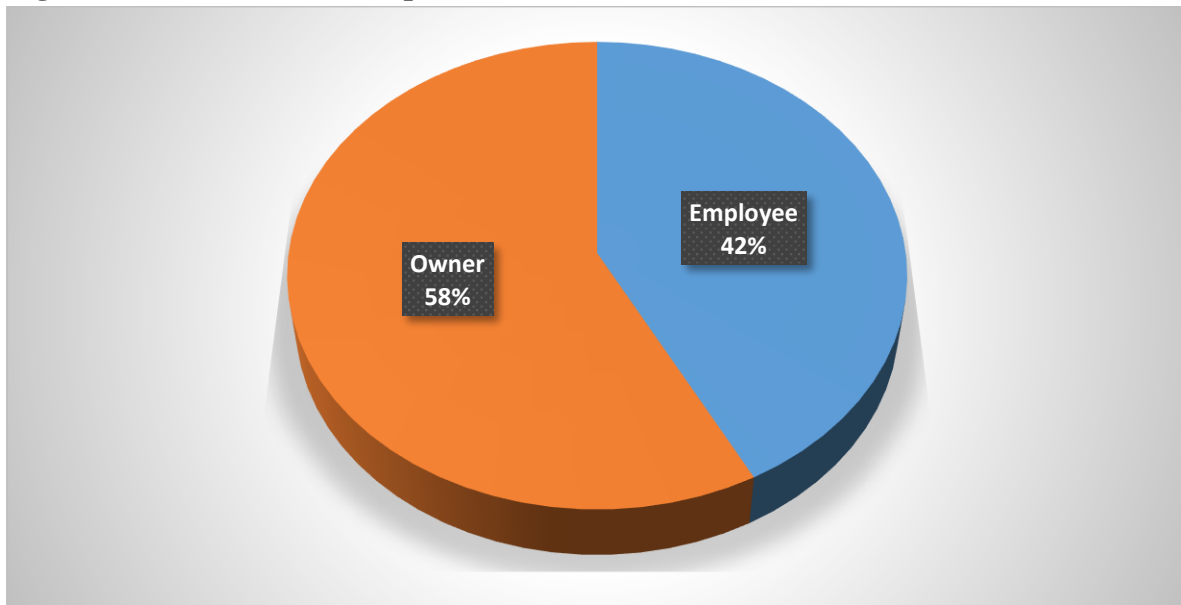
*Source: Survey data (2015)*

As shown in Figure 7.1, the highest proportion of respondents, 42%, had attained a technical or vocational qualification equivalent to a certificate or diploma, followed by 38% of respondents with university education. Only 20% of the respondents did not have tertiary education, having attained only secondary education.

### 7.3.4 Business ownership

Some of the respondents were owners of the SMEs, while others were managers. Information on the proportions of managers and owners is presented on Figure 7.2.

**Figure 7.2 Business ownership**



*Source: Survey data (2015)*

The results show that 58% of the respondents were owners while 42% were employees. The employees interviewed were well acquainted with the businesses and were those who managed and made decisions for the businesses. Having analysed the characteristics of respondents, the next section looks at the characteristics of the SME businesses.

### 7.4 Background characteristics of the SME businesses

The background characteristics of the respondents' SME firms pertain to the firm's export intensity, support institutions, firm size and age, business sector, business ownership, export years, export product and past EPZ membership. Information on the background characteristics of the SME firms was obtained using the questionnaire.

### 7.4.1 Export intensity of SMEs

Export intensity shows the percentage of exports in sales by the SMEs. Since data on actual exports was not available, export intensity was used as a measure of SME export orientation. Following Sousa (2004), export intensity was measured as follows:

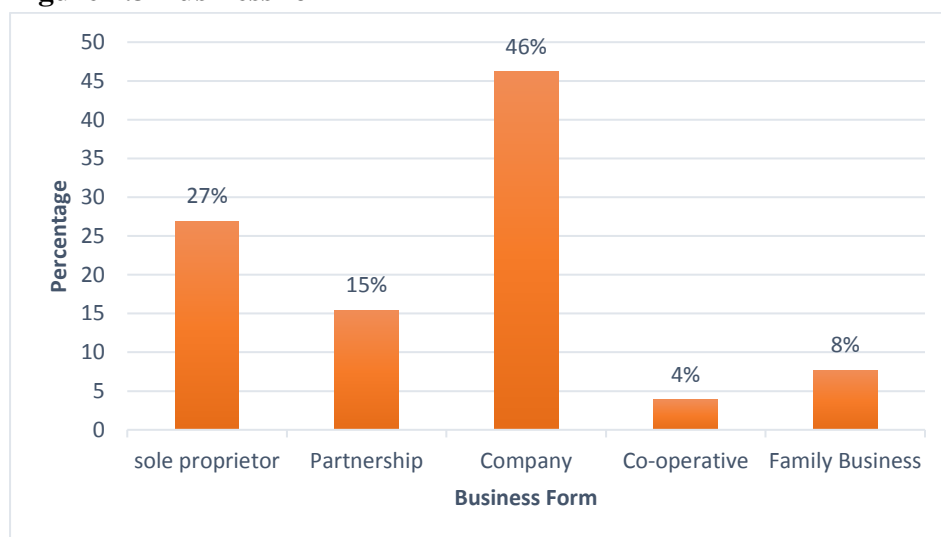
$$Export\ Intensity_{it} = \frac{Export\ Sales_{it}}{Total\ Sales_{it}} \times \frac{100}{1}$$

The small businesses were asked to indicate the magnitude of exports during the period under review. In this instance the interest was to express export intensity among SMEs during the period. The lowest export intensity recorded was 3% and the highest 100%. The mean export intensity was 30%, meaning that for every \$100 realised from sales, \$30 was from exports.

### 7.4.2 Business form

The SME exporters were asked to indicate the form of their business so as to establish the form most of them belonged to. Results on business form are shown on Figure 7.3.

**Figure 7.3 Business form**



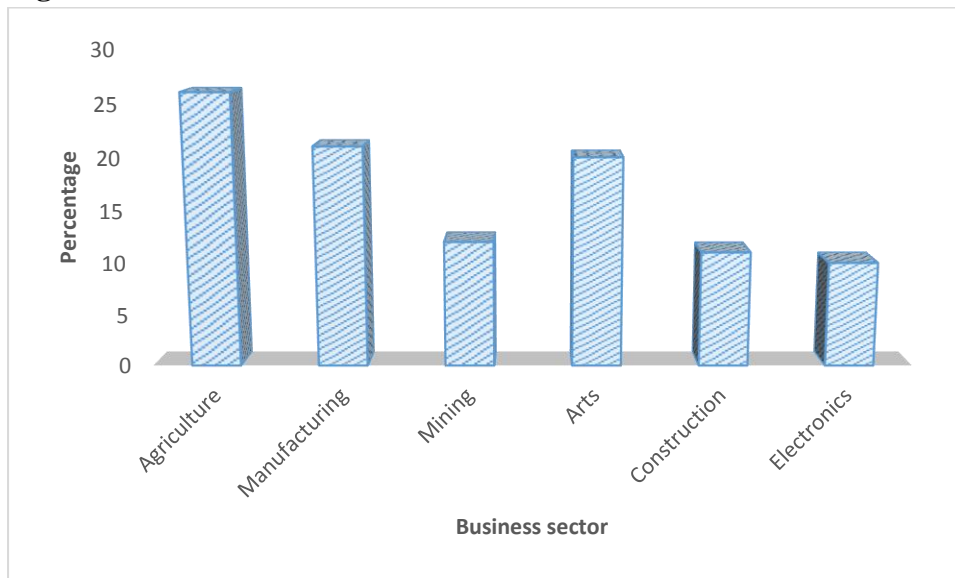
*Source: Survey data (2015)*

With reference to Figure 7.3, the results indicate that most exporting SMEs, 46%, were companies, while 27% were sole proprietors. This was followed by partnerships, constituting 15% of the SMEs, family businesses making up 8%, and cooperatives 4%. The next section presents the business sectors of the exporting SMEs.

### 7.4.3 Business sector

The business sectors of the SMEs are presented on Figure 7.4.

**Figure 7.4 Business sector**



*Source: Survey data (2015)*

The results on Figure 7.4 indicate that most of the exporting SMEs are in the agricultural sector at 26% of the respondents, followed by manufacturing at 21%, while artists constituted 20% of the exporters. The electronics sector constitutes 10% of the respondents. Mining made up 12% of the respondents, while the proportion of the construction sector is 11%. The specific products exported per sector are presented in the next section.

### 7.4.4 Specific products exported

The respondents indicated that they exported a wide range of products. Table 7.4 presents the types of products exported per sector

**Table 7.4: Types of products exported by SMEs in Zimbabwe**

<b>Business sector</b>	<b>Products exported</b>
Manufacturing	Syrups, fine chemicals Health products Clothes, bed linen Plastic containers.
Agriculture	Fresh flowers and vegetables Fresh legumes, sugarcane, tobacco
Arts	Artefacts Paintings
Electronics	Electrical goods
Construction	Doors and louvres Furniture Steel irrigation equipment Building materials
Mining	Chrome Gold

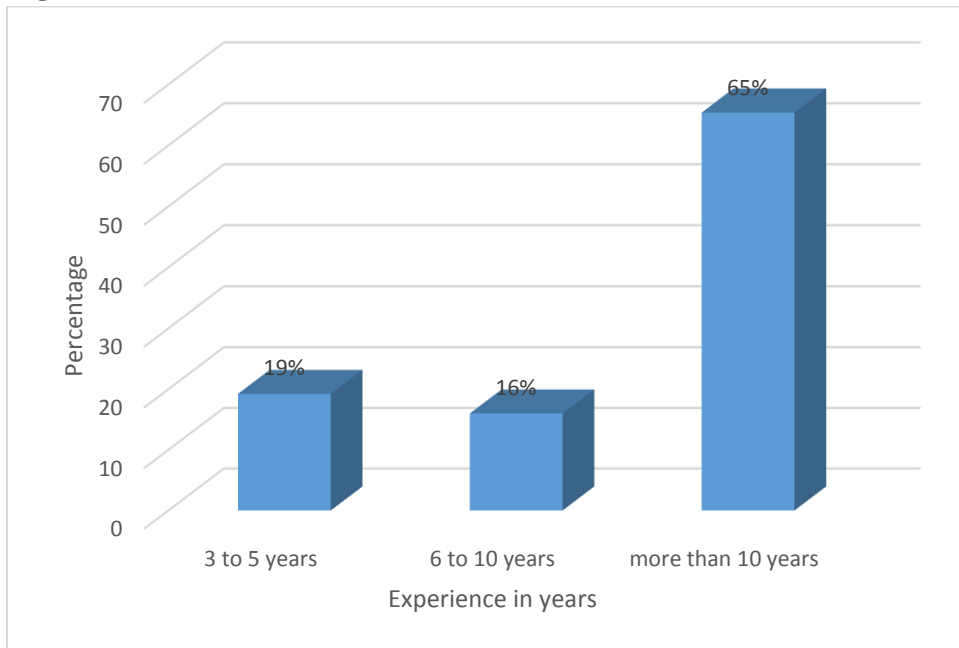
*Source: Survey data (2015)*

Table 7.4 shows that the sector with the widest variety of exported products is the manufacturing sector, followed by construction, then agriculture. Electronics recorded only one product exported.

#### **7.4.5 Period in business**

The variable business experience represents the number of years the SME business has been operational. This also includes the years in which the business was operating but not exporting. Figure 7.5 shows the business experience of the SMEs.

**Figure 7.5 Period of business**



*Source: Survey data (2015)*

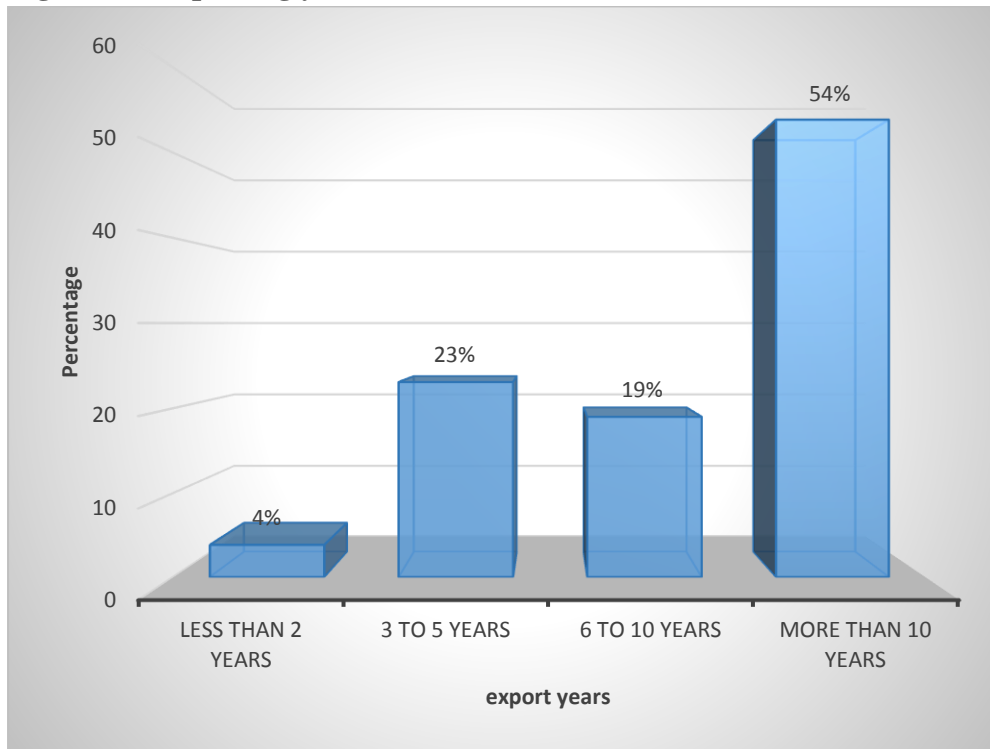
The results on Figure 7.5 show that most of the SMEs, 65%, had been operating for more than 10 years while 19% had been operating for three to five years and 16% had been operating for six to 10 years. For some businesses, the period in business was more in years than the period exporting.

#### **7.4.6 Exporting years**

The respondents were asked about the number of years they had been in the export business by the time this survey was carried out in 2015. Figure 7.6 shows the responses from the respondents.



**Figure 7.6 Exporting years**



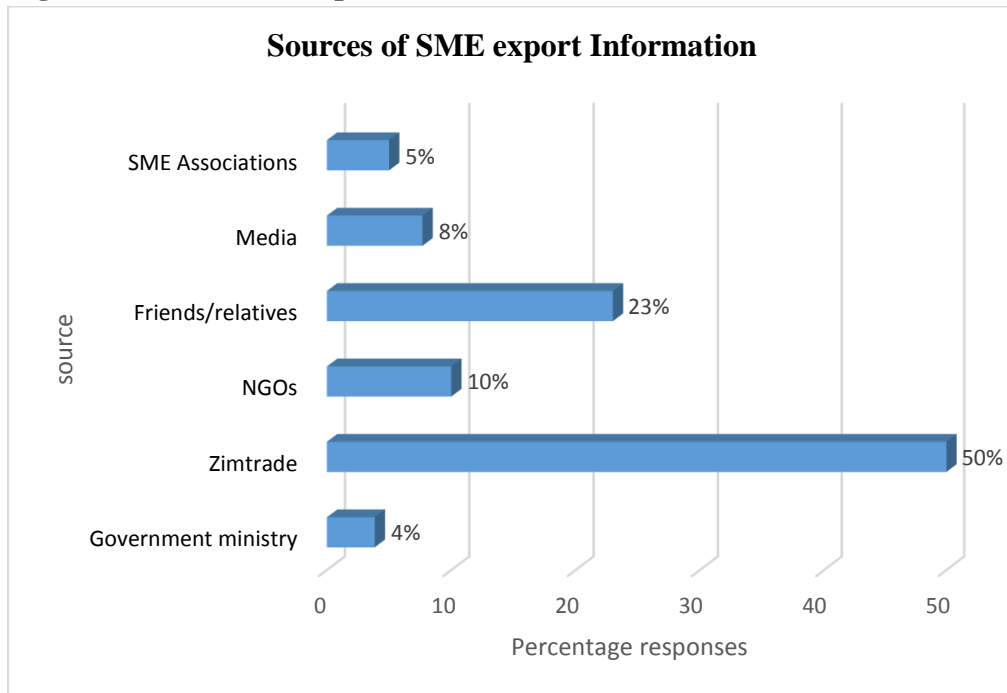
*Source: Survey data (2015)*

Figure 7.6 shows that most of the SMEs interviewed, 54%, have been exporting for more than 10 years, meaning that their responses were credible and emanated from long export experience. Only 4% of the respondents had been operating for less than two years, while 23% had been operating for three to five years and 19% for six to 10 years.

#### **7.4.7 Sources of export information**

The SMEs were asked whether they had access to information on exports and if so, where they obtained general export information, including where to export to and what to export. It is important for SMEs to have information on exports, as this enables them to know where to export to, what to export, what price to charge, what quantities to export, the quality standards required and the transport and customs clearances necessary. Several responses were given on sources of export information, as indicated on Figure 7.7.

**Figure 7.7 Sources of export information**



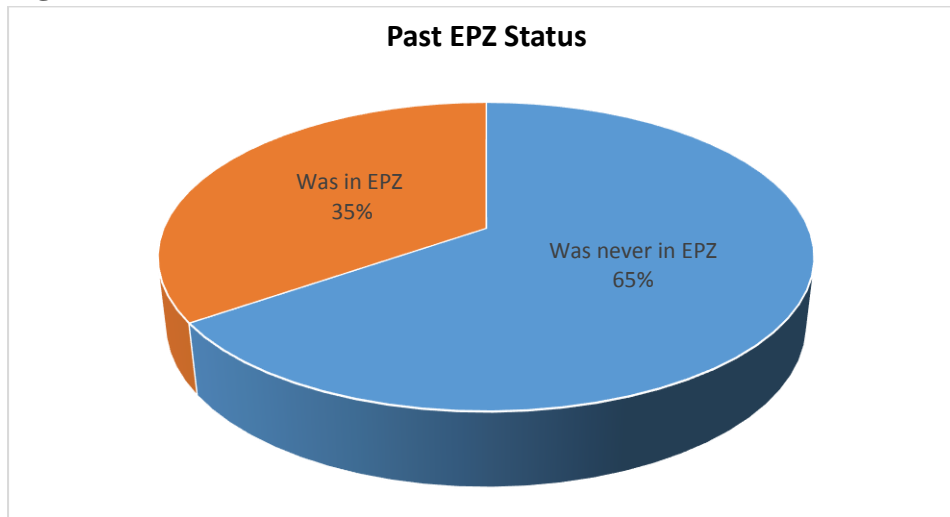
*Source: Survey data (2015)*

With reference to Figure 7.7, Zimtrade is the most efficient institution in the field of information provision: 50% of the respondents indicated that they obtained export information there. Friends and relatives follow Zimtrade in information provision, followed by NGOs. Among all the other institutions, the government is the poorest performer when it comes to information provision for exporting SMEs, with only 4% of the respondents indicating that they had obtained export information from the government.

#### **7.4.8 Export processing zones**

To size up the proportion of SMEs that had benefited from export processing zones, the respondents were asked to indicate whether they had operated in an export processing zone. This was indicated by a dummy variable of 1 for having operated in an EPZ, 0 otherwise. Figure 7.8 shows past EPZ status of the SMEs.

**Figure 7.8 Past EPZ status of SMEs**



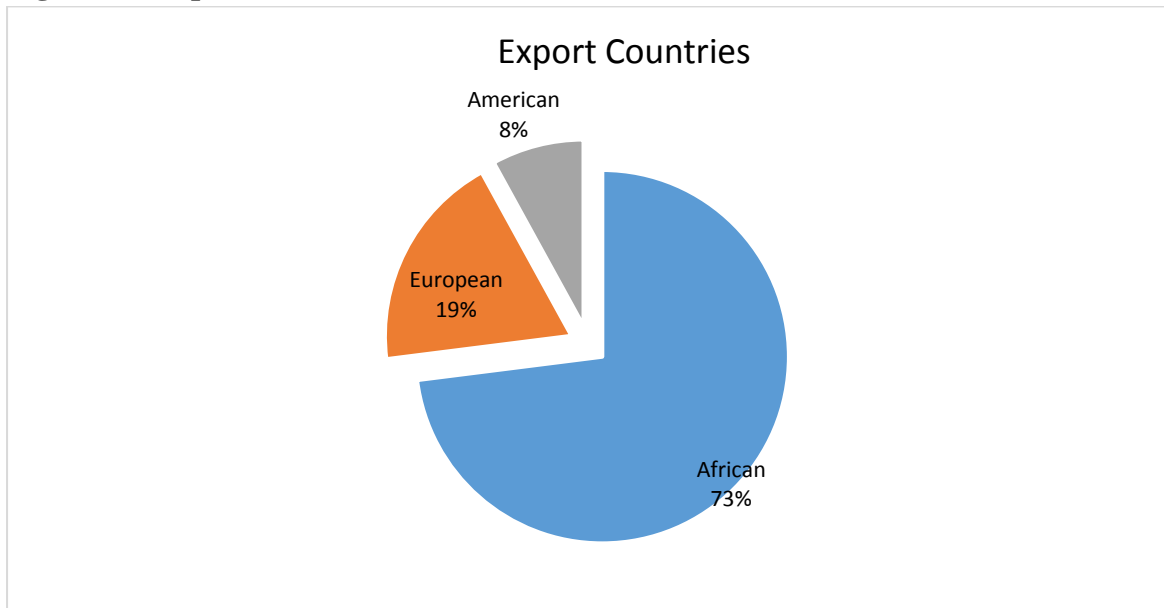
*Source: Survey data (2015)*

As indicated on Figure 7.9, 65% of the SMEs were never in an export processing zone, while 35% were once based in an EPZ. So fewer than half of the exporting SMEs were incorporated into EPZs.

#### **7.4.9 Export countries**

To understand the location of SME trading partners, the respondents were asked to indicate their export destinations. Figure 7.9 shows the results on SME export destinations.

**Figure 7.9 Export countries**



*Source: Survey data (2015)*

Most of the SMEs, 73%, export their products to African countries, while 19% export to European and 8% to American countries. This is because it is cheaper to export to African countries than to American and European countries.

#### **7.4.10 Institutions where SMEs obtained support**

Table 7.5 indicates the institutions that gave support to SMEs and the specific sectors of these institutions. The table also shows the type of support received and the number of SMEs from the sample that received support in each sector of the institutions.

**Table 7.5 SME support institutions interviewed**

<b>Institution sector</b>	<b>Institution name</b>	<b>Services obtained by exporting SMEs</b>	<b>SMEs from sample that received support</b>	<b>Percentage of SMEs that received support</b>
Microfinance	1. Microking Finance 2. Quick Access Finance	loans, training	117	98%
Government ministry	3. Ministry of Small to Medium Enterprises. 4. Ministry of International Trade	information, SME support policies	53	44%
Quasi-governmental	5. Zimtrade 6. Zimbabwe Investment Authority (ZIA) 7. Small Enterprises Development Corporation (Smedco) 8. Zimbabwe Miners' Federation	information vital for SME business operations, technical expertise, capacity building, lobbying and loans.	94	78%
NGO	9. SOS	grants and capacity building support	19	16%
Business consultancy	10. SME Association of Zimbabwe	loans, capacity building, technical expertise, lobbying and marketing	25	20%

*Source: Survey data (2015)*

Most of the SMEs received assistance from more than one institution and for that reason the percentages in the table cannot be added, as there would be repeat additions. A large proportion of the SMEs, 98% received support from microfinance institutions in the form of loans and training, meaning that micro-financiers are the institutions whose services are largely in demand. This is followed by quasi-governmental institutions, which gave support to 78% of the respondents in the form of information vital for SME business operations, technical expertise, capacity building, lobbying and loans.

Government ministries supported 44% of the respondents, mainly with information dissemination, while business consultancies supported 44% of the SMEs in the form of loans, capacity building, technical expertise, lobbying and marketing. At the bottom are the NGOs that gave assistance to 20% of the respondents through grants and capacity building support. Having outlined the descriptive results, the following section presents the qualitative results from the questionnaire, focus group discussions and interviews.

## 7.5 Subjective perceptions from SMEs

This section presents subjective perceptions from SMEs which include reasons for embarking on export business and the extent to which distance from markets affected the choice of export destination by the SMEs. The questionnaire was used to obtain these responses.

### 7.5.1 Reasons for entering export business

In order to understand what motivated SME businesses to export, the respondents were asked to give their reasons for exporting. It is important to understand what motivated these SMEs to undertake export business so as to conclude whether the export businesses were as a result of push factors like unemployment, or pull factors like entrepreneurship. The SMEs gave various reasons for entering export business. Table 7.6 shows these reasons.

**Table 7.6 Reasons for entering export business**

Reason for exporting	Frequency	Percentage
Support institution persuaded them to export	15	13
There was an export opportunity in the market	29	24
Desire to be own boss	34	28
Respondent was unemployed	18	15
Respondent said s/he was naturally an entrepreneur	21	18
To obtain foreign currency for importing raw materials	3	2
<b>Total</b>	<b>120</b>	<b>100</b>

*Source: Survey data (2015)*

With reference to Table 7.6, a high proportion of respondents indicated the desire to be their own boss as the reason for exporting, with 28% of the respondents indicating this. The other reason for exporting, given by 24%, of the respondents, is that there was an export opportunity in the market, while 18% indicated that they exported since they believed they were natural

entrepreneurs. Fifteen per cent of the respondents were obliged to go into the export business after failing to secure employment.

Support institutions are also actively persuading SMEs to export, so 13% of respondents indicated that they exported due to persuasion by support institutions. The other reason given by SMEs for entering the export business, which was before the use of multiple currencies in Zimbabwe, was to obtain foreign currency for importing raw materials. The respondents were also asked the extent to which distance from markets determined their choice of export destination and their responses are recorded in the following section.

### **7.5.2 Extent to which distance from markets determine choice of export destination**

The respondents were asked about the extent to which distance from markets determined their choice of export destination. Most of the SMEs, 81%, indicated that distance determined their choice of export destination, as they preferred nearer export destinations. Meanwhile 19% of the respondents indicated that distance did not affect their choice of export markets, some stating that it was so because their clients normally paid for the transport charges. Distance increases transaction costs for the exporting SME and in the gravity model, it is expected that distance will reduce exports.

To strengthen the survey data collection and also to validate the results, focus groups were conducted. This was to fulfil Denzin's (1978) triangulation process whereby data collection has to be supported by various approaches. Section 7.6 presents findings from focus group discussions.

### **7.6 Findings from focus group discussions**

Two focus group discussions were held with SME owners and managers, one in Harare and another in Mashonaland Central Province, to gain qualitative data from the respondents. The focus group discussion in Harare was held at the premises of one of the SMEs and 32 SME owners and managers attended. The focus group discussion in Mashonaland Central was held in the predominantly farming and mining community at Glendale Shopping Centre and 21 SME owners and managers attended. The process of conducting the focus group discussions was similar in both Harare and Mashonaland Central.

The researcher welcomed the respondents to the meetings and made presentations using PowerPoint to elaborate on the purpose and expected results of the meeting. The respondents were allowed to speak freely on their perceptions and attitudes about SME export intensity in Zimbabwe. They were asked to elaborate on the challenges facing them, the programmes offered by the SME support organisations, whether these programmes meet their needs, and their recommendations on ways to increase SME export intensity. The SMEs raised several concerns, which pertained to constraints faced by SMEs in the export business and strategies the SMEs believed support institutions and the government should implement to promote SME exports from Zimbabwe. These are discussed in the next two sections.

### **7.6.1 Constraints faced by SMEs in the export business**

From the responses of SMEs gathered during the focus group discussions it became clear that they faced several challenges when trying to expand their businesses so as to increase export intensity. To expand their businesses and increase exports, SMEs need access to finance. However, SMEs face several barriers when attempting to access finance. The major constraint they face is limited access to finance from large finance institutions, as the banks are generally unwilling fund SMEs. They prefer to lend to salaried clients with collateral, or to large corporates. So the null hypothesis is rejected and a conclusion is made that limited access to finance is the major constraint faced by SME exporters in Zimbabwe. We therefore reject the null hypothesis that the major constraint faced by SME exporters in Zimbabwe is not access to finance and conclude that access to finance is indeed the major constraint faced by SME exporters.

SMEs are also failing to access finance from banks, since banks can borrow very little from the Reserve Bank of Zimbabwe (RBZ) to pass on to SMEs and other clients. RBZ is failing to act as the banker of last resort for banks in Zimbabwe since the foreign currency being used as the main currency is scarce and the government cannot influence money supply. Table 7.7 shows the responses from the SME owners and managers regarding the barriers they face when they attempt to access finance from finance institutions.



**Table 7.7 Barriers in accessing finance from finance institutions**

Main barrier	Frequency	Percentage
Lack of adequate collateral	32	27%
Financiers unwilling to give funds	28	23%
Lack of information	5	4%
Loan sizes are too small	35	29%
High interest rates	20	17%
<b>Total</b>	<b>120</b>	<b>100%</b>

*Source: Survey data (/2015)*

With reference to Table 7.7, 29% of the respondents indicated that they faced the barrier of loan sizes given by institutions that were too small to make any significant impact. Twenty-seven per cent of the respondents indicated that their main barrier was lack of adequate collateral, while 23% indicated that their main challenge was financiers unwilling to lend funds. A smaller percentage, 4%, indicated that they lacked information relevant for them to increase exports.

Seventeen per cent indicated that the interest rates on loans were too high. All these barriers affect the performance and profitability of SME exporters negatively. The profitability, effectiveness, performance and survival of the firm are key aspects necessary for increased exports by SMEs. These variables can be influenced by organisational structures (West, 2001). The only option is for SMEs to resort to microfinance institutions, where they obtain very small loans with no grace period on repayment and the cost of finance is generally very high – an average of 15% interest a month.

In the end they fail to service these expensive loans, leading to their accruing poor credit records. As a result, the SMEs lack adequate capital to increase manufacturing capacity and the capacity to retool their machinery. So the SMEs fail to use the advanced new equipment necessary to meet the competition in the development of sophisticated and advanced goods. As a result of using old and inefficient machinery, SMEs face high production costs, which make their products uncompetitive on the export market. They also need assistance from support

institutions in terms of the acquisition of raw materials at a reasonable price, so as to ensure continuity in production and growth of exports.

Apart from financial barriers, SMEs also suffer from non-financial challenges. The SMEs lack relevant information on the actual products external customers prefer, so they just produce products at random and hope to gain customers when they start exporting. It is very expensive for SMEs to engage consultants who can carry out market research for them in these external markets so as to understand what potential clients prefer. Thus SMEs are exposed because they lack adequate research and development and market research activities (Muranda, 2003).

So the SMEs are production-oriented but do not carry out necessary research. The SMEs also lack internal systems for efficiency in running their businesses, for example internal auditing. Mostly it is the owner who runs the finances of the business without recording withdrawals or preparing proper books of accounts. In addition SMEs indicated that since they did not have much information, they lacked confidence to explore external markets.

The other challenge is that Zimbabwe is using a multicurrency system dominated by the US dollar, which is more valuable than the currencies of trading partners like South Africa, whose currencies constantly fluctuate. The South African rand depreciated against the US dollar significantly from the end of 2015 into mid-2016. In addition, wages, rents and production bills like electricity are paid using foreign currency in Zimbabwe, mostly the US dollar, meaning that the costs of labour and of production in Zimbabwe is very high relative to average costs in the region. As a result SMEs products become more expensive on the international markets and hence uncompetitive. Shortages of cash in the economy and constant increases in tariffs and other taxes are a hindrance to SMEs, as costs and revenues cannot be predicted.

This finding concurs with Zou & Stan (1998) who concluded that in addition to internal factors, there were also uncontrollable external determinants of SME export performance: industry characteristics and foreign and domestic market characteristics.

The SMEs indicated that in the SADC region, the competition for markets is very stiff, with SMEs from other countries that receive export incentives from their governments, which gives

them a competitive advantage. In Zimbabwe there are no export incentives for SME exporters, with the government only talking about introducing such incentives. Zimbabwe's export competitiveness is also not clear, so it is very difficult for SMEs to use any competitive advantage.

The unstable macroeconomic environment, characterised by policy inconsistency on the part of the government, poses a major challenge to SMEs. For example the government moves back and forth with regard to the indigenisation policy, causing confusion in the economy and deterring investors from either equity or loan investments in small firms. Sound macroeconomic policies are necessary to ensure predictability in the business environment, which is a condition necessary for improved SME export performance (OECD 2014).

If SMEs fail to predict their revenue and expenses, this translates into a higher-than-otherwise cost of access to credit. In addition, macroeconomic instability adversely affects the asset base of SMEs, since they are less likely to have in-house capabilities for sound asset management, leaving them vulnerable. The hyperinflation experienced by Zimbabwe in 2007-08 eroded the asset bases of most SMEs, especially their liquid assets.

In the event that there is sudden increased demand for their goods in external markets, the SMEs barely have financial and technical capacity to meet such demand, since they also aim to meet domestic demand before satisfying foreign demand with their limited resources. Thus the small size of SMEs acts as a major constraint to SME export growth. This finding is in line with findings that larger companies have higher export performance and they have greater resources for gathering information on markets in foreign countries and for dealing with the uncertainties that prevail in foreign markets (Miesenbock 1988; Moini 1995; Wagner; 1995)

The use of US dollar as the major currency in Zimbabwe has also discouraged some SME exporters from exporting, as they can get the foreign currency at home and see no need to bother with exporting. The poor relations between Zimbabwe and the European Union and also Zimbabwe and USA have also impacted negatively on SME exports to the EU by reducing European and American markets for SMEs. The SMEs have lost some clients in EU and USA due to government's delay in restoring cordial relations with the West.

Further, in Zimbabwe there is shortage of infrastructure such as municipal sheds for SMEs to operate from. As a result there is increased political interference in the allocation of the sheds and also increased harassment by municipal police of the SMEs operating in undesignated places. For example, for an entrepreneur to get space from municipal sheds or stalls to operate from, often the entrepreneur has to prove affiliation to a given party. This is despite the fact that the infrastructure is dilapidated. PCSMECD (2013) also points that most of the infrastructure being used by many SMEs is in a dilapidated state or is grossly inadequate to support the assigned population allocated to it. This has caused small and medium enterprises to continue operating in undesignated and illegal areas, making them vulnerable to raids by national or municipal (local government) police. SMEs also face the challenge of finding affordable accommodation when they travel to foreign countries to distribute their goods.

The cost of distribution is a major challenge for exporters. To deliver their goods to external consumers they have to meet transport costs. The transport network in Zimbabwe is poor since the roads are not maintained regularly. The main road to South Africa, Zimbabwe's major trading partner, is in a bad state and an upgrade of the road is constantly postponed, while the rail system is now defunct. This increases transport costs for SMEs as transporters tend to charge more as there are few transporters and the cost of servicing vehicles is high. SMEs also face the challenge of finding affordable accommodation when they travel to foreign countries to distribute their goods.

As discussed in Chapter 2, the size and the growth of the export capacity of a country depends critically on the availability of physical infrastructure, ranging from roads and ports to energy and telecommunications (UNCTAD, 2005). Levels of trade flows observed for African countries are relatively low, essentially because of poor transport infrastructures and this is worse in landlocked countries because of their geographical handicaps (Limão and Venables, 2001).

The other challenge is that Zimbabwe's borders with trading partners are characterised by inefficiency, corruption, bureaucracy and constant delays in the processing of relevant papers for

SME exporters. The responses from the SMEs also pointed to the fact that there are too many government controls, especially if the business wants to export, and these controls need to be reduced to ensure smooth trade. It is extremely difficult for SMEs to export from Zimbabwe since the documentation that governs the conduct of SME exporters – the CD forms – are too complex to be understood and difficult to obtain. Such important export documents should be simplified and easy to obtain.

Agricultural exporters indicated that it is expensive for them to register with the Agricultural Marketing Authority of Zimbabwe (AMA) and to register with the Reserve Bank of Zimbabwe as an exporter, as both registrations are required before one can export. In Zimbabwe, agricultural exporters need export permits for each crop exported. These expire after only three months and the SME has to pay for permit renewal each time. This increases transaction costs for the entrepreneur. There is a need to reduce the costs incurred by SMEs so that they can increase exports. Coase (1937) points that rising costs represent decreasing returns to the entrepreneur and the growth of the firm stops when the cost of organising an extra transaction within the firm equals the same cost on the open market or the costs of organising another firm.

A number of small businesses indicated that HIV/Aids placed a constraint on the export performance of small businesses. The government assists people living with HIV through the National Aids Council, but the government's resources are insufficient to meet the enormous demands of dealing with the epidemic. Consequently SMEs lose production hours when the owner or employee is ill, and the loss is even greater when the person dies of Aids.

Having outlined these challenges, the SMEs were asked to suggest possible measures through which these problems could be solved. The responses are outlined in the following section.

### **7.6.2 Strategies for SME export promotion in Zimbabwe**

The SMEs indicated that the government should adopt various strategies to promote SME exports. Even though the government and other support institutions have introduced a number of financial and non-financial programmes towards SME support, these programmes have not been very effective. An important reason for the failure of government programmes to support small businesses is poor delivery, specifically the incompetence of the people delivering government support (Berry *at al* 2002). The government needed to introduce bilateral agreements with trading partner countries so as to remove trade barriers and promote economic

integration that would in turn ensure ease of doing business for exporting SMEs. The government and support institutions could also assist domestic companies with retooling and in acquiring up-to-date machinery to improve production efficiency and capacity. This would reduce production costs and so enable SMEs to charge competitive export prices.

The SMEs also indicated that support institutions could assist by making information on export markets readily available and helping the SMEs to market their products abroad. SMEs also suggested that the government create a media platform where SME exporting companies are advertised. To increase export markets for SMEs in Europe, the Zimbabwean government needs to improve relationships with European countries and create bilateral trade relations.

Support institutions can also impart SME staff with management and other necessary skills like quality control. The Standards Association of Zimbabwe (SAZ) is responsible for ISO certification to ensure the quality standards of goods for exports. However SAZ charges a lot of money for such certification, which is then barely affordable to SMEs. The same rates apply to corporates which can afford to have their products certified.

So SAZ needs to charge reasonably lower amounts, especially for SMEs that need to have their products certified. SMEs could realise increased exports if support institutions made funds available that were cheap to borrow, as a special facility for SMEs. Support institutions and the government need to create loan facilities for SMEs at lower interest rates as their businesses are still growing, so as to ensure new capital injection into small businesses. The SMEs indicated that institutions like the Zimbabwe Electricity Supply Authority (Zesa) needed to ensure continuous supply of power to manufacturing companies, including SMEs, and they should be given priority in electricity distribution.

The support institutions could assist SMEs to obtain raw materials domestically by supporting the providers of raw materials to SMEs. In the fresh vegetable exporting industry, support institutions could support horticulture farmers who provide crops to vegetable exporters. The SMEs indicated that there was need for partnerships between seed companies, financiers, agro dealers and SMEs exporting agricultural products. SMEs in the tailoring industry could benefit if cotton farmers were supported so that they provide more cotton to ginners to promote value addition.

This would ensure that the SMEs acquired raw materials at reasonable prices, to ensure continuity in production and growth in exports. SMEs also suggested that the government could give tax exemptions to SMEs for a number of years to give them time to grow their export capacity. They also advocated periodic reviews of import tariffs on imported finished goods as a way of protecting the domestic industry from competition caused by cheaper imports, which could hinder the growth prospects.

The Zimbabwe Revenue Authority (ZIMRA) needs to refrain from putting subjective prices on imports but accept the value of raw materials imported as reflected on the receipt for duty purposes. The estimates used by ZIMRA on costs of raw materials imported for duty purposes is too high, as the authority disregards the actual cost as reflected on receipts so as to maximise tariff collection. It is also difficult for SMEs to work with ZIMRA as it demands full tariff at once. SMEs indicated that ZIMRA should allow them to pay import duty on raw materials in instalments. In fact import tariffs on raw materials should be reduced.

Visual art SMEs indicated that musicians were actually benefiting from duty exemption on music instruments and felt this should be extended to all SMEs including visual artists. The visual artists also indicated that the fumigation of export products and the need for fumigation certificates before exporting was constraining them financially, so they needed institutional support with regard to fumigation. Exporters of agricultural products felt that the government and support institutions needed to provide exporting SMEs with laboratories to test for crop suitability for export to the EU, so that SMEs do not incur high airfreight costs to the EU, only for their products to be rejected on entering the EU.

The government and local authorities need to reduce cost of operational licences like municipal health licences that some SMEs have to pay to ensure their viability. The SMEs also advocated for the government to adjust labour laws so that it becomes easier to retrench employees at any time and to make it easy for SME employees to adjust salaries in line with production.

Having outlined the responses from focus group discussions, the researcher sought the opinions of SME support institutions with respect to their role in export promotion in Zimbabwe. Interviews were carried out with SME support institutions and the responses are outlined in the next section.

### **7.7 Perspectives of support institutions on SME export support**

The researcher conducted interviews with 10 SME support institutions, all headquartered in Harare, so as to understand the perspectives of support institutions on SME export support. The institutions were in these sectors: microfinance, government ministry, quasi-government, NGO and business consultancy. Most of the support institutions indicated that they had been supporting SMEs for more than 10 years, while very few had supported SMEs for five years or less.

The support institutions gave several reasons for supporting SMEs. The reasons cited were to increase the institution's customer base with regard to number of SMEs, to comply with government policy on SMEs, to increase SME exports, to help SMEs market themselves, to increase the visibility of the institution and acting as lobby institutions for SMEs. The support institutions indicated that they sometimes visited SME businesses to obtain information about the needs of exporting SMEs. They also obtained information about SMEs and their needs from relevant government ministries. However in most cases, SMEs are the ones that visit the support institutions to obtain assistance.

When selecting exporting SMEs to support there are various aspects that support institutions consider. The major aspect considered by support institutions is SMEs credit history. An SME with a good credit history is likely to obtain a loan easily from the support institutions. Other factors considered when selecting SMEs are availability of collateral, size of business, age and location of business and business sector, as well as the performance of the business and its membership of support institutions.

Of the support institutions interviewed, 30% provided loans totalling less than US\$1 million, while 20% provided loans totalling more than US\$1 million to all SMEs each year from 2009 to '15. The other 50% of SME support institutions do not provide loans to SMEs. The support institutions indicated that they had offered some training in two or more areas to SME businesses. Training with regard to market and product information is the major form of training offered to SMEs, followed by training in quality management.



Other training offered to SMEs by support institutions include training in production skills, training in management skills, training in export-related skills and training in occupational health. Some institutions indicated that they worked in collaboration with other support institutions. The support institutions were asked to indicate the total amount of money they spent between 2007 and '15 on providing capacity building and technical assistance to SMEs. Generally, support institutions spent between \$10 000 and \$20 000 each year on providing capacity building and technical assistance to SMEs.

Asked about the challenges they faced in their efforts to assist SMEs, most institutions indicated that the main challenge was that SME businesses were generally small businesses and so too risky to lend money to as they could collapse any time. SMEs also lacked adequate collateral to cover the loans they borrowed from these institutions. Some SMEs also failed to repay loans or failed to continue operations after obtaining loans. This finding was also made by (UNCTAD, 2005) that SMEs face various constraints to finance as they are regarded by creditors and investors as high-risk borrowers due to low levels of assets and low capitalisation, vulnerability to market fluctuations and high mortality rates.

The support institutions were asked about the percentage of SMEs they supported that were in the export business. Most of the support institutions, with the exception of Zimtrade, indicated that 30% of the support they gave to SMEs was for exporters, while 70% was for non-exporting SMEs. This means that exporting SMEs obtain a smaller percentage of SME support from most institutions as compared with non-exporting SMEs. However Zimtrade specialises solely in assisting supporting SME exporters. The support given by the institutions takes the form of training in exports, the facilitation of SME access to trade and trade-related information, and the organisation of local and international expos for SMEs. The results from Francis *et al* (2003) showed that greater use of export assistance programmes by SMEs contributed to the achievement of export knowledge and product market objectives.

The support institutions were asked what exporting SMEs needed to do to obtain more support from the institutions. Several aspects were pointed out by the institutions. The SMEs needed

to take part in training programmes, trade expos and trade missions organised by institutions like Zimtrade to expose their businesses and their products to potential foreign buyers.

The SMEs also needed to register with various trade organisations so that they could obtain advice for their operations and observe the rules and regulations of the local authorities where they operate. They also needed to improve their recordkeeping. The SME Ministry indicated that SMEs needed to register with the ministry, pay back loans issued and work towards expansion of their businesses. The SME Association mentioned that SMEs needed to join the association to benefit. SMEs also needed to improve the quality of their products.

The institutions were asked what strategies they could employ to increase SME exports. The responses were that institutions could create market or business linkages and support value addition for community-based SME groups. Institutions could also increase SME exports by creating support systems that enabled continuous SME funding, and lobbying the government to support SME exports fully. Institutions could also train small business owners in export skills. Institutions could create linkages between SMEs and export markets, much as Zimtrade does. Institutions also needed to produce favourable financial products that suited SMEs' needs and size.

### **7.8 Concluding remarks**

The chapter begins with a presentation of descriptive statistics. It is pleasing to note that most of the respondents were fairly young and in the economically active age group. This age group is dynamic, resilient and can learn how to grow export intensity. Most of the respondents were men, indicating that SMEs in Zimbabwe are male-dominated. This is not surprising, since Zimbabwe is a highly patriarchal society. The results also showed that a significant number of respondents had attained tertiary education in the form of certificates, degrees or diplomas. Education can help people to be connected in the world so as to grow exports and to communicate more easily.

The number of business owners was higher than that of employees among the respondents. Business owners ensure business growth as they make quick decisions and go the extra mile in their efforts for the business. However, the managers (non-owners) also showed enthusiasm

and understanding of dynamics of their businesses. The SMEs fit into different business types, almost half of them being companies.

It is pleasing to note that most of the SMEs have more than 10 years' experience in business and have been exporting for more than 10 years. Zimtrade has succeeded in disseminating information, as almost half of the SMEs indicated that they obtained relevant information from that institution. About a third of the SMEs have operated in an export processing zone. The SMEs export both primary and manufactured products. More than 70% of the respondents indicated that they exported to African countries. Almost all of the SMEs indicated that they had received support from microfinance institutions.

The main reason SMEs embark on the export business is to increase sales. Most of the SMEs obtain export information from Zimtrade, followed by relatives and friends. Most of the exporting SMEs export a single product, mostly to African countries. The results show that generally the cost of sales is high for the SMEs, which may be a hindrance to export initiatives. SMEs obtain assistance mostly from just one institution. Obtaining finance is the major reason for SMEs to seek institutional support, followed by the need to increase exports. In addition to loans, institutions also offer training to SMEs.

The major challenges faced in accessing finance are that loan sizes are too small and the SMEs lack adequate collateral when borrowing. The harsh economic climate in Zimbabwe has also made it difficult for institutions to change much for SMEs. Because of these challenges, most SMEs indicated that institutional support had increased SME exports to only a small extent. Support institutions could assist SMEs by making information about export markets readily available, helping the SMEs market their products abroad and supporting the domestic providers of raw materials to SMEs. The government could give tax exemptions to SMEs to give them time to grow their export capacity. Since they do not have the capacity to do research outside Zimbabwe, the SMEs lack relevant information on the actual products that external customers prefer.

Besides the government, other institutions supporting SMEs are quasi-governmental, microfinance institutions, NGOs and business consultancies. The institutions provide loans, SME support policies, information vital for SME business operations, technical expertise, marketing, capacity building and lobbying. When selecting SMEs to support, the major aspects considered

by support institutions are the SME's credit history, availability of collateral, size of business, age and location of business and business sector.

Other factors are the performance of the business and membership of support institutions. The major challenges faced by support institutions in their efforts to assist exporting SMEs are that SME businesses are generally small, without adequate collateral and so too risky to lend money to. Some SMEs struggle to repay loans while some even stop operations before repaying loans, causing loss to the institution. One major challenge faced by institutions is that of asymmetric information or disclosure of critical information by SMEs. Results show that most support institutions believed that institutional support had led to increased SME exports.

Poor relationships between Zimbabwe and the European Union have also affected SME exports to the EU negatively by reducing the SMEs' European markets. Another challenge faced by SMEs is that the borders between Zimbabwe and its trading partners are characterised by inefficiency, corruption, bureaucracy and constant delays in the processing of relevant papers for SME exporters. Because of the US dollar, which has higher value than most trading partners' currencies, SMEs' products are more expensive on international markets and so are uncompetitive.

Chapter 8 follows with empirical findings on the determinants of exports among SMEs in Zimbabwe.

## CHAPTER 8

### DETERMINANTS OF EXPORT PERFORMANCE AMONG SMEs IN ZIMBABWE

#### 8.1 Introduction

Chapter 8 presents the empirical findings and analysis of the determinants of export performance among SMEs in Zimbabwe. Econometric estimation was carried out using the gravity model of trade. The period 2009 to '15 was chosen since the immediate years before 2009 the country experienced a highly volatile economic environment. The chapter is structured as follows: Section 8.2 presents the gravity model that was estimated, section 8.3 presents the results from the Durbin-Wu-Hausman test while the regression results are discussed in section 8.5.

#### 8.2 Estimation of the gravity model of trade

Regression was done using panel data ordinary least squares (OLS). The following is the gravity model that was estimated, using non-dynamic panel data analysis:

$$\begin{aligned} \text{Exp Int}_{it} = & \beta_0 + \beta_1(\text{Support\_inst}_{it}) \\ & + \beta_2(\text{Bus\_own}_{it}) + \beta_3(\text{Lnr\_d}_{it}) + \beta_4(\text{Educate\_yrs}_{it}) \\ & + \beta_5(\text{Epz\_s}_{it}) + \beta_6(\text{Exp\_yrs}_{it}) + \beta_7(\text{Prod\_type}_{it}) \\ & + \beta_8(\text{Firm\_age}_{it}) + \beta_9(\text{Firm\_size}_{it}) + \beta_{10}(\text{Gender}_{it}) \\ & + \beta_{11}(\text{Lndist\_tp}_{it}) + \beta_{12}(\text{Lngdp\_tp}_{it}) + \beta_{13}(\text{Lngdp\_zimb}_{it}) + U_{it} \end{aligned}$$

Table 8.1 gives the description of the variables in the model.

**Table 8.1 Description of the gravity model variables**

1	(Exp Int <sub>it</sub> )	Export intensity of SMEs in Zimbabwe = export sales/total sales (US\$)
2	(Support_inst <sub>it</sub> )	Support institutions – 1 received support from institutions, 0 otherwise.
3	(Bus_Own <sub>it</sub> )	Business ownership – 1 business owner, 0 employee
4	(lnR_D <sub>it</sub> )	Research & development (US\$) in natural logs
5	(Educat_yrs <sub>it</sub> )	Years of education – primary and secondary school, and tertiary.
6	(EPZ_S <sub>it</sub> )	Use of export processing zones – 1 operated in EPZ, 0 otherwise.
7	(Exp_yrs <sub>it</sub> )	Export years – the number of years the business has been exporting.
8	(Prod_type <sub>it</sub> )	Product type – 1 manufactured, 0 otherwise
9	(Firm_age <sub>it</sub> )	Firm age – the number of years the business has been operating.
10	(Firm_size <sub>it</sub> )	Firm size measured by the total number of employees
11	(Gender <sub>it</sub> )	Gender – gender of respondent. Dummy variable 1 male, 0 female
12	(Indist_tp <sub>it</sub> )	Distance (in km) from trading partner in natural logs. It is a standard gravity model variable.
13	(lngdp_tp <sub>it</sub> )	Gross domestic product of trading partner (US\$) in natural logs. It is a standard gravity model variable.
14	(ln gdp_zimb <sub>it</sub> )	Gross domestic product of Zimbabwe (US\$) in natural logs. It is a standard gravity model variable.

Source Survey information (2015)

The Durbin-Wu-Hausman test was carried out to determine whether to use random or fixed effects. The next section presents the test results.

### 8.3 Durbin-Wu-Hausman test (1979) – fixed vs random effects test

The Durbin-Wu-Hausman test was carried out to determine whether to use the fixed effects or random effects model and also to determine whether to use OLS or instrumental variable (IV) estimation. The following is the hypothesis for the Durbin-Wu-Hausman test:

- $H_0$  :  $\alpha_i$  are distributed independently of  $X_j$
- $H_A$  :  $\alpha_i$  are not distributed independently of  $X_j$

Table 8.2 shows the results from the Durbin-Wu-Hausman Test.

**Table 8.2 Correlated random effects Durbin-Wu-Hausman test**

Test summary	Chi-Sq. statistic	Chi-Sq. d.f	Prob.
Cross-section random	0.000000	9	1.0000

*Source Survey data (2015)*

The result from the Durbin-Wu-Hausman test shows a probability value of 1, indicating that we fail to reject the null hypothesis. Since the null hypothesis is not rejected, both random and fixed effects are consistent, but fixed effects is inefficient as it involves estimating unnecessary dummy variable coefficients (Dougherty 2014). The econometric gravity model was therefore regressed using panel data OLS with random effects. The results of the regression are presented in the next section.

#### **8.4 Results from the econometric estimation of the gravity model.**

The results from the econometric estimation of the gravity model are presented on table 8.3. Out of the 13 variables tested, the following 8 variables are statistically significant: business ownership, R&D, EPZ, export years, firm size, gender, distance from trading partner and GDP of trading partner. Thus, the null hypothesis for these variables is rejected and a conclusion is made that the variables determine export intensity of SMEs in Zimbabwe. However 3 of the significant variables have negative coefficients namely gender, distance from trading partner and R&D.

There are 5 variables that are statistically not significant in determining export intensity of SMEs, namely support institutions, educational years, product type, firm age and GDP of Zimbabwe. We fail to reject the null hypothesis for these variables and conclude that the variables do not determine export intensity.  $R^2$  is 65% indicating that the model explains for 65% of variation and the rest is explained by the error term.

**Table 8.3 Regression results: random effects regression**

Variable	Coefficient	t-Statistic	P – value
C	0.500647	3.238401	0.0013
(Support_inst <sub>it</sub> )	-0.004316	-0.231516	0.8170
(Bus_own <sub>it</sub> )	0.068645	2.463764	0.0140**
(Lnr_d <sub>it</sub> )	-0.008372	-2.325699	0.0203**
(Educat_yrs <sub>it</sub> )	0.005147	1.033343	0.3018
(Epz_s <sub>it</sub> )	0.092819	4.144327	0.0000***
(Exp_yrs <sub>it</sub> )	0.001510	0.504928	0.0867*
(Prod_type <sub>it</sub> )	0.022432	0.668389	0.5041
(Firm_age <sub>it</sub> )	0.000804	0.272454	0.7853
(Firm_size <sub>it</sub> )	0.011445	16.78218	0.0000***
(Gender <sub>it</sub> )	-0.044614	-1.772184	0.0767*
(Lndist_tp <sub>it</sub> )	-0.174735	-4.643305	0.0000***
(Lngdp_tp <sub>it</sub> )	0.010831	3.890610	0.0001***
(Lngdp_zimb <sub>it</sub> )	-0.009756	-0.609262	0.5425

$R^2 = 0.650813$

\*\*\*  $p < 0.01$  - statistical significance at 1% level

\*\*  $p < 0.05$  - statistical significance at 5% level

\*  $p < 0.1$  - statistical significance at 10% level

Source: Survey data (2015)

### 8.5 Discussion of the regression results

The regression results in Table 8.3 are discussed in detail in this section, beginning with support institutions.



### **8.5.1 Support institutions (Support\_insti)**

Support institutions represent the service obtained by the SMEs from the support institutions. The results for support institutions indicate that there is a negative or inverse relationship between the service received from support institutions and export intensity, as the coefficient of support institutions is negative at -0.004316. The relationship between the service received from support institutions and export intensity is also statistically insignificant, with a p value of 0.8170. In this case we fail to reject the null hypothesis that support institutions do not determine SME export intensity in Zimbabwe.

The regression results therefore showed that SMEs that received assistance from support institutions had reducing export intensity. However this does not necessarily mean that the support was not effective, since there were many dynamics in Zimbabwe during the study period. The year 2009 was when Zimbabwe had just emerged from the hyperinflation era and had just abandoned its currency for the multicurrency system. It was also the year in which the government of national unity was formed, following the 2008 elections.

Zimbabwe was still trying to recover from economic and political turmoil. Internationally, recall that 2008, the year immediately before the study, there was a global economic meltdown. The SMEs have received different forms of support from support institutions. Institutions have assisted SMEs in meeting travel costs as they travel outside Zimbabwe to export, they have facilitated overseas exhibits for artists and provided fumigation for some export products. Zimtrade in particular has organised a platform for SMEs to meet potential external markets and coordinated workshops with SME partners, like the Zimbabwe Revenue Authority.

Institutions have organised training on exports for SMEs. SMEs have benefited by obtaining loans from support institutions. There are various institutions supporting SMEs, including government ministries, specifically the Ministry of Small and Medium Enterprises, Zimtrade, the Zimbabwe Investment Centre, and the Small to Medium Enterprise Association of Zimbabwe (SMEAZ).

The other reason for the insignificance of support institutions is the harsh economic climate in Zimbabwe, characterised by declining investment, closure of businesses, shortages of currencies, isolation of the country from the international community, and the lack of consistent and credible government economic policy has also made it difficult for institutions to make any difference for SMEs. A further reason that is undermining efforts by support institutions to grow exports is that in Zimbabwe the US dollar is available, so disincentivising some SMEs which started exporting solely to obtain foreign currency during the Zimbabwe dollar era.

Some of the empirical literature presents findings similar to findings in this study. Yannopoulos (2010), in a study of export assistance programmes in Canada, concluded that not all government support services are equally useful or used to the same degree by exporters, as some of these services are found to be more useful and others less useful to exporters. Berry *et al* (2002) concluded that the reasons for the failure of government support to small businesses included lack of awareness, uneven distribution, the high cost of searching for support services (which has not been mitigated), and cumbersome administrative requirements of government programmes, resulting in user fatigue and high levels of disappointment.

Poor delivery – specifically the incompetence of the people delivering government support – is responsible for the failure of government support to SMEs (Orford *et al*, 2005). Francis *et al* (2003) concluded that export assistance programmes appeared to have their greatest effect for firms at the developing stages of their export activity.

### **8.5.2 Business ownership (Bus\_Own<sub>it</sub>)**

Business ownership was measured using a dummy variable 1 if owner 0 otherwise. The coefficient for business ownership was positive at 0.068645, implying a positive relationship between business ownership and export intensity. So when the owner is managing the business, export intensity tends to increase. The SMEs where the owner was the respondent, rather than the employee, tended to have a positive relationship with export intensity, meaning that those respondents who owned their businesses could increase their export intensity.

The finding from the research was that the p value of business ownership in the regression is 0.0140, meaning that business ownership is statistically significant at 5% level. So the null hypothesis that business ownership does not determine export intensity of SMEs in Zimbabwe

is rejected. The reason is that in cases where the owner is the one managing, they are innovative and do not fear finding export markets. Decision-making is easy, swift and timely and opportunities in the export market can be taken without bureaucratic processes, which are common when a manager is running the SME.

When the owner manages the business he or she has property rights and works harder than an employee. Because of this finding, entrepreneurship courses should be taught in schools so that exports increase and employment is created. Ownership of a firm grants residual rights of income and control, as mentioned in the Alchian-Demsetz approach, so ownership of physical assets becomes important (Grossman & Hart, 1986; Hart & Moore, 1990).

### **8.5.3 Research and development ( $\ln R_{it}$ )**

Since exports depend on innovation, respondents were asked how much they dedicated to innovation through research and development. Results show that R&D has a negative coefficient, -0.008372, showing an inverse relationship between export intensity and R&D. The p value of R&D in the regression is 0.0203, indicating that R&D is significant in determining export intensity at 5% level of significance. So the null hypothesis is rejected.

The negative coefficient means that as R&D increases, export intensity falls. Zimbabwe has revealed comparative advantage in primary products like tobacco and minerals, as discussed in Section 7.4, but R&D is for high-technology products, where Zimbabwe does not possess comparative advantage. The fact that Zimbabwe's revealed comparative advantage is mostly in agriculture and mining is why R&D has a negative coefficient.

R&D should lead to exports of high-technology products and innovation. This is not the case in Zimbabwe, which exports few high-tech products. There has also not been consistent investment in research and development. The inverse relationship is also due to the fact that most SMEs are investing in expanding the domestic market, since Zimbabwe uses the United States dollar as its principal currency. So foreign exchange can be tapped from the domestic market, and the SMEs see no need to research and develop for exports.

The other reason for the failure of R&D efforts in reaping the desired results of increasing exports is that money is being pumped into the wrong area for research and development. Most R&D, even at national level, seems to be channelled mostly towards increasing domestic sales,

and less towards export growth. The Scientific and Industrial Research and Development Centre (SIRDC) was established by the Zimbabwean government in February 1993 under the provisions of the Research Act of 1986 to support research and development in Zimbabwe.

R&D is for the benefit of Zimbabwe's manufacturing, service, agricultural and mining sectors. SIRDC was created to provide Zimbabwe with technological solutions for sustainable development. In addition to SIRDC, the Research Council of Zimbabwe (RCZ) is a statutory body established by Act of Parliament in 1984 to coordinate, promote, direct and advise the government with respect to research in the country

However, Hart *et al* (1994) postulate that one of the most practical ways in which smaller firms may reduce risk when engaged in export operations, and so help them become more profitable and offer opportunities for growth, is to make use of a wider range of information sources and to be more rigorous in the means by which their data are collected.

In addition to the regression, the study further analysed the revealed comparative advantage (RCA) of Zimbabwe.

#### **8.5.4 Years of education (Educat\_yrsit)**

Years of education are the number of years spent by the SME owner or manager in pursuing educational activities. The educational levels in the study include secondary, vocational and university education. Secondary education gives a total of 11 years, vocational training 14 years and university education 17 years. Having an education enables the SME owner to have better knowledge and better management of business techniques and export skills, as well as confidence. With an education, an SME owner or manager is able to understand the dynamics of economics such as exchange rate fluctuations and their implications, and is able to make important business connections necessary for the business. Such a manager can also read and write and speak English or other languages and so can communicate with customers outside the country.

The coefficient for years of education is positive as expected, at 0.005147, showing a positive relationship between export intensity and years spent towards education. So export intensity tends to be higher in cases where the respondent has a higher education. However, the number of years spent in schooling by the respondent were statistically insignificant in determining the

export intensity of SMEs in Zimbabwe, with a p value of 0.3018. Since years of education in the regression are not significant in determining export intensity, we fail to reject the null hypothesis.

Empirical literature shows a positive link between educational level and export intensity. The education level, age and international experience of the manager are positive factors of export performance since a higher educational level provides the manager with a greater awareness of international issues and the reality of business life (Bellaaj & Akrouf, 2005). Zou & Stan (1998) concluded that not only should better export performance be attributed to management's superior work, but poor export performance should be blamed on the management as well. Katsikeas *et al* (2000) found that organisational and managerial factors have an effect on the marketing strategy of a firm, which influences export performance. The quality of a manager's work is determined by the level of education.

#### **8.5.5 Export processing zones (EPZ\_Sit)**

Zimbabwe's export processing zones (EPZs) or free trade zones were established in 1987 by Act of Parliament. They are managed and administered by the Export Processing Zones Authority. EPZs are governed by the Export Processing Zones Act (Chapter 14:07) of 2002. Exporters operating in EPZs were given tax exemptions as part of the export promotion programme.

The respondents were asked to indicate whether they had previously used EPZs, before the EPZs stopped operating. The finding from the research is as expected: there is a positive relationship between export intensity and having previously used EPZs since the coefficient is 0.092819. The results also show that EPZs are significant in determining the export intensity of SMEs in Zimbabwe, with a probability value of 0.0000. SMEs that used EPZs can increase their export intensity by 9%, compared with those that have never used them. The null hypothesis is therefore rejected.

The findings suggest that EPZs play a vital role in export promotion in Zimbabwe. This is despite the fact that EPZs are now dysfunctional. The positive effects of EPZs are still being enjoyed by SMEs even after the EPZs have ceased to operate. The goal of export promotion

programmes like EPZs is to enhance export performance by improving firms' capabilities, resources, and strategies and overall competitiveness (Czinkota, 1996). Shoham (1996) defined export performance as the result of a firm's actions in export markets.

#### **8.5.6 Exporting years (Exp\_yrs<sub>it</sub>)**

The variable export years represents the number of years that the SME has been in the export business. The coefficient 0.001510 is positive, meaning that in line with the usual expectation, more years spent in exports are associated with increasing export intensity. Since exporting years in the regression is significant at 10% level of significance, with a p value of 0.0867, the null hypothesis that exporting years do not determine export intensity is rejected. The number of years that an SME has been in the export business is significant in explaining export intensity.

One reason is that the SME exporters have kept in step with what is needed to be able to be competitive in the export markets, thus they have gained markets. The exporting SMEs have also benefited from government policies supporting SME exporters like EPZs. However, despite the relationship, SMEs have been affected negatively by government policies like import substitution and import permits, which made it very difficult to import raw materials. As shown in Chapter 5, export trends have been falling over the years.

#### **8.5.7 Product type (prod\_type<sub>it</sub>)**

The variable product type represents primary or manufactured products exported by SMEs. Results from the regression show that the coefficient is positive at 0.022432, meaning that there is a positive relationship between product type and export intensity. So primary products have a positive relationship with export intensity. However regression results also show that product type is not significant, with a p value of 0.5041. So we fail to reject the null hypothesis that product type does not determine export intensity for SMEs in Zimbabwe.

SMEs Zimbabwe export both primary and manufactured commodities. Both sectors are critical to the economy of Zimbabwe. The agricultural sector is the backbone of the economy. Tobacco is a major export commodity for Zimbabwe, bringing in significant foreign currency. Zimbabwe used to be responsible for food security in the SADC. The manufacturing sector is important in a country since it contributes to job creation and increases exports. The

manufacturing sector contributed about 24% to the country's GDP during its peak in 1996 (Zeparu, 2015).

#### **8.5.8 Firm age (Firm\_age<sub>it</sub>)**

Firm age is the period of business or the total number of years in which the SME has been operational. There is a positive relationship between the age of a firm and export intensity, given that the coefficient is a positive 0.000804. Since the p value of firm age in the regression is not significant at 0.7853, the null hypothesis cannot be rejected. So firm age is not statistically significant in determining the export intensity of SMEs in Zimbabwe. However, the positive relationship between firm age and export intensity shows that a longer period in business is associated with more export intensity. Businesses that have been operating for longer periods are more established and connected, and they have loyal customers.

#### **8.5.9 Firm size (Firm\_size<sub>it</sub>)**

Firm size was measured by the number of employees for each SME. It is pleasing to note that the firm size has a positive relationship with export intensity of SMEs. The coefficient for this variable is 0.011445, which means there is a positive relationship between export intensity and firm size. This can be explained by the fact that with more employees, a firm has the capacity to implement division of labour and specialisation, which leads to increased production and hence increased exports.

Since the p value of firm size in the regression is 0.0000 and is significant at 1% level, the null hypothesis that firm size does not determine export intensity of SMEs is rejected. So the size of the firm matters in determining SME export intensity. The finding concurs with the empirical work of Beamish & Dhanaraj (2003), who concluded that firm size is a good predictor of export strategy, and export strategy is influenced positively by firm performance. Several authors (Miesenbock 1988; Moini 1995; Wagner; 2001) have concluded that the larger a company is, the higher its export performance is.

Firm size has a positive outcome in networking and export performance (Babakus *et al*, 2006). Mauriel (2009) found that the export performance of French wine SMEs is positively influenced by the size of the company, as well as the orientation and commitment of management towards the export activity. However in contradiction, Castaldi *et al* (2003) in a study of the

French wine industry, hypothesised that firm size does not systematically affect export performance positively since there are small and successful exporting firms in the French wine industry.

#### **8.5.10 Gender (Gender<sub>it</sub>)**

The finding from the study is that the coefficient, -0.044614, is negative, indicating that there is a negative relationship between export intensity and gender. The implication of this result is that woman-headed SMEs are likely to have a higher level of export intensity than SMEs headed by men. Gender is statistically significant at 10% level of significance in determining SME export intensity, since the probability value is 0.0767. So the hypothesis is rejected.

Zimbabwe's Ministry of Women's Affairs was created to empower women who were previously financially disadvantaged and the ministry's efforts seem to be reaping positive results. Other women's empowerment programmes have been implemented by various NGOs and quasi-government institutions and those programmes also appear to have been successful. The reason is that most men who own SMEs are also employed elsewhere, or they run several small businesses, leaving them with less time for export activities, while women-owned SMEs concentrate mostly on that one business, giving them more time to concentrate on exporting. SMEs headed by men generally manufacture heavy products like furniture and metal-based products, which are expensive to carry to export markets, while products from woman-headed SMEs are generally lighter and cheaper to carry to export markets, like clothes and agricultural produce.

However, contrary to these findings, an empirical study by Kalleberg & Leicht (1991) suggested that the determinants of survival and success in small businesses operated in the same way for men and women, suggesting that aspects underlying small business performance are similar irrespective of the entrepreneur's gender. The study concluded that women's businesses were as successful as those of their male counterparts and their businesses were no more likely to fail than those of their male counterparts.

#### **8.5.11 Distance from trading partner (Indist<sub>tpit</sub>)**

One of the major gravity model variables is distance between the SME and its trading partner. In the gravity model, distance is a measure of transportation costs. The coefficient for distance



is expected to be negative since it is a resistance factor: the greater the distance, the larger the transaction costs, the less the exports. Results show the coefficient to be -0.174735, showing a negative relationship between export intensity and distance from trading partner, as expected in the model.

Results of this research indicate that the p value is 0.0000, implying that distance from trading partner in the regression is significant at 1% level of significance. So the null hypothesis is rejected. The further away the trading partner is, the less the export intensity. This is because faraway markets require high transport costs. Findings by Achey (2006) showed that geographical distance had a negative effect on the volume of trade between countries.

#### **8.5.12 Gross domestic product of trading partner ( $\ln gdp_{tpit}$ )**

The study findings indicate that the relationship between export intensity and GDP of trading partner is positive, as expected in the model, with a positive coefficient of 0.010831. This means that as the GDP of the trading partner increases, exports by SMEs also increase since a greater GDP in the trading partner results in increased demand for goods from Zimbabwe's SMEs by that trading partner.

The p value for gross domestic product of trading partner in the regression is 0.0001, meaning that the GDP of the SME's trading partner is statistically significant in determining SME export intensity at 1% level. So the null hypothesis is rejected. The finding is similar to findings by Rahman (2004), who concluded that Bangladesh's trade was positively determined by openness of trade, the size of the economies and the per capita GDP differential of trading countries. Findings by Achey (2006) showed that GDP, among other variables, was statistically significant and had a positive effect on volume of bilateral trade between countries.

The effect of trading partner's GDP on Zimbabwe's export intensity is affected by the economic performance of the trading partner. If there is a recession in the trading partner's country, the country's GDP falls, together with aggregate demand, and Zimbabwe's exports to the country also fall. Likewise, a boom in a partner country causes increase in aggregate demand and GDP, hence Zimbabwe's exports increase. So regional economic integration and the growth of the region are important.

As mentioned in earlier chapters, Zimbabwe was signatory to a number of multilateral trade agreements like the Lomé Conventions, the Cotonou Agreement and is currently a signatory to the interim EPAs. Zimbabwe also has a number of bilateral trade agreements with several countries.

#### **8.5.13 Zimbabwean GDP (Lndp\_zimb<sub>it</sub>)**

The coefficient of GDP Zimbabwe is -0.009756, showing a negative relationship between the GDP and export intensity. So as GDP increases in Zimbabwe, export intensity falls. Since the p value of GDP Zimbabwe in the regression is 0.5425, Zimbabwe's GDP is not significant in determining the export intensity of SMEs. So the null hypothesis not rejected. However, the insignificance of Zimbabwe's GDP does not suggest that it is not an important variable, but that there are other dynamics that affect export intensity, despite the growth in the economy.

The insignificance is because of other factors like structural changes or the use of the multicurrency system. Also, as GDP increases, domestic markets for SME goods increase and these domestic markets provide the SMEs with foreign currency, which is currently used for exchange of goods and services in Zimbabwe. So there is no incentive for SMEs to export when Zimbabwe's GDP increases, since they can harness the foreign currency from domestic sources.

#### **8.5.14 The constant (C)**

The constant is highly significant at 1% level of significance with 0.5 as the coefficient, so even if all the other coefficients in the model were to be 0, it would be still possible to export from Zimbabwe.

The next section presents the concluding remarks for the chapter.

#### **8.5.15 Concluding remarks**

The chapter presented the empirical results from the study on the determinants of exports among SMEs in Zimbabwe. The gravity model of trade was estimated using non-dynamic panel data OLS with random effects. The empirical research findings are presented in this chapter.  $R^2$  is 65%, indicating that the model explains for 65% of variation and the rest is explained by the error term. Out of the 13 variables tested, eight are statistically significant,

meaning that they determine export intensity. The significant variables are: business ownership, R&D, EPZ, export years, firm size, gender, distance from trading partner and GDP of trading partner.

So the null hypothesis for these variables was rejected and a conclusion was made that the variables determine export intensity. Among the significant variables, there are some with negative coefficients: gender, distance from trading partner and R&D. The 5 variables that are statistically insignificant are support institutions, years of education, product type, firm age and Zimbabwe's GDP. We fail to reject the null hypothesis for these variables and conclude that the variables do not determine export intensity. Insignificant variables with negative coefficients were the Zimbabwean GDP and support institutions.

The education level, or number of years spent in schooling by the respondent, was not statistically significant in determining the export intensity of SMEs in Zimbabwe. The size of the firm proved to be statistically significant in determining export intensity, so the larger the size, measured by the number of employees, the higher the exports. The support institutions are significant in determining the export intensity of SMEs.

Export intensity increases for the SME when the entrepreneur manages his (her) own business rather than employing a manager, so in the same vein export intensity falls for an SME where an employee is running the business. As expected, there is a positive relationship between export intensity and having previously benefited from EPZs. Distance is statistically significant in determining export intensity. There is a negative relationship between export intensity and distance, meaning that as distance between SME and export market increases, exports fall since transport costs tend to increase.

Results also showed that as the GDP of the trading partner increases, exports by the SME also increase, since increased trading partner GDP results in increased demand for SME goods by the trading partner. The research results indicate that Zimbabwe's GDP is insignificant in determining the export intensity of Zimbabwe's SMEs, possibly because as GDP increases, domestic markets for SME goods increase and these domestic markets supply the SMEs with foreign currency.

R&D is significant in determining export intensity. The reason is that most of the research and development done by the SMEs is for the domestic market since Zimbabwe is currently using the US dollar as the major currency. The more the SMEs engage in R&D the less they are inclined to export. The next chapter presents the findings of the study on Zimbabwe's export competitiveness.

## CHAPTER 9

### ZIMBABWE'S EXPORT COMPETITIVENESS

#### 9.1 Introduction

Chapter 9 presents results on Zimbabwe's export competitiveness in the mining, agriculture and manufacturing sectors. The results presented in this chapter help in understanding the sectors where exporting SMEs are most competitive as this would influence policies pertaining to SME exports. The chapter is organised as follows: Section 9.2 presents the results on the competitiveness of the export sectors, based on the revealed comparative advantage index, export growth, high technology exports and terms of trade. The key determinants of manufacturing sector competitiveness and recommendations are outlined in Section 9.3 while Section 9.4 concludes the chapter.

#### 9.2 Measuring Zimbabwe's sector competitiveness against key indicators

As discussed in Chapter 6, there are various indicators used to measure the competitiveness of Zimbabwe's sectors. This section presents the findings on these key indicators. The revealed comparative advantage index is one key indicator used to determine Zimbabwe's export competitiveness. The results of computations on the RCA index are presented in the next section.

##### 9.2.1 Zimbabwe's revealed comparative advantage

In order to understand the sectors and commodities where Zimbabwe is competitive, the revealed comparative advantage (RCA) of Zimbabwe was computed using the following RCA index developed by Balassa (1965). The index was also discussed in Chapter 6.

$$RCA_{ij} = \frac{x_{ij}/X_{it}}{x_{wj}/X_{wi}}$$

Where  $x_{ij}$  and  $x_{wj}$  are the values of country  $i$ 's exports of product  $j$  and world exports of product  $j$ , and where  $X_{it}$  and  $X_{wt}$  refer to the country's total exports and world total exports. The revealed comparative advantage is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. An  $RCA \geq 1$  demonstrates that a country has revealed

comparative advantage in the production of the product, so the exporting nation is relatively specialised in producing and exporting the product line under consideration. An RCA index of  $\leq 1$  shows that a country has no revealed comparative advantage in the production of the product. Table 9.1 shows the product categories in which Zimbabwe has revealed comparative advantage, in descending order.

**Table 9.1 Products with highest RCA in Zimbabwe**

	<b>Product</b>	<b>RCA 2015</b>
1	Tobacco and manufactured tobacco substitutes	137.26
2	Vegetable plaiting materials, vegetable products	19.64
3	Sugars and sugar confectionery	15.75
4	Ores, slag and ash	8.73
5	Precious stones, metals, coins, <i>et cetera</i>	8.44
6	Salt, sulphur, earth, stone, plaster, lime and cement	8.25
7	Cotton	6.41
8	Nickel and nickel articles	5.38
9	Iron and steel	3.08
10	Coffee, tea, maté and spices	2.97
11	Milling products, malt, starches, inulin, wheat gluten	2.25
12	Raw hides and skins (other than pelts) and leather	2.21
13	Works of art, collectors' pieces and antiques	1.91
14	Lead and lead articles	1.91
15	Wood, wooden articles and wood charcoal	1.48
16	Bird skin, feathers, artificial flowers, human hair	1.30
17	Live animals	1.11
18	Live trees, plants, bulbs, roots, cut flowers <i>et cetera</i>	1.09
19	Edible fruit, nuts, citrus fruit peel, melons	0.96
20	Fish, crustaceans, molluscs, aquatic invertebrates nes	0.75

Source ITC Trademap (2015)

Computed data on table 9.1 shows that in 2015, Zimbabwe had a revealed comparative advantage in 18 product categories and revealed comparative disadvantage in 81 product categories

(Appendix 4). Table 9.1 indicates that Zimbabwe is very competitive in exporting these agricultural products: tobacco, vegetables, sugars, cotton, tea and coffee. In addition to these agricultural products, the country is competitive in exporting minerals like ores and nickel. The country is also competitive in exporting raw hides, artwork and live animals and salt.

There are very few manufactured products for which Zimbabwe has revealed comparative advantage: cement and iron and steel, as shown on Table 9.1. So most of the export products in which Zimbabwe is competitive are agricultural and mining products. The conclusion from the revealed comparative advantage index is that the agricultural and mining sectors are competitive in terms of exports. We therefore reject the null hypothesis that Zimbabwe's exports are not competitive in the mining and agricultural sectors. As noted in Chapter 7, it is pleasing that most SME exporters are in the competitive sectors of mining and agriculture. Given the finding that there are very few manufactured products for which Zimbabwe has revealed comparative advantage, it becomes important to measure the revealed comparative advantage of the manufacturing sector as a whole. This is carried out in the next section.

### 9.2.2 RCA index for the manufacturing sector in Zimbabwe

Given the findings in Section 9.2.1, the revealed comparative advantage of the manufacturing sector in Zimbabwe was computed to measure the manufacturing sector's competitiveness. Table 9.2 shows the results of that computation.

**Table 9.2 RCA index for the manufacturing sector in Zimbabwe**

Year	Revealed comparative advantage of Zimbabwe's manufacturing sector
2010	0.849864
2011	0.538263
2012	0.243131
2013	0.416187
2014	0.552350
2015	0.304794

*Source: Computed from World Bank (2005) and ITC Trade map databases (2015)*

Data on Table 9.2 indicate that RCA for the manufacturing sector was less than 1 from 2010 to 2015, meaning that during those years, Zimbabwe had no RCA in the manufacturing sector. However, Zimbabwe was close to achieving RCA in the manufacturing sector in 2010. A conclusion can then be drawn from these findings that Zimbabwe's exports in the manufacturing sector are not competitive. We therefore fail to reject the null hypothesis that Zimbabwe's exports are not competitive in the manufacturing sector.

The manufacturing sector was affected negatively by the hyperinflation era, which can be generalised as the period between 2000 and 2008. The sector is still characterised by company closures, limited investment, old machinery and credit unworthiness, which have remained unresolved since the introduction of the multicurrency system in 2009 (Zeparu 2005). Government policies introduced as a way of bailing out the sector also affected the manufacturing sector. These policies include those that were meant to protect the sector against competition, as well as policies that were implemented to ensure cheaper lines of credit to the sector. These measures however have had limited success, as the manufacturing sector continues to face many challenges (Zeparu 2005).

### **9.2.3 Benchmarking Zimbabwe's manufacturing sector RCA**

In order to make a full analysis of the RCA of the manufacturing sector in Zimbabwe, a comparison is made with that of other African countries with almost similar economies. The countries that Zimbabwe is being benchmarked with are all members of COMESA. Table 9.3 shows a comparison of the RCA of Zimbabwe's manufacturing sector and that of the other African economies.

To make a full analysis of the RCA of the Zimbabwean manufacturing sector, a comparison is made with those of other African countries with almost similar economies. Table 9.3 shows a comparison of the RCA of Zimbabwe's manufacturing sector and those of other African economies.



**Table 9.3 The revealed comparative advantage index for the manufacturing sector**

Year/ country	Botswana	Kenya	Mauritius	South Africa	Zambia	Zimbabwe
2010	1.855784	0.808841	1.403487	1.135772	0.146706	0.849864
2011	2.061938	0.816242	1.50331	1.066247		0.538263
2012	2.062154	0.828199	1.440038	1.113406	0.274003	0.243131
2013	2.093847	0.881128	1.402782	1.096937	0.380467	0.416187
2014	2.264154	0.904493	1.351476	1.101416	0.24974	0.55235
2015	1.606807	0.689929	1.198822	0.896389	0.217872	0.304794

Source: Computed from World Bank and ITC Trademap databases (2015)

With reference to Table 9.3, Botswana, Mauritius and South Africa are the countries with revealed comparative advantage in the manufacturing sector. Zambia has the least revealed comparative advantage in the manufacturing sector for the period. Zimbabwe is better only than Zambia in terms of manufacturing sector competitiveness. The other indicator of competitiveness is export growth, which is discussed in the next section.

#### 9.2.4 Growth in manufacturing sector exports

The growth rate of a sector exports generally shows the ability to sustain existing export markets as well as developing new ones. So a sector that is competitive is one characterised by positive growth rates in sector competitiveness. A negative growth rate for exports implies that the sector is not competitive. Since the results of the RCA index indicate that the Zimbabwean manufacturing sector is not competitive, a measure of export growth is used to confirm this finding. Table 9.4 shows the growth rate for the manufacturing sector from 2010 to 2015.

**Table 9.4: Zimbabwe manufacturing sector exports growth rates, 2010 to 2015**

	2010	2011	2012	2013	2014	2015
Manufactured exports growth rate (%)	53.10	-30.54	-50.71	50.86	35.54	-45.15

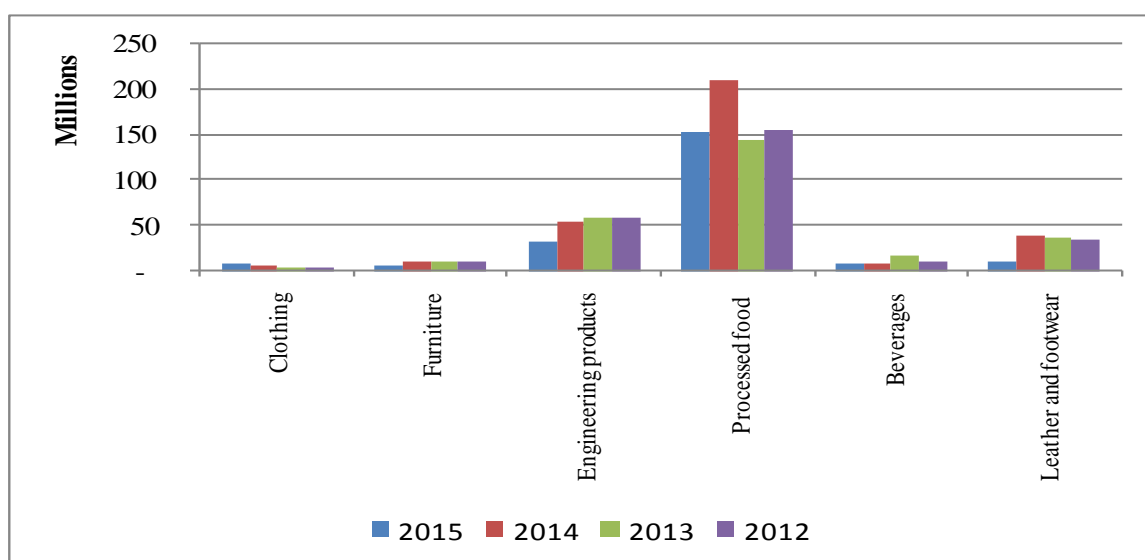
Source: Calculated from World Bank indicators and Zimstat database (2015)

Information on the table indicates that the manufacturing sector export growth rate was positive in 2010, '13 and '14, a period in which the sector showed some competitiveness. However in 2015 the sector lost competitiveness, resulting in manufactured exports falling by close to half. This is not a good development, as it implies that some of the products that had been able to penetrate the global market in 2013 and '14 suddenly failed to find markets. Based on the growth of manufactured exports as a measure of competitiveness, the manufacturing sector was not competitive at the end of 2015, although the sector had registered some signs of competitiveness in 2010, '13 and '14. An analysis of the manufacturing subsectors is carried out in the next section.

### 9.2.5 Manufacturing subsector export performance

Although the overall export performance of the manufacturing sector has been low, it is also important to do a subsector export performance analysis to establish whether there are any subsectors that could be competitive. Figure 9.1 shows performance per manufacturing subsector from 2012 to '15.

**Figure 9.1: Export performance of Zimbabwe manufacturing sector subsectors, 2012 to '15**



*Source: Calculated using Zimstat exports database (2015)*

With reference to Figure 9.1, select manufacturing subsectors – clothing, furniture, processed food, beverages, clothing and footwear, as well as engineering and iron and steel products were

assessed in terms of export performance since 2012. These categories, which were selected randomly, constituted about half of the total manufactured exports for 2015. A look at the trends generally shows that except for the clothing and beverages subsectors, the rest registered a decline in exports in 2015 compared with '14. This generally reveals declining competitiveness in the export market.

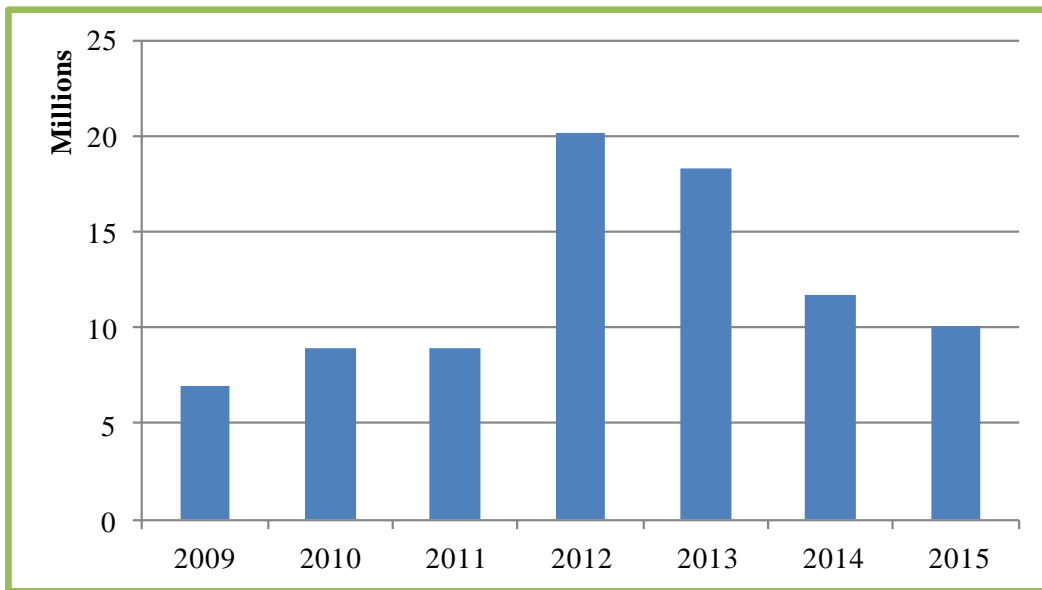
The clothing subsector, whose total exports for 2015 were about US\$9.7 million, registered a significant increase of about 70% in 2015 compared with '14. The beverages subsector registered an increase of about 13% to about US\$9 million in 2015. However, the leather and footwear subsector registered the highest decline in exports, as exports declined by about 71% to about US\$11.8 million. Other declines were recorded in furniture (42%), engineering (40%), food (27%) and agriculture (17%). So an analysis of the manufacturing subsectors reaffirms the finding that Zimbabwe's manufactured exports are not competitive.

The next section carries an analysis of another indicator of competitiveness, the ratio of high-technology exports.

#### **9.2.6 High-technology exports ratio**

As noted, high-technology exports are a measure of competitiveness. High-technology products are identified largely as products with high R&D intensity, for instance in aerospace, computers, pharmaceuticals, scientific instruments and electrical machinery, which all fall under the manufacturing sector. The growth rate of high-technology exports determines whether manufacturing sector firms are adopting the latest technology in manufacturing.

**Figure 9.2: High technology export trends for Zimbabwe**



*Source: World Bank Development indicators (2015)*

Information on Figure 9.2 shows that there was growth in high-technology exports in Zimbabwe until these peaked at about US\$20 million in 2012. However, since 2012 there has been a falling trend, generally showing negative growth rates in high-technology exports. High-technology exports grew by about 44% from 2009 to about US\$10 million in 2015, generally showing some competitiveness of the sector. It is however also worrying that high-technology exports fell by about half between 2012 and '15, showing that unless the trend is reversed, the competitiveness that had been gained is slowly being eroded. For example, high-technology exports declined by about 36% and 14% in 2014 and '15 respectively, signalling that unless the trend is reversed in 2016, competitiveness is being lost.

Zimbabwe's manufacturing sector competitiveness is benchmarked with six other countries in Africa: Botswana, Kenya, Mauritius, Rwanda, South Africa and Zambia. This enables one to assess the competitiveness of the manufacturing sector against other countries' sectors. Table 9.5 shows high-technology exports as a percentage of manufactured exports for Zimbabwe and other countries in Africa.

**Table 9.5 High technology exports (% of manufactured exports)**

Country name	1990	2000	2006	2007	2008	2009	2010	2011	2012	2013	2014
Botswana	..	0.5	0.4	0.4	0.6	0.9	0.4	0.9	1.2	0.4	0.2
Kenya	4.0	3.9	3.2	5.5	4.2	5.3	5.7	..	..	3.8	..
Mauritius	0.6	1.1	24.2	8.2	7.2	1.9	0.7	0.8	0.9	0.6	0.0
Rwanda	..	..	16.3	16.3	6.7	11.6	5.4	6.2	2.5	6.5	11.9
South Africa	..	7.0	6.5	5.6	5.1	5.4	4.6	5.0	5.4	5.5	5.9
Zambia	..	0.3	1.9	2.9	2.5	1.5	1.0	24.8	5.0	2.4	1.7
Zimbabwe	1.5	1.7	13.5	3.1	12.2	1.0	0.8	1.2	5.9	3.6	1.7

Source World Bank Development indicators (2015)

Data on Table 9.5 indicate that Zimbabwe's manufacturing sector's contribution to high-technology exports has fluctuated over the years, the highest contribution having been in 2006 and the lowest in 2010. It rose slightly in 2012 but then declined until 2014. Botswana's manufacturing sector generally contributes the least to high-technology exports while Rwanda is generally the economy contributing the most high-technology exports. So compared with other countries in the region, Zimbabwe is an average performer with regard to high-technology exports.

### 9.2.7 Terms of trade growth

Terms of trade are a measure of competitiveness as they show gains from trade, especially whether exporters from Zimbabwe earn more per unit than exporters into Zimbabwe earn. One of the measures for terms of trade is the World Bank's net barter terms of trade index. This is calculated as the percentage ratio of export unit value indices to import unit value indices, measured relative to the base year 2000. As already explained, an increase in the terms of trade suggests an improvement in international competitiveness, while the opposite is equally true. The net barter terms of trade index for Zimbabwe from 2009 to 2014 is shown in Table 9.6.

**Table 9.6: Terms of trade for Zimbabwe, 2009 to 2014**

	2009	2010	2011	2012	2013	2014
Net barter terms of trade index (2000 = 100)	106.36	113.88	114.08	105.68	105.20	108.42

*Source: World Bank Development indicators (2015)*

The terms of trade increased between 2009 and 2011, a suggestion that as a whole, competitiveness was improving. Although competitiveness was stagnant in 2012 and 2013, it recovered in 2014, showing some competitiveness of the economy. Given that the index has 2000 as its base year, it is also important to note that the competitiveness of the Zimbabwe economy as reflected by the terms of trade since 2009 has always been better than the level it had in 2000. It is important, however, to note that the terms of trade measure of competitiveness includes an export basket of all sectors in the economy – agriculture, mining and manufacturing. Working from the results in this chapter one can conclude that the agricultural and mining sectors are the drivers of Zimbabwe’s competitiveness.

### **9.3 Key determinants of manufacturing sector competitiveness and recommendations**

The findings from the research are that the manufacturing sector in Zimbabwe is not competitive in terms of exports. Based on the Deloitte (2016) Global Manufacturing Competitiveness survey there are several key determinants of manufacturing sector competitiveness that Zimbabwe can also use. These are:

#### **9.3.1 Ensuring talent**

Manufacturing firms need to acquire differentiated talent and developing strategies for retention so as to be considered as employers of choice. Manufacturing companies also need to identify and nurture new models of collaboration that leverage key sources of talent outside the organisation (Deloitte, 2016).

#### **9.3.2 Embracing advanced technologies to drive competitive advantage**

Manufacturing firms in Zimbabwe need to embrace advanced technologies so as to be globally competitive. The firms need advanced software, sensors and massive amounts of data and analytics so as to ensure smarter products, processes, and more closely connected customers, suppliers and manufacturing processes (Deloitte, 2016).

### **9.3.3 Leveraging strengths of ecosystem partnerships beyond traditional boundaries**

Zimbabwe's firms could adopt innovation strategies aimed at embracing a broader ecosystem approach, developing and taking advantage of integrated manufacturing and technology clusters and partners. The strength and robustness of an organisation's collaborative networks and ecosystems are directly related to competitiveness (Deloitte, 2016).

### **9.3.4 Developing a balanced approach across the global enterprise**

Increasingly sophisticated tools and strategies will be required to optimise Zimbabwe's manufacturing enterprise from the perspectives of talent, technology, operational, finances, tax and regulations. There is need to achieve a successful balance across a variety of drivers, including talent management, innovation, investments, portfolio optimisation, cost competitiveness, manufacturing footprint and supply chain in challenging and rapidly evolving new markets (Deloitte, 2016).

### **9.3.5 Cultivating smart, strategic public-private partnerships**

Zimbabwe needs to remove unfavourable or overly bureaucratic manufacturing policies, invest in greater economic development, and strengthen overall manufacturing infrastructure, while seeking to partner in more productive ways with businesses. Manufacturing companies need to focus on targeting new, smart and strategic public-private partnership models to help drive improvements not possible alone, resulting in non-traditional business-public sector alignments as the global competitive playing field undergoes a significant transformation at both company and country levels (Deloitte, 2016).

## **9.4 Conclusion**

The chapter presented results on the competitiveness of Zimbabwe's agricultural, mining and manufacturing sectors in terms of exports. The measures used to measure the competitiveness of the sectors were the revealed comparative advantage index, export growth, high-technology exports and terms of trade. After computing the revealed comparative advantage (RCA) index for Zimbabwe, the finding from the research was that agricultural and mineral exports were competitive since they had the highest RCA.

Manufactured exports were found not to be competitive in Zimbabwe, and Zimbabwe is better than Zambia only in terms of manufacturing sector competitiveness. Based on the growth of manufactured exports as a measure of competitiveness, the manufacturing sector was found

not to be competitive as at the end of 2015, although the sector had registered some signs of competitiveness in 2010, '13 and '14. An analysis of the manufacturing subsectors reaffirms the finding that Zimbabwe's manufactured exports are not competitive.

Zimbabwe's high-technology exports are going down, which means that the country is losing its export competitiveness. When compared with other countries in the region, Zimbabwe is an average performer in the area of high-technology exports. The competitiveness of the Zimbabwean economy as a whole has however, since 2009, always been better than the level it was in 2000, as reflected by the terms of trade. The next chapter presents the summary, conclusions and recommendations of the research.



## CHAPTER 10

### SUMMARY CONCLUSIONS AND POLICY RECOMMENDATIONS

#### 10.1 Introduction

This chapter summarises the important findings of this study in relation to the research questions and the objectives, which were articulated in Chapter 1. The chapter also provides possible recommendations based on the findings. The chapter highlights the limitations of the study and gives some suggestions for further study.

#### 10.2 Research summary

SME exports have generated a lot of interest around the world as they increase the income of a country and contribute to economic development. As noted by Audretsch & Keilbach (2004), promoting exports from all sectors of the economy including SMEs is paramount, as it is widely recognised that small businesses make a significant contribution to economic development, employment, competitiveness and the reduction of regional disparities. Given that background, the primary objective of the research was to evaluate the determinants of exports among small to medium enterprises in Zimbabwe using a gravity model analysis.

Specifically, the research aimed at assessing the effect of the following variables on export intensity of SMEs in Zimbabwe: support institutions, business ownership, research and development, years of education, the use of export processing zones, product type, years of exporting, firm size, firm age, gender, distance from trading partner, GDP of trading partner, and the GDP of Zimbabwe. The other objectives of the research were to assess the competitiveness of Zimbabwe's exports in the mining, agricultural and manufacturing sectors and to ascertain the major constraints faced by SME exporters in Zimbabwe.

Chapter 2 presented an exposition of SME development strategies in Zimbabwe as well as internationally so as to contextualise SME development. All countries around the world strive to promote SMEs. Drawing from the analysis of SME interventions in other countries it can be seen that the OECD, Asian and European countries place more emphasis on developing and entrepreneurship, rather than just supporting small enterprises to export, since entrepreneurship is the driving force behind growth in a small firm's exports. Most OECD countries are in

support of small enterprise development to the extent that a quarter of all public support programmes target the SMEs (Dorfling, 2001).

A number of Asian countries have implemented programmes specifically to promote SMEs. These governments include Japan, Republic of Korea, Nepal, China, Hong Kong and Bangladesh. Several Latin American countries – Mexico, Venezuela and Argentina, Brazil, Chile and Colombia – began in the 1960s to assist SMEs financially (ILO, 1999). In Africa, Tanzania and Kenya were among the first countries to adopt programmes oriented towards supporting small enterprises, soon after independence in the mid-1960s.

The key institutions for the development of SMEs in South Africa were the Ntsika Enterprise Promotion Agency, Khula Enterprise Finance and Khula Credit Guarantee, the National Small Business Council, and provincial SMME desks. SMEs are successful in South Africa, Mauritius and Morocco mainly because of fairly modern financial systems and clear government policies in favour of private enterprise. Clearly there are lessons to be learnt from the international perspective.

To achieve SME export promotion, Zimbabwe has created a number of institutions. To support and develop the SMEs, the Zimbabwean government created the Ministry of Small to Medium Enterprises and Cooperative Development (MSMECD). In addition, Zimbabwe's export processing zones (EPZs) or free trade zones were established in 1987 by the government to promote trade. Zimtrade is a quasi-governmental organisation responsible for promoting exports from Zimbabwe. The UN Food and Agriculture Organisation and World Vision International are funding SME projects through SNV Netherlands.

Several financial institutions support SMEs. The Agricultural Bank of Zimbabwe (Agribank) is a government-owned bank which specialises in lending money to SMEs, including exporting SMEs, among other functions. The Central Africa Building Society (CABS), one of the major banking institutions in Zimbabwe, has an SME banking unit which is responsible for analysing the interests of SMEs. The Commercial Bank of Zimbabwe Ltd (CBZ) is another government bank supporting SMEs.

CBZ has a small to medium enterprises (SMEs) unit which is a functional unit within its corporate and merchant banking division. The Zimbabwean government created two development

financial institutions to serve the needs of small and medium-sized enterprises, the Small and Medium Enterprise Development Corporation (Smedco) and the Infrastructure Development Bank of Zimbabwe (IDBZ). Several money lenders and microfinance institutions also support SMEs in Zimbabwe by giving them loans.

In Chapter 3, Zimbabwe's trade history was elaborated. Total exports for Zimbabwe stood at US\$2.7 billion in 2015 with more than 70% of the commodities destined for South Africa. Other major export destinations for products from Zimbabwe in 2015 are Mozambique, the United Arab Emirates and Zambia (ITC Trade Map 2016). The major commodities exported by Zimbabwe are primary goods: raw tobacco, nickel, gold, diamonds, ferro-alloys, platinum and cotton (ITC Trade Map 2016). Two groups of products – tobacco and manufactured tobacco substitutes, and precious stones, metals and coins – constitute 64% of Zimbabwe's exports, clearly showing that Zimbabwe's exports have become less diversified (ITC Trade Map, 2016).

Zimbabwe experienced a balance of payments (BoP) deficit over the seven years under study, starting with a \$3.2-billion deficit in 2005. Using the revealed comparative advantage index, it is clear that Zimbabwe is very competitive in exporting tobacco, vegetables, sugars, cotton and minerals like ores and nickel, but not in manufactured products. Zimbabwe is a member of the African-Caribbean-Pacific (ACP) group of nations that signed trade agreements with the European Union (EU) – the Lomé Conventions, the Cotonou Agreement and currently the ACP-EU Economic Partnership Agreements (EPAs).

In addition to EU trade agreements, Zimbabwe also has bilateral trade agreements with Botswana, Namibia, Malawi, South Africa, Mozambique and China. The country is also a member of the Tripartite Free Trade Area (TFTA) negotiations between the Southern African Development Community (SADC) and the Common Market for East and Southern Africa (COMESA). Further, the country is also a signatory of various WTO agreements.

The basis of the analysis in Chapter 4 is that understanding the theories of the firm and the behaviour of entrepreneurs is essential for formulating appropriate SME export policies. The neoclassical theory of the firm assumes that a firm is a profit-maximising entity operating in an exogenously given environment which lies beyond its control and its profit is generated through

satisfying wants by producing a good or a service on a given market at a given price. There is no room for entrepreneurship in the neoclassical theory. The structure conduct performance (SCP) approach, first published by economists Chamberlin & Robinson (1959), specifies that the structures of markets influence the conduct of firms, which in turn influences the firm's performance.

The behavioural theory of the firm recognises the complexity of organisational decision-making and the theory critiques the rationality assumption underlying neoclassical economics (March & Simon, 1958). The behavioural theory introduced the concept of bounded rationality under which firms cannot have perfect knowledge about all the possible options and their outcomes.

Closely related to the behavioural theory of the firm are the transaction cost theories of the firm by Coase & Williamson. Ronald Coase (1937) developed the transaction cost theory of the firm which predicts when certain economic tasks would be performed by firms, and when they would be performed on the market. According to Coase (1937), people begin to organise their production in firms when the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm.

According to Oliver Williamson (1971), transaction costs emanate from asset specificity, bounded rationality and opportunism. Firms exist to cut these costs. Alchian & Demsetz (1972) argued that technological non-separability is the main factor responsible for the existence of firms. The firm exists to monitor, measure and allocate the benefits of team performance and the team needs to be managed so that metering problems and shirking can be overcome.

The principal agent theory ascertains that friction between the principal and the agent – that is, manager or employee – exists due to asymmetric information, which requires precise measurement of the performance of the agent and incentive mechanisms. The transaction environment is risky and the principal may know things not known to the agent and *vice versa*, thus there is unbounded rationality. Therefore contracts are drawn up to align the agent's interests with the principal's interests. Other firm theories discussed in Chapter 4 are the evolutionary theory of the firm, managerial theory, the organisation and human resources theory, the nexus-of-

contracts theory, the property rights approach, the production theory and the technological capabilities theory.

There are several theories of entrepreneurship. The French classical school specified that an individual who purchased a good at a certain price used that good to produce a product, then sold that product at a certain price, could be considered an entrepreneur. Successful entrepreneurs were individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts.

In the French classical school, Cantillon (1755) and Say (1803) saw entrepreneurship as being a catalyst to economic development. According to Cantillon and Say, entrepreneurs play a key role in economic development. Apart from the French classical school, the British classical and neoclassical schools did not start with a strong appreciation of entrepreneurship. It was only in the 20th century that entrepreneurship was seriously considered by Schumpeter (1934). He viewed the entrepreneur an innovator who brings new combinations of production and challenge constraints.

Understanding what drives the differences in people's ability to cope with ambiguity, uncertainty, change and risk could help explain why some people are more entrepreneurial than others (Schumpeter, 1934). The Austrian school specifies that uncertainty and risk are important features of economic systems allowing entrepreneurs the opportunity to make profit. Other entrepreneurship theories discussed in the chapter are the neo-Austrian views and the theory of X-inefficiency.

Chapter 5 focused on the theory of trade. Several theories were discussed: mercantilism, absolute and comparative advantage theories, the H-O theorem, the overlapping demands theory, and the product life cycle theory. The doctrine of mercantilism (1500 and 1750) held that there was no mutually beneficial trade, as exports were good and imports bad as the countries sought to accumulate precious metals from exports and avoid loss in precious metals through imports (Dwivedi, 1999). The doctrine of mercantilism demanded a positive balance of trade, so countries discouraged imports and encouraged exports to increase their wealth by acquiring precious metals.

Adam Smith (1776) formulated the mutually beneficial trade concept of absolute advantage in which two trading partners both gain from trade. The basis of trade is the ability of a country to produce a good using fewer resources than another country (Sawyer & Sprinkle 2004). David Ricardo (1817) developed the comparative advantage theory. The main insight of the theory is that gainful trade is possible even if one of the countries has absolute advantage in both goods but has comparative disadvantage in producing one of the commodities. Harbeler (1935) was an economist who later based the theory of comparative advantage on the opportunity cost concept, under which a country should specialise in a commodity the opportunity cost of which is higher.

The H-O theory of the 20th century specifies that a country can export products the production of which uses the country's abundant factors intensively, and import products using scarce resources intensively. Linder's (1961) overlapping demands theory suggests that the tastes of consumers are conditioned strongly by their income levels, so trade in manufactured goods is likely to be greatest among countries with similar tastes and income levels. So foreign trade is a spillover effect of domestic production and markets will be found in countries with tastes and income levels similar to that country (Sawyer & Sprinkle, 2004).

Vernon's (1966) product cycle theory explains the reason and duration of a technological gap between countries to explain the difference between countries that trade. This theory specifies that industrialised countries specialise in producing new goods based on technological innovations, while other countries are imitators that produce and export goods which are familiar in the international economy. The modern theory of trade specifies that a country may have increasing opportunity cost as more of a good is produced.

As a nation produces more of a commodity, it must use resources that become progressively less efficient or less suited (Salvatore, 2004). So it must give up more and more of the second commodity to release enough resources to produce additional quantities of the first commodity. Chapter 5 also carries an empirical literature on trade which, however, provides no detailed analysis of SME exports in Zimbabwe, hence this study.

Chapter 6 is an exposition of the research methodology. Both qualitative and quantitative research methods were used in this study. The researcher gathered data from 120 SMEs and 10 institutions in Zimbabwe for the period 2009 to '15 on various factors affecting export intensity. For the qualitative research, methodological triangulation was used, making use of questionnaires, interviews and focus group discussions to collect data. A total of 53 SMEs took part in focus groups.

For quantitative data analysis, the research used the gravity model of trade, using random effects, panel data OLS. The study made use of panel data over time to control for heterogeneity. The three major gravity model variables in the model were Zimbabwe's GDP and the trading partner's GDP – both of which were expected to have a positive relationship with export intensity – and distance, which was expected to have a negative relationship with export intensity. Other variables in the model were: export processing zones, years of education, years in exporting, the firm's age, firm size, gender, research and development, product type, support institutions and business ownership. Desk research was used to compute competitiveness of Zimbabwe's exports.

### **10.2.1 The main research findings**

The research findings are presented in three chapters: 7, 8 and 9. In Chapter 7, results from the qualitative research method are presented. The SMEs face a number of financial challenges: small loan sizes with no grace period, limited access to finance from large financial institutions and high cost of finance. Other challenges include lack of relevant information on external markets, lack of internal systems for efficiency, use of the strong US dollar which makes goods expensive internationally, loss of European and American markets, and an unstable macro-economic environment in Zimbabwe.

Regarding the perspectives of support institutions, the findings suggest that exporting SMEs obtain a smaller proportion of SME support from most institutions as compared with non-exporting SMEs. For SMEs to obtain more support, they have to take part in training programmes, trade expos and trade missions organised by the institutions. SMEs also need to register with the various trade organisations, improve their recordkeeping, pay back loans and

improve the quality of their products. Institutions can create market or business linkages and support value addition while giving continuous funding so as to increase SME exports. Institutions could also undertake training the small business owners in export skills and devise favourable financial products that suit the needs and size of SMEs.

Chapter 8 provides a quantitative analysis of the determinants of trade among SMEs in Zimbabwe. The results from the econometric analysis suggest that exports among SMEs are determined by business ownership, R&D, EPZ, export years, firm size, gender, distance from trading partner and GDP of trading partner. Variables that are not statistically significant in determining export intensity of SMEs in Zimbabwe are: support institutions, years of education years, product type, firm age and GDP of Zimbabwe.

In Chapter 9 the results on the competitiveness of Zimbabwe's export sectors are presented. The results from the RCA computation are presented. Computed data on RCA show that in 2015, Zimbabwe had revealed comparative advantage in 18 product categories and revealed comparative disadvantage in 81 product categories. Zimbabwe is very competitive in exporting these agricultural products: tobacco, vegetables, sugars, cotton, tea and coffee. In addition to these agricultural products, the country is competitive in exporting minerals like ores and nickel. The country is also competitive in exporting raw hides, artwork and live animals, raw hides and salt.

There are very few manufactured products for which Zimbabwe has revealed comparative advantage: cement, and iron and steel. The results indicate that RCA for the manufacturing sector was less than 1 from 2010 to '15, meaning that for those years, Zimbabwe had no revealed comparative advantage in manufacturing sector exports. Other measures of competitiveness for Zimbabwe's sectors used are export growth, high-technology exports and terms of trade. Results from these measures also confirm that Zimbabwe is very competitive in exporting its agricultural and mining products, but not competitive in exporting manufactured products. The next section shows a summary of the empirical research chapter, diagrammatically.

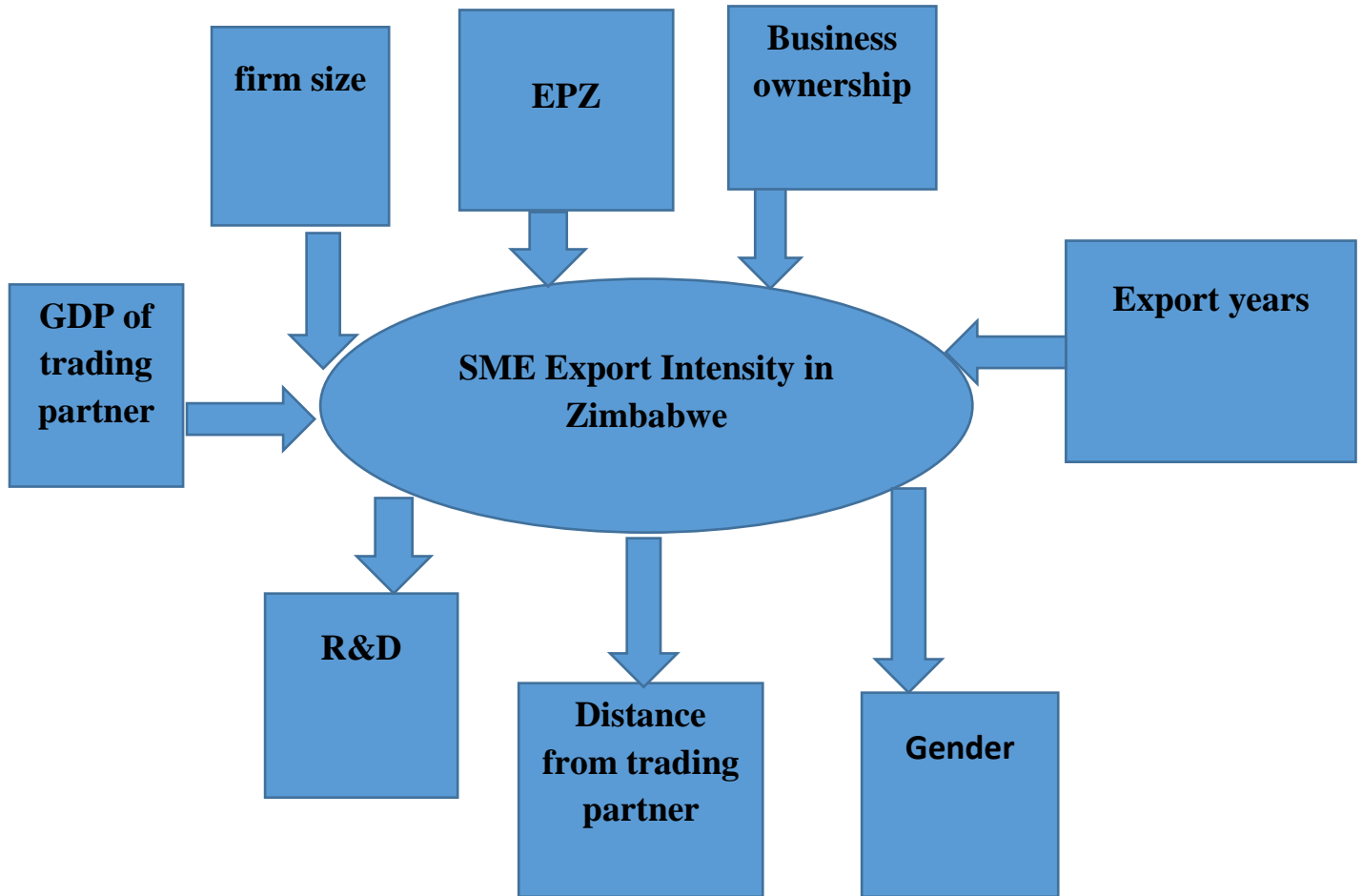
### **10.3 Output of empirical research chapter on determinants of export performance**

Figure 10.1 is a summary of empirical results on the determinants of export performance among SMEs in Zimbabwe. The diagram shows the significant variables increasing SME export



intensity and the significant variables reducing SME export intensity, which is used as a measure of export performance.

**Figure 10.1 Summary of empirical results.**



The figure shows the statistically significant variables increasing SME export intensity and the significant variables reducing SME export intensity, as indicated by the arrows. The next section presents conclusions from the research. The next section presents conclusions from the research.

#### **10.4 Conclusions**

In view of the research findings presented, different conclusions are made from the study. Clearly, results from the research show that the variables that are significant in determining the

export intensity of SMEs in Zimbabwe are business ownership, R&D, EPZ, export years, firm size, gender, distance from trading partner and GDP of trading partner. So these variables can be used to make decisions or policies pertaining to exports of SMEs in Zimbabwe. As has been noted, among the significant variables are some variables that have an inverse relationship with SME export intensity: gender, distance from trading partner and R&D, due to several reasons which are discussed in this section. The variables that are significant in determining the export intensity of SMEs in Zimbabwe are explained as follows:

- i. R&D is statistically significant in determining export intensity. However there is an inverse relationship between R&D and export intensity. This relationship does not in any way suggest that R&D is not important but suggests that the limited R&D funds in Zimbabwe are mainly being channelled towards sectors where Zimbabwe is not a competitive exporter.
- ii. Findings from the study suggest that EPZs are statistically significant in determining the export intensity of SMEs in Zimbabwe. The research results imply that SMEs that have operated in EPZs export more than SMEs that have never operated in EPZs in Zimbabwe. The findings suggest that EPZs play a vital role in export promotion in Zimbabwe. The positive effects of EPZs are still being enjoyed by SMEs even after the EPZs have ceased to operate.
- iii. Basing on findings from the research, the number of years in exporting is statistically significant in determining export intensity. A conclusion is made that SMEs that have been exporting for longer have higher export intensity.
- iv. The size of the firm, measured by the number of employees, is statistically significant in explaining export intensity of SMEs, so the larger the firm, the higher the export intensity. This can be explained by the fact that with more employees, a firm has the capacity to implement division of labour and specialisation, which leads to increased production and economies of scale, so increased exports.
- v. Gender is statistically significant in determining SME export intensity. The conclusion of this finding is that woman-headed SMEs are likely to have a higher level of export intensity than SMEs headed by men.
- vi. The results from the research indicate that distance is statistically significant in determining export intensity and that there is an inverse relationship between

export intensity and distance. Distance between the SME and its trading partner is one of the major gravity model variables in that it is a measure of transport costs. The coefficient for distance is negative – as expected in the model – since it is a resistance factor. Thus the greater the distance to export markets, the higher the transaction costs, the fewer the exports.

- vii. The GDP of an SME's trading partner is statistically significant in determining SME export intensity. This implies that as trading partner's GDP increases, exports by the SME also increase, as more markets are created in the trading partner country. The conclusion is that as much as interventions in foreign economies are beyond Zimbabwe's economic scope, Zimbabwe has an interest in the economic performance of its trading partners.

The following variables are not statistically significant in determining the export intensity of SMEs in Zimbabwe: support institutions, years of education, product type, firm age and Zimbabwe's GDP. These variables, even though the research suggests that they are statistically insignificant, remain important and cannot be totally ignored in policy-making. It is however important to note that SME export promotion needs to go beyond these variables since the result shows that on their own, they have not been as effective in determining export intensity as expected. The variables that are not significant in determining export intensity of SMEs in Zimbabwe are explained as follows:

- i. Despite efforts being made by SME support institutions, they are statistically insignificant in determining SME export intensity in Zimbabwe. While the research shows that SME support institutions have not been as effective in promoting exports as expected, this does not suggest that they should be totally ignored in policy-making. The role of support institutions can never be undermined; they should be considered while noting their limitations. This means that efforts by support institutions need to be complemented by other measures to increase SME exports.
- ii. Years of education are statistically not significant in determining the export intensity of SMEs in Zimbabwe. What was considered in the research was the standard education offered in schools and universities, which is not specific to exports. This does not mean that education is not important, but that obtaining further education from

Zimbabwean institutions does not necessarily cascade to increased export intensity. Further years of education for the SME owner or manager alone do not affect export intensity; there is need to consider other complementary variables.

- iii. Findings from the research suggest that the product type is statistically not significant in determining the export intensity of SMEs in Zimbabwe. So it does not matter whether the product is primary or manufactured in terms of the determination of the SME's export intensity. However, there is a positive relationship between product type and export intensity. This means that for SMEs, primary products like agricultural and mining products are positively related to export intensity, though the relationship is not statistically significant.
- iv. Contrary to the usual expectation that the more the years in business the more the exports, the research made the conclusion that firm age does not determine export intensity for Zimbabwean SMEs. So having operated for a long time does not guarantee that the SME has a higher capacity for exporting.
- v. Zimbabwe's GDP is not significant in determining the export intensity of SMEs in Zimbabwe. According to the Keynesian model, exports are not determined by GDP, they are autonomous.

Findings from the study indicate that Zimbabwe is competitive in agricultural and mining sector exports but not competitive in manufacturing sector exports. Zimbabwe is very competitive in exporting these agricultural products: tobacco, vegetables, sugars, cotton, tea and coffee. The country is also competitive in exporting minerals like ores and nickel. However, Zimbabwe has only a few manufactured products where it has revealed comparative advantage: cement, and iron and steel.

Limited access to finance is the major constraint faced by SME exporters in Zimbabwe. Further constraints are high interest rates on loans, lack of access to advanced new equipment and expensive raw materials. The SMEs also lack relevant market information as well as internal systems for efficiency in running their businesses. The stronger US dollar used in Zimbabwe as compared with African currencies has increased cost of labour and cost of production and prices of final products relative to average costs in the region. The unstable macroeconomic environment, characterised by policy inconsistency and shortages of cash in the economy, high

cost of distribution, inefficiency, corruption and bureaucracy are other challenges faced by SMEs.

Exporting SMEs obtain a smaller percentage of support from most institutions compared with non-exporting SMEs. For institutions to increase support for exporting SMEs, the SMEs have to take part in training programmes, trade expos and trade missions organised by those institutions. SMEs also need to register with various trade organisations, improve their recordkeeping, pay back loans and improve the quality of their products. Support institutions could create market or business linkages and support value addition, while giving continuous funding so as to increase SME exports. Institutions could also undertake training small business owners in export skills and provide favourable financial products that suit SME needs and size.

Having presented the conclusions from the study, it becomes imperative to provide policy recommendations from it. These are presented in the next section.

### **10.5 Policy recommendations**

From this investigation, it can be deduced that for growth of SME exports in Zimbabwe, a co-ordinated and well-resourced strategy is needed. This section presents recommendations of the research findings and it outlines issues which can be a basis for a revised and improved SME export policy in Zimbabwe.

#### **10.5.1 SME support institutions**

SME support institutions are statistically not significant in determining SME export intensity in Zimbabwe. The policy implication of the findings is that SME support needs to go beyond support institutions when it comes to SME export promotion, since there are other aspects that are significant to determination of SME exports. Policies which are focused on promoting support institutions alone do not guarantee the desired outcome of increasing SME export intensity. Similarly, results from previous research showed that India managed to produce and export modern services and gained comparative advantage and specialisation thanks not only to supportive institutions but also to infrastructural development (Kaur, 2016). Also, inadequate institutions constrain trade as much as tariffs do (Anderson & Marcouiller, 2002).

However, the influence of support institutions on SME exports also depends on the character of the SME owner, whether he/she is an entrepreneur who can take risks.

There is a need for refocusing by support institutions, led by the government, so that the assistance they offer SMEs is more practical and tangible when it comes to export promotion. More resources need to be channelled towards increasing SME exports. Support institutions also need to balance their SME support between increasing domestic sales and increasing exports. It is necessary for support institutions to understand the operations of individual exporting SMEs clearly so as to address the real needs of each SME firm, in order to increase exports. The International Labour Organisation (1997) recommends that a strong sense of ownership of and commitment to small enterprise support interventions should be encouraged through people who have a clear understanding of the objectives of the organisation and long-term plans for development within the organisation.

It is interesting to note that most of the support institutions themselves did not believe they had contributed to increased SME exports but instead to increased SME domestic sales. So the SME support institutions should not treat all businesses and clients as homogenous but give specific attention to each SME so as to meet their individual needs. The institutions should also keep up to date with the progress of the small businesses and provide constant advice to ensure that the assistance they give achieves more. The government and support institutions need to assist domestic companies in retooling and in acquiring latest machinery to improve production efficiency and capacity, which will reduce production costs, thereby enabling SMEs to charge competitive export prices.

With institutional support, SMEs can use the advanced new equipment necessary to manufacture sustainably so that they would be able to meet the international competition in the development of sophisticated and advanced goods. As a result of using old and inefficient machinery, the SMEs face high production costs, which makes their products uncompetitive on the export market. Regarding sources of SME export information, there is need for government ministries relevant for SME development to increase information dissemination to SMEs. Only 4% of the respondents indicated that they obtained relevant export information from the government. Most of the time the Zimbabwean government tends to focus on disseminating information that helps increase domestic sales for SMEs. While that is noble, it is also important for the government to focus on dissemination of export-related information.

NGOs and private companies also need to play an active role in promoting SME exports, as NGOs provide export information to only 8% of SMEs, and private companies to 4%. International literature suggests that there needs to be an increasing role played by non-governmental organisations and the private sector in SME development (ILO, 1997). The involvement of non-governmental institutions and associations in service provision needs to be encouraged, as well as trade associations and trade unions, in the governance of the service institutions (ILO, 1997). The SME support organisations should also become the voice of the SMEs, so that the needs of SMEs are made known to the relevant ministries.

Support institutions need to coordinate and cooperate in their quest to assist SMEs, as wider influence is easily achieved through collective actions. International literature indicates that cooperation between the service providers should be encouraged (Levitsky, 1996). It is not easy to build cooperation between different support institutions. As Levitsky (1996) points out, building cooperation between institutions is a mixture of coercion, pressure, explanation, information and incentives. To overcome this problem, the role of initiating the networking could be assigned to one smaller promotion agency or an enterprise development agency. The government could also create a media platform at which the SME exporting companies are advertised.

Support institutions could focus on assisting SMEs financially and technically so that they undertake value addition or processing of primary goods into manufactured goods to increase export intensity. Results from the research indicate that product type is statistically insignificant in determining SME export intensity. However the relationship between product type and export intensity is positive, implying that manufactured products are related to higher export intensity. The RCA index also reaffirms the fact that manufactured products have higher export intensity.

SMEs need complete information that would enable them to pursue exports vigorously. Support institutions could assist SMEs with research and development pertaining to external markets to gather information on the actual products external customers prefer, so that they produce the right product for their external clientele. Currently the SMEs' main research focus is on

internal markets and they generally do not have the financial and technical capacity to engage in research outside the country.

Some SMEs also lack the confidence to explore new external markets. In Zimbabwe only Zim-trade gives export information to SME exporters, so there is need for all concerned institutions to be centres of export information for SMEs. This information should include all opportunities for SMEs, including funding opportunities. Institutions could create market or business linkages and support value addition for community-based SME groups.

The government needs to review some of its policies in order to promote an export culture. Currently the government is also trying to promote exports of processed goods through value addition programmes so that the export of some primary commodities like minerals has been severely restricted. However, this policy position has proved ineffective due to inadequate resources for use in value addition. So the policy has only further restricted exports. The Zimbabwean government is promoting import substitution, promoting the consumption of domestically produced goods through the Buy Zimbabwe campaign and SI 64 of 2016, which covers restrictions on imports, the hiking of import tariffs and the introduction of import permits. However this policy shifts attention from export promotion to protectionism, so the government needs to pursue export-led growth.

Besides support institutions, the type of product exported is also an important aspect to consider when discussing policy implications pertaining to SME export intensity. It is discussed in the next section.

### **10.5.2 Product type**

As has been noted, product type is statistically not significant in determining the export intensity of SMEs in Zimbabwe. However the positive relationship between product type and export intensity implies that SME exports tend to increase if there are exports of primary goods like minerals, artwork and agricultural products, although the increase is not statistically significant. This relationship is in line with results from computation of the RCA index in Chapter 9, which revealed that most of the export products in which Zimbabwe is competitive



are agricultural and mining products and that Zimbabwe has no revealed comparative advantage in manufacturing sector exports. As indicated in Chapter 9, most SME exporters are in the competitive sectors.

Given these results, there is a need for policies that specifically target SME export growth for the agricultural and mining sectors. A policy framework needs specifically to target exporting small-scale farmers, for instance farmers in the horticultural export sector, so that the country realises increased exports in the agricultural sector. In the mining sector, there is a need for policymakers to allow small-scale miners to export a proportion of their produce and to support them in building capacity for value addition. SMEs also need to be encouraged to export raw hides, artwork and live animals, since Zimbabwe is competitive in these products.

The next section deals with policy implications regarding education.

### **10.5.3 Years of education**

Years of education are statistically not significant in determining export intensity of SMEs in Zimbabwe. The insignificance of the duration of an education is an indication that there is a need for the training of exporting SMEs which is specific to export promotion. According to Hisrich & Peters (1995), training plays a pivotal role in supporting the emerging entrepreneur. For instance one may have the needed finances, but if there is a lack of financial controls, it would make no difference. In the same manner, one may have access to the markets but if there is no knowledge as to how to be a competitive marketer of one's products and services, there will still be no progress in enabling small businesses to flourish.

Most training institutions in Zimbabwe, perhaps with the exception of Zimtrade, offer training in management, motivation and other skills while omitting export skills. Until recently, universities have also offered mainly theoretical education without necessarily imparting practical export skills. SMEs need to be provided with ideal entrepreneurial skills that would enable them to develop their export intensity. When SME owners attain the right export education, there is an expected increase in export intensity for businesses because it gives better knowledge of business management, export skills and confidence to the owner or manager,

among other benefits (GEM, 2007). With export education, an SME owner or manager is also expected to understand exchange rate fluctuations and their implications, and is able to take precautionary measures to safeguard the business from such fluctuations.

A number of studies conducted have shown that entrepreneurs can be trained and developed. However, it seems that many training institutions provide training in one area only, to the detriment of other areas. Institutions that focus mainly on business skills, like management training or mainly on motivational skills, and perhaps very little or nothing on entrepreneurial skills, are doing the SME sector a disservice (GEM, 2007). One of the most critical issues in stimulating entrepreneurship is education. Entrepreneurial training should be provided from the birth and during the growth stages of the business and should include creativity, innovation, propensity for risk and the need for achievement (GEM, 2007).

However, most universities in Zimbabwe are establishing centres for entrepreneurship at which entrepreneurship is integrated into the training programmes for various degrees. However, placing entrepreneurship only in university syllabuses assumes wrongly that everyone has an opportunity to study at university. The government needs to introduce entrepreneurship education in Zimbabwe's high schools, so that individuals who fail to reach university would have some foundation and a solid background in entrepreneurship. According to Bechard & Toulouse (1998), organisations wishing to develop entrepreneurship should not underestimate the role of education among entrepreneurs. Emerging and potential entrepreneurs should be encouraged to take entrepreneurship courses at established formal education centres.

However Timmons (1994) expresses the view that entrepreneurship training should be such that entrepreneurship becomes the career of choice and that people, especially young people, understand the dynamic world of entrepreneurship. Wickham (2001) defines entrepreneurial skills training as dealing with the skills that enhance entrepreneurial performance. Wickham (2001) identifies general management skills (strategy, planning, marketing, financial, project management and time management) and skills in dealing with people (leadership, motivation, delegation, communication and negotiation) as the skills required for the success of small businesses, in addition to industry knowledge and personal motivation.

According to Kroon (1997), entrepreneurship education should be directed at the preparation of individuals who can be agents of change, increasing SME exports in Zimbabwe's case. Areas of training could be categorised into motivational, business and entrepreneurial skills (Van Vuuren & Nieman, 1999). The importance of entrepreneurial training is reflected in a study by Gupta (1989) on research done in the Indian state of Gujarat, which revealed that trained entrepreneurs had a business closure rate of less than 10%, compared with 20% to 25% in other types of small enterprises.

Gupta (1989) also showed that 80% of educated and trained entrepreneurs were making profits, as opposed to 60% to 70% of other small enterprises with low educational levels (Gupta, 1989). Entrepreneurship training on exports needs to be offered free of charge so as to encourage SME owners to attend, and it should target individuals with regard to their different needs. It is also important for trainers inherently to be entrepreneurs and exporters themselves and also close to their target clients. In addition to entrepreneurship education, support institutions could impart SME owners and managers with management and other necessary skills like quality control. The support institutions could also assist SMEs with skills for setting up internal systems for efficiency in running their businesses, for example internal auditing.

However in a study of SMEs in Peru, Ramis (2002) found that although management training for proprietors was important for SMEs, it was more important when the company had higher growth potential than it was when the growth potential was low. So the effect of training SME managers depends on the SME's growth potential. Support institutions could increase SME training in export skills, market and product information, training in quality management, training in production skills, training in management skills, training in export-related skills, recordkeeping and training in occupational health. An analysis of the implications of firm age on export intensity follows.

#### **10.5.4 Firm age**

Results from the research suggest that the age of a firm is statistically not significant in determining export intensity for Zimbabwe's SMEs. The reason is that Zimbabwe has experienced

a volatile economic environment since the year 2000, characterised by recession and high economic instability, inflation, price controls, shortages and inconsistency in government policy. In line with Keynesian thinking, recessions are a result of slackened demand, and if demand is stimulated, the economy grows as firms produce more goods.

So all the gains that long-term operating SMEs have made in terms of business growth have quickly been wiped away by these economic ills. For firm age to determine export intensity significantly there is a need for the government to make concerted efforts to bring stability to the economy and to implement consistent policies. That would ensure increase investment, and so increased incomes and demand, and the economy could emerge from its current recession. With increased demand, firms grow in capacity, which would ultimately help them realise export growth with age. The government also needs to enter into bilateral and multilateral agreements with trade partners and to honour the terms of those agreements, so as to create markets overseas for SMEs.

#### **10.5.5 Zimbabwe's GDP**

Zimbabwe's GDP is a gravity model variable which is expected to have a positive relationship with export intensity. The conclusion made from the findings is that Zimbabwe's GDP is not significant in determining the export intensity of SMEs in Zimbabwe. This is in line with the expenditure approach to GDP determination which specifies that exports determine GDP, not the other way round. The policy recommendation on GDP is that the country must address constraints on GDP growth. Whereas GDP is not significant in this research, in terms of economic theory GDP growth is a very important aspect.

#### **10.5.6 Years of exporting**

Basing on findings from the research, a conclusion is made that the number of years' experience in exporting is statistically significant in explaining export intensity, and SMEs that have been exporting for longer have higher export intensity. So policy-makers should realise that SMEs that have been in the export business for a longer period have the capacity to increase exports from Zimbabwe. So export support programmes should target these SMEs. The exporting SMEs have benefited from government policies supporting SME exporters, as in EPZs. However, even if they have benefited from some government policies, the SMEs have also been affected negatively by other government policies, like import substitution and import

permits, which made it very difficult to import raw materials. As shown in earlier chapters, export trends have been falling over the years.

### **10.5.7 Gender**

The finding from the study is that gender is statistically significant in determining SME export intensity. The implication of this finding is that woman-headed SMEs are likely to have a higher level of export intensity than SMEs headed by men. This implies that women empowerment policies are to some extent effective in Zimbabwe and the government and other institutions should continue with these programmes. The Ministry of Women's Affairs was created to empower women who were previously financially disadvantaged and the ministry's efforts seem to be reaping positive results. Other women's empowerment programmes have also been implemented by various NGOs and quasi-governmental institutions and these programmes appear also to have been successful.

SMEs headed by men generally manufacture heavy products like furniture and metal-based products, which are expensive to carry to export markets while products from woman-headed SMEs are generally lighter and cheaper to carry to export markets, like clothes and agricultural produce. So SMEs headed by men need to diversify their products so as to realise exporting success. Institutions should also include men in export promotion programmes.

The following section is an analysis of the implications of firm size on export intensity.

### **10.5.8 Firm size**

The size of the firm, measured by the number of employees, is statistically significant in explaining export intensity of SMEs. The policy implication is that businesses that have the capacity to employ profitably should employ more labour for increased productivity, economies of scale and efficiency in their operation. This would ultimately lead to improved export performance and reduction in cost of production per unit. It is important that SMEs should aim at growing into larger businesses, as size matters in Zimbabwe for export growth.

Empirical literature confirms this recommendation. A firm's export intensity is positively affected by the export orientation of the industry, as well as by the firm's labour productivity

(Reis & Forte 2016). So governments need to direct their policies towards increased productivity to improve competitiveness in foreign markets (Reis & Forte 2016). To further support the assertion that firm size determines exports, empirical results indicated that firm size is a good predictor of export strategy, and export strategy influenced a firm's exports positively (Beamish & Dhanaraj 2003).

Business ownership is another variable that affects export intensity, and a discussion of policy implications on business ownership follows.

### **10.5.9 Business ownership**

The findings from the research suggest that one of the variables that are statistically significant in determining export intensity for SMEs is business ownership. When the owner manages the business instead of delegating an employee to manage, export intensity tends to increase. This is so because in cases where the owner is the one managing, firms are innovative and do not fear finding new export markets. Decision-making is swift and timely and opportunities in the export market can be taken without bureaucratic processes, which are common when a manager is running the SME.

So SME owners need to be encouraged to be available to make timely decisions for their businesses or to delegate fully to their managers the power to make timely decisions that are critical to the performance of the businesses. Ownership of a firm grants residual rights of income and control, as specified in the Alchian-Demsetz approach, so ownership of physical assets becomes important (Grossman & Hart, 1986; Hart & Moore, 1990). When the business is run by the owner, it enjoys the benefits of entrepreneurship. Schumpeter (1934) viewed the entrepreneur as an innovator who brings new combinations of production and challenges constraints.

One of the standard gravity model variables is distance, which has a negative relationship with export intensity. There are various policy implications regarding distance from the trading partner. These are discussed in the following section.

### **10.5.10 Distance from trading partner**

Distance is statistically significant in determining export intensity and there is an inverse relationship between export intensity and distance, as expected, in the gravity model. Findings by

Achey (2006) showed that geographical distance had a negative effect on the volume of trade between countries. The recommendation from this research is that regional markets need to be promoted by the government and SME support institutions, since they are closer to Zimbabwe and cheaper to export to. The government needs to revive bilateral trade arrangements with countries near Zimbabwe. To mitigate the negative effects of distance on SME exports, the government could introduce export incentives for exporters which may cushion the exporters in terms of transport cost reduction.

#### **10.5.11 Gross domestic product of SME's trading partner**

The gross domestic product of an SME's trading partner is statistically significant in determining SME export intensity. If there is a recession in the trading partner's country, the country's GDP falls together with aggregate demand, meaning a fall in imports. As a result Zimbabwe's exports to the country also fall. Likewise, a boom in a partner country causes an increase in aggregate demand and GDP, so Zimbabwe's exports to that country increase. Hence regional economic integration and regional growth are important. Zimbabwe needs to increase trade links with countries whose economies are growing, so that SME exports to these economies can also grow.

The next section discusses policy implications for EPZs.

#### **10.5.12 Export processing zones (EPZs)**

The results show that EPZs are statistically significant in determining the export intensity of SMEs in Zimbabwe. So a recommendation could be made that the government intensify the implementation of special economic zones, which were introduced in 2016. The government's implementation of special economic zones (SEZs), which are similar to EPZs, is a welcome initiative as they are likely to increase SME exports in the same manner that EPZs did. So the government should ensure that it introduces the special economic zones successfully.

One of the major challenges faced by SMEs is availability of finance. The policy implications of the availability of finance are discussed in the next section.

#### **10.5.13 GDP of trading partners**

Since the gross domestic product of an SME's trading partner is statistically significant in determining SME export intensity with a positive relationship, the conclusion is that no country

can work in isolation from global and regional trade partners. Since much as interventions in foreign economies are beyond Zimbabwe's economic scope, Zimbabwe worry about each other's foreign policy. The influence of trading partner's GDP on Zimbabwe's export intensity is affected by the economic performance of the trading partner. Zimbabwe needs to increase trade links with countries whose economies are growing so that exports to these economies also can grow.

#### **10.5.14 Research and development (R&D)**

A conclusion is made from the research is that R&D is statistically significant in determining export intensity, however there is an inverse relationship here. R&D should lead to exports of high-technology products and innovation, which is not the case in Zimbabwe, which has very few exports in high-tech products. There has also not been consistent investment in research and development.

Zimbabwe has revealed comparative advantage in primary products like tobacco and minerals as discussed earlier, meaning that the country is competitive in exporting from those sectors. So it is critical for the country also to increase R&D in the agricultural and mining sectors, in addition to the high-technology manufacturing sector, so as to strike a balance. SMEs need to export good quality products, which can be done if they invest in R&D. Government subsidies through the Scientific and Industrial Research and Development Centre (SIRDC) should focus on R&D for SME exporters in Zimbabwe in the competitive sectors.

The inverse relationship is also because that most SMEs are investing in expanding the domestic market since Zimbabwe uses the US dollar as its major currency. So foreign exchange can be tapped from the domestic market, and the SMEs have no motivation to carry out research and development for exports.

Another reason why R&D efforts are failing to reap the desired results of increasing exports is that money is being pumped into the wrong area for research and development. Most R&D, even at national level, seems to be channelled mostly towards increasing domestic sales, and less towards export growth. The SIRDC was established by the Zimbabwean government in February 1993 under the provisions of the Research Act of 1986, to support research and development in Zimbabwe.



So R&D is for the benefit of the manufacturing, service, agricultural and mining sectors of Zimbabwe. SIRDC was created to provide Zimbabwe with technological solutions for sustainable development. Besides the SIRDC, the Research Council of Zimbabwe (RCZ) is a statutory body established by Act of Parliament in 1984 to coordinate, promote, direct and advise the government with respect to research in the country

Findings from a previous study suggest that firms' exports in different states are shaped by a number of firm-level parameters such as firm age, firm size, research and development (R&D) intensity, foreign ownership, domestic business group affiliation and the policy variable capturing fiscal incentives (Pradhan & Zohair, 2015). However, Hart *et al* (1994) postulate that one of the most practical ways in which smaller firms may reduce risk when engaged in export operations, and so help them increase exports, is to make use of a wider range of sources of information and to be more rigorous in the means by which their data are collected.

#### **10.5.15 Availability of finance for SMEs**

It is necessary for the government to influence the banks with regard to their SME lending policies so that they reduce access barriers for SMEs. The OECD (1997) argues that the main role of the public sector in supporting venture capital is to reduce the risk and cost of private equity finance, complementing and encouraging the development of the private capital industry. Financiers, especially large finance institutions like banks, need to move towards SME financing if growth in SME exports is to be realised.

The formal credit institutions need to give SMEs loans for new capital injection. The funds should be cheap to borrow, at lower interest rates, as a special facility for SMEs. This is critical, since obtaining finance emerged in this research as the major reason for SMEs to seek institutional support. The government should regulate interest rates charged, especially by microfinance institutions, as they are astronomically high at a current average of 15% a year. Such an interest rate generally destroys the capacity of an SME to grow.

Most SMEs are able to access finance from microfinance institutions, but are forced to leave an asset, for example a vehicle, as collateral. However leaving such assets with micro-financiers deprives the business of the opportunity to use it in business. In a study of SME failure in 11 African countries using panel data, Pack (1993) found that for nine of the SMEs, the cost

and availability of credit was a major factor that affected SME development as it stifled the availability of funds for further investment.

To mitigate the high default risk posed by SMEs, institutions should lend SMEs loans in groups so that they can pool their resources and provide reasonable group collateral on loans. SMEs could obtain assistance in groups rather than as individuals, as transferring information and guidance to groups is more effective than through the costly method of trying to help individual enterprises on their own (Levitsky, 1996; ILO, 1997). The formation of groups to obtain credit and to guarantee repayment has more chance of succeeding than the single operator seeking credit (Yunus, 1989).

SME support organisations need to encourage synergy between the small businesses and the finance institutions to increase accessibility of finance for SMEs. Some of the measures suggested by UNCTAD (2001) to improve small enterprise access to finance are: efficient information gathering, analysis and dissemination; standard financial disclosures; small enterprise rating; matching needs with financial instruments; a presence of active domestic capital markets; and, the development of a critical mass of entrepreneurs who provide sufficient returns to venture capital funds.

In addressing the concerns of financial institutions pertaining to SME lending, a market-oriented approach is necessary, which involves reducing the risks and transaction costs associated with the SME sector, strengthening the capacity of financial institutions to serve smaller clients, and increasing competitive pressure in financial markets. Hallberg (1999) proposes these actions:

- Reducing barriers to entry, for example, by reconsidering capital adequacy requirements and prudential regulations that may be inappropriate for financial institutions serving smaller clients;
- Reducing the risks associated with lending to small businesses, focusing on laws governing the enforcement of contract, forfeiture and collection of collateral, and the use of movable assets as collateral;
- Developing the policy, legal and regulatory frameworks that are essential to the development of innovative financial institutions and instruments, including venture capital, small equity investments, and leasing;

- Promoting innovation in specialised lending technologies that reduce the administrative costs associated with credit applications, monitoring and payment;
- Strengthening the capacity of financial institutions to evaluate small enterprise creditworthiness in a cost-effective manner, for example through the use of credit scoring techniques; and
- Improving information on the creditworthiness of potential borrowers by promoting the establishment of credit bureaus and ways of helping small enterprises prepare business plans and financial projections (Hallberg, 1999).

Support institutions need to assist SMEs by providing them with order financing assistance to increase their financial and technical capacity to meet large orders from customers outside the country. SMEs indicated that they did not bid to supply big orders to overseas markets because they lack the financial and technical capacity to do so.

It is important for the Zimbabwean government to embrace the South African rand as a major currency, in addition to the US dollar, so as to improve money circulation in the economy and reduce the shortages of currency that are currently prevalent in Zimbabwe. South Africa is currently Zimbabwe's major trading partner. An increase in the use of the rand also helps the central bank, as RBZ is to act as the banker of last resort for banks in Zimbabwe since the US dollar is scarce and the government does not have US dollar reserves.

SMEs face the challenge of high transaction costs. It is important that SMEs are assisted in reducing costs. Policy implications with regard to reducing transaction costs are discussed in the following section.

#### **10.5.16 Reduction of costs incurred by SMEs**

There is a need to reduce costs incurred by SMEs for them to increase exports. Coase (1937) points out that rising costs represent decreasing returns to the entrepreneur, and the growth of the firm stops when the cost of organising an extra transaction within the firm is equal to the same cost on the open market, or the costs of organising another firm. The government can help reduce SMEs' costs by giving tax exemptions or tax holidays to SMEs, which would allow them to grow their export capacity.

In addition, municipalities need to reduce rents for SMEs, as most of them lease land or premises from municipalities. Zesa could also assist by reducing electricity tariffs for SMEs. The Zimbabwe Revenue Authority (ZIMRA) needs to accept the value of raw materials imported by SMEs as reflected on the receipt presented for duty purposes, instead of producing their own unrealistic estimates which unnecessarily increase costs for SMEs. ZIMRA also should allow SMEs to pay tariffs in instalments, rather than paying the full tariff at once for imported raw materials, and the tariff rate should be reduced.

The Standards Association of Zimbabwe (SAZ) could review its charges for SMEs downwards, so that they can afford to have their products ISO-certified, and not charge SMEs as much as they charge large corporations. When SME products are ISO-certified, it is easy to export them as this boosts the confidence of external clients with the product. SAZ also needs to train SMEs on quality management so that they produce exportable products. In the same way the government and support institutions need to provide exporting SMEs with laboratories to test for crop suitability for export to the European Union, so that SMEs do not incur high airfreight costs, only for their products to be rejected on entering the EU.

Utility providers like the Zimbabwe Electricity Supply Authority (Zesa), which provides electricity, and municipalities, which provide water, need to ensure continuous supply of electricity and water so that the operations of exporting SMEs, especially in the manufacturing sector, are not interrupted. The government and local authorities need to reduce the cost of operational licences, like the municipal health licences that some SMEs are required to have, so as to ensure their viability.

To ensure that SMEs acquire raw materials at a reasonable price, to ensure continuity in production and growth of exports, support institutions can assist SMEs in obtaining raw materials domestically by supporting the providers of raw materials. For example, SMEs in the tailoring trade could benefit if cotton farmers were supported so that they provide more cotton to ginneries, who in turn supply SMEs with cloth, so promoting value addition.

In the fresh vegetable exporting industry, support institutions could provide inputs to horticultural farmers, who in turn provide crops to the vegetable exporters. There is a need for strengthening sustainable partnerships between seed companies, financiers, agro dealers and SMEs

exporting agricultural products. In this way the whole support chain system would be strengthened.

The government could give clear export incentives to exporters so that the exporters compete with their rivals on international markets who receive export incentives from their governments. Such incentives help to increase profitability for SMEs. Export incentives would also give some exporters a reason to export, as they see no reason to export currently, given that foreign currency is easily available in Zimbabwe.

The Agricultural Marketing Authority of Zimbabwe (AMA) and the Reserve Bank of Zimbabwe (RBZ) could reduce the costs of registration and of acquiring the permits that are requirements before exporting. The permit lifespan should also be extended for agricultural exporters so that SMEs do not have to incur permit renewal costs every three months, which adds to costs and reduces export capacity. Apart from cost reduction, there is need to promote the competitive sectors in the economy: agriculture and mining.

#### **10.5.17 Zimbabwe's export competitiveness**

Findings from the study indicate that Zimbabwe is competitive in agricultural and mining sector exports, but not in manufacturing sector exports. Zimbabwe is very competitive in exporting these agricultural products: tobacco, vegetables, sugars, cotton, tea and coffee. The country is also competitive in exporting minerals like ores and nickel. However, Zimbabwe has very few manufactured products in which it has revealed comparative advantage: cement, and iron and steel. There is a need for policies that specifically target export growth for the agricultural and mining sectors, which are highly competitive.

A policy framework needs to target exporting small-scale farmers specifically, for instance farmers in the horticultural export sector, so that the country realises increased exports in the agricultural sector. In the mining sector, there is a need for policymakers to allow small-scale miners to export most of their minerals and to support them in building capacity for value addition and processing. SMEs in the mining and agriculture sectors are located in remote areas where administration costs increase for support institutions.

Government support for the agriculture sector mostly targets cereal farmers who grow maize and wheat, crops that are usually government-controlled and marketed domestically, mostly to the Grain Marketing Board and National Foods Company. Other institutions are successfully supporting tobacco farmers. However these farmers do not export their tobacco directly. They sell the tobacco to merchants on domestic tobacco auction floors, who in turn export the tobacco. So a policy framework is needed specifically to target exporting small-scale farmers, like horticultural exporters, so that they can increase exports. Findings by Udah *et al* (2015) point to the fact that export intensity is positively related to agricultural exports, and international trade is an instrument in achieving agricultural growth and wealth for the nation. So infrastructures that promote massive agricultural production should be pursued vigorously (Udah *et al*, 2015).

In the mining sector, the government controls the marketing of minerals. It is very difficult for an SME to export some minerals directly. For example, SMEs in gold mining have to sell their gold to the government. The government is advocating for value addition on exports of other minerals, like chrome, so prohibiting exports of raw minerals. However small-scale miners do not have the financial and technical capacity to process minerals for export, and this becomes a hindrance to export capacity. So there is need for policymakers to allow small-scale miners to export a proportion of their produce and to support them in building capacity for value addition.

The political environment in Zimbabwe needs to be conducive for SMEs to prosper in exports, and this is discussed in the next section.

#### **10.5.18 Constraints faced by SMEs**

Limited access to finance is the major constraint faced by SME exporters in Zimbabwe. Other constraints include high interest rates on loans and lack of access to advanced new equipment and expensive raw materials. SMEs also lack relevant market information, as well as internal systems for efficiency in running their businesses. The stronger US dollar used in Zimbabwe has increased the costs of labour and production and the prices of final products relative to average costs in the region. The unstable macroeconomic environment, characterised by policy inconsistency, shortages of cash in the economy and the high cost of distribution, coupled with inefficiency, corruption and bureaucracy, are other challenges faced by SMEs.

imperfect contract enforcement were found to reduce exports dramatically (Anderson & Marcouiller 2002).

SMEs could realise increased exports if support institutions made available funds that are cheap to borrow, as a special facility for the SMEs. The SMEs indicated that the government should remove trade barriers, assist domestic companies in retooling, make information on exports and markets readily available and help SMEs to market their products abroad. The government needs to work towards stabilising the economy and adopting a currency weaker than the US dollar, such as the rand – after negotiating with South Africa – since the country is not yet ready for its own currency.

Institutions could assist SMEs in acquiring raw materials at a reasonable price while the government could give tax exemptions to SMEs. ZIMRA should accept the value of raw materials imported as reflected on the receipt for duty purposes. The cost of distribution is a major challenge for exporters. The government and support institutions needed to provide exporting SMEs with laboratories for fumigation and to test for crop suitability for exports to the EU, so that SMEs do not incur high airfreight costs to the EU, only for their products to be rejected on entering the EU.

There is need for the politicians to stop politicising the running of small businesses, so that SMEs can operate without threats or harassment. This would enable SMEs to concentrate more on improving their businesses and creating export opportunities and not losing valuable production time. If operating space and loans were freely available to capable SMEs, without the need to be affiliated to any political party, it would also enable SMEs to concentrate on increasing production and exports.

SME owners could operate more efficiently if they were not forced to attend political rallies, so losing production time unnecessarily. The government should ensure that people are not threatened to attend political meetings. The government could also restore cordial relationships with the European Union and the US. Poor relationships between Zimbabwe and the European Union have reduced European and American export markets for SMEs. In addition to creating the right political environment, SMEs need good infrastructure to able to export. Infrastructural development discussed in the next section.

### **10.5.19 Infrastructural development**

To reduce the cost of distribution, which is a major hindrance to SME exports, the government needs to speed up the upgrading of roads so as to improve the road network, for example doubling the Harare-Beitbridge route, the main road to South Africa, Zimbabwe's major trading partner. The road is in a bad state with a planned upgrade constantly being postponed, yet it is the road most traders use. Besides that, the rail system operating below capacity.

These factors increase transport costs for SMEs, as transporters tend to charge more since there are few transporters and the cost of servicing vehicles is high. The government also needs to ensure full utilisation of the railway system, a cheap mode of transport, which is now running below capacity due to several challenges such as shortage of funds to service the trains. The transport network in Zimbabwe is poor since the roads are not serviced regularly. To mitigate the negative effects of distance on SME exports, the government should speedily rehabilitate major roads and railways so as to improve the transport and distribution network in Zimbabwe.

As has been noted, African countries need to invest in transport infrastructure in order to raise their supply capacity (UNCTAD, 2005). The infrastructures to promote trade should include power supply, telecommunication, agro-allied industries, a sound security outfit and a good road network. With massive agricultural production, economies of scale are generated and there is surplus which enables the economy to be agricultural export-oriented (Udah *et al*, 2015).

The government also ought to reduce the charges airlines pay when they use Harare International Airport, to encourage many airlines to come into the country and enable SMEs to have access to a number of cargo carriers. Support institutions could help SMEs to gain access to cheaper transport and reduce transport costs incurred by SMEs. Appropriate and adequate infrastructure is vital for SME support interventions to succeed. Accessible roads, electricity and water, communications and technology like e-mail, the internet, fax machines and telephones are essential to the success of any small business development strategy. Empirical research findings suggest that technology intensity is one of the key determinants of success in an export market (Lengler 2015).



The existence of suitable infrastructure reduces transaction costs, improves trade reliability and creates opportunities for business networking. Pradhan & Zohair (2015) analysed two selected states in India and found that differential performance in manufacturing exports could be related to the states' contrasting heterogeneity in terms of infrastructure among other determinants.

Infrastructural development alone cannot guarantee exports if the SMEs do not have an export culture. The next section carries an analysis of the development of an export culture.

#### **10.5.20 Developing export culture**

It is important for the government to reorient SME export policies to focus on individuals and individual behaviour. There need to be measures to develop an SME exporter who has the ability to explore markets beyond the borders and is not afraid of doing so. This can begin in the early phases of the entrepreneurial development process. In Zimbabwe entrepreneurship is being included in the curriculum of university students, so the possibility of being an exporting entrepreneur should be reinforced in the curriculum.

It is also important to create the right environment and circumstances to motivate and stimulate SME owners and managers to become exporters. This can be achieved through imparting the entrepreneurs with appropriate skills and learning, and making export opportunities available to entrepreneurs. Some of Zimbabwe's entrepreneurs were pushed by unemployment, and entrepreneurship was the only opening for survival. However for sustainable export businesses, a sense of ownership needs to be instilled in the participants by involving them right from the start in export development programmes and respecting their vision of and their personal involvement with their institutions.

White (1999) recommends that successful support interventions should identify variations among business people in the country and their skills, experiences, status, needs, aspirations and capacity to obtain resources – all of which influence their ability to successfully establish, run and expand a small business. White (1999) argues further that business development services need to be provided to the “right clientele” in the sense that those targeted should have entrepreneurial characteristics and make good use of services offered. Above all, for an export culture to be implemented successfully, a favourable business environment needs to be maintained. This can be achieved through the right macroeconomic policies.

### **10.5.21 Macroeconomic policies**

Macroeconomic policies affect SME growth in exports. Globally, the relationship between SMEs (or entrepreneurship) and economic growth is complex, with opportunity entrepreneurship being stimulated by a growing economy. For SMEs to realise export growth there is a need for macroeconomic stability. SMEs are far more vulnerable to the effects of volatility than an unstable macroeconomic environment might have on the viability of larger businesses. SMEs bear the brunt of such adverse conditions. So the development of a business-friendly environment is critical to the success of the small enterprise sector.

SMEs need to operate in a predictable environment with regard to price movements (inflation), interest rates and the availability of credit. They need to focus the costs and the revenues they are likely to meet correctly so that they can make the right plans. If SMEs fail to predict their revenue and expenses, this translates into a higher-than-otherwise cost of access to credit, and investors may be deterred from either equity or loan investment in a small firm.

In addition, macroeconomic instability affects the asset base of SMEs adversely, since they are less likely to have in-house capabilities for sound asset management, leaving them financially vulnerable. So stability in the overall macroeconomic environment is one of the most critical preconditions for SME export promotion.

More trade links between exporting SMEs and countries with higher GDP could increase SME exports. Results showed that as the GDP of a trading partner increases, SME exports also increase since increased trading partner GDP results in increased demand for SME goods by the trading partner. In addition to macroeconomic policies, the HIV/Aids pandemic needs to be addressed to support affected SMEs.

### **10.5.22 HIV/Aids**

Some of the businesses indicate that the HIV/Aids pandemic has placed a constraint on small business export performance. Even though the government is making efforts to fight the disease, its resources are insufficient to deal with the epidemic. Some small business owners also lack sufficient information about the disease. Small businesses must be encouraged to draft HIV/Aids policy statements and promote such statements as policies of the firm. Health facilities are available in the communities, however in most cases they lack the medication needed by Aids patients.

There is a need, then, for health facilities to be fully equipped with enough medication to cater for Aids patients and there must also be easy access to condoms. Both faith and traditional healers must be integrated into the treatment training for Aids patients. Even though Zimbabwe has experienced a marked reduction in HIV/Aids transmission, both the government and other relevant institutions need to intensify Aids education.

An integrated development strategy for SMEs in Zimbabwe is a vital consideration. The next section discusses how this can be attained.

### **10.5.23 Integrated export development strategy for SMEs in Zimbabwe**

It is important to understand the concept of entrepreneurship, which was discussed in Chapter 3. According to GEM (2004), entrepreneurship describes anyone who starts or owns a business as a result of identifying an opportunity or running a business for survival. The business can be in any economic sector and can be formal or informal. Opportunity entrepreneurs earn more income than necessity entrepreneurs, and more opportunity entrepreneurs are needed for a growing socio-economic environment, hence export growth (GEM, 2004).

This means that SMEs which access institutional support who are merely entrepreneurs by necessity without any entrepreneurial potential may render governmental or institutional support interventions a fruitless exercise. The failure of small businesses to increase exports despite support interventions by the government and other support institutions are a dead loss and a cost to society. The country's resources are scarce, so the opportunity cost of subsidising small businesses which eventually fail is high.

However in Zimbabwe most entrepreneurs are entrepreneurs of necessity and include individuals who sell on the streets. The definition of an entrepreneur also covers international conglomerates formed as a result of many entrepreneurial activities. So it can be expected that some entrepreneurs who access assistance from support institutions are necessity entrepreneurs. It is against this background that the role of education in entrepreneurship development is important.

There needs to be more focus on developing entrepreneurship, instead of just focusing on small business export growth with the aim of minimising or avoiding a social cost due to small business export failure in Zimbabwe. It has been noted earlier in this research that the OECD, Asian and European countries place more emphasis on developing an entrepreneur rather than just supporting small enterprises (OECD Development Centre, 2015). Therefore entrepreneurial issues like motivation, passion for business, risk-bearing, alertness, creativity, judgment, management and innovativeness as discussed should be part of SME development strategy.

SMEs also need to play their part for these initiatives to be a success. Institutions interviewed reiterated that SMEs needed to participate in training programmes, trade expos and trade missions organised by support institutions like Zimtrade so as to expose their businesses and their products to potential foreign buyers. The SMEs also needed observe the rules and regulations of the local authorities where they operate. They should also improve their record-keeping.

The Ministry of SMEs indicated that even though SMEs were registered companies, they needed to register with the ministry, pay back loans granted and work towards expanding their businesses. The SME Association remarked that SMEs needed to join the association to be able to benefit from various export promotion programmes. SMEs also needed to improve the quality of their products.

An integrated SME export development strategy should also include a special focus on women, since the regression results in Chapter 7 show that gender is statistically significantly related to export intensity, with women being more inclined to export than men. So empowerment programmes for women exporters should be promoted to ensure equal entrepreneurial playing fields for men and women in Zimbabwe.

Even though women exporters have higher export intensity than their male counterparts, the reality is that women entrepreneurs in Zimbabwe remain on the periphery of the national eco-

nomy. Generally, women's business activities are located in the retail sector, craftwork, hawking and personal services and they mostly have low participation in value-adding business opportunities. The next section analyses the role of macroeconomic policies in SME export promotion.

The government should focus on increasing regional markets for SMEs by entering into bilateral trade agreements with countries in the Southern African region. Support institutions also need to create regional markets for the SMEs they support. This policy implication stems from research results indicating that the greater the distance to export markets, the less the exports. Seventy-three per cent of SMEs indicated that they export their products to African countries while 81% said their decision was affected by distance from markets. So it makes sense to increase regional markets which are geographically nearer to Zimbabwe.

A focus is also needed on helping SMEs to increase exports to regional trading partners with higher GDP. This means that as the GDP of a trading partner increases, SME exports also increase since the results of this research show that increased trading partner GDP leads to increased demand for SME goods on the part of the trading partner. However there are also some SMEs that specifically prefer European or American markets, or whose goods are in demand mostly in Europe and the US. To increase export markets for these SMEs in Europe, the Zimbabwean government should work on improving relationships with European countries and creating bilateral trade relations so as to open trade opportunities.

The government should boost efficiency on its borders, as the border posts between Zimbabwe and its trading partners are characterised by inefficiency, corruption, bureaucracy and constant delays in processing of relevant papers for the SMEs exporters. This can be done through better training and monitoring of staff at border posts, especially at Beit Bridge and Plumtree. ZIMRA could reduce the documentation that governs the conduct of exporters, and make the relevant forms readily available and easy to understand.

Institutions should also attempt to increase SME exports by creating support systems that enable continuous SMEs funding, and lobbying the government to support SME exports fully. Institutions also need to undertake training small business owners in exporting skills, Institutions should also create linkages between SMEs and export markets, in the same way Zimtrade

is currently doing. Institutions also need to devise favourable financial products that suit SMEs' needs and size.

### **10.6 Limitations of the study**

SMEs did not have accurate data on actual exports but knew the percentage of exports and the total sales. So the researcher resorted to the use of export intensity as a measure of export performance. Support institutions had some highly confidential data and this resulted in limited disclosure of those data. Employees in support institutions were not permitted to divulge certain information to the public so as to protect the institution's credibility and maintain a competitive advantage over their counterparts. To counter this, supplementary information obtained from the Ministry of SMEs on the respective support institutions was used to enhance the accuracy and relevance of the study. Zimbabwe is a developing country with limited data on SMEs and SME exports. So secondary data was limited. To counter this limitation, the researcher collected a significant amount of primary data from the SMEs themselves.

### **10.7 Suggestions for future research**

This study focused on the determinants of exports among SMEs in Zimbabwe. There is a need for future studies to go further, by analysing the determinants of exports among SMEs by sector in Zimbabwe. That would enable an in-depth analysis of the critical issues that need to be addressed for each sector so that it can grow exports. Future studies should also try to explore the determinants of SME exports using a dynamic ordinary least squares panel data model. The gravity model of trade was used in this research and estimation was carried out using random effects non dynamic panel data. In the future, other models can be used such as the instrumental variables (IV) and generalised methods of moments (GMM).

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## APPENDIX 1 - Gravity Model Regression results

Dependent Variable: EXP\_INT  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 08/08/16 Time: 21:56  
 Sample: 2009 2015  
 Periods included: 7  
 Cross-sections included: 120  
 Total panel (unbalanced) observations: 828  
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.500647	0.154597	3.238401	0.0013
BUS_OWN	0.068645	0.027862	2.463764	0.0140
EDUCAT_YRS	0.005147	0.004981	1.033343	0.3018
EPZ_S	0.092819	0.022397	4.144327	0.0000
EXP_YRS	0.001510	0.002990	0.504928	0.0867
FIRM_AGE	0.000804	0.002950	0.272454	0.7853
FIRM_SIZE	0.011445	0.000682	16.78218	0.0000
GENDER	-0.044614	0.025175	-1.772184	0.0767
LNDIST_TP	-0.174735	0.037632	-4.643305	0.0000
LNGDP_TP	0.010831	0.002784	3.890610	0.0001
LNGDP_ZIMB	-0.009756	0.016013	-0.609262	0.5425
LNR_D	-0.008372	0.003600	-2.325699	0.0203
PDTTYPE	0.022432	0.033562	0.668389	0.5041
SUPPORT_INST	-0.004316	0.018642	-0.231516	0.8170

### Effects Specification

	S.D.	Rho
Cross-section random	0.145782	0.9241
Idiosyncratic random	0.041779	0.0759

### Weighted Statistics

R-squared	0.377568	Mean dependent var	0.031734
Adjusted R-squared	0.367628	S.D. dependent var	0.053056
S.E. of regression	0.042263	Sum squared resid	1.453920
F-statistic	37.98259	Durbin-Watson stat	0.775615
Prob(F-statistic)	0.000000		

### Unweighted Statistics

R-squared	0.650813	Mean dependent var	0.294251
Sum squared resid	19.86855	Durbin-Watson stat	0.056757

## APPENDIX 2 – SME QUESTIONNAIRE



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### INTRODUCTORY NOTE

**Thesis Title: DETERMINANTS OF EXPORT PERFORMANCE AMONG SMALL TO MEDIUM ENTERPRISES IN ZIMBABWE**

Full Name of Researcher: Tapuwa Roseline Karambakuwa  
Supervisor's Name: Professor Ronnie Ncwadi  
Faculty: Business and Economic Sciences  
School: Economics, Development and Tourism  
Department: Economics  
E-mail: rkarambakuwa@gmail.com

I, Tapuwa Roseline Karambakuwa Student number 215271017 am a PhD Economics student in the Faculty of Business and Economic Science, Nelson Mandela Metropolitan University. You are invited to participate in this research project. The main aim of the study is to establish the determinants of exports amongst small to medium enterprises in Zimbabwe.

Please kindly note that participation in this research project is voluntary and there is no penalty if you do not participate. There will be no monetary gain from participating in this research project. Your responses will be treated with confidentiality. Please sign in the dotted lines to show that you have read and understood the contents of this letter. The questionnaire will take approximately 10 minutes to complete.

## DECLARATION OF CONSENT

I..... (Full Name) hereby confirm that I have read and understood the contents of this letter and the nature of the research project has been clearly defined prior to participating in this research project.

Participant Signature: .....

Date: .....

*For Official Use Only*

Questionnaire #: \_\_\_\_\_

**Please answer all questions by putting a circle on your response or filling in where necessary.**

	<b>SECTION A: DEMOGRAPHICS</b>	
Q1	<ul style="list-style-type: none"> <li>• Name of business</li> <li>• Address &amp; telephone/cell phone number (include town/city)</li>   <li>• Province</li> </ul>	<p>.....</p> <p>.....</p> <p>.....</p>
Q2	<p style="text-align: center;">Are you the owner of this business?</p> <p style="text-align: center;">If no state your position in business</p>	<p>1= Yes</p> <p>2= No</p> <p>.....</p>
Q3	<p>Age of respondent</p>	<p>1=18-25</p> <p>2=26-35</p>

		3=36-45 4=46-55 5=56-65 6=66+
Q4	Gender of respondent	1= Male 2= Female
Q5	Nationality	1= Zimbabwean 2=Non Zimbabwean
Q6	What is the highest level of education you have attained?	1=Primary 2=Secondary 3=Technical/Vocational (state) ..... 4=University level(state) ..... 5=no formal education 6=other (please specify) .....
	<b>SECTION B: BUSINESS CHARACTERISTICS</b>	
Q7	For how many years has this business been running?	1= less than 2 years 2= 3 to 5 years 3= 6 to 10 years 4= more than 10 years
		1. Sole Proprietor

Q8	Business form	2. Partnership 3. Company 4. NGO 5. Co-operative 7. Family Business 8. Other (specify).....
Q9	In which business sector are you?	1= Agriculture 2= Wholesale and Retail 3= Manufacturing 4= Transport and communication 5= Construction 6= Energy 7= Tourism 8= Art, Entertainment, Culture, Education and Sport 9= Finance, insurance, real estate and business services 10 = Other (please specify)..... .....
Q10	How many employees do you have?	1=no employees 2=1-10 3=11-20 4=21-30 5= 31-40 6= 41-50

		7=51+
Q11	For how long has the business been exporting	1= less than 2 years 2= 3 to 5 years 3= 6 to 10 years 4= more than 10 years
Q12	What are the actual products that you export	1..... 2..... 3..... 4..... 5.....
Q13	What were the reasons for embarking on export business	1. To increase sales revenue 2. The Government/Partner institution/Donor wanted us to export 3. To increase visibility of business 4. There was an export opportunity in the market 5. Other (Specify)..... .....
Q14	Where do you obtain general information on exports	1.Government Ministry 2. Zimtrade 3. Zimbabwe Investment Centre /EPZA 4. NGOs (specify)..... 5. Friends /Relatives 6. Media 7.Other (specify).....
Q15	Which countries do you export to? (Choose a category then specify)	1. African..... 2. European..... 3.Asian.....



		..... 4. American..... 5. Australia/New Zealand.....
Q16	a. To what extent does distance from markets affect your choice of destination for exports  b. Give reasons for your answer	1. Small extent 2. Large extent 3. No effect  ..... ..... ..... .....

Q17 State the average sales from your business over the following years.

Year	2009	2010	2011	2012	2013	2014	2015
Average sales							

Q18 What percentage of sales were/are exports?

	2009	2010	2011	2012	2013	2014	2015
1. 0%							
2. 1-9%							
3. 10-19%							
4. 20 - 39%							
5. 40 - 59%							
6. 60 - 79%							
7. 80-100%							

Q19. Express the average costs of goods as a percentage of total sales.

1. Less than 10%
2. 11-20%
3. 21-40%
4. 41-50%
5. Above 50%

**SECTION C SME SUPPORT INSTITUTIONS AND ACCESS TO FINANCE**

Q20 Indicate the SME support organisations that have assisted your business operations in the past both in monetary and non-monetary terms. Insert the assistance received in each category e.g. loan \$10 000, grant \$5000, training on exports, partnership.

<b>Name of Institution</b>	<b>2009</b>	<b>2010</b>	<b>2/011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>

Q21 What was the primary reason why the business sought assistance from the institutions?  
(one answer)

1. To increase exports
2. To improve management skills
3. To increase working capital
4. To pay wages and other bills
5. To service other loans

6. Other reasons (specify).....

Q22 What is the major challenge that you have faced in accessing finance?

1. Lack of adequate collateral
2. Financiers are unwilling to give small organisations
3. Lack of information
4. Failure to service previous loans, thus poor credit record
5. Other (specify).....

Q23 In your opinion, to what extent have institutions in Zimbabwe succeeded in increasing SME exports.

1. Greater extent
2. Smaller extent
3. No impact at all

Q24 Give reasons for your answer

.....

.....

.....

.....

**SECTION D ; RESEARCH & DEVELOPMENT.**

Q25 Indicate the amount spent by this business on research and development (procuring new equipment, staff training, research etc) over the years.

Year	2009	2010	2011	2012	2013	2014	2015
Total Amount							

Q26 Indicate the impact of the following variables on export volume for the business over the past 6 years (tick)

	Loans and Donations	R&D Capacity Building Investment	EPZ and Trade barrier removal	Partnership with established firms	Increased capital base	Business experience	Nearer export destinations

1. No change							
2. Increase in exports							
3. Decrease in exports							

**THANK YOU FOR YOUR PARTICIPATION**

**APPENDIX 3 – INTERVIEW GUIDE FOR SME SUPPORT INSTITUTIONS**

**Thesis Title: DETERMINANTS OF EXPORT PERFORMANCE AMONG SMALL TO MEDIUM ENTERPRISES IN ZIMBABWE**

<b>SECTION A: DEMOGRAPHICS</b>		
Q1	<ul style="list-style-type: none"> <li>• Name of Institution</li> <li>• Address &amp; telephone/cell phone number (including town/city)</li> </ul>	<p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>
Q2	Kindly state your position in this institution	.....
Q3	Age of respondent	1=18-24 2=25-34 3=35-44 4=45-54 5=55-64 6=65+
Q4	Gender of respondent	1= Male 2= Female
Q5	What is the highest level of education you have attained?	1=Primary 2=Secondary 3=Technical/Vocational (state) ..... . 4=University level(state) ..... .. 5=no formal education 6=other (please specify) .....
<b>SECTION B: INSTITUTION'S CHARACTERISTICS</b>		
Q6	For how many years has this institution been supporting SMEs	1= less than 2 years 2= 3 to 5 years 3= 6 to 10 years 4= more than 10 years 99= don't know

Q7	Institution's category (choose one answer that best describes the category of institution)	1= Microfinancier 2= Bank 3= Capacity Builder 4=Non Governmental Organisation 5. Government ministry 6. Quasi government 7. Private Firm 8. Other (specify) .....
Q8	In which sector is the institution?	1= Finance 2= Government/Quasi government 3= Manufacturing 4= Transport and communication 5= Construction 6= Energy 7= Tourism 8= Art, Entertainment, Culture, Education and Sport 9= Insurance, real estate and business services 10= Wholesale and Retail 11 = Other (please specify) ..... .....
Q9	What form of support does the institution provide to SMEs	1=Loans 2=Grants 3=Capacity building 4=Technical expertise 5=Contract export/manufacturing arrangements 6=Equipment 7=Implements government policies supporting SMEs 8. Other (specify).....
Q10	For how long has the institution been supporting SMEs	1= less than 2 years 2= 3 to 5 years 3= 6 to 10 years 4= more than 10 years 99= don't know

Q11	What were the reasons for supporting SMEs	1=To increase customer base in the form of SMEs 2=Government policy 3=As a partner institution, to increase exports by contracting out SMEs 4=To increase visibility of business 5=Other (Specify)..... ..... .....
Q12	Where do you obtain information about SMEs and their needs	1.Government Ministry of Trade and industry/Ministry of SMEs 2.EPZA/Zimbabwe Investment Centre 3. Visiting the SMEs 4. The SMEs approach us 5. Media 6. Other (specify).....
Q13	What aspects does the institution consider when selecting an SME to support	1=Collateral 2= SME capital base/size of business 3=Education level of manager 4=Age of business 5=Location of business 6=Credit history 7=Business sector 8=Other (specify).....

Q14 Indicate the total loans/grants that the institution has disbursed to SMEs over the years. (tick appropriately)

Annual Turnover	2009	2010	2011	2012	2013	2014	2015
1.<\$50 000							
2.\$50 1000 – \$199 999							
2.\$100000 – \$199 999							

3.\$200 000 - \$299 999							
4.\$300 000 - \$399 999							
5.\$400 000 - \$499 999							
6.\$500 000 - \$599 999							
7.\$600 000 - \$699 999							
8.\$700 000 - \$799 999							
9.\$800 000 – \$1000 000							
10. >\$1000 000							

Q15 What percentage of SMEs that the institution supported are in the export business?

	2009	2010	2011	2012	2013	2014	2015
8. 0%							
9. 1-9%							
10. 10-19%							
11. 20 - 39%							
12. 40 - 59%							
13. 60 - 79%							
14. 80-100%							

### SECTION C: RESEARCH & DEVELOPMENT.

Q16 During training, what skills does the institution impart SMEs with?

1. Management skills
2. Production skills
3. Quality Management
4. Export related skills
5. Language and sales



6. Market and product information

Q17 Indicate the total amount of money the institution has spent on capacity building and/or providing technical assistance to SMEs over the years. (tick appropriately)

Annual Turnover	2009	2010	2011	2012	2013	2014	2015
1.<\$10 000							
2.\$10 000 – \$19 999							
3.\$20 000 - \$29 999							
4.\$30 000 - \$39 999							
5.\$40 000 - \$49 999							
6.\$50 000 - \$59 999							
7.\$60 000 - \$69 999							
8.\$70 000 - \$79 999							
9.\$80 000 – \$100 000							
10. >\$100 000							

**SECTION D SMALL TO MEDIUM ENTERPRISES**

Q18 What are the major challenges that you have faced while providing assistance to SMEs

1. Lack of adequate collateral by SMEs
2. SMEs are too small / survivalist
3. Failure to repay loans by SMEs
4. SME failure to continue operations
5. Asymmetric information/Disclosure of critical information by SME
6. Other (specify).....
- 7.

Q19 What should exporting SMEs do to obtain more support from institutions like yours.

.....  
 .....

.....  
.....

.....  
.....

Q20 To what extent has the institution contributed to increased SME exports

1. Greater extent
2. Smaller extent
3. No impact at all

Q21 Give reasons for your answer

.....  
.....  
.....  
.....  
.....  
.....  
.....

Q22 In your opinion, how can institutions like yours contribute to increased SME exports?

.....  
.....  
.....  
.....  
.....  
.....  
.....

**THANK YOU FOR YOUR PARTICIPATION**

**APPENDIX 4 - REVEALED COMPARATIVE ADVANTAGE OF ZIMBABWE 2011-2015**

<b>Product</b>	<b>Product label</b>	<b>RCA 2011</b>	<b>RCA 2012</b>	<b>RCA 2013</b>	<b>RCA 2014</b>	<b>RCA 2015</b>
1	Live animals	0.43	0.43	0.50	0.75	1.11
2	Meat and edible meat offal	0.04	0.05	0.02	0.03	0.01
3	Fish, crustaceans, molluscs, aquatic invertebrates nes	0.25	0.33	0.45	0.84	0.75
4	Dairy products, eggs, honey, edible animal product nes	0.16	0.22	0.12	0.06	0.06
5	Products of animal origin, nes	0.03	0.05	0.07	0.04	0.06
6	Live trees, plants, bulbs, roots, cut flowers etc	0.29	0.03	0.14	0.97	1.09
7	Edible vegetables and certain roots and tubers	0.09	0.09	0.12	0.40	0.35
8	Edible fruit, nuts, peel of citrus fruit, melons	0.50	0.38	0.61	0.78	0.96
9	Coffee, tea, mate and spices	1.93	2.10	2.82	2.74	2.97
10	Cereals	0.06	0.09	0.09	0.06	0.11
11	Milling products, malt, starches, inulin, wheat gluten	0.03	0.27	0.55	0.86	2.25
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	0.83	0.28	0.53	0.32	0.48
13	Lac, gums, resins, vegetable saps and extracts nes	0.00	0.00	0.00	0.01	0.00
14	Vegetable plaiting materials, vegetable products nes	98.38	31.69	50.81	36.57	19.64
15	Animal,vegetable fats and oils, cleavage products, etc	0.10	0.31	0.21	0.19	0.09
16	Meat, fish and seafood food preparations nes	0.02	0.03	0.02	0.02	0.01
17	Sugars and sugar confectionery	5.08	9.59	9.73	20.19	15.75
18	Cocoa and cocoa preparations	0.05	0.08	0.06	0.08	0.07
19	Cereal, flour, starch, milk preparations and products	0.28	0.18	0.23	0.30	0.27
20	Vegetable, fruit, nut, etc food preparations	0.25	0.26	0.51	0.34	0.55
21	Miscellaneous edible preparations	0.20	0.23	0.30	0.18	0.14
22	Beverages, spirits and vinegar	0.33	0.36	0.58	0.26	0.24
23	Residues, wastes of food industry, animal fodder	0.68	1.18	0.79	0.60	0.41
24	Tobacco and manufactured tobacco substitutes	92.02	89.85	108.07	114.41	137.26

25	Salt, sulphur, earth, stone, plaster, lime and cement	5.50	5.23	6.72	8.34	8.25
26	Ores, slag and ash	7.36	7.47	7.48	9.75	8.73
27	Mineral fuels, oils, distillation products, etc	0.05	0.05	0.06	0.03	0.13
28	Inorganic chemicals, precious metal compound, isotopes	0.03	0.03	0.06	0.11	0.12
29	Organic chemicals	0.00	0.00	0.01	0.00	0.02
30	Pharmaceutical products	0.04	0.03	0.02	0.03	0.03
31	Fertilizers	0.47	0.13	0.80	0.21	0.42
32	Tanning, dyeing extracts, tannins, derivs, pigments etc	0.19	0.12	0.11	0.17	0.20
33	Essential oils, perfumes, cosmetics, toileteries	0.04	0.03	0.05	0.06	0.06
34	Soaps, lubricants, waxes, candles, modelling pastes	0.06	0.06	0.13	0.03	0.02
35	Albuminoids, modified starches, glues, enzymes	0.02	0.01	0.02	0.01	0.00
36	Explosives, pyrotechnics, matches, pyrophorics, etc	0.04	0.05	0.01	0.33	0.73
37	Photographic or cinematographic goods	0.00	0.00	0.00	0.00	0.00
38	Miscellaneous chemical products	0.07	0.06	0.06	0.12	0.09
39	Plastics and articles thereof	0.07	0.06	0.08	0.09	0.08
40	Rubber and articles thereof	0.06	0.21	0.20	0.14	0.08
41	Raw hides and skins (other than furskins) and leather	4.57	4.75	5.38	6.40	2.21
42	Articles of leather, animal gut, harness, travel goods	0.02	0.04	0.04	0.03	0.02
43	Furskins and artificial fur, manufactures thereof	0.09	0.03	0.01	0.02	0.01
44	Wood and articles of wood, wood charcoal	1.14	1.13	1.09	1.10	1.48
45	Cork and articles of cork	0.00	0.00	0.00	0.00	0.10
46	Manufactures of plaiting material, basketwork, etc.	0.02	0.02	0.02	0.00	0.02
47	Pulp of wood, fibrous cellulosic material, waste etc	0.06	0.06	0.08	0.13	0.24
48	Paper and paperboard, articles of pulp, paper and board	0.33	0.33	0.40	0.42	0.44
49	Printed books, newspapers, pictures etc	40.18	0.01	0.01	0.02	0.03
50	Silk	0.00	0.00	0.00	0.00	0.01
51	Wool, animal hair, horsehair yarn and fabric thereof	0.00	0.00	0.00	0.00	0.00
52	Cotton	19.56	16.47	8.98	7.63	6.41
53	Vegetable textile fibres nes, paper yarn, woven fabric	0.00	0.00	0.00	0.05	0.00

54	Manmade filaments	0.01	0.00	0.00	0.03	0.03
55	Manmade staple fibres	0.11	0.04	0.01	0.01	0.02
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0.50	0.38	0.36	0.56	0.59
57	Carpets and other textile floor coverings	0.02	0.02	0.00	0.00	0.00
58	Special woven or tufted fabric, lace, tapestry etc	0.04	0.07	0.05	0.00	0.01
59	Impregnated, coated or laminated textile fabric	0.02	0.01	0.00	0.01	0.01
60	Knitted or crocheted fabric	0.01	0.01	0.02	0.08	0.23
61	Articles of apparel, accessories, knit or crochet	0.01	0.02	0.02	0.01	0.01
62	Articles of apparel, accessories, not knit or crochet	0.11	0.06	0.07	0.09	0.18
63	Other made textile articles, sets, worn clothing etc	0.21	0.25	0.22	0.19	0.29
64	Footwear, gaiters and the like, parts thereof	0.06	0.10	0.08	0.07	0.09
65	Headgear and parts thereof	0.33	0.16	0.16	0.06	0.06
66	Umbrellas, walking-sticks, seat-sticks, whips, etc	0.00	0.00	0.00	0.00	0.00
67	Bird skin, feathers, artificial flowers, human hair	1.22	1.36	1.64	1.46	1.30
68	Stone, plaster, cement, asbestos, mica, etc articles	0.41	0.23	0.25	0.12	0.06
69	Ceramic products	0.07	0.06	0.07	0.06	0.06
70	Glass and glassware	0.02	0.01	0.05	0.03	0.05
71	Precious stones, metals, coins, etc	5.45	8.71	6.03	7.73	8.44
72	Iron and steel	1.27	1.49	2.17	4.23	3.08
73	Articles of iron or steel	0.16	0.16	0.20	0.22	0.16
74	Copper and articles thereof	0.21	0.43	0.84	0.68	0.28
75	Nickel and articles thereof	86.06	62.19	87.01	3.80	5.38
76	Aluminium and articles thereof	0.09	0.10	0.12	0.16	0.25
78	Lead and articles thereof	0.00	0.00	0.49	1.62	1.91
79	Zinc and articles thereof	0.00	0.00	0.08	0.00	0.00
80	Tin and articles thereof	0.00	0.00	0.02	0.00	0.00
81	Other base metals, cermets, articles thereof	0.00	0.04	0.18	1.03	0.04
82	Tools, implements, cutlery, etc of base metal	0.12	0.11	0.07	0.04	0.02
83	Miscellaneous articles of base metal	0.03	0.05	0.06	0.06	0.02
84	Machinery, nuclear reactors, boilers, etc	0.05	0.04	0.05	0.06	0.04
85	Electrical, electronic equipment	0.03	0.03	0.02	0.03	0.03
86	Railway, tramway locomotives, rolling stock, equipment	0.05	0.01	0.00	0.06	0.02

87	Vehicles other than railway, tramway	0.04	0.04	0.05	0.05	0.03
88	Aircraft, spacecraft, and parts thereof	0.09	0.25	0.26	0.14	0.08
89	Ships, boats and other floating structures	0.01	0.01	0.01	0.01	0.02
90	Optical, photo, technical, medical, etc apparatus	0.00	0.01	0.01	0.01	0.01
91	Clocks and watches and parts thereof	0.00	0.00	0.00	0.00	0.00
92	Musical instruments, parts and accessories	0.03	0.01	0.10	0.00	0.00
93	Arms and ammunition, parts and accessories thereof	0.01	0.00	0.00	0.00	0.00
94	Furniture, lighting, signs, prefabricated buildings	0.29	0.24	0.29	0.30	0.19
95	Toys, games, sports requisites	0.04	0.03	0.04	0.06	0.05
96	Miscellaneous manufactured articles	0.15	0.07	0.11	0.09	0.07
97	Works of art, collectors pieces and antiques	2.87	2.66	3.27	2.79	1.91
99	Commodities not elsewhere specified	0.00	0.00	0.00	0.00	0.03

## APPENDIX 5 - ZIMBABWE'S EXPORTS TO THE WORLD

		Zimbabwe's exports to the world - US Dollar thousand			
	Product code	Product label	Value in 2011	Value in 2012	Value in 2013
HS4	TOTAL	All products	3512125	3882429	3507296
	1	Live animals	1768	1997	2168
	2	Meat and edible meat offal	881	1157	474
	3	Fish, crustaceans, molluscs, aquatic invertebrates nes	4701	6598	8773
	4	Dairy products, eggs, honey, edible animal products nes	2604	3753	2112
	5	Products of animal origin, nes	53	108	137
	6	Live trees, plants, bulbs, roots, cut flowers etc	1203	115	573
	7	Edible vegetables and certain roots and tubers	1074	1169	1495
	8	Edible fruit, nuts, peel of citrus fruit, melons	8431	7196	11292
	9	Coffee, tea, mate and spices	19228	21419	23649
	10	Cereals	1432	2276	2147
	11	Milling products, malt, starches, inulin, wheat gluten	118	1038	1971
	12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	13303	5494	9914
	13	Lac, gums, resins, vegetable saps and extracts nes	0	12	0
	14	Vegetable plaiting materials, vegetable products nes	18477	4985	7729
	15	Animal,vegetable fats and oils, cleavage products, etc	2160	7048	3831
	16	Meat, fish and seafood food preparations nes	192	321	202
	17	Sugars and sugar confectionery	53142	106697	93627
	18	Cocoa and cocoa preparations	438	740	494
	19	Cereal, flour, starch, milk preparations and products	3038	2221	2781
	20	Vegetable, fruit, nut, etc food preparations	2770	3130	5727
	21	Miscellaneous edible preparations	2153	2804	3521
	22	Beverages, spirits and vinegar	6738	8293	12196
	23	Residues, wastes of food industry, animal fodder	8606	18116	11907

24	Tobacco and manufactured tobacco substitutes	718044	826580	908414
25	Salt, sulphur, earth, stone, plaster, lime and cement	49654	50816	57075
26	Ores, slag and ash	366268	368677	342098
27	Mineral fuels, oils, distillation products, etc	29472	37817	33471
28	Inorganic chemicals, precious metal compound, isotopes	853	755	1338
29	Organic chemicals	113	127	421
30	Pharmaceutical products	3537	2549	1984
31	Fertilizers	7009	2106	9951
32	Tanning, dyeing extracts, tannins, derivs, pigments etc	3028	1947	1687
33	Essential oils, perfumes, cosmetics, toiletries	717	611	1087
34	Soaps, lubricants, waxes, candles, modelling pastes	656	731	1365
35	Albuminoids, modified starches, glues, enzymes	80	57	99
36	Explosives, pyrotechnics, matches, pyrophorics, etc	37	44	11
37	Photographic or cinematographic goods	7	6	0
38	Miscellaneous chemical products	2345	2379	2043
39	Plastics and articles thereof	7928	6813	9116
40	Rubber and articles thereof	2916	9907	7775
41	Raw hides and skins (other than furskins) and leather	28958	32012	35691
42	Articles of leather, animal gut, harness, travel goods	241	591	486
43	Furskins and artificial fur, manufactures thereof	187	86	21
44	Wood and articles of wood, wood charcoal	26833	28458	26944
45	Cork and articles of cork	0	0	0
46	Manufactures of plaiting material, basketwork	9	13	8
47	Pulp of wood, fibrous cellulosic material, waste etc	550	555	703
48	Paper and paperboard, articles of pulp, paper and board	12180	11790	12709
49	Printed books, newspapers, pictures etc	393230	106	118
50	Silk	0	0	0
51	Wool, animal hair, horsehair yarn and fabric thereof	2	0	1
52	Cotton	269080	233264	119348



53	Vegetable textile fibres nes, paper yarn, woven fabric	0	2	0
54	Manmade filaments	58	21	44
55	Manmade staple fibres	907	376	106
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	2269	1814	1595
57	Carpets and other textile floor coverings	67	78	0
58	Special woven or tufted fabric, lace, tapestry etc	112	192	119
59	Impregnated, coated or laminated textile fabric	107	45	14
60	Knitted or crocheted fabric	64	34	140
61	Articles of apparel, accessories, knit or crochet	397	803	676
62	Articles of apparel, accessories, not knit or crochet	4088	2335	2760
63	Other made textile articles, sets, worn clothing	2304	3026	2503
64	Footwear, gaiters and the like, parts thereof	1318	2399	1936
65	Headgear and parts thereof	478	258	258
66	Umbrellas, walking-sticks, seat-sticks, whips, etc	0	0	0
67	Bird skin, feathers, artificial flowers, human hair	1466	2064	2401
68	Stone, plaster, cement, asbestos, mica, etc articles	3499	2211	2345
69	Ceramic products	620	631	671
70	Glass and glassware	214	191	635
71	Precious stones, metals, coins, etc	671899	1436312	969600
72	Iron and steel	117482	134167	159384
73	Articles of iron or steel	9288	10118	11843
74	Copper and articles thereof	7441	15474	25839
75	Nickel and articles thereof	533978	357322	450740
76	Aluminium and articles thereof	3008	3466	3746
78	Lead and articles thereof	0	0	681
79	Zinc and articles thereof	0	5	202
80	Tin and articles thereof	6	3	34
81	Other base metals, cermets, articles thereof	4	143	578
82	Tools, implements, cutlery, etc of base metal	1425	1484	861
83	Miscellaneous articles of base metal	373	657	734
84	Machinery, nuclear reactors, boilers, etc	21199	17348	18052
85	Electrical, electronic equipment	12536	12087	9412

86	Railway, tramway locomotives, rolling stock, equipment	399	48	26
87	Vehicles other than railway, tramway	9892	10508	13126
88	Aircraft, spacecraft, and parts thereof	4472	15059	14921
89	Ships, boats and other floating structures	277	328	389
90	Optical, photo, technical, medical, etc apparatus	449	852	788
91	Clocks and watches and parts thereof	33	0	4
92	Musical instruments, parts and accessories	32	9	121
93	Arms and ammunition, parts and accessories thereof	16	0	2
94	Furniture, lighting, signs, prefabricated buildings	10613	10587	12296
95	Toys, games, sports requisites	686	481	694
96	Miscellaneous manufactured articles	885	683	995
97	Works of art, collectors pieces and antiques	11306	13211	15057
99	Commodities not elsewhere specified	15	113	285