

# **Enabling entrepreneurial ecosystem framework as a panacea to formalisation of manufacturing MSEs in Harare, Zimbabwe.**

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**Abstract:** The aim of this study was to develop an enabling entrepreneurial ecosystem framework for the formalisation of manufacturing Micro and Small Enterprises (MSEs) in Harare, Zimbabwe. This study adopted a pragmatism research philosophy that adopts a mixed methods research design. The population for the quantitative research consisted of around 2 000 metal fabricators and furniture manufacturers operating at Mbare-Magaba Siyaso and Glenview Area 8 Home Industry Complex clusters and the sample was made up of 300 respondents. Quantitative data was collected using structured closed-ended questionnaires and analysed using the Statistical Package for Social Sciences (SPSS). Qualitative data was collected through in-depth semi-structured face to face interviews and the population consisted of five directors at the Ministry of Women Affairs, Community, Small and Medium Enterprise Development. However the sample for qualitative data was made up of two directors. The findings from this study show that informal manufacturing MSEs in Harare face several barriers to formalising their businesses and the key entrepreneurial ecosystem factors are not currently available in the environment where they operate. Furthermore, access to financial support, physical infrastructure, support systems, domestic and export markets as well as favourable legal and regulatory framework were considered as key to formalisation of the informal manufacturing MSEs. The findings from the interviews show that the current Zimbabwe Micro, Small and Medium Enterprises Policy has failed to ensure regularisation of the informal sector.

**Keywords:** *Entrepreneurial ecosystem, formalisation, manufacturing, informal, MSEs, pragmatism, Zimbabwe*

## **1. Introduction and background**

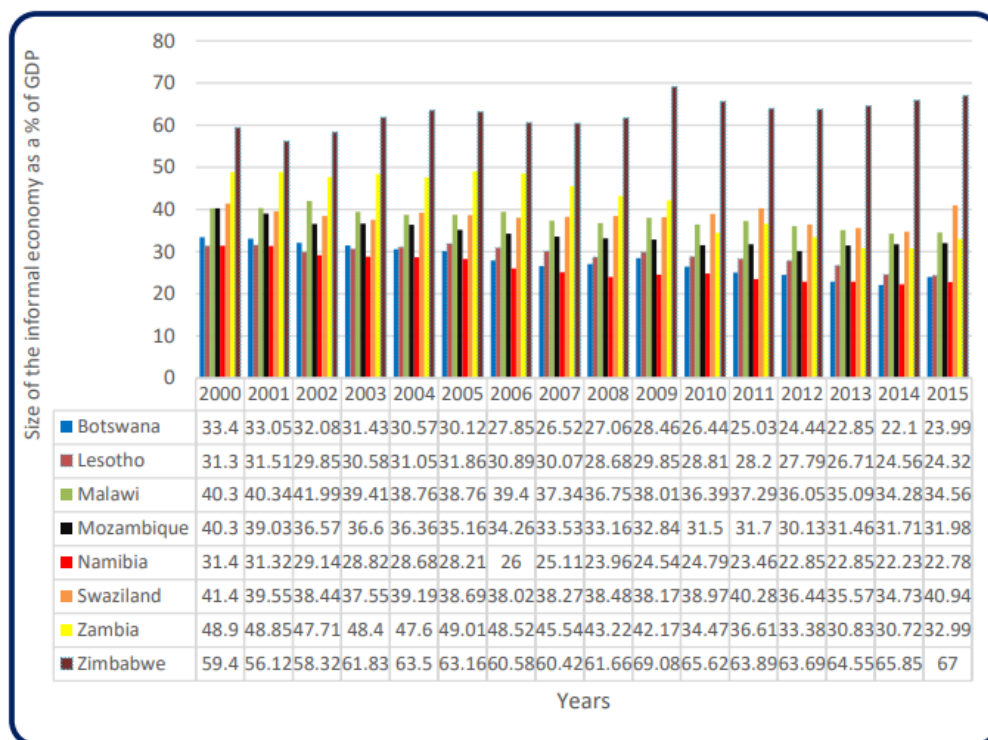
The entrepreneurial ecosystems concept, referred to EE henceforth, has rapidly gained impetus within entrepreneurship domain and research circles. Several countries the world over are making strategic decisions to regularise the shadow economy (Koos & Kok, 2014). From a global perspective, around two billion workers, which represent 61.2% of the world's working population are engaged in informal economy employment (ILO, 2018). Informal employment is characterised by unsafe, harmful working conditions, low skills levels, undefined workspaces, low incomes, lack of access to markets, finance, information, training, technology and there are long working hours (Ibid). The informal enterprises are not registered and the workers are not regulated by the labour laws as they do not have formal contracts. Similarly, Loayza (2018) states that workers in the informal sector have less social safety nets compared to their counterparts in the formal sector. Chodorow-Reich et al. (2020) highlighted that the workers operate in crowded places and they

use cash and carry that increases chances of spreading diseases. The best way to address challenges outlined above is through the transition to formality.

Considering the African continent, ILO STAT (2020) reported that the Sub-Saharan African (SSA) region, compared to other regions in the world, has the highest number of labour force that are engaged in the informal economy. In terms of figures, when the agriculture sector is excluded, the informal economy in SSA region represents 76.8% of total employment and 89.2% if the agricultural employment is included (ILO, 2018) and informal output was estimated at 62% of official GDP (Ibid). From the statistics given above, the SSA region has a long way to go in reducing the size of the informal economy which has negative characteristics. Equally, Jayaram et al., (2020) states that the African continent has over 300 million people who operate in the second economy and some choose to remain informal even the formal institutions become more business friendly (Williams et al., 2016).

High levels of informality are prevalent in the developing nations and ILO (2020) estimated more than 2 billion people which represent 60% of employees and 80% of enterprises. In North Africa and the Middle East, the informal enterprises were found to account for at least 70% of employment and over 80% in SSA and South Asia (ILO, 2019).

The World Bank (2020) report states that in Zimbabwe, the informal economy on average contributes 61% to the nation’s GDP. On the other hand, the same report highlighted that in Zambia the GDP was standing at 33%, 53.3% in the DRC, 34% in Tanzania, 34.3 in Kenya, 39.1% in Ethiopia and 35% in Malawi. The statistics show that Zimbabwe has the highest level of informality in the SADC region and SSA in particular. Also, Medina et al., (2018) states that the Southern African region has GDP contribution ranging between 40-50 percent and Zimbabwe has a 50% rate. The SSA’s informal sector accounted for 80% of total employment and if the countries can account for production that take place, it has the potential to contribute 55% of GDP (Ibid). The figures indicate that the sector is important to any nation. According to the Figure 1.1 below, Zimbabwe, Zambia, Swaziland, Mozambique and Malawi had high informality levels between the years 2000 to 2015.



Source: Medina and Schneider (2018)

Figure 1.1. Informal Economy Size in Southern African Countries from 2000 to 2015.

From the Figure 1 above, we can see that informality in Southern Africa is high and the majority of the countries in the study reported percentages of over 30%. On average, Zimbabwe is the highest with above 60%, Swaziland second at 39%, Mozambique and Malawi following with above 30% respectively. Southern African governments have a lot of work to reduce the barriers to formalisation. The enterprises that switch from informality to formality attain greater profit as well as value-added as equated to the ones that remain unregistered (Boly, 2017).

This study seeks to identify the challenges of informality and to determine the barriers to formalisation among the manufacturing MSEs. Furthermore, it seeks to identify the availability/status of the EE factors for the informal manufacturing MSEs and determine the importance of EE factors to formalisation of manufacturing MSEs. Lastly, the research determines the impact of formalisation on the business performance of manufacturing MSEs and assesses the Zimbabwe MSMEs Policy in driving formalisation of manufacturing MSEs.

## **2. Literature Review**

### *2.1 What is an Entrepreneurial Ecosystem?*

According to Mason & Brown (2014), an entrepreneurial ecosystem is “a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organizations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sellout mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment.” “It is a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship” (Stam, 2015). However, Stam’s definition is extensively used in academic research as it broadly covers the EE concept.

### *2.2 Entrepreneurial Ecosystems Theories*

#### *2.2.1 Network Theory*

Purbasari *et al.*, (2019) defined network theory as “the mechanism and process of interaction in network structures to get results for individuals and groups.” In a network, there are actors that create bonding that help to unite them. Their type of connections are correlated to achieve a common goal. The actors are either connected directly or indirectly. Boggati & Halgin (2011) highlight that network theory considers the structure of the network, location of actors and identify ways they can produce outputs. Network theory has been considered to be relevant in the EE domain because it comprises of factors and actors that cooperate in a productive manner. The concept of ecosystem was developed from the network theory (Letaifa *et al.*, 2016). The theory can better be explained by looking at the interaction among organisations with matching characteristics. The network theory has become very significant in entrepreneurial literature and research circles. Purbasari *et al.*, (2019) state that using the network approach helps to identify and discover associations among actors so that value can be created.

#### *2.2.2 Institutional Theory*

The presence of institutions has actually enhanced the advancement of the society. In the academic literature, the institutional theory has helped to advance entrepreneurial research. Mason & Brown (2014) and Stam (2015) highlighted that any ecosystem is composed of formal and informal institutions. Isenberg (2010, 2011) has the same view and state the different types institutions that exist in entrepreneurial ecosystems and these are shown in the Figure 2.1 below.

Institutional theory	Bahrami and Evans (1995)	Neck et al. (2004)	Isenberg (2010, 2011)
Formal Institutions	Leader users	Incubators	Innovative products
	Universities and research institutions	Formal networks	Facilitating policies
	Private financing market	Spin-offs	Financing
	Support infrastructure	Physical infrastructure	Support infrastructure and institutions
Informal Institutions	A talent base	Informal networks	Human resources
	Entrepreneurial spirit	Culture	Culture

**Figure 2.1:** Institutional Theory and EE elements. *Source:* Fuentelsaz *et al.*, (2017)

Equally, formal and informal institutions are vital for the growth of a successful EE that fosters the formalisation of informal MSEs. Governments should put in place conducive formal institutions in the form of rules, regulations and other policies so that productive entrepreneurship takes place.

### 2.3 Definition of Informal Economy

According to IMF (2017), the informal economy, “comprises economic activities that circumvent costs and are excluded from the benefits and rights incorporated in laws and administrative rules covering property relationships, commercial licensing, labour contracts, torts, financial credit, and social systems”. A study by ILO (2017) recognised the informal economy as “consisting of unregulated small-scale firms that include carpenters, shop owners, restaurant owners, and grocers, employing ten or less low-skilled employees, who works in dangerous conditions without social protection or health and safety measures at the workplace.” Another definition by ILO (2016) states that “the informal economy are all economic activities, excluding illegal activities, by workers and economic units that are in law or in practice either not covered or insufficiently covered by formal arrangements”.

### 2.4 Definition of Informal Entrepreneurship

Autio & Fu (2015) defined informal entrepreneurship as “active engagement and managing a new venture that produces or sells legitimate goods and services and is not registered with official authority.” Likewise, Williams & Nadin (2013) defined informal entrepreneurship as “the process of engaging in paid production and selling of goods and services that are legitimate in all respects, but not declared to the state for tax and/or benefit purposes.”

### 2.5 Definition of Micro and Small Enterprises

ILO (2017) took the perspective of number of employees to define MSEs as “firms with less than 10 or 50 workers and medium-sized enterprises as those with less than 100 or 250 workers.” Using the World Bank Enterprise Survey, Williams & Kedir (2017) defined micro enterprises as “businesses with less than five workers.” The European Union has defined micro and small business as “enterprises that employ at most 250 workers” (Stokes & Wilson, 2010). The description is based on headcounts, value of assets and revenue as guiding standards. The Zimbabwe Small Enterprises Development Corporation Amendment of 2011 defines micro enterprises to include entrepreneurs with without any employees or enterprises with a maximum of 5 employees, small enterprises with 6 to 30 or 40 employees subject to the sector and medium sized enterprises with 31 to 75 employees.

### *2.6 Informality and MSEs Vulnerability*

Feige (2016) states that at company level, informality comprises entirely the enterprises and entrepreneurs that manufacture lawful goods and services which are however not compliant with the country's administrative laws and protocols, employment and fiscal regulations. The United National Industrial Development Organisation and United Nations Office of Drugs and Crime (2012) highlight that SMEs are more likely to suffer from bureaucratic bribery compared to the well-established ones. They lack of financial capacity to exercise influence over the related government institutions and officials that control their activities. In addition, they are also susceptible to corruption at the hands of the state officials due to limited negotiating power to deny requests for illicit payments. Inadequate legal support is another challenge. The International Labour Organization (2018) cited risky and vulnerable work conditions as coupled with ill-paid wages as other challenges faced by the informal entrepreneurs. In terms of employment vulnerability rate, the SSA was projected at 72% in 2017 with 36% extreme working poverty in the whole African country (ILO, 2018). In most SSA countries, women are at the receiving end from the negative consequences of informality and there is a gender gap of above 70%. The majority of the vulnerable groups are in the informal sector and with the consequences of Covid 19 pandemic, Africa's total informal employment and GDP has risen (ILO, 2020).

### *2.7 Informal Economy Theories*

The *modernist perspective* according to Packard (2007) states that the presence of the informal economy gestured "backwardness" and "underdevelopment" whereas formal entrepreneurship indicated "progression," "growth" and "improvement". It assumes that the IE will eventually be engrossed into the formal economy with the passing of time. The *structuralist perspective* regards the IE as a sector of the economy that relies on the regulated economy. The assumption is lack of a clear separation between the mainstream economy and the second economy. The *neo-liberal perspective* is premised upon the assumption that high business registration costs and high bureaucracy are the key reasons for operating in the hidden economy. They prefer conduct their business informally so that they circumvent registration costs (Biles, 2009). The *post-structuralist perspective* theorists who include Roland Barthes and Michael Foucault state that the hidden economic activities occur in pursuing a broad social band that is external to the economic activities. The financial profit is not more important to the players than other social reasons.

## **3. Materials and Methods**

This study adopted a pragmatism research philosophy which takes a mixed methods research design. The total population for the quantitative study was 2000 informal enterprises. There is no clear sampling frame for the informal enterprises operating at the two clusters and the researchers used the population used by previous researchers at the two clusters. A self-administered closed ended questionnaire survey was used to collect data from a sample of 300 participants operating at Mbare-Magaba Siyaso and Glenview Area 8 Home Industry Complex clusters. This study considered a value of at least 0.6 plus Cronbach's alpha coefficient as the reliable values for positive internal consistency of the questionnaire. The researcher used SPSS to calculate the coefficient ( $\alpha$ ) and this was done for each section of the questionnaire to demonstrate the internal consistency of each subcategory. The availability of survey was communicated through a pilot study of the questionnaires. Correlation tests were also conducted in this research. A stratified random sampling method was used to select the sample in the quantitative research. Data was analysed using the Statistical Package for Social Sciences (SPSS) Version 22 software. The researcher summarised details about the participants for this study using descriptive statistics in the form of pie charts, histograms and tables. For the qualitative research, the population was made up of five directors within the Ministry of Women Affairs, Community, Small and Medium Enterprises Development and a sample of 2 directors was used for the study. Purposive sampling was used to select the interviewees for the qualitative study. Qualitative data was analysed using content analysis. The validity of qualitative study was ensured through voluntary participation of interviewees and the researcher requested to record the interview session so as not to lose the data. The

participants were not given incentives to participate in the study. The researchers observed ethical principles during data collection phase and the principle include anonymity and confidentially, voluntary participation and informed consent.

**4. Results and Discussions**

*4.1. Response Rate*

The researcher distributed 300 total questionnaires at the two clusters that were under the focus of this study. Out of the 300 distributed questionnaires, 183 questionnaires were returned and used in data analysis and presentation, therefore 117 questionnaires were not returned. In terms of percentage, the overall response is 61% which is a good response rate for the research findings to be generalised. The researcher attributes the positive response rate to self-administration of the questionnaire and frequent visiting of the clusters for data collection.

*4.2. Reliability of the research instrument/Questionnaire*

The Cronbach’s Alpha was used to test the reliability of the questionnaire used in this survey. The Figure 4.1 below shows a good internal consistence among the variables in the questionnaire.

**Table 4.1.** Cronbach’s Alpha Reliability Test Results

<b>Variable</b>	<b>Cronbach’s Alpha</b>	<b>N of Items</b>
Challenges of informality	0.933	7
Barriers to formalisation	0.782	9
Availability of Entrepreneurial Ecosystem Factors	0.613	10
Importance of Entrepreneurial Ecosystem Factors	0.774	10
Impact of Formalisation on Business Performance	0.876	7
<b>Overall Cronbach’s Alpha</b>	<b>0.733</b>	<b>43</b>

*4.3 Respondents’ Demographic Characteristics for Quantitative Research*

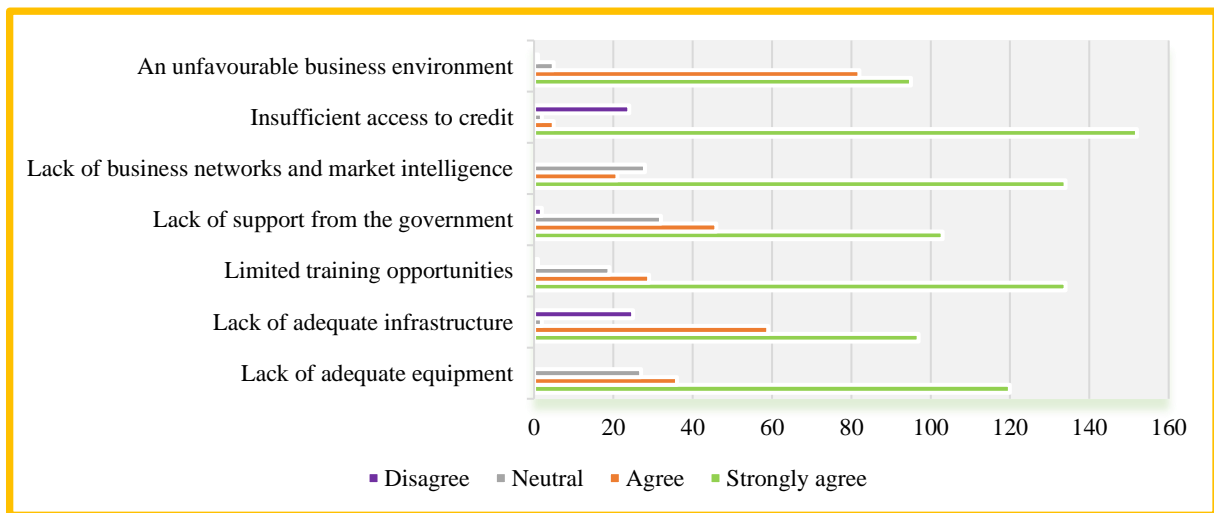
**Table 4.2.** Demographic Characteristics

<b>Demographic characteristic</b>	<b>Items</b>	<b>Frequencies</b>
<b>Sex</b>	Male	143
	Female	40
<b>Age Ranges</b>	Below 20	3
	21-30 years	45
	31-40 years	73
	41-50	43
	51 and above	19
<b>Highest Level of Education</b>	Primary	15
	Secondary	92
	Certificate	43
	Diploma	19
	Degree	14
<b>Respondents’ Position in the Business</b>	Owner	44
	Owner and Manager	40
	Manager	42

Demographic characteristic	Items	Frequencies
	Employee	57

The Table 4.2 above shows the demographic characteristics of the study participants. The results revealed that males dominate the informal manufacturing business activities. This can be attributed to hard work involved in manufacturing which most females find it difficult to execute. In addition, the findings also revealed that the majority of the participants were aged between 31- 40. This shows that the young generation is more involved in informal manufacturing businesses. The secondary education dominated the highest level of education. In addition, most respondents indicated that they are employees with a frequency of 57, followed by owners with frequency of 44, managers with frequency of 42 and owner and manager with frequency of 40.

#### 4.4 Challenges of Informality



Source: Research data (2022)

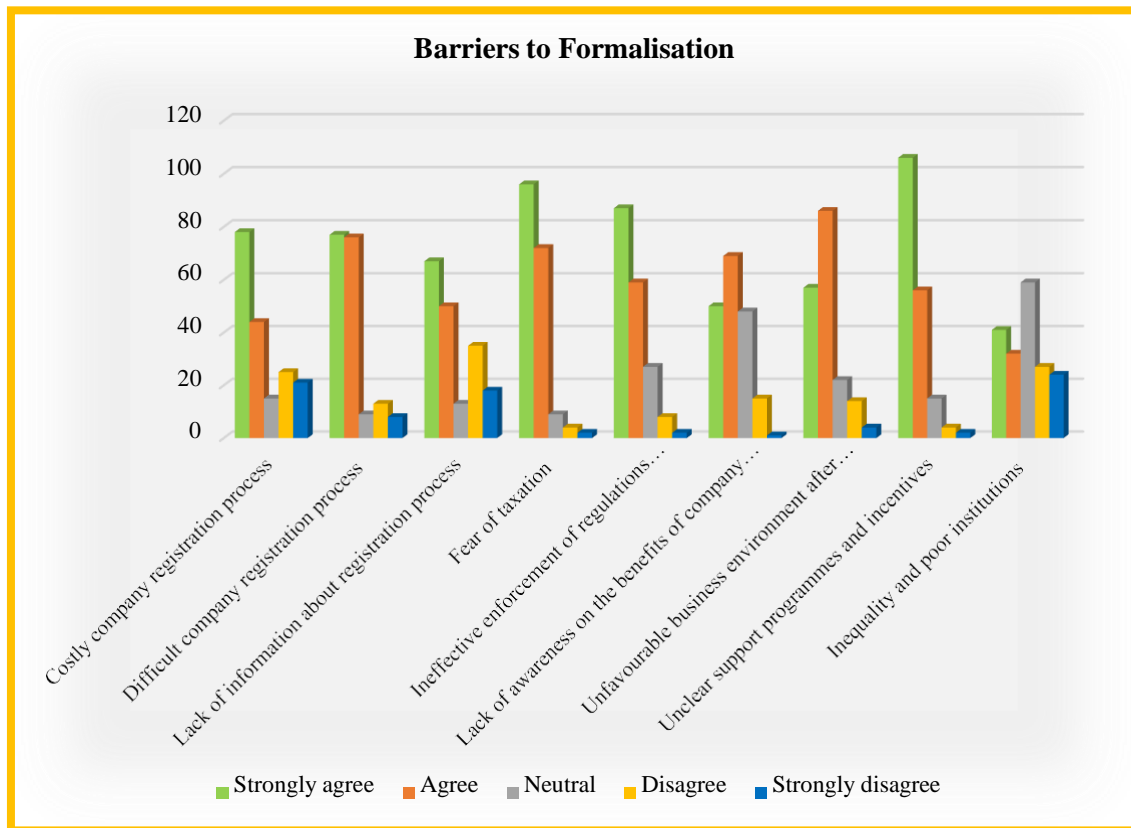
**Figure 4.1.** Challenges of Informality

The Figure 4.1 above shows that the majority of the respondents strongly agree that they are facing challenges pertaining to the business environment they are working within, access to finance, business networks and market, government support, inability to access training opportunities, lack of infrastructure and equipment. The challenges identified play a significant role in inhibiting the transition to formality.

#### 4.5. Barriers to Formalisation

##### 4.5.1 Analysis of responses on aspect of the barriers to formalisation.

This study collected data on the barriers to formalisation by the manufacturing MSEs in Harare that are located in Mbare-Magaba Siyaso and Glenview home industry complex. Figure 4.2 below shows the results on from the questionnaire survey.



Source: Research data (2022)

Figure 4.2: Barriers to Formalisation

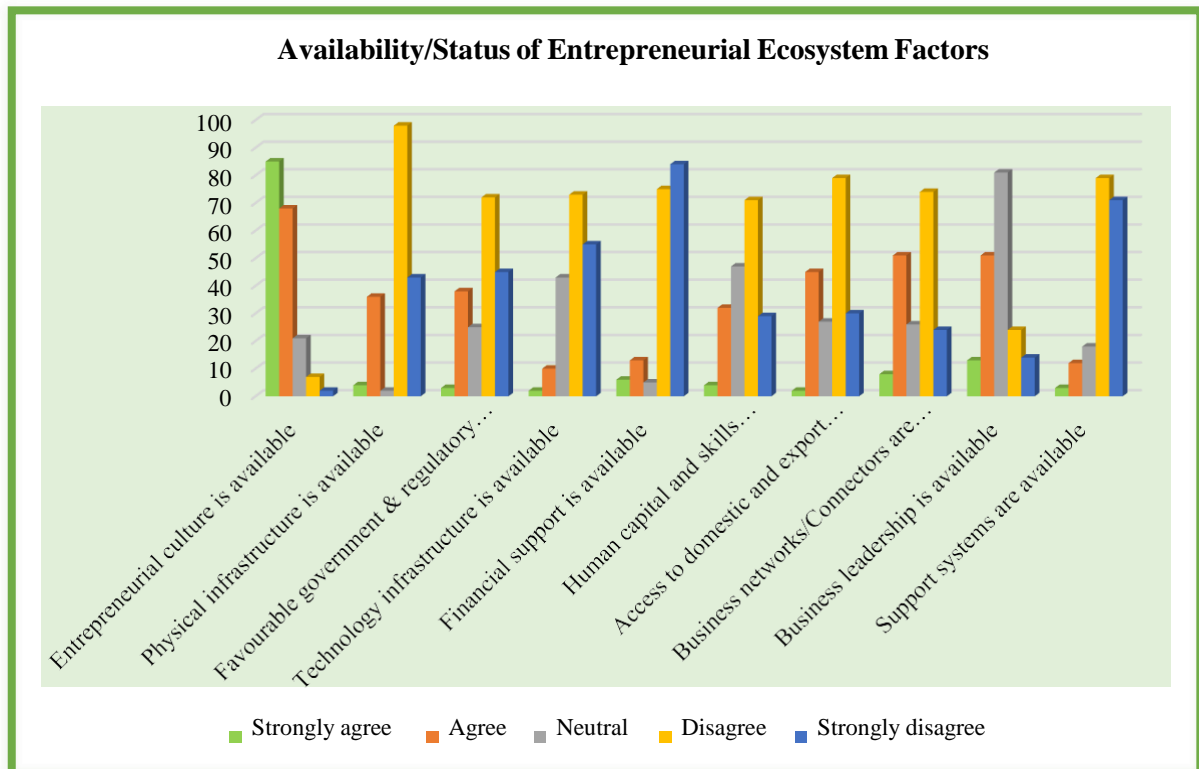
With regard to costly company registration process, the majority of respondents strongly agree that it is as expensive for them to register the company. In terms of difficult company registration process, most respondents agree that it is a key factor contributing much for not registering their business. A few of them disagree and strongly disagree that difficult company registration process is key barrier.

Furthermore, the majority of the informal manufacturers indicated that lack of information about registration has been a barriers to business registration. Fear of taxation has been considered as the major hindrance to formalisation by the study participants. They fear paying government tax if they register their businesses.

Additionally, the majority of the respondents strongly agree that unclear support programmes and incentives is a deterrent to business registration. Moreover, ineffective enforcement of regulations concerning enterprise registration, lack of awareness on the benefits of company registration and unfavourable business environment after registration were all considered as barriers to business registration. Interesting to note is the fact that on the influence of inequality and poor institutions to business registration, the majority were neutral.

#### 4.6 Availability/Status of Entrepreneurial Ecosystem Factors





Source: Research data (2022)

**Figure 4.3.** Status of Entrepreneurial Ecosystem Factors

With regards to the availability of favourable government and regulatory framework, the results show that the majority either disagree or strongly disagree on that aspect. Furthermore, participants were asked to indicate the extent to which they agree about the availability of finance in their business. The results are very clear that access to finance a big challenge to the informal manufacturers. Most of the respondents are of the view that human capital and skills development is lacking within their business ecosystem. Although they are making their products, they need continuous skills-set upgrade to meet changing current needs. In addition, the majority of respondents either strongly disagree or disagree about the availability of access to market. The domestic and export market access is a big challenge to the them. In terms of access to business networks or connectors, the majority disagree that they have excellent connections. Most of the respondents were neutral to the availability of business leadership within their business. However, more strongly agree and agree to the presence of business leadership compared to those who disagree and strongly disagree. Support systems were said to be unavailable to the informal metal fabricators and furniture manufacturers.

*4.7 The Importance of Entrepreneurial Ecosystems Factors to Formalisation*

This study sought to determine and rank the importance ten entrepreneurial ecosystem factors to formalisation of the manufacturing MSEs. On a 5 point Likert scale, the respondents were asked to rate each factor in terms of whether they think it is extremely important, important, neutral, unimportant and extremely unimportant to their decision to register the business.

The Figure 4.4 below shows the results on importance of the 10 EE factors to business registration. The results on the chart below shows that access to financial support, physical infrastructure, access to domestic and export markets and support systems respectively and in that order, are the most rated EE factors in formalising their businesses.

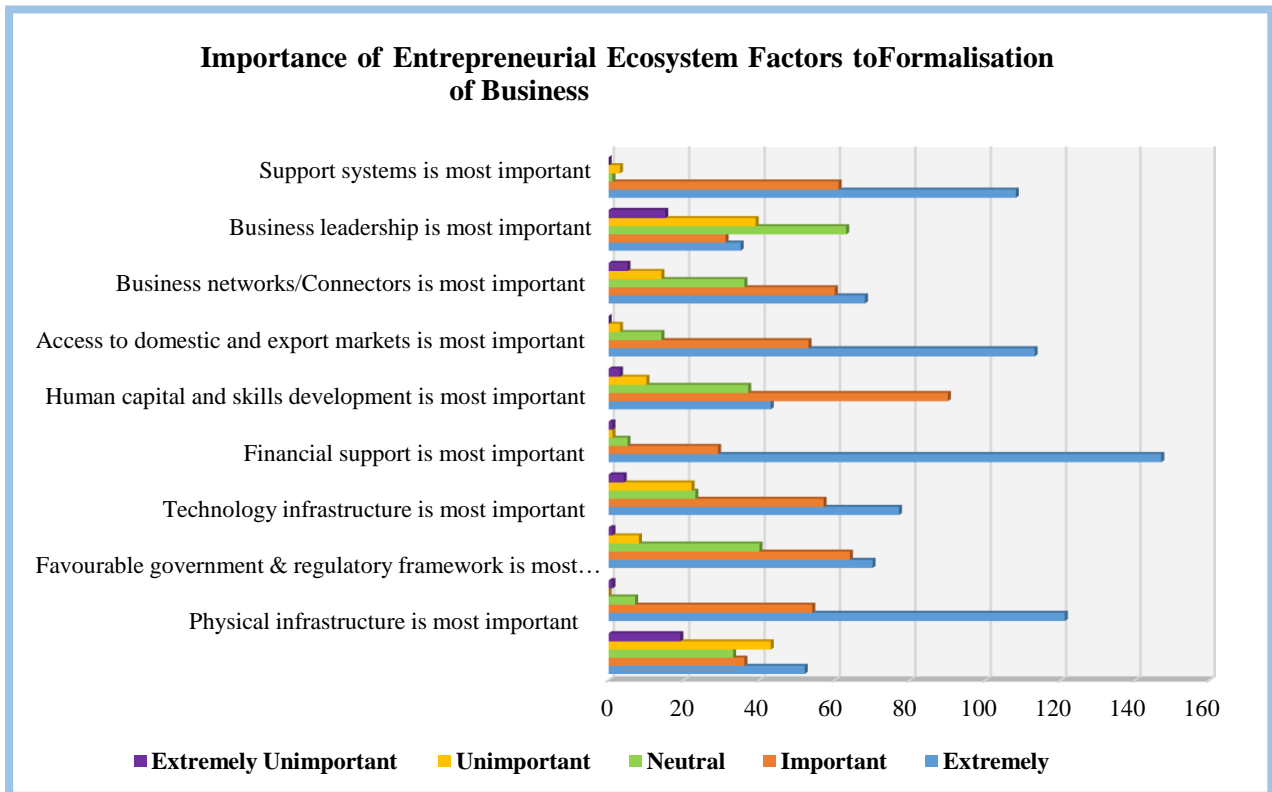
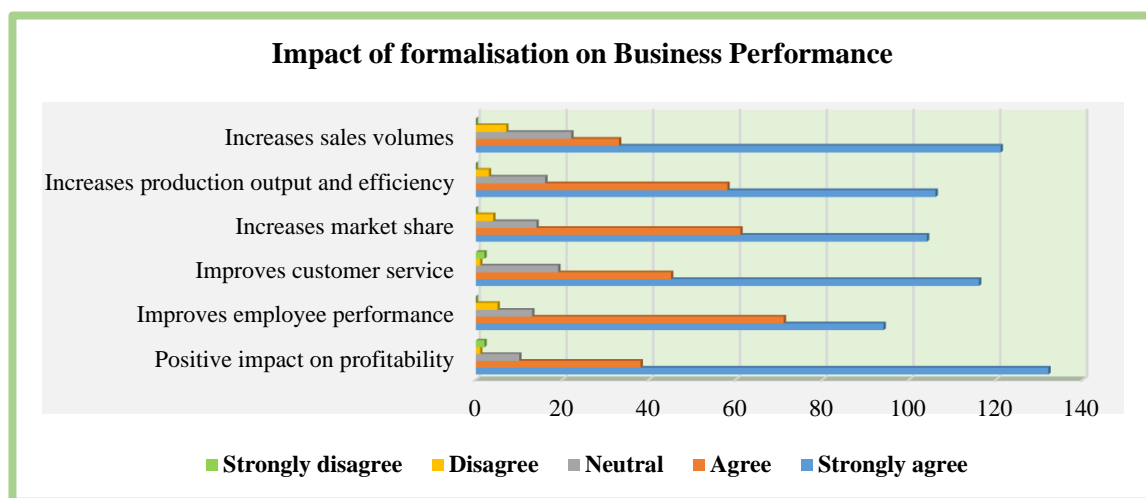


Figure 4.4: Importance of Entrepreneurial Ecosystem Factors Source: Research data (2022)

4.8 Analysis of responses on the impact of formalisation on business performance.

This study also sought to find out from the viewpoint of the informal business enterprises if registering their businesses has any influence on the performance of their businesses. On a 5-point Likert scale, the respondents provided their perspective on seven measures of business performance. The results are presented in the Figure 4.5 below.



Source: Research data

Figure 4.5. Impact of formalisation on business performance

The results on Figure 4.5 above shows that the majority of the participants strongly agree and agree respectively with the positive impact of the measures of business performance after registering their companies. An incredibly low percentage of the respondents either disagree or strongly disagree that their business performance will improve after formalisation of the business.

#### *4.8 Content Analysis of Qualitative Data*

The researcher used content analysis to analyse qualitative data collected through interviews. This was done by using a descriptive manner in contextualising the research findings. Word for word quotes from the directors interviewed were regarded as very important in this study. The interview questions were designed from the current Zimbabwe Micro, Small and Medium Enterprises (MSMEs) policy framework. The following section shows the findings from the interviews conducted at the Ministry.

##### *4.8.1 The simplification of tax laws and administration to ensure compliancy and formalisation by MSMEs.*

The study sought to find out the efforts made by the government through the MSMEs policy in simplifying tax laws and their administration so as to drive formalisation. The interviewees' responses on this enabling regulatory and legal framework are provided below. R1 means respondent number 1 and R2 means Respondent number 2.

**R1:** *“The Ministry of Women Affairs, Community, Small and Medium Enterprises Development (MWCSMEsD) does not administer the Finance Act, but it developed by the Ministry of Finance. The administration part is done by ZIMRA. However, the Ministry of Women Affairs, Community, Small and Medium Enterprises Development is doing the lobbying for simplification of the tax systems.”*

The interviewee stressed the point that the policy framework is a government policy not developed by the Ministry. The Ministry is currently engaging other government authorities like ZIMRA to simplify the taxes and their administration.

**R1:** *“The Ministry of Women Affairs, Community, Small and Medium Enterprises Development does not end in lobbying, but it also conducts education programmes in collaboration with ZIMRA. ZIMRA explains the tax laws and obligations that are expected of MSMEs in paying taxes. The ministry and ZIMRA are there together in spreading the gospel of tax simplification.”*

The interviewee highlighted that some training programmes have been conducted in trying to educate the small businesses on tax issues. However, the majority of the informal business may not be aware of these programmes and there is need for improving publicity in this regard.

**R2:** *“The government has introduced presumptive taxes for MSMEs through the Ministry of Finance. There is no need to keep books of accounts and these allows the MSMEs to pay taxes amount say per quarter depending on the sector of the industry. The amounts are fixed despite revenue generated during that period. The presumptive taxes are however favourable to a few MSMEs who generate high revenue but most of the informal businesses find it difficult to pay the taxes due to low revenue.”*

The government has made positive move towards simplification of the tax system as stated by the interviewee above. However, for most MSMEs, the presumptive taxes have not been received with joy as they do not earn much revenue. The disadvantage is that whether they generate more or little revenue, they are required to pay a fixed tax amount which becomes a burden to them. Furthermore, the MWCSMEsD needs to create awareness to the MSMEs on the presence of presumptive taxes as most of them are not aware. The advantages and disadvantages of such taxes need to be explained clearly.

**R2:** *“The ZIMRA annual reports for 2019 states that compliance is still very low despite the introduction of the presumptive taxes. MSMEs that have filed compliance was about 50% but payment compliant was around 30%. The challenges include ignorance and outright disobedience and low revenue.”*

The low percentage of paying compliant clearly shows that it is because of fearing loss of income. In terms of ignorance, the government through the MWCSMEsD should explain the advantage of complying with tax laws compared to disobeying the laws.

#### 4.8.2 Collaboration between local authorities and MSMEs in reviewing by-laws that affect the operations of MSEs.

The study also sought to discover the extent to which the local authorities have collaborated with the MSMEs in reviewing some of the by-laws that affect business activities of MSEs. Information obtained during the interviews include the following:

**R1:** *“The government through the MWCSMEsD is working with local authorities in trying to bring the MSMEs complying with the by-laws. From time to time, the local authorities are invited to ministry programmes to explain the key by laws and also quite a number of meetings are held with the local authorities to come up with a harmonised model by law that promote uniformity among the local authorities with little variations.”*

Noteworthy is the fact that no specific by-laws that promote the formalisation of informal MSMEs are in the public domain. There is need to invest in publicity and make it clear on the ways in which the small businesses operations are enhanced. The MSMEs need to be aware of the by-laws that have been reviewed in creating harmonised by-laws and the impact made to the registration process of MSMEs.

**R2:** *“The challenge with most local authorities is lack of commitment to implement things that would have been agreed. This can be attributed to polarisation of local authorities in terms of political circles. It is difficult to separate politics and economic development and the polarisation is a setback in achieving the policy goals.”*

From the respondent above, it can be discovered that there are some divergent views between the government policy and the local authorities. There seems to be lack of unity in driving the common cause and issues of politics are not being separated from economic development matters.

#### 4.8.3 Measures that have been taken to enhance the capacity of financial institutions critical to the development of MSMEs.

This study also sought to find out the measures that have been taken to ensure access to finance for MSMEs. The interviewees provided the following responses:

**R2:** *“The government is in a process of capacitating institutions like the Small and Medium Enterprises Development Corporations (SMEDCO), Zimbabwe Women Microfinance Bank and Empower Bank. These are the institutions getting capitalisation from the treasury. Every year these institutions get an allocation from the treasury through the Ministry.”*

From the responses given by the interviewee above, it can be derived that the government is making some efforts to capacitate the government institutions responsible for financing MSMEs. It however seems as if the funds are not adequate enough as the data from quantitative research showed that most informal manufacturing businesses are lacking financial support in their businesses.

**R1:** *“The institutions got ZWL 500 million stimulus package for on lending to MSMEs and some have received the funds although is not enough to fund all small businesses.”*

Regarding the stimulus package, the government has made efforts in trying to fund some SMEs although the money is not given for free. It is for on lending as stated by the interviewee R1 above. The findings from the quantitative data analysis showed that financial support is not currently available in their businesses. The information about the stimulus package for MSMEs is not known by most informal enterprises and it is usually accessed by the registered SMEs. There are some challenges being faced in trying to provide financial support to the informal businesses as highlighted below.

**R1:** *“Biggest challenges are that most SMEs are not bankable, they do not keep records and they have a culture of misuse of funds. In addition, they have a culture of not paying funds. What then happens is that financial institutions then end up asking for collateral security, which the small businesses do not have.”*

The conditions highlighted above makes it hard for the informal businesses to access funding from the government. Government can assist these unregistered businesses by acting as the guarantee of the debt finance they access because they lack the collateral security. The culture of misuse of funds and not paying back money should be addressed by the informal businesses themselves.

**R2:** “Stimulus package for MSMEs provided to institutions like SMEDCO are revolving funds. The MSMEs are supposed to pay back the money in order for the recapitalisation of the institutions. Government used to give them money, but they could not pay back.”

The unregistered MSMEs should have register their businesses in order to access the money. The lack of awareness about the availability of the funds is hindering the access to financial support as they could not register their business in anticipation of accessing the funds.

#### 4.8.4 Assistance to informal MSMEs for accessing local and export markets for their products.

The researcher also sought to find out the kind of assistance given to the MSMEs to ensure that they access local and export markets. The following were the responses obtained during the interview sessions.

**R2:** “The small businesses have been provided with an opportunity to exhibit at Expos like the Zimbabwe International Trade Fair and the Harare Agricultural Show. Around 20 enterprises are given the opportunity to market their products at the mentioned expos. There is also the SMEs Expo usually held in October every year.”

**R1:** “Opportunities are also available for regional and international exhibitions. Examples of these exhibitions include the Lusaka Agricultural Show, the Consumer Fair in Botswana and the Global Expo. However, there is lack of resources to make sure that a good number of the SMEs attend the regional and international Expos.”

The responses above show that from the government perspective, some efforts are being done to try to create market spaces for small businesses. However, it was not made clear on what criteria is being used to choose the participants at the expos. A few informal MSMEs are participating at the different expos.

#### 4.8.5 Attraction of private investors to develop workspace and infrastructure for MSMEs under different arrangements.

The study also sought to obtain information about whether the government and the Ministry have attracted private investment to help expand and build workspace and other infrastructure. The Zimbabwe MSMEs policy framework indicated that this goal would be achieved through different arrangement with the private sector.

**R1:** “The development of workspace for the MSMEs is a very big challenge that requires a lot of investment. There has been little infrastructure development over the past 20 years. However, the government through the MWCSMEsD is engaging the private sector like Old Mutual for the construction of workspace.”

**R2:** “Property owners are being encouraged to plan with the SMEs in mind and some are constructing factory shells industrial clusters like Magaba-Mbare Siyaso industrial area.”

The interviewees indicated that provision of adequate infrastructure is still a difficult task for the government and the Ministry. A kind plea has been made for the private property owners to build with a long-term mindset of accommodating the SMEs who lacks enough workspace and infrastructure.

#### 4.8.6 Appropriate training programmes developed for MSMEs in collaboration with institutions of higher learning, technical colleges and vocational training.

The researcher also sought to get information from the MWCSMEs development about any customised training programmes designed in partnership with the institutions of higher education and the impact made so far in that regard. Below are the responses from the interviewees:

**R2:** “The Ministry is conducting some training programmes in collaboration with the private sector and public institutions. For examples Chinhoyi University of Technology (CUT) has collaborated with the Ministry to train SMEs. However, the challenge is lack finance to fund the trainings.”

**R1:** “There is lack of regular evaluation and documentation on the trainings conducted for the MSMEs. In addition to that, there is lack of finance to spearhead the training programmes and this has resulted in less impact noticed on the ground as we speak.”

Training programmes are said to be conducted in collaboration with some private sector and public sector organisations. However, there is lack of specifics on the key trainings conducted so far except that Chinhoyi University of Technology has been training some SMEs in Mashonaland West Province. One other challenge identified is the lack of documentation and evaluation of the impact made by the training initiatives.

#### *4.8.7 Policy initiatives being undertaken to support and strengthen the capacity of MSMEs to carry out Research and Development (R&D)*

The study also sought to find out information about some initiatives that the Ministry is undertaking or has undertaken to support MSMEs research and development.

**R2:** *“The Ministry is promoting R&D through awareness programmes and through collaboration with the Research Council of Zimbabwe. However, economic challenges act as barriers to witnessing meaningful R&D results.”*

**R1:** *“There is a general perception that the MSMEs do not take R&D seriously as they have other pressing challenges and one other thing is that there is lack of documentation on the R&D efforts.”*

The responses obtained above point to the fact that economic challenges are inhibiting the R&D support initiatives. The small enterprises themselves are said to be not taking their research and development efforts seriously.

#### *4.8.8 Appropriate technological facilities such as technology parks, innovation hubs and technology service centres established in selected provinces.*

The study also sought to find out on the suitable technology facilities, if any, established in selected provinces for access by the MSMEs. The interviewees of this qualitative research revealed the following information.

**R1:** *“Through the development of clusters, the Ministry is trying to ensure the access of ICTs facilities. However, the access to ICTs pillar has been affected by the reconfiguration of the Ministry where the technical services is now under the Ministry of Higher and Tertiary Education, Science and Technology Development.”*

**R2:** *“The Ministry is also taking some SMEs to exhibitions and business match making programmes.”*

The data obtained above identified the development of industrial clusters as one way in which the Ministry is trying to promote access to production technologies. The reconfiguration of the technical services from the MWCSMEsD to the Ministry of Higher and Tertiary Education, Science and Technology Development has been considered as one thing that has affected the drive to achieve goals for this policy strategic pillar.

## **5. Discussions**

The study has shown that the informal manufacturing MSEs in Zimbabwe are facing many challenges as a results of being informal. These enterprises also encounter a lot of barriers in a bid to register their business and these include difficult and costly registration process, unclear support programmes and incentives, high taxation after registration and unfavourable regulatory framework among other.

In terms of the availability of entrepreneurial ecosystem factors, the results have shown that most of the factors are unavailable except for entrepreneurial culture.

The ranking of the entrepreneurial ecosystem factors for the registration of the business has shown that the top key factors are: access to financial support, access to physical infrastructure, access to support systems, access to domestic and export markets and access to favourable legal and regulatory framework. Government need to ensure the availability of the most important factors in order to witness transitioning to formality.

Mahembe (2011) carried out a study on the barriers to formalisation by small enterprises and found that there are very few businesses in the informal economy that are aware of the registration process and government support programmes. Lack of information has been attributed to the vast number of informal enterprises that still remain in the informal sector.

In another study by Ntema & Marais (2012) high informalisation in most African countries was argued to be as a result of inadequate business skills and lack of education. The lack of unclear support programmes by the government has also been identified as the key barrier to business registration (Ibid).

A study by Chavis *et al.*, (2010) that used the World Bank Enterprise Survey (2006 -2009) for 123 nations revealed that around 31% of the small firms they studied considered access to finance as a key constraint. The results are in line with the findings by Mupambireyi *et al.*, (2014) that found that the entrepreneurs in the informal sector operates in dilapidated infrastructure. They lack roof quality and adequate workspaces. Lack of education and training was cited in a study carried in South Africa by Ngek & van Aardt Smit (2013) as one of the main reason for SME failures.

A study by Stam (2015) used the factor analysis which showed that the framework conditions have a major impact on the success of an EE compared to the systematic conditions.

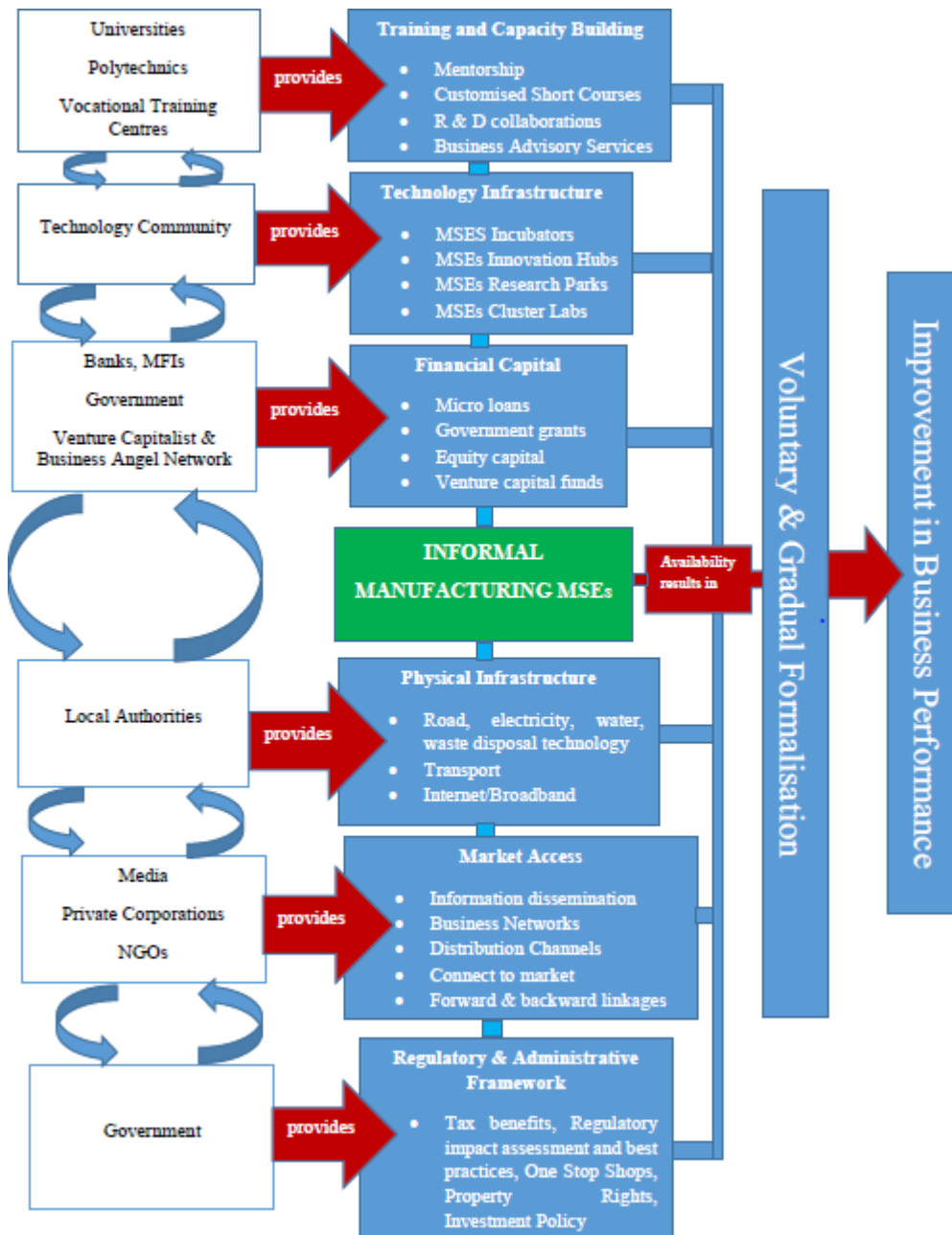
The researcher has proposed a home grown entrepreneurial ecosystem framework for spearheading the formalisation process.

The framework is very appropriate in providing an enabling entrepreneurial ecosystem that will result in the voluntary and gradual formalisation of informal manufacturing MSEs. It looks at the key factors or pillars of an entrepreneurial ecosystem and links each to actor(s). It was developed considering the rankings on the important entrepreneurial ecosystem factors for the registration of businesses.

#### *5.1 Uniqueness of the Proposed EE Framework from other existing EE frameworks*

The existing frameworks are just universal and they do not speak to a particular entrepreneurial. There is need to develop different sets of EE frameworks for entrepreneurs operating in diverse industries. The existing frameworks also did not show clear roles and interactions among the actors. Developing home grown or localised entrepreneurial ecosystems that addresses the drawbacks of existing universal model helps to advance literature.

The world cannot adopt have an EE framework that has been developed for other context (Isenberg, 2011). Formalisation is affected by various factors for in different African countries hence the need for customised frameworks. It has actors like technology community and local authorities that are not found in other frameworks. An improved environment for the voluntary and gradual formalisation of manufacturing MSEs is created.



**Figure 5.1.** Proposed EE Framework **Source:** Researcher’s Own Compilation (2022).

The framework consist of actors and factor that interact together in driving formalisation. The informal enterprise is at the centre of the framework as indicated by the EE literature. New actors not common in previous EE frameworks are the technology community and local authorities. The framework is tailor-made to suit the Zimbabwean context as it is not a universal framework.

The presence of the EE factors as provided by the different actors will result in formalisation. Informal manufacturing MSEs can witness improvement in business performance after formalisation. Below is a table that shows each actor’s roles and justification for the roles.



**Table 5. 1.** Actors’ roles and justification

<b>Actor</b>	<b>Role(s)</b>	<b>Justification (s) for the actor(s) and their roles in the proposed framework</b>
<b>Universities, Polytechnics and Vocational Training Centres</b>	Provision of training and capacity building to informal manufacturing MSEs. The tertiary institutions provide: <ul style="list-style-type: none"> <li>• Tailor-made short courses</li> <li>• Mentorship</li> <li>• Research and development collaborations</li> <li>• Business advisory services and</li> <li>• Micro and Small Enterprises Conferences</li> <li>• Business advisory services</li> </ul>	The informal manufacturing MSEs are lacking key skills in their businesses. The skills include business management, marketing, accounting, finance, change management and business planning. It is the role of institutions of higher learning to provide training to the informal businesses so that they improve business performance. Access to these key services will drive voluntary and gradual formalisation.
<b>Technology Community</b>	Responsible for providing access to technology infrastructure for MSEs. Some of the proposed infrastructure include: <ul style="list-style-type: none"> <li>• MSEs incubators</li> <li>• MSEs innovation hubs</li> <li>• MSEs research parks and technology packs</li> <li>• MSEs cluster labs</li> </ul>	The concept of technology community has not been well embraced in academic research circles and in entrepreneurial ecosystem literature. The government of Zimbabwe and the private institutions have not constructed technology infrastructure in the form of MSEs incubators, innovation hubs, research parks, technology parks, cluster labs and techno centres accessible particularly by informal manufacturing MSEs. Evidence from the primary data collected during the quantitative research revealed that the informal manufacturing sector faces challenges in accessing technology infrastructure.
<b>Banks Microfinance Institutions Government Business Angel Network Venture Capitalist Network</b>	These are responsible for providing financial capital/support to the informal manufacturing MSEs in Harare. The capital is the form of equity and debt. It includes: <ul style="list-style-type: none"> <li>• Micro loans</li> <li>• Government grants</li> <li>• Equity capital</li> <li>• Venture capital</li> <li>• Crowd funding</li> <li>• Seed capital</li> </ul>	Despite the government effort to provide access to finance, the huge informal sector still has problems in accessing financial capital. The outcomes from the quantitative survey revealed that the majority regards financial support as not available and it was ranked first in driving business registration if made available.
<b>Local Authorities</b>	In the proposed EE framework, local authorities have a role to play in helping formalisation by the informal manufacturers. They are responsible for providing infrastructure in the form of: <ul style="list-style-type: none"> <li>• Quality roads</li> <li>• Water</li> <li>• Electricity</li> <li>• Waste disposal technology</li> <li>• Transport facilities</li> <li>• Internet access at clusters</li> </ul>	The role played by local authorities in the development of an enabling entrepreneurial ecosystem for the formalisation of informal manufacturing MSEs cannot be undermined. The findings from the research revealed that quality infrastructure is currently not available.

<b>Actor</b>	<b>Role(s)</b>	<b>Justification (s) for the actor(s) and their roles in the proposed framework</b>
<b>Media</b>  <b>Private corporation</b>  <b>Non-Government Organisations (NGOs)</b>	These organisations are responsible for: <ul style="list-style-type: none"> <li>• Disseminating information about the business activities of informal manufacturers</li> <li>• Providing business networks</li> <li>• Act as distribution channels</li> <li>• Connecting informal enterprises to the market</li> <li>• Providing forward and backward value chain linkages</li> </ul>	This study included the media in the proposed strategy as they play a key role in information dissemination. Private corporations have established business networks that informal business can benefit from. NGOs can link the informal businesses to local and export markets.
<b>Government</b>	The government is responsible for providing a favourable regulatory and administrative framework through: <ul style="list-style-type: none"> <li>• Offering tax benefits for formalisation</li> <li>• Regulatory impact assessment</li> <li>• Regulatory best practices</li> <li>• One Stop Shops</li> <li>• Property rights</li> <li>• Investment Policy Framework</li> </ul>	The findings from the quantitative research found that there is a lack of a favourable regulatory and administrative framework for the informal sector. A favourable regulatory and legal framework was ranked fifth in terms of driving business registration if made available. Government plays the role of developing the regulations.

The successful implementation of the EE framework on Figure 5.1 is expected to result in the formalisation and improvement in performance of the informal manufacturing MSEs in Harare.

**5. Recommendations and conclusion**

The government should embark on creating awareness on the advantages of operating a formally registered business compared to an unregistered business. Furthermore, some incentives should be provided to the informal enterprises that voluntarily transition to formality. The incentives should include tax holiday, availing of credit facilities at favourable rates, among others. Attention should be put on removing disincentives but rather make sure that incentive through access to different services is guaranteed. The Zimbabwean government should reduce administrative barriers during the registration process. The government should introduce One Stop Shops (OSSs) for informal business where they access key government services. This will have a significant contribution in driving voluntary and gradual formalisation if services are easily accessible and process made easier. Registration fees for informal MSEs should also be minimised.

Tax laws should be simplified in order to ensure a business-friendly environment for the registered businesses. Retrospective taxes should be avoided for voluntarily formalised MSEs. The government and local authorities should minimise excessive licensing and statutory requirements for the informal businesses. During policy formulation on formalisation, the government should engage all key stakeholders including the informal MSEs themselves for their input. Moreover, ‘one-size-fit-all’ kind of policies should be avoided. Entrepreneurs in each sector of the economy have their special needs that should be distinguished from the needs of operators in other sectors. Therefore, monolithic policy framework is not likely to serve the needs of diverse groups of entrepreneurs. Policy measures should be tailor made to suit different groups of informal entrepreneurs. Hence, appropriate policies should be designed for different types of operators rather than adopting a ‘one-size-fits-all’ approach. A monolithic policy cannot be adequate in addressing of different informal sectors and entrepreneurs.

Local Authority Service Centres (LASCs) should be established so that the informal MSEs will access key services offered by the city councils. The councils have a big role in the business activities by the unregistered enterprises as they enact important by-laws. The role played by local authorities in

the formalisation process cannot be undermined. Finally, Business Forums and Industry Association Programmes for MSEs should be developed so that there is regular contact and interaction between the informal MSEs and policy makers and other stakeholders. Through these platforms, ideas and obstacles to formalisation are shared in order to develop lasting solutions to challenges.

The conclusion that can be made is that the Zimbabwe informal manufacturing MSEs can take a long time to join the mainstream economy if no immediate solutions are provided through government policy. Policies should target reducing the challenges faced by being informal and also eliminate the barriers to business registration. Most of the identified challenges and barriers can be attributed to a lack of support structures within the ecosystem.

The government of Zimbabwe need to open OSSs for informal MSEs where they can access key services and this has a potential of speeding up the registration process. The legal and regulatory frameworks should favour the informal MSEs. To sum it up, formalisation has a positive impact to business success and the barriers and challenges negatively affect the performance of the businesses in the informal sector.

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