

## IMPACT OF COVID-19 ON SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN CHINHOYI, ZIMBABWE

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### ABSTRACT

*Although COVID-19 is a risk for all indigenous peoples globally, in this paper, the overall purpose is to assess the impact of the virus on Small and Medium Enterprises (SMEs) in the town of Chinhoyi, Zimbabwe. The first objective is to identify the economic disruptions resulting from COVID-19 on SMEs in Chinhoyi; and secondly, to establish the period that businesses expected the crisis to last, and how the expectations affected their decisions. Drawing from three sectors, the researchers conducted a survey of twenty (20) SME owners or managers through a structured questionnaire. Our paper provides insight into the economic impact of COVID-19, on SMEs in Chinhoyi. The study contributes to the understanding of the economic impact of COVID-19 on the small business ecosystem. It follows a qualitative descriptive analysis research design. Major findings are that; - for SMEs, the effects of the pandemic are more severe, as most of the SMEs cannot afford to cover the cost of doing business under environments, where clients are in quarantine. The majority cannot bear the requirements set by authorities, for example, provision of protection equipment and bills to have employees tested for the virus to start operations. The researchers concur with other scholars that, in the COVID-19 environment, e-commerce may undoubtedly bring much needed convenience for both consumers and suppliers. It may also be important for SMEs to alter their products to those that are in consumer demand. The study recommends the Zimbabwean government to consider being proactive in the mitigation of the adverse impact on the informal sector by way of strengthening safety nets (stimulus packages), subsidizing cash transfers, to cushion the informal economy so that jobs are preserved, and enterprises remain sustainable and workers and their families protected.*

**Keywords:** market liquidity, uncertainty, national lockdown, “new normal”, digital technologies.

### INTRODUCTION AND BACKGROUND

This paper is a rapid assessment exploring the impact of COVID-19 on Small and Medium-sized Enterprises (SMEs) in the town of Chinhoyi, Zimbabwe. The study focuses on SMEs in Zimbabwe mainly due to the realization that Small and Medium Enterprises play a pivotal role for economic development of the country. They are an indispensable drive in Zimbabwean economy, since they steer growth and create employment. Tembo, (2020) reveals that SMEs’ growth in Africa are constrained by lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, and insufficient profits. Of concern, these enterprises are, today exposed to the negative impact of COVID-19. Therefore, supporting their survival in these turbulent times is crucial for mitigating the economic inherent impact, but also to create the conditions needed for future growth, once the pandemic is over.

An SME is defined as a registered business employing less than seventy-five (75) employees for the manufacturing sector and employing fifty (50) or fewer employees in all other sectors (Kushner, 2010). However, defining small-and medium-sized entities the Zimbabwean perspective, Chipangura and Kaseke, (2012), state that the Small Enterprise Development Cooperation (SEDCO, 2011), no longer utilizes the capital and turnover approach to define SMEs. As such, small businesses have an employment capacity of 1–20 hired employees while medium enterprises have an employment capacity of between 20 and 25 hired employees as referred to by the Confederation of Zimbabwe Industries (CZI), cited in (Chipangura and Kaseke, 2012). For purposes of this study, the authors use the latter definition for the term SME.

In his opening remarks at a media briefing on COVID-19, the WHO Director-General stated that, “...although people of all walks of life are affected by COVID-19, the world’s poorest and most vulnerable people are especially, at risk. This is true of SMEs all over the world, in urban or remote areas (Ghebreyesus, 2020). The WHO Director-General’s last statement above, prompts the researchers to carry out the survey on the impact of the disease in Chinhoyi in particular. Chinhoyi, as a small town in Zimbabwe, has its unique culture and language, and relationship with its environment. Though not the epicenter of the pandemic in the country, there are certain discernable impacts of COVID-19 in Chinhoyi that merit highlighting at the time of writing this paper.

The COVID-19 pandemic, has transformed from being a health emergency into an economic and labour market shock, affecting not only supply (production and distribution of goods and services), but also demand (consumption and investment). The most common response measures, however, have been the implementation of complete or partial lockdowns and movement restrictions, and the enforcement of basic hygiene practices such as hand sanitizing and social distancing. These alleviatory measures have subsequently spilled over to economic hardships and have had a direct negative impact on SMEs.

Now that Small and Medium-sized entities constitute a vast section of the private sector in the majority of developed and developing countries (Beck and Demircuc-Kunt, 2006), it is crucial to put them on the limelight in these troubled times. Realizing that, in addition to its impact on public health, coronavirus disease 2019, (COVID-19) has caused a major economic shock to SMEs in towns and cities across the globe, our exploration of the impact of COVID-19 on the small business landscape in Chinhoyi focuses on three objectives based on the structure of Zimbabwean economy, its geography and socio-political factors. First, to identify of economic disruptions resulting from COVID-19 on SMEs in Chinhoyi. Second, to establish the period that businesses

expect the crisis to last and how the expectations affect their decisions. Third, to proffer some policy proposals and recommendations that affect business and employment resilience.

## 2.1 LITERATURE REVIEW

This section reviews literature on the constructs of the study and captures the following areas; - literature on economic disruptions resulting from COVID-19 on SMEs, the period of time that businesses expect the crisis to last, and how the expectations affect their decisions. The review further looks for justification why it focuses on SMEs in Chinhoyi, Zimbabwe and finally policy proposal.

### 2.1.1 ECONOMIC DISRUPTIONS RESULTING FROM COVID-19 ON SMEs.

The world of work, at the time of writing this paper, profoundly affected by the unprecedented pandemic. The crisis has resulted in a sudden heavy impact on economic and labor market, affecting all businesses regardless of their sizes. The public health response measures to contain the pandemic have shown that, while necessary, they have also led to a disruption of SMEs' economic activities, resulting in increased poverty and vulnerability (Craven et al, 2020).

As the reality of the COVID-19 pandemic unfolds, and movement restrictions imposed, businesses around the world suffer, as they thrive on large volumes of human traffic. These businesses include the food sector, hotel industry, transport sector, construction, retail, beauty and entertainment to name just a few. Boot et al., (2020), observe that most of the SMEs cannot afford to cover the cost of doing business under the current environment. Workers lose employment and firms are not able to pay salaries, as earlier noted, compound the problem. There is also shortage of working capital, explained in terms of consumer behavior during this extra-ordinary epoch of the novel virus. Consumers tend to be extra careful with money, as they buy the most necessary goods to survive possibly extended quarantine periods (Bell et al, 2020).

### EXPECTED TIMEFRAME FOR THE CRISIS TO LAST

World Health Organization (WHO) and partners uphold one position. They give hope to nations, citing the case of Ebola in the city of Butembo in 2019, when experts wondered whether it would be possible to bring the outbreak under control. However, against all odds, the outbreak wound up. Ebola and COVID-19 are different viruses, but the principle according to WHO and partners is the same: No matter how bad the situation, there is always hope.

A prevalent suggestion mooted in line with modern thinking and the advent of technology is migrating to e-commerce (Sneader, and Singhal, 2020). E-commerce might be the answer for SMEs, considering that consumers can digitally access products and are able to get these products delivered to their doorstep. The United Nations Secretary General Guterres, (2020), suggests that: "...everything we do during and after this crisis must be with a strong focus on building more equal, inclusive economies and societies that are more resilient in the face of pandemics, climate change and the many other global challenges we face,"

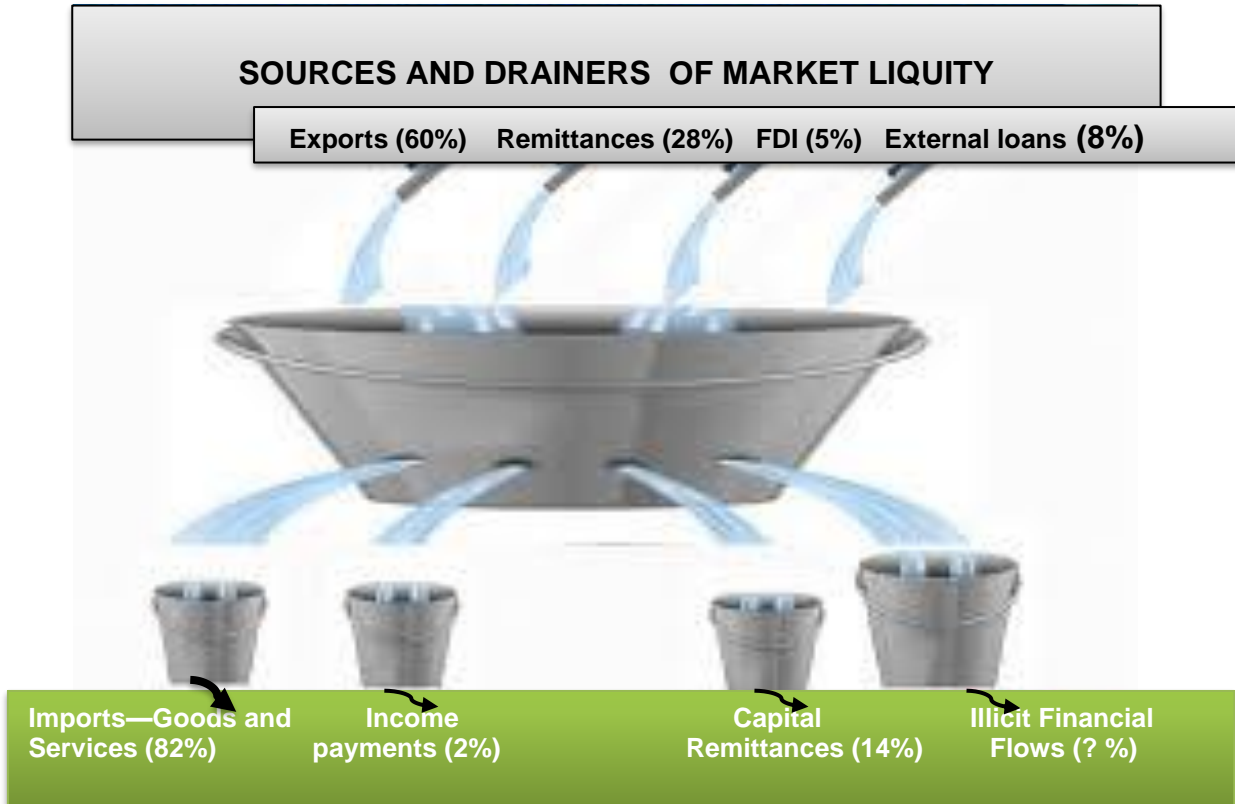
Holding a similar perception that nations can hardly predict as to when the crisis would last, the researchers consider e-commerce as crucial as it suggests implementation of intervention mechanisms. It is more critical than ever for SMEs to develop long-term strategies that could change the way they are doing business.

### SMEs IN CHINHOYI, ZIMBABWEAN PERSPECTIVE

As mentioned earlier on, small and medium-sized entities constitute a vast section of the private sector in Chinhoyi and as such, contributes substantially towards job creation in the town. A disturbance on these enterprises means a disturbance on the livelihoods of the majority in the town. Like elsewhere in the country, there are strict containment measures, which include confinement and lockdowns, travel restrictions and bans, prohibition of large gatherings, and temporary shutdowns of schools and economic activities. While taken to protect public health in a time of crisis, these measures directly and indirectly affect economic prospects in the town.

In its paper, "*Response to the impact of COVID-19 (coronavirus) pandemic on workers and the Zimbabwean economy*", The Zimbabwe Congress of Trade Unions (ZCTU) presents that:

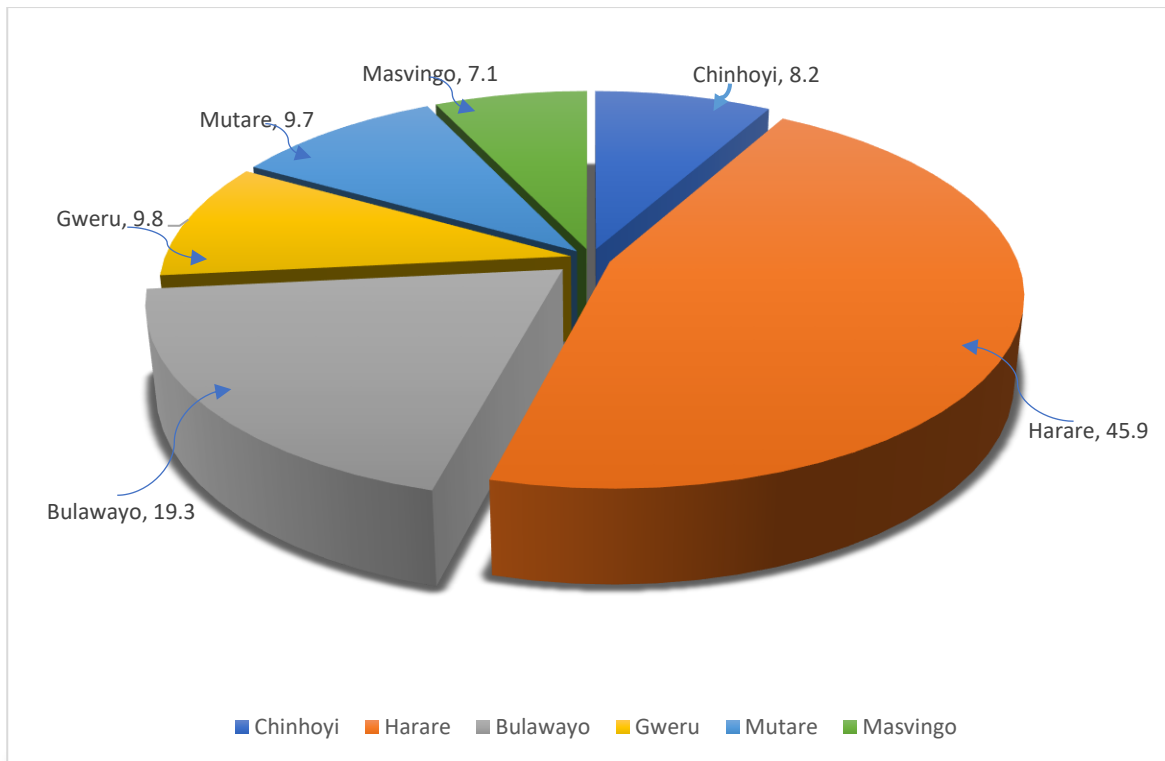
The economic impact of COVID-19 on SMES manifests through mechanisms such as trade disruptions, travel bans and closure of borders, low remittances, disruptions in agriculture, manufacturing and other sectors, and the re-channeling of resources initially meant for humanitarian assistance towards provision of COVID-19 stimulus packages. These disruptions have the potential to cause fiscal constraints on the Zimbabwean economy. As indicated in Figure 1, the sources of Government's liquidity that include exports (60%), remittances (28%), Foreign Direct Investment (FDI) (5%) and loans (8%) is negatively affected by the pandemic, with pressures from COVID-19 related global recession worsening the situation (ZCTU, 2020).



**Figure 1: Sources and drainers of market liquidity.**

The following according to Figure 1 are possible outcomes; - that there would be exports disruption due to depressed global demand caused by COVID-19. Agriculture exports are hard hit. The outbreak and spread of COVID-19 coincide with the country's 2020 tobacco marketing and trading season. Remittances slow down, undermining fiscal space and worsening vulnerabilities of remittance-dependent households. Channeling of global resources towards fighting COVID-19 and its impact leaves little or no resources for humanitarian assistance for the country. There is delayed Foreign Direct Investment (FDI) because of the global demand shock. External loans now go towards provision of COVID-19 stimulus packages.

Chinhoyi plays its significant part in the economic growth of the nation. As shown in Figure 2 below, Chinhoyi and other towns and cities range from 8-10 percent following Bulawayo the second largest city with 19 percent and Harare the capital city of Zimbabwe with 46 percent.



**Figure 2:** Percentage distribution of SMEs in six towns and cities in Zimbabwe 2019/20.

Even though related literature is scarce in Chinhoyi, and for Chinhoyi, the little that is there suggests that SMEs are particularly vulnerable to the devastating effects of COVID-19. In an attempt to understand the potential impact of the pandemic in Chinhoyi, it is instructive to note that, although it is primarily a health crisis, it nonetheless has far-reaching public governance, socio-political and economic ramifications.

The major blow for SMEs in Chinhoyi is that they are neither able to work remotely nor possess savings to cater for an economic downturn. At the time of this writing, the formal markets are no- operational as per regulations, except those that sell foodstuffs. Meanwhile, the authorities with the assistance of military force destroy some “illegal” structures of the informal traders as a measure of containing COVID-19. This takes place without first considering the consequences thereafter. The structures that were put up by Chinhoyi Municipality around the Chinhoyi stadium have been in operation and even during the cleanup exercise “*Murambatswina*” in the year 2005 the structures remained in operation. This impact in particular, is in the form of productivity losses and losses in human resources, which undermine the continuity of SMEs.

What has also been observed and documented in Chinhoyi as the main effect of COVID-19 on productivity within Small and Medium businesses could be measured in terms of hours worked and number of clients attended to during these troubled times. The probability of resuming business by many informal traders in Chinhoyi is thus, very slim. The researchers feel that it may be a mammoth task for informal traders to rebuild connections with their former networks due to the disruptions in the supply chain. These disruptions to production in Chinhoyi have spread to supply chains across the town with all businesses, regardless of sector experiencing significant declines in revenue, insolvencies and job losses. Some SMEs have no option except staying home, since movements are restricted. Most informal traders are struggling to pay rentals, electricity, and water bills. A few SMEs in the low-density areas of Chinhoyi are resorting to illicit deals in their backyards where they operate in the evenings trying to make ends meet. Most households in the high-density suburbs also sell second hand clothing from neighboring countries. The generality cannot afford prices of clothes from big shops in town.

#### **-POLICY PROPOSALS**

During these turbulent times, it is crucial that jobs are preserved, enterprises remain sustainable, workers and families affected protected, in particular the most vulnerable (Shimbun, 2020). Considering the above statement undisputable, the researchers go along with the position mooted by the International Trade Centre (ITC), (2020) in their similar research on “*SME Competitiveness Outlook*” that e-commerce could be a lasting solution and a successful one that SMEs and startups in all sectors can adopt for their businesses to stay afloat. The potential of e-commerce to open international markets for SMEs means local small businesses must urgently consider setting-up platforms so that they remain relevant in the changing and current disruptions in global economy growth. This, according to Schivardi and Romano, (2020), is because, as consumer digital consumption goes up, companies that turn to e-commerce platforms have an endless supply of customers available to purchase their products online.

The researchers, therefore, critically consider the fundamental changes that have occurred in organizations with the application of computer technology. Now that, at the writing of this paper, the National Trade Development and Promotion Organization

(ZimTrade) is working on an online platform expected to house all exporting businesses in the country, including SMEs, those in Chinhoyi could take advantage of the initiative. The platform is tailor-made to make it easy for SMEs onboard to exhibit their offerings to potential buyers in international markets. Borrowing from Aw Roberts and Winston, (2007), investing in technology is critical as it enables the SME to reduce lead-time resulting in high productivity.

### **3.1 METHODOLOGY**

The study used a qualitative research technique with a descriptive analysis because the underlying relationships of the research variables such as; the products or services on demand, whether business is currently operational, or temporarily closed, or permanently closed, access to finance, firm performance, export behavior, and etcetera surrounding the problem were known (Cant et al, 2003). Qualitative methods can be very fruitful in situations where the goal is to explore the state of the practice or the human aspects of the education. According to Koro-Ljungberg and Douglas, (2006) well-designed qualitative studies can answer research question that quantitative methods cannot not answer. If the goal is to get in depth descriptive accounts about a phenomenon, such as in this current paper, the right choice is to use qualitative methods. Qualitative studies facilitate in depth and detailed study of phenomena. Detailed understanding or exploration of a phenomenon or a problem is achievable only if the research occurs in the context where they exist. This is even more important if the research goal is to investigate human behavior in the real context or setting or to get their opinions about studied problem. Understanding the context or the settings in which problems or issues occur is appropriate case for qualitative research techniques. According to Morse, (1999) qualitative methods not only provide us with the means to explore complex and chaotic real-life situations, but also provide us with multiple options about how to tackle settings according to one's identified research problem.

#### **3.1.1 RESEARCH METHOD**

To understand the impact of COVID-19 on SMEs, the researchers conducted a survey with twenty (20) enterprise owners or managers in three sectors of the retail, manufacturing and transport in Chinhoyi, Zimbabwe during the period of July-August 2020. The researchers administered a structured questionnaire to gather primary data from owners or managers of the chosen sectors, as shown in appendix 1b.

#### **3.1.2 IDENTIFICATION OF THE POPULATION**

The sample size used in the study was twenty (20) SMEs selected from retail, manufacturing and transport. The sample was drawn from the sampling frame of one hundred thousand (100 000) registered SMEs in Chinhoyi. Researchers used a purposive sampling technique to identify the respondents. The choice of this technique was mainly due to the dispersion of the sampling units. The splits according to three sectors chosen were as follows: -

- Retail [50%],
- Manufacturing [25%] and
- Transport and communication [15%].

#### **3.1.3 RESEARCH INSTRUMENTS**

The major research instrument used for data collection was a questionnaire segmented in three section focusing on demographic information and business profile information, business risk indicators and open-ended questions respectively. The questionnaires targeted the owners or managers of SMEs, and where these were not available, supervisors or second in command participated.

#### **3.1.4 DATA ANALYSIS**

From the local government (Chinhoyi Municipality's database), there are currently around one hundred thousand (100 000) registered SMEs in the town. These are in different trades ranging from manufacturing, transport, clothing, chicken production, and mining to retail. A snapshot of the micro-enterprises suffices here for a broader understanding of economic activities in the town. Majority of households have resorted to buying and selling varieties of commodities including vegetables, tomatoes, and even sweets to survive. This group includes even those gainfully employed.

Our data analysis from the sample of twenty owners or managers in the categories retail, manufacturing and transport produced striking convergent views. Firstly, on demographic and SME profile information, owners or managers who participated in this survey provided information on their age and educational background. In addition, the name of the firm, age and number of employees. The respondents were predominantly males (90%), with 10% females. With regard to age, 30% of the SME owners or managers were 30 years and below, 64% were between the ages of 31 and 60, while 6% were older than 60 years. A majority of the participant SME owner or managers (60%) had secondary education qualifications, followed by diploma and certificate holders (30%). Of these SME owners or managers, 6% had degrees and postgraduate qualifications while 4% had primary education. The majority of the SMEs have been in operation between 10-20years and employed between 2-25 workers. Secondly, respondents were asked questions on business risk indicators, whose common response to the six questions in this section pointed to the first descriptor on the grid as shown in appendix 1b as (severely reduced). This produced a 100% agreement among respondents that issues such as level of business activity, accessibility to stocks, operating expenses, and productivity rate had severely reduced. Thirdly, the last section of the questionnaire sought to find out about products or services on demand most during this period, possible explanation for the trend, whether currently operational, temporarily closed, or permanently closed. If closed – reason(s)

for closure, number of full-time and part-time employees, access to loans, whether they export and or intend to export their goods. The researchers hardly got positive outlook on almost all the questions. Owners and managers revealed that they had no means to diversify save stinking to products they already had in stock. About 90% are currently operational while 10% are temporarily closed. Those that are temporarily closed cited reductions in demand and employee health concerns as the reasons. A majority (85%) of owners and managers indicated that there have not been any meaningful policies, tax relief, or financial bailout put in place by both the local and national governments. Most of the respondents indicated that the three SME loan providers in Chinhoyi which are the Small and Medium Enterprises Development Corporation (SMEDCO), Women's Bank and Empowerment Bank (youth Bank) have tough conditions. These three require collateral security, business plans, and high bookkeeping skills and so on. Others revealed that these banks also express the possibility of "moral hazard", that is to say, SME owners or managers may divert the money to other undisclosed projects. Of course, some respondents admitted that poor financial control measures common among SMEs fuel this challenge. Majority of SMEs also indicated that they are not exporting and do not intent to export their goods. Financial constraints increased competition in international markets and high transportation costs were the most cited reasons for not exporting. Generally, the restrictions, therefore, have a "knockdown" effect on SMEs.

#### 4.1 INFORMED CONSENT

The selected owners or managers completed the informed consent draft as shown under appendix 1(a).

#### 4.2 FINDINGS AND DISCUSSIONS

The COVID-19 pandemic **has** heavily affected Small and Medium Enterprises in Chinhoyi due to the closures and reduced working hours recommended and imposed by the Government to curb the spread of the virus. The study finds out that sustaining business operations will be particularly difficult for Small and Medium Enterprises in Chinhoyi, given that some of the once popular enterprises such as the "*Chidarikire Dollars Booster*" have since closed down and laid off its total employees.

For most Small and Medium-sized Enterprises (SMEs), the effects of the pandemic are equally severe, as most of them cannot afford to cover the cost of doing business under the current environment. Notably, a relatively high percentage of SMEs in the services sector in particular reported a decline in access to credit and financial liquidity compared to large businesses. This trend as revealed by respondents may be because lending institutions already consider them highly risky, as those businesses are more likely to become insolvent if COVID-19 persists with restrictions maintained.

Without urgent collective responses to address the economic impacts of the COVID-19 pandemic, the study envisages a situation of suffering, which may escalate, endangering lives and livelihoods in Chinhoyi, even for years to come. In order to remain operational against all odds, therefore, the government may consider liquidity interventions to support firms in addressing immediate liquidity challenges, reduce layoffs, and avoid firm closures and bankruptcies. As a way to free up more cash for businesses, the government may consider the following: (a) tax rate reduction, (b) reducing taxable income, (c) offering tax credits, and (d) offering tax refunds. Commercial banks should consider proactively providing emergency loans to SMEs with flexibility in repayments. The government could recapitalize commercial banks and micro-financial institutions by extending cash loans or by loosening the liquidity reserve requirements to provide financial institutions with the extra liquidity required to provide flexible emergency loans.

From the proprietors' angle, SMEs in Chinhoyi might need to alter their products to those that are in consumer demand. Since it proves that during this time of crisis, consumers strictly buy commodities that matter most. In altering products, there are also supply gaps that emerge because of COVID-19. While the future is uncertain, the present, however, creates opportunities for those enterprises that have sensibly, identified supply gaps created because of COVID-19 to remain relevant. For instance, there has been a sharp increase in demand of re-usable facemasks, hygiene products such as soaps, sanitizers, towels and other hygiene-related paraphernalia. These products may as well be in great demand way long after the Covid-19 pandemic is gone, and SMEs should quickly identify them and push their sales.

Outside this initiative and most important finding in this study, is for SMEs to come up with complementary e-commerce services that will make it easy for potential buyers to make orders and make payments. Electronic commerce is at the heart of current strategic objectives in business sectors around the world. Doing business without persons necessarily getting in contact has led to dissuasions on the need to harness e-commerce.

#### 5.1 CONCLUSION.

This article observes and concludes that, SMEs contribute substantially as a sine qua non for the nation's economic growth, job creation and poverty reduction. During this difficult time, it is important that jobs are preserved, enterprises remain sustainable, workers and their families affected protected, in particular the SMEs. However, they face unique financial challenges during normal environments, but worse in times such as the current pandemic. The researchers stand to challenge the Zimbabwean government to draw lessons from other countries that provide stimulus packages to cushion the informal businesses and informal traders' livelihoods. The Zimbabwe government should consider becoming proactive in the mitigation of the adverse impact on the informal sector by way of by strengthen safety nets (stimulus packages), subsidizing cash transfers, to cushion the informal economy so that jobs are preserved, enterprises remain sustainable, workers and their families are protected. In addition, SMEs should awaken from their slumber and exploit e-commerce to prevent liquidation. Who knows! The novel coronavirus might turn out to be the new "normal".

## DATA AVAILABILITY

The datasets generated and/or analyzed in this study are available from the authors on request.

## DISCLOSURE

We do approve this manuscript for submission and claim that none of the material in this paper has been published or is under consideration for publication elsewhere. Other people's ideas have been acknowledged.

## CONFLICTS OF INTEREST

We declare that we have no conflicts of interest.

## AUTHOR CONTRIBUTION STATEMENT

<sup>1</sup>E.C wrote the main manuscript text.

<sup>2</sup>N.K reviewed the manuscript.

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2020).

**Appendix 1(a):**

**INFORMED CONSENT FORM**

Research Article Title: **IMPACT OF COVID-19 ON SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN  
CHINHOYI, ZIMBABWE.**

PLEASE COMPLETE AND RETURN TO THE RESEARCHERS:

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Your Name.....

I have read the information sheets attached and understood what this Journal Article is about. I understand that I can change my  
mind at any point and decline to be involved any further in the research without penalty. I consent to taking part in answering the  
questionnaire as part of this Article.

I understand that the information I give during the research shall be kept securely and confidentially and will be destroyed  
thereafter. I consent to findings being used anonymously for the Journal Article and for publications.

Your signature.....Date.....



**Appendix 1(b):**


**QUESTIONNAIRE FOR OWNERS/MANAGERS OF SMEs.**

This questionnaire comprises questions pertaining to the impact of COVID-19 on Small and Medium-sized Enterprises (SMEs) in Chinhoyi, Zimbabwe.

**SECTION A: DEMOGRAPHIC INFORMATION AND BUSINESS PROFILE INFORMATION.**

1. What is your (a) Age.....  
(b) Educational qualification.....
2. What is trading name of your firm?.....
3. For how long has it been operating?.....
4. How many employees do you have? .....

**SECTION B. BUSINESS RISK INDICATORS**

Kindly tick  the appropriate box below as follows: -

	Severely reduced	Moderately reduced	No change	Increased
1(a) How would you rate the level of your business activity in the current times?				
(b) How would you rate the accessibility to stocks/raw materials currently?				
(c) What is your perception on the price of inputs/raw material in the current situation?				
(d) How would you rate your operating expenses in these circumstances?				
(e) What is the current position in terms of employment in your enterprise?				
(f) How would you rate productivity since lockdown measures were put in place?				

**SECTION C. OPEN ENDED QUESTIONS**

1. Which products/ services seem to be on demand most during this period?  
.....  
.....
2. What could be the possible explanation of the trend?  
.....  
.....
3. Is your business currently operational/, temporarily closed, or permanently closed?  
.....  
.....
4. If closed is - it because of COVID-19 or other reasons?  
.....  
.....
5. How many full-time and part-time employees do you have in your firm?  
.....  
.....
6. Do you have access to finance (long-term loans)?

.....  
.....  
.....  
7 Do you export or intend to export your goods?  
.....  
.....

NB. If you may want to attach some more information, graphs statistical data, notes etc. please do so on separate sheets.  
.....  
.....

THE END- Thank you!

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