

Growth Constraints of Formal and Informal Micro and Small-Scale Enterprises and Their Impact on Policy Formulation in Zimbabwe

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Abstract: The new view on MSEs in the informal sector perceives them as being permanent, stable activities comprised of dynamic businesses that affect most economic activities. As such, they need to be considered in economic policies to ensure that they can grow and contribute to the national economy. In Zimbabwe, policies for entrepreneurial development are mainly informed by formal-sector enterprises. This study analysed the similarities and differences in the growth constraints of MSEs operating in the formal and informal sectors in Harare, Zimbabwe. Using descriptive statistics and principal component analysis, the study analysed 21 internal and external growth constraints. The findings were that formal-sector MSEs perceive internal factors as constraining them the most, while informal MSEs perceive external factors as constraining them the most. The study concludes that a common policy approach cannot work in addressing the needs of the two sectors. Sector-specific policies need to be formulated in order for the enterprises in both sectors to fully contribute to the national economy.

Keywords: *MSEs, growth constraints, informal sector*

1. Introduction

Entrepreneurship continues to be viewed as a pertinent vehicle for economic growth and development through its role in employment creation and income generation (Carree & Thurik, 2010; Mayer-Haug, Read, Brinckmann, Dew, & Grichnik, 2013). However, the perceived benefits are yet to be realised in many African countries – mainly because micro and small-scale enterprises (MSEs) are the dominant entrepreneurial activity in Africa and less than 1% of these MSEs grow to ten or more employees (Urban, 2010). Secondly, most of these MSEs are housed in the non-regulated informal sector, where they easily evade paying tax, which is the main source of revenue for the government. The old view on the informal sector regarded it as dominated by survival activities with a minimal survival rate, and hence the sector was usually not a subject for economic policy (Chen, 2005). This view has since been replaced by the new view of classifying the informal activities as stable, dynamic growing businesses that affect most economic policies (Chen, 2005). However, Zimbabwe is yet to fully embrace the new view as it uses a common policy approach in addressing the needs (constraints for growth) of the MSEs, without considering that the formal and informal sectors are structured differently and have different requirements.

Zimbabwean Policies on MSE development have always been based on the needs of formalised entities and are more focused on fostering formalisation of the informal enterprises instead of embracing the informal as an important sector of the economy. According to (Chidoko, Makuyana, Matungamire, & Bemani, 2011), the informal sector in Zimbabwe has much to offer the country's main development objectives, but the current MSE policies fail to cater for their needs. The permanency of the informal sector makes it crucial for policy-makers to promote inclusive policies that can foster the growth and expansion of enterprises in both the formal and informal sectors – as their needs might not necessarily be similar. Targeted policies have a higher probability of effecting change and producing intended results. The objective of this study was to establish if the common policy is the best for Zimbabwean MSEs by analysing the similarities and differences in the growth constraints of MSEs operating in the formal and informal sectors of Zimbabwe.

2. Literature Review

The informal sector: The term 'informal sector' has been used for decades, but a universally agreed definition is yet to be established. The recent literature generally defines it in terms of its characteristics and also in the context of the study being carried out (Gerxhani, 2004; Williams, 2014). Hart (1973) first

introduced the term as referring to self-employment, small-scale industries or retail trades, or all forms of economic activities not recorded in the official statistics or which do not comply with government regulations. Over the years, the definition has expanded to include: scale of ownership, firm size (with an undefined degree of 'smallness' of the firm), capital base or average income (Mboma, 2008). Despite the various approaches to the definition, most scholars agree on the characteristics of the informal sector, which include family ownership, ease of entry, labour intensive operations, and operating in unregulated but competitive markets – among other things (Ubogu, Laah, Udemezue, & Bako, 2011). Recent studies have shown that the informal sector has migrated from a traditional view to a modern view that acknowledges its permanency in the economy – as well as its contribution to reducing poverty and promoting growth. Table 1, below, adopted from (Chen, 2005) summarises the old and new views of the informal sector:

Table 1: Old and new views of the informal sector

The old view	The new view
The informal sector is the traditional economy that will wither away and die with modern, industrialized growth.	The informal economy is 'here to stay' and is expanding with modern, industrial growth.
It exists separately from the formal economy.	It is linked to the <i>formal</i> economy – it produces for, trades with, distributes for, and provides services to the <i>formal</i> economy.
It is only marginally productive.	It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share to the GDP.
It represents a reserve pool of surplus labor.	Much of the recent rise in informal employment is due to the decline in <i>formal</i> employment or to the normalization of previously <i>formal</i> employment relationships.
The informal sector comprises street traders and very small-scale producers.	The informal sector is made up of a wide range of <i>formal</i> occupations.
Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises, in order to avoid regulation and taxation.	It comprises non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services.
Work in the informal economy comprises mostly survival activities, and thus is not a subject for economic policy	Informal enterprises include not only survival activities but also stable, dynamic growing businesses and wage employment. All forms of informal employment are affected by most economic policies

Source: Adopted from (Chen, 2005).

There is growing consensus in the literature that the informal sector can contribute positively to the economy through employment creation, increased production, increased investment, reduced criminal activity, and reduced poverty levels – among other things (Chidoko et al., 2011; Ndiweni & Verhoeven, 2013). On the negative side, if not managed, the informal sector deprives the government of revenue, can create lawlessness, can promote theft, misallocation of resources and corruption activities, among other things (Ndiweni & Verhoeven, 2013). The informal sector in Zimbabwe had long existed prior to independence in 1980, but was closely monitored by strict laws and legislation (The Town and Country Planning Act (1946), the Vagrancy Act (1960), the Urban Councils Act (1973), and the Vendors and Hawkers by-laws (1973): in (Dhemba, 1999)). With independence, this sector has been growing, mainly due to urban migration as people move from rural poverty to urban areas in search of work and as a way of alleviating poverty (Dhemba, 1999). Further growth in this sector also came as an aftermath to the introduction of the Economic Structural Adjustment Programme (ESAP) in 1991, and more recently as an aftermath to the effects of the economic meltdown of 2000. During the meltdown period, the growth in formal labour markets was close to zero and the informal sector was the main survival platform for retrenched people and school leavers (Kappel & Ishengoma, 2006). The job market continued to shrink, absorbing less than a fifth of new graduates each year. In previous years, emphasis has been placed on the eradication of the informal sector in Zimbabwe.

Alternatively, emphasis needs to be placed on utilising the labour markets present in the informal sector, as well as promoting the growth of MSEs in this sector. The informal sector has become part of the economic chain providing goods and services to the formal sector. The link between the two sectors improves the competitiveness of the formal sector, as money generated in the informal sector is spent in the formal sector. Secondly, the permanency of the informal sector makes it crucial for the policy-makers to promote inclusive policies that can foster the growth and expansion of enterprises in both sectors.

Growth constraints for MSEs: Business growth is commonly identified as the change in profit margin, sales, employment or assets (Olawale & Garwe, 2010). Lewis (1983) provide a more theoretical definition that identifies five stages of business growth: existence, survival, success, take-off and resource maturity. Many small business fail to progress from existence to survival – let alone to success and take-off (Deakins & Freel, 2009; Olawale & Garwe, 2010). In addition to this, a huge problem for MSEs worldwide has been the time taken or the failure to grow from a small business into a medium or large business (Deakins & Freel, 2009). The literature identifies the key internal growth constraint for MSEs in formal and informal sectors, as being access to finance (Irjayanti & Azis, 2012; Olawale & Garwe, 2010). Financing a business is ranked among the top five constraints to business development in sub-Saharan Africa, and most financial institutions do not finance them in the foundation stage –as they lack collateral and a sound track record (Clover & Darroch, 2005; Kebaili, Al-Subyae, Al-Qahtani, & Belkhamza, 2015).

Other internal growth constraints include access to market information or advice on how to start/run an enterprise, absence of access to business networks, lack of entrepreneurial training, lack of access to business premises, lack of access to technology/equipment, difficulty in finding the right employees, and lack of management skills (Amwele, 2013; Chidoko et al., 2011; Kaburi, Omari, Sewe, Mobegi, & Kombo, 2017; Mahadea & Pillay, 2008; Shifidi, 2010). Human resource development and adaptation of modern technology are necessary for business growth, and possessing the skill to initiate a business does not necessarily mean that one will be a good manager or entrepreneur (Mahadea & Pillay, 2008). 21st century technology utilises the internet in marketing; however, most of the enterprises surveyed in this study were still using cash boxes and old fashioned door signage which does not help with the marketing of their businesses. (Von Broembsen, Wood, & Herrington, 2005) believe that adoption of the latest technology can trigger enormous growth, but many businesses fall short because the technology is inaccessible and expensive. Sometimes entrepreneurs are not knowledgeable about modern technological approaches suitable for small businesses and how to use them (Zamberi Ahmad, 2012).

External growth constraints include problems with authorities, gender discrimination, late payment by creditors, lack of profitable markets, steep taxes, high interest rates, the bureaucracy of the business registration process, crime, political instability, corruption, dollarization, lack of clients and excessive competition (Chukuezi, 2010; Khaliq, Isa, Shaari, Abdul, & Ageel, 2011; Mahadea & Pillay, 2008; Saleh & Ndubisi, 2006). The government and its institutions are usually blamed for these external factors, which hinder the growth of MSEs in both the formal and informal sectors. Strict government regulations are the biggest external factor commonly blamed for expensive skilled labour as well as the bureaucratic business registration process, which, in turn, is believed to promote the growth of the informal sector. To the contrary, (Herrington, Kew, & Kew, 2010) believe that the informal MSEs are just not aware of government ventures that are available to their service, hence these strict government regulations could just be perceptions and not necessarily the truth. However, the problem in Zimbabwe has been that the available government ventures were informed by the needs of formal enterprises neglecting the needs of informal enterprises. The current study tried to fill this gap by analysing the internal and external factors faced by the two sectors, in a bid to establish if common policy formulation will solve the problems of the two sectors.

3. Methodology

Research instrument: This study was based on survey research using primary data collected by a pre-coded questionnaire. The respondents were asked to indicate with a tick their level of agreement or disagreement with each of the listed internal and external growth-inhibiting factors, in terms of contributing toward

lack/slow growth of their enterprise. The responses were Likert-scaled from 1 to 5 – with lower values indicating greater disagreement and higher values indicating greater agreement. The list of growth-inhibiting factors was drawn from the literature and narrowed down to a set of 20 (internal and external) that are listed below:

Table 1: List of internal and external growth constraints

Internal factors	External factors
- Access to technology	- Problems with authority
- Access to market information	- High taxes
- Lack of entrepreneurial skills	- High interest rates
- Lack of management skills	- Crime
- Access to finance	- Late payment by debtors
- Access to business networks	- Excessive competition
- Finding the right employees	- Lack of clients
	- Corruption
	- Bureaucratic business registration process
	- Access to business premises
	- Lack of profitable markets
	- Gender discrimination
	- Political instability

Study area: The targeted participants were MSEs, restricted to urban dwellers in different suburbs of the capital city of Harare, which operated in both the formal and informal sectors. Harare is divided into 4 zones: high density areas, low density areas, industrial areas and the central business district (CBD) area. The low density areas house the rich few who own large houses on big pieces of land and are situated in north eastern Harare. The high density areas have a higher population density with many houses clustered together on smaller pieces of land. The high density areas are in southern Harare. The CBD and industrial areas are in the middle of Harare. Most of the formal entrepreneurial activity is done in the low density, industrial and CBD areas. Entrepreneurial activity in the high density areas is mostly informal.

Sampling technique: A judgmental and purposive sampling technique combined with stratified random sampling was used to select MSEs from the formal and informal sectors. This sampling technique was the most appropriate, mainly because of the absence of an updated register of MSEs operating in Harare – which posed some limitations in terms of drawing up a representative sample for the study. Secondly, the technique has been used in other informal entrepreneurship studies and hence was considered appropriate for this study (Ncwadi & Pietersen, 2008). The sample was divided into 3 strata based on the location of the business (high density area, industrial area, CBD/low density area). CBD and low density areas were clustered together because of the similarity in the profile of these two areas. From each stratum, 50 MSEs were sampled whose business ventures were either in services, retail or manufacturing and construction. Another selection criterion was that the enterprise should have been operational for longer than five years – an indication of permanency of the business. Both female and male entrepreneurs were interviewed. As a result, a total of 88 enterprises were interviewed from the informal sector and 62 from the formal sector. The collected data were then analysed using SPSS.

Data analysis: The analytical method of choice was Principal Component Analysis (PCA), mainly because of its ability to extract linear composites without prior assumptions from variables believed to be correlated to each other (Lam, 1998; O'Rourke & Hatcher, 2013). A Pearson Correlation test of association was done and the results showed that most of the variables had strong relationships that were statistically significant at the 5% level of significance, and hence justified the use of PCA (see appendices 1 and 2). The growth hindering factors were analyzed separately for the formal sector and informal sector MSEs. Separate analysis of the formal and informal sectors provides policy-makers with better information on how to boost entrepreneurial growth – without using the blanket or 'one-size-fits-all' approach for the two sectors. This approach combined with the meltdown scenario makes the present study unique in certain respects.

Prior to undertaking the Principal Component Analysis, the Kaiser-Meyer-Olkin (KMO) test of sampling adequacy was applied to determine the suitability of the data for Principal Component Analysis. As a rule of thumb, if the KMO test result is 0.5 or higher, then the data are suitable for Principal Component Analysis (Field, 2013). The KMO measure of sampling adequacy for formal enterprise data was found to be 0.5820, and 0.548 for informal enterprise data. The Bartlett test of sphericity was also applied to investigate whether there are relationships between the variables affecting the growth of the firms. The Bartlett test needs to be statistically significant at a p-value less than 0.05 (Pallant, 2013). For both data sets, the Bartlett test values were statistically significant with a p-value of 0.000. This indicated that the data were suitable for Principal Component Analysis. Cronbach's alpha was used to confirm the reliability of the measuring instrument. According to (Field, 2013), an alpha score above 0.75 is generally taken to be a good measure of reliability. In this study, the Cronbach's alpha values were 0.7 to 0.933 for almost all factors (more detail provided under results section).

Hypothesis Testing

NH₁: There are no differences between internal and external factors with respect to their influence on formal sector businesses.

AH₁: Internal factors have a greater influence on the growth of formal businesses than external factors.

NH₂: There are no differences between internal and external factors with respect to their influence on informal sector businesses.

AH₂: External factors have a greater influence on the growth of informal businesses than internal factors.

4. Results

Descriptive analysis of internal factors hindering growth of MSEs: The internal growth-inhibiting factors considered in the study were: access to finance, lack of management skills, access to market information, lack of entrepreneurial skills, access to technology, finding the right employees, and access to business networks. In the literature external factors outweigh internal factors, and hence the decision to use 7 internal factors in this study was not seen as compromising the analysis. All of the surveyed enterprises acknowledged that the economic meltdown had impacted badly on the growth of their businesses.

Access to finance is a key internal growth constraint (Irjayanti & Azis, 2012; Olawale & Garwe, 2010). Contrary to that, more than 80% of the surveyed formal enterprises either agreed or strongly agreed that the main internal factors hindering their growth are access to technology, access to marketing information, lack of entrepreneurial skills, and lack of management skills. Most of the surveyed businesses were formed without any prior entrepreneurial training, and the owners felt this could be the reason for the lack of growth in their businesses. This finding is consistent with other earlier studies that identified human resource development and adaptation of modern technology as crucial elements for business growth (Mahadea & Pillay, 2008; Von Broembsen et al., 2005; Zamberi Ahmad, 2012). Access to finance and business premises were perceived as the least influencing constraint by formal sector entrepreneurs. From the informal sector enterprises, about 50% of respondents strongly agreed that access to finance and business premises are the main internal factors hindering the growth of their businesses, and this is consistent with initial findings by (Clover & Darroch, 2005; Irjayanti & Azis, 2012; Olawale & Garwe, 2010). Of the respondents, 20% were neutral about access to finance as a constraint, while 12% strongly disagreed. The surveyed informal enterprises lacked proper recordings of their daily transactions, which also indicated poor financial management skills. With regard to business premises, some of the enterprises were operating from informal structures and a few rented premises outside the CBD area. Unlike the formal entrepreneurs, more than 70% of the informal entrepreneurs disagreed or strongly disagreed that lack of entrepreneurial skills, lack of management skills and lack of access to technology are constraints to the growth of their businesses – which differs from previous literature which regard them being major growth constraints. This finding suggests that most of the studies in the literature focused on formal sector MSEs, as their findings are consistent with the formal sector results of this study.

Descriptive analysis of external factors hindering growth of MSEs: The following external factors were

considered for analysis: excessive competition, lack of profitable markets, access to business premises, high taxes, high interest rates, crime, lack of clients, business registration process, problems with the authorities, gender discrimination, political instability, and corruption. Some 80% of the surveyed respondents from the formal sector strongly agreed that problems with the authorities was a major external constraint to the growth of their business, and this is consistent with previous findings (Mahadea & Pillay, 2008). Several documents are required for a formally registered business to operate – like a shop licence, which involves an expensive, time consuming and cumbersome process to acquire. Another 75% agreed or strongly agreed that high taxes and interest rates impact adversely on the growth of their businesses. Crime, political instability, excessive competition and late payment from debtors are also top possible reasons impeding the growth of MSEs in the formal sector, and about 50% of the respondents agreed with this. Lack of clients (42% strongly disagree) and business registration (50% strongly disagree) seem not to be much of a problem for the surveyed registered formal enterprises.

Contrary to the entrepreneurs in the formal sector, informal sector entrepreneurs indicated excessive competition and lack of clients as the two main external factors hindering the growth of their MSEs. This is consistent with initial findings by (Chukuezi, 2010; Khaliq et al., 2011). About 70% of the surveyed informal entrepreneurs strongly agreed or agreed that excessive competition was encumbering the growth of their business. As informal sector entrepreneurs do not pay taxes, 90% agreed that taxes and interest rates are the least of their problems. Table 2 (below) summarises the most influencing and least influencing growth constraints for both sectors from the descriptive statistics:

Table 2: Most and least influencing internal and external constraints

		Most influencing		Least influencing	
Internal factors	Formal MSEs	•	Access to technology	•	Access to business premises
		•	Access to market information	•	Access to finance
		•	Lack of entrepreneurial skills		
		•	Lack of management skills		
	Informal MSEs	•	Access to finance	•	Finding the right employees
		•	Access to business networks	•	Access to technology
				•	Lack of management skills
				•	Access to market information
External factors	Formal MSEs	•	Problems with authority	•	Business registration problems
		•	High taxes and interest rates	•	Lack of clients
		•	Crime	•	Gender discrimination
		•	Late payment from debtors	•	Corruption
	Informal MSEs	•	Excessive competition	•	High taxes and interest rates
		•	Lack of clients	•	Gender discrimination
		•	Corruption	•	Crime
				•	Business registration problems

Source: Author's own compilation

Principal Component Analysis of the formal sector data: From the descriptive analysis above, the factors that mostly influence business growth in the formal sector are different from those in the informal sector. Also, within each sector, the internal and external factors do not impact with the same magnitude. Principal Component Analysis was thus used to reduce these factors into smaller manageable clusters – to help make policy formulation easier and to show whether internal or external factors have a greater bearing. The results of the total variance in growth inhibitors in the formal sector and the component matrix are reported in table 3(below). Using Kaiser's criterion, only factors with an Eigenvalue of 1 or more are retained in the analysis. According to (Coakes & Steed, 2009), a factor loading of 0.3 or greater makes a significant contribution to the component factor. In this study, a cut off of 0.4 was used as the sample was small. A set of 6 components emerged for the formal sector data:

The results in table 3(below) show that there are 6 clusters which jointly explain 82.8% of the variation in growth constraints in the formal sector. The first cluster accounts for 39.7% of the total variation, while the second and third clusters explain 13.0% and 11.5% respectively. All 6 clusters have Eigen values greater than 1. The first component is labelled "Entrepreneurial and Managerial skills" (see table 5) and comprises seven internal constraints with loadings from 0.897 to 0.577. This cluster accounts for 39.7% of the variance in growth constraints. The factors in this classification are: lack of management skills with a loading of 0.897; lack of entrepreneurial skills (0.894 loading); lack of marketing information (0.876 loading); finding the right employees (0.846 loading); business registration process (0.816 loading); and access to business networks (0.577 loading).

Table 3: Growth inhibitors of formal sector MSEs: Rotated Factor Loadings

<i>Variables</i>	Principal Components (Eigen Values and loading)					
	1 (8.330)	2 (2.722)	3 (2.405)	4 (1.603)	5 (1.258)	6 (1.063)
Lack of management skills	0.897	0.039	0.091	0.102	0.046	-0.123
Lack of entrepreneurial skills	0.894	0.168	0.046	0.058	0.206	0.182
Access to market information	0.876	0.176	-0.07	0.021	0.104	0.009
Access to technology	0.868	0.194	0.031	0.312	0.143	0.056
Finding the right employees	0.846	0.12	0.067	-0.035	0.032	0.195
Bureaucratic business registration process	0.816	0.301	-0.012	0.208	0.218	0.180
Access to business networks	0.577	0.272	0.105	0.337	0.367	0.039
Political instability	0.065	0.84	0.31	0.031	-0.036	-0.062
Interest rates	0.372	0.773	-0.182	0.063	0.312	0.096
Taxes	0.495	0.717	-0.107	0.155	0.191	0.125
Corruption	0.005	0.643	0.32	-0.176	-0.312	0.466
Crime	0.493	0.618	0.107	0.073	-0.182	-0.253
Lack of clients	0.086	0.105	0.854	0.246	0.028	-0.074
Excess competition	-0.189	-0.023	0.829	0.02	-0.02	0.304
Lack of profitable markets	0.35	0.195	0.715	0.167	0.235	-0.234
Late payments by debtors	0.122	0.035	0.118	0.895	0.058	0.02
Gender discrimination	0.529	-0.03	0.111	0.592	-0.404	-0.158
Access to finance	0.366	0.15	0.141	-0.026	0.719	0.086
Access to business premises	0.165	-0.229	0.052	0.516	0.7	0.056
Problems with authorities	0.277	0.022	0.016	0.11	0.151	0.894
Variance Explained (Total=82.78%)	39.7%	13.0%	11.5%	7.6%	6.0%	5.1%

Extraction Method: Principal Component Analysis

Source: Compiled by author based on results of Principal Component Analysis

This cluster was tested for reliability and yielded a Cronbach's alpha value of 0.933. The second set is labelled "Macroeconomic and Governance factors" and comprises five external constraints: political instability, high interest rates, high taxes, corruption, and crime. Political instability had the highest loading (0.84) in this cluster. Interest rates and taxes are more of economic variables, but the fluctuations in taxes and the interest rate can also be politically motivated, especially where the fiscal budget is used to finance political activities – as was the case in Zimbabwe during the meltdown. This cluster accounts for 13.0% of the variance. Cronbach's alpha value for this cluster is 0.836. The third cluster is labelled "Market factors" and comprises lack of clients (0.854 loading); excessive competition (0.829 loading); and lack of profitable markets (0.715 loading). This cluster accounts for 11.5% of the variance. The Cronbach's alpha for this cluster is 0.778, making it a reliable instrument. This cluster is made up of external constraints only. Cluster 4 comprises 2 factors that jointly explained 7.6% of the variance in the growth constraints. Late payment by debtors had the largest loading (0.895) in this cluster. The other factor in this cluster was gender discrimination.

Table 4: Growth inhibitors of the informal sector MSEs: Rotated Factor Loadings

Variables	Principal Components (Eigen Values and loading)					
	1	2	3	4	5	6
	(4.707)	(3.395)	(2.516)	(1.825)	(1.477)	(1.299)
Lack of clients	0.869	0.113	-0.016	-0.017	-0.097	-0.070
Excessive competition	0.831	-0.251	0.112	0.069	-0.015	0.135
Lack of profitable markets	0.646	-0.065	0.147	0.296	0.063	0.079
Access to business premises	0.578	-0.067	0.027	0.168	0.393	0.289
Access to finance	0.566	-0.234	0.290	0.175	0.174	0.081
High tax rates	-0.186	0.850	0.195	0.028	0.050	0.061
High interest rates	-0.207	0.816	0.276	0.107	0.082	0.169
Crime	0.061	0.747	-0.091	0.012	-0.054	0.106
Finding the right employees	-0.247	0.517	0.415	0.354	0.288	0.123
Late payments by debtors	0.250	0.416	0.096	0.329	0.371	-0.270
Access to market information	0.189	0.004	0.847	0.057	0.049	0.066
Lack of entrepreneurial skills	0.327	0.195	0.761	-0.146	0.015	-0.074
Lack of management skills	-0.006	0.227	0.721	0.183	-0.013	0.118
Access to business network	0.162	0.039	-0.024	0.863	0.291	0.028
Bureaucratic Business registration process	0.115	0.150	-0.039	0.843	0.363	-0.072
Problems with authorities	0.217	0.021	0.189	0.678	-0.353	0.091
Gender discrimination	0.056	0.105	-0.017	0.124	0.866	-0.162
Access to technology	0.046	-0.028	0.037	0.143	0.856	0.289
Corruption	0.264	0.141	-0.049	-0.187	0.035	0.836
Political instability	0.004	0.190	0.186	0.175	0.020	0.820
Variance Explained (Total=72.47%)	22.4%	16.2%	12.0%	8.7%	7.0%	6.2%

Extraction Method: Principal Component Analysis

Source: Compiled by author based on results of Principal Component Analysis

The fourth cluster is labelled "Money Supply factors" since the two factors have an influence on cash at hand. Gender discrimination is not directly linked to money supply; however, some of the interviewed entrepreneurs indicated they felt discriminated against when they were trying to access financial assistance, as men were given preference over women. The Cronbach's alpha for this cluster is 0.735. The fifth cluster is labelled "Financial factors" and has two external factors: access to finance with a loading of 0.719; and access to business premises with a loading of 0.7. Access to business premises is closely linked to the ability to either rent or buy premises, and this ability is measured in monetary or financial terms. This cluster explains 6.0% of the variation. The Cronbach's alpha coefficient for this cluster is 0.638 – making it not a strongly reliable instrument. However, according to (Coakes & Steed, 2009), an alpha value lower than 0.7 is still acceptable. Cluster 6 is labelled "Regulation Factor", and it has one external factor: problems with authorities with a 0.894 loading. This cluster is also not strongly reliable, with a Cronbach's alpha coefficient of 0.611. Nevertheless, the factors in this set were relevant to business development and hence were retained in the analysis. Principal Component Analysis of the informal sector data: This section looks at the growth-inhibiting constraints in the informal sector. The results of total variance in growth constraints are summarised in table 4(below). Like the formal sector, the results show that there are also 6 clusters which jointly explain 72.5% of the variation in growth constraints in the informal sector. All 6 clusters have Eigen values greater than 1. The rotated component matrix was again used to eliminate the growth-inhibiting questions that were not loading on each of the 6 components. The grey boxes in table 4(below) show the constraints that were loading under each component:

The components for the informal sector are slightly different from those for the formal sector. The first set combined two clusters from the formal sector analysis and this component is labelled "Market and Financial Factors". It comprises five external questions with loadings of 0.566 to 0.869. This cluster accounts for 22.4% of the variation in growth constraints. The factors in this classification are: lack of clients, excessive competition, lack of profitable markets, access to business premises, and access to finance. This cluster was tested for reliability and yielded a Cronbach's alpha value of 0.810. The second set is labelled "Macroeconomic Factors" and comprises three external factors and two internal factors. These factors are: high taxes, high interest rates, crime, finding the right employees and late payment by debtors. Taxes have the highest loading (0.84) in this cluster, while late payment by debtors has the least loading of 0.416. This cluster accounts for 16.2% of the variance. The Cronbach's alpha value for this cluster was 0.807 – indicating it is a reliable component. The third cluster is labelled "Entrepreneurial and Managerial skills" and comprises lack of marketing information (0.847 loading); lack of entrepreneurial skills (0.761 loading); and lack of management skills (0.721 loading). This cluster of internal factors accounted for 11.980% of the variance. The Cronbach's alpha for this cluster is 0.78 – making it a reliable instrument.

Cluster 4 is labelled "Regulation", with a combination of external factors and an internal factor, and explained 8.688% of the variation. Access to business networks has the largest loading (0.863) in this cluster. The other two factors in this cluster are: business registration problems, and problems with authorities. Since most of the informal enterprises could possibly not have all the necessary documentation required when formalising their business, they might need a connection through the business network to facilitate this process. The Cronbach's alpha for this cluster was 0.787, showing reliability. The fifth cluster labelled "Hybrid net", consists of one internal factor and one external factor. The factors are: gender discrimination (0.866 loading) and access to technology (0.856 loading). Since these factors are not linked, technology and gender discrimination were called a hybrid net. This component is reliable, with a Cronbach's alpha of 0.806. The two factors explain 7.035% of the variation. Cluster six, labelled as "Governance", is made up of two external factors: political instability and corruption. The two explain 6.2% of the variation. Political instability has a loading of 0.836, while corruption has a loading of 0.820. This component is reliable, as shown by the Cronbach's alpha coefficient of 0.695. Table 5(below) summarises the principal component analysis results:

Discussion: From the analysis above, we reject both null hypotheses and conclude for the alternatives. It is apparent that the key growth-inhibiting factors in the informal sector are different from those in the formal sector. Access to finance has always been seen as the key constraint for business growth of formal enterprises and most policy reforms have centred on creating institutions that reduce the stringent requirements for

loans stipulated by commercial banks. From the findings of this study, access to finance is not the main issue for formal MSEs. On the contrary, formal MSEs perceive the following internal factors -lack of management skills, lack of entrepreneurial skills, access to technology, finding the right employees, and access to business networks- as the main growth constraints. In the informal sector the main factors are the following external factors - excessive competition, lack of clients, lack of profitable markets, access to business premises, and access to finance. The results from the Principal Component Analysis are consistent with the initial findings in the earlier section on descriptive analysis on this analysis.

Table 5: Classification of the Principal Component clusters for formal and informal MSEs

Formal Sector		Informal Sector	
Entrepreneurial and Managerial skills		Market and Financial factors	
Lack of management skills	Internal	Lack of clients	External
Lack of entrepreneurial skills	Internal	Excessive competition	External
Access to market information	Internal	Lack of profitable markets	External
Access to technology	Internal	Access to business premises	External
Finding the right employees	Internal	Access to finance	Internal
Bureaucratic business registration process	External	Macroeconomic Factors	
Access to business networks	Internal	High taxes	External
Macroeconomic and Governance factors		High interest rates	External
Political instability	External	Crime	External
High interest rates	External	Finding the right employees	Internal
High taxes	External	Late payment by debtors	External
Corruption	External	Entrepreneurial and Managerial skills	
Crime	External	Access to market information	Internal
Marketing Factors		Lack of entrepreneurial skills	Internal
Lack of clients	External	Lack of management skills	Internal
Excessive competition	External	Regulation	
Lack of profitable markets	External	Access to business networks	Internal
Money Supply factors		Bureaucratic business registration process	External
Late payment by debtors	External	Problems with authorities	External
Gender discrimination	External	Hybrid Net	
Financial factors		Gender discrimination	External
Access to finance	Internal	Access to technology	Internal
Access to business premises	External	Governance	
Regulatory factors		Political instability	External
Problems with authorities	External	Corruption	External

Source: Compiled by author based on results of the Principal Component Analysis

In the formal sector, the 'Entrepreneurial and Managerial skills' cluster is perceived as being the most growth-impeding factors, as shown by its loading, while the 'Market and Financial factors' and Regulatory factors' clusters are the least impeding. The result for the formal sector enterprises are consistent with findings by Amwele (2013) and Shifidi (2010) who found that non-financial factors influence growth of construction and retail MSEs more than financial factors. In the informal sector, the most impeding factors are perceived as being 'Market and Financial factors', while the least impeding are 'Governance and Technology factors'. The results for the informal sector are consistent with findings by Khalique et al. (2011) and Saleh & Ndubisi (2006) who found that MSE growth in the informal sector of Malaysia was mostly impeded by external factors like high levels of competition. From the analysis, it is apparent that formal MSEs can benefit more from policies that target them as individuals and improve internal factors. To the contrary,

informal MSEs can benefit more from macro policies that target external factors. The external factors pointed out by informal MSEs as being key constraints (access to finance and access to business premises) are the least concern for formal MSEs. This could be possibly being a result of these factors being automatically covered by formalisation. For example, a registered enterprise can easily access financial support and hence can afford to rent favourable business premises in profitable areas, because they have the official documents of operation (Kappel & Ishengoma, 2006).

5. Conclusion and Recommendations

The aim of this study was to conduct a comparative analysis between the growth constraints of MSEs in the formal and the informal sectors in Harare, Zimbabwe. The main findings were that business growth in the formal sector is mainly constrained by internal factors relating to entrepreneurial and management skills' development, and is least constrained by financial and regulatory factors. Informal sector business growth is mainly constrained by external factors, which are a combination of market and financial factors and are least constrained by governance factors like corruption. Addressing both internal and external growth constraints is likely to boost business growth in both sectors– but a 'one-size-fits-all' policy formulation approach will not meet the needs of MSEs from both sectors. The study recommends that the government and policy-makers in Zimbabwe need to first embrace the existence of the two sectors and then introduce sector-specific policies. Formal MSEs need micro policies that target improvement in entrepreneurial and managerial skills. On the other hand, informal MSEs need macro policies that target improvement in market and financial factors. Alternatively, the policy-makers can remove the bureaucracy surrounding the business registration process – so as to encourage the informal MSEs to formalise their businesses. This will enable them to have access to productive resources and also utilise the public services and infrastructure available to formal enterprises. While the results reported in this paper are significant, the study can be improved upon by increasing the number of internal and external factors in the analysis and by targeting a bigger sample.

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Appendix 1: Correlation Matrix for Informal Sector Data

	AccFinac	LackInfo	AccsBizNe	LakEntres	LakProfM	GendDiscr	AccsBizPre	AccsTech	RitEmpl	LakClients	LakMngtSk	BizRegPro	ProbAuth	ExComp	LatPayDeb	Taxes	IntRates	Crime	PollInstab	Corruptn	
Correlation	AccFinac	1.000																			
	LackInfo	.364	1.000																		
	AccsBizNe	.440	.586	1.000																	
	LakEntreTr	.500	.780	.670	1.000																
	LakProfM	.333	.250	.444	.427	1.000															
	GendDiscr	.016	.370	.282	.398	.294	1.000														
	AccsBizPre	.471	.173	.454	.271	.291	.136	1.000													
	AccsTech	.385	.790	.722	.871	.442	.558	.407	1.000												
	RitEmpl	.385	.669	.521	.839	.357	.357	.141	.799	1.000											
	LakClients	.136	.037	.221	.170	.654	.260	.142	.224	.162	1.000										
	LakMngtSk	.392	.852	.609	.762	.382	.523	.203	.796	.611	.169	1.000									
	BizRegPro	.444	.836	.667	.867	.409	.403	.362	.863	.684	.110	.781	1.000								
	ProbAuth	.322	.254	.257	.443	-.027	.044	.235	.326	.387	.043	.159	.448	1.000							
	ExComp	.090	-.143	-.003	-.141	.379	-.017	.056	-.148	-.111	.582	-.092	-.114	.188	1.000						
	LatPayCre	.162	.129	.442	.192	.287	.512	.478	.378	.153	.301	.220	.283	.131	.111	1.000					
	Taxes	.399	.609	.531	.602	.267	.216	.096	.627	.510	.074	.491	.734	.303	-.104	.178	1.000				
	IntRates	.441	.499	.500	.566	.237	.093	.132	.564	.453	.018	.299	.590	.256	-.214	.108	.829	1.000			
	Crime	.262	.476	.371	.420	.378	.452	-.128	.473	.477	.182	.472	.471	-.035	-.019	.174	.644	.541	1.000		
	PollInstab	.134	.218	.307	.203	.369	.076	-.146	.255	.111	.407	.173	.346	.000	.152	.085	.507	.550	.503	1.000	
	Corruptn	-.025	.025	.122	.141	.180	-.036	-.354	.087	.203	.169	-.011	.165	.307	.387	-.061	.334	.358	.334	.613	1.000
Sig. (1-tail	AccFinac																				
	LackInfo	.002																			
	AccsBizNe	.000	.000																		
	LakEntreTr	.000	.000	.000																	
	LakProfM	.004	.025	.000	.000																
	GendDiscr	.450	.002	.013	.001	.010															
	AccsBizPre	.000	.089	.000	.017	.011	.145														
	AccsTech	.001	.000	.000	.000	.000	.001														
	RitEmpl	.001	.000	.000	.000	.002	.137	.000													
	LakClients	.146	.388	.042	.093	.000	.020	.136	.040	.105											
	LakMngtSk	.001	.000	.000	.000	.001	.000	.056	.000	.000	.095										
	BizRegPro	.000	.000	.000	.000	.000	.001	.002	.000	.000	.198	.000									
	ProbAuth	.005	.023	.022	.000	.419	.368	.033	.005	.001	.370	.109	.000								
	ExComp	.243	.134	.491	.138	.001	.447	.332	.125	.195	.000	.237	.189	.072							
	LatPayCre	.104	.159	.000	.068	.012	.000	.000	.001	.117	.009	.043	.013	.155	.196						
	Taxes	.001	.000	.000	.000	.018	.046	.230	.000	.000	.284	.000	.000	.008	.211	.084					
	IntRates	.000	.000	.000	.000	.032	.235	.152	.000	.000	.446	.009	.000	.022	.047	.201	.000				
	Crime	.020	.000	.001	.000	.001	.000	.160	.000	.000	.078	.000	.000	.393	.443	.088	.000	.000			
	PollInstab	.149	.044	.008	.057	.002	.279	.129	.023	.195	.001	.089	.003	.500	.119	.255	.000	.000	.000		
	Corruptn	.424	.424	.172	.138	.081	.390	.002	.251	.057	.094	.465	.100	.008	.001	.319	.004	.002	.004	.000	

Appendix 2: Correlation Matrix for Formal Sector Data

	AccFinac	LackInfo	AcssBizNe	LakEntreTi	LakProfMk	GendDiscr	AcssBizPre	AcssTech	RitEmpl	LakClients	LakMngtSk	BizRegPro	ProbAuth	ExComp	LatPayCre	Taxes	IntRates	Crime	Pollnstab	Corruptn	
Correlation	AccFinac	1.000																			
	LackInfo	.364	1.000																		
	AcssBizNe	.440	.586	1.000																	
	LakEntreTi	.500	.780	.670	1.000																
	LakProfMk	.333	.250	.444	.427	1.000															
	GendDiscr	.016	.370	.282	.398	.294	1.000														
	AcssBizPre	.471	.173	.454	.271	.291	.136	1.000													
	AcssTech	.385	.790	.722	.871	.442	.558	.407	1.000												
	RitEmpl	.385	.669	.521	.839	.357	.357	.141	.799	1.000											
	LakClients	.136	.037	.221	.170	.654	.260	.142	.224	.162	1.000										
	LakMngtSk	.392	.852	.609	.762	.382	.523	.203	.796	.611	.169	1.000									
	BizRegPro	.444	.836	.667	.867	.409	.403	.362	.863	.684	.110	.781	1.000								
	ProbAuth	.322	.254	.257	.443	-.027	.044	.235	.326	.387	.043	.159	.448	1.000							
	ExComp	.090	-.143	-.003	-.141	.379	-.017	.056	-.148	-.111	.582	-.092	-.114	.188	1.000						
	LatPayCre	.162	.129	.442	.192	.287	.512	.478	.378	.153	.301	.220	.283	.131	.111	1.000					
	Taxes	.399	.609	.531	.602	.267	.216	.096	.627	.510	.074	.491	.734	.303	-.104	.178	1.000				
	IntRates	.441	.499	.500	.566	.237	.093	.132	.564	.453	.018	.299	.590	.256	-.214	.108	.829	1.000			
	Crime	.262	.476	.371	.420	.378	.452	-.128	.473	.477	.182	.472	.471	-.035	-.019	.174	.644	.541	1.000		
	Pollnstab	.134	.218	.307	.203	.369	.076	-.146	.255	.111	.407	.173	.346	.000	.152	.085	.507	.550	.503	1.000	
	Corruptn	-.025	.025	.122	.141	.180	-.036	-.354	.087	.203	.169	-.011	.165	.307	.387	-.061	.334	.358	.334	.613	1.000
Sig. (1-tail)	AccFinac																				
	LackInfo	.002																			
	AcssBizNe	.000	.000																		
	LakEntreTi	.000	.000	.000																	
	LakProfMk	.004	.025	.000	.000																
	GendDiscr	.450	.002	.013	.001	.010															
	AcssBizPre	.000	.089	.000	.017	.011	.145														
	AcssTech	.001	.000	.000	.000	.000	.001														
	RitEmpl	.001	.000	.000	.000	.002	.002	.137	.000												
	LakClients	.146	.388	.042	.093	.000	.020	.136	.040	.105											
	LakMngtSk	.001	.000	.000	.000	.001	.000	.056	.000	.000	.095										
	BizRegPro	.000	.000	.000	.000	.000	.001	.002	.000	.000	.198	.000									
	ProbAuth	.005	.023	.022	.000	.419	.368	.033	.005	.001	.370	.109	.000								
	ExComp	.243	.134	.491	.138	.001	.447	.332	.125	.195	.000	.237	.189	.072							
	LatPayCre	.104	.159	.000	.068	.012	.000	.000	.001	.117	.009	.043	.013	.155	.196						
	Taxes	.001	.000	.000	.000	.018	.046	.230	.000	.000	.284	.000	.000	.008	.211	.084					
	IntRates	.000	.000	.000	.000	.032	.235	.152	.000	.000	.446	.009	.000	.022	.047	.201	.000				
	Crime	.020	.000	.001	.000	.001	.000	.160	.000	.000	.078	.000	.000	.393	.443	.088	.000	.000			
	Pollnstab	.149	.044	.008	.057	.002	.279	.129	.023	.195	.001	.089	.003	.500	.119	.255	.000	.000	.000		
	Corruptn	.424	.424	.172	.138	.081	.390	.002	.251	.057	.094	.465	.100	.008	.001	.319	.004	.002	.004	.000	