Removal of government controls was supposed to improve the business environment, enable entrepreneurs to respond quickly to the emerging market opportunities and to promote competition that would improve efficiency and productivity gains (Mumbengegwi, 1992).

According to original ESAP document engineered by the IMF and World Bank, the fundamental objective of the economic reform programmes in Sub-Saharan Africa was to improve living conditions, especially for the poorest groups in the country. This meant increasing real incomes and lowering unemployment, by generating sustained higher economic growth. In order to achieve this primary objective, the economy needed to be transformed to make it more competitive and productive. This transformation would entail moving way from a highly regulated economy to one where market forces were allowed to play a more decisive role (GoZ, 1991).

In Tanzania, the objectives of the economic reform programme were, among other things, to (i) increase the output of food and export crops through appropriate incentives for production, improving marketing structures, and increasing the resources available to agriculture; (ii) increase capacity utilization in industry through the allocation of scarce foreign exchange to priority sectors and firms; (iii) rehabilitate the physical infrastructure of the economy in support of directly productive activities; (iv) improve the balance of payments position by pursuing fiscal, monetary and trade policies; and (v) restore the economy which was meeting a severe economic crisis, the low export performance, and stagnating agricultural production. The economic reform programme in Tanzania was intended to remove distortions through the establishment of various institutions and an appropriate policy and incentive framework (Aeroe, 1991).

2. Structural Adjustment Measures

In Zimbabwe's ESAP, the major controls being relaxed were price controls, investment regulations, labour and wage regulations, transport and other rules and regulations which tended to impede growth, particularly of the small-scale sector activities (ZERO, 1991). According to the government document prepared in collaboration with the World Bank for the Paris donor conference in March 1991, the main elements of the ESAP included deregulation, trade liberalization, macro-economic policies, and social dimensions of adjustment (Robinson, 1991).

Deregulation refers to the removal of the many restrictions that have inhibited the development of business in general and SSEs in particular. The commitment to review local government zoning and licensing regulations would be especially important to small-scale industries in Zimbabwe (Robinson, 1994). A change in investment approval mechanisms and the labour market regulations would make it easier for SSEs to have projects approved and to hire and fire workers. The essence of successful deregulation is the reduction in the number of regulatory and institutional barriers that control and restrict the entry of aspiring formal and informal entrepreneurs into the recognizably and measurably significant productive sector. As a move towards deregulation the government of Zimbabwe established a Deregulation Project Team in 1993 which was to report to the Deregulation Committee (Robinsonm, 1994).

The terms of reference of the Deregulation Project Team would include the following: (i) to carry out an inventory of laws that control and affect the entry and growth of business in the private sector, and the business activities of the public sector together with the various institutions administering them; (ii) to collect information on the extent to which the various, laws, regulations, by-laws, policies and practices inhibit development in both the rural and urban areas; (iii) to make specific recommendations to the deregulation committee for the amendment, repeal, tightening up or improvement of legislation as necessary; and (iv) to monitor the proposed new laws affecting the entry and growth of new businesses in the private sector, and to make appropriate recommendations to the deregulation committee (Robinson, 1994).

The Teams' major constraint had been limited resources and manpower. However, following the procurement of funding from the British Overseas Development Administration (ODA) these constraints were somewhat eased. At least 30 Acts of Parliament which impinged on small scale enterprises and on the informal sector were identified by the project team. They included the following which were regarded as requiring priority attention: Rural District Councils Act (No. 8 of 1988); Urban Councils Act (Chapter 214); Regional Town and Country Planning Act (No. 22 of 1976); Shop Licenses Act (No. 40 of 1976); Liquor Act (No. 9 of 1984); Public Health Act (Chapter 328); Food and Food Standards Act (Chapter 321); Traditional Beer Act (No. 25 of 1984); Land Survey Act (Chapter 147); Second Hand Goods Act (Chapter 293); Banking Act (Chapter 188); Customs and Excise Act (Chapter 117); and Income Tax Act (Chapter 118).

Agricultural marketing was also deregulated. Overally, agricultural parastatals could now set their own producer prices without consulting the government. This enabled milk prices to more than double, and the new dairy marketing company has issued more new licenses to producer-retailers allowing them to sell unlimited quantities of milk directly to the consumer, and later on to processors. There has also been increased competition due to the decontrol of meat, maize and cotton (Robinson, 1994).

The key instruments associated with structural adjustment in Zimbabwe were a sharp devaluation of the domestic currency, deregulation of foreign exchange allocation to the banking sector, import liberalization, removal of price controls, introduction of import promotion schemes, cuts in public sector spending, including a major retrenchment drive, curtailment of government spending to reduce the budget deficit, removal of subsidies on parastatals including food subsidies, implementation of cost recovery measures such as reduction of subsidies for government-provided social services especially in health and education sectors, restraint on money supply to curb inflation, and market determined interest rate policies to achieve positive real interest rates (Dawson, 1992).

3. Impact of Structural Adjustment Measures on SSEs

The short and medium term effects of structural adjustment measures on small scale enterprises are by no means clear and there are many contrasting views. Some authors argue that trade liberalization may result in a flood of competing imports which seriously reduce the market share of domestic SSE products. Others maintain, however, that a stronger reduction in the overvaluation of exchange rate would ensure that imported products would become sufficiently dear to prevent such an effect from occurring. Again others argue that much depends on the extent to which SSEs themselves are relying on imported inputs and whether they are producing for the domestic market or for export. Some macro-economists have on the other hand predicted that these effects would be overshadowed by the demand contraction resulting from the implementation of adjustment reforms.

The impact of IMF/ World Bank Economic Structural Adjustment Programmes (ESAPs) on small enterprises will be considered under the following sub-headings:

(a) External sector reform
(b) Fiscal and monetary reform and public sector restructuring
(c) Domestic deregulation and liberalization of internal trade; and
(d) General performance of small enterprises under ESAP

(a) External sector reform

Trade liberalization in the form of relaxation of import controls on commodities that were being produced by Zimbabwean industry may have had a devastating effect on small scale industries in certain sectors, but consumers may have benefited (Robinson, 1991). This is particularly so if the broader view of society as a whole is adopted. If such small industries existed only because of protective measures in place but producing products of low quality and high price, consumers may have benefited as a result of being able to buy the higher quality and cheaper imported alternatives.

In Nigeria the underlying belief had been that the small enterprise sector would benefit from structural adjustment. One of the reasons given for the poorer than expected performance of this sector under ESAP was the underestimation by analysts of the degree to which they depended on imports (Dawson, 1992). The underlying belief was that devaluation of local currency in Nigeria would make imports more expensive and thus protecting the small enterprises which were assumed to source inputs locally. To the contrary, it was later discovered that while indeed a certain amount of local sourcing was taking place, generally small enterprises in Nigeria were more dependent on imported materials and inputs than had been supposed (Dawson, 1992). Because ESAP made imports more expensive, there was a squeeze on the profit margins of small enterprises, leading to a reduced number of entrants, serious viability problems for existing small enterprises, and reduced employment in that sector. Trade liberalization also results in an influx of imports of finished products which compete with local products of SSEs. While the competing finished goods are generally harmful to local small enterprises, some authors have observed that this impact tends to be restricted to particular sectors (e.g. garments and textiles, including second-hand clothing).

In Zimbabwe the impact of import liberalization on the domestic SSEs may have depended on the level of participation of such enterprises in the external trade sector (Mumbengegwi, 1993; Daniels, 1994). Immediate effects of trade liberalization are to increase the volume of imports and open up the economy to external competition. If the SSEs used imported inputs to produce for the domestic market, they will benefit from improved access to foreign exchange to import raw materials (Mumbengegwi, 1993). On the other hand, they are exposed to the negative effects of increased competition from imports of finished products. If SSEs use domestic inputs to produce for export, growth in the world demand, market penetration strategies and export incentives determine the rate of growth of such SSEs. If the SSEs used primarily domestic inputs, then they may have benefited from exchange rate depreciation as the larger import-intensive firms are squeezed out of the market. Results from a recent survey conducted by GEMINI in Zimbabwe show that the number of small scale enterprises in Zimbabwe that use foreign exchange is extremely small (about 1%). The results also showed that increased competition from imports of final products and inputs was reported by only 10% of all firms. Therefore trade liberalization may have had a positive impact in the SSE sector in Zimbabwe: inputs are now more readily available, and competition from imported goods has not affected the majority of SSEs (Muzari, 2011).

With regard to the impact of trade liberalization on the small enterprise sector in Zimbabwe, the measures introduced may have had a positive or negative impact on small enterprises. The positive impact depends on input sources. If the small enterprises used imported inputs, then trade liberalization may have increased the availability of inputs (Daniels, 1994). Alternatively, if small enterprises used primarily domestic inputs, then they may have benefited from the devaluation of the Zimbabwean dollar (exchange rate depreciation) as the larger, more import-intensive firms were squeezed out of the market.
Negative impacts of trade liberalization may have occurred in Zimbabwean small enterprises as they faced increased competition from imported final products (Daniels, 1994). If the small enterprises used domestic inputs to produce for export, growth in the world demand, market penetration strategies and export incentives may have determined the rate of growth of such small enterprises.

Some authors who hold the view that trade liberalization decreases protection and increases competition from imports have also discovered that small firms may be in a better position to survive the competition than larger ones (Steel, 1993). Small firms are more flexible in adjusting than the larger firms, for example by changing product lines, if they are able to finance any additional investment that may be needed. A good example is provided by the case of Senegal where import liberalization adversely affected most of its over-protected large-scale industries, while small enterprises were able to take advantage of new market niches by altering their product mix. Similar evidence exists from studies conducted in Ghana and Mali (Steel, 1993).

The continuous devaluation of the local currency in Ghana has made imported goods more expensive for small enterprises who have generally been facing difficulties of access to credit (Osei et al., 1993). This was exacerbated by the credit crunch imposed on the financial system to help curb inflation. Thus marginal companies have found it difficult to keep production going. With the policy of trade liberalization, imports of all kinds including consumer goods have been allowed into Ghana, and these imports compete with products of local industries causing them to shut down (Osei et al., 1993) On the other hand, removal of foreign exchange controls through devaluations and other measures have not affected the sectoral output of SSEs in Ghana. This is due to the fact that most SSEs do not depend on imported inputs and as such do not require foreign exchange. As little as 10 percent of the Ghanaian firms increased output, and only 16 percent of firms with stagnating output since the launch of ESAP, really needed foreign exchange (Osei et al., 1993).

(b) **Fiscal and monetary reform and public sector restructuring**

Administrative control over the money market in Zimbabwe was progressively relaxed, with interest rates becoming market driven, as part of the monetary sector reform in Zimbabwe. The resultant rise in interest rates is likely to have imposed higher costs of borrowing on loans for small scale enterprises for investment or working capital (Robinson, 1991). The reluctance by commercial banks in Zimbabwe to extend credit to the SSE sector even when they were awash with funds, despite pressure from the government to do so, cast considerable doubts on whether the positive real interest rates would translate into any real benefit to small scale industries.

In Zimbabwe, increased retrenchments as a fiscal measure to reduce the public sector wage bill forced many former urban workers to return to their rural homes (ITZ, 1994). This has lowered the demand potential for rural small industries supplying localized markets due to the declining amounts of remittances reaching rural areas from the previously employed family members and other relatives. In the urban areas this has also caused a general contraction in the demand levels of SSE products whose clientele consisted of salaried workers. There has also been a rise in the number of new entrants to the SSE sector as the former employees seek alternative means of livelihood. Declining demand and an influx of SSE products on the market has meant reduced viability as more and more small entrepreneurs have been forced to share the ‘ever-dwindling piece of cake’ (Muzari, 2011).

Corporate tax rates were lowered in Zimbabwe as part of the economic structural adjustment programme. Company tax reductions are meant to provide incentives for investment and growth in the business sector. However, since the majority of the small businesses in Zimbabwe are not registered, the corporate fiscal measures introduced may have had a very minimal impact on growth and investment in this sector. In addition, profit estimates have indicated that close to three quarters of these firms achieve a net income that is below the annual minimum taxable income. This implies that the corporate income tax reductions did not constitute an ‘incentive’ for the SSE sector (Daniels, 1994).

In the GEMINI survey (Daniels, 1994) it was found that there was an increase in the finance problems among small businesses in Zimbabwe since the inception of ESAP. This outcome has been attributed chiefly to the decontrol of the money sector which resulted in lending institutions charging high interest rates on money loaned out.

Parastatal reform as a measure of public sector restructuring has been a key element of ESAP measures for reducing the government budget deficit in order to make room for an investment boom in the productive sectors. Rationalization and privatization of parastatals in Zimbabwe has resulted in a curtailment of their operations in rural areas. The closure of cotton and grain depots has depressed the market for all small industries operating in that area through the reduced income effect (Robinson, 1994). Small enterprises specifically dependent on these depots may also have been eliminated. On the other hand, removal of monopolies of agricultural parastatals and allowing small operators to market and process agricultural commodities might well have improved distribution, cutting down on transport costs and requirement, and thus making processed foods more available at more affordable prices in the rural areas. Channeling agricultural produce through the state monopolies in grain marketing and urban millers, wholesalers and retailers before reaching the final consumer has increased the cost of food by over 50% over and above the price that could be charged if handling and processing were performed by rural-based small scale agro-processors. The reverse could hold true by the removal of state monopolies through parastatal reform (Robinson, 1994).

With respect to the impact of retrenchments on small enterprises in Zimbabwe, the overall effect may have been negative (Daniels, 1994). This is likely to have occurred through reduced demand and increasing competition arising from a greater the number of ex-civil servants entering the MSE sector as they embark on income-generating projects.

Since the launching of the economic reform programme in Ghana, a substantial percentage of those who set up small-scale enterprises came from the ranks of the retrenched workers. Public sector retrenchment was one technique which was introduced to reduce the budget deficit of the public sector by reducing the civil service wage bill. The new economic environment also facilitated retrenchments from the private sector. In addition, over 40% of all SSEs in Ghana were set up in the first decade since the inception of ESAP (Osei et al., 1993). Furthermore, the reduced capacity of the civil service or large scale private sector to absorb additional workers has necessitated the entry of a substantial number of school-leavers into the SSE sector. As has been the case in Zimbabwe, they have found it necessary to set up small scale enterprises as an alternative source of employment and incomes. In an outcome similar to that in Zimbabwe, the retrenchment drive in Ghana has led to increased competition within the small enterprise sector. This has threatened the viability and profitability of such enterprises. The small scale industrial sub-sectors that have faced stiff competition in Ghana include the electrical/ electronic; food processing; leather products/ shoe making; and furniture/ wood processing enterprises (Osei et al., 1993). The same sub-sectors were also vulnerable to ESAP-induced competition in Mali (Kessons and Lessard, 1993).

Public sector restructuring in Nigeria took various forms, including (as has been the case with all other IMF/ World Bank ESAPs) civil service retrenchments. Labour retrenchments, coupled with low barriers of entry into small-scale activities, and the low absorptive capacity of the formal sector, meant that the number of new entrants into the SSE sector increased significantly. (Dawson, 1992). Nearly 60 percent of the SSEs surveyed in Nigeria in the final year of ESAP cited increasing competition from other small firms as the principal reason for declining profitability. As has been the case in Zimbabwe, one author has described the market situation in the face of increasing competition among SSEs in Nigeria as ‘a dwindling cake cut into an even greater number of slices’ to be shared among an increasing number of entrepreneurs (Dawson, 1992).

(c) Domestic deregulation and liberalization of internal trade

In Nigeria the decontrol of prices, coupled with the removal of subsidies on basic consumer goods and retrenchments, led to a fall in purchasing power, particularly among low income groups and urban dwellers (Dawson, 1992). These consumers are traditionally the most important client group for products of the small enterprise sector. Their fall in purchasing power translated into a decline in demand for small enterprise products. The benefits of agricultural liberalization have been outweighed by increases in the costs of fertilizer due to the decontrol of its price (Dawson, 1992).

In Zimbabwe, it had been expected that the relaxation of price controls would probably increase costs and perhaps reduce markets if the item is an input such as equipment or raw materials for SSEs (Robinson, 1991). On the other hand, if the item was an output or finished product, higher prices following the relaxation of price controls are likely to have resulted in business being more viable. The deregulation of agricultural marketing (grain, meat, milk) appears to have increased the potential for rural small-scale agro-processors and abattoirs (Robinson, 1991). For example, the relaxation of regulations giving the respective corporations the exclusive legal right to buy prescribed agricultural produce from producers has meant that these products are effectively more available to small-scale agro-processors, who can now purchase directly from farmers (Robinson, 1994).

On the other hand, the elimination of domestic price controls lead to high levels of inflation which have the unintended effect of seriously eroding the capital base of many small enterprises, through increased input costs and reduced expenditure on non-food products (Helmsing and Kolstee, 1993). In addition, a difficulty of access to credit diminishes the capacity of SSEs to adjust to changing market conditions.

In Ghana and Tanzania, small firms whose demand comes principally from the general public, particularly low income groups, and predominantly in the form of consumer goods such as furniture, clothing, shoes, etc., have been adversely affected by the decontrol in prices (Dawson, 1991).

(d) **General performance of SSEs under ESAP**

The IMF/ World Bank Economic Structural Adjustment Programmes can, in the short term, have a regressive effect on small enterprises, by reducing demand for its products or making it more difficult for these enterprises (especially if they are in the informal sector) to have access to materials or any equipment they may need. Complaints have been raised especially in Sub-Saharan Africa that adjustment policies had produced sharp devaluations and introduced foreign exchange auctions, making it almost impossible for very small enterprises to obtain the imported items needed. The liberalization of imports, the lifting of price controls and the raising of interest rates, while all possibly desirable from a long term macroeconomic point of view, could cause hardships to the small enterprise sector. On the other hand, an increase in rural incomes which might be brought about by higher prices paid for farm products, might sometimes benefit the informal sector enterprises if they are in a position to satisfy quickly increased demand for products.

Even though improved rural incomes might cut migration to urban cities and so relieve pressure on the informal sector, structural adjustment would generally increase competition and might work against small enterprise development, at least in the short term. In the long term, if carried through successfully by governments, it might make it easier for small enterprises to grow and to have better access to credit and markets. However, governments should consider the short term effects of such reforms on the small enterprise sector and, if necessary, take active steps to ease the hardships on the sector in making the required adjustments.

The sectoral distribution of small enterprises in Zimbabwe shifted during the first three years of the economic structural adjustment programme, with a higher proportion of small enterprises in trade, transport and services. In contrast, the proportion of small enterprises in manufacturing declined. This shift reflects both opportunities under economic reforms and an increase in the proportion of low-profit firms (Daniels, 1994). The largest number of firm births over this period, according to GEMINI, occurred in low-profit, easy-entry sectors driven by an excess supply of labour (through retrenchments, mainly), rather than by increased demand for small enterprise products (Daniels, 1994).

In the majority of studies carried out in developing countries, it was found that during periods of slow economic growth of the national economy, the birth rate of small enterprises is higher than the closure rate. In periods of rapid economic growth, the closure rate is higher than the birth rate (Daniels, 1994).

In a sample of small enterprises drawn and interviewed in Mali, 60% of firms recorded a rise in production during ESAP. In terms of employment, small enterprises recorded an employment growth of 130% (Kessons and Lessard, 1991). The impact of adjustment on the viability of small enterprises depends on the entrepreneur’s capacity to adjust to the new economic context based on greater competition.

In the Mali survey the enterprises which declared that they were more profitable are essentially in the small enterprises in the textile/ clothing and food sub-sectors. The survey showed that the majority (75%) of the enterprises established after the commencement of ESAP were more profitable (Kessons and Lessard, 1991). On the other hand, 73 percent of medium and large-scale enterprises declared that they were less profitable since ESAP began.

In Zimbabwe the contraction of people's disposable wage incomes, the flooding of markets by similar types of goods along with a shortage of yarn, forced some small firms out of production of different types of apparel. The majority of tailors and dressmakers who have been able to survive are those serving the upper-income categories of the population (Gaidzanwa, 1991).

In the Ghana survey of small enterprises under ESAP, the majority of firms experienced negative growth rates in output and sales. Nearly 30% of the firms experienced positive output and sales growth of less than 20%. Only 10% of SSEs achieved more than 50% growth in output (Osei et al., 1993). A major finding was that the extremely small firms were affected by the ESAP in terms of output growth. Growth in output within SSEs tended to be lowest among the smallest units of 5 workers or less, and highest among larger units. Survey results in Ghana showed that in general, employment within the small enterprises did not respond to the initial economic recovery programme and its subsequent structural adjustment programmes. The great majority (nearly 60%) of firms that recorded a decrease in employment had not received financial support. An even greater majority (66%) who experienced a decrease in employment found it difficult to obtain credit. Furthermore, 72% of enterprises in this group indicated that they are limited by a lack of credit in their operations (Osei et al., 1993).

As a result of ESAP in Nigeria, declining markets due to a fall in demand (as a result of declining real wages) and increased competition among small enterprises led to a drop in their profit margins (Dawson, 1992). Small enterprises were also largely unable to take advantage of the creation of a 'level playing field' due to poor technological capacity and inadequate linkages with the formal sector.

The unavoidable conclusion that can be reached based on the preceding discussion is as follows: 'It is hard to avoid concluding that structural adjustment is inimical to the fortunes of most small enterprises, especially in Sub-Saharan Africa' (Dawson, 1992).

4. Conclusion

The implementation of Economic Structural Adjustment Programmes (ESAPs) has affected, or will continue to affect, small enterprise development in one or more of three different ways. First, they might make small enterprises worse off; second, the small enterprises may benefit from the deregulation measures and become better off; and third, the effect of such measures may be neutral to the performance of small enterprises. However, statistics show that a greater number of small enterprises in the majority of the countries in Sub-Saharan Africa, have experienced adverse impacts of the World Bank/ IMF ESAPs.

As can be expected in charting the way forward, success stories in the few countries where impacts have been positive should provide useful case studies for others to learn from, and adopt the positive aspects. In addition, post-ESAP recovery measures for adversely affected small enterprises should be implemented with World Bank and domestic government support. Maybe the recovery measures should be implemented under the so-called Social Dimensions of Adjustment, which are implemented in cases where ESAP results in small enterprises becoming worse off. Detailed studies need to be conducted to determine the ex-poste impacts of ESAP on small scale enterprise development, and corrective measures undertaken where necessary.

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