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**SUPPORT TO SMALL-SCALE
INDUSTRIES AND
THE ENHANCEMENT OF INDIGENOUS
OWNERSHIP IN ZIMBABWE**

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C O N T E N T S

ABBREVIATIONS AND CURRENCY	vii
SUMMARY	x
<u>PART A - CONTEXT AND APPROACH</u>	
1. ECONOMIC CONTEXT	1
1.1 STRUCTURE OF THE ECONOMY AT INDEPENDENCE	
1.2 POST-INDEPENDENCE POLICIES AND PERFORMANCE	
1.3 ECONOMIC REFORM PROGRAMME	
1.4 ROLE OF SMALL-SCALE ENTERPRISES	
2. THE ISSUE OF INDIGENISATION	11
2.1 INDIGENISATION AS A NATIONAL ISSUE	
2.2 INDIGENISATION AND SSE	
3. DEFINITIONS AND APPROACH	17
3.1 DEFINITIONS	
3.2 STUDY APPROACH	
<u>PART B - ROLE & STATUS OF SSE & CONSTRAINTS ON DEVELOPMENT</u>	
4. OVERALL SIZE AND ROLE OF SSE	24
4.1 SIZE AND CHARACTERISTICS OF SMALL-SCALE SECTOR	
4.2 DISTINGUISHING MSEs BY LOCATION INSIDE OR OUTSIDE HOME	
4.3 RESULTS FROM OTHER SURVEYS	
5. RURAL INDUSTRY SUB-SECTOR STUDIES	38
5.1 INTRODUCTION	
5.2 GRAIN MILLING	
5.3 OIL PRESSING	
5.4 BREAD BAKING	
5.5 BRICK MAKING INDUSTRIES	
5.6 CONCLUSIONS AND ACTIONS RECOMMENDED	

6. URBAN INDUSTRY AND MINING SUB-SECTOR STUDIES	54
6.1 INTRODUCTION	
6.2 METALWORK	
6.3 CLOTHING	
6.4 FURNITURE INDUSTRY	
6.5 SMALL-SCALE MINING	
6.6 SUB-CONTRACTING ACTIVITIES	
6.7 CONCLUSIONS AND ACTIONS RECOMMENDED	
7. CONSTRAINTS FACED BY SSE	75
7.1 DEMAND CONSTRAINTS	
7.2 REGULATORY CONSTRAINTS	
7.3 SKILL AND INFORMATION CONSTRAINTS	
7.4 FINANCIAL CONSTRAINTS	
7.5 INVESTMENT CONSTRAINTS	
7.6 TECHNOLOGICAL CONSTRAINTS	
7.7 INFRASTRUCTURAL CONSTRAINTS	
<u>PART C - SUPPORT TO SSE</u>	
8. OVERVIEW OF EXISTING SUPPORT PROGRAMMES AND INSTITUTIONS	85
8.1 GOVERNMENT	
8.2 OTHER PARTIES INVOLVED IN SUPPORT FOR SSE	
8.3 RANGE OF SERVICES OFFERED	
9. FINANCIAL INSTITUTIONS	90
9.1 OVERVIEW OF FINANCIAL INSTITUTIONS SERVING SSEs	
9.2 COMMERCIAL BANKS, FINANCE HOUSES AND CGC	
9.3 DEVELOPMENT BANKS	
9.4 VENTURE CAPITAL AND JOINT VENTURES	

10. BUSINESS ORGANISATIONS	115
10.1 INDIGENOUS BUSINESS DEVELOPMENT CENTRE [IBDC]	
10.2 ZIMBABWE NATIONAL CHAMBER OF COMMERCE [ZNCC]	
10.3 CONFEDERATION OF ZIMBABWE INDUSTRIES [CZI]	
10.4 WOMEN IN BUSINESS ORGANIZATION [WIBA]	
11. NON-GOVERNMENT ORGANISATIONS	122
11.1 PROFILE OF NGO ACTIVITY IN SUPPORT OF SSE	
11.2 LESSONS FROM NGO EXPERIENCE	
12. CONCLUSIONS AND RECOMMENDATIONS ON SUPPORT INSTITUTIONS	134
12.1 CO-ORDINATION AND INFORMATION	
12.2 FINANCIAL INSTITUTIONS	
12.3 SOME GENERAL PRINCIPLES FOR SUPPORT TO SSES	
<u>PART D - PROSPECTS, POLICY AND PROJECTS IN SUPPORT OF SSE & INDIGENISATION</u>	
13. POTENTIAL ROLE OF SSE UNDER ECONOMIC REFORM PROGRAMME	145
13.1 EMPLOYMENT REQUIREMENTS OF SSE	
13.2 FINANCING REQUIRED BY SSE	
13.3 BUSINESS OPPORTUNITIES ARISING FROM ECONOMIC REFORM PROGRAMME	
13.4 PROBLEM AREAS AT THE START OF THE ECONOMIC REFORM PROGRAMME	
13.5 STRATEGY REQUIRED	
14. POLICY ON SMALL-SCALE ENTERPRISES AND INDIGENISATION	162
14.1 OBJECTIVES AND PRIMARY INSTITUTIONAL RESPONSIBILITY	
14.2 DEMAND STIMULATION	
14.3 REGULATORY ENVIRONMENT	
14.4 COMPANY REGISTRATION AND TAXATION	
14.5 INFORMATION, REFERRAL, TRAINING AND EXTENSION	
14.6 FINANCE	

14.7	INVESTMENT, TECHNOLOGY AND CAPITAL GOODS	
14.8	GROWTH POINTS AND DECENTRALISATION	
14.9	URBAN WORK SPACES	
14.10	SECTOR-SPECIFIC INTERVENTIONS	
14.11	CO-ORDINATION AND INSTITUTIONAL SUPPORT	
14.12	SUMMARY OF ACTIONS REQUIRED OF SPECIFIC MINISTRIES	
15.	PROJECTS	181
15.1	PRIOR AND ON-GOING PROJECTS	
15.2	UNIDO SMALL-SCALE INDUSTRY PROJECT	
15.3	COMPLEMENTARY AND SUPPLEMENTARY PROJECTS	
16.	CONCLUSION	190
16.1	ROLE OF SSE UNDER THE ECONOMIC REFORM PROGRAMME	
16.2	SECTORAL DEVELOPMENT AND CONSTRAINTS	
16.3	SUPPORT INSTITUTIONS	
16.4	STRATEGY AND POLICY	
16.5	PROJECTS IN SUPPORT OF SSE DEVELOPMENT	

TABLES

1.1	STRUCTURE OF FOREIGN TRADE IN 1984	2
2.1	ETHNIC CATEGORIES OF PROPRIETORS OF SSEs	16
4.1	DISTRIBUTION OF ACTIVITIES AT AGGREGATED LEVEL	29
4.2	SECTORAL DISTRIBUTION OF ACTIVITIES AT ISIC 4 LEVEL	30
4.3	EMPLOYMENT, GENDER AND GROWTH	32
4.4	GROWTH RATES OF MSEs LOCATED OUTSIDE THE HOME	33
4.5	SOURCES OF FINANCE	34
4.6	PROBLEMS AT START-UP & PRESENTLY (MSEs OUTSIDE HOME)	35
5.1	COMPARATIVE COSTS - DIESEL & ELECTRIC GRINDING MILLS	40
5.2	BAKERY PRODUCTION COSTS	48
10.1	PROFILE OF ACTIVITIES OF IBDC MEMBERS	115
12.1	SUMMARY OF FINANCING OPTIONS FOR SSEs	138

FIGURES

4.1A	EMPLOYMENT FREQUENCIES - URBAN BASED MSEs	31
4.1B	EMPLOYMENT FREQUENCIES - RURAL BASED MSEs	31
9.1	CGC APPLICATIONS RECEIVED, PROCESSED & APPROVED	98
9.2	CGC AMOUNTS APPROVED AND AVERAGE LOAN SIZE	98
9.3A	CGC SECTORAL DISTRIBUTION OF LOANNS BY VALUE	99
9.3B	CGC SECTORAL DISTRIBUTION OF LOANS BY NUMBER	99
9.4	SEDCO APPLICATIONS RECEIVED, PROCESSED & APPROVED	103
9.5	SEDCO AMOUNTS APPROVED AND AVERAGE LOAN SIZE	103
9.6A	SEDCO SECTORAL DISTRIBUTION OF LOANNS BY VALUE	104
9.6B	SEDCO SECTORAL DISTRIBUTION OF LOANS BY NUMBER	104

**APPENDICES
(Separate Volume)**

1. TERMS OF REFERENCE
2. BIBLIOGRAPHY
3. LIST OF PERSONS MET
4. ROLE OF SMALL-SCALE ENTERPRISES IN THE DEVELOPMENT OF SECONDARY TOWNS AND CITIES
5. PHYSICAL PLANNING AND RELATED RESTRICTIONS ON SMALL-SCALE ENTERPRISES: TOWARDS DEREGULATION
6. THE POTENTIAL CONTRIBUTION OF GRAIN MARKETING REFORM TO THE EXPANSION OF SMALL-SCALE ENTERPRISES IN ZIMBABWE
7. SMALL-SCALE DECENTRALISED AGRO-PROCESSING ACTIVITIES IN ZIMBABWE
8. SUB-SECTOR STUDY: TEXTILES AND CLOTHING
9. SMALL-SCALE MINING ACTIVITIES IN ZIMBABWE
10. TECHNOLOGICAL ISSUES IN THE PROMOTION OF SMALL-SCALE ENTERPRISES IN ZIMBABWE
11. SUB-CONTRACTING FOR SSEs IN ZIMBABWE
12. OVERVIEW OF ITDG EXPERIENCE
13. IBDC: MEMBERSHIP PROFILE & BUSINESS EXTENSION AND ADVISORY SERVICES

ABBREVIATIONS AND CURRENCY

Abbreviations

AAB	Affirmative Action & Marketing Bureau
AEF	Africa Enterprise Fund
AGRITEX	Agricultural, Technical & Extension Services
ATI	Appropriate Technology International
BESA	Business Extension & Advisory Services [IBDC]
BRIDI	Business Research & Industrial Development Institute [IBDC]
CASE	Consulting Assistance to Small Enterprises [SEDCO]
CGC	Credit Guarantee Corporation
CIDA	Canadian International Development Assistance
CKD	Completely knocked down
CMB	Cotton Marketing Board
CMT	Cut-Make-Trim
CMI	Cottage manufacturing industries
CSC	Central Statistics Office
CTA	Chief Technical Adviser
CZI	Confederation of Zimbabwe Industries
EDP	Entrepreneur Development Programme [SEDCO]
EMCOZ	Employers' Confederation of Zimbabwe
EMPRETEC	UNCTC programme to promote the participation of transnationals in the development of entrepreneurship & small/medium enterprises
ENDA	Environment and Development Agency
ERP	Economic Reform Programme
FNF	Friedrich Neuman Foundation
GEMINI	Growth & Equity through Microenterprise Investments & Institutions
GFCF	Gross Fixed Capital Formation
GMB	Grain Marketing Board
IBDC	Indigenous Business Development Centre

IFC	International Finance Corporation
IGP	Income Generating Project
ILO	International Labour Organisation
ISIC	International Standard Industrial Classification
ITDG	Intermediate Technology Group
ITTU	Intermediate Technology Transfer Unit
MMCZ	Minerals Marketing Corporation of Zimbabwe
MSE	Micro and small-scale enterprises
NERFUND	National Economic Reconstruction Fund
NGO	Non-Government Organisation
NPC	National Project Coordinator
ODA	Overseas Development Administration [UK]
OGIL	Open General Import Licence
ORAP	Organisation of Rural Associations for Progress
PBC	Private Business Corporation
POSB	Post Office Savings Bank
RMT	Road Motor Transport
SDF	Social Development Fund
SEDCO	Small Enterprise Development Corporation
SIDU	Small Industries Development Unit [CZI]
SIRDC	Scientific & Industrial Research & Development Council
SBDC	Small Business Development Corporation
SBSD	Small Business Services Division [ZIMBANK]
SBU	Small Business Unit [other banks]
SDF	Social Development Fund
SKD	Semi-knocked down
SME	Small- and medium-scale enterprises
SPSS	Statistical Package for the Social Sciences
SSE	Small-scale enterprise

SSI	Small-scale industry
SSIFU	Small-Scale Industries Facilitation Unit
SSM	Small-scale manufacturer
SSMAZ	Small-scale Miners' Association of Zimbabwe
UNCTC	United Nations Centre for Transnational Corporations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
VCCZ	Venture Capital Corporation of Zimbabwe
WIBA	Women in Business Association
ZDB	Zimbabwe Development Bank
ZDF	Zimbabwe Development Fund
ZIMBANK	Zimbabwe Banking Corporation
ZISCO	Zimbabwe Iron and Steel Corporation
ZMDC	Zimbabwe Mining Development Corporation
ZNCC	Zimbabwe National Chamber of Commerce
ZSE	Zimbabwe Stock Exchange
ZUPCO	Zimbabwe United Passenger Company
ZWFT	Zimbabwe Women's Finance Trust

A Note on Currency

"Dollar" and "\$" refer throughout the report to the ZIMBABWE DOLLAR. As of mid-October 1992, the exchange rate with the United States dollar was approximately Z\$5 = US\$1.

S U M M A R Y

The system of racial exclusion practiced by the previous government ensured that, at Independence, the majority of the population had had little opportunity to participate in entrepreneurial activity. Although the racial restrictions were formally removed, economic policy and the dominance of the established enterprises have continued to restrict the emergence and growth of small-scale enterprises. In terms of overall numbers, a recent survey estimates that the small-scale sector in Zimbabwe is larger than is commonly assumed (845 000 enterprises offering some degree of employment to 1,6 million people), but closer examination of the data reveals that most of those enterprises are home-based activities through which an attempt is made to supplement incomes. This is more a reflection of the failure of the economy as a whole to provide adequate employment opportunities than an indication of a viable small-scale sector.

When examining the prospects of a category of small-scale enterprise that is slightly larger and better placed to grow, it is clear that this category has been prejudiced by past economic policies which have explicitly given privileged access to key resources (particularly foreign currency) to established enterprises, as well as by a panoply of restrictive regulations. With the decision of Government to embark on a comprehensive Economic Reform Programme, embracing monetary and fiscal policies, trade liberalization, deregulation and a "social dimensions of adjustment" component, many of the restrictions that have impinged on the small-scale sector, including access to imports, are due to be progressively eliminated over the period of implementation of the programme (1991-1995).

Under this programme, the small-scale sector will assume increasing importance, particularly in terms of employment provision, as the initial employment impact of the programme is expected to be negative (public service retrenchments and loss of jobs in the private sector as uncompetitive firms are forced to close down). Although the removal of restrictions and opening up of imports should be positive for the small-scale sector, the reduction in demand for the sorts of goods and services it commonly produces, the sharp rise in the price of inputs, the

tightening of credit markets and increased pressure of competition from new entrants, established industry and from imports, are all counter-vailing factors arising from the Economic Reform Programme.

In order to assist the small-scale sector to make the most of emerging opportunities, and minimize the negative factors, the strategy that is recommended in the report (Chapter 13) covers the following elements:

- (1) Articulation of a clear policy stance on SSEs
- (2) Stimulation of demand for products of SSE
- (3) Elimination of unnecessary regulatory impediments to SSE development
- (4) Simplification of company registration and tax concessions for SSEs
- (5) Improvement in information, extension and referral services and the provision of training
- (6) Provision of resources for financing of SSEs
- (7) Facilitation of investment by SSEs
- (8) Provision of infrastructure for SSEs
- (9) Support for SSE operating in particular sectors
- (10) Special consideration for the needs of women
- (11) Co-ordination and institutional support to SSEs

Suggestions are made (in Chapter 14) about the content of the policy statement. Although taking account of issues pertaining to the Economic Reform Programme period, the policy statement is to stand over the longer term. The elements suggested for the policy statement are as follows:

- * demand stimulation (macro-economic policy, parastatal reform, sub-contracting, tendering, creation of competitive business environment);
- * regulatory environment (zoning and licensing, building codes, Factories and Works Act, road transport permits, existing urban transport monopoly, agricultural marketing regulations);

- * company registration and taxation (simplified company registration and tax incentives for small enterprises, extension of growth point incentives to all rural centres);
- * information, referral, training and extension (augmentation of existing facilities, greater use of referrals between agencies with different specializations, education activities to cater for longer-term entrepreneurial development);
- * finance (provision of funds so that small-scale is not prejudiced by credit squeeze, support to existing finance institutions, encouragement to others to start, possibility of savings institutions becoming involved in financing SSEs);
- * investment, technology and capital goods (phasing of trade liberalization to favour the small-scale sector, foreign currency fund or line of credit to finance imports during transitional period, development and dissemination of technology for SSEs);
- * growth points and decentralization (growth point development teams, public works programme);
- * urban work spaces (combined with training, extension and technology transfer).
- * sector specific interventions (support by the relevant Government Ministries and parastatals);
- * co-ordination and institutional support (formation of a Small Scale Industries Facilitation Unit to work on policy formation and information sharing between support agencies inside and outside of Government).

Overall institutional responsibility within Government for small-scale enterprises rests with the Ministry of Industry and Commerce. Other key ministries identified in Chapter 14 are the Ministry of Finance, Economic Planning and Development, the Ministry of Labour, Manpower Planning and Social Welfare, which is to administer the Social Development Fund, the Ministry of Local Government, Rural and Urban Development, the Ministry of Energy and Transport and the newly constituted Ministry of National Affairs, Employment Creation and Cooperatives.

Complementing existing activities by other agencies, a UNIDO Small Scale Industry Project is proposed in Chapter 15. The establishment of the Small Scale Industries Facilitation Unit, alluded to above, would be a central component, but the project would also establish a Refinance Facility based on blocked and surplus funds to improve the availability of funds for SSE

financing at reasonable rates of interest, assist government and local authorities in identifying sites and support services for Enterprise Development Zones appropriate for SSEs, and promote an Advisory Facility to provide technical and managerial counselling to SSE entrepreneurs.

Some of the other projects identified follow from the UNIDO project: for example, other agencies are expected to finance Enterprise Development Zones at particular locations and/or focussing on particular sectors (such as metalwork, clothing, foodstuffs, agro-industries, woodwork or leather work) once the UNIDO project has elaborated a project document and demonstrated viability. Other projects under consideration include the promotion of sub-contracting, the use of existing technical and vocational training institutions to augment training for small-scale entrepreneurs, a publicity and information campaign, and a project to develop rural women-dominated SSEs, concentrating mainly, but not exclusively, on agro-processing activities.

SUPPORT TO SMALL-SCALE INDUSTRIES & ENHANCEMENT OF INDIGENOUS OWNERSHIP

PART A - CONTEXT AND APPROACH

CHAPTER 1: ECONOMIC CONTEXT

1.1 STRUCTURE OF THE ECONOMY AT INDEPENDENCE

At its Independence in 1980, Zimbabwe emerged from a bitter war of liberation. International support for the struggle had been given through the imposition of economic sanctions after the Unilateral Declaration of Independence by the minority government in 1965. Somewhat ironically, the policies which were put in place to cope with sanctions resulted in considerable diversification of economic activities, enhancement of skills and industrial deepening, at least in the mainstream of the economy.

The most important policy instrument adopted was a comprehensive foreign exchange allocation mechanism. This was used to ensure that the country did not run into balance-of-payments problems (the scope for international borrowing being extremely limited), while at the same time allowing the manufacturing sector to develop under comprehensive protection. The forced re-investment of profits by multi-nationals aided the rapid growth that took place up to 1974. Thereafter, the combination of the effects of the oil shock and intensification of the liberation struggle, particularly with a new front being opened after the Frelimo government came to power in Mozambique, led to stagnation and decline, forcing the regime to negotiate the Lancaster House settlement.

At Independence, on paper the structure of the economy was relatively diversified and robust. The agricultural sector was strong, providing food self-sufficiency and major crops for export. The mining sector was also important as a foreign currency earner, while the share of the other major productive sector, manufacturing, was over 25% of GDP, a figure often taken as a benchmark for being 'industrialized'. These sectors contributed to the diversification and hence relative robustness

of exports; Table 1.1 gives the structure of trade in 1984, when the post-sanctions adjustments had been made¹.

Underlying the macro-economic statistics, however, the structure of the economy exhibited deep problems. Besides the gross inequities in the ownership of assets, which are presented in Section 2.1 below, inequality of income was such that average white income was over 10 times average black income in the formal sector, and about 25 times that of families in the communal areas. In such circumstances, structural change was a political necessity, but the inward-looking and import dependent character of the economy implied that severe balance-of-payments problems would emerge as soon as a strategy for growth or structural change was introduced.

TABLE 1.1: STRUCTURE OF FOREIGN TRADE IN 1984

<i>Exports</i>	<i>%</i>	<i>Imports</i>	<i>%</i>
AGRICULTURE	41,0	AGRICULTURE	7,9
Tobacco	20,1		
Cotton	8,2		
Sugar	3,9		
Coffee & Tea	3,8		
Meat & Hides	3,5		
Other agric	0,5		
MINING	26,9	MINING	1,5
Gold	11,2		
Asbestos	5,2		
Nickel	4,4		
Copper	3,0		
Coal & Coke	1,1		
Other Mining	2,0		
INDUSTRY	32,1	INDUSTRY	90,6
Ferro-Alloys	10,8	Machinery & Equip	27,1
Iron & Steel	4,0	Energy (oil+elec)	20,9
Textiles	3,5	Chemicals	16,8
Chemicals	1,8	Consumer Goods	8,1
Machinery & Equip	1,5	Metal Goods	4,8
Other Manufactures	10,5	Textiles, Paper	4,7
		Cable, Tools, Spares	4,0
		Iron & Steel	3,4
		Other Intermediates	0,8

Source: First Five Year National Development Plan, p 8.

¹ Further details about the manufacturing sector are given in Appendix 11.

1.2 POST-INDEPENDENCE POLICIES AND PERFORMANCE

Emerging from a period of serious economic disruptions and deep social inequalities, the new Government sought to ensure the stability necessary for economic growth while at the same time articulating structural, economic and social changes consistent with the attainment of equity. To address the imbalances, particularly in the ownership structure of the country's wealth, the Government opted for a socialist orientation. The main elements of the previous government's policies were adopted, thereby ensuring a smooth and undisrupted transition, but were re-interpreted to be consistent with the new ideology. In particular, the foreign currency allocation system was embraced as a mechanism to control investment and orient the production structure to better serve the needs of the mass of the population.

In the first two years of Independence, which coincided with the removal of trade sanctions and very favourable weather conditions, the economy experienced high rates of growth (11% and 10% respectively). Thereafter, however, a combination of drought, adverse world economic conditions, and domestic economic policy which emphasized expansion of social services, and more generally of government, at the expense of productive investment, led to low or even negative rates of GDP growth being registered. Balance-of-payments problems developed from 1983, and were controlled by suppressing imports through the allocation mechanism, while introducing a range of export incentives, which, however, had little impact on improving the supply of foreign currency. As a result, overall the annual average GDP growth during the 1980s was less than 3% pa, resulting in stagnant or declining GDP per capita.

Although the economic policy of the new government was not actively antagonistic to capitalist development, it was assumed by the private sector to be so. The close working relationship between government and industry, that had been part of the explanation of the success of industrialisation under sanctions, ceased to exist. Various measures were taken to redress the gross inequalities in the ownership of assets, but these were not implemented with sufficient vigour to significantly change the

situation that was described at Independence (this is discussed in more detail in Chapter 2).

1.3 ECONOMIC REFORM PROGRAMME

The decision of the Zimbabwe Government to undertake a comprehensive Economic Reform Programme [ERP] over the period 1991-1995, marks an important turning point in the country's economic policy-making. The ERP covers all of the main elements of structural adjustment programmes - deregulation, trade liberalization, macro-economic stabilization, and a 'social dimensions' element to ease hardships on the population - but the term 'economic reform' is preferred by Government to 'structural adjustment' because of the inherently negative connotations of the latter, especially in Africa.

Unlike most other African countries, which embarked on structural adjustment in situations of extreme economic crisis where no other alternatives were perceived to exist, the Zimbabwe economy was in relatively good shape. The diversification of productive activities and of exports had continued over the first decade of Independence, there was a tolerably low level of inflation and a manageable foreign debt. However, foreign currency shortages, reflecting inadequate export performance in relation to an import dependent economy, remained a persistent brake on development. No other African countries could during the 1980s boast that they were net importers of food only in severe drought years, while at the same time that 96% of private consumption was satisfied through domestically produced goods and services (albeit that these had an indirect import content, bringing the total import content of private consumption to around 20%)².

The lack-lustre growth performance of the economy had led to a rapidly exploding problem of under- and un-employment. Following the success in expanding health and education facilities after Independence, Government was clearly alarmed not just at the numbers of people involved, but the political significance of the unemployed being increasingly well-educated and articulate. In

² Calculated from Zimconsult input-output table: First Five Year National Development Plan, p 54.

numerical terms, in recent years only about 35 000 new jobs have become available in the formal sector³, while school-leavers have numbered as least 200 000.

The root cause of this poor performance was the decline in investment, particularly productive investment. Whereas investment was around 25% of GDP in the early 1970s during the growth peak of the UDI period, it had declined before Independence, picked up and declined again to less than 20% of GDP by the mid-1980s, with a continuing decline in private sector investment (12% of GDP in 1985, 8% of GDP in 1987)⁴. The situation had initially been contained through expansion of Government (directly through providing some with jobs and indirectly through expanded services), but the high budget deficit could only be financed in a non-inflationary way through the banking system re-cycling the surpluses of the productive sector. These surpluses should have been put into investment, but went instead into financing the deficit.

The main reason for the lack of productive investment was lack of access to the foreign currency needed for imported machinery and equipment. Much of the capital stock is aged beyond the point where it is economic to maintain it; to compete in export markets, extensive re-equipping has become necessary. Some of the other main reasons for low investment revolve around the web of bureaucratic procedures that have come to dominate the time of entrepreneurs and managers.

The strategy that Government has developed to increase investment and hence growth and employment is to borrow the foreign currency needed for investment, reduce the bureaucratic requirements for investment and the conduct of business, reduce the budget deficit to make 'room' for an investment boom, while at the same time increasing incentives to export. In practice, failure to reduce the budget deficit quickly enough has put pressure on the money market, and other problems in the implementation of the Economic Reform Programme have been massively compounded by the very severe drought being experienced in 1992. Not only has this had

³ CSO Quarterly Digest of Statistics, Table 5.

⁴ Zimbabwe: A Framework for Economic Reform (1991-95), p 2; 15% figure quoted there for GFCF in mid-1980s does not tie up with table of Key Macroeconomic Indicators following p 27.

a marked negative effect on the agricultural sector, the macro-economic effects of reduced exports and increased imports and of power rationing because of a lack of water at the Kariba hydroelectric power station, as well as the overall reduction of domestic purchasing power have given rise to a severe economic depression.

The immediate prospects for an investment-led recovery have thus disappeared. Export performance and investment to sustain it have to be put back on track as soon as possible, because the success or otherwise of the programme ultimately will hinge on whether the export response is adequate and sustainable, enabling repayment of the borrowed funds and a diminution of the foreign currency shortage which in the past has been the major constraint on growth and development.

Deregulation, reduction in the size of the civil service and reform of parastatals to make them more business-oriented are relatively uncontroversial. What had been more of a stumbling block in the debate preceding the formulation of the overall economic reform programme, was the issue of trade liberalization. To an extent, trade liberalization is a logical and necessary component of deregulation, because the rationale for many of the bureaucratic interventions which are now recognized as inimical to growth (such as price control) can be traced back to the foreign currency allocation system. However, trade liberalization has also to be considered in the context of industrialisation, including its impact on small-scale industries. The key question relates is whether trade liberalization will destroy what had been achieved under the protection of the foreign currency allocation system, or whether an opening up to international competition is now necessary to further the process of industrialisation and overcome the underlying balance-of-payments constraint which has depressed growth during the 1980s.

Considering that tight protection has been in place at least since international sanctions were imposed against Rhodesia in 1965, time is clearly needed for economic agents to adjust. Nonetheless, many consider the 4-year timetable for full trade liberalization to be over-ambitious, particularly when account is

taken of present infrastructural bottlenecks (water supply to key cities; electricity, telecommunications and transport nationally) and a shortage of skills, likely to be exacerbated in future by a significant "brain drain" to a post-apartheid South Africa. If the pace of trade liberalization is forced, gratuitous de-industrialisation in sectors which have not had sufficient time to modernize, invest and streamline could well be the result. At the same time, if the productive sectors fail to respond rapidly enough in terms of exports, investment and new jobs, the whole programme will be in jeopardy and the social costs will be very high.

For the small-scale entrepreneur, full trade liberalization will mean access (albeit at higher post-devaluation prices) to the imported machinery, spare parts and raw materials that have previously been monopolized by the established firms which were already included in the foreign currency allocation system. It will also, however, mean lower demand as incomes fall, at least in the short run, and greater competition not only from domestic suppliers, but from imports of final products from the rest of the world⁵.

1.4 ROLE OF SMALL-SCALE ENTERPRISES

The foreign currency allocation system which, as already explained, was the linchpin of economic policy before and after Independence, constituted a strong bias against new entrants, including small-scale industries. Project applications were approved in cases where existing enterprises in the sector in question were incapable of adequately supplying the domestic market, or where projects were export oriented. Once approved, enterprises would be put into the system for the allocation of foreign currency for imported inputs on a recurrent basis.

Attempting to ensure that investments will be put to good use by being supplied with the necessary inputs is a responsible policy, but it had the consequence of all-but excluding small enterprises from sectors requiring imported inputs, unless they were sufficiently established and well-organized to put up a formal

⁵ These issues are discussed further in Chapter 13.

project application and have it accepted by the authorities. Those small enterprises that emerged without such formal status were usually dependent on others for their supplies of imported raw materials, and thus faced both higher prices and greater insecurity and variability in supply than their established counterparts.

The removal of racial restrictions at Independence was an important step in opening up opportunities for the establishment of businesses, but in addition to the foreign currency allocation system, other forms of regulation were maintained and in several cases came to be more stringently applied than had been the case before Independence. As a result, entrepreneurs have been subject to a panoply of national and local government requirements and regulations which have made it difficult to start and to operate small-scale enterprises (the details are spelt out in Chapter 7).

In particular, the physical planning (zoning) restrictions have resulted in SSEs having limited visibility in the cities and towns of Zimbabwe. Conventional wisdom has been that Zimbabwe's development has resulted in an economy where the total dominance of large-scale industry has prevented the small-scale sector from assuming its expected role. This picture is belied by recent research which shows that micro and small-scale enterprises [MSEs], the majority of which are located in the home rather than in zoned commercial or industrial areas, are as numerous as in other countries of the region (details are given in Chapter 4).

The study suggests that as many as 25% of the adult population are involved in MSEs in Zimbabwe, most being involved on a full-time year-round basis. Yet the contribution from such enterprises to household income is relatively modest, with only just over half of the MSE households reporting that the enterprises provided more than half of household income. The picture that emerges is less one of success of the MSE sector as one of failure in the broader economy to provide adequate levels of employment and income. To a significant extent, the MSEs are a residual sector through which those without employment or other means of support attempt to supplement their income, often working very long hours for low returns. There are, however,

some MSE enterprises which are dynamic, and it is these which are to be identified and supported.

With the unfolding of the Economic Reform Programme, the initial impact on formal employment is acknowledged to be negative. According to the official Government document, about 20 000 employees in businesses unable to withstand internal competition may lose their jobs. Ten thousand civil servants and 2 000 parastatal employees will be retrenched. As of August 1992, the official figures for retrenchment were 6 664 (2 660 in the public service and 4 004 in the private sector), although the true figures are believed to be much higher⁶. Through the Social Development Fund, which is being set up under the Ministry of Labour, Manpower Planning and Social Welfare to implement the Social Dimensions of Adjustment Programme, those retrenched as well as others who are not in employment for whatever reasons, are to be assisted to create their own employment through starting small-scale enterprises, although the adequacy of financing for this purpose is unclear (this is discussed further in Section 13.2).

The failure of the formal economy to expand employment opportunities at an adequate pace, the negative short-term prospects from the ERP and the inability of the traditional recourse (subsistence agriculture in the communal areas) to remain the provider of last resort due to increased population pressures and environmental degradation, has generated a certain euphoria about small-scale enterprises, the only immediate hope for redressing unemployment. Undoubtedly, SSEs will have a critical role to play in providing employment, particularly in the next decade as new opportunities arise in an environment that is less antagonistic than before to small enterprises (see Chapter 13 for the Potential Role of SSE under the ERP), but too much should not be expected and other priority areas should not be neglected just because SSE development is presently in vogue.

There are several related reasons why caution is in order. Firstly, the assumption that small-scale enterprises are

⁶ In a statement made in the House of Parliament by Deputy Minister Chitauri (March 1992, August 1992). With the additional impact of the drought, private sector retrenchments must be much higher (reported to be over 4 000 just from the lowveld sugar estates).

necessarily more labour intensive and consistently more technically efficient in the use of resources than their larger counterparts has not been borne out by empirical investigation in other developing countries⁷. In the transitional period in Zimbabwe, where the existing productive structure is the base of the economy, the promotion of large-scale enterprises remains a defensible goal, provided this does not impinge on the scope for strengthening the SSE sector. The eventual aim is to ensure that prices come to reflect relative scarcities of resources; provided then that there are checks on monopolies, firms of all sizes should be able to enter markets and compete.

Secondly, while the potential for SSE development in a country like Zimbabwe, where SSEs have been consciously stifled for so long, is immense, a realistic appraisal of the skills base, level of entrepreneurial development and availability of support services suggests that the rate of growth of the SSE sector is unlikely to be spectacular. It will probably be decades before the full potential of SSEs is realized, a factor to be borne in mind when considering policy measures. While there is obvious need for expanded extension, training, and financial services for the present generation of SSEs, it is also important to initiate programmes with much longer time horizons, such as the introduction of entrepreneurship courses into school curricula.

Finally, prospects for SSE in the rural areas, where the majority of the people reside, will remain limited without firm commitment to land reform and rural development in all its dimensions. Mobilizing the massive resources required for this will depend on the political commitment emerging to extract resources from growth in the formal sector for use in the rural areas. Provision of an adequate level of infrastructure and the stimulation of the rural economy so as to provide the income for demand to be effective will immensely improve prospects for SSE, while the expansion in turn of the range, size and sophistication of the SSE sector could have an important role in sustaining rural growth.

⁷ See Little (1987) "Small Manufacturing Enterprises in Developing Countries" World Bank Economic Review, Volume 1, Number 2. Distortions in the economy probably have more to do with explaining such outcomes than that entrepreneurs are using resources irrationally.

CHAPTER 2: THE ISSUE OF INDIGENISATION

2.1 INDIGENISATION AS A NATIONAL ISSUE

Situation at Independence

The origins of the Liberation War lay in the system of racially differentiated access to economic resources that the Rhodesian government had entrenched. Through curtailment of political rights and limited educational opportunities, as well as through the enactment of specific items of discriminatory legislation, blacks were denied access to a wide range of professional and technical jobs in both the public and private sectors of the economy. Entrepreneurship amongst blacks was tolerated only in a small number of specific areas, such as long-distance buses and rural trading stores.

As a result, at Independence the productive forces of the economy, outside of the low productivity 'communal areas', were in the hands of the state (about 16%), white and, to a lesser extent, Asian, citizens (28%), or were owned by foreign interests (56%), based predominantly in the UK or South Africa. Black participation in the economy was limited to wage labour, subsistence agriculture in the communal areas (accounting for about 5% of GDP), the circumscribed petty entrepreneurial activities described above and a range of micro-scale 'informal' activities (together probably less than 1% of GDP). These existed as a livelihood of last resort for the unemployed in the urban areas, but were subject to stringent control by the authorities⁸.

Actions by the Independence Government

While bemoaning the gross inequalities in ownership of the means of production, the new Government did not introduce a comprehensive programme to change this situation. Such a programme would have involved direct promotion of black entrepreneurs in the private sector. A modest start was made through setting up the Small Enterprises Development Corporation

⁸ Figures inferred from C Stoneman and R Davies "The Economy: An Overview" in Stoneman (ed) "Zimbabwe's Inheritance", College Press and Macmillan, Harare, 1981, p 118.

[SEDCO], which became operational in 1984, but this was undercapitalized and was not able to service more than a small proportion of its potential clientele (see Section 9.3). The other development finance institution which was established by Government (the Zimbabwe Development Bank, operational from 1986) in practice concentrated on supporting existing enterprises.

Rather than attempting directly to change the composition of ownership, the emphasis instead was on changing the racial balance within existing structures. The Prime Minister's Directive of 1982 required an affirmative action programme within the civil service and parastatals. The racial balance in the senior management of some private companies was changed when Government acquired majority shareholdings (typically through buying out South African interests in those companies). Government, although constrained by the provisions of the constitution negotiated at Lancaster House, introduced a land resettlement programme.

Unemployed ex-combatants and others were encouraged to join together to form co-operatives. Some assistance was given by Government and NGOs to the co-operatives, but with few exceptions these were not well financed, members were not equipped with adequate technical and managerial skills, and the socio-economic context was not conducive to furthering the ideals of the co-operative movement. Many co-operators came to feel that they were being marginalised in a structure where it was legally permissible for them to earn below statutory minimum wages. Some of the co-operatives were part of the resettlement programme (the so-called 'Model B' schemes); the failure rate of these was particularly discouraging as they wiped out the productivity of what had formerly been some of the best commercial farms, implying a high opportunity cost for the country in foregone production of food and crops for export.

The other resettlement models tended to be more successful, but the extent of the programme hardly made a dent on the overall ownership structure of the economy. Only 52 000 families have been resettled over a 10 year period out of over 1 million families residing in the overcrowded communal areas. This involved about 3,2 million hectares. Current proposals are to

resettle an additional 110 000 families on up to 5 million of the 14 million hectares still under the control of the large-scale commercial farming sector⁹.

Government recognizes that the pace of development of indigenous business has been very modest in relation to the need to redress past imbalances. Changing the pattern of ownership of the economy remains a key goal, as is made clear in the President's Foreword to the Second Five Year National Development Plan.

Parliamentary Select Committee on Indigenisation of the Economy

The Parliament of Zimbabwe has also voiced concerns about the slow progress in indigenisation, and in April 1991 set up a Select Committee to look into all aspects of indigenisation of the economy, in particular the adequacy of necessary and supportive legislation. The Committee took oral and written evidence from a large number of individuals and organizations, visiting the eight provinces to do so.

The Committee's First Interim Report was presented to Parliament in March 1992. The main issues it deals with are access to land and the problems arising from the present tenurial system; problems within the agricultural sector; the indigenisation of professional and engineering services; the taxation system; and the need for affirmative action. Besides calling on Government to formulate a "definite and decisive policy on the indigenisation of the economy"¹⁰, some of main specific recommendations of the Committee were as follows:

- * that title deeds be allowed in rural and communal areas, and that all means be pursued to simplify surveying requirements and overcome the shortage of surveyors which operationally prevents title deeds from being issued in practice;
- * that the Constitution be amended to remove the constraints on significant land reform; Government should at the same time ensure better infrastructural facilities for indigenous producers and better access to services such as extension and credit;

⁹ Figures from the ERP document *Zimbabwe: A Framework for Economic Reform (1991-95)*, p 17.

¹⁰ Parliament of Zimbabwe "First Interim Report of the Select Committee on the Indigenisation of the Economy", Harare, March 1992, page 22.

- * that Government should seek to build up local consultancy services;
- * that the tax authorities should educate the public about the tax system and their obligations within it, decentralize their operations, introduce a special tax regime to assist indigenous business persons (discussed in Section 14.4), replace sales tax with a value added tax and encourage indigenous entrepreneurs to register their business concerns;
- * that Government should strengthen the financial institutions offering credit to SSEs, give affirmative action preferences to indigenous firms bidding for Government tenders, and enact legislation to restrict and control monopolies.

The work of the Committee has given an opportunity for individuals and organizations to express their views on critical national issues, and has contributed to the quality of debate in Parliament. The most definitive step taken by Parliament during the period following the publication of the Committee's Interim Report was the passage of the Land Acquisition Bill. Many of the other issues raised in the Committee's recommendations were already under active consideration by Government, but new urgency has been given through the activities of the Committee and the associated publicity.

2.2 INDIGENISATION AND SSE

Formation of IBDC

In view of the mounting unemployment crisis in the late 1980s and the impending structural adjustment programme, a group of prominent black businessmen held a series of meetings with the President to discuss the role of indigenous business in Zimbabwe. This initiative resulted in the formation in December 1990 of the *Indigenous Business Development Centre* [IBDC]. It was partly through pressure from IBDC that Parliament set up the Select Committee on Indigenisation of the Economy in April 1991. In June 1991, IBDC held its first National Congress, which was enthusiastically supported by its membership. The Congress was opened by the President, addressed by four senior government ministers, the Governor of the Reserve Bank and distinguished speakers from abroad.

At the time of the Congress, the organization described itself as follows:

IBDC is a grassroots organization founded by African business men and women to address the needs and aspirations of indigenous business people. Indigenous ingenuity and initiative in the manufacturing, mining, agricultural, and commercial sectors have been frustrated by the lack of access to finance, technology, skills and inputs. IBDC's programme of action calls on the government to adopt a parallel employment-driven business development programme, which seeks to enhance the level of indigenous participation in the economy through the promotion and support of small and medium sized businesses.

The programme of action that is referred to above identifies the availability and cost of finance, the lack of land and basic utilities and the regulatory environment as the major problems facing the SSE sector. Drawing an analogy with the institutionalized support that exists for small-scale agriculture, IBDC proposes the establishment of institutions to assist in financing SSEs, identifying business opportunities, providing extension and advisory services and securing markets. Institutions to control or remove monopolies and restrictive business practices amongst established enterprises are also proposed by IBDC (more detail is given in Section 10.1).

Small-scale Enterprises

One of the criticisms that has been levelled at the IBDC is that the "indigenous", taken to mean "black", focus is regressive, harking back to the pre-independence era when economic and social issues were defined in racial terms. The IBDC response is that the objective is the promotion of Zimbabwean enterprise, irrespective of colour, but with emphasis on those who have not before had a chance to participate fully in the economy but are now starting out. The IBDC focus is thus on the promotion of small-scale enterprise.

The recent and comprehensive survey of micro- and small-scale enterprises by GEMINI, included a question about the ethnic

category of the proprietor¹¹. The results are presented in Table 2.1 below.

TABLE 2.1: ETHNIC CATEGORY OF PROPRIETORS OF SSEs

Percentage	<u>Home Based</u>		<u>Outside Home</u>		Weighted Total
	Urban	Rural	Urban	Rural	
Black Zimbabwean	97,7	98,5	92,1	96,2	97,5
White Zimbabwean	1,4	,0	3,9	1,7	,9
Indian	,0	,0	1,5	,4	,2
Chinese/Korean	-	-	,1	-	,0
White South African	-	-	,1	-	,0
Other African	,9	1,5	1,5	1,2	1,3
Other	-	,0	,8	,5	,1

Note: - indicates no cases, while ,0% indicates less than 0,1%

Source: Zimconsult analysis of GEMINI survey data.

Table 2.1 shows that black Zimbabweans are the proprietors in over 97% of the SSEs surveyed overall. This proportion is lower in the SSEs located outside the home, but even in the urban areas, black Zimbabweans are proprietors in over 92% of cases. It is interesting to note that "Other African" ownership is as large as ownership by minority Zimbabwean groups.

From the above, it is clear that the IBDC focus on the promotion of small-scale enterprise implies concentrating almost exclusively on a black Zimbabwean clientele. In this report, a similar approach is adopted. Measures to stimulate SSEs in Zimbabwe will inevitably enhance the indigenisation of the economy. Thus, while the issue of indigenisation is touched upon in various places in the report, the report concentrates on strategies to promote SSEs. The specific measures and policies which are recommended relate to SSEs development, and thus implicitly rather than explicitly to the enhancement of indigenisation.

¹¹ The survey is reported in detail in Chapter 4.

CHAPTER 3: DEFINITIONS AND APPROACH

3.1 DEFINITIONS

Micro, Small, Medium and Large Enterprises

The Terms of Reference for this study (see Appendix 1) on "Support to Small-Scale Industries and Enhancement of Indigenous Ownership" do not provide a definition of "small-scale industries" or of "indigenous ownership". The intention of the TOR would not appear to be restrictive, but rather to have the study cover a very wide spectrum of enterprises (whether or not "industrial"), particularly when dealing with the issue of indigenisation, with a focus, however, on small and micro enterprises, particularly those located in the rural areas¹².

Due to the paucity and poor quality of financial data such as capital invested or turnover, the most practical definition of enterprise size would be in terms of employment. The following definitions are proposed, with the number employed including working proprietor(s):

micro enterprise:	less than 5 employed
small-scale enterprise:	between 5 and 10 employed
medium-scale enterprise:	between 10 and 50 employed
large-scale enterprise:	over 50 employed

In the GEMINI study which is discussed in detail in the next chapter, a comprehensive survey of all enterprises with less than 50 employees was carried out. By the above definitions, the overwhelming majority (96,5%) were micro-enterprises, 2,3% small-scale and 1,2% medium scale. If weight of numbers is anything to go by, the emphasis in this study should clearly be on micro-enterprises.

However, as is argued in several places in the report, the preponderance of micro-enterprises is largely a reflection of the inability of the economy to provide satisfactory employment

¹² This focus was formally recorded in a fax dated 5 March 1992 from Ms Cynthia Walker of UNIDO, Vienna.

elsewhere. Most of the micro-enterprises have little prospect of becoming more than a residual employer at a low level of income. From a policy viewpoint, the small- to medium-scale enterprises, together with the more dynamic micro enterprises, must be the focus of attention.

In this report, the category of enterprise being referred to is often left deliberately ambiguous. This is in part because the employment distinction is not altogether satisfactory. For example, in Chapter 9, on Financial Institutions, it is the size of the project and the loan or equity contribution that is of relevance and this may be poorly correlated with the number employed in the enterprise. Definitions are particularly blurred in that chapter, because the financial institutions often cater for a very wide range. An "emergent" entrepreneur, an expression usually taken to mean that he or she is black and going into business for the first time, may be included in the small business portfolio of a bank, even if the loan runs into millions. At the same time, there may be individual clients with very small overdraft facilities, who are also part of the small business portfolio.

Abbreviations

Where the specification is deliberately imprecise, the abbreviation SSE is used to refer primarily to small-scale, but may also include some micro and medium-scale enterprises. SSI (small-scale industry) is used when the reference applies only to manufacturing industries. As the GEMINI survey specifically looked at micro and small-scale enterprises, the abbreviation MSE is used in Chapter 4, even though, as indicated above, there are a very small number of medium enterprises in the sample. In some other places, where the emphasis is on small- and medium-scale enterprises, the abbreviation SME is used. These abbreviations are now commonly used in the literature on small-scale enterprises, and should not cause undue confusion.

"Informal Sector"

The term "informal sector" was coined by a 1972 ILO Mission to Kenya to highlight an important set of activities that were

"largely ignored, rarely supported, often regulated and sometimes actively discouraged by the Government"¹³. These activities were characterized by ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale of operation, labour-intensive and adaptive technology, skills acquired outside of the formal school system and unregulated and competitive markets.

Since that time, the term has come to be widely used, even though "the informal sector is a collection of economic activities which defies a precise and universally acceptable definition". This last comment is from the World Bank report on "The Informal Sector in Zimbabwe: the Role of Women" [p 1]. It goes on to say that a number of indicators are usually used to arrive at a country-specific definition. "Among the indicators are: size of operation (turnover), number of persons engaged (mostly self-employed), capital investment, nature of employment status and income source, zero tax liability and legal status. But even here, the dividing line between formal and informal is essentially arbitrary and wherever it falls on the continuum of economic activity it leaves a grey area at the boundary".

The position adopted in this report is that the search for an adequate definition is bound to be a problematic exercise because the concept of the "informal sector" as an independent analytic category is itself flawed. This is because the "informal sector" is structurally linked to the mainstream economy and arises from the logic of capitalist development. In this context, the "informal sector" can be seen to serve a functional role vis-a-vis the modern sector in reducing the urban/rural income differential necessary to prompt migration, adding another dimension to the labour reserve or welfare role provided by the subsistence sector that helps to keep down wages, and in producing certain goods and services used as inputs in the modern sector at lower cost. As the development of the "informal sector" cannot thus be analytically separated from that of the economy as a whole, the term is best avoided.

¹³ Quoted in G Meier (1978) "Leading Issues in Development Economics", Oxford University Press, p 215.

3.2 STUDY APPROACH

Sources of Information

Given that there has already been a considerable amount of work done on small-scale enterprises in Zimbabwe (see Appendix 2 for Bibliography), the approach agreed with UNIDO to fulfilling the broad requirements of the TOR was to draw on existing sources and work-in-progress by other agencies, as well as to undertake specific pieces of research as part of this study. In particular, it was agreed that the requirement in an earlier version of the TOR for a major survey to be undertaken be dropped in view of the major survey undertaken in 1991 by GEMINI (see Chapter 4). Another important exercise being undertaken at the time that this study was starting was the sub-sector study into the "Small-Scale Metal Working/Light Engineering Industries in Zimbabwe" by Benson Zwizwai and John Powell for the Intermediate Technology Group (ITDG Zimbabwe).

Report Outline

Part B, entitled "Role and Status of SSE and Constraints on Development", starts in Chapter 4 with a summary of the GEMINI report, plus additional information arising from further analysis of the survey data, and a comparison with some of the other surveys that exist. Chapters 5 and 6 then provide summaries of sub-sector studies of agro-based and urban industries respectively, drawing together common themes to deduce promising areas in which to concentrate support activities. Chapter 7, drawing on the sub-sector studies and other work, summarizes the major constraints which SSEs as a whole face.

Part C is devoted to the institutional support structure for SSE that presently exists, and formulating recommendations on how it might be expanded and strengthened. Government, financial institutions, business organization and non-government organizations [NGOs] are the main categories of support institutions analysed, each in a separate chapter. Some overall conclusions and recommendations on support institutions are given in Chapter 12.

Part D deals with the prospects for SSE and the recommended strategy for support, as well as specific suggestions on policy and projects. This part starts with Chapter 13, which covers the potential role of SSE under the Economic Reform Programme [ERP]: the importance of SSE as a residual provider of employment, the positive and negative influences on SSE arising from different elements of the ERP, and a suggested strategy to enhance the prospects for SSE in the face of conflicting pressures and challenges.

Small-scale enterprises are by their nature heterogeneous and disparate¹⁴, and policies, projects and strategies for the promotion of SSEs and the enhancement of indigenisation have to be multi-faceted, with cross-cutting institutional responsibility. Chapter 14 attempts to pull together the factors identified in earlier sections to present suggestions to Government for a comprehensive policy position on small-scale enterprises, together with a listing of specific actions required of Government ministries to ensure the policy is put in place. Chapter 15 summarizes existing projects, as well as the results of the UNIDO Small-Scale Industry Programming Mission, and ideas for projects that would be complementary and supplementary to the multi-faceted project identified for UNIDO support. Finally, Chapter 16 presents a brief conclusion to the study.

The substantive parts of the report (Part B on the SSE and constraints and Part C on support institutions) are intended to stand relatively independently of one another. Similarly, key chapters, such as Chapters 5 and 6 on agro-industries and urban industries respectively, are written to be more-or-less self-contained. The implication for the report as a whole is that there is a degree of duplication between the different sections.

Sub-contractors

The idea of involving sub-contractors in plugging some of the gaps in available information of SSEs was to incorporate a broad cross-section of Zimbabwean researchers in carrying out the work, including those who are working directly with the SSEs

¹⁴ S Moyo (1991) in "Small and Medium-Scale Enterprises in Zimbabwe: A Conceptual Framework" attempts to develop a classification.

themselves. It is more typical in studies of this kind for such agencies to supply the information to the researchers, but inevitably this is done in a rather superficial manner with the agency giving up some time but getting very little back. In this case, various rounds of discussions were held with sub-contractors, including the provision of detailed comments on initial drafts by the Team Leader. Fruitful discussions have led to significant improvements being made to the reports. A workshop to discuss the draft report with sub-contractors and other researchers was held on 8 April 1992. To the extent that the insights gained from these interactions feed into the work with the SSEs, the study has had an important impact beyond that directly associated with the study report.

Team Composition

Zimconsult's role was to take overall responsibility for the study, to recruit and supervise the sub-contractors, and to carry out substantive work on the impact of the Economic Reform Programme on SSE development, on whether new opportunities for sub-contracting between large and small enterprises can be opened up, and on the current state of financial support mechanisms for SSEs (Dr Peter Robinson - Team Leader- and Dr Daniel Ndlela).

While the work of the sub-contractors has been integrated into the text of the main report, their papers have generally been made available as a separate volume of appendices. The order of appendices follows the contents of the main report. Palmer Associates were commissioned to analyse survey results from Mutare, Masvingo and Gweru, as cities of that size had not been included in the GEMINI survey; subsequently, a more detailed paper on the physical planning and related constraints was also requested (Ross Palmer).

In respect of sub-sectoral studies, the work of the Department of Agricultural Economics at the University of Zimbabwe on the implications of grain market reform was summarized and focussed more specifically on the implications for SSE development by Solomon Chigume. ITDG were also asked to write on the prospects for agro-industries under structural adjustment, based on ITDG experience of projects in this area (Stephen Chipika). A study

of the small-scale clothing manufacturing industry was commissioned from IMANI Development (Gloria Mkombachoto and Richard Hess). A paper on the small-scale mining was requested from ITDG, which is one of the few agencies that has been active in that field (Norma Maponga and Ebby Dengu).

APTECH was commissioned to write on technological issues in the promotion of small-scale industries; this paper cross-cuts various sub-sectors as well as addressing various institutional issues (Brian Jones, Nikki Davidson and Gudula Kaiser Hancock). The appendix on sub-contracting does likewise (Daniel Ndleia).

There are also papers dealing directly with support to SSEs: an overview paper of ITDG activities in Zimbabwe (Ismael Sunga and Ebby Dengu) and an analysis of IBDC's membership, their needs and the initial approach to setting up an advisory and extension service (Doris Mugwara and Nkosolati Sibanda). Discussions have also been held with ENDA, particularly during a visit to the ENDA small-scale artisan project located in the Green Market in Mutare (Charles Gore, presently chairing the Small-Scale Enterprise Advisory Group). Work was also carried out on SEDCO (John Gusha, Development Business Consultants) and on NGOs (Thandiwe Henson, IMAGO).

Acknowledgements

The team would like to thank all those in UNIDO, Government, the private sector and amongst the NGOs who have given their support to this study. Many people have been involved; the "List of Persons Met" in Appendix 2 covers only people formally interviewed by Zimconsult; there are many more who have been interviewed by the sub-contractors. In addition, SSE issues have been discussed in innumerable informal encounters, particular at events such as the IBDC/FNF Workshop on Competition and Economic Development in Zimbabwe, held in November 1991, and the meetings of the Small-Scale Enterprise Advisory Group. Comments arising from the workshop organized by Zimconsult on 8 April 1992, supplemented by a written submission from Professor Don Mead, were very useful. Appreciation is also expressed to Mr Seiichiro Hisakawa of UNIDO, Vienna, for his detailed comments and suggestions on the structure and contents of the draft report.

**SUPPORT TO SMALL-SCALE INDUSTRIES &
ENHANCEMENT OF INDIGENOUS OWNERSHIP**

**PART B - ROLE & STATUS OF SSE & CONSTRAINTS ON
DEVELOPMENT**

CHAPTER 4: OVERALL SIZE AND ROLE OF SSE

4.1 SIZE AND CHARACTERISTICS OF SMALL-SCALE SECTOR

GEMINI Survey

Although some survey work has been done in the past, the most comprehensive survey in terms of numbers of enterprises covered and geographical spread was that carried out recently by Michigan State University under the auspices of the GEMINI Programme (Growth and Equity through Microenterprise Investments and Institutions). The survey team visited just under 15 000 households, shops and industries, identifying some 5 575 primary enterprises and 1 194 secondary enterprises (located on the same premises). A subset of the main sample (422 out of 5 575 enterprises) were given a more detailed questionnaire. A further 1 101 proprietors of enterprises that have closed were interviewed about the reasons for closure.

With any enterprise of less than 50 employees being included, the coverage was of both micro- and small-scale enterprises [MSEs], with most of the micro enterprises being based in the home. The coverage was nation-wide, with the survey organized to cover systematically the following strata:

Urban

High Density Areas
Low Density Areas
Commercial Districts
Industrial Areas

Rural

District Councils
Rural Councils
Smaller Towns
Growth Points

In order to extrapolate the results to estimate the number of enterprises in Zimbabwe as a whole, the proportions of MSEs in each stratum were combined with the corresponding population figures projected from the 1982 census. While there is reason to question whether the sample areas chosen are representative of the stratum as a whole (especially in the case of such highly non-homogeneous strata as growth points), the methodology would

appear to be sound. In the commercial districts and industrial areas, blocks were chosen for enumeration from maps and the assumption made that the sample was representative and constituted 3% of the national total. It is unfortunate that data did not permit this to be done more precisely, as it is enterprises in these strata which are the most viable and dynamic and hence potentially most important in the strategy for development of the sector.

Main Results of GEMINI Survey

The results of the survey are documented in "Micro and Small Scale Enterprises in Zimbabwe: Results of a Country-Wide Survey" by Michael A McPherson. Some of the main points that are particularly relevant to this paper are given below (others were mentioned in Sections 1.4 and 2.1); readers are referred to McPherson (1991), and the papers from the workshop held to discuss the report on 16 January 1992, for further detail. The questions in the main questionnaire concentrated on the characteristics of the proprietor, the employment structure of the MSE, backward and forward linkages, sources of finance, employment growth since MSE started; no attempt was made to collect financial information such as turnover, income, or capital invested. The supplementary questionnaire explored some of the issues in more detail, looking particularly at periods of growth and associated problems.

On the size of the MSE sector, the extrapolated survey results indicate that there are over 845 000 MSEs in Zimbabwe, providing a significant degree of employment to just under 1,6 million people. This figure may be compared with total formal employment of about 1,2 million in 1991; this is for all sectors including agriculture, which was excluded from the GEMINI survey (CSO Quarterly Digest of Statistics, Table 5).

A large proportion (70%) of the enterprises were found to be in manufacturing, with a relatively small proportion in trade and services. Most were one proprietor operations (70%); this accounts, in part, for the low average size as measured by employment of 1,8 workers. Women account for 67% of proprietors and 57% of the MSE labour force. The average ages of proprietors

were 36 (women) and 42 (men). Most had only primary schooling or less (60%); less than 25% had undergone some form of training.

Over two thirds of the MSEs were in the rural areas; surprisingly, urban firms were no larger than rural firms. Relative to their populations, the growth points in rural areas were found to have a disproportionately high number of MSEs. The overwhelming majority of MSEs had been financed through own resources (savings). Only 10% had had credit from family or friends, 0,3% from moneylenders and a mere 1,1% from formal credit institutions.

Most MSEs shrank or remained stagnant (80%), but those that did grow (measured in terms of employment growth) grew fast (at over 40% pa). The fast growing sectors were food, beverages and tobacco; paper, printing and publishing; chemicals and plastics; wholesale trade; and services. Slow growing were textiles; clothing; leather; wood and wood products; restaurants, hotels and bars. Except for food beverages and tobacco, the fast growing sectors were male dominated. The sectors dominated by men are also characterized by having stronger forward linkages, higher employment and a higher proportion of household income being supplied by the MSE.

Amongst the MSEs which had disappeared, the main reasons were shortages or expense of raw materials, lack of working capital, shortfalls in demand or fierce competition and various personal reasons. These factors are similar to the problem areas identified by MSEs still in business:

- (1) market problems
- (2) finance problems
- (3) stock or raw material problems
- (4) tools or machinery problems.

The legal and regulatory environment was seldom identified as the cause of an enterprise closing or as a major problem area for MSEs in operation (only 4% of proprietors identified this as the primary constraint). This finding is surprising given the extensive panoply of regulations that a MSE in Zimbabwe has to

face. The explanation given is that "if the environment has been harsh for an extended period, entrepreneurs take it as given and do not consciously consider it as a problem"¹⁵. Immediate problems, such as input supply difficulties, are then not traced back to regulations, although these are often the basic causal factors. Another explanation may be that MSEs succeed in side-stepping many of the regulations. In consequence, the fact that regulations are not perceived to be a major issue should not be taken as a reason not to proceed with deregulation, which from other points of view is urgently needed as one component of inducing growth in the MSE sector.

4.2 DISTINGUISHING MSEs BY LOCATION INSIDE OR OUTSIDE THE HOME

Reasons for Some of the "Surprises" in the GEMINI Report

As mentioned in Section 1.4, it has been conventional wisdom that the institutionalized dominance of large-scale industry in Zimbabwe has prevented the small-scale sector from assuming its expected role. Casual observation suggests this to be true, as SSEs are not very visible. The large number of MSEs calculated from the GEMINI study results, with densities comparable to other countries surveyed in Africa, suggests that the lack of visibility may be more a reflection of strictly applied zoning regulations than of an underdeveloped MSE sector, at least in terms of numbers of MSEs.

Over 75% of MSEs were found to be located in the home. In the urban areas, 40% of the home-based MSEs were involved in crocheting and knitting, while in the rural areas the same activities plus grass weaving and beer brewing accounted for over 50% of activities. As all of these activities are classified as "manufacturing", the dominance of household-based MSEs concentrated in these areas accounts for some of the "surprising" aspects of the GEMINI report, in particular the apparent size of the MSE sector and its concentration in manufacturing.

¹⁵ McPherson (1991), "Micro and Small Scale Enterprises in Zimbabwe: Results of a Country-Wide Survey", p 27.

Without seeking to detract from that picture, from a policy point of view it is difficult to target support programmes to the large number of home-based enterprises involved in knitting, crocheting, grass weaving and beer brewing which will result in a significant improvement in performance and incomes. The prominence of these activities are due to the low barriers to entry, as skill and capital requirements are minimal (this is less true of beer brewing, but in Zimbabwe this is more of social activity than a serious enterprise - see Section 5.1). As pointed out by Mead at the workshop to discuss the GEMINI results, "people go into these lines, even if incomes are relatively low and declining, because they can find nothing better to do".

McPherson's report on the GEMINI survey adopts "Urban" and "Rural" as the principal stratification for his analysis. For the purposes of this study, it is useful to further sub-divide the data to distinguish home-based MSEs from those located outside the home. Only 7,6% of the total sample were located in commercial districts, the remainder of the approximately 25% located outside the home being in traditional markets, operating from the roadside or in a "mobile" category. The non-home based MSEs thus still reflect a very mixed group of enterprises, but it would be expected that the more dynamic MSEs which might respond to deregulation and promotion policies would be more likely to be in this group than in the home-based MSE group.

The remainder of this section presents results from the survey when the data is further sub-divided into home-based and outside the home MSEs. Zimconsult would like to express its appreciation to the GEMINI study sponsors, USAID, and to Mike McPherson and Don Mead for making the full data set of the survey freely available, and to UNIDO for supplying the necessary software (SPSS). This made it possible for analysis of the data to extend beyond the tables presented in the report by Mike McPherson. All the tables of this chapter are a result of further analysis of the GEMINI data and represent a comprehensive "state of the art" analysis of quantitative information on SSE in Zimbabwe.

Activities

The fact that the manufacturing activities are concentrated in micro-enterprises based in homes is clearly shown by the disaggregated figures in Table 4.1. MSEs outside the home are predominantly engaged in trading activities with only 29% (in urban areas) and 36% (in rural areas) involved in manufacturing. It is the numerical dominance of the home-based industries that leads to a weighted average of 70% manufacturing for SSEs as a whole. The proportion of MSEs located outside the home engaged in services is only 12-15%; a somewhat higher proportion might have been expected in that category.

TABLE 4.1: DISTRIBUTION OF ACTIVITIES AT AGGREGATED LEVEL

Percentage	<u>Home Based</u>		<u>Outside Home</u>		Weighted Total
	Urban	Rural	Urban	Rural	
Manufacturing (including repairs)	74%	83%	29%	36%	70%
Trade (including vending)	20%	10%	59%	49%	22%
Services (inc construction)	6%	7%	12%	15%	8%

Source: Zimconsult analysis of GEMINI survey data.

Table 4.2 gives information about the distribution of activities. In the survey, 81 different activities were identified at the 4 digit ISIC level (34 in manufacturing, 6 in repairs, 30 in wholesale and retail trade and various kinds of vending, 10 in services, plus construction)¹⁶. The first two columns of the table give frequencies (in %) for only those activities in the category indicated (urban or rural combined with home-based or outside the home) where the incidence was greater than 5% (the urban and rural "total" column gives the weighted average for each activity, including low incidences not shown in the table).

It is interesting to note that out of 81 possibilities, at an incidence level of 5% only between 3 and 5 activities are identified in each category. Activities that are prominent for both home-based or outside-the-home MSEs are even fewer in

¹⁶ Seventy per cent of enterprises covered by GEMINI fall into the categories of main interest to UNIDO (ISIC 31 to J9).

number, including only knitting and vending farm products for urban MSEs and grass/cane works for rural MSEs. Prominent activities that are common to urban and rural are indicated by an asterisk; these are crocheting, knitting and vending farm products.

The table also summarizes data about the sample size and estimated total number of MSEs in each category. These figures indicate that the urban MSE category, particularly those located outside the home, were sampled at a higher proportion than rural MSEs.

TABLE 4.2: SECTORAL DISTRIBUTION OF ACTIVITIES AT ISIC 4 LEVEL

<i>Sector (incidence >5%) (Percentage)</i>	<i>URBAN Home-Based O/S Home</i>		<i>URBAN Wt Av</i>
Dressmaking	6,6		5,7
Tailoring	11,2		9,8
*Crocheting	17,5		14,1
*Knitting	23,2	6,2	19,6
*Vending Farm Products	8,5	21,6	11,3
Vending Garments		12,5	5,7
	(5 act)	(3 act)	(6 act)
Total - major activities	67,0	40,3	66,2
Sample size (th)	2,5	1,2	3,8
Estimated total SSEs (th)	211,9	58,0	270,4

<i>Sector (incidence >5%) (Percentage)</i>	<i>RURAL Home-Based O/S Home</i>		<i>RURAL Wt Av</i>
Beer Brewing	11,2		8,5
*Knitting	11,1		8,7
*Crocheting	8,2		6,5
Grass/Cane Works	21,9	13,1	19,8
Construction		8,2	5,4
*Vending Farm Products		20,6	7,8
Grocery		6,6	1,8
General Dealer		7,0	2,3
	(4 act)	(5 act)	(8 act)
Total - major activities	52,4	55,5	60,8
Sample size (th)	1,1	0,7	1,8
Estimated total SSEs (th)	437,3	136,8	575,1

Source: Zimconsult analysis of GEMINI survey data.

FIGURE 4.1A: EMPLOYMENT FREQUENCIES - URBAN BASED MSEs

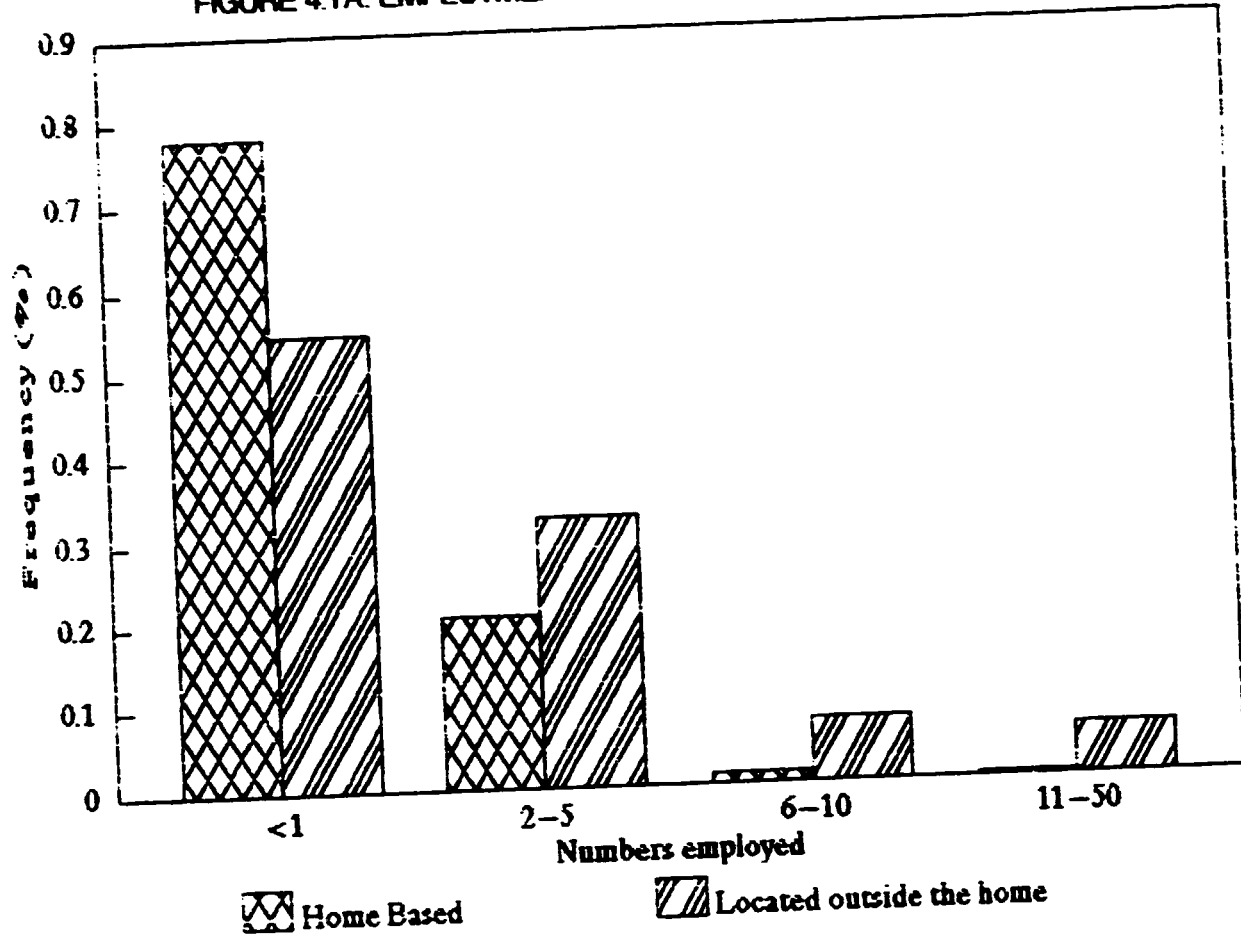
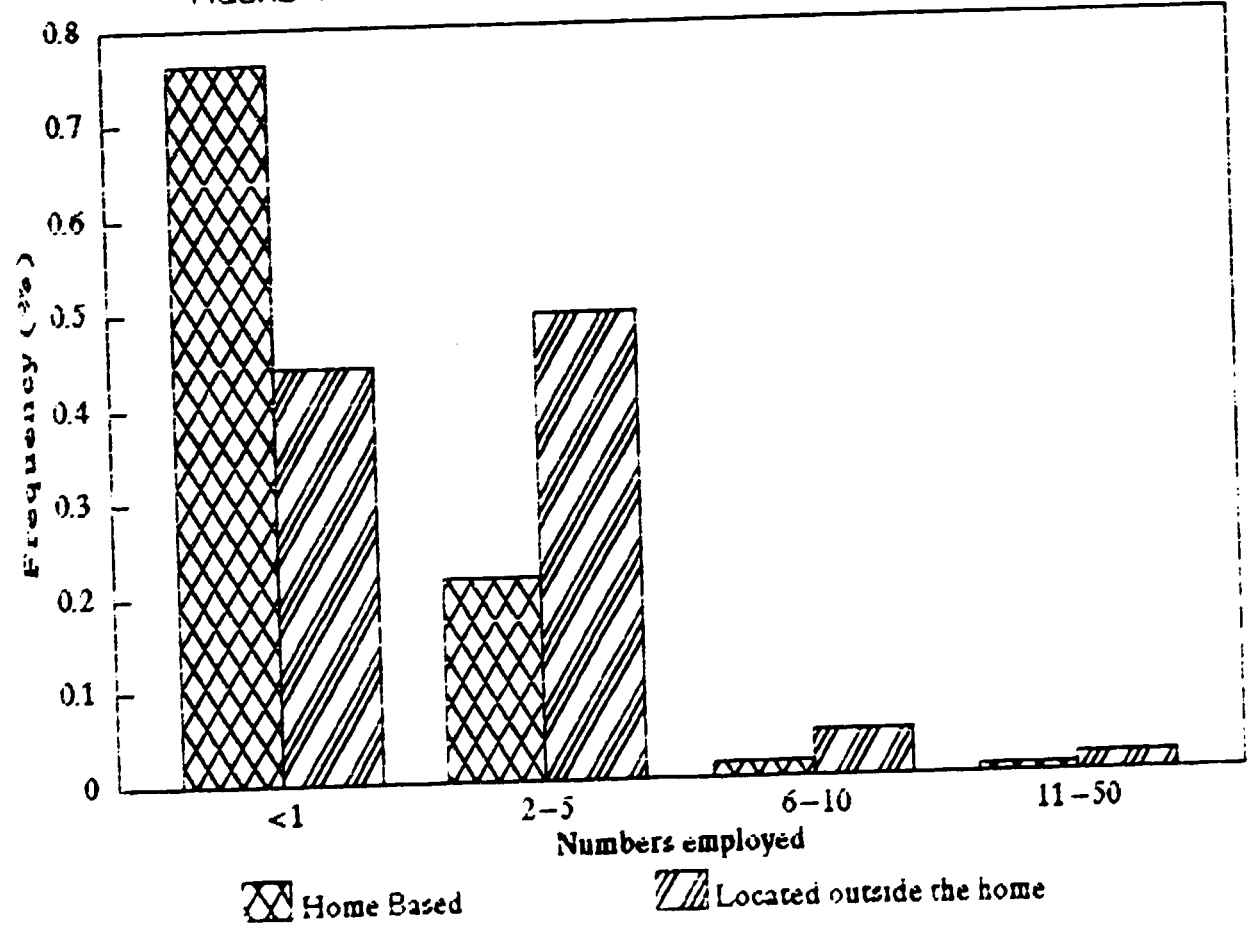


FIGURE 4.1B: EMPLOYMENT FREQUENCIES - RURAL-BASED MSEs



Employment, Gender and Growth

Figure 4.1 shows the size distribution, measured in terms of employment, for the 4 categories of MSEs defined by urban-rural and location inside-outside home. As expected, the graphs clearly show that home-based MSEs tend to be much smaller in terms of employment than those outside the home. The means given in Table 4.3 shows that proprietors and family members account for most of the employment created; it is only urban outside-the-home MSEs that are creating much employment for outsiders.

TABLE 4.3: EMPLOYMENT, GENDER AND GROWTH

Number or %	<u>Home Based</u>		<u>Outside Home</u>		Weighted Average
	Urban	Rural	Urban	Rural	
No proprietors & family employed	1,3	1,5	1,7	1,9	1,5
No paid workers	0,1	0,1	1,6	0,6	0,3
Total employment	1,4	1,6	3,3	2,5	1,8
of which					
No women	1,0	1,1	1,2	0,9	1,1
Av age of enterprise	6,3	9,5	6,6	9,2	8,5
Growth Rate (av annual)	7%	5%	15%	13%	7%

Source: Zimconsult analysis of GEMINI survey data.

It is also quite clear from the table that women are dominant in the home based MSEs (around 70% of total employment), but account for only a quarter to third of employment in the outside-the-home MSEs. Growth rates in the home based category are much lower than MSEs located outside the home. This is hardly surprising, though, as it is employment growth rates that are being measured and the home-based activities do not lend themselves to employment growth, nor would there be the space to accommodate more workers.

Table 4.4 gives a more detailed breakdown of growth rates of enterprises located outside the home (the order follows the ISIC 4 classification). Only instances of growth rates greater than 30% pa are recorded. The most dynamic activities have clearly been the urban-based ones involving the application of relatively sophisticated skills (printing, plastics, blacksmithing, dry cleaning). In the rural outside-the-home

category the only activity to stand out is "Art/Artifact Products".

TABLE 4.4: GROWTH RATES OF MSEs LOCATED OUTSIDE THE HOME

Sector (incidence >20% p.a.)	URBAN	RURAL	AV (WT)
Butchery		30%	26%
Baking		23%	23%
Other food processing	73%		73%
Other Textiles		80%	8%
Sawmilling		50%	50%
Coal/Wood Production		17%	17%
Furniture Making	62%		13%
Printing Work	186%		106%
Plastic Work	169%		169%
Blacksmithing	125%		11%
Tinsmithing		38%	35%
Other Metalworking	160%		160%
Jewelry Work	35%		24%
Art/Artifact Products		150%	34%
All other manufacturing	32%		20%
Electrical Repair	50%		40%
*Other Repairs	40%	36%	39%
Construction	36%		16%
Wholesale	47%		18%
Vending Garments		41%	18%
Grocery		33%	33%
*Retailing Food	56%	30%	42%
Bottle Store	58%		27%
*Stationers/Bookstore	77%	38%	52%
Retail Hardware	36%		24%
*Other Retailing	32%	23%	29%
Bar/Pub	47%		0%
Dry Cleaning	87%		87%
*Other Services	70%	24%	34%
Av - ALL activities o/s home	15%	13%	14%

Source: Zimconsult analysis of GEMINI survey data.

Sources of Finance

Table 4.5 gives a breakdown of the sources of finance of the different categories of MSEs. It stands out clearly from the figures that almost all financing of MSEs is from own resources or loans from family and friends. Savings are thus a crucial determinant of financing of small enterprises. Bank financing is

zero for rural home-based MSEs, and negligible for other categories. Even in the case of urban outside-the-home MSEs, only 3,6% ever received a loan from a bank.

TABLE 4.5: SOURCES OF FINANCE

Percentage	<u>Home Based</u>		<u>Outside Home</u>		Weighted Total
	Urban	Rural	Urban	Rural	
Never received loans	84,3	91,7	86,7	88,2	88,9
Loans friends/family	14,5	7,6	8,1	9,4	9,7

Sub-total	98,8	99,3	94,8	97,6	98,6
Loans from moneylender	0,4	0,1	1,0	0,5	0,3
Loans from bank	0,3	-	3,6	0,6	0,4
Loans from elsewhere	0,6	0,5	0,6	1,2	0,7

Sub-total	1,2	0,7	5,2	2,4	1,4

Note: - indicates no cases; sub-totals reflect rounding.

Source: Zimconsult analysis of GEMINI survey data.

Problem Areas

The problems faced by MSEs are analysed through the supplementary questionnaire, rather than the main questionnaire. The sample size is thus much smaller and the distribution of activities and other important attributes are different to the main sample. Out of a total of 423 supplementary questionnaire cases, 149 MSEs were located outside the home (91 in urban and 58 in rural areas). Of the 149 cases, only 20-25% had experienced periods of rapid growth, and no problems identified as having being experienced during the growth phase stand out¹⁷.

Data about the main problems experienced by MSEs located outside the home when they were started and the principal current problems are given in Table 4.6. The data refer only to enterprises reporting problems, and no weighting has been introduced.

Limiting attention to problems which at least 10% of MSEs in the two categories reported, it would appear that lack of finance (investment and operating funds), lack of demand (for the quality

¹⁷ There were only 17 MSEs (13 urban and 4 rural) which reported problems during growth.

of items being produced) and unavailability of raw materials are the principal problems that are being faced by MSEs located outside the home. While it is interesting that other problems surveyed by GEMINI, such as equipment problems, transport, skills, infrastructure and regulatory restrictions were not identified by a significant proportion of respondents as being major issues, this may in part be due to the nature of the survey and the way the questions were asked. The sub-sector studies in Chapters 5 and 6 do indicate that some of these other factors are major problem areas for small-scale enterprises in those sectors.

TABLE 4.6: PROBLEMS AT START-UP AND PRESENTLY (MSEs OUTSIDE HOME)

<i>(Problem reported by >10% of MSEs)</i>	<u>Start-up</u>		<u>Present</u>	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
Lack of investment funds	14%	12%		14%
Lack of operating funds		21%	12%	
Not enough customers	13%	17%	10%	14%
Raw materials unavailable	10%	14%	13%	16%

No. MSEs reporting problems	77	42	82	49

Source: Zimconsult analysis of GEMINI survey data.

4.3 RESULTS FROM OTHER SURVEYS

Several other surveys of micro and small-scale enterprises have been carried out in Zimbabwe (see Bibliography in Appendix 2 for a detailed list). All have had a different focus and approach, and a more limited coverage than the GEMINI survey, but have generally gone into considerably more detail on some of the major issues. Only a selection of these studies can be mentioned here; results that are of background interest to the present study are highlighted.

In view of the fact that the GEMINI survey did not cover any of highly urbanized centres outside of Harare, Chitungwiza and Bulawayo, an analysis of data pertaining to 349 small-scale enterprises in Mutare, Masvingo and Gweru was commissioned as part of this study (see paper by Palmer Associates in Appendix 4). The data had been collected during the preparatory work for

masterplan studies in these three centres, but had not previously been collated and analysed in a form suitable for comparison with the GEMINI results.

What stands out from the Palmer study is that the critical shortage of accommodation for SSEs is a major constraint on the expansion and, perhaps more importantly, implicitly on the establishment of SSEs. The zoning authorities try to prevent businesses from operating from residential areas, but there are few suitable and affordable alternatives for SSEs. The local authorities have responded with some solutions which have proved successful (the "Green Market" in Mutare, the Kubatana Centre in Masvingo and a zone where mixed land-uses are tolerated in Gweru), but there is need for massive expansion of such initiatives. In the short-run, if SSEs are to prosper and their numbers grow to absorb people not able to find employment elsewhere, the authorities will have to take a more constructive approach to SSEs operating from residential areas.

The survey of rural industries by Helmsing (1987) covered 197 households having non-agricultural enterprises. An attempt was made to obtain information about assets and income, as well as the sort of indicators covered by GEMINI. Helmsing observes that non-agricultural enterprises are to some extent a partial alternative to labour migration. The majority of enterprises surveyed were undertaken by women, and most were household-based. Skills and finance were identified as the main barriers to entry. Although less important than agriculture, the enterprises were usually a significant source of income for the family.

Demand fluctuations arising from good or poor agricultural seasons were identified as being important. To the surprise of the interviewers, a clear business awareness was found amongst the respondents (as reflected in matters such as pricing). However, the enterprises were observed to be highly localized with few linkages, thus "one cannot expect large ripple or multiple effects to emanate from a rural industry promotion policy"¹⁸.

¹⁸ D Helmsing (1987), "Non-Agricultural Enterprises in the Communal Lands of Zimbabwe: Preliminary Results of a Survey" RUP Occasional Paper No 10, p16.

A survey carried out by ENDA in late 1989, is reported in the 1990 World Bank report by Saito on "The Informal Sector in Zimbabwe: the Role of Women". Sites in Harare, Masvingo and Murewa (a rural growth point) were selected and 225 interviews with women involved mainly in productive informal activities carried out.

The report includes notes on some of the major activities in which women are involved (baking bread, beer brewing, catering and grain milling). Many of the points raised in the ENDA survey are substantiated by the GEMINI results, and need not be repeated. With respect to incomes, for the Harare respondents average monthly revenue was estimated at \$940, with net income after expenses being an average of \$243 per month. This compares with the minimum monthly wage at the time of \$116 for domestic service, the lowest rung on the formal employment ladder¹⁹.

Out of the constraints which the survey identified, inadequate access to credit, training and marketing and problems stemming from the regulatory environment were pinpointed as priority areas for action²⁰.

¹⁹ As noted in the introductory pages, "\$" throughout refers to the Zimbabwe dollar. During the first half of 1992, the exchange rate with the United States dollar has been approximately Z\$5 = US\$1.

²⁰ X Saito (1990), "The Informal Sector in Zimbabwe: The Role of Women", World Bank, p 27.

CHAPTER 5: AGRO-INDUSTRIES SUB-SECTOR STUDIES

5.1 INTRODUCTION

The discussion on the small-scale agro-industries presented in this chapter is based on a number of detailed studies by Zimbabwean based organizations and fieldwork interviews carried out by the team. The data on Grain Milling sub-sector is largely based on studies carried at the Department of Agricultural Economics, University of Zimbabwe [Appendix 6 by Solomon Chigume refers]. Some detailed work on oil pressing has been undertaken by development organizations such as ITDG, Aptech and ENDA. In connection with this project a study has been carried out on oil pressing by ITDG²¹. ZERO has also recently carried out rural fieldwork-based studies on breadmaking, brickmaking and beer brewing industries²².

The dominant small-scale rural industry sub-sectors presented in the chapter are grain milling, oil pressing, bread baking and brickmaking. The raw materials for grain milling, oil pressing and beer brewing are obtained from the agricultural sector, except in an excessive drought periods like the current one. Normally half of the wheat is also sourced from local agriculture while the other half is imported. Rural brickmaking is not an agro-industry, but since it is mainly connected with agricultural activities, it is discussed in this chapter.

The other notable small-scale rural industry is beer brewing. This is a seven-day brew opaque which has traditionally been regarded as an acceptable social and symbolic drink during rituals and festive occasions. It is usually a part-time activity conducted once or twice a month. Recent studies by the Zimbabwe Environmental Research Organization [ZERO] on small-scale brewing industries in Zimbabwe²³ have, however, found that beer brewing was not one of the most attractive income-generating ventures for aspiring small-scale rural

²¹ K Machell and S Chipika (1991) "Investment Prospectus No 1: Rural Production of Cooking Oil in Zimbabwe using the Finytech Oil Mill", ITDG, Zimbabwe.

²² T Mugambiwa (1991) "An Economic Assessment", and W Nyabeze (1991) "Technology Assessment of Bread, Brick and Beer Brewing Rural Industries" papers presented to ZERO Workshop on Energy, Technology and Rural Industrial Development, Harare, July 1991.

²³ See previous footnote.

industrialists. In addition, because of the adverse effects of beer brewing and its consumption, especially its excessive use of woodfuel which is detrimental to environment and social problems connected with consumption of beer in a household, it is felt that beer brewing is not a viable small-scale industry.

Not all SSEs are based in designated growth points where infrastructure such as roads and electricity is provided. In fact there are many growth points which do not have electricity. This has led to many rural industries using woodfuel or diesel energy in grain milling, oil pressing, bread baking and brickmaking. The capital, maintenance as well as running costs of electricity are much lower for a grinding mill than diesel. This is illustrated in Table 5.1, which assumes that electricity is available. Extending the argument to areas where electricity is not provided, up to a significant distance from the grid (of the order of 10 km), it would be advantageous for the grinding mill operator to pay the full costs of making an extension from the grid and installing a 33kV (or 11KV) to the mains voltage transformer, rather than rely on diesel.

A bakery at Nembudziya growth point in the Chizeya-Gokwe District provides a good example of the sort of small-scale enterprise whose operations are severely prejudiced by the lack of availability of electricity. At present, the bakery manufactures 150 dozen loaves per day, using a simple wood-fired oven. In order to maintain this level of production, work is carried out at night as well as during the day. At the time that fieldwork was carried out, total expenditure on fuel was estimated at around \$800 per month. When this is compared to the cost of conversion to electricity of \$16 000 set against monthly costs a quarter those of wood, it is obvious that electricity will be much cheaper for the bakery operator in the long run, as well as offering superior productivity, more consistent quality and many other advantages.

TABLE 5.1: COMPARATIVE COSTS - DIESEL AND ELECTRIC GRINDING MILLS

	<i>Diesel</i>	<i>Electricity</i>
Capital cost	\$23 000	\$13 000
Monthly maintenance	\$400	\$150
Monthly costs	\$1 020	\$180
	(diesel & oil)	(ZESA fixed & kWh)
Major overhaul/ motor replacement	\$6 250 (4 years)	\$2 000 (5 years)
Annual revenue	\$50 000	\$50 000
Net Present Value at 5% (20 years)	\$391 000	\$587 000

Source: "Policy and Planning for Electrification in Rural Areas" Ministry of Energy and Water Resources and Development, June 1991, Table 2.3.

5.2 GRAIN MILLING

Implications of Changes in Grain Marketing for SSEs

The Government of Zimbabwe committed itself to gradually reduce the deficits of the Grain Marketing Board [GMB] from a level of \$40-60 million at the end of 1991 to zero by 1994/95. For the food crops, mainly white maize, government will continue to maintain a price floor and ceiling with the GMB retained as the primary grain trader but competing directly with other private traders. Government has announced its intention to permit free movement of maize between contiguous and non-contiguous communal areas in Natural Regions IV and V, and between commercial and communal areas. Maize is to be bought and sold freely by producers and traders in these regions while the GMB is to continue to provide a floor price for producers wishing to sell to the Board.

It is obvious that deregulation will benefit SSIs in terms of obtaining cheaper raw materials, especially grain. But for the consumer, and especially the low income earners, this process will result in a number of difficulties, especially the short-term increases in the price of maize meal. In recognition of the effect that the elimination of the subsidy may have on maize meal

prices, the government has considered ways to assure access to and affordability of stable maize meal to low income consumers, namely: (a) the continuation of existing subsidies on roller meal and super-refined meal in the short-run, (b) also in the short-run the replacement of such subsidies with a more narrowly targeted subsidy on straight-run meal and (c) in the medium-term to phase out direct subsidies on all industrially-manufactured meals and promote new entry and investment by small-scale millers.

Zimbabwe's maize milling is dominated by four large-scale private firms: National Foods, Blue Ribbon, Midlands Milling Company and Triangle Milling Company. National Foods alone handles about 65% of the market and Blue Ribbon - about 20%. The millers produce two types of maize meal: super refined meal (60% extraction rate) and roller meal (85% extraction rate).

Millers currently buy maize from the GMB and sell to retailers at government controlled prices. Maize milling prices are based on cost of production data provided by the millers themselves.

There are numerous small maize millers operating in rural areas who may sell their products at unregulated prices since their operations are outside the grain marketing regulations. Small-scale millers are capable of producing two kinds of meal: the straight-run meal or *mugayiwa* (96-98% extraction) and *mudzvurwa* (90% extraction rate). The former is the most common mealie-meal while *mudzvurwa* which involves removing the bran before milling, is similar to roller meal. *Mudzvurwa* is available in Bulawayo, Buhera, Gokwe and Mberengwa for \$.67 to \$.70 per kilogram compared with \$.76 for the controlled price of industrially-processed roller meal.

In 1990 the milling margins of small-scale mills varied from \$60-100 per tonne of maize processed, compared with \$221 and \$422 per tonne by industrial millers for the manufacture of roller meal. The effective demand for unofficially-milled meals in urban areas is not well established because the grain marketing regulations have historically blocked milling of meal in these areas.

Evidence from studies carried out on the grain milling industry in Tanzania shows that economies are likely to be more significant at lower levels of scale than at higher levels.²⁴ In an empirical situation this is probably explained by the presence of constant returns to scale rather than increasing to scale. Thus in the grain milling industry, there is no justification for discriminating against small-scale milling on the basis of economies of scale.

Though Zimbabwe has traditionally grown sorghums and millets, these small grains have been overtaken by white maize and wheat which have also come to dominate the grain milling industry. However, a Small Grain Processing Technology Project designed by ENDA aims at eliminating the labour intensiveness of traditional processing of small grains and makes available processed small grains in the rural areas. Sixty small dehullers have been introduced in the rural areas and growth points as part of a four-year national technology transfer and commercialization programme. Five peri-urban dehullers have been implemented to satisfy the local demand for small grains meal in these areas.

There is established demand for the straight run meal and milling services of small scale mills in urban and rural areas and mills are underutilized for most part of the year. This can lead to increased activities by small-scale millers if grain being made available. However, it is anticipated that few mills will be established in rural areas because present levels of milling capacity are either fully or under-utilized especially in grain surplus areas. While rural millers would buy grain from the GMB or farm households, process it and sell it, this process would be limited due to transport constraint and the poor road network in the rural areas.

The Department of Agricultural Economics studies have demonstrated evidence of demand for maize meal from unofficial mills in urban and peri-urban areas. For example, 62% of the low income groups in Harare have shown that they would purchase straight-run meal if it were 12% cheaper than roller meal and available in convenient bag sizes. Relatively few high- and

²⁴ See MSD Bagachwa (1990) "Choice of Technology in Small and Large Grain Mills in Tanzania" Economic Research Bureau, Dar-es-Salaam.

medium-income groups also stated interest in straight-run meal, even at substantial price discounts to the more refined meals.

A survey of one relatively large-size miller producing *mudzvurwa* indicated that his Bulawayo outlet turns out 20 metric tonnes per day, while his Gokwe outlet turns out nearly 40 tonnes per day. These activities which have been tolerated on a selective basis by the authorities though contravening the regulations of the GMB are now being relaxed, a situation that is likely to encourage production and distribution of straight-run meal.

Under a separate company Shirichena Engineering, the same miller mentioned above is organizing a system in which shellers manufactured by the company will be franchised to small-scale millers at growth points. Shirichena Engineering will provide training, support services for the running of the shellers and milling machinery. USAID funds have been secured to start up the project.

Constraints Facing the Small-Scale Milling Sub-sector

Historically small-scale maize milling has been subject to a number of restrictions to entry including:

- (a) GMB's practice of restricting its grain sales to the large industrial buyers: commercial millers (77% of the total GMB sales since 1980), livestock and poultry feeders (8%), brewers (6%) and food aid (7%).
- (b) GMB's practice of not permitting sales to small-scale buyers suspected of reselling the grain.
- (c) Prohibited transportation of maize between rural and urban areas or between contiguous and non-contiguous communal areas, thereby conferring a de facto monopoly to industrial millers, even though their margins are two or three times higher than those of small-scale millers.
- (d) An imperfect market situation allowing industrial millers to operate a higher cost system without losing market share to small-scale millers has been sustained by policy or by design of the monopoly position of the large-scale millers; lack of convenient size bags for packaging straight-run meal; government subsidy to the industrially-produced roller meal which introduces another entry barrier to the small-scale millers, as it artificially reduces the price of the product against which the small-scale millers would compete.

(e) Investment in small-scale grain trading and milling is constrained by (i) inability to raise capital to finance the needed infrastructure, equipment and transport; (ii) shortage of such equipment in the country; and (iii) inability to hire trusted subordinate managers for procurement and distribution management.

(f) Lack of essential infrastructure, especially electricity in some rural growth centres and outlying rural service centres.

As shown above restrictions (a) - (c) are being lifted, to the advantage of allowing market forces to prevail and thus encouraging small-scale millers to enter into unrestricted trade in straight-run meal products. However, the rest of the constraints still prevail.

5.3 OIL PRESSING

Alternative Oil Pressing Technologies

Like in the case of grain milling Zimbabwe's oil pressing segment is dominated by the monopoly power of four large-scale companies, National Foods, Blue Ribbon, Midlands Milling Company and Triangle Milling Company. These few firms have enjoyed preferential treatment in sourcing the limited raw materials, such as oilseeds from the Grain Marketing Board (GMB) against the small-scale agro-processing activities. This stance has continued unabated despite the official government pronouncements in support of SSEs.

Dozens of manually operated edible oil presses have been distributed in many parts of rural Zimbabwe during the past three years. Two types of oil extraction presses have recently been introduced in Zimbabwe, namely: (a) a manually operated technology and (b) a motorized technology that is electricity driven. The presses use sunflower seed or groundnut seed. One manual oil press type has been tested by ITDG in Zimbabwe over the past two years and the dissemination of this technology is now underway. This is the spindle screw press.

The ram or bielenberg press is a manually operated sunflower seed press being promoted by Appropriate Technology International

(ATI) under the Zimbabwe Oil Press Project. Dozens of ram presses have been distributed in the country over the past two years.

The spindle press utilizes groundnut seed and to some extent sunflower seed as raw materials. The spindle press has an advantage over the ram press since it can utilize either sunflower seed or groundnut seed and in addition it has a higher capacity for downstream activities like local stockfeed manufacture, production of sweets and snacks.

A financial analysis carried out by ITDG showed that at a rural micro enterprise level, any of these strategies is viable and would be quite suitable for village level edible oil production in order to beat supply problems at that level. There is, however no demonstration of surplus production for the wider local market.

A more viable technology in terms of economies of scale and operation is the Indian made Tinytech Oil Mill introduced by the Food Processing Programme of ITDG in 1989. A pilot production unit was established at Murombedzi Growth Point, in collaboration with ENDA Zimbabwe and a series of technical, production and marketing trials were completed during 1990. Unlike the other oil presses which are suitable for the SSE development, the Tinytech is believed to offer a real business opportunity to small and medium-scale entrepreneurs operating in the rural based agro-industrial sector.

It has been demonstrated that the Tinytech oil mill is a viable business opportunity with a potential to realize annual net operating profits between \$25 000 to \$170 000 depending on the mode of operation, and an initial investment of between \$137 000 to \$169 446.²⁵

Constraints Facing the Small-Scale Oil Pressing Sub-sector

- (a) The historical technological gap between the small-scale and large-scale oil producers still lingers on

²⁵ Viability was calculated in terms of both single and double shift operations, in order to emphasize the important effect that the utilization of the small equipment has on profitability (Machell and Chipika, op cit, p 2).

unabated. The ITDG Food Processing Programme has evidence to show that local large scale engineering are not keen to manufacture small-scale low cost technologies. In cases where some engineering firms tender to manufacture the technologies, prices are usually too high.

- (b) Weakness in the marketing of the main products of oil expressing ranging from edible oils to stockfeeds. A decentralized oil expelling using the Tinytech oil mill and similar technology can provide important opportunities to utilize local oil seed crops, to provide cooking oil and stockfeeds to local communities, and for the creation of rural business and employment opportunities.
- (c) Unless using locally produced raw materials, the limited and erratic supply of oilseeds has been a recurring problem for all types of oil pressing enterprises.

5.4 BREAD BAKING

Extent of Bread Baking

Small-scale baking is a popular income generating activity among SSE rural industrialists in Zimbabwe. Setting up of small-scale bakery operations is important for the following reasons:

- the low initial capital requirements (as low as \$50 to construct an oven, acquire basic utensils and relatively low labour requirements in baking);
- the relatively simply technology required (wood-fired brick ovens or the so called Dutch ovens, oil drum ovens and easy to learn baking skills)
- the high demand for bread in rural areas as the population increasingly adopts bread as an important part of their diet;
- irregular bread deliveries from the commercial bakeries.

In 1985 the Development Technology Centre and the Adult Literacy Organization of Zimbabwe introduced the double drum oven to Zimbabwe. The original design was adapted to the materials available in Zimbabwe. The design was taken up by several centres for their training courses and after several years of experience, the original technology has been improved. The double drum oven is now a suitable technology for beginner bakeries. It is easy to make and the materials are available and

bakery groups can install it. The current cost of the oven is around \$1 000 with production capacity of 200-300 loaves per day using two ovens. Though the oven's durability is questionable, with repair and maintenance the life of the oven can easily be prolonged.

An alternative oven design of wood-fired oven is a fabricated plate metal oven which has a longer life with a higher production capacity. There is also a good quality small-scale electrically heated oven manufactured locally by Grunthal & Bekker in Harare. This is an efficient and competitive oven in areas with electricity.

There are still more expensive and sophisticated bakery technologies used by small-scale bakeries. In this case bakeries can invest between \$40 000 and \$60 000 in plant and equipment.²⁶ Such bakeries can produce between 450 and 600 dozen loaves per day. This contrasts substantially with outlying bakeries which can only produce between two and 350 dozen loaves per week, with reported investment amounts ranging between only \$70 and \$240 for the construction of low technology ovens and acquisition of utensils.

Production Costs

The production costs per unit of the product is higher for the outlying areas than for the growth-point bakeries (Table 5.2). As registered concerns, growth-centre operations incur the normal stipulated regulation costs covering employees' wages, taxes, safety and product hygiene standards and infrastructural service charges such as rent, water and energy charges, expenses which the outlying bakeries do not have to worry about. Growth-centre bakeries, however have a cost-saving advantage over outlying enterprises in that they procure inputs on an easier and less costly basis as supplies are delivered in bulk and free of charge by the suppliers.

A typical raw material input structure of a small-scale bakery consists of the following: flour, woodfuel, water, salt, sugar, yeast, margarine, cooking oil, paraffin. Flour is the most

²⁶ Mugambiwa, op cit, p 13.

important ingredient required for the preparation of the dough. Most bakeries are forced to close down because of difficulties in getting flour. Small-scale bakeries do not get flour allocation from the suppliers and as a result end up getting their supplies from rural retailers at higher prices than would have been the case if they had direct access to the suppliers. Shortages are also caused by small and ad hoc orders made by small-scale bakeries which fail to ensure continuous supply of inputs.

TABLE 5.2: BAKERY PRODUCTION COSTS

Bakery Location	Volume of Production	Direct Costs	Cost/Unit
<i>Growth Point</i>			
Bakeries A	600 dozen/day	\$2 135	\$0.30
B	450 dozen/day	\$2 578	\$0.48
<i>Outlying Area (i.e. Communal Area)</i>			
Bakeries C	2 dozen/day	\$18.29	\$0.76
D	12 dozen/day	\$72.86	\$0.51
E	36 dozen/day	\$110.00	\$0.25

Source: T. Mugambiwa, "A Business Analysis of rural Small-Scale Bread, Beer and Brick-Making Industries", ZERO, Harare 1991

Constraints on Small-Scale Bread Baking Sub-sector

- (a) For small-scale bakeries to make profit, they must have access to flour at wholesale prices. Though the flour millers, at the request of government, make allocations of flour available to rural bakeries at wholesale prices, most SSEs do not know the channels for applying for a flour allocation and therefore suffer from flour shortages, paying high prices for the flour they buy.
- (b) The low standard of quality of bread, especially for the small-scale outlying bakeries tends to make the rural bakeries sell bread only on those days when commercial produced bread is not available.
- (c) Low returns to the small-scale bakeries has tended to demoralize the operators so that there is no strong motivation to turn them into serious full-time ventures.

- (d) There is hardly any marketing of bread by rural small-scale industrialists. While marketing would improve product awareness in the local community and beyond, the producers have not taken advantage of this strategy of promoting their sales. There is virtually no decent packaging of bread, which is often wrapped in old newspapers, a form of packaging that does not communicate good quality and hygiene standards.
- (e) Small-scale bakers lack basic training, which is necessary, particularly given the low levels of education of most rural operators. Training in basic business skills such as planning, cash management, inventory management and production management are all lacking among this group of SSEs.

5.6 BRICK-MAKING INDUSTRIES

Importance of Brick-Making

The SSEs in the brick making industries produce three types of bricks: (a) "half timbre" size of the common brick, (b) "one timbre" and (c) "two timbre" size bricks. The "half timbre" brick is the most preferred brick size by customers. The other two sizes are produced only upon placement of an order by a customer.

Brick making has become an important activity because of the high level of demand for bricks in the rural areas, especially by schools, rural clinics, business owners and households. SSE brick makers have taken advantage of the construction boom in recent years and made use of their proximity to the market and lower prices compared to large-scale brick makers (e.g. in 1991 Sanyati district Council charged 35 cents per brick compared to only 8 cents per brick by small-scale brick makers).

However, SSE brickmaking industries are far from being well organized, in fact production was very erratic. Out of five of the small-scale enterprises visited by the ZERO study, only two operated regularly for a period stretching from five to ten months.²⁷ This is in sharp contrast with the medium-scale brick making industry. The Sanyati District Council's brick moulding project was found operating on a daily basis round the year producing an average of 5 000 bricks per day. This was compared

²⁷ Mugambiwa, *ibid.*

to the small-scale daily production of between 300 and 2 000 bricks. This wide gap in the scale of production seems to be explained by three factors:

- * Sanyati District Council's operations are mechanized, thus mixing, moulding and brick laying all being done by machines;
- * Those bricks produced from cement and river sand are not adversely affected by rains, on the contrary they need lots of water to harden up properly, making it possible for production to be carried out round the year;
- * Sanyati District Council easily sells all its production as it is the sole official supplier of bricks for construction at the growth point. At the same time Council by-laws prohibit the use of non-cement-based bricks at the growth point.

In order to generate business, small-scale brick makers have to actively look for orders. Most of the small-scale brick makers are manufacturing according to customer orders. Order sizes can range between 10 000 and 50 000 bricks per customer. In 1991 the prices of bricks ranged between \$38 and \$75 per thousand. The SSEs are taking advantage of the rural market, since there is a marked absence of competition from the large-scale commercial brick manufacturers who are unable even to satisfy the more lucrative urban and peri-urban market. Moreover, the demand for bricks is very high in the rural areas because of the restructuring and development activities currently underway. However, despite this bright outlook for the industry, brick making by small-scale producers still faces problems in their operations.

Constraints Facing Small-Scale Brickmaking Sub-sector

- (a) Lack of production equipment to allow production on a large-scale, thus necessitating SSEs to turn down large orders.
- (b) In some areas district council by-laws prohibit the use of "sand and clay" type of bricks in growth point structures and buildings, thereby closing out the small-scale brickmakers.
- (c) Wood the main source of energy is no longer readily available. Whether this is a result of deforestation of the outlying areas or anti-deforestation campaigns, shortage of woodfuel is real as of now and in the future.

- (d) For the small-scale brick makers, their operations are limited to the dry season only. Producers cannot, therefore, regulate supply by building up stocks during the dry season.
- (e) In the case of the sun dried bricks industries, the quality of the product is very low. This is mainly due to shrinkage resulting from incorrect mix proportions and poor mixing of the sandy clay.

5.6 CONCLUSIONS AND ACTIONS RECOMMENDED

Conclusions

Under the Economic Reform Programme, the reform of the regulatory system aims at increasing domestic competition and providing entrepreneurs with the necessary freedom to respond to emerging market opportunities and signals. The deregulation of the hitherto controlled agricultural products, especially maize, maize meal, wheat flour and oil seeds will benefit the small-scale enterprises in terms of having access to raw materials, and therefore encourage the growth of small-scale activities.

However, the government has to move with caution in order to ensure that supplies of these raw materials are distributed equitably to the rural poor. Thus with regard to food crops, especially white maize, a floor price and ceiling will be maintained; if this is done properly, food security and adequate supplies to small-scale industrial users should be assured. The GMB will be maintained as the primary grain trader, but will compete directly with private traders. Non-commercial activities performed by the GMB will be reimbursed by Treasury which will be important not only in times of severe drought like during the current year, but in good years as well in order to guarantee a fair and equitable distribution of essential food raw materials.

Rural infrastructure is another structural impediment to the growth of small-scale rural industries. Lack of electricity in most rural growth points and service centres has led to more costly and inefficient sources of energy. The state of roads in rural areas is often unsatisfactory and in addition there are few and in some cases no connecting roads between two contiguous rural areas as most trunk roads lead to the main urban areas.

This situation leads to continuation of the current situation where it is easier to get supplies from a more distant urban area than from a neighbouring area.

Actions Recommended

1. Incentives already given to designated growth points-based SSEs should be extended to other outlying rural industries, which can inter alia encourage the latter to formalize their business practices. From the point of view of providing a service and employment generation in the rural areas, there is no difference between the growth-point SSEs and those in the outlying areas. This applies equally to grain milling, oil pressing, bread baking and brickmaking SSEs.
2. The government should speed up the process of deregulation which has tremendous implications for virtually all the small-scale rural industry sub-sectors, especially grain milling, oil pressing and bread baking. However, care must be exercised in making certain that the already established stronger small to medium-scale enterprises do not exploit local monopolistic situations at the expense of the rural SSEs.
3. Small-scale millers could be assisted to form bodies that will represent their interests and concerns, such as an "Association of Small-Scale Millers". Issues such as appropriate sizes and availability of packaging materials can be tackled more expeditiously through group representation.
4. The government should set up development teams under the chairmanship of Ministry of Local Government, Rural and Urban Development to oversee the establishment of a co-ordinated infrastructure in rural growth points including roads, water and electricity. The key ministries to be members of the development team should be the Ministry of Industry and Commerce, Ministry of Finance, Economic Planning and Development, Ministry of Agriculture, Ministry of Health and Ministry of Transport and National Supplies. The development teams could be set up at the provincial level but with a mandate to assist in the establishment of growth point infrastructures at the district levels.
5. Given the high demand for building materials in general and for bricks in particular in the rural areas it is necessary that conditions be created for the small-scale building materials industries to be able to access equipment (such as mixers and moulders).
6. Training in business management should be a top priority so that the rural small-scale operators are able to plough back some of the income generated in order to grow. This could be done by NGOs and SEDCO.
7. Brick making industries in the rural areas should be assisted to embark on reforestation programmes (especially the planting and reclaiming of waste lands) as a way of sustaining rural industries in general and in particular

brick making which is a high user of woodfuel. The appropriate government agencies to assist in reforestation are the Forestry Commission and Agritex. In the medium-to long-term, access to coal as a source of energy for small-scale rural industries should be considered by the Ministry of Industry and Commerce.

8. The Ministry of Industry and Commerce should support mechanisms to promote small-scale technologies, such as those demonstrated by the Food Processing Programme of the ITDG and also place under OGIL machinery and equipment used by SSEs. For example, at present Precision Grinders supplies 80 of its "Hippo" mills per year, but could supply far more if the supply of electric motors and diesel engines was better.
9. Explicit promotion by development agencies such as ENDA and ITDG of medium-scale rural-based millers such as those able to invest in the medium-scale Indian Tinytech Oil Mill and accompanying equipment. The referred to Gokwe and Bulawayo based entrepreneur producing the *mudzvurwa* mealie meal (roller meal substitute) could be a starting point for looking at the appropriate size of medium-scale millers. One example of promotion is the USAID assistance to Shirichena Engineering in starting a project to supply maize shellers it makes on a franchise basis to small-scale millers in the growth points and provision of training and backup services in the use of supplied equipment to the millers.
10. An extension/advisory service scheme could be put together combining training in business skills and follow-up advisory services. Such a project could be implemented by selected NGOs and government agencies like SEDCO. This scheme could be split into separate sub-projects, e.g. a project to train small-scale bakeries on how to apply for flour allocation and procurement of supplies.

CHAPTER 6: URBAN INDUSTRY AND MINING SUB-SECTOR STUDIES

6.1 INTRODUCTION

The activities of the small-scale industries covered in this chapter primarily take place in the urban areas. The urban centres dominate the sub-sector in terms of the variety of products made and services rendered, although many of the products find their way back to the rural areas. There is a growing number of small-scale metal working, furniture and clothing industries in the rural areas, especially in the growth points. Some support agencies have found it more efficient to promote enterprises in the urban areas producing items for the rural market than to promote the location of the enterprises in the rural areas themselves.

The material on small-scale activities in the metalworking and engineering, clothing and furniture presented in this chapter is mainly based on detailed studies carried out independently by the ITDG²⁸, and studies carried out as part of this project by APTECH [B. Jones, N. Davidson, and G.K. Hancock] and by Imani Development.

The small-scale urban-based industries have more relationships with their large-scale counterparts than was the case with the small-scale agro-based industries presented in Chapter 5. Among the small-scale urban industries the metal working sub-sector has more linkages with the mainstream industrial sector than other sub-sectors. This is explained by the dominant role of the metalworking sub-sector in the Zimbabwean economy. Of the 11 sub-sectors classified by CSO within the manufacturing sector, metals and metal products is the largest contributor to value added, accounting for 26% of total value added of manufacturing in 1987, followed by foodstuffs (14%), drink and tobacco (11%), textiles (9%), chemicals and petroleum products (9%). The metals also accounted for 21% of employment which makes it the largest employer and with over 50% of exports, making it the highest exporter. However, this is largely due to the operation of ZISCO which exports over 85% of its turnover.

²⁸ B Zwizwai and J Powell (1991) "Small Scale Metal Working / Light Engineering Industries in Zimbabwe: A Sub-Sector Study" ITDG (Zimbabwe), Harare.

Unlike the other sub-sectors presented in this chapter, mining is neither an urban activity nor an industrial activity. The reasons for discussing the small-scale mining sector together with the urban-based small-scale industries include the following:

- (a) existence of a large potential for forward linkages between the small-scale mining activities and industrial processing by SSIs;
- (b) a large scope for generating employment as shown by the fact that in 1987 the employees of small-scale miners were estimated at over 10 000 compared to 50 000 people employed by the large-scale mining sector;
- (c) because of the labour intensiveness of some mining activities, especially chromite mining, large-scale industries have found it appropriate to sub-contract small-scale miners in order to extract these ores as cheaply as possible.

6.2 METALWORK

Nature of Small-Scale Metalwork

Small-scale metalworking operations are mainly at the level of individual artisans who often engage in two or three activities, switching from one to another as orders come or raw materials become available. On average the SSI plants have five workers. The operators in this sub-sector are often on uncertain and unstable jobbing activities. For example, motor vehicle repairing is often combined with other artisanal activities. There are no foundries and machine shops among small-scale enterprises. The three main activities of the SSIs in this sub-sector are:

- (a) welding and steel fabrication,
- (b) sheet metal (steel) working, and
- (c) steel wire working (chain links and fence weaving).

The raw materials and intermediate inputs used by this sub-sector include flat bars, round bars, metal sheets, steel pipes, steel wire, window sections, angle iron and scrap metal. The raw materials are supplied mainly by steel merchants such as

Baldwins, Henry Dunn, Lysaght, Steel Centre, Stewart and Lloyd and Lancaster Steel. Only a few relatively more established SSIs order their supplies directly from ZISCO. Extensive use is also made of scrap metal, especially in repair work.

The most popular products of the sub-sector are windows, door frames, burglar bars and scotch carts. Other products are mesh-wire, gates, harrows, ploughs, school furniture, garden chairs, stove stands, baby baths, water buckets, watering cans, chicken feeders, tool boxes, bed frames, backing trays, letter boxes, oil lamps, soap trays (for rural soap manufacturers), chip (french fries) canopies for restaurants, primas stoves and general repairs. The Gazaland site (Harare) was found to have 67 enterprises out of which 43 or 64% were mainly engaged in producing door and window frames.

The SSI metalworking industries have a strong demand for their products, especially door frames and windows. Those SSIs located in urban areas have a wider range of products demanded by the market than rural based SSIs. For instance, those SSIs located at the Durawall and Gazaland centres in Harare had a range of products that was much greater than elsewhere.

The demand for door frames and windows is also large and continues to expand especially at growth points like Gokwe, Murehwa and Gutu. The SSIs at these growth points cannot meet the demand because of shortage of raw materials. The most popular products of enterprises at growth points were windows and burglar bars.

The principal machinery and tools used in welding and steel fabrication are electric arc welders, gas welding equipment and simple hand tools such as hammers, files and measuring tapes, anvil, bench-fixed vices, powered drilling machines and angle grinders and manually operated machines. In Durawall artisans were found using sheet metal rolls, sheet metal holding machines and some bench shears in the process of recycling scrap material from oil drums and car bodies. Some artisans made their own manually operated machines which yield significant benefit to the users although they did not always work well.

There were very few metal machine shops in the small-scale metal-working enterprises. Only two centre lathes were found in the small-scale sector, one in Harare and the other at Mupandawana growth point. The centre lathe in Harare was utilized for making stub-axles for scotch carts. Four centre lathes and other machine tools were also found amongst the more established SSIs in Harare. These machines have been described as first generation manually operated machines of the type that can be acquired and operated by small operators. Three CNC machines had been acquired by small-scale industrialists but were not yet in use.

Second hand reconditioned machine tools are supplied locally by MTA, a Harare company. Machine tools are being assembled from imported kits and offered for general sale in Harare, including the popular Colchester Triumph 7.5 inch centre lathe manufactured by MTM and sister company of MTA. This machine would be ideal for small-scale enterprises, especially for auto repair and for manufacturing. Other machinshop equipment manufactured in Zimbabwe include pillar drills and bench grinders. When a small-scale steel fabricator invests in a machine-shop equipment of this kind, he is taking a large capital step and opening up a much larger potential market in manufacture or sub-contracting machining.

Constraints on Small-Scale Metalwork

- (a) The supply of raw materials inputs was identified as the main constraint facing the small-scale metalworking industries. Sheet steel, which is imported, and door and window sections, which until recently have been manufactured by ZISCO, are major inputs in the manufacturing process of SSIs. They are usually in short supply, resulting in SSI using recycled steel from roof sheets or car bodies.
- (b) Lack of finance due to difficulties connected with borrowing of funds. Many SSIs either have no information about sources of funds, or even if information is available they encounter problems connected with the bureaucratic methods involved in securing funds, project presentation, etc.
- (c) Though the small-scale entrepreneurs do not view themselves as having technical skills problems, the majority of their employees are semi-skilled and there is no established apprenticeship training scheme in the small-scale metal working industry.

(d) There is shortage of machinery and equipment. While the SSIs use locally made manually-operated machines, there is scarcity of modern machine tools among the small-scale metal working firms.

(e) Small-scale operators, especially welders generally require electricity, an arc welding machine and a set of oxyacetylene gas bottles. Electricity and electrodes for mild steel are available, but gas bottles are usually in short supply, even though they are manufactured in Zimbabwe.

6.3 CLOTHING

Textiles and Clothing in Zimbabwe

Zimbabwe is a fibre producing country and as such the textile sub-sector comprises cotton ginning, weaving, finishing textiles, carpets and clothing. The sub-sector is dominated by established, large-scale manufacturing units. Thus, for instance, cotton ginning is dominated by the Cotton Marketing Board [CMB] which is the sole producer of lint. There are only six textile manufacturers and about a hundred operating firms in the clothing industry. These manufacturers supply the total demand of the country ranging from 100% cotton fabrics (including printed), cotton canvas, under 50% cotton materials, blankets, towels/napkins, sheets, carpets, twine, rope and cord.

Zimbabwean firms are also breaking into export markets not only to South Africa, SADCC and some PTA countries, but also to the more sophisticated and competitive overseas markets. Zimbabwe's exports of men's suits, jackets and trousers increased from \$7.1 million in 1986 to \$14.8 million in 1988 (109.8%), dresses, blouses and skirts from \$8.7 million to \$14.7 million (69%), and other clothing from \$5.6 million to \$18.5 million (230%) during the same period.²⁹ However, this data only pertains to the large-scale textile and clothing industries almost to the total exclusion of SSEs in this sub-sector.

The GEMINI Survey has, however shown that over one third of all MSEs in Zimbabwe fall in the clothing sub-sector, with 90% of them in manufacturing and only 10% in vending and retailing.

²⁹ Quarterly Digest of Statistics, Central Statistical Office, September 1991, Table 9.4

Knitting and crocheting are the most popular activities in both urban and rural areas. The costs of equipment (knitting, crocheting needles) as well as inputs (wool and cotton thread) are relatively low. Skill is often passed on between family members and these activities have become enterprises in which women predominate.

There is no significant difference between the equipment used by the large- and small-scale sectors, except that the established enterprises use heavy duty industrial machines while the small-scale sector is more likely to use domestic sewing machines. The latter are often available in the market though at high cost. Raw materials are generally not a problem except for items which have to be imported like special dyes and silk for screening.

Clothing Sub-Sector

The clothing sector was chosen for special attention in the present study because of the important role played by dressmaking and tailoring for the SSIs. The sub-sector competes directly with medium and large-scale enterprises. During the implementation of the Economic Reform Programme [ERP], this sub-sector is expected to compete with imported items which could mean survival or death for some of the small-scale enterprises. While there are no entry barriers into knitting and crocheting, these are fairly extensive for dressmaking and tailoring. They include the high costs of machinery, raw material inputs and labour. Dressmaking and tailoring has greater benefits in added employment. According to the Imani report (see Appendix 8), for every cotton growing employee, on an annual basis nine or more are involved in the manufacturing chain to produce a garment.

The clothing market is quite large and it is more resistant to economic recession than is the case with many other products. In addition it offers extensive linkages with the rest of the economy. The demand for textile and clothing products is buoyant as the industry cannot satisfy present demand for many items such as school uniforms, overalls and ordinary clothing materials.

However, the question of the size of the SSIs, their organizational structure and equipment used must obviously

influence the confidence of the medium and large-scale industries in doing intra-firm business with SSIs. The lower end of entry into dressmaking and tailoring is the cottage manufacturing industries (CMIs) which are often one person enterprises which combines the functions of designer, pattern maker and cutter and may also help in tailoring or finishing. CMIs generally require low capital investments. Some of them may be registered and belong to the formal sector.

Hand driven domestic sewing machines are preferred as opposed to heavy duty sewing machines. From the Imani sample 20% were home based industries and they used a combination of both hand driven and electric domestic sewing machines.³⁰ In the rural areas the CMIs are only evident in those areas where adequate infrastructural facilities have been installed, such as electricity at growth points, although there are also enterprises elsewhere using hand or pedal-driven machines.

The next level of entry into dressmaking and tailoring is the small-scale manufacturing (SSM), which demands a fairly extensive division of labour, specialized production and comparatively advanced technology and skilled labour force. The SSMs produce for the national and international markets. One such SSM is the Golden Spiderweb factory, operating on a farm in Mvuma about 200 km south of Harare, which has developed a specialized niche in export market (ladies clothing with crotchet insets).

Constraints Facing the Small-Scale Clothing Sub-Sector

- (a) The main constraint facing the SSEs is shortages and high costs of machinery, raw material inputs and labour costs. The initial capital outlay can be very high to the aspiring entrepreneur. A lot of the SSEs that have managed to enter into tailoring activities have bought second hand machines. Having to buy materials in small quantities, without discounts and even at retail prices, imposes a considerable burden on the SSEs in this sub-sector.

³⁰ Home based operators cannot install heavy duty machinery in their houses because the latter use a three-phase electric system which is rarely available in residential areas. Even in those cases where CMIs can use single-phase motor powered machines which could be installed at home, their use can be limited by the further use of other electric gadgets in the house, such as stoves, pressing irons, etc. [see Appendix 8].

- (b) Many SSEs do not have access to market information and markets both domestic and external. While urban small-scale enterprises are in a better position to access both information and markets than their rural-based counterparts, all SSEs are left out of systematized and regular information networks. Of the 20 SSEs interviewed by Imani, only two were members of the Zimbabwe National Chamber of Commerce [ZNCC] and are thus left out of market information which the established enterprises get from ZNCC and other sources. Most SSEs have no idea about developing exports.
- (c) The quality of products determines whether an enterprise will be able to get orders on a CMT basis or penetrate into other more lucrative markets. While some urban SSEs have been able to supply the high quality products demanded by wholesalers and retailers in the urban areas, the rural SSEs are content with the low quality products that are demanded by their localities.
- (d) SSEs have problems in the ability to face competition on pricing, procurement and production deadlines. A small-scale company can easily fail to meet deadlines demanded by large orders because of cash flow problems.
- (e) The requirement by the Sales Tax Department that for a company to be registered and issued a sales tax number, it must generate minimum monthly sales of \$10 000 is a deterrent to SSI as the majority of them would not qualify and therefore lose the right to purchase their inputs without paying sales tax.
- (f) The current drought in the region has already threatened the supplies of electricity to Zimbabwe because Zambia's generation of hydro-electricity has been curtailed by the low water levels at Kafue. In order to conserve electricity, the Zimbabwe Electricity Supply Authority [ZESA] anticipates power cuts and these will be targeted primarily at residential areas during the day and will therefore cripple the activities of SSEs in this sub-sector.

6.4 FURNITURE

Zimbabwe's furniture industry is highly diverse with about 50 companies, ranging from small craft shops with less than 10 workers to large-scale factories employing up to 600 workers. It accounts for 3% of total gross output of the manufacturing sector. There is a very wide range of furniture products from expensive hand carved solid furniture, to modern office furniture, mass produced home furniture, kitchen and garden furniture and varieties of SKD and CKD furniture.

Six percent of all SSEs found in Zimbabwe are small-scale woodworkers. Most of the SSEs in woodworking are one man enterprises involved in craft carving and furniture manufacture, almost exclusively with manual handtools.

Established furniture industries make extensive use of power tools and equipment, which increases the volume and quality of production and gives them an advantage over small-scale producers. Small-scale producers are hampered by low levels of skill and a shortage of tools.

The main sources of raw materials used are wood, metal and plastics. The majority of these raw materials including oak, mahogany, imbuia, dralon and other upholstery are imported. Locally sourced raw materials include one indigenous hardwood, mukwa, local pine, boards, and a range of furniture fittings. There is an increasing shortage of good quality wood, especially hardwood. The established sector companies are often better able to secure supplies.

The major constraint facing the established furniture companies has been the shortage of foreign exchange for modernization, upgrading of machinery, and importation of adhesives, paints, finishings and upholstery. The shortage of equipment is even more acute in the small-scale industries ranging from power handtools to modern machinery and equipment.

Like in the case of the clothing sub-sector, woodworking equipment is manufactured for all levels of production, from power handtools to large computer controlled mass production machines. Manual tools are manufactured in Zimbabwe, including a range of woodworking tools designed by ITDG and made by Danida, but they are hardly available among the SSEs in the sub-sector. Electronically powered equipment is all imported and quite expensive and generally not available to the small-scale producers. If these were available, it would enable the small-scale woodworkers who have access to electricity to increase the volume and quality of production.

At present the existing SSEs do not seem to lend themselves to modern sub-contracting arrangements. According to the GEMINI survey, most of the wood and wood processing enterprises are located in the rural areas. The levels of skills, equipment used and products manufactured by SSEs are far below the standards of production attained by the modern medium and large-scale industries.

Thus the basis for sub-contracting can not be achieved through the current levels of technology employed by the SSEs. Sub-contracting can be done on the basis of a new and viable SSE, in which levels of skills, management capabilities and machinery employed, are of small-scale but in line with levels of development in the modern medium and large-scale furniture industries.

6.5 SMALL-SCALE MINING

Description of the Sub-sector

Small-scale mining in Zimbabwe has a long tradition dating back to the Great Zimbabwe civilization. Though not clearly defined there are roughly three types of small-scale miners in Zimbabwe: (a) small mining operations operated by experienced miners, (b) inexperienced miners recently starting mining activities, and (c) mining co-operatives. The first category can easily come under the formal sector activities and refers largely to the relatively well established miners who are self-sufficient and have been in existence since Zimbabwe's pre-independence period. The second and third categories consists of both formal and informal sector miners.

According to the Ministry of Mines there are approximately 650 small-scale miners in gold mining which constitute well over 70% of the total number of small-scale miners. The remaining 30% comprises the mining of chromite 20%; tin and tantalite 2%; gemstones 5%; black granite, glitterstone, serpentine, verdite 1%; and limestone and other 1%.

Small-scale gold mining is estimated at about 5% of the country's total output. In 1989 the small-scale miners produced 800 kgs of

gold which earned some \$20.7 million in foreign exchange. During the same year the illegal gold panning activities are estimated to have produced 750 kgs, of which only one and half grammes were traded through the official bullion market. An estimate of the unregistered (illicit) gold panners is roughly put at between 50 000 and 100 000. Though there are no known figures for the involvement of women, a large number of gold panners are believed to be women and children.

The other major small-scale mining activity, chrome mining is dominated by co-operatives which operate under the umbrella of the Zimbabwe Mining Development Corporation [ZMDC]. About 29 co-operatives are known to be extracting chromite deposits while 14 others are reported to be still prospecting for various other types of minerals. The annual chrome production by small-scale is estimated at 12% of total production. In 1989 close to 753 000 tonnes of chromite valued at \$6.9 million were produced by small-scale miners.

The geographical distribution of small-scale mining follows the mineral occurrences mainly across the central part of the country. Gold mining and panning is mainly concentrated along the greenstone belt which runs across the central part of the country from north-east to south-west. Most of the chrome mining takes place on the northern part of the Great Dyke in the Mutorashanga area and in the Ngezi and Lalapanzi in the Midlands province. Tantalite and aqua marine deposits are found in the Karoi/Hurungwe areas, while most of the mining of emeralds are mined in the Mberengwa District. Tin and tantalite are mined at Kamativi in the Matebeleland North province.

The small-scale miners are already put at a disadvantage by the lack of legislation governing them as a specific group. They cannot compete on a fair basis with organized large-scale mining industry. For example, the small-scale miners cannot bargain with government and other public and private institutions in the same manner as the large-scale miners. Presently they are not represented in any of the official institutions such as Chamber

³¹ The administration of Mineral and Minerals Act (Chapter 165) and its attendant regulations is the sole responsibility of the Ministry of Mines and through this Act assistance is given to the different categories of the miners including the small-scale ones.

of Mines, the Mining Affairs Boards, etc. For this reason, the small-scale miners have formed the Small-Scale Miners Association of Zimbabwe [SSMAZ] with the active assistance of the ITDG.

The ITDG is one of the few development organizations that has had a programme of assistance to small-scale miners. Although such assistance is to be welcomed, there remain serious doubts about whether certain aspects of small-scale mining should be promoted, in particular gold panning, because of its environmental damage that has been associated with gold panning. To date, ITDG has assisted in setting up the Shamva Mining Centre (Pvt) Ltd, a wholly owned company of the Small Scale Miners Association of Zimbabwe [SSMAZ] was established. This centre is a shared milling facility which also provides a mobile drilling and blasting service and the centre's manager also provides a technical extension and training service to small miners in the area. A major benefit from this exercise is that as small miners acquire and use appropriate technologies and skills to exploit mineral resources, it is hoped that viable small-scale enterprises will be established. This is in addition to ITDG's mining programme that aims at promoting research and development into alternative minerals that can profitably be mined by small-scale miners, and to demonstrate to policy makers the potential benefits to be derived from small-scale mining.

The Zimbabwe Mining Development Corporation [ZMDC] and more recently the ITDG have provided institutional support and technical services to the small-scale mining sector. The ZMDC has as one of its major functions the encouragement of the formation of co-operatives. It is at present responsible for the administration of all chrome mining co-operatives on the Great Dyke with a membership of over 2 000 people and about 13 000 beneficiaries.

Government is also giving financial assistance in the form of loans which normally carry a 6% interest. The loans may be used to purchase mines (excluding plant and machinery; limited to \$25 000 and 50% of the purchase price), develop mines (shaft sinking, raising or developing a reef; can be written off if exploratory work fails to expose the ore), purchase plant and equipment (through a hire purchase agreement; seldom more than \$40 000),

establish extraction plants (operating expenses for a period of up to six months), assist in the marketing of minerals (bridging finance), and finally to establish water and electricity supplies.

In spite the existence of these loans on paper most small-scale miners largely lack information on how to access them. Even when information is available, like in the case of all other SSIs access to bureaucratic institutions like the Mining Affairs Board, the body that processes the loans is simply a daunting task. This is because of the low levels of general education and business management skills among the small-scale entrepreneurs.

The MMCZ, a parastatal organization established in 1983 as the only export channel for Zimbabwean mineral products, other than gold which is marketed through the Reserve Bank of Zimbabwe. The main problem affecting small-scale miners in marketing their products through MMCZ are delays in payment to producers, especially of low value products where producers are not paid until the Corporation has accumulated sufficient quantity to make an export batch. Frequently small miners submitting small quantities of minerals have to wait for several months before payment is made.

Constraints Faced by Small-Scale Miners

- (a) The lack of financial resources and access to credit facilities for the purchase of plant, equipment and mine development is a major problem for the small-scale miners.
- (b) Lack of mining experience and technical and business skills and management among most of the small-scale miners. Because of the dangerous working conditions of mining operations lack of experience and technical skills has often led to accidents. Lack of experience has also led to cases where miners venture into operations without adequately exploring the ore reserves, despite the availability of free geological advice offered by the Ministry of Mines.
- (c) Marketing costs, distances involved in the marketing of the product, and costs of transporting ore over rough roads to the mills are the day to day problems faced by small-scale miners.
- (d) The government regulations, licence and mining fees adversely affect miners.

- (e) Poor access to infrastructure such as water and electricity militate against successful mining operations.
- (f) Miners are forced to rely on custom milling plants for the processing of their ores and often incur high extraction losses to the millers. E.g. in gold milling small miners only receive the free gold, the remainder being retrieved through the cyanidation process by the miller. Thus small-scale miners are deprived of the opportunity to process their minerals.

6.6 SUB-CONTRACTING ACTIVITIES

Sub-Contracting in Historical Perspective

Zimbabwe's intra-industry relationships have been significant among established, large-scale enterprises since the 1970s. Around 34% of all inputs used by the manufacturing sector came from within the sector itself. The most dominant sub-sector in this respect has been the metals and metal products which had the largest linkages with the rest of the manufacturing sector.

Due to historical reasons, these intra-industry relationships have been limited to medium and large-scale industries, almost to the exclusion of small-scale enterprise. With the elimination of restrictions that have governed the establishment and operation of the SSIs in the past and taking of positive steps in enhancing their technologies, skills, inputs and markets, there is great hope that SSIs will play an important role in sub-contracting. This optimism was succinctly expressed by a local businessman as follows³²:

With the Structural Adjustment Programme taking place, including trade liberalization, a boom in small enterprises development will be witnessed, as larger firms will rationalize their operations, thereby creating opportunities for small business ventures. Sub-contracting is going to be the main stream of the nation's industry.

Against this up-beat view, a cautionary note on sub-contracting is in order, however, as it can lead to a situation where employment that would otherwise be secured within established

³² Sam Gozo, speaking in 1990.

enterprises is made more precarious and less well remunerated within a SSE setting. This is evidently the case in the ferrochrome industry, where the formation of chrome mining cooperatives was endorsed by Government as part of the thrust of indigenisation and socialization of the economy, but might more appropriately be seen as a "solution to private company problems". This is because the cooperative concept enabled the minimization of labour mining costs and the cheapening of elements of fixed capital costs to mining companies. The result has been that "cooperators earn below the statutory minimum wage, have no social security scheme, and lack adequate housing, recreation facilities etc. Exploitation is also rife within the cooperative, with the leaders exploiting the direct producer and hired labour"³³.

Currently, the most promising sector for sub-contracting is the metal-work sector. The ITDG study has described Zimbabwe's large-scale engineering industries "as the elements of the first industrial revolution" in which almost all machine tools and manufacturing processes are still under direct human control. This is a result of sanctions imposed during the UDI and the post independence foreign exchange shortages, factors which forced the country to make do with old equipment and technologies. This has also kept alive a high level of artisanal skills that have continued to produce high-grade work from old machines. The second industrial revolution technologies with CNC machine tools and CAD/CAM methods are only just making their appearance. This situation places SSIs at an advantage to close the gap between its technologies and those of the medium and large-scale enterprises.

The conditions for linking SSI into formal sector production and marketing are already provided by ERP, which places emphasis on the promotion of exports and especially manufacturing exports. The latter provides much greater value to the economy than primary commodity exports. As competition intensifies many large-scale companies will be compelled to drop off those production lines which cannot be sustained and these can then be

³³ H Chiwawa "Co-operatives and Contract Mining in the Zimbabwe Chrome Mining Industry", Zimbabwe Institute of Development Studies, Monograph Series, Number 1, 1989, page 57/58.

put on sub- contracting to SSI entrepreneurs in both urban areas and rural growth points.

Constraints

Sub-contracting activities by SSIs are limited primarily by the low level of skills and technology. This is manifested in the following:

- * isolation of the MSE and SSI from the relatively high labour-productivity modern industry, a situation that generally renders small enterprise a permanent user of low technology, poorer skills and inferior inputs;
- * the low education and technical qualifications of the majority of SSI entrepreneurs means that where the entrepreneurs' technical expertise is important, such as in metal working and furniture, it will not be possible to forge intra-industry trade relationships between SSI and large-scale industries;
- * lack of sufficient numbers of experienced people with middle-level technical and management skills in the established industry who should be branching off or being set off to set sub-contracting firms with firm orders or firm interest from large-scale industries.
- * many SSIs have failed because they do not have adequate technical and managerial backup. Without adequate support and backup services, new SSI producers are faced with technical problems with unfamiliar equipment or processes.

Besides general problems affecting all small-scale enterprises, such as licensing and regulations, and lack of access to finance, other constraints inhibiting entry into sub-contracting activities by SSIs are:

- (a) Little importation of SSI related machinery, and general unavailability of machines which could be used by SSI. Even when these are available, prices are often prohibitive; in the case of rural entrepreneurs, transport costs have to be added to the price. (As an example, the price of an arc-welding machine has increased by 150% in the last six months and that of a spot-welding machine - by 100%);
- (b) Monopoly conditions, governing the exports of raw materials and the marketing of end-use products, stifle the emergence of SSIs. In the metals sub-sector, for example, on the input supply there are only a few major importers of steel in the country (Steel Centre, Baldwin Steel and Lysaght)

The challenge for both policy and strategy is to identify potential sub-sectors for sub-contracting, create conditions for upgrading their technologies and integrating their activities on an equitable basis with established firms, before the latter open the gap even further and make this integration far more difficult. Zimbabwe does not need to re-invent the wheel in pursuit of this goal as cited by the recent ITDG study³⁴:

If the informal engineering sector in Zimbabwe employed the same technologies as its counterpart in Ghana, it could be in a position to undertake sub-contracted manufacturing of component parts for the formal sector employing the same methods as are employed in the formal sector workshops. In all industrially advanced countries major manufacturing companies sub-contract work to many, often hundreds of small engineering firms. Zimbabwe already has large manufacturers who are breaking into export markets. What it lacks is the myriad of small industries to support them and enable them to make a considerable expansion of their operations.

There is also plenty of scope for SSEs in the dressmaking and tailoring activities as the demand for clothes and related items is very high. As the large-scale companies in this sub-sector cannot meet demand, the operation of Cut-Make-Trim (CMT) has grown in importance in recent years. Under the CMT a producer is contracted by another manufacturer or a distributor to produce garments to his precise specifications, with the fabric and designs being supplied by the distributor. The CMT has sustained about 50% of the SSEs surveyed by Imani during the first few years of their operations. This is because the SSE does not incur any expenditure on material procurement, nor marketing, she just supplies labour and charges the distributor accordingly.

Once established SSEs can use their track record, particularly with regard to quality in getting sub-contracting jobs with larger manufacturers. The profit margins are not high, but the SSE is guaranteed a constant income and larger profits eventually result from high turnovers.

The question of the size of the SSI, their organizational structure and equipment used must obviously influence the

³⁴ Zwizwa and Powell op cit, p 26.

confidence of the medium and large-scale industries in doing inter-firm business with SSIs. One parastatal organization was reported to be reluctant to award a tender to an enterprise with less than 25 sewing machines and 30 employees as their organization had been let down in the past.³⁵

Conditions for Sub-Contracting Arrangements

A condition for a meaningful and dynamic relationship between SSI and large-scale enterprise is inter-firm trade. In the Zimbabwean case, there is, however, no vertical integration in production between SSEs and established companies. The main reason is the historical denial of the right of entry and opportunities for growth by the SSIs in manufacturing. This has either retarded the growth of these enterprises or rendered them ineffective at the entrepreneurial, managerial and technical levels.

In the case of small-scale metalworking, without basic metal machining capabilities, the small scale engineering industry is restricted to a narrow range of simple products such as those presently made by sheet metal working, blacksmithing, welding and steel fabrication. On the other hand, if conditions for the supply of machine tools were presented, opportunities would open up for inter-firm trade and sub-contracting arrangements, taking the form of supplying the large companies with replacement parts for machines and component parts for new production.

Sub-contracting can also be promoted at the initiative of large companies would deliberately place orders for procurement of their supplies of inputs and services from SSIs. At the beginning of 1989 the Anglo American Corporation of South Africa started a scheme of promoting the black business sector. The Corporation "sought out black entrepreneurs who could supply goods and services to group companies on competitive terms".³⁶ In the majority of cases former employees set up their own businesses to provide catering, cleaning and services to Anglo American which paid a fee. By July 1990 the Corporation had

³⁵ Appendix 8, p. 14.

³⁶ Anglo American Corporation of South Africa Ltd "1990 Chairman's Statement" July 4, 1990, Johannesburg, p. 11

placed R20 million worth of business with black businesses and with only one exception, all contracts had been fulfilled satisfactorily. The critical hurdle to the development of small business was *expertise*, all other complementary elements - markets, finance and committed individuals were available, a factor which has led the Corporation to take small minority positions in a few selected black companies and also to actively engage in providing small business advisory centres in conjunction with the Small Business Development Corporation [SBDC].

Anglo American Corporation in Zimbabwe has not followed the example of its parent firm in South Africa, mainly on the ground that its activities in this country are less concentrated than they are in South Africa. Instead, it has set up Hawk Venture (Pvt) Limited, a venture capital finance company which gives loan finance to SSEs mainly in manufacturing and processing (see Section 9.4)

6.7 CONCLUSIONS AND ACTIONS RECOMMENDED

Conclusions

Urban-based small-scale industries will eventually benefit from the trade liberalization when raw materials and machinery become available on OGIL. In the short-run, however, SSIs will continue to lack access to critical raw materials.

All the sub-sectors examined in this chapter have varying degrees of scope and potential for sub-contracting business. The sub-sector with the most significant proportion of inputs into the manufacturing sector is the metals and metal products group. This situation is expected to strengthen with the opening up of the economy under ERP as manufacturers will seek to shed their overheads through sub-contracting in order to remain competitive in the market. But for SSIs this will not be automatic; there are serious bottlenecks and hurdles that will have to be overcome.

Technological linkages have to be created between the large-scale and small-scale industries. An institutional mechanism, could be

set up which will concentrate on forging inter-industry linkages between SSIs and large-scale industries³⁷; this could be one of the functions assumed by the Scientific and Industrial Research and Development Council. For instance, while there are few foundries in the SSI sector, these appear to be successful ventures. With increased competition as a result of ERP, small foundries and machine shops will be well placed to take up sub-contracting jobs on a more flexible basis than large companies.

Technical and institutional support should aim at improving skills, training and equipment so that the products of SSIs are of the same standard as the established medium and large-scale industries. This "bottom up" approach puts the SSI first in a strong and competitive position with its large-scale counterpart. Secondly, it builds up confidence in and reliability of the SSI for sub-contracting jobs.

However, a "top down" approach to promoting sub-contracting is also necessary to complete the edifice of inter-industry relations and growth. This approach is illustrated by the Anglo American Corporation of South Africa where small-scale black enterprises have been awarded sub-contracting business to supply some share of the Corporation's needed goods and services.

Actions Recommended

1. Government and support agencies should work together to establish intermediate technology transfer units (ITTU) for the development of the light engineering sector along the lines of a similar project established in Ghana³⁸. The objective of the ITTUs would be to upgrade the level of technologies employed by the SSIs, make available a wider range of products and services, and assist in creating linkages between the SSI and large-scale engineering industries. The ITTUs, initially to be located in at least three or four central places in the country, would be staffed by core engineering and technical personnel whose main responsibilities would be to introduce new manufacturing methods and the manufacture of new products for the SSE in the sub-sector. The ITTU project was originally proposed by the ITDG study on "Small-Scale Metal Working/Light Engineering Industries in Zimbabwe" completed in 1991.

³⁷ This idea was mooted in Mazhar, Yusef, K. and Ndiela, D.B., "Technology and Development Perspectives of the Capital Goods Sector", Report prepared for the Ministry of Industry and Technology (Zimbabwe) under UNDP/UNCTAD, July 1986.

³⁸ From discussions held and a site visit to the ITTU at Tema, near Accra, the ITTU movement appears to have been very effective in Ghana. Careful design of projects in Zimbabwe should endeavour from the start to achieve cost effectiveness and eventual sustainability.

2. Early placement of machinery, raw materials and spare parts relevant to SSEs on OGIL.
3. Government should launch or support training programmes to upgrade the technical and business skills of the SSIs taking into account the specific conditions of each sub-sector, with a view to increasing efficiency of small-scale enterprises.
4. Expansion of the "Vocational Training School" programme to undertake on-the-job training that is relevant for vocational needs of the SSIs; A report on the "Country Capability In Zimbabwe Relating To Machine Tool Manufacture" suggested that steps must be taken to secure the continued contribution of the highly skilled artisans in the established companies, most of whom are at advanced age, "and where possible to induce the individuals to teach in Colleges and appropriate establishments in order to pass on their skills to the rising generation" (Lamb: 1989:6).
5. Imaginative use of the Social Development Fund [SDF] to facilitate increased employment of retrenched skilled people in SSIs particularly those likely to grow in scale and efficiency in the long-term, and in dynamic formal and non-formal activities that complement ERP by facilitating increased specialization and backward and forward linkages in economic activities.
6. Development agencies like ITDG, ENDA and APTECH could develop a joint project for the improvement of efficiency of SSIs in general so that they are able to fulfil orders offered to them on sub-contracting basis. There is urgent need to encourage promising SSEs to graduate into being established enterprises. Areas of concentration should be training in technical and managerial skills, including procurement of finance and management of inventories.
7. The small-scale miners are already disadvantaged by not having legislation that is designed to address their specific situation. At present the government regulations, licences and mining fees adversely affect small-scale miners. The potential for small-scale miners is large and can be increased if their activities are legalized. Before doing so, however, a detailed environmental impact assessment of small-scale mining, especially gold panning, needs to be carried out.
8. A specific project should be designed for institutional strengthening of the Small-Scale Miners Association [SSMAZ] with a view to linking their activities with those of industrial and processing projects and programmes.
9. Extension of the sort of shared milling, mining services and training facility established at Shamva to other areas of the country where there is adequate concentration of small-scale mining operators. Such centres are to be run along the lines of the pilot project started by the ITDG at Shamva and like the proposed Intermediate Technology Transfer Unit for metal working sub-sector offer a variety of services as well as training.

CHAPTER 7: CONSTRAINTS FACED BY SSE

7.1 DEMAND CONSTRAINTS

Most surveys and studies of SSEs carried out in Zimbabwe have concentrated on existing enterprises, dwelling at length on the supply constraints faced by these SSEs. In the majority of cases these studies have ended up either overlooking or glossing over the important question of demand constraints faced by SSEs. The GEMINI survey is an exception: proprietors of firms that had closed down were interviewed, and the reasons given for closure were shortage of raw materials and working capital and lack of demand.

Demand conditions are particularly important when it comes to potential entrants into a market. Without demand for the sorts of products and services that small-scale enterprises grow, the scope for new entrants is limited, although people do enter but are often quickly forced to withdraw again. Alternatively, if people are forced into forming SSEs because of a lack of any alternative employment or livelihood, overtrading is the result, with very low returns and incomes being derived.

These issues are of particular concern in the context of the Economic Reform Programme, the biggest threat for the SSE sector being reduced demand for those simple goods and services that they generally produce. It is difficult for SSEs to move into other products and markets, because of a lack of information and skills, and difficulties of acquiring the machinery, equipment and inputs required. In addition, existing large-scale enterprises have monopolistic or oligopolistic control over much of the economy, covering almost all products and services that are more sophisticated than those currently being produced by most SSEs.

There are no special programmes to ensure that the small-scale sector has market access, eg, no preference when it comes to Government tenders. The ramifications of the above factors in the context of the ERP are discussed in more detail in Chapter 13.

7.2 REGULATORY CONSTRAINTS

Zoning

The location and operation of SSEs have been governed by a number of regulations that have historically constrained their growth prospects. The government, under the ERP has come to recognize this age old problem as a major constraint facing the SSE sector. SSEs are affected by the restrictive laws on zoning though in varying degrees.

In Zimbabwe, there is no piece of legislation which gives recognition to SSEs or attempts to regulate its activities. The laws that exist seek to regulate the small-scale enterprise sector from the viewpoint of restricting its location, operation and growth, rather than seek to promote its orderly development. The Regional Town and Country Planning Act and Regulations of 1976 makes provision for the establishment of Local Planning Authorities, the preparation of Master and Local Plans for the local planning areas, the control of development within zones identified in the Master Plans and the processing of permits for the use of land by local planning authorities.

The Town Planning Schemes of the 1960s and 70s now repealed under the Town and Country Planning Act cover all urban areas in the country. Under these schemes provision is made for the strict use of zones in the urban areas where particular uses are either permitted, not permitted or occasionally permitted by special consent of the local authority. These use zones are usually locationally specific and do not favour the locational requirement of SSEs. This is because zoned land is mostly prime urban land with high rents/rates. The zoning restriction also covers the use to which land can be put, i.e. residential, industrial, commercial, open space and does not encourage mixed uses of land. In this way, although flexible in its approach, the Act is not appropriate for the 1990s socio-economic environment and in particular for the needs of SSEs

Building Codes, Title Deeds and Surveying

The SSEs are also severely restricted by building codes bylaws, issuing of title deeds and surveying. The Model Building Bylaws, prepared in 1978 for use by local authorities in the processing of building plans, ensuring quality of design, construction and public safety have been adopted by most local authorities. These bylaws are not sympathetic to the use of appropriate technologies in the construction industry and in particular in the use of unconventional building materials for the accommodation of SSEs. Land in the cities is underutilized as a result of coverage, building line restrictions and restrictive bulk factors. The Town Planning Schemes provide restrictions on the amount of land that can be occupied by a building and this is generally too small. The bulk factors which relate to the amount of floor area that a building should occupy is also too low resulting in low rise building in the commercial and industrial areas of the major cities. These regulations restrict opportunities for urban SSEs to acquire accommodation in the urban areas.

The time taken for processing and approval of applications for building plans varies from 6 weeks and two months. This is a major problem for a small enterprise that is especially precarious in its formative stages.

The Model Building Laws also requires that high quality, conventional building materials be used. Most Local Authorities have indicated that they were prepared to tolerate more appropriate building materials in the construction of buildings. Many types of new bricks and other materials have been tested but have not yet been introduced in the urban areas to any significant amount.

The Land Survey Act as read with the Deeds Registry Act provides for all land surveying and registration in the country. Since the survey can only be carried out by registered surveyors, there are long delays in approving of service land for use by residents of the cities. The Land Survey is not applicable to the rural settlement and as a result residents cannot obtain title deeds for their properties which are vital to obtain financial credit for SSEs.

Factory and Works Act

The Factory and Works Act covers any premises on which more than 5 persons carry out activities that require mechanical power, requiring such premises to be licensed. In many cases involving SSEs, the licensing requirements (such as mandatory flush toilets) and the procedures involved are wholly inappropriate.

An example of this is given in the Aptech report (Appendix 10) in connection with the ITDG/ENDA Tinytech Oil Expressing project (Appendix 10, p 19). "As has been our experience with most process plant commissioning, the technical problems can be solved. But in this case, it took eight months and much perseverance to get a supply of electricity, and approvals from Government officials such as the Boiler Inspector and the Factory Inspector. The technical standards demanded were inappropriate, such as the application of standards designed for large, high pressure boilers to tiny, very low pressure boiler. The officials tended to be inexperienced and unwilling to use any discretion. The time spent and the costs of establishing the pilot plant were probably much higher than the equipment cost".

Road Transport Permits, Urban Passenger Transport & Vehicles

It is extremely difficult to obtain a road service permit to operate a transport business in the rural areas and illegal to operate without one. The same is true in the urban areas, where in bus services the Zimbabwe Urban Passenger Company [ZUPCO] has a statutory monopoly which Government, a joint venture partner with United Transport of the UK, is unwilling to alter before 1994, due to heavy penalty clauses in the joint venture agreement.

These regulatory constraints are compounded by the lack of access to vehicles, and Government's unwillingness to allow the local assembly of the minibuses which are prevalent in the urban areas of other African countries (eg the "matatu" in Kenya and the "Zola Budds", so-named for their speed, in South Africa). Poor rural and urban transport services raise costs for SSEs and in

many cases make their operation and survival extremely problematic.

Taxation

The government has given tax incentives for small-scale manufacturing enterprises within designated growth points. The tax incentive is 20% tax exemption within the first five years. In addition SSEs at growth points are given an investment allowance of 15%. This is over and above the special initial allowance on all new investments now phased to 50%, 25% and 25% over three years. Imports of capital goods for use at growth points are exempted from surtax and import tax.

Other than the above, small-scale enterprises have to abide by the same taxation provisions that cover all other economic agents. Sole proprietors or beneficiaries of unregistered enterprises should pay personal income tax on income derived from the SSE. Companies have to pay company tax (45% of profits in 1991/92, 42,5% in 1992/93). In cases where entrepreneurs are not paying taxes, the high rates of company tax represent a major obstacle to deciding to register as a company, to be set against the benefits of doing so (eg probably easier access to the banking system).

7.3 SKILL AND INFORMATION CONSTRAINTS

Development of Entrepreneurship and Business Culture, and Lack of Managerial and Technical Skills

Entrepreneurship is not necessarily connected to business skills, but successful entrepreneurs are generally backed by people working closely with them who have such skills. It would thus appear that the development of entrepreneurship and business culture has been hampered by a lack of basic business skills such as planning, bookkeeping, costing, production management, and marketing. The lack of skills is, in turn, an aspect of the legacy of past discrimination. As these skills are more widely acquired, and are shown to be necessary for efficient and profitable operations, the business culture will continue to be deepened and expanded. At the same time, the idea of entrepreneurship needs to be inculcated and every means found to

encourage those with an entrepreneurial flair to start out in business and contribute to economic growth through creating wealth and employment.

The lack of basic business skills among small-scale entrepreneurs is one of the factors which causes them to refrain from seeking financial assistance from the banking system, even if that finance is actually available. A significant number of SSEs do not keep books for their business operations which reflects lack of managerial and technical skills, as well as an instinct for tax evasion.

Lack of Information

While there is abundant information that may be available for business decision makers in the country, the SSEs are not organized to access this information, especially as it comes from diverse sources. For example, in the clothing sub-sector it was found that many SSEs did not have access to market information on both domestic and external markets. The majority of these SSEs were not members of ZNCC and were thus left out of organized market information which the established enterprises get on a regular and systematic basis.

The interviews carried out during the study revealed that development agencies and government departments involved in small-scale enterprise support had very little knowledge about other agencies in the field. The situation is worse when it comes to SSEs themselves.

7.4 FINANCIAL CONSTRAINTS

Lack of access to bank finance by SSEs has long been claimed to be the main constraint facing SSEs. The claims and counter claims on the accessibility of bank finance are presented in Chapters 9 and 12. According to the banks their services are accessible and their demands on collateral are reasonable, but the high rejection rate of the small-scale clients shows that there is a problem that needs to be solved. The fact remains that only a tiny proportion of SSEs have ever had a loan from a bank (see Table 4.5 - only 0,4% of the GEMINI sample).

The constraint on access to finance by small-scale can partly be blamed on the over-cautiousness of the commercial banks in approving loan applications from SSEs. On the other hand, an important part of the problem seems to lie in the poor financial management of the SSEs and the inability of most of the small-scale entrepreneurs to use their finances to best advantage.

7.5 INVESTMENT CONSTRAINTS

The majority of SSEs have not got the basic skills and training in project preparation for financing by the banks, and seldom have the orientation to employ people with such skills to assist. Some bank managers said during the interviews that when the project is questioned and the applicant is asked to furnish some more basic information, many walk out of the door and never come back. The reasons for lack of skills in financial management and related constraints were discussed in Chapter 7.

Lack of access to foreign currency has long been a major constraint facing the SSEs. Until the establishment of the Zimbabwe Investment Centre [ZIC], a few SSE finance schemes in the commercial banks, there was no channel for small-scale enterprises to source foreign currency for their projects. This situation is now partly solved but only for those SSEs with the ability to prepare bankable projects. These exclude all but a tiny minority of SSEs.

Bureaucratic delays in the approval of projects cause financial hiccups for the small-scale entrepreneurs³⁹. Project preparation and approval can take a long time, in the meantime the financial implications of the project may change for the worse. This is particularly the case under conditions of unstable exchange rates affecting the Zimbabwe dollar. There are yet other bureaucratic delays coming from processing of development applications by the local authorities. Delays with the local authorities usually take up to six months. These delays place constraints on development and are detrimental to the small scale enterprises.

³⁹ Examples are given in the report by IMANI "Impediments Confronting Informal Sector Enterprises in Zimbabwe", Harare 1990.

7.6 TECHNOLOGICAL CONSTRAINTS¹⁰

Access to Imported Technology

Access to technologies in general and imported ones in particular is constrained by lack of foreign currency, and where it is available the prices of imported machinery and raw materials inputs can be excessively high and even unaffordable. As most SSEs are not registered and not in a position to apply for currency, they have no access to foreign currency for the importation of capital goods and raw materials.

Access to Locally Developed and Maintained Technology

Development agencies such as ITDG and ENDA are involved in technology development, prototype testing, dissemination and backup for user groups. Other agencies such as the Save the Children Fund, and Redd Barna have also been involved in development and use of technologies. The private sector is also involved in the development of appropriate technologies. For example, APTECH (Pvt) Limited is involved in the design, prototype testing, installation and commissioning work on behalf of other organizations such as ITDG. There are, however, few companies interested in manufacturing technology for SSEs, unless there are substantial commercial prospects, and it is even more difficult to get manufacturers to participate in prototype development.

Despite this wide variety of development support agencies and companies, technologies in SSEs have frequently failed because of a lack of back-up and maintenance services. Without such services, new SSEs are likely to have technical problems with unfamiliar equipment or processes. Another neglected area is the provision of second hand technologies, which could well be both appropriate and affordable for SSEs. Without some institutional support to enable SSEs to verify and access these technologies, their availability remains a hypothetical question.

¹⁰ See Aptech paper in Appendix 10.

Difficulties in Developing Local Technology

In spite of these diverse organizations involved in technological support services, small-scale and intermediate-scale technologies are usually not easily accessible to SSEs except through a development project which will also provide support. A major problem that has constrained the introduction of technologies to SSEs appears to be the inappropriate design quality of the prototypes that have been copied locally from foreign technologies.

As an example of poor technological transfer, the APTECH technology study (Appendix 10) quotes the introduction of the Bielenberg oilpress to Zimbabwe. It failed for a number of reasons including design faults, poor quality control on materials used in the production of the press and the paucity of training of the operators. Development agencies have in the past underestimated the work required to design, prove and successfully disseminate new technologies. For new technologies to succeed there is need for the government to put considerable resources into the process which will enable developers to continue technical and management support to users for a long time, something that has not happened in the past.

7.7 INFRASTRUCTURAL CONSTRAINTS

Virtually all general infrastructure is in the urban areas, but at present even in the urban areas suitable and allocated land, water, electricity, telephones and transport are in short supply. Given their lesser spheres of influence and bargaining power, the small-scale enterprises suffer more from these shortages than large-scale enterprise.

More specifically the Zoning and Model Building Bylaws restrictions affect small-scale enterprises (see Section 7.2) and serve to limit suitable premises used by SSEs in urban areas. The lack of suitable premises for small-scale operators is caused by a number of factors, including the failure to construct suitable premises due to the high costs of acceptable building materials. Lower quality but suitable bricks have been tested but are not yet being introduced.

Lack of basic infrastructure in the rural areas is a major constraint facing SSEs. There is often no electricity in many growth points and outlying rural service centres and other supporting infrastructure such as roads and provision of water are not adequate. Without the appropriate package of infrastructure, combined with support to SSEs, even those rural growth points with underlying economic potential will not take off.

**SUPPORT TO SMALL-SCALE INDUSTRIES &
ENHANCEMENT OF INDIGENOUS OWNERSHIP**

PART C - SUPPORT TO SMALL-SCALE ENTERPRISES

**CHAPTER 8: OVERVIEW OF EXISTING SUPPORT PROGRAMMES AND
INSTITUTIONS**

8.1 GOVERNMENT

Policy Framework

Government's role in supporting SSE is both explicit, through specific policies, programmes and institutions targeted to SSEs, and implicit through the impact of general policies and activities.

As explained in detail in Chapters 1 and 7, at present government policy is not particularly conducive to the development of the SSE sector. The foreign exchange allocation system is biased in favour of large, established industry. Investment procedures are cumbersome, suitable premises are difficult to find, the result in part of zoning restrictions and building codes, title deeds are not permitted in many rural centres and are anyway difficult to secure due to archaic attitudes about surveying, and there are many specific regulatory requirements which have to be met (such as the Factories & Works Act for industries using power, road transport permits in the transport sector, etc.)

As part of the Economic Reform Programme and government's renewed commitment to SSE development most of these items are to be addressed to make the environment more supportive of SSEs. Specific recommendations in this regard are made in detail in Chapter 14.

Institutional Responsibility within Government

By their nature, issues pertaining to small-scale enterprises cut across the responsibilities of various ministries of government. In the past, it has not been clear where overall responsibility lay for SSE promotion, although the Ministry of Industry and Commerce has now been designated to assume that responsibility.

During the implementation of the Economic Reform Programme, the inter-ministerial Monitoring Committee will provide a forum for co-ordinating a number of policy issues, including those pertaining to SSEs. The Monitoring and Implementation Unit in the Ministry of Finance, Economic Planning and Development and the Social Development Fund in the Ministry of Labour, Manpower Planning and Social Welfare will play an important role with respect to SSEs during the Economic Reform Programme Period, as will the Ministry of Local Government, Rural and Urban Development, and Ministry of Transport and National Supplies, which together are responsible for many of the areas where deregulation is required.

In respect of training and extension services, the Ministry of Community and Co-operative Development and the Department of Women's Affairs in the Ministry of Political Affairs have in the past played significant roles. These have now been consolidated under a new Ministry of National Affairs, Employment Creation and Co-operatives.

Role of Government in Institutional Support for SSEs

While government has always encouraged the private sector and NGOs to assist in promoting SSEs, government's main thrust in the area of institutional support has been the establishment and promotion of financial institutions specifically targeted to supporting SSEs. These are the Small Enterprises Development Corporation (SEDCO), the Zimbabwe Development Bank (ZDB), and the Venture Capital Company of Zimbabwe (VCCZ) and the Credit Guarantee Company. Government also has a majority holding in two of the commercial banks (Zimbank and the Commercial Bank of Zimbabwe). In order to keep the discussion of financial institutions together, those with major government involvement are described together with the private banks and finance houses in Chapter 9.

8.2 OTHER PARTIES INVOLVED IN SUPPORT FOR SSE

Private Sector Institutions

One category of private sector support institutions is the business organizations (IBDC, ZNCC and CZI); these play a role both in lobbying for improvement in the business environment (higher level of activity, fewer bureaucratic requirements, lower taxes etc) and in offering specific support services to SSEs.

Another category of private sector organization is the financial institutions - commercial banks, finance houses and merchant banks. The Credit Guarantee Company (CGC) is a special case, being owned jointly by the commercial banks and the Reserve Bank.

Thirdly, there is a range of small private companies which assist budding entrepreneurs to prepare projects for funding and project approval by the government authorities. Some offer these services on an *ad hoc* basis, while others specialize in working with small-scale enterprises. Part of the demand for such services arises in the context of the present highly regulated environment and this should change as investment procedures come to be streamlined and subsequently disappear when all capital goods have come onto the OGIL list. As the support services offered by the umbrella organizations (such as IBDC) expand, these companies are likely to become more specialised.

Finally, under the heading of private sector support institutions, there are a number of private companies or conglomerate groups which are beginning to assist small-scale enterprises. The mechanisms being explored include provision of finance, subcontracting to provide secure markets, training, technical advice and assistance.

Donors & NGOs

Besides providing part of the finance for many of the institutions already listed, donors may have their own support programmes for SSE and/or give support to a wide range of developmental NGOs. Some of the main bilateral donors active in supporting SSEs are (main Zimbabwe counterpart agencies in parentheses; other activities also funded): CIDA (through SEDCO

and CGC), USAID (through CZI), ODA (through IBDC) and the World Bank (through SEDCO).

United Nations agencies have been active in supporting SSE through financing studies and training for SEDCO, ZDB, VCCZ, and mounting programmes to directly assist small-scale entrepreneurs (eg, the ILO "Improve your Business" programme, implemented through the Employers' Confederation, EMCOZ). Studies in specific areas have been financed eg the bread, beer and brick-making studies sponsored by UNIFEM and executed by ZERO, a local NGO. UNIDO training and programmes such as Special Industrial Services, although not specifically targeted at small-scale industries, are likely to have had some positive spin-offs. The EMPRETEC joint ZIC-UNDP-UNCTC project that is just starting is described in Chapter 11.

The NGO support agencies are of many kinds, and seek to fulfill different functions. Some of the NGOs are locally based, others are foreign based with branches or "arm's length" operations in Zimbabwe.

Chapters 9-11 describe the support activities of the main categories of institution in more detail. Given the proliferation of support institutions, however, these chapters do not purport to be comprehensive. One of the recommendations that is made in Chapter 12 is that a comprehensive data base be established which can be kept up-to-date on an on-going basis.

8.3 RANGE OF SERVICES OFFERED

Finance

Shortage of capital - fixed and working - is the major constraint perceived by SSEs themselves. Most of the support organizations offer access to finance or assistance in obtaining finance yet it should be recalled that only 0,4% of the GEMINI sample had ever received bank finance (3,6% of urban non-household-based SSEs in the sample). Venture capital institutions, prepared to take an equity stake in a company with promise, with a view to selling off the stake when capital gains can be registered, are

relatively new in Zimbabwe, but have a great deal of promise. Venture capital options are analysed separately in Section 9.4.

Extension and Training

All of the support institutions offer advice and technical assistance, while many also seek to provide formal training for those involved in SSEs. The financial institutions are increasingly involved in extension and training, as they see the viability of their loan operations to depend on thorough project preparation and effective management. There are a large number of training centres (over 50), offering a wide range of courses.

Infrastructure

In response to the tremendous lack of suitable work-space for SSEs, several institutions have executed or are planning projects to alleviate the problem. The Urban Development Corporation, for example, has constructed workshops at three growth points (Murewa, Gokwe and Gutu-Mupandawana). ZDB has just completed some industrial sites at Willowvale in Harare and is looking at possibilities in other centres. ZDC has plans to build 34 factory shells at Chitungwiza.

None of these use the possibility to provide a range of complementary services to SSEs, along the lines of the ITTU concept spelt out in Chapter 6. This is unfortunate, as providing real estate need not be the only objective and more developmental options should be explored. The ENDA experience at the Green Market in Mutare has some useful lessons which can be built into the design of such projects.

CHAPTER 9 : FINANCIAL INSTITUTIONS

9.1 OVERVIEW OF FINANCIAL INSTITUTIONS SERVING SSES

Registered Financial Institutions

The main institutions are the five commercial banks:

ANZ Grindlays
Barclays Bank
Commercial Bank
Standard Chartered Bank
Zimbank (Zimbabwe Banking Corporation)

More commercial banks are expected to be allowed to operate in Zimbabwe, introducing more competition in the banking sector being part of the Economic Reform Programme.

Of the existing banks, government has a controlling interest in two; Commercial Bank (formerly Bank of Credit & Commerce Zimbabwe) and Zimbank. Barclays and Zimbank are public corporations, allowing part of the equity to be held by Zimbabwean institutional and individual investors. The remainder of their shareholdings and all of that of the other banks outside of the government participation is owned by overseas interests.

The Credit Guarantee Company (CGC), owned jointly by the commercial banks and the Reserve Bank, works closely with the commercial banks to underpin financing of SSEs.

Some of the commercial banks have subsidiaries offering merchant banking and hire purchase services. There are also institutions owned by other entities:

Merchant Banks:

First Merchant Bank	(Anglo American)
Merchant Bank of Central Africa	(consortium of overseas banks)
Standard Chartered Merchant Bank	(Standard Chartered)
Syfrets Merchant Bank	(Zimbank)

Finance Houses:

ANZ Grindlays Finance	(ANZ Grindlays)
Fincor	(private company)
Scotfin	(Zimbank)
Standard Finance	(Standard Chartered)
udc	(public company)

The merchant banks seldom have SSEs as clients, while the finance houses are involved only to a limited extent through providing hire purchase.

The two developmental financial institutions that have been set up by government are:

Small Enterprise Development Corporation [SEDCO]
Zimbabwe Development Bank [ZDB]

These are described in detail in Section 9.3.

Venture Capital Options

The above institutions offer loans, rather than equity participation in projects. Venture capital is available from the following institutions based in or with offices in Zimbabwe:

Manna Corporation
Zimbabwe Development Fund (the "soft window" of ZDB)
Venture Capital Company of Zimbabwe Ltd
Hawk Ventures Ltd
Continental Capital (Pvt) Ltd
Africa Enterprise Fund

In addition, there are a number of foreign-based institutions which offer equity financing to small projects in countries such as Zimbabwe. The venture capital options are described in Section 9.4.

NGOs

There are a large number of NGOs which offer finance to SSEs, the majority of these being on a grant basis, and rather limited in amount. Some, however, offer loans, often on a subsidized basis⁴¹ (eg, Zimbabwe Women Finance Trust). Generally, support to SSEs has not been rooted in a developmental approach, but has grown out of the welfarist orientation which characterized NGOs after Independence.

Recently, however, NGOs with a specific commitment to SSEs, and a vision of how their support fits into the overall developmental picture, have become more numerous. Zambuko Trust, which started

⁴¹ As pointed out in T de Wilde (1991), "Zimbabwe: Small and Micro Enterprises Lending and Financial Sector Overview", there is concern about sustainability if interest rates on loans continue to be kept well below the rate of inflation.

operations at the beginning of 1992, provides an example of an NGO being set up to concentrate on financing SSEs. Some NGOs are purely local, while others have foreign financing or are foreign entities, an example being the African Enterprise Foundation, which is linked to the IFC and is thus part of the World Bank group. Other than the NGOs involved in providing venture capital, which are dealt with in Section 9.4, the operations of NGOs are discussed in Chapter 11.

Conclusions on Finance Institutions

This chapter is largely descriptive in character. An analysis of the lessons to be learnt and recommendations on how to enhance financial flows to the SSE sector are given in Chapters 12 and 13. The relevant policy issues are included in Chapter 14 and a proposal for a Refinance Facility made as part of the UNIDO Small-Scale Industry Project in Chapter 15.

9.2 COMMERCIAL BANKS, FINANCE HOUSES AND CGC

Small Business Units of Commercial Banks

In recent years, government has put pressure on commercial banks to increase their lending to SSEs. The initial response of the banks was that they were dealing satisfactorily with the needs of SSEs through their existing bank structures and that the proposed minimum proportion of total lending to be earmarked for the SSE sector (5%) was already being exceeded.

Subsequently, however, some of the commercial banks have created special structures to deal with small businesses. The first to do so was Standard Chartered, which created a "Small Business Loan Scheme" and a "Small Business Unit" (SBU) within the Retail Banking Division in 1988. Barclays Bank launched its "Small Business Unit" (SBU) in August 1989. Zimbank created a "Small Business Services Division" (SBSD) in October 1990. Commercial Bank and ANZ Grindlays are inevitably less prominent in the field as their whole scale of operations in Zimbabwe is small relative to the other three commercial banks. The commercial banks generally supply short term finance (such as an overdraft facility), suitable for financing working capital, but where

other institutions (such as the finance houses, merchant and development banks) would not be able to assist, medium to longer term loans for fixed capital are also considered.

While Standard Chartered and Barclays' SBUs and Zimbank's SBSO were set up to provide a mixture of financial support, advisory services and training to SSEs, the differences in their style of operation are significant. Standard Chartered and Barclays' SBUs are staffed by bankers whose main role is to help entrepreneurs prepare projects and assemble loan requirements (including collateral or other security). The final decision about the loan is usually made by the Branch Manager. In practice, however, as the branches remain reluctant to take on small, untried customers, the SBUs have assumed the role of branches and have their own portfolio of clients for whom they take direct responsibility (400 out of 700 small-scale clients fall into this category in the case of Standard Chartered).

Zimbank's SBSO is staffed primarily by economists with experience with working with SSEs, rather than by bankers. Projects are divided into three "tiers", with much simpler application procedures being involved for the lower tiers (involving respectively loans in the range \$5 000 to \$10 000 and \$10 000 to \$50 000). The decisions about projects, and consequent responsibility for the loans, are made within the SBSO structure itself (loans in the third tier, above \$50 000, are referred to a Head Office Committee). The long-term objective is to have someone at each branch taking care of small businesses. Some are already in post, working alongside bank managers, but reporting to the head of SBSO.

The professional staff complement of Zimbank's SBSO is to be increased from 9 to 15 with the opening of a sub-office in Bulawayo and the posting of 2 officers in the Chitungwiza Branch of Zimbank. This compares with professional staff of 6 in Standard Chartered's SBU (Harare and Bulawayo) and 4 in Barclays' SBU (Chitungwiza). With as yet a much lower volume of lending than Standard Chartered and Barclays, Zimbank is clearly putting proportionately more resources into lending to SSEs; it also appears to be more committed to serving rural entrepreneurs and very small projects than the other two banks. The other banks

consider very small loans to be adequately covered through the extension of personal overdraft facilities to clients. Rates of interest on personal overdrafts are usually 5-10% pa higher than loans for productive investments.

While the Zimbank approach would appear more promising in several respects, there is not yet sufficient experience to evaluate the relative effectiveness of the two approaches. All the banks express commitment to promoting SSEs, and are monitoring their initiatives in this area with a view to making improvements. Barclays and Zimbank complement their lending operations with training activities, ranging from one day seminars to longer courses covering issues such as record keeping; Standard Chartered has not involved itself in training.

The terms of loans appear to be commercial (at least one percent above prime), although this may not be adequate to cover the higher costs involved in running the SBU and the SBSB. Zimbank, however, argues that a longer term view should be taken in that the activities of SBSB are helping to expand the clientele of the Bank's branches, particularly in the rural areas. The banks claim that they are willing to make loans without collateral but prefer to have security where this can be provided. Users of their services claim that the traditional bank attitudes prevail, with the provision of collateral or other forms of security remaining an important element in securing a loan. The banks have the option of involving CGC in risky projects where collateral is insufficient, but the CGC route involves considerable delays (CGC is discussed later in this section).

Barclays Bank treats any quantitative information about its operations as a commercial secret. Standard Chartered are a little less reticent, but would not go much further than indicating about 700 small-scale clients, with an average loan of about \$100 000 (this includes some large loans that run into millions, which can hardly be described as small-scale - see discussion of definitions in Section 3.1). Zimbank, by contrast, published information about SBSB's first year of operations prominently on the inside cover of its annual report for 1990/91. It is noted there that 146 projects were supported, involving an outlay of \$3,8 million. This compares with the \$30 million which

Zimbank had set aside for the SBSB for the first three years of operation. The implied average loan size is \$26 000, showing that there were some large loans over and above the "typical range" of \$2 000 to \$10 000 for SBSB's area of concentration: "promoting small projects in rural areas".

The Zimbank report claims that direct employment increased by 2000 due to the assistance given by SBSB, "indicating an average cost of approximately \$1 900 for each job created in small project development". This figure is very low when compared to larger-scale projects going through ZIC (where a cost per job of \$66 000 has been identified) but the method of calculation would have to be carefully checked to see whether there were not generally other costs involved besides those funded by the bank and whether the jobs supposedly created are sustainable in the longer term⁴².

The Zimbank loans have been made to co-operatives (\$1,8 million) as well as individuals (\$2,0 million), with the bulk of the co-operative lending (\$1,2 million) going to women's co-operatives. The relatively large proportion of loans to co-operatives is due to the fact that the Collective Self Finance Scheme, set up to provide collateral for loans to co-operatives, has a deposit of \$1 million for this purpose with the Zimbank group. The Zimbank report also highlights its efforts to assist women. "Women play a major part in rural economic activity and forty-nine of the small projects assisted to date are run either entirely by women or are run by groups in which women play a prominent role".

Hire Purchase and Factoring

The finance houses (Standard Finance, Scotfin and udc) do not have specific programmes for SSEs, but are willing to finance on a hire purchase [HP] basis the purchase of capital equipment by any type of client. As the finance house legally owns the equipment until the loan has been fully paid, and the client pays for comprehensive insurance, there is 100% security on this type of business.

⁴² Unfortunately, the data needed for this was not made available.

Since the mid-1980s, under government directive, the HP sector has moved out of financing consumer durables, and focuses on financing capital goods. The volume of business has been largely determined by the availability of foreign currency, expanding sharply with special programmes, such as the recent programme to import 30t and 7t truck kits. Most of the small-scale enterprises recently supported have been in the transport sector. Interest is expressed in the HP houses establishing their own lines of credit for import of capital goods, but they face the problem that forward cover on exchange rate changes is available only on the capital element and not on the interest payments.

Loan conditions fall under the Hire Purchase Act. Down payments are usually 15% of the price including sales tax, with repayment at 5% above prime over a maximum of 36 months. This implies for an entrepreneur starting a small haulage business with, say, three 7 tonne trucks, a down payment of around \$113 000 and monthly repayments of about \$27 000. Only companies which are, or are going to be, well established can contemplate such arrangements. Very small loans would not be of interest to the finance houses, but group schemes could be contemplated where the main loan was with an organization, which on-lends smaller amounts to a number of individuals or groups.

Leasing of capital equipment used to be undertaken by the finance houses, but this has been inhibited by the tax regime. Sales tax is raised on both the principal amount and the finance charges, and also on the terminal value if the item is subsequently sold to the lessee. Following the 1992/93 budget, however, this is to be changed, although it is not clear that a more generous sales tax regime will make a great deal of difference⁴³.

A relatively new service being offered by at least one of the finance houses (udc) is debtor financing or what is termed *factoring*. Under this arrangement, udc undertakes to pay up to 80% of outstanding debts upfront, enabling the company to maintain its cash flow and concentrate on its core business activities, while leaving the collection of outstanding debts to the finance house. Although not yet much used by SSEs, factoring

⁴³ SEDCO has provision for leasing services for SSEs; Zimbabwe Development Bank is currently considering how best to enter the leasing market.

could be a useful service that would enable SSEs to move into more sophisticated markets which require going beyond cash business to extend credit to customers. Factoring is open to SSEs; it is a question of acquainting them with the concept and encouraging them to take part if it would be advantageous for them to do so.

Credit Guarantee Company

CGC is an important complement to the loan services offered by the commercial banks. It was formed under the name FEBCO in 1978 and was reactivated in the late 1980s in order to overcome problems encountered by the commercial banks in lending to SSEs. Arrears in the early 1980s with the commercial banks were reported to have risen to the point where the banks had sharply curtailed lending to SSEs.

CGC is jointly owned by the Reserve Bank (50%) and the five commercial banks (10%). It has a Trustee Committee consisting of the Governor of the Reserve Bank and Chief Executives of the commercial banks and a Board of Directors and Advances Committee consisting of officials from the 6 institutions. It is financed through contributions from shareholders (through secondment of personnel and, in the case of the Reserve Bank, provision of accommodation), non-refundable application fees (a modest \$10 per application), a raising fee (1% on loans advanced), interest on loans (at 1% above prime over a maximum of three years), and a government grant (90/91 year \$90 000).

CGC operates by extending guarantees of up to 50% of the amount being loaned by a commercial bank for a small-scale project. The banks decide on which projects to forward to CGC for its consideration. This requires the CGC forms to be completed and site visits to be made by CGC officials. The Advances Committee then decides on whether the project is to be supported (up to \$70 000; above that the Board of Trustees approves on the recommendation of the Advances Committee). The project may still not go ahead, however, as it goes back to the originating bank which, according to its own procedures (central level or branch level) then makes a final decision on extending the loan.

FIGURE 9.1: CGC APPLICATIONS RECEIVED, PROCESSED & APPROVED
 (% = % Processed Applications Approved)

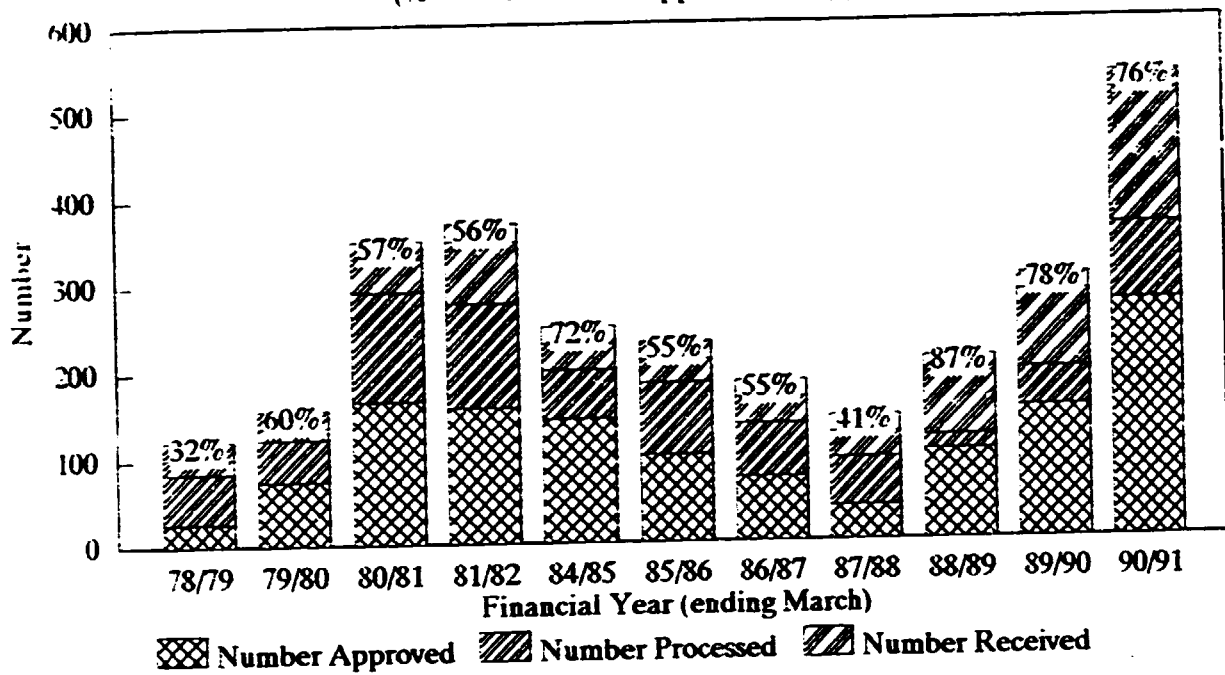


FIGURE 9.2: AMOUNTS APPROVED AND AVERAGE LOAN SIZE
 (Average Loan Size in \$'000)

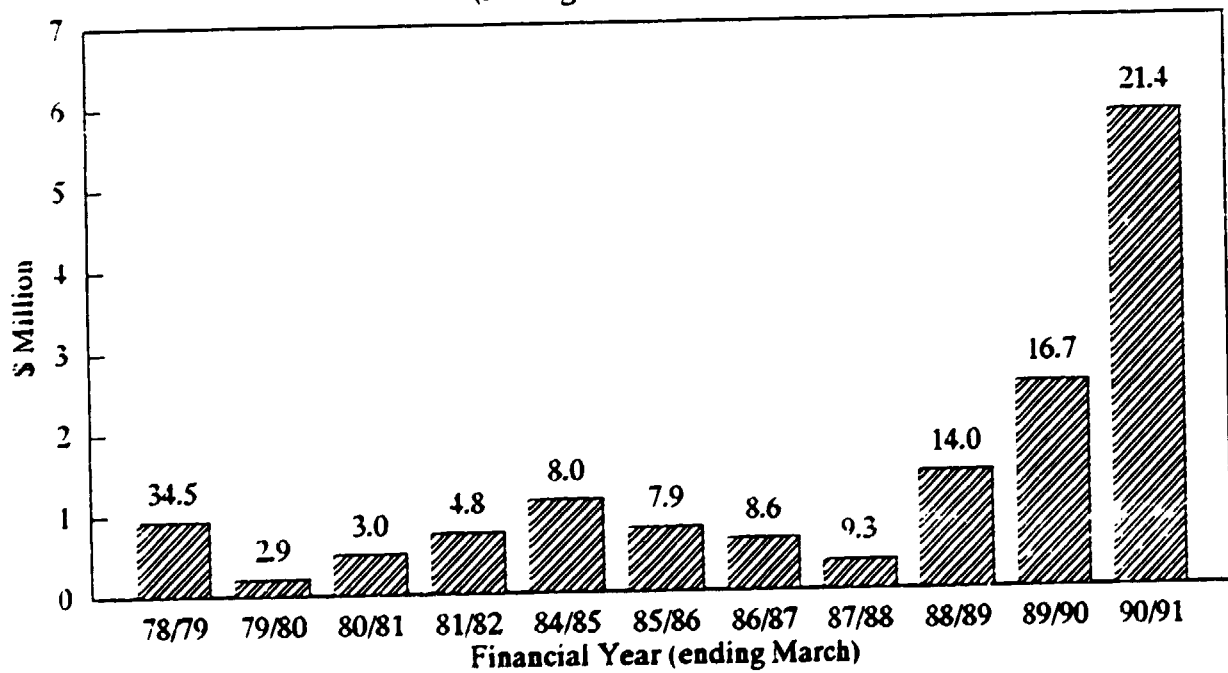


FIGURE 9.3A: CGC SECTORAL DISTRIBUTION OF LOANS BY VALUE

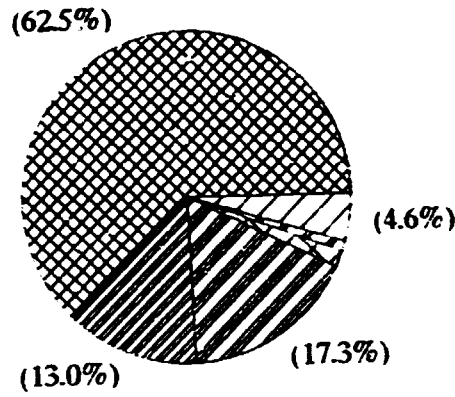
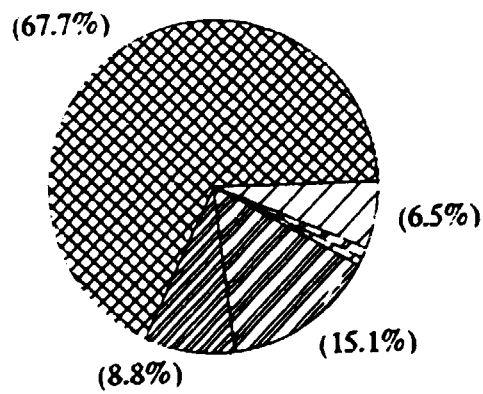


FIGURE 9.3B: CGC SECTORAL DISTRIBUTION OF LOANS BY NUMBER



The procedure can be quite wasteful if the loan is rejected at this last stage, but the justification is that the loan remains the responsibility of the commercial bank (at the central or branch level, depending on internal organization).

Figure 9.1 shows how the total number of applications, the number processed and the number approved has varied over time, while Figure 9.2 shows the average loan size of approved applications and the total amount approved. It is clear from these graphs that the number of applications grew from 1978 to 1983/4, then declined to 1987/88. Since 1988/89, there has been rapid growth in the number of applications, the proportion and number of approvals and the average size of loan.

The total loans approved over the past two years (\$8,4 million) in fact is only slightly less than the total for the preceding 11 years (\$8,7 million). In the past financial year (1990/91), 517 applications were received of which 361 had been processed by the year end and 76% approved (273). The average size of loan approved in the 1990/91 year was \$21 400, with the total value approved being \$5,8 million.

The approval rate over the last 2 years is much higher than the average approval rate over the whole 13 years of operation, which was 56%. Given that in terms of numbers of loans, the default rate over the entire life of CGC is 20% and the bad debt rate only 3%, the higher acceptance rate of recent years would appear to be well justified. The corresponding figures in terms of values are 3% default rate and 1% bad debt rate. The total amount written down to date is only \$95 000, of which \$37 000 has been recovered. A bolder approach is needed if the small-scale sector is to expand rapidly.

The sectoral distribution of loans over the 13 year period is shown in Figure 9.3A. Loans to retail operations continue to dominate (63% by value) with manufacturing and mining, which are being given priority by CGC, constituting the next largest category (17% by value). Together with services⁴⁴ (13%), these

⁴⁴ The "Services" and "Other" categories are reported by CGC to cover: florists, gem cutting, dog training, poultry, hair salons, record bars, video communications, freelance filming, publishing, import & export, irrigation, plumbing, piggery, fishing, funeral undertakers.

three categories constitute 92% of total lending by value. The distribution by number of loans (Figure 9.38) is a little different, with a higher proportion of retail loans and smaller proportion of service and manufacturing/mining loans reflecting the larger average size of loans in manufacturing and mining (\$11 250) and services (\$14 500), as compared with retail loans (\$9 000).

With the rapid increase in the number of applications, CGC's resources have been stretched and need to be expanded. The professional staff complement last year was six, five in the Harare Head Office and one in the Bulawayo branch office. Management has appealed to the banks to second more experienced staff to cope with the complexity and range of projects which are now being submitted. In addition, a C\$1,4 million project has been agreed with CIDA which will provide vehicles, computers and office equipment, consultancy and training for project officers.

The CIDA project should help considerably in improving the overall efficiency of CGC (in the past, for example, project officers have used public transport to reach projects, which is very inefficient when projects are in remote rural areas). From CIDA's viewpoint, the main thrust of the project is directed at women entrepreneurs. In future, through the CIDA project, CGC will be able to offer 65% guarantee on women-dominated projects, as compared with the standard 50% guarantee cover. It is expected that the proportion of women-dominated projects supported by CGC will rise from the present level of 13% to about 30% by the end of the 5-year period over which the CIDA project is scheduled to run.

9.3 DEVELOPMENT BANKS

Small Enterprise Development Corporation [SEDCO]

SEDCO is a parastatal, established under a 1984 Act of Parliament, to provide financial extension and training services to small-scale enterprises. While the basic aims and structure

graphic artists, burial societies, purchase of business as going concern, hotels, consultancy, service station and lawyers".

of SEDCO are in line with the requirement of SSEs, the Corporation was severely under-capitalized at its inception (\$8 million as compared with calculated requirements at the time of \$35 million). Capitalization was increased to \$25 million in 1990 and to \$36 million in 1991, but by then SEDCO had estimated (in its Strategic Plan of 1990) that a capital base of \$56 million was required, rising to \$250 million in the medium term.

SEDCO has benefitted from a foreign exchange facility provided by a loan of US\$10 million from the World Bank. This facility was initiated in 1986, and has formed an important component of SEDCO operations, because clients have been able to gain access to the foreign exchange needed for projects, as well as contracting loans for their Zimbabwe dollar requirements. Under the agreement with the World Bank,, the exchange risk was absorbed by the Zimbabwe Government. The facility was fully drawn down by the end of 1991. An application for a second facility has been made by the Corporation, but is yet to be put in place. An approach to the PTA Bank for a a facility of 5 million UAPTA is also under consideration.

SEDCO is presently wholly owned by the Government of Zimbabwe. The Corporation has submitted proposed amendments to the SEDCO Act so that it can become a share-based organization with an authorized capital of \$250 million, in which organizations other than Government can take an equity share. The legal changes required are yet to be agreed and enacted. The Corporation is presently controlled by a Board, which includes senior management, and reports to the Minister of Industry and Commerce. Besides the Head Office in Harare, there are branch offices in Harare, Bulawayo, Gweru, Masvingo and Mutare. There are approximately 120 full-time employees in the Corporation, half of whom are support staff. SEDCO has benefitted from an on-going technical assistance project financed by CIDA.

Figure 9.4 shows how the total number of applications, the number processed and the number approved has varied over time, while Figure 9.5 shows the average loan size of approved applications and the total amount approved.

FIG 9.4: SEDCO APPLICATIONS RECEIVED, PROCESSED & APPROVED
 (% = % Processed Applications Approved)

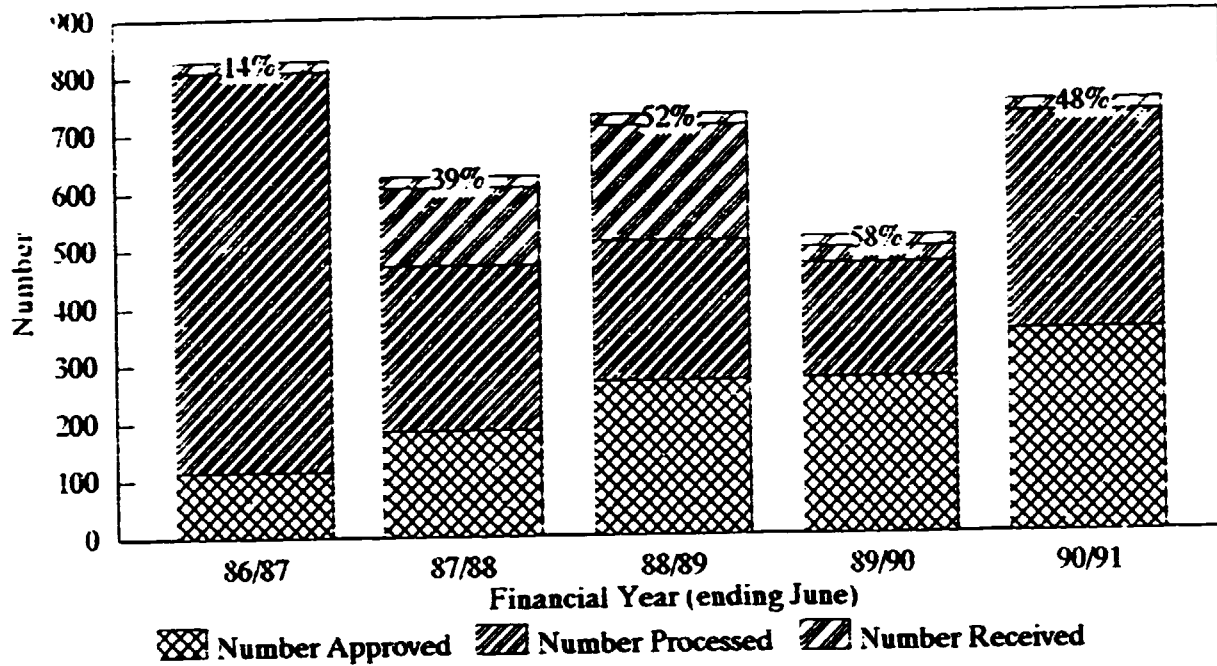


FIG 9.5: SEDCO AMOUNTS APPROVED AND AVERAGE LOAN SIZE
 (Average Loan Size in \$'000)

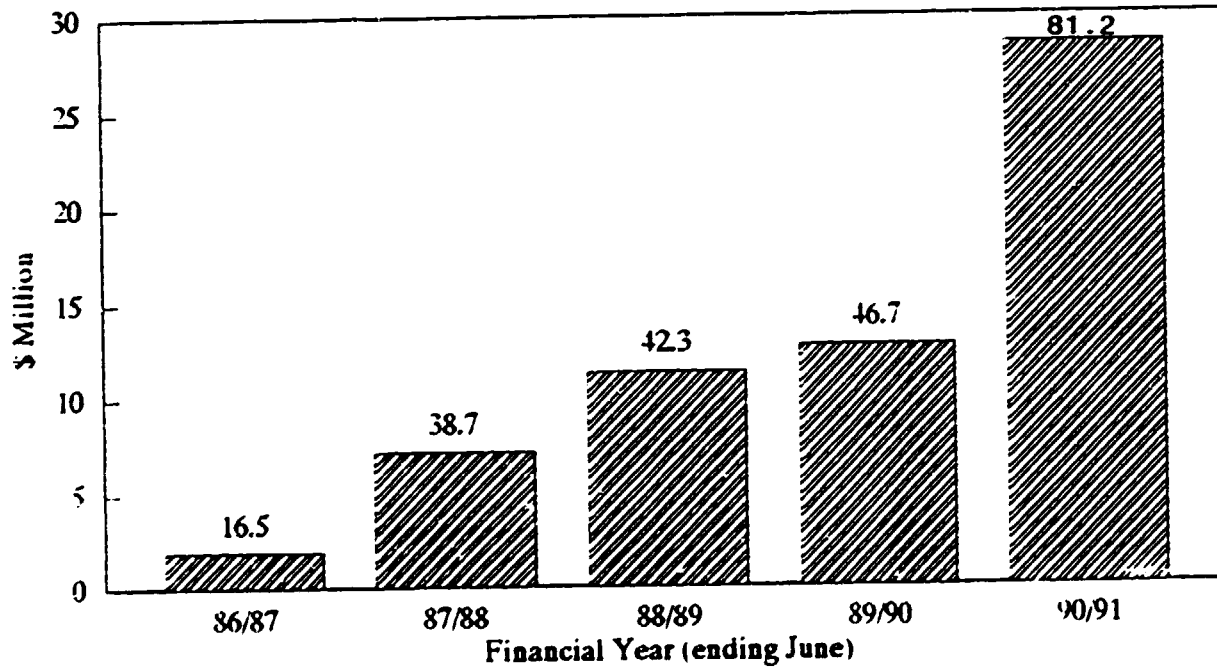
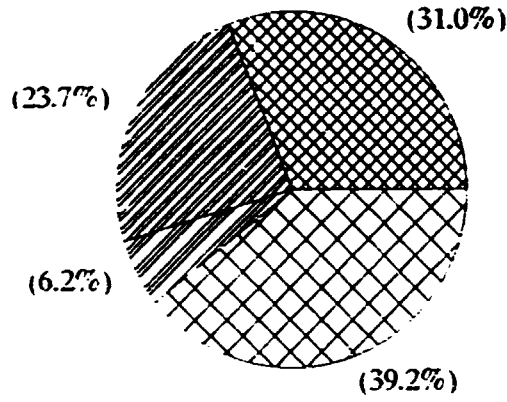
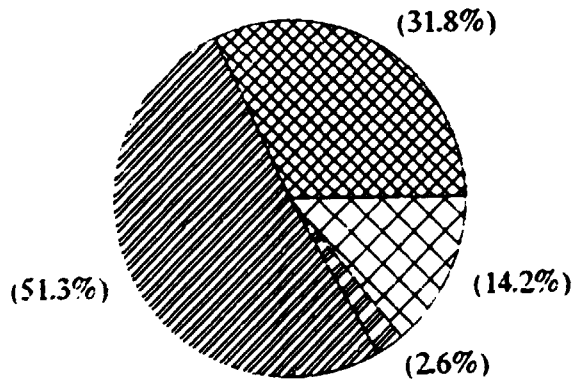


FIG 9.6A: SEDCO SECTORAL DISTRIBUTION OF LOANS BY VALUE



Industry Commerce Construction Services

FIG 9.6B: SEDCO SECTORAL DISTRIBUTION OF LOANS BY NUMBER



Industry Commerce Construction Services

Despite a levelling off between 1988/89 and 1989/90, there has clearly been a rapid increase since 1987 in the number of loans approved, the amount involved and the average loan size. Much of the increase in 1990/91 was due to loans to haulage companies. Nearly 44% of loans for that year were spent on motor vehicles (\$12,4 million) as against 26% in the previous year. The bulk of SEDCO loans are for asset acquisition (land and buildings, machinery and equipment and motor vehicles) with only 20-25% being loans for working capital.

When comparing these SEDCO graphs with the corresponding ones for CGC loans (Figures 9.1 and 9.2), the first point to be made is that SEDCO is a much larger organization. Over the last five financial years, SEDCO approved over \$61 million in loans as against less than \$11 million by CGC. The number of approved loans is different by a factor of around rather than 5 (1188 loans approved by SEDCO and 641 by CGC), giving average loan sizes of nearly \$52 000 (SEDCO) and \$17 000 (CGC). As measured by the approval rate as a proportion of processed applications, it would appear that overheads are higher in SEDCO. This is bound to be the case because of the high level of non-project activities in SEDCO (such as training - see below), which is part of the reason why SEDCO has ten times the number of professional staff.

In terms of sectoral shares, while the majority of SEDCO loans have gone to commerce and services (over 60% over the last 5 years - see Figures 9.6A and 9.6B), industrial projects have been awarded over 30% of the loans (by number and value). This contrasts with CGC, where only 17% by number and 15% by value of loans were to manufacturing/mining enterprises. According to SEDCO Annual Report (page 11), the loans made in 1990/91 resulted in the creation of 1 118 jobs (corresponding to an average loan of \$25 000 per job), 41% of these jobs being in industrial projects. Sole proprietorships are the dominant type of SEDCO client. Attempts are being made to promote women entrepreneurs, but they still constitute a tiny fraction of the total number of approvals (7%), and of the value of loans granted (5%).

SEDCO has two main divisions: the Projects Division, and the Development Division, which covers training, extension and

research. SEDCO places considerable emphasis on training, in the belief that training, rather than collateral, is the best means of ensuring a successful loan portfolio. The Client Training Programme offers courses in Accounting & Finance, General Management, Marketing, Production and Operations Management, and General Business Management. These courses are offered at 5 centres across the country; space permitting, interested individuals who are not SEDCO clients may attend the courses for a nominal fee of \$30 per day. During 1990/91, 39 sessions were held, attended by 628 clients (187 women) and 39 non-clients.

The Entrepreneurship Development Programme (EDP) has been developed to encourage those who may have an entrepreneurial idea to develop this into a business plan and a project which can be put up for financing. While 310 participants (36 women) attended one day EDP workshops during 1990/91, 46 (7 women) participated in the four week residential sessions, which lead to the submission of prepared project plans (74% of the plans were for manufacturing projects). The figure of 46 is a far cry from the articulated aim of the EDP of creating 100-120 business start-ups or expansions per annum, but the programme has been welcomed as an innovative one in an environment where entrepreneurship clearly needs to be fostered.

An extension service, known as Consulting Assistance to Small Enterprises (CASE) was started during 1991. It makes use of the expertise and experience of retired professionals, covering a wide range of subjects. The objective is to provide assistance to SSEs experiencing specific difficulties or problems.

Taking account of its limited capital base, and the restraints on a parastatal, SEDCO has generally been successful in what it has set out to achieve. Its training programme is generally regarded as successful, while the main criticisms of its loan performance are that SEDCO financing has been expensive (partly because of the inordinate time taken to approve loans) and that it has tended to cater for the relatively large entrepreneur, rather than the very small enterprises which many people had assumed SEDCO was being set up to serve. In fact CGC and the commercial banks give more support to the very small enterprises, as evidenced by SEDCO's much higher average loan size over the past

five years (\$52 000 as against \$17 000 for CGC). The gap for the 1990/91 year is even larger (SEDCO average loan \$81 000, CGC \$21 000).

One of the major problems in being a parastatal lies in having to adhere to rates of pay which are often not competitive with the private sector. The result has been that SEDCO has had a high staff turnover, providing a training ground for young economists who have left to staff the small-scale industry units in the commercial banks or other positions in the private sector or the development agencies. In the spirit of the Economic Reform Programme, it is desirable that SEDCO be given more autonomy to manage its day-to-day affairs, while remaining accountable for its overall performance. Its own objectives are to markedly improve its performance in areas such as the time between a file being opened and the disbursement of funds: from 19-37 weeks in 1988/89, the goal is to reduce this to 5-10 weeks.

Zimbabwe Development Bank [ZDB]

ZDB was established under an Act of Parliament in 1985. Its objectives are those of a traditional development bank, "to provide medium and long term loans, equity and technical support to productive enterprises in Zimbabwe", with weight being given in appraising projects to national objectives such as employment, foreign exchange, linkages with the domestic economy and the promotion of Zimbabwean ownership and management. At the time, ZDB was considered the "big brother" to SEDCO, in that ZDB would concentrate on loans above SEDCO's upper limit of \$500 000; subsequently, this distinction has become somewhat blurred.

The shareholders of ZDB are the Government (51%), the Reserve Bank (7%), the African Development Bank (8%), with the remaining 24% shared between Commonwealth, European, Finnish, Dutch and German development agencies. The Bank's initial capital was \$6 million. This was increased to \$12 million in 1987, to \$20 million in 1988 and \$30 million in 1991. Total assets have grown from \$7,4 million to \$153 million in 1991. Operating profits have also grown steadily (from \$1,4 million in 1985 to \$4,6 million in 1991).

The number of loans approved has grown from 13 in 1986 to 90 in 1991, with the average loan size growing from \$500 000 to \$700 000 over the period 1986-1989 to over \$1 million in 1990 and 1991. A total of 207 loans were approved over the years 1986-1991, with a value of \$220 million, although the amount dispersed was less than that total; the gross loan portfolio at the end of the 1991 was \$103 million. Although charging higher rates of interest than other banks, ZDB has attracted clients because of its access to foreign currency (equity subscriptions from foreign members and foreign lines of credit). In the 1991 financial year, for example, 85% of the \$105 million of approved loans was in foreign currency.

In order to raise foreign loans, an important policy has been to maintain a balance sheet that cannot be questioned. From a client viewpoint, the implication has been that ZDB has been very cautious in its lending, preferring expansion and replacement projects over greenfield projects with untried entrepreneurs. This is hardly what the public had been led to believe was to be the function of ZDB.

Implicitly responding to the criticism that ZDB had failed to finance new projects and contribute to building up entrepreneurship in Zimbabwe, with government support and encouragement ZDB decided in 1989 to establish a entrepreneurial development fund, to be called the Zimbabwe Development Fund [ZDF]. Concessionary finance is raised for the Fund, with accounts being kept separate from those of the Bank. As the Fund is able to take equity in projects, the description of its activities is given in the following section on venture capital options.

Another need identified by ZDB after its first few years of operation was the severe shortage of suitable premises for new small-scale enterprises. During 1989, proposals were made and approved to build factory shells, the first of which became available early in 1992.

9.4 VENTURE CAPITAL AND JOINT VENTURES

Zimbabwe Development Fund [ZDF]

As mentioned above, the Zimbabwe Development Fund was set up by the Zimbabwe Development Bank to make it possible to support new entrepreneurs to set up productive enterprises without compromising the financial strength of ZDB. The Fund is able to offer concessional loans, to provide venture capital to strengthen the equity base of the enterprise and to provide technical assistance in project preparation and implementation.

ZDF became operational in 1990. Initial capital was provided by Government (\$153 000), the Reserve Bank (\$21 000) and ZDB (\$200 000 appropriated from the Bank's 1989 profits). By the end of the first year of operations, 40% of these resources had been committed to equity participation in projects and purchase of factory shell stands. During the second year (to June 1991), the capital fund was increased to \$752 500, and equity and loans were extended by ZDF to 7 projects requiring from \$50 000 to \$350 000.

The intention is to finance about 20 high risk, high return projects per year through ZDF, with equity normally in the range of \$50 000 to \$100 000. Equity: debt ratios are not to exceed 1:5. Because ZDB has access to third party surplus funds at low rates of borrowing, a favourable financing package can often be devised for a project.

Some entrepreneurs approaching ZDF have also been offered extension services through a \$1,5 million Technical Assistance Fund project financed by the African Development Bank. A \$2,75 million project with the European Community is to start early in 1992, the objective of which is to supply technical assistance to Zimbabwe Development Bank to improve its efficiency in lending to SMEs.

Venture Capital Company of Zimbabwe Ltd [VCCZ]

The Venture Capital Company of Zimbabwe was established in 1991 to provide equity and other forms of finance to new and expanding small to medium sized business ventures. The terms of VCCZ's involvement depend on the size and nature of the project, but the

Corporation is only willing to invest in very viable projects with good growth prospects (internal rates of return of 30-40% in real terms). Besides examining the environment in which the enterprise is to operate, the Corporation looks for a high level of management skills, including proper accounting procedures to be in place.

As VCCZ is very new, it does not have a long track record to draw on. After initial promotional evenings in the major urban centres, the Corporation is of the view that there is no shortage of suitable potential clients. When interviewed in December 1991, 12 projects had been approved, of which 2 were operational. Typical clients were individuals with many years of service in a major company, wishing now to create an enterprise in the same sector in which experience has been gained, but without adequate financial resources to get started. While most of the 12 approvals are "greenfield" projects of this type, in future VCCZ expects to participate in management buyouts or other forms of acquisition which would improve the risk composition of their portfolio.

A report in January 1992⁴⁵ stated that VCCZ has approved projects worth \$45 million, with potential to create 350 new jobs, giving an average cost per job of \$128 500. VCCZ would normally expect to take an equity share of between 20% and 40% in a project, with the value of equity lying in the range \$250 000 to \$2 000 000. If syndicated with other institutions, larger projects could be considered, but with conservative equity:debt ratios (seldom above 2) the overall size of a project would rarely be over \$10 million. As in any venture capital situation, VCCZ expects to make its profits from capital gains when shares in successful companies are sold. Realistic allowance has to be made for a significant proportion of high risk projects failing.

VCCZ is owned by the Reserve Bank, the International Finance Corporation, the Commonwealth Development Corporation, and locally registered commercial and merchant banks, insurance companies and industrial companies. Equity is presently \$50 million, plus \$10 million of loan stock to be taken up by

⁴⁵ *Financial Gazette*, January 9, 1992.

some of the shareholders. VCCZ would like to establish an offshore account to facilitate provision of foreign currency to projects. At the same time, projects that do not require significant foreign currency element will be encouraged, particularly where they are located in growth points and the rural areas.

Hawk Ventures Ltd

Anglo American Corporation in South Africa has had a policy of assisting in stimulating black emergent businesses, mainly through assisting groups of employees to start small enterprises which sell services back to Anglo subsidiaries (eg, catering services on mines) and through having a policy of purchasing supplies from black owned companies. Anglo American in Zimbabwe apparently considered replicating such activities, but decided instead to concentrate on providing venture capital finance for emergent businesses.

Through its merchant banking arm, First Merchant Bank, a venture capital company called Hawk Ventures Ltd was started with a capital base of \$15 million. The objective is to support productive enterprises with strong growth potential; export related manufacturing projects in growth points are given preference. Projects worth up to about \$5 million are supported, with the Hawk Ventures involvement being at most \$2-\$3 million. Typically, a financing package is arranged, with Anglo pension fund loans for project components where full security can be offered (eg, land and buildings), and loans for working capital and other requirements being arranged through First Merchant Bank.

Hawk Ventures has never advertised, and is virtually unknown even in banking circles. To the end of 1991, approximately 20 projects had been supported, spread over urban centres and some growth points, and were reported generally to be doing well. Most are manufacturing projects, often with an export orientation; only one is a commercial outlet. The total value of the projects is about \$45 million, giving an average of \$2,5 million. The experience of Hawk Ventures was taken into

account in the establishment of VCCZ, which has the same target market.

Continental Capital

This is a new company within the Zimbank group, formed during 1992. It is intended that, with an initial share capital of \$60 million, and a further \$60 million of loan capital, the company will offer venture capital facilities to a range of Zimbank clients, including small enterprises. Continental Capital is expected to be operational from January 1993.

Manna Corporation

Manna Corporation was started in 1985 by individuals in a church group. Their objective was to assist emergent businesses which had shown potential, but lacked the capital and the expertise to consolidate and grow into a self-sustaining enterprise. Manna insisted that the project promoter should have at least a 30% stake in the business, and that a commitment be made to buy out Manna Corporation's shareholding as soon as the entrepreneur was able to do so. Projects of up to \$250 000 were supported.

Manna's input to projects was not only equity and loan finance, but technical assistance. Each member of Manna's Board had specific responsibility for one or more of the projects, and would have regular contact with the entrepreneur involved, both to supervise the use of funds and keeping of records, and to provide advice and assistance in the running of the business, procurement of materials and equipment and in marketing.

In all, 6 projects were supported in this way, reportedly with considerable success. Manna has disinvested from all 6, and claims a 100% return on equity, mainly through capital gains on the sale of shares. The cost of job creation is reported to be \$1 500. However, this excludes the cost of the time spent by board members in assisting the projects, as this was given on a voluntary basis.

Manna is about to start a new phase of project support, but is now seeking to put the Corporation on a sounder footing, with a

structure and a full-time staff. USAID has agreed to help finance this. Manna presently has 46 individual shareholders, who have contributed \$300 000 of share capital. Manna is also planning to provide workspace for small enterprises, combined with extension and practical services, in what Manna is calling "Venture Capital Parks".

Africa Enterprise Fund [AEF]

The African Enterprise Fund [AEF] is a subsidiary of the International Finance Corporation, and is thus part of the World Bank group. The AEF flyer states that "the main objective is to promote the development of private enterprise in Africa to stimulate economic growth and productive employment on the continent. To this end it supports investment projects with total capital costs ranging between the equivalent of US\$250 000 and US\$5 million...Equity investments seldom exceed 30% of share capital, and AEF is never the largest shareholder in a project. AEF normally invests between the equivalent of US\$100 000 and US\$750 000".

Like Hawk Ventures, the AEF has not advertised its facilities and services within Zimbabwe in the 18 months since IFC/AEF has had an office in Harare (with responsibility for the entire SADCC region). AEF has, however, responded to approaches by entrepreneurs, has financed a few projects and is examining the viability of others. There is a link between AEF and VCCZ, through the IFC stake in VCCZ (Z\$1,5 million), and in future it is likely that larger projects, beyond the \$10 million limit of VCCZ, will be taken up by AEF (upper limit in Zimbabwe dollar terms of \$25 million at present exchange rate).

Zimbabwe Development Corporation [ZDC]

As an alternative to venture capital, businesses looking to expand without increasing debt could consider going into a joint venture. There are many options and alternatives for starting joint ventures, with institutions such as the merchant banks being able to play a useful role in finding suitable partners. This report will not attempt to deal with joint venture options

in detail, but one institution that needs to be mentioned in this connection is the Zimbabwe Development Corporation [ZDC].

ZDC is a parastatal, falling under the Ministry of Finance, Economic Planning and Development. Its objectives are to take equity positions in strategic and/or commercially viable businesses, recycling financial resources from government investments into the private sector. ZDC places emphasis on projects which have the potential to create employment, especially in rural areas, have a positive impact on the balance of payments, infuse new technology and skills into the economy and enhance the beneficiation of local raw materials.

While most of its investments are in large corporations, ZDC has begun to be involved with smaller-scale businesses. A joint venture with local businessmen in a ceramics plant at Dete is reported to be doing well. ZDC has plans to establish 34 factory shells at Chitungwiza which will be suitable for housing SSEs.

Other Foreign Equity Finance Options

There are a number of foreign institutions which do not have offices in Harare, but which offer equity finance for small enterprises in African countries. Under this category, the options listed in the ZDB/CZI handbook on project finance are: Commonwealth Development Corporation (UK), Belgian Corporation for International Investment [SBI], Finnfund (Finland), Frida (UK), Industrialisation Fund for Developing Countries (Denmark), Netherlands Development Finance Company, PTA Trade & Development Bank (Burundi), Japanese Overseas Development Company, Sifida (Switzerland) and Swedfund (Sweden). Brief descriptions of their operations and contact information are available in the CZI Handbook⁴⁶; similar organizations that only provide loan finance are also listed. In a separate section of the book, institutions offering project technical support are identified; of the 30 listed, only 5 are Zimbabwean. There are, however, several other local options that available are not included in the book.

⁴⁶ P. Kunjuku (1991) "Project Finance and Technology Support Available to Zimbabwe: A Handbook for Industrialists and Project Sponsors", ZDB and CZI.

CHAPTER 10: BUSINESS ORGANIZATIONS

10.1 INDIGENOUS BUSINESS DEVELOPMENT CENTRE [IBDC]⁴⁷

The origins and objectives of IBDC were explained in Section 2.2. As of the end of 1991, IBDC had about 3 500 members, only 15% of which were registered as being in growth points or rural areas. This figure probably does not reflect the true picture, however, as urban addresses are often given by businesses that are actually located in the rural areas. Of the 85% nominally urban, nearly half are in Harare or within a 30 km radius of Harare (Chitungwiza, Ruwa, Arcturus, Mt Hampden etc), higher than would be expected on the basis of population figures. Bulawayo, on the other hand, is grossly unrepresented, while Gweru, Kwekwe and Kadoma are somewhat over-represented.

The distribution of activities of IBDC members is shown in Table 10.1. The bulk of the members are in the commercial sector, which together with services accounts for 84% of the membership. Of the remaining 16%, most are manufacturing or industrial enterprises (12%), with the remaining members involved in agriculture and mining.

TABLE 10.1: PROFILE OF ACTIVITIES OF IBDC MEMBERS

<i>Activity</i>	<i>Number of Members</i>	<i>Proportion (%)</i>
Services	989	28%
Commercial	1 928	56%
Manufacturing/Industry	408	12%
Agriculture	106	3%
Mining	26	1%

TOTAL	3 457	100%
=====		

Source: IBDC Membership Profile Report [Appendix 13].

Since its formation at the end of 1990, IBDC has undoubtedly been effective in its lobbying role, leading debate about the importance of SSEs and the need to redress the ownership imbalances inherited from the past. This has been achieved

⁴⁷ Further details of IBDC's membership, reasons for joining IBDC and immediate plans for BESA are to be found in Appendix 13.

partly through behind-the-scenes lobbying and partly through public speeches, press releases and the organization of seminars. In addition to its successful first Congress in June 1991 (see Section 2.2), IBDC together with the Friedrich Neuman Foundation, organized a very productive workshop on "Competition and Economic Development in Zimbabwe" in November 1991. This workshop, which included participation of delegates from Kenya, Germany and Sweden, discussed the need for legislation to promote competition in the economy, and arrived at a set of specific proposals for the content of such legislation and the form and character of the institutions which would be best suited in a Zimbabwe context to implement its provisions. These proposals, which are described below under "Mergers and Monopolies Commission", were submitted to Government, which had separately contracted a team financed by USAID to study the issues. With the delays involved in such processes, decisions and actions are still awaited.

On the practical side, the IBDC launched an "Indigenous Business Development Program" in 1991, covering the establishment of the following institutions:

- (1) National Economic Reconstruction Fund [NERFUND]
- (2) National Business Research and Industrial Development Institute [BRIDI]
- (3) Business Extension and Advisory Services [BESA]
- (4) Affirmative Action and Marketing Bureau [AAB]
- (5) Office of Unfair Trade Practices
- (6) Mergers and Monopolies Commission
- (7) Unlisted Securities Market

Full details of each of these proposals is contained in the IBDC document "The Indigenous Business Development Program - A Framework for Implementation". The list is an ambitious one, and with its limited capacity, progress so far from IBDC has necessarily been limited. The current status of each of institutions is described in the remainder of this section.

In the case of NERFUND, for example, the objective is to mobilize local and external resources to be dispersed through existing financial institutions as project financing for the development

of SSEs, as well as underwriting borrowing for the creation and expansion of SSEs. External finance for NERFUND was raised at the IBDC Congress in June 1991, but agreement has yet to be reached with government about the trustees for the Fund and it is still not operational. Discussion of NERFUND has nonetheless helped to raise awareness of the financing problems of SSEs in fora such as the Parliamentary Select Committee on Indigenisation, and has undoubtedly played a part in Government's decision to allocate \$100 million for SSE financing in the 1992/93 budget (see Section 13.2). The Refinancing Facility proposed for the UNIDO project is an operational variant of the concept of a National Economic Reconstruction Fund (see Section 15.2).

According to the IBDC document, the objective of BRIDI is to create an economic and technical research capability covering economic research, market research and development, identification of business opportunities, and technology transfer and development. BESA is to provide an advice and extension service to SSEs. The objective is to take business into the community and help people set up and manage businesses successfully. While some progress has been made with BRIDI, it is only BESA which has so far been meaningfully established (this is elaborated below).

The objective of the AAB would be to establish an active marketing organization which will identify domestic market opportunities within the framework of affirmative action by government and others (for a maximum of 10 years), explore export market opportunities, and promote the products, services and image of SSEs.

Following the workshop on the creation of a competitive business environment in Zimbabwe mentioned above, rather than the Office of Fair Trading and the Mergers and Monopolies Commission as separate institutions, it is now proposed that a single institution be established to implement a comprehensive piece of legislation, to be called the Competition Act. This would provide for the control of restrictive business practices, the break-up of monopolies and the prevention of mergers and take-overs which would lead to monopolistic positions being assumed

and would apply equally to all enterprises, irrespective of form and ownership, state or private. The institution to administer the Competition Act should be autonomous and quasi-judicial in character, with established procedures of law, including public access, applying to its actions.

The Unlisted Securities Market would allow small companies to raise equity financing without having to follow the complex and expensive procedures required to obtain a listing on the Zimbabwe Stock Exchange [ZSE]. The longer term objective would be for companies on the unlisted securities market to "graduate" to a listing on the ZSE.

As compared with its lobbying role, IBDC has had limited success to date in its objective of setting up institutions and delivering services to its members. One tangible item is the negotiation of an allocation of 250 new vehicles which have been made available for purchase by IBDC members. Some progress has been made in recruiting staff and establishing offices to make service provision in the areas of BRIDI and BESA possible. It is appropriate that other institutional proposals be accorded subsidiary priority until such time as these institutions have proved themselves; the organization should not spread itself too thin at the start. In any event, IBDC would be a participant or board member of the other institutions (NERFUND, AAB, competition institutions, Unlisted Securities Market) rather than the lead agency.

Through a two-year project grant of \$930 000 from the British Overseas Development Administration, BESA offices are presently being established in two centres (Harare and Gweru). Once the effectiveness of these offices has been proven, IBDC expects to be able to raise finance elsewhere to establish BESA offices throughout the country, with BRIDI offices linked to them. Eventually, BESA is intended to be self-sufficient, recovering the costs of providing services from their clients.

Much of BESA activity will be of a referral character, as demand is expected to greatly outstrip the ability of BESA itself to provide services. Contact is being made with established businesses and organizations of retired persons to assist in

providing specialist advice on an as-and-when required basis. Referrals will also be made to other SSE support organizations. For various reasons, a referral service of this type is thought to be more appropriate than an institution that attempts to do everything in-house (see Chapter 12). BESA is considered a potential institutional home for the Advisory Facility, part of the UNIDO Small-Scale Industry Project (see Section 15.2).

10.2 ZIMBABWE NATIONAL CHAMBER OF COMMERCE [ZNCC]

ZNCC is a chamber of commerce representing over 3 000 enterprises in banking, finance, insurance, transport, manufacturing and tourism as well as the retail and wholesale trades. ZNCC's main function is to ensure that the views and interests of its members are taken into account in the formulation and administration of national policy. ZNCC also fulfils a role in keeping its members informed about policy changes and business developments, assisting members particularly in matters pertaining to international trade, and in arranging seminars and training courses of relevance to members.

With a strong base in the rural areas, ZNCC has promoted a number of issues of importance to the rural trader, notably the question of the right to title deeds in growth points and other rural centres. Title deeds are important not only for creating a sense of security, but as collateral when applying for loans from commercial banks. ZNCC has also been active in providing training and extension services for small rural enterprises.

Since 1990, with the support of the Friedrich Neuman Foundation, training and extension activities for small enterprises have been considerably expanded and improved. Small Business Support Units, with full-time professional staff, have been established in Harare and Bulawayo to offer advisory and extension services and to arrange formal training workshops. To set a business tone and move towards self-financing, payment has to be made for services and for participation in the workshops; a business plan, for example, is charged at a fixed rate of \$600, while other services are provided on an hourly rate basis. Payment can be arranged from loans when these have been successfully negotiated.

After a survey to determine training needs, the training programme is targeted at the rural areas and growth points. The following workshops are offered:

- (1) School Leavers' Programme
- (2) How to Start and Run your own Business
- (3) Cash Management
- (4) Marketing

The content of the workshops is very basic, and participant response to material is reported to be favourable. The workshops last 1/2 days, cost \$20 per day for non-members or \$10 per day for members (except the school-leavers' programme which is \$3), and are given at schools, local hotels or other facilities in the growth points or other rural centres. During 1991, 30 workshops (600 to 750 participants) were conducted; in 1992, the target is 80 workshops (1 600 to 2 000 participants). In addition to the full-time staff, freelance trainers and consultants are also involved in presenting the workshops. The scale of operations and personnel involved are such that there is a good chance that the programme can be sustained by ZNCC after the Friedrich Neuman Foundation leaves.

10.3 CONFEDERATION OF ZIMBABWE INDUSTRIES [CZI]

The core members of CZI are medium to large-scale manufacturing companies, although CZI also has smaller companies, and enterprises in sectors other than manufacturing amongst its membership of about 1 200. Membership of the different business organizations is not mutually exclusive, and many companies belong to two or more business organizations.

In part to counter its image as an organization that promotes only large business, from its 1989 Congress at Victoria Falls CZI has been vociferous in pointing out the important role of SSEs in the development process and calling for more concerted policy and institutional support to be given to SSEs. Following consultancy studies and in-house discussions about the role that CZI could play, a "Small Industries Development Unit" [SIDU] was scheduled

to be established in the first quarter of 1992. With USAID funding, work has been carried out in 2 key areas:

(1) Data Base for SSE

With support from ZDB, during 1991 CZI produced a handbook on "Project Finance and Technical Support Available to Zimbabwe", by P Kunjeko. With new institutions and new services coming into being almost on a daily basis, its weaknesses as a static instrument have quickly become evident.

Building on this experience, a computerized data base is to be established to make it possible to provide an accurate and up-to-date information service to entrepreneurs and SSE support agencies.

(2) Business Linkage Programme

Working initially with 10 large and 10 small enterprises, the objective is to identify needs that can be met through developing linkages between large and small enterprises, and the best mechanisms to bring those linkages about. Sub-contracting is to be one of the main, but not the only form of linkage to be considered.

The initial research phase of the data base and the business linkage programme has been successfully carried out, but a lack of agreement on how and where these programmes should be implemented has resulted in their becoming stalled.

10.4 WOMEN IN BUSINESS ASSOCIATION [WIBA]

Women in Business Association (WIBA) was formed in 1989 to act as a pressure group for women entrepreneurs on issues such as women's access to credit, foreign exchange, raw materials, intermediate goods and capital goods, and the provision of advisory services for women and development of appropriate technologies.

WIBA has about 2 000 members divided amongst ten active branches throughout the country. The organization's resources are limited to member contributions; there is no office infrastructure and full-time staff and thus the range of activities is severely limited. The UNIDO report on the *Integration of Women in Industrial Development: the Small Enterprise Sector* recommends that WIBA be given institutional support.

CHAPTER 11: NON-GOVERNMENT ORGANIZATIONS

11.1 PROFILE OF NGO ACTIVITY IN SUPPORT OF SSE

Introduction

While not all of the over 800 registered non-government organizations deal with SSEs, there are scores of NGOs which, to a greater or lesser extent, offer support services to SSEs. In training, for example, there are 51 centres listed, most of which offer courses in technical skills such as sewing, metalwork and carpentry, or other areas in which SSEs are to be found, such as craftwork and bread-making. Many of the NGOs are Zimbabwe organizations, some with a national character, but many having a restricted geographical coverage. A large proportion of the financing of the local NGOs comes from abroad, channelled either through foreign-based NGOs or directly from donor organizations. In addition, there are foreign NGOs which operate in Zimbabwe with the objective of assisting SSEs. As the SSE projects of multilateral organizations such as the EEC, ILO and UNDP in practice operate in a very similar way to foreign based NGOs, their operations are also included in this chapter.

Matsvayi (1990) and de Wilde (1991) give tables listing a some of the local and foreign NGOs and multilateral organizations active in the field. Many of the NGOs offer a package of services, such as combining provision of finance with training or extension. NGOs can often, however, be categorised by the major function they seek to perform. In order to give a flavour of the sort of NGOs presently operating, some examples are given in the following subsections. These are categorised by major function and in some cases examples of local and foreign NGOs are given. Even in the case of local NGOs, there is a high degree of dependence on foreign financing, and there are unfortunately no ready models of independent, self-sustaining groups to draw upon.

Financing of Group Activities

Until recently, most of the NGOs offering financing to the small-scale sector have done so only to groups. As an example, the **Dondolo Mudonzvo Credit Scheme** is a local NGO, financed largely by NORAD, whose objective is to provide loans for income

generating projects to groups composed mainly of rural women. It was started in 1984 by a number of women's organizations concerned about the lack of credit facilities for rural women. It is controlled by a National Executive Committee and by Provincial Committees, under which fall the beneficiary groups (women's clubs, co-operatives or other groups involved in some productive activity).

At the time of an evaluation carried out in 1991, a total of 212 groups were being supported with loans ranging from \$300 to \$3 000. Groups throughout the country were being supported, with much of the administration being carried out at provincial level. The interest rate was low, so the capital base of the scheme was being eroded. The loan size was often too small to make a real impact. Repayment rates were deemed to be satisfactory, however. The evaluation report recommends improving the organization and administration of the scheme, offering more training to the group members and putting the loans onto a more commercial basis, even if this means supporting fewer groups.

The EEC Microprojects Programme provides an example of a multilateral scheme offering grant financing to groups engaged in productive enterprises. In line with government policy, support has been given to co-operatives, taken to be groups of 10 or more, whether or not registered as co-operatives. The co-operatives put up projects to the Programme, which funds up to 60% of the capital costs as a grant. A further 6% is offered for training, the co-operatives identifying the training needs and nominating the individuals to be involved. All too often those with training subsequently leave the co-operative to use their skills in more lucrative employment elsewhere.

The Programme operates from Harare, Masvingo and Bulawayo, dispersing about \$3 million pa (with a further \$3 million being allocated to social infrastructure projects). Most of the projects are reported to have been successful; women are the principal beneficiaries. Programme officers would like to be able to support projects promoted by smaller groups or individuals. In many cases, there are difficulties in working together in a group as large as ten people. In addition, there is a strong feeling that loans rather than grants should be

given, so that as monies are returned, more groups could be supported. The Programme would thereby benefit a much larger target group than is the case under the present system of grant financing.

Financing of Individuals as well as Groups

Zambuko Trust is a recently established local NGO (started in October 1991, operational from January 1992), with links to Manna Corporation (see Section 9.4). Zambuko has been set up to provide loans ranging from as little as \$250 to a maximum of \$25 000 for working or fixed capital to individuals or groups who have not been able to borrow from other sources.

The commercial banks are typically not prepared to consider very small loans, and are anyway not easily approached by an entrepreneur who has no experience of banking and finds the formal establishments daunting. Zambuko is deliberately trying to create an atmosphere which will help establish a link with clients whatever their level of business experience, and may accept individual guarantees (coupled with pressure from church connections) where no collateral or other form of security can be offered.

The initial capital is \$400 000. Funding for the initial 5 years is being provided by Opportunity International in Chicago and two other foreign donors, with 30% coming from local sources. In the first year, operations will be restricted to a 30 km radius of Harare, but once the necessary experience has been gained and teething problems resolved, the intention is to cover the entire country. The interest rates charged will be at commercial levels (prime plus 5%; currently this would be 22,25% pa).

Zambuko is seeking to fill what is obviously a critical gap in the market. If it can make its intended strategy work, there would be room for rapid expansion across the country or for other organizations to replicate the approach elsewhere in Zimbabwe.

Entrepreneurship Development and Training

Glen Forest Training Centre, near Harare, is a local NGO offering training in practical and business skills to individuals and groups, mainly from the rural areas. About 300-400 people pa have been trained in recent years. People coming for practical courses, such as metalwork and woodwork, also receive some basic training in record keeping and business management. In order to improve the quality and relevance of its courses, the Centre has a policy of pre-course visits to establish needs, intensive residential course (4-6 weeks), follow-up visits to former trainees to observe the practical application of the skills learnt, and upgrading course as these become necessary.

An external evaluation in 1990 concluded that general skills training (other than agriculture) had led to an improvement in the lives of a majority of the trainees, but access to tools and finance were major constraints. The Centre has embarked on a pilot "Rural Apprentice Scheme" working with trainees in an area of Mashonaland East, assisting group development through support of various kinds, including supply of tools.

Due to commence in late 1992 is a support programme for small enterprises in the rural areas which will concentrate on establishing workplaces for carpenters. A comprehensive programme including credit provision (revolving loan fund), management training and marketing, is to be part of the programme.

A recently started multilateral training project is the United Nations Centre on Transnational Corporations' EMPRETEC Zimbabwe. Following the successful EMPRETEC model in other developing countries, this project will seek to develop indigenous entrepreneurship through innovative training programmes, this leading to the establishment of new SSEs. The local agency involved is the Zimbabwe Investment Centre: ZIC will be assisted to develop capability in identifying and promoting viable projects, attracting TNCs on suitable terms, such as technology transfer, and assisting in stimulating cross-border investment within the Southern African region.

Small Enterprises as part of a Rural Development Strategy

Organization of Rural Associations for Progress (ORAP) is an example of a local NGO operating in rural Matabeleland and Midlands Provinces in support of development groups seeking self-reliance. ORAP offers technical assistance, administration, co-ordination, funding and development education. The agency has had a good reputation for community mobilization and has been successful in obtaining donor support for its projects. In a bid to itself become more self-sufficient, ORAP has recently begun income generation activities on its own account. These include setting up a building brigade, and running a hardware outlet (built by the brigade, also giving privileged access for ORAP projects to building materials often in short supply, like cement); purchase of a farm is under consideration. One unfortunate consequence of this new direction is that the time and energies of key personnel have been taken up in running the businesses, with the rural groups that ORAP is supposed to be serving coming to be neglected.

Intermediate Technology Development Group - Zimbabwe is an example of an NGO that is locally oriented and staffed by Zimbabweans, but which is an arm of an international NGO, in this case based in London. ITDG was founded in 1965 by Fritz Schumacher, in the wake of the interest stirred by his book "Small is Beautiful". The Group has maintained an orientation to demonstrating "the practical use of intermediate technologies in helping people to help themselves".

Operating in this country since 1989, ITDG-Zimbabwe has sought to identify areas of high potential for sustainable small-scale productive and employment-intensive activities, to assist in the introduction of suitable technologies to exploit these opportunities, and to investigate what form of ownership and management is likely to contribute to the success of projects. The international network to which ITDG (Zimbabwe) belongs has had certain advantages, but has also introduced some rigidities in approach that local officers have found irksome. In terms of sectors, the agency has been involved in small-scale manufacturing (metalwork and carpentry, with silk production about to start), agro-industry (manual and mechanized oil

expressing; grain milling under consideration), building materials and small-scale mining. A project emphasizing institution building for food security has also been started in the drought stricken Chivi District⁴⁸.

The agency's activities in technical areas have had two main thrusts. The first, is to assist communities to achieve a level of self-sufficiency, this typically being based on simple technologies (such as blacksmithing, manual oil pressing, etc). The second, which is more significant in the context of this study, is to help bring about the development and growth of potentially remunerative small enterprises which require considerable investment in capital, technological capacity and management.

All too often in the history of the application of intermediate technologies, interest in the technology itself has led to its being introduced into a community without the market for the product being adequately assessed. Under such circumstances, even if the technology performs as intended, the project will lack viability. While demand has thus always to be taken into account, the availability of an adequate market for the product is a fundamental determinant of the viability of projects of the second type.

Where demand does exist, however, raw materials are available and skills can be provided, through training if necessary, there would appear to be considerable scope for creating viable and remunerative agro-based industries in centres in the rural areas (see Section 5.3 for a description of the ITDG/ENDA Tinytech Oil Mill project). Once such technologies have been proven, they can be put out for manufacture and dissemination through the private sector, perhaps with a "project prospectus" made available to potential users to assist them in preparing submissions for funding to banks⁴⁹.

⁴⁸ Appendix 12 gives a more detailed overview of ITDG-Zimbabwe's experience, while Appendices 7 and 9 expand on the agency's activities in agro-industry and small-scale mining.

⁴⁹ See Appendices 7 and 12.

Assistance under Structural Adjustment

With the unemployment situation being exacerbated by retrenchments as part of the Economic Reform Programme, there will be increasing pressure on NGOs to help those being retrenched to create their own employment by setting up small enterprises. Agencies that have not before been involved in SSE promotion are also being mobilized.

Old Mutual, for example, has a councillor who assists retrenched individuals seeking to cash in their annuity policies to use the proceeds to start enterprises. Clients are referred to SEDCO or other institutions for assistance. As the largest insurance company in Zimbabwe, Old Mutual should be encouraged to come up with imaginative ways of itself contributing to small enterprise start-ups, along the lines of what the Anglo American pension fund has done (the discussion of Hawk Ventures in Section 9.4 refers). As this scheme is relatively new, and the cases are confidential, it is not possible to document empirically tested suitable loan policies, but it is reassuring to know that the private sector organizations involved are accumulating the experience to devise viable strategies for their clients.

In a similar move to Old Mutual, the Public Services Association [PSA] is considering extending its Credit Cooperative and Unemployment Death and Legal Benefit Scheme to assist retrenched civil servants to establish small enterprises. The PSA has been vocal in opposing the retrenchment of civil servants, but is to be commended for at the same time taking practical steps to try to provide alternative forms of employment for those laid off. A Public Service Commission Investment Company was launched by the PSA during 1991, with \$2 million of share capital contributed by 6 000 of the 37 000 members of the PSA (total number of civil servants is 90 000).

It is intended that the Investment Company will be a holding company for a number of productive enterprises which will be acquired or started. When interviewed in December 1991, a soap factory, with the potential to employ 26, had been purchased and a printing works, bakery, brick making, holiday complex and wooden floor tile plant were under consideration. Shareholders

in the holding company would be given preferential access to jobs in these enterprises, but where necessary high level technical and managerial skills would be hired in from the open market to ensure that the enterprises are run efficiently, offer secure employment opportunities and yield a return to enable the holding company to continue expanding its portfolio.

11.2 LESSONS FROM NGO EXPERIENCE

Historical Perspective

Before Independence, most of the NGOs that existed were welfare organizations, although there were a few with developmental objectives which also voiced opposition to the government of the day (such as Ranche House, Silveira House, Hlekweni Training Centre). The developmental NGOs were well positioned to play a role after Independence, together with the plethora of local and foreign NGOs which started operations during the 1980s.

The socio-economic context immediately after Independence was one in which rural reconstruction after the liberation war had a high priority. Almost all NGOs emphasized support to groups, in particular ex-combatants and rural people who were encouraged to form co-operatives. The rationale for supporting groups, especially co-operatives, was that this would ensure that resources reached as large a number of people as possible and was consistent with the new government's socialist policies. In order to redress the particularly disadvantageous position of rural women, several NGOs encouraged groups of women to participate in so-called Income Generating Projects [IGPs]. These were intended to be carried out in parallel with primary agricultural activities, but would give the women an independent source of income that would be under their direct control.

Due to the persistence of the welfare bias from the past, and the strong directive to redress the massive inequities inherited at Independence, government and NGOs tended to provide goods, services and support to projects on a grant basis, without ensuring that projects had a sound economic basis. This approach had the unintended consequence that most IGPs failed to generate income, and the whole concept of income generating projects has

become discredited. The current emphasis on small-scale enterprises, with the positive connotations of the word "enterprise", is intended in part to restore the vision that non-farm productive activities can make a positive contribution to income⁵⁰. The grant orientation has also created a dependency syndrome, not only in rural communities, but amongst urban groups that had received handouts but failed to create viable enterprises.

On this and other practical issues, there is now an accretion of specific experience from which NGOs and other support agencies may learn. From the cases cited in this chapter, some examples can be highlighted. For instance, the experience of Donodolo Mudonzvo on low interest rates, erosion of capital base and loans that are too small, but a reasonable recovery rate is instructive. It is possible to operate with group loans, but it would appear necessary to have more training, larger loans and repayment rates that are more commercial. It is also salutary to reflect that an NGO as successful as ORAP has become consumed in the operation of the businesses which were intended to make it independent of outside financing. In the case of the EEC Microprojects Programme, the fact that trainees often found employment elsewhere was an unintended but important outcome of the scheme. Specific examples of this sort are often the best source of insights for the effective design of future support to SSEs, but there are also some general lessons that can be drawn within the particular historical context of Zimbabwe. These are laid out in the remainder of this section, while other conclusions, relating particularly to the role of NGOs in training, are to be found in the next chapter (Section 12.3).

Lack of Entrepreneurial Tradition and Underfunding

Part of the reason why projects failed to get off the ground is the lack of an entrepreneurial tradition in Zimbabwe, at least in modern times. As explained in Chapter 2, prior to Independence the indigenous population was excluded from entrepreneurial

⁵⁰ The training manual "Building Wealth in our Villages", prepared by the Ministry of Community and Co-operative Development and Women's Affairs, goes so far as to present a table (Volume 1, page 4) comparing the weak characteristics of IGP with the strong characteristics of rural enterprises (well organized, productive, reasonable working conditions, fair pay, integrated with the rest of the economy etc).

activity in almost all sectors of the economy. Following Independence, many potential entrepreneurs joined the civil service and the parastatals, neither being a suitable environment for entrepreneurship to develop. Added to this, some commentators have pointed out that entrepreneurial traits such as risk preference, originality and future-orientation are not emphasized in Zimbabwean culture, while traits that are endorsed (such as conformity and acceptance of authority from elders and family) are inimical to entrepreneurship.

In the context of groups projects, where individuals who may have entrepreneurial flair have to submit to the will of others in the group, it is very difficult to see how projects were meant to succeed. It is only in very exceptional cases, where groups members have strong bonds between them, and a high level of the skills necessary for the project being undertaken, that group entrepreneurship can flourish. In the euphoria after Independence, these problems were ignored by government and the NGOs, and resources were simply made available to groups, many of which were not in a position to make use of them.

In the case of government's Model B or co-operative form of land re-settlement, groups were settled on highly productive farmland and were expected to farm using the methods of large-scale commercial agriculture. In many cases, however, they were not given sufficient fixed or working capital to properly attempt commercial agriculture using sophisticated technology. The tendency to try to spread resources as widely as possible, at the cost of underfinancing any one group, was replicated by many of the NGOs in the much smaller projects they were financing - Dondolo Mudonzvo cited above is a case in point.

Loans rather than Grants

Drawing on the experience of NGOs and government of support to SSEs since Independence, there seems to be a growing consensus that loans rather than grants should in future be emphasized.

With the benefit of hindsight, it is clear that the Zimbabwe Government's policy stance on equity is better served by offering loans rather than grants. Grant financing had the appearance of

redressing past imbalances, but in not fostering productive enterprises with on-going income generating potential, largely become at best a once-off melioration of people's circumstances, at worst a frustrating, time wasting and disillusioning experience as the simplistic vision foisted on recipients did not materialize.

Projects that are not viable waste people's time and energy and it is a dis-service to support them. Projects that are viable can pay their way, although they may need significant direct assistance during the start-up phase. The lesson though is that support to SSEs should be put on a business-like footing from the start.

Giving loan financing rather than grants is part of such a business-orientation. Loan financing forces a proper appraisal of a project and ensures the adoption of a disciplined approach to implementing and managing it. This in turn implies better use of scarce resources. More importantly, it means resources being returned in due course, making it possible then to offer support to other projects. The equity objective is met through the recycling of resources, which over time result in a much wider spectrum of people being able to benefit.

Loans to Individuals as well as Groups

Another point around which there seems to be consensus is that support should be offered to individuals as well as to groups, or, in the case of co-operatives, that co-operatives with less than the 10 members required for registration as a co-operative should be allowed. The problems alluded to above of a lack of entrepreneurial tradition and contrary cultural factors remain a challenge to be overcome, but individuals have more of a chance of starting many kinds of enterprises than groups. Provided enterprises are labour intensive, the benefits will extend beyond the individual directly involved through employment creation.

Larger Projects: Equity Stake with Commitment to Disinvest

Many of the projects have failed to produce significant returns because they were small, and were based on technologies that were

inherently limited in their productive potential. More ambitious schemes, involving more productive but also more sophisticated technologies, require the development of technical and managerial skills if the full potential is to be realized. Where these exist, private promoters can proceed with replicating projects involving technologies proven by the NGO. In other cases, where demand and other prerequisites exist, but the skills are lacking, one option is for there to be a high level of participation in the project in its initial stages by NGOs or other agencies with the necessary skills, but for this to be relinquished over time.

The model that is emerging from the work of agencies like ITDG and ENDA is a variant of venture capital financing: the NGO takes a majority equity stake in the enterprise at the start, but not 100% ownership. The beneficiaries hold the remaining shares either as individuals or as groups, depending on circumstances. The NGO initially takes the lead on technical and managerial matters, but the project has an emphasis on training, which may include formal as well as on-the-job training. Over time, the NGO shareholding is bought out, control is relinquished to the project beneficiaries as they gain the necessary experience and the funds are used to start similar projects elsewhere. Perhaps a fixed time should be set at the start to ensure that disinvestment will take place: it is notable that there is no experience yet of projects reaching the disinvestment stage. There may be strong reasons why beneficiaries might try to retain their link with the NGO and its outside resources, rather than become independent.

CHAPTER 12: CONCLUSIONS AND RECOMMENDATIONS ON SUPPORT INSTITUTIONS

12.1 CO-ORDINATION AND INFORMATION

General Conclusion on Support Organizations

In the mid-1980s, it would have been true to say that the small-scale sector was poorly served with support organizations. By the end of 1991, however, that was no longer really the case. While some aspects of the support that is required are much better served than others, there are not huge gaps that need urgently to be filled by creating new institutions. The exceptions here are in the area of referral and extension, where IBDC and others have plans to complement the services that already exist, and at the low end of the financing spectrum, where it would be extremely useful for institutions similar to Zambuko Trust (small loans) and Manna Corporation (venture capital financing of small projects), both of which are located in Harare, were to be set up in other centres of Zimbabwe.

The general approach to institutional support that is recommended is to build on what already exists, supporting the initiatives that several agencies are embarking upon at present, reinforcing emerging strengths in established institutions, and encouraging new institutions to replicate successful support models. Encouragement can also be given to institutions that have not previously been involved in SSE promotion, such as large multinationals, which could usefully provide markets through subcontracting arrangements and offer extension and training to emergent businesses.

Need for Co-ordination by Ministry of Industry and Commerce

The proliferation of activities by many different agencies could conceivably lead to a degree of confusion and duplication. With this possibility in mind it is recommended that the Ministry of Industry and Commerce, which has the overall responsibility for SSE development within Government, should play a co-ordinating role. Day-to-day responsibility for this function is to be assumed by the Policy and Planning Branch of the Ministry.

Consistent with the objectives of the Economic Reform Programme, the co-ordination role should be a facilitating one and not an interventionist one. The last thing that the diverse activities and entities which are here being lumped together as "small-scale enterprises" require is an attempt to centralize and standardize support mechanisms, stifle initiative and creativity and make it difficult for support agencies to tailor their services to the particular needs of different individuals and groups.

The UNIDO Small-Scale Industry Project which is proposed in Chapter 15 envisages the creation of a Small-Scale Industries Facilitation Unit (SSIFU). Whether this is located within the Ministry of Industry and Commerce or outside of it, SSIFU would provide policy suggestions and strategic initiatives to assist the Policy and Planning Branch in establishing the necessary enabling environment for SSE development. It would also coordinate the other aspects of the UNIDO project (the Refinance Facility, Enterprise Development Zones, and Advisory Facility for SSI entrepreneurs) and provide a framework for a looser form of coordination, perhaps better described as "information sharing" amongst all agencies involved in SSE promotion⁵¹.

Need for a Comprehensive Information Bank on SSE Support

The single greatest need is for there to be more information readily available about the agencies and services available for SSE development. This point emerged repeatedly during the interviews carried out for this study, which revealed how little knowledge agencies have about the activities of other agencies. This may in part be the result of territorial instincts, which inhibit the open dissemination of information, these being exacerbated when agencies working in similar areas are competing for funding from the same donor agencies. Instances where there was a specific policy of not advertising services were also uncovered (the Small Business Unit of Standard Bank, Hawk Ventures and the African Enterprise Fund are cases in point).

It is to be hoped that all agencies will co-operate fully with the CZI project to establish a data bank for SSE promotion, not just in the initial compilation of information, but in keeping it

⁵¹ Further details are given in Chapter 15 and the project document (DP/ZIM/91/003/01/037).

continually updated, and that CZI will in turn share its data bank with all other support organizations. In that way, an efficient means of providing referral services to entrepreneurs will become a reality. Given the diversity and heterogeneity of the small-scale enterprise sector, it is impossible for any one agency to offer adequate extension, training and financing services, but with an efficient referral service, it should be possible for the entrepreneur to get the most out of the support network irrespective of his or her point of entry.

It is recommended that Government not seek to replicate initiatives being taken by support agencies, but stand ready to plug any gaps that may emerge. This particular case of an information bank, where CZI has been taking the initiative, is a case in point. As long as CZI goes ahead with the data bank, and its worth is demonstrated, it would be appropriate for Government simply to encourage all involved to make the most of the opportunity to create a useful information source for SSE development. Government should, however, stand ready to call on others for assistance if the data base fails to achieve its objectives within a reasonable time frame (the end of the first quarter of 1993).

Fora for Information Exchange

Unless it is decided that SSIFU should be located in the Policy and Planning Branch, both should be actively involved in ensuring that the data base is used (especially for referral by support agencies) and that all pertinent information about SSE promotion is disseminated to those involved. For this purpose, it would be useful for various fora to be created where discussion and exchange of information and ideas can take place. Membership would be open to all organizations or individuals inside and outside government involved in SSE promotion. Some such fora already exist: for example the Small-Scale Enterprises Advisory Group, sponsored by CIDA, ENDA and FNF, which concentrates on policy issues related to the structural adjustment programme and which has already played a useful role in stimulating information exchange, should be encouraged to continue⁵². Other sub-groups

⁵² The Group is in the process of acquiring full-time staff to operate a planned programme of "communication, outreach and advocacy". Research into deregulation, food processing.

focussing on particular issues or sectors should be encouraged. In all sub-groups, the Policy and Planning Branch would encourage the relevant agencies of the different government ministries involved with SSEs to belong and attend meetings.

Where such groups operate effectively, SSIFU and the Policy and Planning Branch's role would simply be to participate in the meetings to keep abreast of developments and be able to keep others fully informed. In other cases, SSIFU might have to call meetings and invite speakers to initiate debate on particular issues, and also ensure that meetings take place throughout the country and are not just confined to Harare.

Complementary Media Campaign

In order to reach as large an audience as possible, including the entrepreneurs themselves, the work of the various groups and any pertinent information and anecdotes about successful entrepreneurial activities, should regularly be publicized in the media. Again, while most of the work required should be done by other agencies, (the Small-Scale Enterprises Advisory Group has already started circulating a newsletter called "SSE News"), SSIFU should be given the responsibility of ensuring that the coverage is as wide as possible (including, for example, the vernacular rural newspapers⁵³) and that the necessary momentum is sustained at least through the period of implementation of the Economic Reform Programme.

12.2 FINANCIAL INSTITUTIONS

The Range of SSE Financing Options

From Chapters 9 and 11, it is evident that there is a range of financial institutions offering financing to SSEs; Table 12.1 provides a summary. In some respects, the field is well covered; what is needed is for the well established institutions to expand their SSE portfolios rapidly so as to match their expensive overhead structures. As most of these institutions are operating

textiles, metalwork, housing, transport and tax issues is planned. A project to establish a forex line of credit for SSEs is also being investigated.

⁵³ A separate publication solely on SSEs is a possibility, but it would not have the appeal to reach as big an audience as targeted articles in existing widely read publications.

on a profit-oriented basis without outside financing, it is not necessary to spell out how they should be operating: their accumulated experience is what counts. However, one of the main lessons to emerge from Chapters 9 and 11 is that training in record and book-keeping and managerial principles, in addition to whatever technical skills are needed for a particular enterprise, should be treated as a fundamental strategy in the achievement of viability and high rates of repayment. This point is further elaborated under "Training" below.

TABLE 12.1: SUMMARY OF FINANCING OPTIONS FOR SSEs

Loan Financing

<i>Range</i>	<i>Institutions</i>
\$ 250 - \$ 25 000	NGOs such as Zambuko Trust
\$ 5 000 - \$ 10 000	Zimbank - First Tier, CGC
\$10 000 - \$250 000	Small Business Facilities - Commercial Banks & CGC
? - \$500 000	SEDCO
>\$250 000	Zimbabwe Development Bank, Commercial & Merchant Banks

Equity or Venture Capital Financing

<i>Range</i>	<i>Institutions</i>
Few '000 - \$250 000	Manna Corporation
? - \$500 000	Zimbabwe Development Fund
\$250 000 - \$500 000	VCCZ and Hawk Ventures
\$500 000 - \$7,5 million	Africa Enterprise Fund

Note: Total project size may be up to 5 times the equity contribution from the financing institution.

Where the institutional support in the area of financing is weakest at present is at the bottom end. The commercial banks should be encouraged, or even subsidized by Government through the Refinance Facility mechanism explored in Chapter 15, to provide the sort of very small loans that organizations such as Zambuko Trust are seeking to provide, but with scant infrastructure or resources to do so. As mentioned previously, CGC should be encouraged to be bolder in its acceptance of projects, tolerating a higher default and bad debt rates than the present low figures of 20% and 3% respectively. The CIDA project to assist CGC, and give women-dominated projects more prominence

in its portfolio, should help in enhancing the overall role of CGC.

The tightening of credit as a counter-inflationary measure during the implementation of the Economic Reform Programme, has very severe implications for the SSE sector. This issue is discussed, and estimates made of overall requirements in Section 13.2 below. These show that making the finance system adequate for SSE needs is not just a question of addressing the issue already highlighted above (making the size distribution of loans more appropriate), but of significantly expanding the resources available for SSEs. The estimate is that annual requirements for SSEs are likely to be between \$400 million and \$800 million, as compared with a rough estimate of loans outstanding of between \$100 million and \$200 million at present, rising to \$600 million by 1995. The initial amount of \$100 million that Government has set aside in the 1992/93 budget for credit to the SSE sector is an important, but relatively modest, start. The Refinance Facility, which is proposed as part of the UNIDO Small-Scale Industry Project, has the potential to be an important mechanism to overcome the problem of supplying sufficient credit to the SSE sector at an affordable price. It is described in Section 15.2, and in more detail in the project document.

As the tightening of credit takes hold, there would seem little scope to expand SSE access to services such as hire purchase and factoring (see Chapter 9). On the other hand, this might be an appropriate time for the modalities of expanding SSE services to be explored and have the mechanisms in place when credit conditions ease and make more widespread lending possible.

Encouragement of Self-Financing

In view of the fact that the overwhelming majority of SSEs have been financed by own resources (nearly 90% in the GEMINI sample), more attention could be given to encouraging entrepreneurs to save to finance their enterprises. There are a number of advantages in up-coming entrepreneurs committing themselves to savings schemes. "The interaction with a bank, the process of earning interest, the discipline of saving, and the decision of how to use savings, all constitute part of a capacity building

process which equips each participant with tools he or she needs to continue engaging in productive activities"⁵⁴.

Support for savings schemes, including the community-based rotating savings and credit associations⁵⁵, could be given by NGOs and by established savings institutions. The Post Office Savings Bank [POSB], for example, which currently offers the highest returns on savings, particularly if the saver is a taxpayer, and has the largest distribution of offices of any financial institution in the country, could mount a campaign to encourage saving for SSE investment. As a minimal step towards assisting to finance SSEs, POSB could introduce less stringent withdrawal requirements when funds are to be used for business purposes. A more significant step would be to move to offering loans, but that would require having to have personnel with very different training and skills and cannot be entered into lightly by POSB, but is an idea that merits further investigation.

Access to Bank Loans

There are different views about access to these sources of finance. The banks, for example, claim that their services to SSEs are accessible, their demands for collateral or security are reasonable and their high rejection rates are because there are many "chancers" amongst the applicants. These opinions are not shared by entrepreneurs or many of the NGOs working with SSEs. The Zimbabwe Women Finance Trust [ZWFT], for example, cite a batch of 135 applications, of which 65 were recommended for financing by ZWFT, and only 12 were approved by local finance institutions⁵⁶. Without seeing the quality of the applications, an opinion cannot be formed on whether the banks' high rejection rates were justified.

The banks have to maintain a cautious approach, because it is their depositors funds which are being loaned out. This point is not always appreciated by the SSE entrepreneurs, many of whom clearly have the impression that it is not worth approaching the financial institutions for loans. However, this attitude

⁵⁴ Otero (1991), cited in Appendix d.

⁵⁵ See Saito (1990), op cit, p 55.

⁵⁶ *Sunday Mail*, 8 March 1992.

reflects in part an unwillingness to do what the banks require before a loan can be given. As noted in the clothing sub-sector report⁵⁷ "regardless of the lending practices of local commercial banks, a significant number of MSE do not bother to approach them for funding, as they are not qualified and find it cumbersome to submit comprehensive business plans just to borrow a few thousand dollars". While the effort may be disproportionate when the enterprise is very small, without getting into the system and becoming a known client of a bank, the enterprise's prospects will continue to be limited by lack of access to financing.

It should be noted that until very recently, the banks were very liquid and were not constrained on the supply side from supporting SSE projects. The analysis of the very low default rate of the Credit Guarantee Corporation (see Section 9.2) suggests that excessive caution has been exercised by the banks in approving loans. This has been exacerbated by commercial bank managers still rejecting projects which CGC has approved. It is somewhat ironic that the banks seem more disposed to make loans to SSEs just when credit conditions have tightened so markedly that banks are having to ration credit even amongst well-established clients.

12.3 SOME GENERAL PRINCIPLES FOR SUPPORT TO SSEs

Business Orientation

Banks, whether commercial or developmental, do not have to be petitioned to apply business principles in dealing with SSEs, but many of the welfarist NGOs still do. As was argued in Chapter 11, on the basis of experience since Independence as well as the need to recycle funds so that more people can benefit, there is a strong case to be made for NGOs to provide loans rather than grants, and to be flexible in whether loans go to individuals or to groups.

There would, however, still be circumstances in which a grant element in the financing package could be justified. For projects with a social component, or a very long time horizon

⁵⁷ See Appendix 8.

before viability is expected to be achieved, it may be appropriate to give a grant for a specific component of the project or to make the loans at reduced interest rates or allow a grace period before payments on the loan become due. For all SSEs, mechanisms which allow low rates of interest to be charged even though Government is moving towards positive real rates of interest, would be important in stimulating the small-scale sector. This is part of the thinking behind the Refinance Facility recommended in the UNIDO Small-Scale Industry Project in Chapter 15.

Support Agencies taking a Direct Stake in Projects

In many cases, project promoters lack not only the capital base to get started, but the technical and managerial skills to operate the enterprise at the level of technological and organizational complexity that would result in its being really viable. In such cases, the option of venture capital financing would be appropriate and should be encouraged. As spelt out in Section 9.4, there are now several venture capital institutions offering facilities to a range of clients. Far more involvement with the clients has been found too be necessary than would be typical in venture capital operations in industrialized countries, including the extreme case of Manna Corporation, where individual close involvement of one of the directors in each project was one of the main reasons for success.

Besides the formal venture capital options, there is an orientation within the NGO movement to operate in venture capital mode in supporting projects at a certain level of technological and managerial complexity. This is, for example, the intention in the Tinytech oil pressing project described in Sections 5.3 and 11.2 above: that ITDG and ENDA should sell their stake in the project once it is viable and self-sustaining in terms of the necessary skills to operate, maintain and manage it. In all such cases, the objective of the NGO should be to assist the promoters to acquire the skills and the financial resources to buy out the NGO that has been involved within an agreed timeframe.

No Opportunity for Training to be Foregone

While the main constraint identified by the enterprises themselves is a lack of finance, it is clear that finance is only one ingredient of success, and all too often it is the absence of one of the other main ingredients - skills (technical and managerial) - which causes projects to fail.

Support agencies should be encouraged never to give up an opportunity for training and whenever possible combine training with other services (such as financing, or workspace provision). In the case of private sector organizations such as the commercial banks, Government, perhaps through the Loans and Grants Allocation Committee of the Social Development Fund, may choose to make grants available to ensure that a suitable amount and level of training is given to complement the finance being provided to entrepreneurs.

From the viewpoint of a financial institution, training is a way of overcoming the problem of lack of collateral that is characteristic of many SSE loans. Through offering training, the borrower can become known and can be assessed by the financial institution, apart from the fact that the training itself (in technical skills, bookkeeping and management) is likely to significantly improve the chances of the business being satisfactorily operated. This concept is fully developed in SEDCO's Entrepreneur Development Programme (see Section 9.3), where participants are screened through a series of workshops, culminating in a four-week residential workshop where a business plan is prepared. At the conclusion of that process, it is clear whether the project and the entrepreneur are deserving of support.

NGOs are often particularly well placed to design training programmes that are tailored to the needs of the individuals and groups with whom they are working. Many NGOs are already trying to do this, but efforts have to be maintained and intensified if the training is to be successful, so that enterprises become self-sustaining and continue to grow in the future.

NGOs specializing in training are a different case. From the experience of institutions such as Glen Forest Training Centre, the following set of activities would appear to work well:

- (1) pre-course visits and screening of course participants;
- (2) residential courses with carefully balanced curricula;
- (3) follow-up visits to trainees.

Complementary to this formula would be closer collaboration between NGOs dedicated to training and those working with the entrepreneurs on projects. Through collaboration, course content and delivery could be improved, and opportunities could be created for trainers to participate in on-the-job training and follow-up work. By working together, it may also be possible to come up with ways to make training available throughout the country, not just in the main urban centres.

**SUPPORT TO SMALL-SCALE INDUSTRIES &
ENHANCEMENT OF INDIGENOUS OWNERSHIP**

**PART D - PROSPECTS FOR & POLICY & PROJECTS IN SUPPORT OF
SSE & INDIGENISATION**

CHAPTER 13: POTENTIAL ROLE OF SSE UNDER ECONOMIC REFORM PROGRAMME

13.1 EMPLOYMENT REQUIREMENTS OF SSE

Working Age Population and Formal Employment Projections

According to the Second Five Year National Development Plan, over the 1991-1995 Plan period, which is also the period over which the Economic Reform Programme is due to run, "108 500 new jobs will be created in the formal sector" [Plan, p 5]. This is an average of less than 22 000 pa, while the annual average growth of the working age population is projected at nearly 200 000 pa. Thus even if the Plan succeeds in achieving its calculated targets, and none of the presently unemployed or those who will be retrenched as part of the ERP manage to obtain any of the new jobs being created, on average only 1 out of each 9 people coming into the working age population is expected to obtain a formal sector job.

Another way of expressing the issue is in terms of growth rates. If the Plan targets are met, formal sector employment will grow at 1,8% pa, while the working age population will grow at 3,6% pa⁵⁸. Thus, the gap between those seeking jobs and those employed in the formal sector is bound to grow over the period, adding to the existing backlog of the unemployed and underemployed.

Residual Employment Requirements

Against the backdrop of the imbalance between formal employment and labour force growth, the Plan states that "at least 50 000 people will find jobs in various informal sector activities" [Plan, p 5]. As the informal sector is the employer of last resort, the indications are that this figure, averaging only 10 000 pa, is far too low. The gap between the formal sector

⁵⁸ Calculated from Second Five Year National Development Plan, Tables 10.1 and 10.2.

jobs (22 000 pa) and the number of people chasing those jobs (200 000 pa), less those finding employment through the resettlement programme, those resorting to subsistence farming in the communal areas, and those who voluntarily opt out of employment (students, dependants etc) is likely to be at least an order of magnitude higher than the figure projected for informal sector employment.

Resettlement is projected at only 7 000 families pa (with effective employment being reduced by the number of agricultural workers laid off in cases where going concerns are taken over for resettlement). In the case of the communal areas, many are already so environmentally stretched that more people cannot be accommodated. Finally, the number of people who will willingly choose to be dependants is also severely limited.

The projected employment figures are likely to be too high for 2 other reasons. Firstly, the Plan targets are unlikely to be met, if only because of the severity of the drought in 1992. Even if the 4,6% pa GDP growth target were to be met, in relation to an objective of increased productivity, the formal sector employment target of 22 000 pa might be questioned, because in the first 10 years of Independence, with GDP growth of 3,2% pa and poor productivity performance, an annual average of only 20 900 formal sector jobs were created⁵⁹.

The second issue is that the population figures used in the Plan are now considered by CSO to be a serious underestimate of the real demographic situation. The total population in the Plan in 1995 is put at 10,6 million, but sample surveys carried out for the 1992 Census suggested that the population would already be 10,6 million at the time the census was carried out. This implies that the number of job seekers will be higher than the figures given, while the employment estimates, based on capital employed and projected investment and productivity changes, will remain the same.

⁵⁹ This figure excludes agriculture, where employment declined over the period. During the second Plan period, agriculture is projected to provide 3 000 jobs pa. Recent formal sector employment creation has been better (about 35 000 jobs pa), but it is doubtful that this can be sustained.

Employment Growth under Structural Adjustment

In view of the above, for planning purposes, the number of jobs which ideally ought to be provided by the SSE sector will be taken to be above 100 000, perhaps in the range of 100 000 to 150 000 pa. In practice, the many constraints reviewed previously will make it impossible for satisfactory employment opportunities to be created in such numbers in the immediate future, but with social security a matter of family duty, every individual will somehow have to find a means of survival.

The policy changes of the Economic Reform Programme will open up new opportunities for SSEs (reviewed in Section 13.3) as well as introducing new problems or exacerbating old ones (Section 13.4), making the outcome uncertain. A comprehensive strategy is needed to push developments in a positive direction, strengthening the SSE sector and reinforcing its linkages with the rest of the economy (Section 13.5).

Useful perspectives can be obtained from the experience of other African countries which started structural adjustment earlier than Zimbabwe. For example, a recent paper on "Small Enterprises under Adjustment in Ghana" points to some trends which are likely to emerge in Zimbabwe, but is not able to offer empirical results on employment, as "data on trends in small-scale manufacturing are non-existent"⁶⁰. In the industrial sector as a whole, the effects of structural adjustment policies "differed among subsectors and firms: the new environment has brought both new opportunities and intense competition", this being particularly the case at the micro-enterprise level where entry barriers are lowest and the pressure to find self-employment greatest.

"Without doubt, the adjustment process has strained most firms' operations. Profits have been squeezed between rising input costs and restrained demand, and growth has been slowed by the difficulty of financing working capital and new investment". And yet, particularly amongst the somewhat larger small-scale enterprises, some of which had injections of skills from people who had previously been employed in established enterprises,

⁶⁰ WF Steel and LM Webster (1991), "Small Enterprises under Adjustment in Ghana", World Bank Technical Paper Number 138, p 8.

"there is evidence of considerable entrepreneurial initiative in changing product mix and seeking market niches that have opened up under the new exchange rate regime"⁶¹. The challenge before the Zimbabwe Government and SSE support agencies is to assist the enterprises here to adapt rapidly and effectively to the new situation that is presented by Zimbabwe's ERP.

13.2 FINANCING REQUIRED BY SSE

Financing Requirements

The number of jobs which ideally ought to be provided by the SSE sector was estimated in the previous section to be in the range of 100 000 to 150 000 pa. From figures given in Chapter 9, the minimum cost of creating a SSE job at a reasonable level of remuneration and security has in the past been as low as \$1 500 (Manna Corporation) to \$2 000 (Zimbank Small Business Services Division). To allow for inflation since the time period on which these figures are based, the upper figure of \$2 000 is chosen: it implies an annual investment of \$200 to \$300 million, or 10%-14% of the total private sector investment envisaged in the Plan.

In practice, the technical and managerial ability would not be available to ensure that all those eligible could be employed in viable SSEs, which suggests that a lower investment allocation may be adequate to finance what can be achieved. The moment a higher investment per job figure is introduced, however, the estimate of total investment requirements goes up sharply. In this connection, it should be borne in mind that the average cost per job for projects approved by Zimbabwe Investment Centre is around \$66 000⁶², a 33-fold increase on the \$2 000 used above.

Furthermore, the GEMINI survey strongly confirmed the anecdotal impression that it is often working capital rather than fixed capital that is the major financial constraint facing SSEs. Providing for working capital as well as fixed capital, the annual requirements for SSEs are likely to be between \$400 million and \$800 million. This compares with the rough

⁶¹ Steel and Webster (1991), op cit, p 1x.

⁶² Speech by Minister Kangai, 6 December 1991 (Department of Information press release number 325/91/HM/BC).

estimate that can be made of between \$100 million and \$200 million of SSE loans presently outstanding. If present SSEs are to consolidate and grow and a sufficient number of new enterprises start to make a dent on the rentrenchment-increased unemployment figures, this amount needs at least to quadruple by the end of 1995, ie, about \$600 million (in 1992 dollar terms) of outstanding loans to SSEs by that date.

Urgent Need for Funds to Underpin Lending to SSEs

While the above figures are based on rough calculations, a very rapid increase in financing is clearly called for if the expectations being placed in SSEs during the ERP period are going to come anywhere near being fulfilled. At the same time, with the imposition of the credit squeeze that is part of the early phase of the Economic Reform Programme, the liquid position of the banks has been reversed, and with the crisis brought about by the drought in 1992, tight credit conditions are expected to prevail for at least the next few years. Particularly with many of the decisions about SSE projects being made at the level of the branches of commercial banks, during the period of tight credit the small-scale sector is bound to be at a severe disadvantage.

At the time of the draft report (March 1992), it was recommended that, as a matter of urgency, Government find means to ensure that there are adequate local currency resources available to finance viable SSE projects. In the July budget, Government set aside an amount of \$100 million "for assisting the small to medium scale enterprises who are facing formidable cash flow as well as operational problems emanating from the tight monetary policy we are pursuing"⁶³. Subsequently, it has been announced that the funds will be channelled through SEDCO for working capital and project financing (\$40 million), the commercial banks for working capital (\$25 million), ZDB for working capital and project finance (\$20 million) and the Venture Capital Company of Zimbabwe for project finance only (\$15 million). The funds would be loaned by the Ministry of Finance to the institutions at an interest rate of 15%; working capital would be repaid over two years. Criteria for loans are 73% of equity being owned by

⁶³ BTG Chidzero "Budget Statement 1992", 30 July 1992, para 50.

Zimbabweans, a capital base of less than \$2 million, total fixed assets of less than \$3 million, and employment of less than 150⁶⁴.

In relation to the figures calculated above, \$100 million is relatively modest. It is nonetheless an important initiative from Government and it is to be hoped that it will be implemented expeditiously. Monitoring the results of disbursing this first \$100 million will give a clearer picture of the financial requirements of SSE and how best these can be met. The UNIDO Programming Mission put forward the idea of a Refinance Facility, which would be a means of channelling blocked and surplus funds to productive SSEs at affordable rates of interest, while not requiring new institutions to be established. The Refinance Facility is included in the UNIDO project described in Section 15.2.

13.3 BUSINESS OPPORTUNITIES ARISING FROM ECONOMIC REFORM PROGRAM

Access to Imports and Removal of Restrictions

As was suggested in Section 1.4, key elements of the Economic Reform Programme should be of considerable benefit to SSEs. In particular, the removal of many of the restrictions that have inhibited business development in the past, and, more particularly, the opening up of the foreign currency system so that access to imports no longer remains the preserve of the established industries, should have a dramatic impact on the prospects for growth of SSEs engaged in manufacturing, although a negative impact on those SSEs which in the past depended on access to import licences for their existence. Against the decline of such enterprises, in the manufacturing sector there should be growth both in terms of numbers of SSEs being started and of expansion of SSEs already established.

Whether such growth will materialize, however, depends on whether the above positive factors outweigh other consequences of the overall Programme which are likely to be negative for SSEs. The major problem areas are spelt out in Section 13.4, but even the

⁶⁴ Journalist briefing by Minister of Industry and Commerce, reported in *The Herald*, September 2, 1992.

supposedly positive factors turn out on closer examination to be rather ambiguous.

Thus, for example, while the SSE sector will gain access to imported *inputs* to production, the lack of which had previously been a significant barrier to entry, trade liberalization will also in time cover *outputs*, ie, import controls on products presently produced by Zimbabwe industry will also be relaxed, forcing local manufacturers to compete with imported products. This could have a devastating effect on SSEs in certain sectors. However, if such SSEs exist only because of the protective measures presently in place, producing products that are highly priced and of relatively poor quality, consumers will benefit as a result of being able to buy imported alternatives. From the national viewpoint, the benefit of maintaining a few jobs in inefficient SSEs is most unlikely to outweigh the benefits that consumers will enjoy from lower priced, better quality products. The consequences for the SSEs which are forced to close will, however, be negative, unless they manage to restructure and move into other lines of production.

In the realm of deregulation, the progressive relaxation of price controls will probably increase costs and perhaps reduce markets if the item in question is an *input* to production of the SSE. On the other hand, if the item is an *output*, higher prices following the relaxation of price control are likely to result in businesses being more viable.

These statements assume that price control has been effective. In many cases, however, goods have become all but unavailable except on the black market at extremely high prices (cement is a prime example). If the opening up of the economy serves to increase supply, effective prices may fall, even if nominal prices rise when price control is first lifted. A related exception may occur in markets where the price of only part of the output is controlled and the price of the uncontrolled part is higher; removing price control may then lead to a fall in prices in the uncontrolled sector (the baking of bread and confectionery provides an example).

In respect of monetary policies, Government's intention is to induce more vigorous competition amongst the commercial banks, which should be of benefit to SSE. At the same time, administrative control over the money market will be relaxed, with interest rates becoming market driven. Interest rates are expected to rise to above the level of inflation, imposing much higher costs on SSEs for loans for investments or working capital. The "financial intermediation" theorists would argue that positive real interest rates should increase the banks liquidity, giving greater access to non-traditional clients such as small-scale entrepreneurs. The recent reluctance of commercial banks in Zimbabwe when awash with funds to extend loans to small-scale entrepreneurs without a track record, despite pressure from Government to do so, casts considerable doubt on whether positive real interest rates will be of benefit to SSE⁶⁵. In any event, in the early phase of the Economic Reform Programme, monetary policy has been severely curtailed and credit is difficult and expensive even for established enterprises, as has already been highlighted by the plea for additional finance made in the previous section.

Changes in Operations of Parastatals

Parastatal reform is a key element of the macro-economic requirement of reducing the Government budget deficit in order to make "room" for an investment boom in the productive sectors. Rationalization and privatization of parastatals may well result in a curtailment of operations in the rural areas. Since Independence, the extension of parastatal operations, such as the building of GMB and CMB depots in communal areas, has been a critical factor in stimulating rural growth. The closure of a parastatal depot in a rural centre may have the opposite effect, removing the focus of economic activity from the centre itself. This would depress the market in the area for all SSE and may also eliminate SSEs which are specifically dependent on the parastatal concerned.

Against this, however, is the possibility that parastatal reform, in particular GMB reform, will be carried out in such a way that the opportunities for new SSEs to emerge (in procurement,

⁶⁵ This point is highlighted in Section 12.2.

transport, milling and marketing of grains and meals) will be maximized. As is argued in Chapter 5, a properly structured programme designed to allow small operators to market and process agricultural commodities could well improve distribution and hence nutrition, while at the same time enhancing opportunities for expanded incomes through small-scale enterprises: replacing marketing board activities and providing competition to the large urban-based agro-industries.

Production for Exports - Export Finance Scheme for SSEs

The ERP is designed to achieve rapid export growth from the start of the programme. Exports have to generate the foreign currency to sustain the momentum of trade liberalization and make it possible in due course to repay the loans which have been contracted to finance investment in the productive sectors of the economy. Major new incentives, such as the Export Retention Scheme, are available for small-scale as well as large-scale enterprises, although as with any bureaucratic requirement it is proportionately much more difficult and costly for the SSE to take advantage of such schemes.

However, an export financing scheme that is being introduced by the Reserve Bank specifically for small and medium sized businesses has been announced. This scheme will channel surplus funds through the Finance Trust of Zimbabwe (Pvt) Ltd to the commercial and merchant banks for on-lending at a favourable interest rate (11,5%) to new entrants into export markets. Pre- and post-shipment export credits will be available. As Finance Trust will guarantee 50% of the funds provided, the scheme will also allow rules on collateral security to be relaxed.

The scheme will be open to small or medium-sized companies (up to \$5 million turnover or up to \$15 million if at least 60% is already export trade), partnerships, co-operatives, family concerns or individuals. Although intended to support any kind of exports, items specifically mentioned as having potential are handicrafts, market gardening or horticulture, sculpture and artwork, leather products, pottery, textiles, TV and radio manufacturing, fruit and vegetable canning and furniture making.

As well as specific incentive schemes, production for export is being made more attractive through devaluation. In this section on new business opportunities, exporting is thus a significant item for SSEs. Discussions with financial institutions indicate that export-oriented projects are being given priority because it is known that macro-economic policies and incentive schemes will be adjusted throughout the Programme period to maintain the profitability of exporting.

Sub-Contracting

The Economic Reform Programme document states that "as large and medium scale enterprises become more specialised, they will subcontract work that they cannot do competitively to smaller scale enterprises" (p 19). While it is true that one of the intended effects of trade liberalization is to force firms in the manufacturing sector to streamline their operations, the discussion in Section 6.6 makes it clear that that is not a necessary nor sufficient condition for sub-contracting to take place.

Nonetheless, the Programme is generating interest in sub-contracting, and this does again represent an opportunity for SSEs that have the skills and organizational ability to meet the exacting standards that are likely to be required of them. At the same time, with sub-contracts providing a basic level of demand and a predictable cash-flow, successful sub-contractors will be poised to find and secure other markets.

13.4 PROBLEM AREAS AT START OF THE ECONOMIC REFORM PROGRAMME

Insufficient Demand

The biggest threat posed by the ERP to the SSE sector is a reduction in demand for the type of simple goods and services that are generally produced by SSEs. In a study carried out five years after the start of the Structural Adjustment Programme in Ghana⁶⁶ it was found that "although most small firms prospered from 1974 until 1984, the majority declined over the past five

⁶⁶ Jonathan Dawson "Small-Scale Industry Development in Ghana: A Case Study of Kumasi", as summarized in Steel and Webster (1991), op cit, p 47-49.

years. Fifty eight percent said that demand for their product had declined since 1983, 25 per cent reported stable demand, and 14 per cent claimed an increase in demand".

Interestingly, it was not competition from large firms or from imports that was deemed to account for declining demand. One of the main reasons given was falling real incomes and depressed purchasing power among the urban and rural poor. Another factor was that, with the reduced barriers to entry consequent on deregulation, and increased pressure on the job market due to retrenchments, there were a large number of new entrants, leading to excessive competition among small producers, with falling profit margins and fewer orders per enterprise.

Access to Finance and Cost-Push Factors

With the severe credit squeeze required to achieve macro-economic balance, allocation of finance to SSEs could well become more difficult, despite the ostensible opening up of the banking system to the small-scale sector. A specific recommendation on this point has already been made in Section 13.2, under the heading "Urgent Need for Funds to Underpin Lending to SSEs". Making funds available to the banks would certainly benefit those SSEs involved, but the overwhelming majority of SSEs will remain outside of the banking system, and are likely to feel the ripple effects of the credit squeeze.

One of the reasons for decline of the SSE in the above-mentioned study in Ghana is a "breakdown of previous supplier and customer credit arrangements resulting from severe shortages of working capital"⁶⁷. Increased prices of imported and domestic raw materials and the loss of the advantages obtained under previous policies, are other sources of decline identified. These are already evident problems for many SSEs in Zimbabwe.

Competition from Established Enterprises

While competition from large industries may not have been a key factor accounting for decline of the SSE sector in Ghana, in Zimbabwe large industry is very well established and has the

⁶⁷ Steel and Webster (1991), op cit, p 47.

skills, the resources and the will to take every advantage of the moves being made towards making the Zimbabwe economy more market-oriented. In the past, the monopolistic or oligopolistic positions of many firms were entrenched by the regulatory system itself. While deregulation in principle will undermine these monopolistic positions, in practice the economic power that these agents have acquired will allow them to maintain those positions by other means.

What is needed is legislation and institutions to control or break up monopolies, prevent mergers that would not be in the public interest, and control restrictive business practices. While Government has committed itself to this, introducing new legislation and setting up institutions will take a considerable period, and in the interim there is scant recourse for the small enterprise that is subject to restrictive business practices.

Lack of Infrastructure

While the ERP is intended to encourage the productive sectors to markedly increase investment, they will be restrained by severe infrastructure constraints. Even in the urban areas, land, water, electricity, telephones and transport are all in short supply. This is another area in which established firms are using their superior bargaining power and influence to appropriate the limited resources which are being made available.

In the rural areas, including the designated growth points, the situation is even more difficult, especially as Government has retreated in the face of some misjudged investments in rural centres in the early 1980s. Thus the Ministry of Finance, Economic Planning and Development had until recently stopped all rural electrification projects, and is only now beginning to re-assess the situation in the light of a more careful analysis of why some rural electrification projects failed while others were remarkably successful (the prime example being Gokwe). Unfortunately, there is now a national electricity shortage that is likely to persist at least into 1994. For this and other more bureaucratic reasons, it will take years rather than months for infrastructure projects in growth points to make the level of

impact that is necessary to really get SSEs moving at those centres.

Problems Internal to the SSEs

The areas mentioned so far all constitute problems external to the SSE. A problem that is at least as significant is the lack of skills - technical, managerial, organizational - in the SSEs themselves. In the short run, these deficiencies can be ameliorated through advice and extension from support organizations, and in the long run, these problems can be overcome through training.

As will become clear in Part C, there are a large number of SSE support and training organizations in Zimbabwe. These provide a variety of services to SSEs with varying degrees of appropriateness and efficiency. One of the biggest problems, however, is that most SSEs are not aware of the support that exists or find it difficult for a variety of reasons to approach the support agencies or gain access to their services. As a result, most SSEs operate entirely outside of the institutional framework that has been set up to serve them.

13.5 STRATEGY REQUIRED

Need for a Strategy on SSE

Although the time horizon of the recommendations of this report extends beyond the period of the ERP, it is crucial that a strategy be put in place by Government to maximize the opportunities and growth prospects of SSEs during this critical transition period. If a suitable basis is laid during implementation of the ERP, not only will the SSE sector play a significant role in the next few years, particularly in respect of employment, it will be positioned to contribute to the widening and deepening of industrialisation that should extend into the twenty-first century.

It should be emphasized that the period of implementation of the Economic Reform Programme is one in which relative prices will be changing, partly as a direct result of policy changes and partly

as a result of the consequences of liberalization policies working their way through the economy. The SSE sector will thus face changing incentive structures, and should be encouraged to be flexible enough to change and adapt as opportunities arise and as it becomes clear that old activities are becoming unviable. The objective is to have a continuing process of transferring resources from inefficient uses to more efficient ones, with the legal, administrative and institutional framework enabling that transfer.

In the process, it is to be expected that there will be rapid changes within the sector, including a high failure rate among small enterprises. This should not be of undue concern, as evidence from many countries suggests that it is a mistake to try to prevent closures from taking place, supposedly in order to prevent jobs being lost. In fact it is in such dynamic situations that employment is created. This is true even of developed economies: reviewing research on small-scale enterprise development in the USA, Greenberg writes that "the areas where jobs are created fastest are also the areas with the highest levels of job losses. That is, the fastest growing areas in terms of *net* job creation were those that were both creating and *losing* jobs at a very high rate."⁶⁸ It is also interesting to note that in the US situation a ten year survey revealed that two thirds of all new jobs created on a net basis were in businesses with less than 20 employees. The majority of jobs created were in services rather than in manufacturing enterprises.

Suggested Components of the Strategy

It is suggested that the national strategy to develop the small-scale enterprise sector during the Economic Reform Programme, and establish a firm basis for the period beyond, should include the following main components:

(1) Articulation of a clear policy stance on SSEs

The suggested basic elements to be included in the policy are presented in Chapter 14. The policy needs to incorporate provisions that take account of the

⁶⁸ D E Greenberg "SMEs and Job Creation: Conclusions from the US Experience", Education with Production Vol 8, No 2, page 42.

immediate future under the ERP, but should also extend beyond the ERP implementation period.

(2) Stimulation of demand for products of SSEs

In some countries undergoing structural adjustment, macro-economic contraction has been so severe that development of small-scale enterprises has been all but precluded, despite the improved business environment associated with liberalization. In Zimbabwe's case, starting from a relatively strong economy, macro-economic policy should be designed to avoid a prohibitively severe contraction, both on the grounds of avoiding the adverse effect on the welfare of the population, and so as to give SSE a chance to gain a position in the economy during the ERP period.

In addition, demand conditions for SSEs are to be improved through appropriate design and management of parastatal reform (particularly the agricultural marketing boards), through promotion of sub-contracting between established firms and SSEs and through a preference scheme being introduced for SSE in tendering for public contracts. The business environment is also to be made more competitive through the introduction of properly constituted administrative and legal mechanisms to control monopolistic and restrictive business practices.

(3) Elimination of unnecessary regulatory impediments to SSE development

In areas such as zoning and licensing, building codes, the Factories and Works Act, road transport permits, urban transport protectionism and agricultural marketing, there are many regulations which do not serve useful purposes but which severely impede new entrants and undermine the viability of SSEs. As part of the Economic Reform Programme, the work of the Deregulation Committee needs to be advanced to the stage where already agreed changes in regulations are put into effect. There is need also for the regulatory environment to be monitored on an on-going basis and further changes made as necessary in the future.

(4) Simplification of company registration and tax concessions for SSEs

A regulatory area of particular concern to SSEs is that of company registration. A simplified mechanism is to be implemented for SSEs, accompanied by a package of tax incentives for small enterprises. The tax incentives presently applicable to designated growth points are to be extended to all rural centres.

(5) Improvement in information, extension and referral services and the provision of training

Although there are several Government, private and NGO initiatives in the area of information, extension and training, the need for a massive expansion of such services to adequately cater for the small-scale sector is evident. In order to make the best use of resources, all agencies involved are to be encouraged to refer clients to others when not able themselves to provide the required services. The aim is for clients to be sent to the best agency to meet their particular requirements, irrespective of the initial point of entry.

(6) Provision of resources for financing of SSEs

To avoid the SSE sector development being severely curtailed as a result of the overall credit squeeze, Government will have to ensure that funds for the SSE sector are made available on a continuing basis. The \$100 million allocated in the 1992/93 budget is a significant starting point (see Section 13.2). In addition, encouragement is to be given to both large and small institutions supplying credit to SSEs. Given the dominance of self-finance of SSEs, ways are to be explored for savings institutions (such as the Post Office Savings Bank) to assist in financing SSEs.

(7) Facilitation of investment by SSEs

Investment by SSEs is to be facilitated by the streamlining of investment procedures and improved access to capital goods and imported raw material inputs for production, not trading. This could be achieved through phasing trade liberalization to favour SSEs and/or providing a foreign currency line of credit to finance imports during the transitional period. The development and dissemination of technology that is appropriate and productive in a SSE setting is also to be promoted.

(8) Provision of infrastructure for SSEs

Given the overall pressure on resources, funds will need to be earmarked for projects to provide the infrastructure needed by SSEs in both urban and rural areas. In many cases, it would be appropriate to identify specific Enterprise Development Zones, where projects could combine infrastructure provision with extension, technology transfer and training. The concept of Enterprise Development Zones is elaborated in Section 15.2.

(9) Support for SSE operating in particular sectors

The strategy has also to encompass support to SSEs in specific sectors. Over and above the problems and constraints faced by all SSEs, there are often sector-specific problems which might be resolved in a cost-efficient manner through identifying "bottlenecks" in input supply, production mechanisms or marketing⁶⁹. Identifying and addressing those bottlenecks may involve drawing in a wide range of agencies, including, on the Government side, line ministries and their associated parastatals.

(10) Special consideration for the needs of women

Given the additional difficulties that women entrepreneurs have to face as a result of the long history of discriminatory legislation, customs and practices, special attention is to be given in implementing all aspects of the strategy to the needs of women.

(11) Co-ordination and institutional support to SSEs

To make support more effective, some degree of co-ordination of support activities (inside and outside of Government) is necessary. Consistent with the objectives of the ERP, a facilitating, rather than interventionist, co-ordination role is recommended, through the establishment of a Small-Scale Industries Facilitation Unit (the details are given in Section 15.2). Besides liaising with agencies already active in support of SSE development, the Unit is to encourage agencies that have not previously given support to SSEs, such as large companies which could offer technical advice and training, and establish sub-contracting relationships.

⁶⁹ This concept is clearly elaborated in Boomgard et al "A Subsector Approach to Small Enterprise Promotion and Research" Colorado State University, 1991.

CHAPTER 14: POLICY ON SMALL-SCALE ENTERPRISES AND INDIGENISATION

14.1 OBJECTIVES AND PRIMARY INSTITUTIONAL RESPONSIBILITY

Introduction

This chapter attempts to bring together all the elements of a policy position which, if adopted by Government, would provide the framework within which a forceful promotional programme for SSEs could be launched. What follows constitutes the proposals being put forward by the consultants for consideration by Government.

Government Objectives and Principles of Support to SSE

Government's objectives with respect to small-scale enterprises and indigenisation are no different to its overall socio-economic objectives. As expressed in *Zimbabwe: A Framework for Economic Reform*, Government's overall objective is to "improve living conditions, especially for the poorest groups":

This means increasing real incomes and lowering unemployment, by generating sustained higher economic growth. In order to achieve this primary objective, the economy needs to be transformed to make it more competitive and productive. This transformation entails moving away from a highly regulated economy to one where market forces are allowed to play a more decisive role, while concurrently taking steps to alleviate any transitional social hardships which may arise from this transition (page 4).

In stimulating growth, increasing competition, easing some of the hardships of transition during economic reform and especially in generating employment, Government sees a vital role for small-scale enterprises.

Promotion of this sector is also to be done in such a way as to contribute to other national objectives, including rural development, upgrading of technical and managerial skills, balanced regional development and environmental sustainability.

Government also sees small-scale enterprise development as a means of increasing local ownership and indigenisation of the productive sectors of the economy. The President makes reference to the objective of shifting the balance of ownership in the

economy in his Foreword to the Second Five Year National Development Plan (1991-1995).

It is suggested that, as an additional principle, Government formally endorse the position that small-scale enterprise projects receiving support should be commercially viable. There are arguments of principle and of experience which would favour support to SSEs in future being commercially oriented⁷⁰. By requiring financial support to be on a loan basis, a higher proportion of the available funds for small-scale enterprises will be circulated, thereby increasing access and spreading the benefits to a larger group. This is consistent with Government's over-riding policy position of growth with equity.

Primary Institutional Responsibility

The key Government agencies to be involved in implementing Government policy on the promotion of small-scale enterprises are the Ministry of Industry and Commerce; the National Planning Agency and, during the implementation of the Economic Reform Programme, the ERP Monitoring and Implementation Unit, both of which are located in the Ministry of Finance, Economic Planning and Development; the Ministry of National Affairs, Employment Creation and Cooperatives, located in the President's Office; the Ministry of Local Government, Rural and Urban Development; during the ERP period, the Social Development Fund in the Ministry of Labour, Manpower Planning and Social Welfare and the Ministry of Transport. It is important that these agencies and ministries liaise constructively with each other on small-scale enterprise issues. The formation of the Small-Scale Industries Facilitation Unit (SSIFU) proposed in Chapter 15 would be a major step towards achieving this objective (see Section 15.2).

The Ministry of Industry and Commerce is to take ultimate responsibility for promoting small-scale enterprises. During the ERP period, the Ministry of Industry and Commerce will work with the other members of the inter-ministerial Economic Reform Programme Monitoring Committee to ensure that policy changes are complementary and mutually reinforcing. The Ministry of Industry and Commerce's responsibility involves, in part, ensuring that

⁷⁰ See discussion in Chapters 11 & 12.

the actions required of the various ministries and government agencies, as identified below, are carried out timeously and effectively. Some items are matters of on-going commitment, while others (marked with an asterisk below) require specific action to be taken. For these "Action Plan" items, it is proposed that the Ministry of Industry and Commerce agree a timetable with the responsible agencies and ensure that this is adhered to.

14.2 DEMAND STIMULATION

Policy

The primary determinant of viability of a small-scale enterprise is the existence of an adequate market for its goods and services. The market is, in turn, determined to a significant extent by the economic environment that is a direct result of macro-economic measures implemented by Government.

Particularly during the implementation of the Economic Reform Programme, it is recommended that Government give special consideration to the impact on demand for the products and services of small-scale enterprises when formulating macro-economic policies. In particular, in the area of parastatal reform, wherever opportunities for small-scale enterprises could be created which would be profitable and would contribute to meeting the social objectives of equitable access to goods and services at reasonable prices, while at the same time reducing parastatal subsidy requirements, these should be vigorously pursued.

In creating and expanding markets for the goods and services of small-scale enterprises, it is recommended that Government undertake to:

- foster sub-contracting between established and emergent enterprises wherever such opportunities arise^{1/2};
- give a restricted degree of preferential treatment to small-scale enterprises in public sector tendering (a fixed price margin for certain categories of tender is

¹ Agro-industry examples were given in Chapter 5.

² Sections 6.6 and 6.7 refer.

recommended over a quota system, but only for a limited period);

- speed the process that is underway of creating a competitive business environment in Zimbabwe in which barriers to entry are reduced and monopolistic and restrictive business practices are controlled through properly constituted administrative and legal mechanisms (requires drafting and enacting of Competition Legislation and setting up the institutional structure to administer it).

Institutional responsibility

- **Macro-economic policies:** Ministry of Finance, Economic Planning and Development and Reserve Bank.
- * **Parastatal reform:** Committee on Parastatal Reform, line ministries etc, in particular Ministry of Agriculture and Agricultural Marketing Authority.
- * **Sub-contracting:** Ministry of Industry and Commerce.
- * **Public tendering:** Ministry of Finance, Economic Planning and Development, Tender Board.
- * **Monopolies and Restrictive Business Practices:** Monopolies Committee, chaired by Ministry of Industry and Commerce.

14.3 REGULATORY ENVIRONMENT

Policy

Government has acknowledged that in the past the development of small-scale enterprises has often been inhibited by the existence of a panoply of regulations and procedures which made it unnecessarily difficult to establish and operate a small-scale enterprise.

As part of the Economic Reform Programme, Government has already committed itself to simplifying or removing regulations and procedures so as to stimulate the establishment and growth of small-scale enterprises, without, however, compromising public health and safety, environmental protection, or the orderly development of towns and cities.

In addition to the general relaxations in the regulatory environment for business that are scheduled to take place as part

of the Economic Reform Programme (such as the streamlining of investment procedures, removal of price and distribution controls, and the relaxation of labour market regulations), areas requiring specific attention for the promotion of small-scale enterprises are:

- relaxation of local government regulations in respect of zoning and licensing of small business, shops, hawkers and vendors;
- relaxation of building codes (these presently make it unduly costly and time consuming to build premises for small-scale enterprises; in addition, the excessive standards required for building materials sharply curtail the potential market for building materials that could readily be produced by small-scale enterprises, including alternative materials such as timber-frame housing);
- limitation of the provisions of the Factories and Works Act, which presently covers *all* enterprises employing mechanical power, to larger establishments; drafting of more appropriate standards for rural and small-scale urban settings which ensure safety without unduly restricting investment;
- abolition of road transport permits for small-scale rural goods transporters, and relaxation of permit requirements for urban and rural passenger transporters;
- scrapping of ZUPCO monopoly over passenger transport in urban areas;
- relaxation of agricultural marketing regulations (this relates to the reform of the agricultural parastatals, which, as identified in Section 14.2, is an on-going process).

These items are also on the agenda of the Economic Reform Programme, but more rapid action is required if the SSE sector is to benefit.

Related to the question of zoning, is the issuance of title deeds. The present limitations on where title deeds may be issued, and the extreme shortage of qualified surveyors to survey land in areas where title deeds are permitted, have become serious obstacles to the growth of small-scale enterprises. It is recommended that Government extend the right to issue title deeds to all urban areas, whether or not these are located in District Council Areas, and to change the surveying regulations

to allow surveying technicians to carry out routine surveying tasks.

Institutional responsibility

- Overall: the inter-ministerial Deregulation Committee, chaired by the Ministry of Local Government, Rural and Urban Development, together with the structural adjustment Monitoring Committee, to be responsible for co-ordinating and ensuring that changes are made in all of the relevant areas.
- * Zoning, licensing and building codes: Recommendations to be made to the Deregulation Committee by the Department of Physical Planning, after consulting with local authorities and other interested and informed parties, such as the Zimbabwe Institute of Rural and Urban Planners, the Zimbabwe Institute of Engineers, the Construction Industry Federation, the Standards Association of Zimbabwe, the Timber Council. For cities and large towns, new measures are to be implemented by municipalities; for other urban centres, measures are to be implemented by Rural and District Councils, under the guidance of the Ministry of Local Government, Urban and Rural Development.
- * Title deeds and surveying requirements: Ministry of Local Government, Urban and Rural Development to declare that title deeds may be issued in all urban areas and to effect the relaxation of surveying requirements so that routine surveying can be done by surveying technicians rather than fully qualified surveyors.
- * Factories and Works Act: Ministry of Labour, Manpower Planning and Social Welfare to have the Act amended so that it exempts establishments which employ less than say 10 persons, even if mechanical power is used.
- * RMT Permits and ZUPCO monopoly: Ministry of Energy and Transport and Ministry of Local Government, Urban and Rural Development.

14.4 COMPANY REGISTRATION AND TAXATION

Company Registration and Profits Tax

Recognizing the need to simplify procedures for registering a company, Government is currently working on the Private Business Corporation [PBC] scheme. Any proposal which encourages enterprises to register, become formal, and thus contribute to national taxation revenues, is to be welcomed and it is

recommended that all such options be vigorously pursued⁷³. Clearly to make the PBC work, a tax regime with lower rates of tax will have to be offered, but how this can be done without encouraging those already paying tax to de-register and then re-enter the system under the PBC in order to pay less tax, has yet to be resolved.

Growth Point Tax Incentives

It is recommended that the present growth point tax incentives be extended to *all* rural centres. These incentives are not costly for the fiscus, but contribute to the viability of rural projects. At the moment, if an entrepreneur establishes his business outside of growth point, no incentives are applicable. This is undesirable, as growth points are defined for tax purposes in a way which includes some centres without good growth prospects, while excluding others that do have.

In any event, location in a lesser rural centre from a national spatial development viewpoint should be more highly rewarded than investment in an established growth point. From that point of view, the recommendation that the growth point incentives be extended to all rural centres is a minimal gesture.

Institutional responsibility

- * Taxation: Ministry of Finance, Economic Planning and Development.
- * Company registration under Private Business Corporation: Ministry of Justice, Legal and Parliamentary Affairs.

14.5 INFORMATION, REFERRAL, TRAINING AND EXTENSION

Policy

It is widely recognized that there is need for improvements in the quality and coverage of information, training and extension services provided to existing small-scale enterprises and to groups or individuals who might establish small-scale

⁷³ It is understood that ODA is willing to finance a detailed study of tax issues and incentives for SSEs. Some of the main changes in the March 1992 UK budget were tax changes to favour SSEs.

enterprises. In the document giving policy on the Social Dimensions of Adjustment, it is made clear that Government does not feel it is in an advantageous position itself to undertake these functions itself.

Instead, it is proposed that Government support the initiatives currently being taken by private sector institutions and NGOs to redress the situation. Through the Employment and Training Programme component of the Social Development Fund, Government should make funds available to institutions putting forward well-formulated projects to augment small-scale enterprise extension and training (in technical, managerial and accounting fields, as well as in basic entrepreneurial development). Projects to provide training for those retrenched during the Economic Reform Programme, as well as those who are unemployed for other reasons, should be given particular attention.

It is recommended that Government monitor the situation and attempt to fill any gaps which might remain, including possibly establishing a co-ordination centre for training activities. While encouraging the principle of cost recovery, Government should continue to give financial grants for the extension and training activities of quasi-government institutions already involved in extension and training for small-scale enterprises (such as SEDCO, Credit Guarantee Corporation and the export promotion service for small-scale enterprises of ZIMTRADE).

Government should also support the introduction into school curricula of topics that will help prepare students for business activities and self-employment, as well as encouraging links between schools and economic activities, so that students will be more aware and oriented towards the world of work.

Institutional responsibility

- * Information, referral and extension: Government and non-government agencies with interest and capability in this area be invited to put up projects to the Loans and Grants Allocation Committee of the Social Development Fund. All small-scale enterprise support agencies to co-operate in sharing information about their activities and in referring entrepreneurs to the most appropriate agency to assist with a particular requirement.

* **Funding:** Loans and Grants Allocation Committee of the Social Development Fund; donor support.

* **School curricula:** Curriculum Development Unit in the Ministry of Primary and Secondary Education.

14.6 FINANCE

Policy

While finance for fixed and working capital is not the only constraint on small-scale enterprise development, it remains a critical one. At the same time, when there are other pressing national requirements, it would not be justified to put financial resources into unproductive projects, simply because they are in the small-scale enterprise sector.

The financing of small-scale enterprises has received more attention in recent years than many other aspects of small-scale enterprise development. A number of institutional initiatives have been taken by Government, the commercial banks and NGOs. What is of primary concern during the period of implementation of the Economic Reform Programme is that, in the absence of specific measures, the national credit squeeze is likely to fall disproportionately on small-scale enterprises.

It is thus recommended, as a matter of urgency, that Government find the means to ensure that there are adequate local currency resources available to finance viable SSE projects⁷⁴. The allocation of \$100 million in the 1992/93 budget, which is being dispersed through SEDCO for working capital and project financing (\$40 million), the commercial banks for working capital (\$25 million), ZDB for working capital and project finance (\$20 million) and the Venture Capital Company of Zimbabwe for project finance only (\$15 million). As mentioned in Section 13.2, monitoring the results of disbursing this first \$100 million will give a clearer picture of the financial requirements of SSE and how best these can be met. The Refinance Facility, proposed as part of the UNIDO Small-Scale Industry Project, would be an appropriate institutional mechanism to

⁷⁴ See Chapter 13.

ensure adequate flow of funds to the small-scale sector (see Section 15.2).

Besides an overall need to borrow, access to foreign currency remains a problem for many small-scale enterprises; this is dealt with in the next section.

As the overwhelming majority of micro and small-scale enterprises are financed entirely from internal savings, it is recommended that Government also place emphasis on maintaining a suitable climate for savers and on expanding access to savings facilities through the POSB, building societies and commercial banks. Creative ways of involving such institutions in assisting or financing SSEs should be explored.

Institutional responsibility

- Financing of SSEs: Government and private financial institutions and NGOs;
- * Creation of complementary institutional structures for financing SSEs: UNIDO (Refinance Facility), other outside agencies and local financial institutions;
- * Funding of support institutions: Loans and Grants Allocation Committee of the Social Development Fund.
- * Financing of SSE through savings: POSB, building societies and commercial banks.

14.7 INVESTMENT, TECHNOLOGY AND CAPITAL GOODS

Policy

It is widely acknowledged that in the past small-scale enterprises have been prejudiced by a foreign currency allocation and investment approval system that favoured established large-scale enterprises. As trade liberalization proceeds, imported goods will become freely available in the domestic market, approval for investment projects will no longer be required, and these problems will disappear.

In the transitional period, however, Government should undertake to take the needs of small-scale enterprises into account when deciding on the precise sequencing of OGIL and to pursue donor-

funded projects to establish foreign currency funds or lines of credit to make imported capital goods and raw materials more readily available to the small-scale enterprise sector¹⁵. Government should also ensure that the measures introduced to speed up the processing of project applications by small-scale enterprises are made effective.

In respect of technology for SSEs, Government should ensure that through the Scientific and Industrial Research and Development Council, existing Government research organizations (such as the Institute of Agricultural Engineering and the Blair Research Laboratories), and through support for private sector and NGO initiatives, there is a national commitment to the development, testing and dissemination of technologies that are appropriate for small-scale enterprise. Particular emphasis should be given to technologies which improve the income generating capacity and the quality of life of the rural population.

Institutional responsibility

- * Sequencing of OGIL in favour of SSE: Monitoring and Implementation Unit.
- * Accelerated processing of SSE project applications: Zimbabwe Investment Centre.
- * Forex fund/line of credit for SSE during transitional period: support agencies, Reserve Bank, Ministry of Finance, Economic Planning and Development.
- * Development and dissemination of technology for SSEs: Scientific and Industrial Research and Development Council itself and as an agency to foster co-operation between designers, support agencies and users of technologies.

14.8 GROWTH POINTS AND DECENTRALIZATION

Policy

Recognizing that infrastructural investments in growth points have not always been well targeted in the past, under the Economic Reform Programme Government is committed to evaluating carefully the economic potential of a rural centre before significant investment resources are committed. Once a suitable

¹⁵ One such initiative is already being promoted by the Small-Scale Enterprise Advisory Group.

centre has been identified, however, the objective should be to provide an adequate package of infrastructure, combined with support to nascent economic enterprises, to ensure that the growth and employment generating potential of the centre is realized. It is recommended that Government establish multi-disciplinary growth point development teams to bring this about. In line with Government's overall policies on decentralization, such teams would be based at provincial level and controlled by Provincial Development Committees. They would include representatives of Ministries and parastatals responsible for providing infrastructure such as water, roads, electricity and telecommunications, as well as from the Ministry of Industry and Commerce and/or SSE support agencies. Where the market is sufficiently large, the concept of "Enterprise Development Zones", which is part of the UNIDO Small-Scale Industry Project proposed in Chapter 15, would apply, and that project could contribute to the design and feasibility studies.

The role of the latter would be to identify business opportunities and help stimulate and promote, through extension and training, enterprises which have potential. Besides helping the growth of employment, for Government this approach has the added advantage of ensuring that a higher level of cost recovery would be achieved for items such as water and electricity, improving financial viability.

The Social Development Fund will provide a new source of funds for the construction of infrastructure through the public works programme. The operation of this facility should be co-ordinated with existing sectoral programmes, such as the water and sanitation programme of the National Action Committee for Water and Sanitation.

As mentioned in Section 14.4, Government should maintain preferential tax incentives for enterprises locating in growth points and extend these incentives to all rural centres.

Institutional responsibility

- * Growth point development teams: the regional offices of National Planning Agency and Ministry of Industry and Commerce.

* **Public works programme:** Ministry of Labour, Manpower Planning and Social Welfare through the Social Development Fund.

* **Extension of growth point tax incentives:** Ministry of Finance, Economic Planning and Development.

14.9 URBAN WORK SPACES

Policy

Recognizing that shortage of land and facilities is often an important constraint for small-scale enterprises, Government should assist municipalities and support agencies to establish managed work spaces for small-scale enterprises in urban areas (including growth points). Under this general heading can be included industrial estates, incubators and export processing zones, where these include provision for small-scale enterprises.

The geographical concentration of small-scale activities gives rise to greater assurance of demand, as customers find it easier to locate small-scale enterprises, while also facilitating the provision of extension, training, technology transfer and the possibility of joint procurement of raw materials and joint marketing of final products. Government, in part through the Employment and Training Programme of the Social Development Fund, should give support to projects which provide a package of such services to SSEs in addition to the work space itself.

This concept, which is referred to as an "Enterprise Development Zone" in the proposed UNIDO Small Scale Industry Project (see Section 15.2), is derived from the Intermediate Technology Transfer Units, which have been successfully promoted for small-scale metal workers in Ghana (see Chapter 6). The only example remotely like an ITTU in Zimbabwe is the Green Market in Mutare, with its associated ENDA project. Urban Development Corporation, Zimbabwe Development Bank and Zimbabwe Development Corporation, have treated the provision of workspace as a real estate exercise, thereby foregoing the opportunity to include a wider package of support and training services to the SSEs that occupy the facilities that these organizations are building.

Institutional responsibility

- * Funding of workspace/extension/training projects: Loans and Grants Allocation Committee of the Social Development Fund.
- * Formulation & execution of urban workspace projects: local authorities, assisted by the Department of Physical Planning and quasi- or non-government support agencies.

14.10 SECTOR-SPECIFIC INTERVENTIONS

Policy

Besides the relaxation of regulations and restrictions and general support to small-scale enterprises, there is need to give special forms of assistance to particular categories of small-scale enterprises. It is recommended that Government support the concept of such sector-specific interventions, provided they are compatible with other national objectives and programmes. Specific suggestions are given for the sub-sectors covered in Chapters 5 & 6.

Institutional responsibility

- Relevant Ministries and associated parastatals (in particular, Ministry of Industry and Commerce, Ministry of Agriculture and Ministry of Mines);
- private and NGO support agencies.

14.11 CO-ORDINATION AND INSTITUTIONAL SUPPORT

Policy

In respect of the institutional structure needed to promote small-scale enterprises, Government has made it clear that it seeks to play a coordinating and promotional role rather than one of direct intervention. This stance is consonant with the objectives of the Economic Reform Programme of streamlining Government functions.

The need for co-ordination would be best served by the establishment of a Small-Scale Industries Facilitation Unit (SSIFU), which is described fully in Chapter 15 as part of the

proposed UNIDO Small-Scale Industry Project. The SSIFU would be an umbrella organization, under which a number of sub-groups would be encouraged to operate, including sub-sector groupings such as agro-industry. Where the groups operate effectively, SSIFU's role could be one of participating in meetings to keep abreast of developments and ensure that others are fully informed. In other cases, SSIFU may have to play a more catalytic role, calling meetings and inviting speakers to initiate debate on particular issues. Meetings should take place throughout the country, and the results made known through an extensive and on-going media campaign which is due to be launched by the Small Scale Enterprise Advisory Group.

Institutional responsibility

- * **Small-Scale Industries Facilitation Unit:** UNIDO and the Ministry of Industry and Commerce..
- * **Media campaign:** Small Scale Enterprise Advisory Group, other concerned parties and SSIFU.

14.12 SUMMARY OF ACTIONS REQUIRED OF SPECIFIC MINISTRIES

Ministry of Industry and Commerce

As the Government agency charged with overall responsibility for small-scale enterprise development, the Ministry of Industry and Commerce, primarily through the Policy and Planning Branch, is expected to move rapidly and definitively on the following:

- (1) Obtaining agreement within Government and publication of a comprehensive Policy Statement on Small-Scale Industry and Indigenisation.
- (2) Establishing, with assistance from UNIDO, a Small-Scale Industries Facilitation Unit, the details of which are given in Section 15.2, and ensuring that there is an adequate media campaign to bring SSEs into the public eye and provide a channel for exchange of information between those involved.
- (3) Formulating and implementing an Action Plan, based on the proposals in this Chapter, in particular ensuring that clear responsibilities and deadlines are set and adhered to for the various tasks by the Ministries and other agencies involved.
- (4) Accelerating the process of bringing comprehensive Competition Legislation (covering monopolies, mergers,

restrictive business practices and the independent, quasi-judicial institutions needed to administer the legislation) onto the statute books.

- (5) Promoting a series of projects and initiatives to foster sub-contracting (see Chapter 6).
- (6) Encouraging and assisting sub-sector groups of SSEs to form small-scale industry bodies to represent the interests of small-scale operators in particular industries.

Ministry of Finance, Economic Planning and Development

The actions required of this Ministry fall under the Monitoring and Evaluation Unit, the National Planning Agency and the Tender Board, and require working closely with the Zimbabwe Investment Centre, the Reserve Bank and the Ministry of Justice, Legal and Parliamentary Affairs.

- (1) Extension of the Export Financing Scheme for Small-Scale Exporters to provide domestic currency financing for all loan activities for SSEs, at the same time giving support to proposals to make foreign currency funds available for SSEs.
- (2) Extension of growth point tax incentives to cover all investments in the rural areas.
- (3) Finalization of the Private Business Corporation Scheme to simplify company registration and encourage SSEs to come into the tax system.
- (4) Examination of ways in which savings institutions, especially the POSB, could assist in helping entrepreneurs save, or in more direct financing of SSEs.
- (5) In the sequencing of trade liberalization, trying to accommodate the imported needs of SSEs by putting items of relevance to SSE early onto OGIL.
- (6) Examining ways of giving preference in public tendering to SSEs, on a restricted and well-defined basis.

Ministry of National Affairs, Employment Creation & Co-operatives

This recently formed Ministry brings together the activities previously carried out by the Ministry of Political Affairs and the Department of Co-operatives. Urgent tasks include:

- (1) Ensuring that the training institutions formerly under the Ministry of Political Affairs effectively serve to train course participants to be self-employed or to

form small-scale enterprises which also employ others; this requires scrutinizing and possibly adapting existing curricula, giving more emphasis to business skills, training trainers to emphasize entrepreneurship in their courses and giving consideration to how best to recruit course participants;

- (2) In the promotion of co-operatives, to give careful consideration to the economic and sociological lessons from the past twelve years on why some co-operatives have succeeded while others have failed, and to adapt the strategy to the changes that can be anticipated in the environment as the Economic Reform Programme is implemented.

Ministry of Local Government, Rural and Urban Development

This Ministry, at the head office level, and at local authority level, has a major role in altering the regulatory environment in which SSEs have to operate:

- (1) Directives to be give for more flexible and more efficient administration of zoning, licensing and building code regulations, as this could immediately improve the operating environment for SSEs, while consideration is given to what changes need to be made to the relevant laws and regulations themselves.
- (2) Extension of title deeds to all rural centres and changes to surveying requirements so that lesser qualified personnel can clear the backlog of routine work that currently is an obstacle to progress.
- (3) Establishment of growth point development teams, including specialists in small-scale enterprise development, to ensure that an adequate package of infrastructure and SSE support services is made available at rural centres with real growth potential.
- (4) Promotion with donors and NGOs of projects to provide workspace for SSEs, this being combined with extension, training and technology transfer services.

Ministry of Labour, Manpower Planning and Social Welfare

There are two main issues for which this Ministry has responsibility:

- (1) Establishment of the Social Development Fund, including making operational the associated committees (in particular the Loans and Grants Allocation Committee). Once the SDF is operational, SSE support service projects, particularly in the areas of information, extension and referral services, should be funded.

- (2) Changes to the Factories and Works Act to make it less difficult for SSEs to establish small factories.

Ministry of Energy and Transport

This Ministry is to work with the Ministry of Industry and Commerce and the Ministry of Local Government, Rural and Urban Development, to ensure:

- * adequate provision of vehicles to the SSE sector, especially in the rural areas;
- * more flexible road service permit system to facilitate transport in the rural areas;
- * elimination of the urban transport monopoly and encouragement of small-scale operators to provide urban transport services.

Ministry of Agriculture

As shown in Chapter 5, the reform of the agricultural parastatals, if handled in a way which will open opportunities for SSEs, can have a very positive effect on the small-scale sector. The reform of the agricultural marketing boards and changes in agricultural pricing policies should seek to maximize benefits to small-scale enterprises.

Ministry of Mines

The Ministry of Mines has special responsibility for the small-scale miners. Priority areas for action include resolving marketing problems for the small-scale miners and addressing squarely the environmental issues associated with gold panning.

National Research Council

Now that funds have been obtained for the building of premises for the Scientific and Industrial Research and Development Council, the National Research Council should ensure that small-scale industries will be major beneficiaries of the work undertaken by SIRDC.

Ministry of Primary and Secondary Education

Taking a longer term view of the importance of developing entrepreneurial attitudes and understanding of business, this Ministry should intensify work on making courses at Technical Colleges more relevant for and more accessible to small-scale entrepreneurs and should introduce the necessary curriculum changes to school syllabi and foster links between schools and industries. These ideas are further elaborated in Section 15.3.

CHAPTER 15: PROJECTS

15.1 PRIOR AND ON-GOING PROJECTS

One of the main objectives of the present study was to lay the basis for the UNIDO Programming Mission responsible for identifying a small-scale industry project for UNDP IPF financing over the period 1992-95. That project¹⁶ is described in some detail in the following section. Consistent with the programme approach of UNIDO, the new project seeks to co-ordinate and complement other donor assisted and locally supported projects. Although generally already mentioned elsewhere in the report, for convenience some of the main prior and on-going projects being supported by other agencies are summarized in this section, while ideas for future projects which would be complementary or supplementary to the UNIDO project are given in Section 15.3.

Existing projects may conveniently be classified according to the sequencing laid out in Chapter 14. In respect of macro-economic management, fiscal incentives and changes in the regulatory environment as part of the Economic Reform Programme, UNDP Project Implementation of Economic Reform Programme¹⁷ has a significant role. This project provides a team of consultants to work with national personnel in the Monitoring and Implementation Unit within the Ministry of Finance, Economic Planning and Development. The unit has responsibility for co-ordinating the implementation of all aspects of the Economic Reform Programme.

Almost all support agencies are involved to a greater or lesser extent in the area of information, training and extension. Examples cover the range from large Government-supported entities such as SEDCO, to small, independent NGOs specifically set up to train (such as the Glen Forest Training Centre) or NGOs with training as an ancillary activity (such as ORAP). Specific programmes which have been institutionalized within the business support organizations are the IBDC National Business Research and Industrial Development Institute and the Business Extension and Advisory Service (BRIDI and BESA - see Section 10.1), the ZNCC/Friedrich Neuman Foundation Small Business Support Units

¹⁶ UN system project number DP/ZIM/91/003/01/037.

¹⁷ UN system project number DP/ZIM/90/01.

(see Section 10.2), the EMCOZ/ILO Improve Your Business Programme⁷⁸ and the CZI Data Base Project (see Section 10.3). A recent UN initiative is the EMPRETEC Project⁷⁹, the objective of which is to identify a small number of small-scale entrepreneurs and link them with Transnational Corporations on a long-term basis. The Zimbabwe Investment Centre is the local counterpart of the project (see Section 11.1).

In the area of finance, as described in Chapter 9, most of the commercial and development banks and venture capital institutions now have programmes specifically targeted to SSEs. A particular project to be mentioned is the CIDA Support to the Credit Guarantee Company. This has women entrepreneurs as the target group for a higher level of guarantee cover, but the project will also contribute to general institutional strengthening of CGC.

A number of sector-specific project initiatives, mostly by NGOs, involve the development or the acquisition of appropriate technologies and are located in designated growth points or other centres in the rural areas. As regards the provision of urban workspaces, the recent ZDB and UDCorp initiatives described in Section 8.3, may be cited. Examples of established schemes are the Green Market in Mutare, supported by the ENDA Project in Support of Small-Scale Metalworkers and Carpenters, the Kubatana Centre in Masvingo and the Durawall in Harare. The African Business Incubators Project⁸⁰ undertook a feasibility study on the establishment of business incubators, with the intention that Zimbabwe be a pilot country for development of the concept.

15.2 UNIDO SMALL-SCALE INDUSTRY PROJECT

Given the analysis in the draft of this report on the problems being faced by SSEs in Zimbabwe, the UNIDO Programming Mission proposed a project which would assist in overcoming some of the critical constraints while complementing existing activities in support of small-scale enterprises in general and small-scale industries in particular. Areas identified as appropriate to be included in the UNIDO project on the basis of significance and

⁷⁸ UN system project number ILO/RAF/92/M:0.

⁷⁹ UN system project number DP.ZIM/91/010.

⁸⁰ UN system project number ILO/RAF/88/099.

lack of coverage by other projects were: policy formulation and coordination, access to credit or other forms of finance, provision of basic infrastructure, and the expansion of advisory services and enhancement of technical and managerial skills.

The development objective of the project is the facilitation of an environment that is more conducive to SSI development, thereby contributing to employment generation, economic expansion and indigenous participation in the economy. Given the significant role of women in SSIs and the special difficulties they experience in developing their enterprises, the project is to give particular attention to assisting women entrepreneurs and improving their access to credit and services. The main project outputs envisaged by the programming mission are as follows:

- (1) The establishment of a Small-Scale Industries Facilitation Unit (SSIFU).

Such a unit is required to generate, through policy and strategic initiatives, the necessary enabling environment for SSI development. Too often in the past specific projects of assistance to SSIs have failed to achieve the expected results because the overall framework was not conducive to SSI development. The role of SSIFU would be one of advising on policy (if located outside of Government) or formulating policy (if located inside Government) and assisting in implementing specific aspects of policy. SSIFU's style of operation would be one of facilitation, not intervention.

- (2) The establishment of a Refinance Facility to improve the availability of funds for SSI financing, especially for priority segments of the sector.

Located in a selected apex institution, the refinance facility would make possible the use of blocked and surplus funds to make loans to the SSI sector. The loans would be administered by commercial and merchant banks, the Zimbabwe Development Bank and other financial institutions extending loans to SSIs. As deposit rates on such funds are statutorily set at 5-6% pa, loans could be offered to SSI at say 10-12%, giving sufficient spread for the scheme to be attractive to the banks, while offering favourable rates to the SSIs when compared to commercial lending rates of 35% to SSIs.

- (3) Assistance to government and local authorities in identifying sites and support projects for Enterprise Development Zones appropriate for SSIs in both urban and rural areas.

While providing the physical infrastructure necessary to establish a productive SSI is one of the major aspects of the Enterprise Development Zones, for maximum benefit this is to be linked to the provision of a variety of services through complementary support projects. One promising model is that of intermediate technology transfer units (ITTUs), which have been successfully implemented for the metalwork sector in Ghana. The objective of the ITTUs is to raise the level of technologies employed by the SSIs, make available a wider range of products and services, assist in the procurement of raw materials and in marketing, particularly through creating sub-contracting arrangements with large-scale industry. Although proposed for the metalwork sector in Zimbabwe, variants of the concept could be applied to other SSI sub-sectors, such as food processing, construction, textiles and clothing, leather-work and carpentry.

The project would provide the legal, regulatory and operational procedures and feasibility studies for Government and other interested parties on Enterprise Development Zones/ITTUs for at least three pilot areas. The actual establishment of the ITTUs would then be a follow-up activity by Government, local authorities, support institutions and donor agencies.

- (4) The promotion of an Advisory Facility for SSI entrepreneurs which would provide technical and managerial counselling and training to entrepreneurs identified by existing business organizations and support institutions.

In addition to technical and managerial training, some of the specialist services to be provided to indigenous entrepreneurs are feasibility studies, market surveys and studies, strategic advice and the commissioning of plant. The project document points out that a particular format for applications and screening needs to be developed, as well as criteria for beneficiary cost sharing.

Although several existing organizations might participate in providing training and advisory services to SSIs, it is proposed that, subject to satisfactory performance, the co-ordination function be entrusted to the Business Extension and Advisory Services (BESA), an arm of the IBDC. At present, BESA is receiving financial assistance from the British ODA, enabling offices to be set up in Harare and Gweru. Support has also been forthcoming from USAID, but the programme there is specifically targeted to the construction industry. BESA seeks to open at least one office in each of the regions into which it has divided the country, and requires a considerable increase in qualified staff. It would not, however, seek to provide all services itself, but would often refer clients to other agencies for assistance in specific technical areas or for training.

The project leader, financed by UNIDO over a three year period, will be the Chief Technical Adviser (CTA). There will also be a National Project Co-ordinator (NPC), who together with the CTA will jointly manage the setting up of the SSIFU. In addition to the CTA, UNIDO will supply short-term consultants and national experts to assist SSIFU and other aspects of the project (36 man-months and 60 man-months respectively), an expert to carry out feasibility studies for the Enterprise Development Zones over a six month period, and a co-ordinator and two United Nations Volunteers to assist in the provision of advisory and counselling services over a two year period. The project also provides for training (fellowships and in-service training) and equipment (vehicles, training and office equipment). The total budget to be funded by UNDP through IPF and executed by UNIDO is approximately US\$ 2 million.

At the end of the project, it is anticipated that there will be a suitable national policy and well elaborated operational strategy in place for stimulating the growth of the small-scale sector. A trained group of nationals will be available within and outside Government to give assistance and provide support to initiatives of various institutions, NGOs and donors. The availability of credit to SSI will have been improved through the provisions of the Refinance Facility, at least three rural Growth Points will have benefitted through the establishment of Enterprise Development Zones and the Advisory Facility will be operational and supplying advice, assistance and training (in large part through referrals to specialised support agencies) to hundreds of small-scale entrepreneurs each year.

15.3 COMPLEMENTARY AND SUPPLEMENTARY PROJECTS

Complementary Projects

Once the UNIDO Small-Scale Industry Project is in operation, there will be opportunities for complementary projects to be implemented. In particular, the Enterprise Development Zone/ITTU projects identified and elaborated by the UNIDO project will require support from other donors or local institutions to be implemented. These initiatives could be tied to the provision of

extension, training and operational assistance to SSEs in specific sub-sectors, such as metalwork, clothing, foodstuffs, agro-industries, woodwork and leather work.

Although the UNIDO project has been carefully designed to address several key areas not already covered by other forms of assistance, the need for support to a sector which has been neglected in the past, and which is growing rapidly as the environment becomes more conducive to SSI development, is virtually unlimited. In particular, there is abundant scope for the strengthening of information, extension and training institutions. Some specific SSE projects are outlined in the remainder of this section, some of which have already been fully formulated by sponsoring agencies, while others are at the concept stage.

There are complementary activities associated with these projects too: whenever possible, the concerns of small-scale enterprises should be included. For example, when the University of Zimbabwe Department of Food Science and Technology is established, it should cater for the needs of the sort of rural agro-based industries described below and not just the large formal sector enterprises engaged in food processing. Development of these rural activities would mainly benefit women; support for credit and training projects targeted to meet the needs of women and for organizations set up to provide business services to women entrepreneurs (such as Women in Business and the Women's Forum) would thus also be complementary activities.

Promotion of Sub-Contracting

The potential for sub-contracting in the changing business environment has been outlined in Section 6.6. A recent study, financed by USAID, takes the analysis a step further, and includes other forms of business linkage besides sub-contracting relationships⁸¹. It concludes that a project to promote business linkages would be justified and should include the following:

⁸¹ Donald Mead and Peter Kunjoku "Business Linkages and Enterprise Development in Zimbabwe", September 1992.

- * "match-maker" functions to identify potential sub-contracting opportunities between large and small firms;
- * strengthening the capacity of suppliers to be reliable partners in a linkage arrangement;
- * providing an effective referral service for small enterprises where the project itself would not have the capacity or the expertise to respond to specific needs;
- * offering arbitration in cases where disputes had arisen, the ultimate aim being to ensure a fair division of the gains from linkage arrangements, despite the unequal bargaining power of the participants;
- * providing assistance in the pricing of products and services, which is a particular area where small enterprises are often critically weak.

The sectors specifically examined in the USAID study were garments and textiles, metals and leather and footwear. However, several other sectors could be included in a project to promote sub-contracting. The phenomenon would be expected to grow once it had been successfully demonstrated in a Zimbabwe context.

Use of Technical and Vocational Training Institutions

The conclusions of the UNIDO Programming Mission included a proposal on curriculum development and the use of existing technical and vocational colleges for training of entrepreneurs⁸². The basis of this proposal is the lack of entrepreneurial training in the present system, leading to a lack of initiative and ability to venture into small-scale enterprises for alternative employment.

It is suggested that technical and vocational training institutions should re-orient curricula to meet the technical and management needs of small-scale industrialists, while also strengthening such institutions so that they are better able to deliver adequate training and extension. A comprehensive entrepreneurial development curriculum is also recommended at the secondary school level, so that entrepreneurship development can begin at an earlier stage.

⁸² UNIDO "Development of Human Resources for Rural and Informal Sector Activities and Business Extension Services", June 1992.

Publicity and Information Campaign

There is need for more publicity to be given to successful examples of SSEs. This would contribute to giving a positive image to entrepreneurship and encouragement to those contemplating starting their own businesses. In addition to such "image" creation, it would also be useful for practical information on matters such as where an entrepreneur should go for assistance or apply for credit, to be outlined in the readily accessible public media from time to time. Particular targets could be school-leavers and university graduates at the time of the year that results come out and the search for employment intensifies.

The Zimbabwe Small Scale Enterprise Advisory Group is in the process of recruiting full-time staff, including a media specialist who will be responsible for disseminating appropriate news items to the media. The Group already produces a newsletter "SSE News", which is circulated amongst organizations supporting SSEs.

Development of Rural Women-Dominated SSEs

A recent report for UNIDO identifies a number of activities the promotion of which could form the basis of a project to develop rural women-dominated SSEs⁸³. The activities listed are:

- * bakeries
- * food catering
- * oil seed processing
- * soap making
- * peanut butter making
- * vegetable and fruit processing
- * textiles and clothing, leather
- * butcheries and cold storage

⁸³ Mercy Dikito "Integration of Women in Industrial Development: The Small-Scale Enterprise Sector", UNIDO, May 1992. Details of requirements for each of the activities listed is given in Chapter 8 of that report.

- * transport and workshops

- * dairy processing.

Various constraints are identified which would need to be addressed by the project. These include access to raw materials (eg need to secure flour allocations for bakeries and dyes for textile design activities) and capital equipment (eg grinding mills and oil pressing facilities). In all cases there is need for training, both in the specific skills needed, but more generally in bookkeeping, business organization and management.

CHAPTER 16: CONCLUSION

16.1 ROLE OF SSE UNDER THE ECONOMIC REFORM PROGRAMME

Following Independence, the basic structure of the economy has been maintained through a continuation of the economic policies of the former regime, in particular the foreign exchange allocation system. Together with a harsh regulatory environment and poor access to credit and support services, the small-scale enterprise sector has remained underdeveloped and indigenisation of the economy has been a slow and hesitant process. However, with the implementation of the comprehensive Economic Reform Programme introduced by the Government in 1991, the environment should become progressively more conducive to the development of SSEs, opening up new opportunities for indigenous entrepreneurs.

In the short to medium run, however, there are also countervailing forces arising from the ERP which are causing severe difficulties for many of the established SSEs and inhibiting the formation of new SSEs. These include the reduction of demand, particularly for the sort of goods and services traditionally produced by SSEs, a sharp rise in the price of inputs, the tightening of credit markets and increased pressure of competition from new entrants, established industry and from imports that had previously been excluded through import licensing.

The strategy advocated in this report is intended to assist the small-scale sector to make the most of emerging opportunities, while minimizing the influence of negative factors. The degree to which the small-scale is going to be relied upon for employment is daunting: the Five Year Plan envisages only * 000 jobs being created per annum in the formal sector, as against *000 new entrants to the labour force, plus a huge backlog of unemployed. Competition in the small-scale sector will be fierce, as increasing numbers of job seekers turn to self-employment in order to make a living.

16.2 SECTORAL DEVELOPMENT AND CONSTRAINTS

Amongst the sectors studied in this report, there should be expanding opportunities for small-scale enterprises in agro-based industries such as grain milling and oil pressing, these arising from diluting the monopsonistic and monopolistic positions that the parastatal agricultural marketing boards have previously enjoyed. Bread baking depends on a flour allocation being made available and on improvements being made in baking practices, in some cases requiring new technologies to be adopted. Brick-making and other energy intensive activities need to be linked to afforestation programmes.

There are environmental concerns also about small-scale mining, especially gold-panning, which is otherwise an activity with income generating potential, particularly if groups can be assisted to overcome marketing and other constraints. Small-scale metalwork has potential as the larger firms streamline their operations in accordance with the incentive structure associated with trade liberalization. There is obvious scope in the metalwork sector, and to a lesser extent in clothing and furniture, for sub-contracting. The "Intermediate Technology Transfer Unit (ITTU)" concept, which has been successfully applied in Ghana could well be applicable in stimulating certain small-scale sub-sectors in Zimbabwe: through the provision of workspaces, training, equipment, raw materials and assistance in marketing, small-scale artisans can be assisted to move to a more sophisticated and profitable level of operation.

The constraints faced by small-scale enterprises are of two kinds: those associated with the environment, which can be addressed by Government policy changes and those internal to the enterprise, which can be addressed by training activities or broader initiatives with a training component (such as the ITTU concept). While the latter can all be classified as shortages of skills and lack of information, in the former category are constraints such as the level of demand for the products and services being produced by the small-scale sector (under severe threat during structural adjustment), regulatory constraints, lack of access to finance, bureaucratic barriers to investment,

lack of access to appropriate technologies and infrastructural constraints.

16.3 SUPPORT INSTITUTIONS

In recent years, support services for SSEs have improved in number and quality of services provided. It is thus concluded that further support should build on what is already in place, reinforcing existing strengths and encouraging new institutions to replicate successful support models. However, gaps do exist in the area of referral and extension, and at the low end of the financial spectrum. Besides some NGOs operating small schemes, almost the only institutions offering very small loans (hundreds rather than thousands of dollars) and small venture capital financing (thousands rather than tens of thousands of dollars) are Zambuko Trust and Manna Corporation: there is need for such facilities to be made available throughout Zimbabwe.

Especially for such very small loans, one of the conclusions to emerge from the analysis of existing financial support to SSEs is the critical importance of training. Through offering training, financial institutions have the opportunity to get to know and to assess the client, at the same time that the client is being given the skills to analyse and operate the enterprise more effectively, thus increasing the probability of repayment. In a broader context, successful training appears to depend on the training institution assessing needs properly beforehand, matching participants to course level and content, offering a mix of technical and business management courses (often at a modest, but very useful level) and following up afterwards to assess the effectiveness and usefulness of training.

16.4 STRATEGY AND POLICY

On the basis of the analysis of the role and status of and constraints faced by small-scale industry in the economy as a whole and certain sub-sectors chosen for detailed study (Part B), and of the strengths and weaknesses of existing support programmes and institutions (Part C), Chapter 13 puts forward a strategy for the development of the small-scale enterprise sector

in the context of the Economic Reform Programme. The strategy contains the following elements:

- (1) Articulation of a clear policy stance on SSEs.
- (2) Stimulation of demand for products of SSE.
- (3) Elimination of unnecessary regulatory impediments to SSE development.
- (4) Simplification of company registration and tax concessions for SSEs.
- (5) Improvement in information, extension and referral services and the provision of training.
- (6) Provision of resources for financing of SSEs.
- (7) Facilitation of investment by SSEs.
- (8) Provision of infrastructure for SSEs.
- (9) Support for SSE operating in particular sectors.
- (10) Special consideration for the needs of women.
- (11) Co-ordination and institutional support to SSEs.

The policy proposals put forward in Chapter 14 seek to address each of the remaining elements of the strategy.

16.5 PROJECTS IN SUPPORT OF SSE DEVELOPMENT

There are already many projects and programmes of support for SSEs, several of which have achieved positive results, although in many cases initiatives have been thwarted by the negative environment. The UNIDO Small-Scale Industry Project, described in Chapter 15, thus gives priority to articulating a clear policy stance in favour of SSEs and establishing the necessary institutional structures to co-ordinate its implementation. The key element of the Project is the establishment of a Small-Scale Industries Facilitation Unit (SSIFU). Working with or otherwise within with the Ministry of Industry and Commerce, which has primary Government responsibility for SSEs, this Unit is to ensure that, through policy and strategic initiatives, the necessary enabling environment for SSE development is maintained and strengthened on an on-going basis.

Priority areas for policy and action by the SSIFU are:

- * stimulation of demand and creation of markets for the products of SSEs, especially in view of the general demand contraction occurring in the early phases of the Economic Reform Programme;
- * elimination of unnecessary regulations inhibiting the formation and/or growth of SSEs, including registration requirements and taxation provisions;
- * promotion of development of technology appropriate for SSEs, and expansion of supply of capital goods as part of the stimulation of investment by the SSE sector;
- * the provision of Enterprise Development Zones in growth points as well as urban areas, together with complementary programmes of support to specific sub-sectors (training, technology, procurement of materials and equipment and assistance in marketing).

In addition, there is an urgent need to expand information, referral, training and extension services and to increase access to finance. Both of these areas are included in the proposed UNIDO project, through provisions for an Advisory Facility for SSEs and the establishment of a Refinance Facility to cycle blocked and surplus funds to the SSE sector through existing financial institutions at concessionary rates of interest.

Coordinated by the SSIFU, complementary and supplementary projects from many other donors and local support agencies will be required if the potential of SSE is to be fully realized. Programmes targeted to specific sub-sectors, such as metalwork, clothing, foodstuffs, agro-industries, woodwork, leather work and small-scale mining, as well as further efforts in the "framework" activities in information, training, extension, finance, availability of appropriate technology and provision of basic infrastructure, particularly in the rural areas, are necessary. In all projects, special attention should be given to the needs of women entrepreneurs.