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SUPPORT TO SMALL-SCALE INDUSTRIES AND ENHANCEMENT OF
INDIGENOUS OWNERSHIP

DP/ZIM/90/005

ZIMBABWE

Technical report: proposal on institutional reform
for development and financing small-scale industry *

Prepared for the Government of Zimbabwe
by the United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

Based on the work of V. K. Dhall,
expert on entrepreneurship development and
SSI financing options under structural adjustment

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Vienna

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This document has not been edited.

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LIST OF ABBREVIATIONS USED

CGC	-	Credit Guarantee Company
CIDA	-	Canadian International Development Agency
CTA	-	Chief Technical Adviser
ERP	-	Economic Reforms Programme
ICCS	-	Industrial Counselling and Opportunities Service
JPO	-	Junior Professional Officer
MIC	-	Ministry of Industry and Commerce
NGO	-	Non Governmental Organisation
NPA	-	National Planning Agency
PFF	-	Project Formulation Framework
SECCO	-	Small Enterprises Development Corporation
SSE	-	Small Scale Enterprises
SSI	-	Small Scale Industries
SSIAB	-	Small Scale Industries Advisory Board
SSIFU	-	Small Scale Industries Facilitation Unit
USAID	-	United States Agency for International Development
VCCZ	-	Venture Capital Company of Zimbabwe
ZDB	-	Zimbabwe Development Bank
ZDF	-	Zimbabwe Development Fund

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I. INTRODUCTION

The one month assignment relating to "Entrepreneurship Development and Small Scale Industries Financing Options under Structural Adjustment in Zimbabwe" commenced on 20 April 1992 and ended on 19 May 1992. The assignment was a part of Project DP/ZIM/90/005 "Support to Small Scale Industries and Enhancement of Indigenous Ownership in Zimbabwe", and the expert was part of a mission of six members including a team coordinator. The Terms of Reference of the expert are at Annexure 1.

The overall approach and strategy of the mission were discussed in a series of meetings of the mission with UNIDO (UCD and JPO), and between the mission members. During the meetings with UNDP/UNIDO it was clarified that the priority objective of the mission members should be to produce a Project Formulation Framework, on the basis of which a Project Document would be prepared by the team coordinator for the consideration of UNDP under IPF: it was also indicated that those components of the PFF which could not be accommodated within the budget of the proposed UNDP Project Document could be submitted for the consideration of other donors. It was further clarified that the PFF proposals and the recommendations of the mission members would be included in the chapter 17 (Projects) and chapter 18 (Conclusions) of the Zimconsult report "Support to SSIs and the Enhancement of Indigenous Ownership in Zimbabwe" being prepared under Project DP/ZIM/90/005.

The terms of reference of the expert were discussed with UNIDO, Harare and the team coordinator in order to have complete agreement and avoid overlap with other members of the mission. It was agreed that the expert's terms of reference Nos 1 and 2 regarding growth of entrepreneurship referred mainly to the macro policy level and not the micro field level, which was being covered by other members of the mission.

Discussions were held with a number of persons representing various Ministries and institutions; the list of these persons is at Annexure 2. A number of documents were studied, the list of which is at Annexure 3. The draft report of Zimconsult provided useful background material in a consolidated manner. Discussions with Mrs Gery - Pochon (UCD), Mr Hauge (JPO) and Dr Ndlela (team coordinator), as well as the mission meetings, proved useful in refining the recommendations.

Before finalising the recommendations and the PFF, these had been discussed with UCD, JPO and the team

coordinator and the broad concept of PFF was agreed upon. This concept is based upon the programme approach; there would be an umbrella organisation which would in a general way oversee the implementation of various objectives/outputs at the level of different institutions. The umbrella organisation would consist of a Senior Adviser (Chief Technical Adviser) deputed by UNIDO/UNDP and a national counterpart (National Project Coordinator). It is proposed that the NPC should be a senior official of MIC. It is also proposed that a small group of officials may be constituted (by redeployment of existing staff) to handle matters relating to the SSI sector and stimulating its growth. For convenience, it may be called the small scale Industries Facilitation Unit (SSIFU); this unit would implement certain policy-level and related objectives/outputs of the project. The unit would receive guidance and assistance from the Senior Adviser (CTA). Other objectives/outputs of the project would be implemented by the concerned institutions; these include the objectives/outputs recommended by the other members of the mission. Thus the project would be a good mixture of policy level and field level objectives/outputs. Keeping this in mind and to facilitate the preparation of the Project Document, the PFF is written in somewhat greater detail than is normally the case.

The broad outlines of the recommendations made in Sections IV and V of this brief Terminal Report as also the main features of the proposed PFF (Section VI and Annexure 4) were discussed at length jointly by the JPO and the expert with the Mr O M Tshabangu, Deputy Secretary, Ministry of Industry and Commerce. The proposals were, in principle, accepted by the Deputy Secretary and found prima facie useful and feasible. This includes the proposal to constitute a Small Scale Industries Facilitation Unit in the Ministry of Industry and Commerce.

It should be mentioned here that the proposal relating to setting up the Refinance Facility and other suggestions relating to credit were discussed with, among others, senior officials of the Reserve Bank of Zimbabwe, National Planning Agency and the Implementation and Monitoring Unit of Ministry of Finance. The proposals were, in principle, accepted by these officials as being practical and useful.

The expert wishes to record his appreciation for the cooperation given by Mr Dragic (RR, UNDP), Mrs Gary - Poonon (UCD), Mr Hauge (JPO) Dr Ndlela (team leader), fellow members of the mission, and various other individuals and institutions in facilitating the assignment.

II OBSTACLES IN THE DEVELOPMENT OF INDIGENOUS ENTREPRENEURSHIP

The manufacturing sector in Zimbabwe, compared to other countries in Sub-Saharan Africa, is well developed and diversified, producing both consumer and producer goods. Industry contributed 25% to GDP in 1989 and accounts for 18% of the total formal sector employment. Zimbabwe has one of the highest ratios of Manufacturing Value Added (MVA) as a proportion of GDP in Africa. The manufacturing sector contributes approximately 55% of export earnings, (though it is also the largest user of foreign exchange for imports). However, there are also certain features of the industrial sector which have major implications for the Small Scale Industries (SSI) and therefore need to be taken note of; these are the following:-

- (a) Most manufacturing sub-sectors are highly concentrated with one or a few companies, often foreign owned, being dominant suppliers. These monopolistic or oligopolistic situations do not easily allow entry of small scale competitors. There are more than 3000 registered manufacturing companies, and estimates of concentration suggest that the largest 20 companies (including conglomerates) account for more than 50% of the output (in value terms).
- (b) Many large companies engage in a variety of activities, subsidiary to their core business, to secure supply of goods and services that are not readily available. Thus linkages between large and small industries are not well developed.
- (c) Industry has a high geographical concentration. The main industrial areas are Harare and Bulawayo, which together account for nearly 80% of manufacturing output and employment. Correspondingly, other areas (particularly rural areas) have been deprived of the opportunity for growth which arise from the location of a major "nucleus" industry. Also, skilled and educated manpower has tended to gravitate to the main industrial areas for finding jobs and business opportunities instead of undertaking productive work in other areas.

In addition to the above factors, historically, the policy, regulatory and institutional environment has in many ways been hostile to the small scale entrepreneurs, placing several restrictions on their activities, making it very difficult for them to comply with various regulations, and preventing easy access to approvals and inputs.

Due to the above factors, the SSI sector is not well developed; it is limited mainly to very traditional areas, and has little presence in new technologies or products. Most of the SSI activities are in the informal sector comprising household or micro-level income generating activities. Yet there is a class of emerging indigenous businessmen and women who aspire to expand their businesses and increase their incomes.

Government of Zimbabwe has realised that the formal sector alone cannot help the country address some of its critical socio-economic concerns. It has increasingly recognised the importance of developing the SSI sector in view of its potential significant contributions to the economy, some of which are mentioned below:-

- (a) The SSI sector is more labour intensive and less capital intensive; it depends upon relatively simple and inexpensive technologies and creates more employment. Available figures indicate that in the SSI sector, the capital-labour ratio is less than one-tenth of that in the large industry. Keeping in mind the huge numbers of job seekers entering the market every year, the formal sector cannot create sufficient employment and therefore the growth of the SSI sector is essential.
- (b) The development of the SSI sector will help in the dispersal of the ownership pattern of industry, and thereby in satisfying the aspirations of the hitherto disadvantaged sections of society. It will raise incomes and living standards.
- (c) The SSI growth will help in the geographical dispersal of economic activity and will utilise local resources and skills.
- (d) The entry of more small scale entrepreneurs into the formal sector will augment Government revenues, add to exports and reduce import demand.

Government's (somewhat belated) recognition of the importance of developing the SSI sector has been reflected in some recent documents and statements. However, by and large, these policy statements are yet to be converted into concrete action plans.

Meanwhile, the Economic Reforms Programme (ERP, 1991-95) has been undertaken by Government which includes gradual deregulation of domestic controls, trade liberalisation and adjustment and macro-economic

policies. While Government expects that over time the ERP will help the growth of the SSI sector, in the short run, there can be substantial adverse effects such as :-

- (a) inflation will raise the cost of inputs, and contract demand;
- (b) liberalised imports as well as deregulation of large business could intensify competition; and
- (c) the interest rates for credit have risen steeply. As a result, the viability of many small scale projects is severely hit.

Unfortunately, Zimbabwe is also experiencing one of the worst droughts in recent history. This is already contributing to inflation, contraction of demand, and shortages of raw materials. These adverse effects of drought can be expected to last over a considerable period of time.

The main obstacles faced by small scale entrepreneurs can be summarised as follows:

- (i) Low level of management and business skills.
- (ii) Low level of technical skills; non-availability of appropriate technology for small scale operations.
- (iii) Poor availability of information and counselling services such as those relating to project development, technical know-how, sources of equipment, raw materials and other inputs, availability of support services, procedures for obtaining approvals, and so on.
- (iv) Minimal access to credit; (further details of this are given in the subsequent section).
- (v) Difficulty in penetrating established or formal market channels (including the Government purchase system)
- (vi) Restrictive and difficult regulations and procedures relating to zoning, building bye-laws, Factories and Works Act, taxation, imports, foreign currency, etc.
- (vii) Women entrepreneurs are particularly disadvantaged in the above matters, especially in access to credit

III. EXISTING FINANCING MECHANISMS AND CONSTRAINTS IN FINANCING SSIs

The existing financial institutions in Zimbabwe may be categorised as follows:-

- (1) Development banks
- (2) Commercial banks and Credit Guarantee Company
- (3) Venture capital companies
- (4) NGOs
- (5) Merchant banks and finance houses

Details of the above institutions are given in the Zimconsult report. Briefly, the situation is described below:-

- (1) Development banks - SEDCO is a development bank specifically for the SSI sector. However, SEDCO's assistance has been going mainly to the upper end of the SSIs. Further, only about one fourth of its assistance has gone to industrial enterprises. SEDCO is currently strapped for funds. ZDE has been assisting mainly larger enterprises.
- (2) Commercial banks and CGC - There are five commercial banks. Of these, three (Zimbank, Standard Chartered, Barclays) have set up small business units at the instance of Government. Zimbank's small business unit has made relatively more progress and is manned by economists while the others are manned mainly by traditional bankers. The small business units are in the main confined to Harare and there is insufficient delegation of power down the line. The banks are facing severe liquidity constraints and the interest rates are very high. The banks lend mostly for working capital. Overall the impact of the commercial banks and their small business units on the SSI scene is minimal.

The Credit Guarantee Company provides 50% guarantee cover to the loans given by the commercial banks (not other institutions) to SSEs. It appraises each project for which it extends guarantee cover and even after its approval the bank can refuse the loan; the process has been criticised for delays. In the banks' perception, the CGC's guarantee cover is not a major attraction. It needs to be examined how CGC's guarantee can be made more effective and also diverted more to SSIs, instead of

trade and service enterprises. A CIDA assisted project for enhancing the CGC service for women is already under consideration.

- (3) Venture Capital Companies - There are six venture capital companies, of which those involved with SSIs are ZDF, VCCZ and Manna Corporation, the others being concerned mainly with large - medium enterprises. Even the three mentioned above, especially ZDF, are concerned mostly with the upper end of the SSI enterprises. ZDF is located at Harare (ZDE) and has no outreach to the SSI entrepreneurs; its actual assistance to SSIs has not been substantial though it tries to maintain a very "developmental" approach towards SSI applicants. Manna Corporation is a private, church group initiative and its operations are unlikely to become very widespread.
- (4) NGOs - There are a number of NGOs which offer finance to SSIs, mostly on a grant basis; the volume of their operations is however small and based on a welfarist approach.
- (5) Merchant banks and finance Houses - these are not really involved with SSIs.

The observed constraints in the access of SSIs to finance can be summarised as follows:-

- (1) Despite the setting up of small business units by some commercial banks, bank lending as a whole to the SSI sector is minimal. The attitudinal changes for dealing with small entrepreneurs are not much in evidence. Except for Zimbank, there are no plans to have representatives of the small business units in the branches, or at least in the main branches. Collateral is still very much a central concern of traditional banks, and usually small entrepreneurs are unable to provide collateral security. Also small entrepreneurs have difficulty in raising the minimum promoter's equity required by financing institutions.
- (2) Other than the banks and SEDCO, the specialised financing institutions are located only at Harare. Spatially, therefore, the distribution of the financial institutions is inadequate for the SSI sector.
- (3) SSI entrepreneurs complain of delays in approval of loans (e.g. in approval of loans by small business units and by Credit Guarantee Company).
- (4) There is an overall shortage of resources in the financial institutions. SEDCO is in a particularly difficult situation. The credit squeeze under the ERP has severely affected new bank advances, particularly to small businesses.

- (5) The access of small entrepreneurs to foreign currency is difficult, as it involves additional procedures.
- (6) The banks complain that small entrepreneurs are unable to package and present proposals as well documented "bankable projects" and that they also lack book-keeping, management, marketing and other relevant skills. Besides small business financing involves significantly higher risks and costs.
- (7) Lack of cooperation/coordination between the financial institutions often leads to a situation where a small entrepreneur has managed to get approval from one institution (e.g. term loan from a development bank) but not from another institution (e.g. working capital credit from a commercial bank); in such a situation his project cannot take off and there are further delays.

IV RECOMMENDATIONS RELATING TO POLICY AND GOVERNMENT SUPPORT

While in a general way, Government policy statements have recognised the importance of the SSI sector and its potential contribution to the economy, the stage has now come when concrete steps must be taken to stimulate the growth of this sector and remove the historical impediments it has been facing. The following recommendations are made in this regard.

- (1) A clear national policy document dedicated to the indigenous SSI sector may be finalised by Government; a document is said to be presently under the consideration of Government.
- (2) To achieve the national policy, an elaborate operational strategy may be prepared by the Ministry of Industry and Commerce.
- (3) The Ministry of Industry and Commerce which has had a regulatory role so far should now have a promotional and facilitational role in regard to the SSI sector.
- (4) The capacity of the Ministry of Industry and Commerce to monitor and promote the growth of SSI needs to be greatly strengthened. As stated in section I above, a small group of officials may be constituted in the Ministry by redeploying existing staff; this may for convenience be designated as the Small Scale Industries Facilitation Unit (SSIFU). This

unit should have the nodal role of dealing with issues relating to SSIs. The staff of the unit should be thoroughly trained. The role of the unit and its linkages with other Ministries and institutions, and also with regional offices of the Ministry, should be elaborated. The role of the unit would be facilitational not interventionist. SSIFU should facilitate the formulation of the national policy, and operational strategy and the achievement of the various recommendations made in this report in consultation/cooperation with the concerned Ministries/Authorities/institutions.

- (5) A close working relationship should be cultivated between the Ministry (SSIFU) and the SSI private sector, both working together as "partners in progress". Towards this end, a Small Scale Industries Advisory Board (SSIAB) be set up, consisting of selected representatives of Ministry of Industry and Commerce and SSI representatives, and also other Ministries, Institutions and key players in the SSI field. The Board should be a compact body; it would have an advisory role and enable exchange of ideas and suggestions relating to SSI development. An annual national SSI workshop should also be organised with a wide participation to serve as a national forum for consulting a broad cross section of opinion relating to SSI development and generating a suitable environment.
- (6) Industrial information and counselling services need to be greatly strengthened and given depth. In this regard, an Industrial Counselling and Opportunities Service (ICOS) be established in a suitable field institution to provide a projects bank, and a project development facility including information and counselling service relating to industrial opportunities and investment ideas, appropriate technologies and process know-how, potential sources of equipment, raw materials and other inputs, import and export data, and so on. The ICOS should also provide information and counselling relating to approvals and clearances, credit, extension and training services, and so on. A booklet containing information relating to these aspects may be prepared and distributed.
- (7) The access of SSIs to credit needs to be greatly improved. (This recommendation is elaborated in the next section).
- (8) The process of deregulation and simplification of restrictive regulations or complex procedures needs to be undertaken, for example in relation to zoning, building and construction regulations, Factories and Works Act, company registration, and tax regime.
- (9) Incentives, specially targeted for the SSI sector, should be formulated, including physical infrastructural facilities (industrial sites and shells).

- (10) Assistance may be provided to SSIs for improving their marketing capabilities and exposure. Measures be considered for improving the access of SSIs to the Government purchase system.
- (11) The disadvantages of women entrepreneurs need to be specially addressed in all of the above measures, including the access of women to credit and extension services.
- (12) SSIFU should monitor the growth and changes taking place in the SSI sector; for this purpose it should collate and analyse available data and bring out an annual SSI Development Report.

V. RECOMMENDATIONS RELATING TO IMPROVING FINANCING OF SSIs

Serious attention needs to be given to addressing the credit related problems of Small Scale Industries. Some measures which need to be considered are:-

- (a) Enhance the resources accessible to financial institutions for financing SSIs. In this regard, establish a Refinance Facility in a selected Apex Institution (the Reserve Bank of Zimbabwe appears the most suitable institution for this purpose), which can be accessed by front-line financial institutions to refinance the credit given by them to SSI entrepreneurs. This would act as substantial incentive to the financial institutions to increase lending to this sector; it would also provide a cushioning to this sector in regard to lending rates. The Refinance Facility could have in-built incentives for special categories of borrowers e.g. women and export oriented units. It could also have "windows" for specific purposes e.g. equity and foreign currency. Some sources of funds which can be considered for the Refinance Facility are blocked and surplus funds, multi-lateral lines of credit, donor contributions, increase in cash reserve ratio of banks, and some contribution from Government grant and Reserve Bank of Zimbabwe's own funds. The average cost of funds is estimated to be quite low to enable reasonable interest spread for the Refinance Facility and the front - line institutions. Because of its higher "stature", the Apex Institution would be in a stronger position to raise funds from different sources for the refinance facility, thus increasing overall availability of funds for the financial sector.
- (b) Consider new credit mechanisms more suited to the constraints of the SSI entrepreneurs and streamline and decentralise procedures.

- (c) Persuade the financial institutions (mainly the banks) to expand the spatial coverage of their small business units and undertake reorientation training of the concerned staff.
- (d) Expand the credit guarantee scheme coverage, especially for women entrepreneurs and other priority categories.
- (e) Improve extension and support services (e.g. ICOS) to enable SSI entrepreneurs to package bankable proposals.

VI. PROJECT FORMULATION FRAMEWORK

Based upon the constraints of the SSI sector identified as above and the recommendations made for taking concrete measures to stimulate the growth of the sector, the areas where technical assistance is needed by Zimbabwe and would prove most useful have been identified. On this basis, a Project Formulation Framework has been drawn up, a copy of which is at Annexure 4. As stated in section I, the concept, structure and the main contents of this PFF have been discussed with UNIDO (Harare), officials of Ministry of Industry and Commerce and other key authorities and institutions, and have been found to be acceptable in principle and prima facie useful and feasible. The broad features of PFF are given below:

- (1) The PFF is based upon the programme approach and its various components link up with each other and form a well integrated structure of technical assistance. The PFF has an umbrella organisation which will in a general way oversee the implementation of the various objectives/ outputs by the concerned Institutions (SSIFU and others). It will do the groundwork and facilitate the work of other experts/consultants. This will greatly economise on the expenditure, and ensure that the inputs of the various experts/consultants are optimally utilised. The umbrella organisation would consist of the Senior Adviser (CTA) deputed by UNIDO/UNDO and his counterpart (NPC)..
- (2) The PFF seeks to strengthen the capability of the Ministry of Industry and Commerce to develop the SSI sector. In this regard, as stated above, it is proposed to constitute a Small Scale Industries Facilitation Unit (SSIFU) in the Ministry of Industry and Commerce by redeployment of the Ministry's staff. The Senior Adviser (CTA) will assist and guide SSIFU in its activities in addition to functioning as part of the umbrella organisation. The role of the SSIFU will be elaborated, as also its linkages with other organisations. The staff of SSIFU

and other selected officials will be trained during the project.

- (3) The project will seek to develop a culture of close team-work and cooperation between MIC (SSIFU) and the SSI private sector, as also other Ministries, institutions and key players in the SSI field. A Small Scale Industries Advisory Board (SSIAB) to enable consultation between MIC and the other parties is proposed for this purpose.
- (4) With the help of the CTA, an elaborate operational strategy will be developed by the MIC (SSIFU) as also a national policy document specific to the SSI sector, if one is not already in place before the start of this project. Apart from the outputs specifically mentioned under the project, other promotional measures will be included in the operational strategy and action will be taken by SSIFU and CTA for their implementation e.g. incentives, improvement in tax regime, reform of restrictive regulations inhibiting SSI growth, availability of industrial sites and shells, identification of "thrust sub-sectors" and so on.
- (5) The project will organise an Industrial Counselling and Opportunities Service (ICOS), probably in one of the existing field institutions identified for this purpose.
- (6) The project will try to enhance the access of SSI producers to the Government purchase system.
- (7) On the credit side, the project will attempt to establish a Refinance Facility for improving the availability of funds for SSI financing. It will also try to improve credit mechanisms and procedures in regard to SSI entrepreneurs.
- (8) The project will help SSIFU to collate data relating to growth/changes in the SSI sector and bring out an annual SSI Development Report in this regard.

Further details of the above features of the PFF are given in the PFF document at Annexure 4.



Rev.1 25 February, 1992

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Project of Zimbabwe

JOB DESCRIPTION¹

DP/ZIM/90/005/11-52/J/2105

Post title Expert on Entrepreneurship Development and SSI Financing Options Under Structural Adjustment

Duration One man month

Date required As soon as possible

Duty station Harare and surroundings e.g. Bulawayo and Mutare

Purpose of Project:

The project aims at enhancing of the Government capacity to further develop policy and regulatory framework for support to small-scale industry (SSI) sector and for the promotion of indigenous ownership in industry with particular reference to rural development.

Duties

Under the overall guidance of a project team leader, the expert is expected to analyze the effects of structural adjustment to industrial sector and present possible policy options to foster indigenous SSI entrepreneurship, and propose technical assistance project-concepts at the level of government policy as well as workable solutions to the problems associated with financing SSI projects with respect to financial sector institutional and regulatory framework with innovative solutions to the problem of channeling foreign exchange to viable small-scale enterprises and systems of assistance and services by Government, private sector and Donor community. More specifically, the expert is expected to:

¹Applications and communications regarding this Job Description should be sent to:
Project Personnel Recruitment Branch, Department of Industrial Operations, UNIDO, Vienna International Centre, P.O.Box 300, A-1400, Vienna, Austria.

- 1) Identify obstacles in the development of indigenous entrepreneurship and identify possible policy options to foster indigenous entrepreneurship;
- 2) Identify strategic areas and opportunities for support by government in the development of SSI entrepreneurship;
- 3) Identify existing constraints for funding SSI investments - both local and foreign exchange components;
- 4) Review existing public and private sector financing mechanisms for SSI investment, their effectiveness and specific scope for improvement;
- 5) Identify areas of programmes and projects for technical cooperation activities to foster indigenous entrepreneurship and enhancing financing mechanisms for small scale industrial investors in line with government priorities;
- 6) Prepare Project Preparation Framework (PPF) for identified potential programmes and projects for technical assistance activities;
- 7) Prepare a brief terminal report reflecting all the activities carried out, findings, problems encountered and recommendations which the government might follow up.

Qualifications

Industrial engineer with a wide experience in promoting SSI in the countries similar to Zimbabwe particularly related to finance and banking. Familiarity with UNDP Project Formulation Framework (PPF) and UNDP and UNIDO policies on project document formulation is required.

Language English.

Background information

Within its economic and structural adjustment programme, the government of Zimbabwe has embarked upon a programme of economic reform to stimulate investment. Its overall socio-economic objective is to improve living conditions, especially for the poorest groups, mainly through increasing real incomes and lowering unemployment, by generating sustained higher economic growth. Within this context, fostering of indigenous entrepreneurship is seen as a crucial leverage in the mobilization of domestic human and natural resources and to achieving the objective of more equitable distribution of income.

The review and programming mission is expected to contribute to the facilitation and integrated development of small-scale industries. The required and specific areas of focus are: development of entrepreneurship, financing options, institutional and business extension services, and human resources development

emphasizing training aspects. The area of agro-based and food processing industries is taken as sub-sector requiring special emphasis since Zimbabwe has a relatively large and growing agricultural economy and since it is one of the priority of the authorities.

List of Persons Met

- Mr D Dragic, Resident Representative, UNDP, Harare (meeting with the whole mission)
- Ms L Gery - Pochon, UNIDO Country Director, Harare
- Mr Bengtsson, Assistant Resident Representative, UNDP, Harare
- Mr A Hauge, J.P.C., UNIDO, Harare
- Mr M Nziramasanga, Permanent Secretary, Ministry of Industry and Commerce
- Mr O M Ishabangu, Deputy Secretary, Ministry of Industry and Commerce
- Mr E Ndlovu, Under Secretary, Ministry of Industry and Commerce
- Ms D Mugwara, Indigenous Business Development Centre
- Mr Sheridan, Dy. G.M., SEDCO
- Mr Gono, Genral Manager, Zimbabwe Development Bank
- Mr J Maposa, Manager, Small Business Services Division, Zimbank
- Mr Mwaturura, Managing Director, Venture Capital Company of Zimbabwe
- Mr Muchati, Manager, Credit Guarantee Company
- Mr Chigudu, National Planning Agency, Ministry of Finance
- Ms Guti, Director, Implementation and Monitoring Unit, Ministry of Finance
- Dr D Ndlela, Zimconsult (Team Leader)
- Mr Peter Robinson, Zimconsult
- Mr Nyaguze, Implementation and Monitoring Unit, Ministry of Finance
- Mr R Nyadzayo, Economic Division, Reserve Bank of Zimbabwe
- Mr W L Manungo, Economic Division, Reserve Bank of Zimbabwe

- Mr Chatiza, Social Development Fund, Ministry of Labour
- Mr Makuviza, Social Development Fund, Ministry of Labour
- Mr N Ncube, Director, Zimbabwe Investment Centre
- Mr Donald Mead, University of Zimbabwe
- Mr Peter Kunjeko, Confederation of Zimbabwe Industries
- Mr L McKay, Deputy Resident Representative, World Bank
- Mr Greenberg, USAID
- Mr M Dos Remedios, Standard Chartered Merchant Bank of Zimbabwe
- Mr Ndaba, Standard Chartered Merchant Bank of Zimbabwe
- Mr Charles Gore, ENDA
- Ms Gloria Mkombachote, EMPRETEC

List of Documents Consulted

- Support to Small Scale Industries and the enhancement of Indigenous Ownership in Zimbabwe - Zimconsult (Draft)
- Project Document DP/ZIM/90/005/A/01/37 "Support to Small Scale Industries and enhancement of Indigenous Ownership"
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UNITED NATIONS DEVELOPMENT PROGRAMME

Project of the Government of
ZimbabwePROJECT FORMULATION FRAMEWORK

Title: Support to Small Scale Industries Sector and
Promotion of Indigenous Entrepreneurship

Number: DP/ZIM/91/003/A/37 Estimated duration: 3 years
0 months

Estimate UNDP
contribution: 1,407,000 Proposed source(s) of funds:
IPF
(US dollars)

Estimated Government
cost-sharing: -----
(if any) (US dollars or other freely
convertible currency)

Estimated Government
input: In kind
(Local currency)

A. Development problem to be addressed by the proposed project

1. Development problem at the sectoral (macro) level

The manufacturing sector in Zimbabwe, compared to other countries in Sub-Saharan Africa, is well developed and diversified, producing both consumer and producer goods. Industry contributed 25% to GDP in 1989 and accounts for 18% of the total formal sector employment. Zimbabwe has one of the highest ratios of Manufacturing Value Added (MVA) as a proportion of GDP in Africa. The manufacturing sector contributes approximately 55% of export earnings, (though it is also the largest user of foreign exchange for imports). However, there are also certain features of the industrial sector which have major implications for the Small Scale Industries (SSI) and therefore need to be taken note of; these are the following:-

- (a) Most manufacturing sub-sectors are highly concentrated with one or a few companies, often foreign owned, being dominant suppliers. These monopolistic or oligopolistic situations do not easily allow entry of small scale competitors. There are more than 3000 registered manufacturing companies, and estimates of concentration suggest that the largest 20 companies (including conglomerates) account for more than 50% of the output (in value terms).
- (b) Many large companies engage in a variety of activities subsidiary to their core business, to secure supply of goods and services that are not readily available. Thus linkages between large and small industries are not well developed.
- (c) Industry has a high geographical concentration. The main industrial areas are Harare and Bulawayo, which together account for nearly 80% of manufacturing output and employment. Correspondingly, other areas (particularly rural areas) have been deprived of the opportunity for growth which arise from the location of a major "nucleus" industry. Also, skilled and educated man-power has tended to gravitate to the main industrial areas for finding jobs and business opportunities instead of undertaking productive work in other areas.

In addition to the above factors, historically, the policy, regulatory and institutional environment has in many ways been hostile to the small scale entrepreneurs, placing several restrictions on their activities, making it very difficult for them to comply with various regulations, and preventing easy access to approvals and inputs.

Due to the above factors, the SSI sector is not well developed; it is limited mainly to very traditional areas, and

has little presence in new technologies or products. Most of the SSI activities are in the informal sector comprising household or micro-level income generating activities. Yet there is a class of emerging indigenous businessmen and women who aspire to expand their businesses and increase their incomes.

Government of Zimbabwe has realised that the formal sector alone cannot help the country address some of its critical socio-economic concerns. It has increasingly recognised the importance of developing the SSI sector in view of its potentially significant contributions to the economy, some of which are mentioned below:-

- (a) The SSI sector is more labour intensive and less capital intensive; it depends upon relatively simple and inexpensive technologies and creates more employment. Available figures indicate that in the SSI sector, the capital-labour ratio is less than one-tenth of that in the large industry. Keeping in mind the huge numbers of job seekers entering the market every year, the formal sector cannot create sufficient employment and therefore the growth of the SSI sector is essential.
- (b) The development of SSI sector will help in the dispersal of the ownership pattern of industry, and thereby in satisfying the aspirations of the hitherto disadvantaged sections of society. It will raise incomes and living standards.
- (c) The SSI growth will help in the geographical dispersal of economic activity and will utilise local resources and skills.
- (d) The entry of more small scale entrepreneurs into the formal sector will augment Government revenues, add to exports, and reduce import demand.

Government's (somewhat belated) recognition of the importance of developing the SSI sector has been reflected in some recent documents and statements. However, by and large, these policy statements are yet to be converted into concrete action plans.

Meanwhile, the Economic Reforms Programme (ERP, 1991-95) has been undertaken by Government which includes gradual deregulation of domestic controls, trade liberalisation and adjustment of macro-economic policies. While Government expects that over time the ERP will help the growth of the SSI sector, in the short run, there can be substantial adverse effects such as :-

- (a) inflation will raise the cost of inputs and contract demand;

- (b) liberalised inputs as well as deregulation of large business could intensify competition; and
- (c) the interest rates for credit have risen steeply. As a result, the viability of many small scale projects is severely hit.

Unfortunately, Zimbabwe is also experiencing one of the worst droughts in recent history. This is already contributing to inflation, contraction of demand, and shortages of raw materials. These adverse effects of drought can be expected to last over a considerable period of time.

The problems that, therefore, confront Government are how to quickly spur the development of the SSI sector, and formulate a suitable national policy and strategy for the sector. The additional problem is how to cushion the SSI sector against the adverse effects of the ERP and the drought.

The above problems are accentuated by the fact that the Government, in particular the Ministry of Industry and Commerce, does not have adequate experience and professional skills to deal with the SSI sector. The Ministry of Industry and Commerce, which has had predominantly regulatory functions so far has to effect a major change of role and play a promotional and facilitational role now, particularly for the SSI sector. The problem also is how to enable the Ministry to undertake this role change, and to do so quickly.

2. Problem addressed by the project

Inadequate support services

Apart from a few scattered initiatives, Government's recent policy statements have not yet led to a concrete agenda for action relating to SSI development. In fact, as yet, there is no separate policy paper dedicated to the SSI sector although one is reportedly under consideration at present. In practical terms, very few measures have been taken to stimulate the growth of SSIs. The scattered initiatives are not part of a holistic operational strategy or masterplan. Many of the initiatives lack depth. Certain important services are still not accessible to small entrepreneurs because of one or more of the following reasons:

- (a) these services are not yet established (e.g. information and counselling service relating industrial opportunities) or exist only nominally (e.g. small business units of some banks)

- (b) there are immense procedural complexities (e.g. in regard to imports, allocation of foreign exchange, zoning, licensing, registration)
- (c) there is severe shortage of allocated or available resources (e.g. credit funds, foreign currency loans)
- (d) attitudinal changes have not taken place in the concerned institutions (e.g. banks, certain Ministries).
- (e) the spatial distribution or coverage of the service is weak (e.g. ZDB, extension services)

Urgency of taking practical measures

In order to bring about the much needed growth of the SSI sector and especially to ameliorate the possible negative impact of the Economic Reforms Programme and the effect of the current serious drought it is necessary to urgently take measures to strengthen the existing support services and institutions so that they are able to make a meaningful impact on the SSI scene. Also, missing services need to be identified and established. A concrete operational strategy needs to be developed at the level of the Ministry for Industry and Commerce (MIC) which is the institution with the central responsibility for the growth of the SSI sector; the Ministry's capability also needs strengthening. An environment needs to be established which will be stimulating for small indigenous entrepreneurs and also sufficiently supportive of initiatives taken by various institutions or individuals for assisting these entrepreneurs.

While recommending measures for addressing the above problems, attention will be given to the concern that these should not lead to the establishment of large new bureaucracies with consequential large increases in Government expenditure. Also, to the extent feasible, the services should be established outside bureaucratic structures, and in institutions whose progress can be assessed or measured. Steps taken by Government should be facilitational and supportive, not interventionist.

Inadequate interaction with SSI private sector

There is at present very little interaction between the Government machinery (of which the Ministry of Industry and Commerce is the key Ministry in this case),

the private sector SSI entrepreneurs or their representative bodies, and the various support institutions. There is therefore inadequate understanding of the special problems and needs of the small entrepreneurs in Government and many institutions. On the other hand, there is inadequate appreciation of the constraints or limitations of the Government machinery and the institutions amongst SSI representatives. An institutionalised arrangement needs to be considered which will enable an on-going process of consultation between Ministry of Industry and Commerce, SSI entrepreneurs, other Ministries (e.g. Finance, NPA, Labour, Local Government) and support institutions, and other key players (donors, NGOs, in the SSI field. Between the Government and the private sector SSI entrepreneurs, a close, mutually supportive relationship needs to be developed instead of a relationship of petitioner and dispenser; a culture of "partners in progress" should be cultivated between Ministry of Industry and Commerce and the private sector.

Need for strengthening the capabilities of MIC

The Ministry of Industry and Commerce has so far had a predominately regulatory and interventionist role. In so far as SSIs are concerned, the Ministry's promotional role has been minimal. In the new, emerging environment, it is necessary to enhance the Ministry's understanding of the special features of the SSI sector and strengthen its capability to identify and take measures to stimulate its growth. It is therefore proposed that through redeployment of existing staff the Ministry of Industry and Commerce may constitute a small group of officials for handling issues relating to SSIs. This group would be the nodal unit relating to SSIs in the Ministry, and having as its goal the creation of an environment in Zimbabwe which will stimulate the growth of SSIs. Among other activities, this group will initiate steps to remove the existing regulatory, fiscal and other obstacles in SSI growth, formulate incentives targetted for SSI entrepreneurs, increase availability of industrial sites and shells for SSIs, improve the extent and depth of advisory, counselling and project development services, improve the access of SSIs to credit, and facilitate access to SSIs to Government purchases. The group will develop a cogent national strategy to facilitate the above stimulants for SSI growth. It would also identify "thrust sub-sectors" in the SSI sector in which Zimbabwe has comparative advantages and which can be specially targetted for growth. The group will also collect information/-data relating to the SSI sector and monitor its growth/

changes. It would also coordinate with various donors active in the SSI field to facilitate their activities and utilise the results of their studies and reports.

For convenience, the above group may be called the Small Scale Industries Facilitation Unit (SSIFU). It would be part of the Ministry of Industry and Commerce, and it may consist of about 3 staff members. It could be constituted by redeploying officials of the Ministry of Industry and Commerce, which could be feasible now that the workload in certain divisions of the Ministry is expected to reduce significantly following Government's de-regulatory measures. The SSIFU member staff would be provided training under the project, including in selected overseas institutions. The Unit would be assisted and advised by a Senior Advisor (CTA) under the project.

It is visualised that SSIFU would require the following staff:

- (i) An Industrial/Development Economist with about 10 years' experience at policy/planning levels relating to industrial development.
- (ii) Two Industrial/Development Economists with about five years' experience relating to industrial development.

SSIFU member staff would undertake "non-interventionist" facilitational measures for stimulating SSI growth such as those mentioned in this document. They will identify sub-sectors with comparative advantages. They will identify and collect information/data for monitoring the growth of the SSI sector.

Office premises for the 3 staff members of SSIFU would be required; however, it is expected that these officials being existing staff of the Ministry would already be having office space in the Ministry; only some relocation might be required. The unit would require a personal computer under the project.

SSIFU would report to a senior officer of the Ministry of Industry and Commerce, probably to a Deputy Secretary. Since SSIFU would be constituted by redeployment of existing staff of the Ministry, its member staff would continue to be paid by the Ministry.

Lack of Information and Counselling services

A critical difficulty being faced by small Zimbabwean entrepreneurs is lack of easily accessible information required for developing or firming up project ideas. This information relates to demand and supply data,

import and export data, availability of raw materials, sources and prices of equipment, technology and raw materials, process know how, and so on. In the absence of such information, entrepreneurs are simply not able to arrive at informed investment decisions, nor are they able to supply information needed to convince financial institutions about the basis for their project's viability. It is therefore, proposed to set up an Industrial Counselling and Opportunities Service (ICOS). It would provide project development facility to SSI entrepreneurs, say to about 36 entrepreneurs during the project period. It would also develop a project bank containing about 50 project profiles during the project period. During this period, it would also arrange for conducting 3-5 industrial potential surveys. Local consultants/contractors will be utilised for the above work. The need for such a service has been reiterated and emphasised by almost all institutions and SSI representatives; they drew attention to the large proportion of applicants who were refused loans by financial institutions due to inadequate project details. The location of the ICOS service has to be carefully selected. Probably it should be housed in one of the existing support institutions connected with appraising, advising and assisting new entrepreneurs; ICOS would complement and deepen its existing services. Many of the existing institutions expressed the desire to house this service. Alternatively, the service could be set up as a joint project of a number of institutions; Zimbabwe has a history of setting up such joint projects e.g. VCCZ and CGC. The identification of the host institution would be made by the Ministry of Industry and Commerce (SSIFU) during the course of the project.

It is visualised that the ICOS service would need about 3 local officials as follows:-

One Economist with 4-5 years' experience.

One Financial Analyst with 2-3 years' experience.

One Diploma in Engineering with 2-3 years' experience.

The team will be advised/guided by an international expert for about 12-18 months. The team will receive training and acquire further skills during the project period including the use of COMFAR. A national expert will be engaged for preparing the information booklet mentioned above. National consultants/contractors would be engaged for varying short periods for undertaking preparation of project profiles and industrial opportunity studies. Short term consultants will be utilised for specific projects or sub-sectors. The local staff would be paid by the host institution.

Office space would be required for the 3 staff members of the ICOS team, and one personal computer would have to be provided under the project. Another problem faced by SSIs is in getting information and guidance relating to various approvals and incentives, and the procedures for obtaining these e.g. import procedures, company regulations, tax formalities, foreign currency allocation, factory and labour legislation, credit and venture capital, industrial sites and factory shells, municipal regulations, training facilities and so on. A few private firms (merchant bankers, consultants) are available, but their services are much too expensive for a new small entrepreneur. It is therefore proposed to prepare a small booklet containing information related to the above matters and make it available for sale/distribution to entrepreneurs, and also to institutions, NGOs etc. from where it would have a multiplier effect. The booklet would be updated from time to time.

In regard to the ICOS service, decision would also be taken regarding fees to be charged for the service, and arrangement for assessing its usefulness and progress.

Marketing problems - access to Government purchase system

The small scale entrepreneurs find it difficult to enter established or formal marketing channels in view of competition from bigger industries and procedural complexities. Government is a major purchaser in the country. It needs to be examined how the access of SSI entrepreneurs into the Government purchase system can be improved through changes in Government procedures, and quality upgradation, training, etc. for SSI producers. The possibility of according preferential treatment to SSI producers in Government purchases could also be examined. These measures could open a wholly new market for SSI producers and also demonstrate in a concrete way Government's support for this sector. It could also save foreign exchange being spent on many of the items currently being imported by Government.

Other problems

There are various other obstacles faced by SSI entrepreneurs, such as the following:-

- (a) The deterrent tax regime and the absence of fiscal and other incentives specially targeted for SSI enterprises.

(b) Restrictive regulations relating to zoning, construction standards, Factories and Labour Act.

During the course of the project, the SSIFU would be assisted and advised by the Senior Advisor (CTA) to identify these issues, address them in the national policy and operational strategy and take up these issues with the concerned authorities or Ministries so that these can be favourably resolved.

There is no official definition of small scale industries; different institutions have varying perceptions of small scale industries. In this situation, difficulties could arise in matters such as implementation of incentives designed especially for SSIs, collection of data relating to SSIs, and so on. Therefore, the SSIFU would be assisted to formulate a suitable definition of SSIs.

SSI Development Report

It is proposed that SSIFU should monitor the growth of the SSI sector. For this purpose, it should collate relevant information/data, and bring out an annual Development Report relating to the SSI sector. The Report would be a useful document for all institutions, donors and others active in the SSI field.

Credit related problems

Most studies and analyses have concluded that one of the most serious problems faced by indigenous entrepreneurs is poor access to credit. The traditional banking structure is, in its attitudes and financing mechanisms, completely alien to potential new entrepreneurs, and has historically extended very little credit to this category of borrowers. However, in recent years, certain welcome initiatives have been taken in the field of SSI credit; these are:

- (a) The Small Enterprises Development Corporation (SEDCO) has been set up for extending project loans to small scale projects. (However, SEDCO's portfolio indicates that it is lending mainly to the upper end of the small scale sector; further, only a small portion of its funding is going to the manufacturing sector).
- (b) Zimbabwe Development Bank has set up a soft-loan window. Zimbabwe Development Fund (ZDF),

targeted mainly for providing loan and equity finance to small scale enterprises. (However, ZDF's lending to the SSI sector is minimal; besides ZDF has no branches/offices in smaller places thus making it difficult for small entrepreneurs to access it).

- (c) At the instance of Government, commercial banks (Zimbank, Standard Chartered and Barclays) have set up small business units. (However, with the possible exception of Zimbank, the impact of these units is nominal rather than substantial).
- (d) Certain venture capital companies have been established including the Venture Capital Company of Zimbabwe (VCCZ) which is a joint venture of the commercial banks, Reserve Bank, IFC, Commonwealth Development Corporation and others. The impact of these venture capital companies is as yet not significant. Also, with the exception of VCCZ and Manna Corporation, these deal with mainly large projects.

The existing constraints in SSI financing may be summarised as follows:-

- (a) There is an overall shortage of resources with the financial institutions. SEDCO is in a particularly difficult situation. The credit squeeze under the ERP has severely affected new bank advances, and the effect is especially hard on small businesses.
- (b) The access of small entrepreneurs to foreign currency is difficult, as it involves additional procedures.
- (c) Other than the banks and SEDCO, the specialised financial institutions are located only at Harare. Spatially, therefore, the reach of the financial institutions to the SSI entrepreneurs is inadequate.
- (d) SSI entrepreneurs complain of delays in approval of loans (e.g. in approval of loans by small business units and by Credit Guarantee Company).
- (e) Despite the setting up of small business units by some commercial banks, bank lending as a whole to the SSI sector is minimal. The attitudinal changes required for dealing with small entrepreneurs are not much in evidence. Except

for Zimbank, there are no plans to have representatives of the small business units in the branches or at least in the main branches.

Collateral is still very much a central concern of the banks, and usually small entrepreneurs are unable to provide collateral security. Also, small entrepreneurs have difficulty in raising the minimum promoter's equity required by financing institutions. Title deeds are still not available in most places, including at growth centres.

- (f) The banks complain that small entrepreneurs are unable to package and present proposals as well documented "bankable projects" and that they also lack book-keeping, management, marketing and other relevant skills; besides small business financing involves significantly higher risks and costs.
- (g) Lack of cooperation/coordination between the financial institutions often leads to a situation where a small entrepreneur has managed to get approval from one institution (e.g. term loan from a development bank) but not from another institution (e.g. working capital credit from a commercial bank); in such a situation his project cannot take off and there are further delays.

Measures for improving access to credit

Very serious attention needs to be given to addressing the above credit related problems. Some measures which need to be considered are:-

- (a) Persuade the financial institutions (mainly the banks) to expand the spatial coverage of their small business units and undertake reorientation training of the concerned staff.
- (b) Consider new credit mechanisms more suited to the constraints of the SSI entrepreneurs and to streamline and decentralise procedures; consider expansion of the credit guarantee scheme, especially for priority categories of borrowers; improve cooperation between financial institutions in considering SSI applications.
- (c) Enhance the resources accessible to financial institutions for financing SSIs. Establish

a Refinance Facility in a selected Apex Institution, which can be accessed by front-line financial institutions to refinance the credit given by them to SSI entrepreneurs. This would act as substantial incentive to the financial institutions to increase lending to this sector. The Refinance Facility could have in-built incentives for special categories of borrowers e.g. women and export oriented units. It could also have "windows" for specific purposes e.g. equity and foreign currency. Because of its higher "stature," the Apex Institution would be in a stronger position to raise funds from different sources for the refinance facility, thus increasing overall availability of funds for the financial sector.

- (d) Improve extension and support services (e.g. ICOS) to enable SSI entrepreneurs to package bankable proposals.

Mention needs to be made here of the particular handicaps faced by women entrepreneurs. In regard to access to banks, women feel particularly intimidated by the bank environment and the application process; often married women are required to obtain their husbands' consent to the loan; banks' strict equity requirements particularly disadvantage women applicants. Women also have lower access to training and other extension services. There is need to redress this situation through measures such as gender sensitisation at policy and decision making levels in government, banking and other institutions, induction of women into decision making positions, association of women representatives with various support services and advisory boards and so on. This aspect would receive specific attention in all activities under the project.

E. Concerned parties and target beneficiaries

1. Problem Identification

Government of Zimbabwe has recognised the potential contribution of the SSI sector to the future economic growth of the country and recent policy statements have taken note of some of the constraints being faced by the sector and the need to address them.

UNDP/UNIDO project No. DP/ZIM/90 005/A 01/37 "Support to Small Scale Industries and Enhancement of Indigenous Ownership" was undertaken to study and analyze the problems, policies, programmes and institutions relevant to the SSI sector and to provide a framework upon which the Government can elaborate policies and design programmes for stimulating the growth

of the sector, and to develop technical assistance projects. The team of experts under this project have identified the crucial problems faced by SSI entrepreneurs, the measures required to address them and the outlines of the proposed project.

2. Target Beneficiaries

The Ministry of Industry and Commerce will be assisted to strengthen its capabilities. A Small Scale Industries Facilitation Unit (SSIFU) will be constituted in the Ministry. Training will be provided to the Ministry's officials.

Through the SSIFU, various institutions, NGOs and donors active in the SSI sector will receive enhanced support for their initiatives.

Financial institutions will be assisted in improving their credit mechanisms for the SSI sector and having access to a Refinance Facility.

SSI entrepreneurs will receive the benefit of ;new support services which will be introduced, improved access to credit and other services, and a more stimulating policy, incentives and regulatory environment.

C. Pre-project and end-of-project status

1. The pre-project situation

The SSI sector is weak and disadvantaged and has poor capabilities and opportunities for growth; the policy and regulatory environment is not sufficiently motivational.

Certain key support services required for SSIs are not available or exist only nominally.

Linkages between Government and the private SSI sector are weak.

The capability of the Ministry of Industry and Commerce to stimulate the growth of the sector is weak and there is no identifiable group within the Ministry with nodal responsibility for supporting the sector.

The access of SSI entrepreneurs to credit is still restricted and availability of funds to the financial institutions for assisting the sector is limited.

2. End-of-project status

There would be a suitable national policy and a well elaborated operational strategy for stimulating the

growth of the sector. The policy, incentives and regulatory environment would be more motivational for the SSI entrepreneurs.

The Ministry of Industries and Commerce would have strengthened capability to spur the growth of the sector and provide support to the initiatives of various institutions, NGOs and donors. A trained group of officials of the Ministry would be available for dealing with SSI related issues.

A comprehensive annual Development Report would be available relating to the SSI sector.

An Industrial Counselling and Opportunities Service (ICOS) would be in place to which SSI entrepreneurs and support institutions would have easy access. A booklet containing information relating to various approvals and inputs required by SSI enterprises would be available for SSI entrepreneurs.

SSI entrepreneurs would have easier access to credit and improved mechanisms for SSI credit would be in place. A Refinance Facility would be set up which will give financial institutions increased incentive to lend to SSI entrepreneurs and greater access to funds for this purpose.

The project is expected to contribute to higher growth rate of the SSI sector, generating more employment and increased incomes, especially of the poorer sections of the society; decentralising industrial activity from the present main industrial centres; bringing informal sector enterprises into the formal sector and thereby into the realm of taxation; and facilitating the process of adjustment and deconcentration undertaken by larger industries by SSIs emerging as alternative and cheaper sources of supply of goods and services. The project will also contribute towards mobilising and stimulating the potential of women entrepreneurs.

D. Special considerations

1. Special Considerations

The project will give special attention to assisting women entrepreneurs and improving their access to credit and services.

It will assist the hitherto disadvantaged, indigenous group of Zimbabwean entrepreneurs to improve their earnings and raise their living standards.

The project will pay special attention to the concern not to expand bureaucratic structures or introduce avoidable interventionist mechanisms.

The project will promote a culture of close cooperation and partnership between Government and the SSI private sector.

The project is based upon the "programme approach" of UNDP and its various components link up into a well integrated strategy of technical assistance. It also greatly economises expenditure on inputs which would have been much greater if separate, fragmented projects were undertaken for the different objectives visualised under the project.

2. Potential Negative Effects

None visualised

E. Related technical assistance activities

There is a multiplicity of donor and NGO activities in the area of SSI development. Unfortunately, there is an amount of duplication of efforts. To an extent, donor assistance is also going to sub-optimal areas. This project is the result of an exercise carried out by UNDP to undertake a systematic study of the SSI sector and identify key areas requiring technical assistance. Not all the potential areas of technical assistance could be captured within the financial limits of this Project Formulation Framework, and it is hoped that other areas would be taken up by other donors. Consistent with the programme approach, this project will seek to coordinate and complement, its activities with other donor assisted projects, both UNDP related and other donor assisted activities. Some of the donor assisted projects which are known to be currently in progress and with which the project will seek to establish cooperation or complementarity are mentioned below:

- | | | |
|-----|----------------|---|
| (a) | ILO/RAF/86/MO2 | Action to assist rural women |
| (b) | ILO/RAF/88/MO5 | Improve Your Business |
| (c) | DP/ZIM/89/003 | Low-Cost Rural Transport Devices |
| (d) | DP/ZIM/90/01 | Implementation of Economic Reforms Programme. |
| (e) | DP/ZIM/91/010 | EMPRETEC |

- (f) USAID's project relating to linkages between small and large enterprises (sub-contracting)
- (g) Proposed EEC study relating to Credit Guarantee
- (h) CIDA's project in Credit Guarantee Company relating to women entrepreneurs
- (i) Africa Project Development Facility regional project.
- (j) NGOs.

F. Development objective

The First Five Year National Development Plan included in its objectives the expansion of the economy based on national ownership. The plan aimed at raising the standards of living, inter alia, through industrialisation, utilising labour intensive techniques and development of appropriate technological capabilities. Government has also adopted policy statements for developing an indigenous industrial community with emphasis on the development and promotion of small scale industries. The Second Five Year National Development Plan (SFYNDP) emphasises the importance that Government attaches to the development of "small and medium sized enterprises" as they are likely to generate significant employment opportunities and contribute substantially to the dispersal of ownership and geographical location of economic activities. In the foreward to the SFYNDP, the President has stated that "---Government will make the necessary arrangements to facilitate the preparation of projects and financing arrangements for indigenous entrepreneurs."

The Framework for Economic Reform (1991-1995) notes that the growth of the small scale sector has been inhibited by the availability and cost of finance, land and basic utilities, as well as numerous licensing and other regulations. It further notes that Government policies have concentrated on promotional measures, and trade liberalisation and domestic deregulation will improve the environment for new investment by small enterprises. The document concludes that the overall social impact of the structural adjustment program for small scale and informal sector businesses will be positive; however, there are some areas where the program could negatively affect the poorest in this sector. Government is aware of the need to minimise this negative effect. Government will also make every effort to ensure greater credit flows from the formal banking system to the informal and small-scale sectors. In this regard, Government will extend the coverage of the informal sector enterprises by the Credit Guarantee Company (CGC) and raise the guarantee share

of the CGC. Government will also widen the scope of other schemes to enhance the flow of credit to the informal sector.

Government will also strengthen its training systems and encourage more training to be carried out in the private sector. Government will also take measures to address the gender gap in access to education, training programs and credit.

G. Major elements

Immediate objective 1

To strengthen the capacity of the Ministry of Industry and Commerce to stimulate the growth of the SSI sector and monitor its development; and to elaborate a national operational strategy for SSI development including effective incentives, infrastructure and support services.

Output 1.1

A small SSI Facilitation Unit constituted in the Ministry of Industry and Commerce capable of facilitating the development of SSI sector, and its role defined; also arrangements established for achieving close cooperation and teamwork between the unit and representatives of the SSI private sector and other Ministries and players in the SSI field.

1.1	Activities	Responsible party
1.1.1.	Formulate the role and activities of SSIFU keeping in mind existing institutional arrangements, the objectives of Government policy relating to SSI, and the objectives and outputs of this project.	CTA, NPC
1.1.2	Formulate proposals for operational linkages between SSIFU, other Ministries and institutions concerned with the SSI sector.	CTA, NPC

- | | | |
|-------|--|------------|
| 1.1.3 | Prepare proposals for division of work and responsibilities between staff members of SSIFU keeping in mind their qualifications and experience. | NPC, CTA |
| 1.1.4 | Review and study the prevailing situation relating to SSI private sector representative bodies, their roles and linkages with MIC and other institutions. | CTA, SSIFU |
| 1.1.5 | Review and study the key institutions and other players in the SSI field, their roles and linkages with MIC and amongst themselves. | CTA, SSIFU |
| 1.1.6 | Formulate proposals for the most appropriate arrangement for achieving close team-work and cooperation between MIC (SSIFU), the SSI private sector (including women entrepreneurs), and other players. In particular, study the feasibility of having a Small Scale Industries Advisory Board (SSIAB). | CTA, SSIFU |
| 1.1.7 | Formulate proposals for the consultative and advisory role and activities of the SSIAB and other arrangements proposed above. | CTA, SSIFU |
| 1.1.8 | Study and review the need for having an annual national SSI workshop and prepare appropriate proposals in this regard. | CTA, SSIFU |
| 1.1.9 | Provide guidance/advice in the implementation of the above proposals. | CTA |

Output 1.2

Training arranged for staff members of MIC and (on a selective basis) for officials of other Ministries and institutions concerned with the objectives and outputs of the project.

Activities 1.2

- 1.2.1 Identify the staff of MIC (SSIFU and others) and (on a selective basis) officials of other Ministries and institutions

Responsible Party
CTA, NPC

concerned with the objectives and outputs of the project.

- | | | |
|-------|--|-------------------|
| 1.2.2 | Study training needs of the abovementioned officials. | CTA, NPC |
| 1.2.3 | Formulate a phased training plan keeping in mind above training needs and the resources available for training in the project. | CTA, NPC |
| 1.2.4 | Identify most suitable training institutions and methodology within and outside the country | CTA, NPC
UNIDO |
| 1.2.5 | Make arrangements for the training as per approved training plan. | CTA, UNIDO |

Output 1.3

An elaborate operational strategy for SSI sector development, including a national policy document if one is not already in place

- | Activities 1.3 | Responsible Party |
|---|-------------------|
| 1.3.1 Identify main constraints to SSI growth, including those relating to women entrepreneurs. | CTA, SSIFU |
| 1.3.2 Study measures for removing the above constraints and the institutions/parties by whom action is to be taken. | CTA, SSIFU |
| 1.3.3 Formulate national policy document specific to SSI sector (if such document is not already in place) and an elaborate operational strategy for SSI development based on above analyses including incentives, improvement in tax regime, reform of restrictive regulations inhibiting SSI growth, availability of industrial sites and shells, identification of "thrust sub-sectors" and so on. | CTA, SSIFU |

- | | | |
|-------|---|------------|
| 1.3.4 | Formulate proposals for national definition of small scale industries. | CTA, SSIFU |
| 1.3.5 | Assist and advise the SSIFU in implementing the above operational strategy and definition in cooperation with the concerned Ministries and authorities. | CTA |

Output 1.4

Improved access of small scale industries to Government purchases.

Activities 1.4

Responsible Party

- | | | |
|-------|--|--|
| 1.4.1 | Examine the broad features of the purchase systems and procedures of Government and the existing state of participation by SSI procedures in Government purchases. | CTA, SSIFU, National expert |
| 1.4.2 | Study the potential for increasing participation of SSI producers in Government purchases and identify products and producers. | CTA, SSIFU, National expert |
| 1.4.3 | Formulate programme for improving the participation of SSI producers in Government purchases including proposals for procedural changes, and quality upgrading, and training for SSIs and the feasibility of according preferential treatment to SSIs in Government purchases. | CTA, SSIFU, National expert |
| 1.4.4 | Assist and guide SSIFU in implementing above programme in cooperation with concerned authorities. | CTA, SSIFU National expert, Concerned authorities. |

Output 1.5

An annual Development Report relating to the SSI Sector.

Activities 1.5

Responsible Party

- | | | |
|-------|---|-----------------------------|
| 1.5.1 | Review data relating to SSI Sector available with various institutions. | CTA, SSIFU, National expert |
|-------|---|-----------------------------|

- | | | |
|-------|--|-----------------------------------|
| 1.5.2 | Identify data required for an annual Development Report relating to the SSI Sector, and the institutions by which data is to be furnished. | CTA, SSIFU,
National
expert |
| 1.5.3 | Make arrangements for collection of above data on a periodic basis. | CTA, SSIFU,
National
expert |
| 1.5.4 | Collate and analyse above data | CTA, SSIFU,
National
expert |
| 1.5.5 | Bring out an annual Development Report relating to the SSI sector. | CTA, SSIFU,
National
expert |

Immediate Objective 2

To establish an Industrial Counselling and Opportunities Services (ICOS) for assisting SSI entrepreneurs to develop their project ideas, secure approvals and negotiate financial and other assistance with the concerned institutions.

Output 2.1

An Industrial Counselling and Opportunities Service (ICOS) for SSI entrepreneurs which would have a Project Development Facility and a Projects Bank and provide information and counselling relating to process know how, sources and procedures for obtaining various inputs, credit, approvals, etc.

Activities 2.1

Responsible Party

- | | | |
|-------|--|----------|
| 2.1.1 | Study the current availability of information and counselling services in Zimbabwe relating to investment opportunities, technical know how and sources and procedures for obtaining various inputs, credit, approvals, etc and identify gaps or weaknesses in the availability of this information to SSIs. | CTA, NPC |
| 2.1.2 | Study the main features of the ICOS service required to provide project development facility, bank of project ideas and to improve the availability of above information and its accessibility to SSIs | CTA, NPC |

2.1.3	Propose the most appropriate institutional arrangement for providing the ICOS service and assessing and measuring its progress.	CTA, NPC
2.1.4	With help of an expert, assist in establishing the ICOS Service.	CTA, Expert, ICOS institutions
2.1.5	Undertake industrial potential studies/surveys for identifying suitable investment opportunities and build up a bank of project ideas in ICOS	Consultants, ICOS, National Experts
2.1.6	Prepare project profiles of selected project ideas.	Consultants, ICOS
2.1.7	Organise Investment Workshops	CTA, Expert, National expert, ICOS

Output 2.2

A booklet containing information relating to various approvals required by SSI investors, procedures for obtaining credit, imports, foreign currency allocation, etc.

Activities 2.2

	Responsible Party
2.2.1 Study the various approvals and inputs required by SSI entrepreneurs for their projects and the authorities/institutions from which these are to be obtained.	CTA, National expert
2.2.2 Study the procedures for obtaining the above mentioned approvals and inputs.	CTA, National expert
2.2.3 Prepare a booklet containing above information.	CTA, National expert

- | | | |
|-------|--|----------------------------|
| 2.2.4 | Arrange for distribution/
sale of above booklet. | CTA,
National
expert |
| 2.2.5 | Engage national expert
for assisting in above work. | CTA, NPC,
UNIDO |

Output 2.3

Training arranged for staff members of the ICOS Service

Activities 2.3

Responsible Party

- | | | |
|-------|---|---------------------|
| 2.3.1 | Study training needs of
the staff members of
ICOS service | CTA, NPC,
Expert |
| 2.3.2 | Identify most suitable
training institutions
and methodology,
within and outside the
country. | CTA, NPC,
Expert |
| 2.3.3 | Make arrangements for
training as above. | CTA, UNIDO |

Immediate objective 3

Improve the access of small scale industries to credit.

Output 3.1

Proposal for establishing a Refinance Facility for improving the availability of funds for SSI financing, especially for priority categories within this sector.

Activities 3.1

Responsible Party

- | | | |
|-------|--|--|
| 3.1.1 | Study the existing sources of
credit for small scale industries
and the related institutional
set up. | CTA, SSIFU,
Concerned
Institutions |
| 3.1.2 | Examine the feasibility of
establishing a Refinance
Facility which can be accessed
by financial institutions for
obtaining refinance
of the credit given to SSIs. | CTA, SSIFU,
Concerned
Institutions |

- | | | |
|-------|--|--|
| 3.1.3 | Formulate proposals relating to the features of the Refinance Facility including the appropriate apex institution, the institutional linkages and procedures, and possible sources of funds. | CTA, SSIFU, Consultant, Concerned Institutions |
| 3.1.4 | Formulate proposals for special incentives under the Refinance Facility for lending to selected priority categories of borrowers e.g. women and export units. | CTA, SSIFU, Consultant Concerned Institutions |
| 3.1.5 | Assist and guide the apex institution and other institutions in implementing the Refinance Facility. | CTA, SSIFU, Consultant |

Output 3.2

Improved credit mechanisms and procedures for SSI entrepreneurs.

Activities 3.2

Responsible Party

- | | | |
|-------|--|-----------------------|
| 3.2.1 | Study the existing credit mechanisms, institutions and procedures for SSIs and the features which inhibit the access of SSIs to credit. | CTA, SSIFU Consultant |
| 3.2.2 | Formulate proposals for improving the credit mechanisms and procedures to facilitate enhanced flow of credit to SSIs including proposals relating to credit guarantee, venture capital, foreign currency borrowing, and borrowings by women entrepreneurs. | CTA, SSIFU Consultant |
| 3.2.3 | Formulate proposals for improving spatial distribution and streamlining of procedures of financial institutions relating to SSIs and improving cooperation between financial institution in appraising financial applications. | CTA, SSIFU Consultant |

- | | | |
|-------|--|--|
| 3.2.4 | Formulate proposals for setting up arrangement for facilitating the implementation of above proposals. | CTA, SSIFU
Consultant |
| 3.2.5 | Assist and guide concerned institutions in implementing above proposals. | CTA,
Consultant,
Concerned
Institutions |

H. Project strategy

1. Direct Recipients

The central institution responsible for stimulating the growth of the SSI sector is the Ministry of Industry and Commerce. The project therefore seeks to strengthen its capability in this field, as this would have the most enduring and wide-ranging impact on the SSI scene; once the Ministry's professional competence is strengthened it will be able to take multi-dimensional measures to spur SSI growth, support donor, NGO and institutional initiatives, and to secure the support of other Ministries and authorities. The project will assist the Ministry to set up a professionally competent group of officials (SSI Facilitation Unit); a Senior Advisor (CTA) will guide and advise the Unit to implement the project outputs visualised at the level of the Ministry. The CTA and the NPC will function as the umbrella organisation to help and oversee the realisation of the project outputs that have to be implemented at the level of other institutions e.g. ICOS, credit related outputs.

Apart from the Ministry of Industry and Commerce, other institutions will be enabled to strengthen their support services for the SSI entrepreneurs. The institution (existing or new) identified to house the Industrial Counselling and Opportunities Service (ICOS) will be enabled to provide a very crucial service to small entrepreneurs which would significantly complement its existing services to these entrepreneurs. The financial institutions will be enabled to have access to a Refinance Facility and thereby to increased resources (including foreign currency) for financing SSIs, particularly the higher priority categories such as women entrepreneurs and export enterprises.

2. How will the benefits reach the target beneficiaries?

Once the Ministry of Industry and Commerce's capabilities are strengthened, a whole range of supportive and promotional measures can be expected to emerge from the

Ministry for stimulating SSI development. Apart from the direct outputs of the project mentioned in section G, these will include measures such as incentives, identification of "thrust sub-sectors," industrial opportunity studies/surveys, improvement in the tax regime, reform of restrictive regulations, availability of industrial sites and shells, coordination of donor assistance, and so on which will be part of the operational strategy for SSI development formulated at the level of MIC. Overall, a more stimulating environment for SSI growth will be established, and a culture of partnership and team-work between the SSI private sector and the Government will be generated.

The Industrial Counselling and Opportunities Service (ICCS) and the proposed booklet relating to approvals and inputs will directly benefit the small indigenous entrepreneurs by helping them to test and develop their project ideas and implement their proposed projects. The small entrepreneurs will also be assisted to enter the Government's purchase programme, thereby opening up new marketing possibilities for them.

The availability of credit for SSIs will be greatly improved by providing additional incentives and resources to the financial institutions for financing SSIs and introducing credit mechanisms more directly suited to the SSI needs, by setting up the Refinance Facility and also by enabling closer cooperation between financial and other institutions.

3. Implementation arrangements

UNIDO will depute a Senior Advisor (Chief Technical Advisor) in the Ministry of Industry and Commerce. The Ministry will assign a sufficiently senior official as counterpart and National Project Coordinator (NPC). Together they will function as the umbrella organisation for the project.

The objectives/outputs of the project to be achieved in other institutions will in a general way be coordinated by the CTA in cooperation with NPC. They will help the Ministry identify the appropriate institutions for the other outputs.

International and national experts/consultants will be called in as and where necessary; to the extent possible, local experts and consultants will be utilised.

If necessary, a Project Implementation Committee will be set up headed by a senior official of the Ministry of Industry and Commerce, to coordinate the timely and effective implementation of the various outputs by the concerned institutions/authorities.

4. **Alternative strategies considered**

An alternative strategy was to have a series of separate projects for achieving various objectives/outputs of this project. However this was not considered appropriate because of the clear benefits of having an "umbrella organisation." These include the integration of the various activities/outputs of the project into a well conceived master-plan based upon the programme approach as against a number of separate projects which might duplicate activities or work in a non-complementary manner. The umbrella organisation (NPC and CTA) would be able to achieve certain outputs directly in MIC with the help of SSIFU, and do preparatory ground work for a number of other outputs, thereby optimising the utilisation of the other experts/consultants. This will greatly economise expenditure and also ensure that each output feeds into or complements the other. Further it will enable greater utilisation of local experts/consultants. It will also streamline administrative arrangements for the project and reduce administrative expenses.

It was also considered whether the umbrella organisation may be kept in an institution other than the Ministry of Industry and Commerce. This was however found to be much less advantageous than the proposed arrangement. The Ministry is in a distinctly better position to effectively interact with other institutions which would be involved in the project e.g. other Ministries, Reserve Bank, parastatal institutions and even donors. It is also the most appropriate institution for developing national policy and strategy.

I. **Host Country Commitment**

1. **Government Commitment**

The Government commitment to the SSI sector is reflected in a number of recent policy statements.

For this project, the Government has agreed to constitute a group of officials (SSIFU) in the Ministry of Industry and Commerce. The Ministry has also agreed to make available office space, telephone and other office facilities for the CTA and other international staff. Similar arrangements have also been assured in regard to the ICOS service and the international staff which will be posted in other institutions.

2. Legal Arrangements

No specific legal arrangements are visualised. However, Government has assured that the NPC and staff members of SSIFU and ICOS would remain in their posts for sufficiently long period so as to assure continuity and maximum utilisation of the professional skills imparted to them under the project.

C. Risks

1. Major risks

None foreseen

2. Risks to be monitored

The NPC would need to be identified and be in position at the start of the project. Delay in this arrangement could delay the project outputs and activities.

D. Inputs

1. Government Inputs

- Personnel
- An official of MIC to function as National Project Coordinator (Chief counterpart to CTA)
 - 3 other existing officials of MIC to be assigned work relating to SSIs (staff members of SSIFU).
 - local DSA for counterpart and trainees while travelling or attending training and other programmes in the country

Logistical Support

- office space and related facilities (telephone, telex, fax, etc) for CTA in MIC.
- office space and related facilities (telephone, telex, fax, etc) for international expert in ICOS
- office space and related facilities for other project staff

2. UNDP InputsExternal Inputs

US\$

Personnel	895,000
Sub-contracts	48,000
Training	320,000
Equipment	124,000
Miscellaneous	20,000
	<u>1,407,000</u>

3. Comment on any proposed inputs which may raise policy issues on which Headquarters guidance is sought.

Nil at this stage

Person primarily responsible
for this formulation framework:

Signature

Name : Vinod Kumar Dhall
 Title: DP/ZIM/90/005/11-52
 Entrepreneurship Development and SSI
 Financing Options under Structural
 Adjustment

