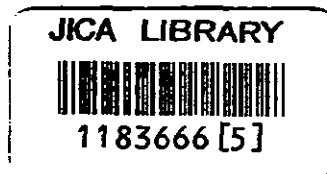


**THE MASTER PLAN STUDY  
ON  
THE PROMOTION OF SMALL AND MEDIUM  
SCALE ENTERPRISES  
IN  
THE REPUBLIC OF ZIMBABWE**

**FINAL REPORT**

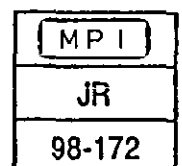
**SUMMARY**

**NOVEMBER, 1998**



**THE MATERIALS PROCESS TECHNOLOGY CENTER  
(SOKEIZAI CENTER)**

**SYES CO., LTD.**





Japan International Cooperation Agency  
Ministry of Industry and Commerce  
The Republic of Zimbabwe

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## PREFACE

In response to a request from the Government of the Republic of Zimbabwe, the Government of Japan decided to conduct the Study on the Promotion of Small and Medium Scale Enterprises in the Republic of Zimbabwe and entrusted the study to Japan International Cooperation Agency (JICA).

JICA sent a study team, led by Mr. Michifumi Abe of The Materials Process Technology Center and constituted by members of The Materials Process Technology Center and CYES Corporation, to the Republic of Zimbabwe four times from March 1997 to November 1998.

The team held discussions with the officials concerned of the Government of the Republic of Zimbabwe, and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to the promotion of small and medium scale enterprises in the Republic of Zimbabwe and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation the official concerned of the Government of the Republic of Zimbabwe for their close cooperation throughout the study.

November 1998



---

Kimio Fujita

President

Japan International Cooperation Agency



Mr. Kimio FUJITA  
President  
Japan International Cooperation Agency

Letter of Transmittal

We are pleased to submit Final Report of the Master Plan Study on the Promotion of Small and Medium Scale Enterprises (SMEs) in the Republic of Zimbabwe.

This Report is composed of the Main Text, which compiles analysis of the field survey results and gives various recommendations for the promotion of SMEs, and two Supplement Reports covering records from the survey of enterprises and cases of diagnosis and improvement in the four priority industries (metal processing, food processing, textiles and furniture) that were targeted by the Survey Team.

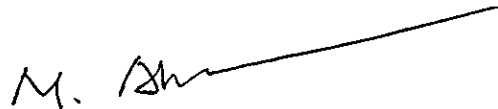
The Survey Team was divided into two groups, namely the policy group and the technical group. The first field survey was commenced in March 1998, and the fourth and final survey was completed in October 1998. During this period the Policy Group visited 56 institutions, such as governmental, financial, educational institutions and business organizations, and conducted hearing surveys concerning promotion policies in practice and impediments to promotion. At the same time, the technical group visited 84 SMEs belonging to the four priority industries, and conducted fact-finding studies together with diagnoses on management and technology.

Comprehensive analysis, then, is made on the findings and various advice and recommendations are given on policies to promote SMEs, including legislative and institutional measures which should be taken by the Government and various institutions. At the same time, advice on improvement of technical and managerial skills is given to enhance the competitiveness of SMEs for survival.

Meantime, an orientation seminar was held during the second field survey to give relates persons a thorough understanding of the survey techniques, and a summing-up seminar was conducted in fourth field survey to give an outline report on the results of the Survey to relevant persons in government and business circles.

Finally, we would like to express our gratitude for the kind help and support, that was given to the Team by the Ministry of Foreign Affairs, the Ministry of International Trade and Industry and Japan International Cooperation Agency. Also, we would like to express our heartfelt gratitude to the Ministry of Industry and Commerce and the many officials of the enterprises and business groups who rendered their cooperation to our survey in Zimbabwe.

November, 1998

A handwritten signature in black ink, appearing to read 'M. Abe', with a long horizontal line extending to the right.

Michifumi Abe

Team Leader

Study Team for the Master Plan Study on  
the Promotion of Small and Medium Scale  
Enterprises in the Republic of Zimbabwe



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# **CHAPTER 1**

## **PREFACE**



# CHAPTER 1

## PREFACE

### 1.1 Background

The first phase of economic reform in Zimbabwe was initiated in 1991 under ESAP (Economic Structure Adjustment Programme). Reforms are continuing under a new government programme named ZIMPREST 1996-2000 (Zimbabwe Programme for Economic and Social Transformation 1996-2000).

The basic objectives of ZIMPREST 1996-2000:

- a steady reduction of the government budget deficit (from nearly 10% to under 5% of GDP) accompanied by fall in inflation (from over 20% at the start of the programme to a single digit by the year 2000).
- a sustained improvement in saving and investment performance.
- continuous growth in exports
- maximization of employment through economic growth arising from
  - indigenization of the economy
  - development of small-scale enterprises
  - and other measures

The important point to be emphasized is that increasing employment through economic growth arising from development of small and medium scale enterprises (SMEs), is one of the core objectives of ZIMPREST 1996-2000.

Under these circumstances, the governments of Zimbabwe and Japan have agreed to undertake a study on the promotion of SMEs. The details of the study are recorded in the agreement signed on December 10, 1997 between the Ministry of Industry and Commerce (MOIC) and the Japan International Cooperation Agency (JICA).

Following this agreement, JICA organized the Study Team consisting of eight experts which commenced the first field survey in March, 1998 and completed the fourth field survey in October, 1998. The present report compiles recommendations to promote small and medium scale enterprises (SMEs) based on the facts established by analysis of the field survey findings.

## **1.2 Scope and Objectives of the Study**

The scope and objectives of the Study are as follows:

- a) To formulate a Master Plan for the Promotion of SMEs
- b) To formulate an Action Plan for the four priority industries which are being studied, i.e. metal processing, food processing, textile (clothing) and furniture (wooden).

To achieve these objectives, a study team of eight (8) specialists has been organized. Its activities are shown on the attached flow diagram.

## **1.3 Study Method**

The Study Team was composed of the Policy Group (four members) and Technical Group (four members) as outlined below, both of which, in principle, conducted independent work.

- **Policy Group** : Team leader (coordination of the study) and experts in (i) business management, (ii) finance and (iii) manpower development
- **Technical Group** : experts in (i) metal processing, (ii) food processing, (iii) textiles and (iv) furniture manufacturing

The Policy Group firstly visited government agencies and various organizations believed to be related to the promotion of SMEs (total of 56 bodies) to conduct interviews in order to establish facts and then considered desirable policies to promote SMEs by analysing such facts.

The Policy Group also considered feasible as well as preferable directions for policy implementation with a view to solving the problems currently faced by SMEs in Zimbabwe as reported by the Technical Group and then compiled recommendations on immediate actions to be taken. Members of the Policy Group participated in the field surveys conducted by the Technical Group when necessary to obtain first-hand knowledge of the current conditions of local SMEs.

Meanwhile, the Technical Group visited a total of 84 enterprises in the four priority in six major cities (Harare, Bulawayo, Masvingo, Gweru, Kwe Kwe and Mutare) and analysed their current business conditions by means of interviews. It then selected 10 model enterprises from the 84 enterprises and conducted a detailed diagnosis of the managerial and technical situations to provide useful guidance.

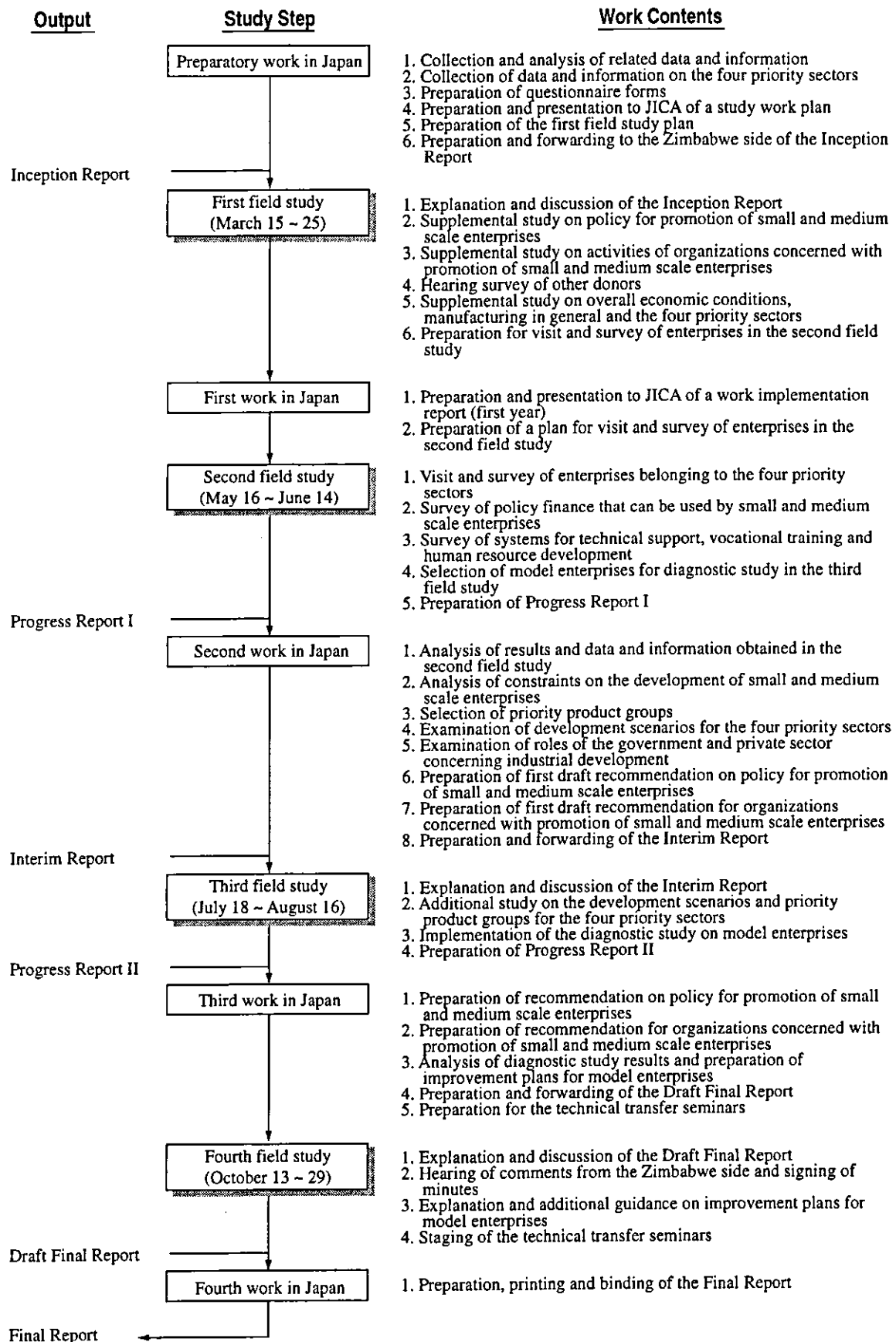


Fig. 1-1 Flow Chart of Study Work

Based on the survey and analysis findings, the Technical Group identified the problems currently faced by SMEs and compiled recommendations on measures designed to solve such problems.

On their part, members of the Technical Group joined the Policy Group on visits to organizations related to the study objectives when necessary to obtain necessary knowledge of policies related to the promotion of SMEs. In addition, they visited several enterprises classified as “large enterprises” in the four subject industries to study the differences and gaps between large enterprises and SMEs.



## **CHAPTER 2**

# **ECONOMY OF ZIMBABWE AND SMEs PROMOTION POLICIES**



## CHAPTER 2

### ECONOMY OF ZIMBABWE AND SMEs PROMOTION POLICIES

#### 2.1 Trends of Macroeconomy

Since independence in 1980, the economy of Zimbabwe has shown average annual growth of some 4%. The pace of growth has slowed down in the 1990's, partly because of the progress of the economic liberalisation policy as well as the economic growth of neighbouring countries and partly because of two severe droughts in 1992 and 1995. The manufacturing sector even recorded negative growth.

Table 2-1 National Income Statistics

	1985	1990	1993	1996
GDP (at factor cost) (million Z\$)	8,316	19,349	38,802	76,242
GDP (at constant 1990 prices)	15,908	19,349	19,265	21,696
Ratio Vis-a-Vis 1990 Figure (%)	82.3	100.0	99.6	112.1
GDP Share of Industrial Sector (constant prices, %)	22.4	22.8	19.9	17.9
Employment in Industrial Sector (1,000)	189.1	205.5	187.7	183.5

Source: CSO "Quarterly Digest of Statistics, March, 1998"

The sharp rise of the GDP figures in the 1990's shown in Table 2-1 can be attributed to hyper-inflation (compared to 1990: 516% as of February, 1998) due to the rapidly increasing fiscal deficit and trade imbalance, in turn caused by the poor performance of the ESAP. Zimbabwe's entire economy is currently in turmoil. The manufacturing sector has been severely damaged by the deterioration of the business environment due to the inflow of foreign products caused by liberalisation of the economy, sharp price increases of raw materials and pressure of rising wages, etc. and there have been many regrettable reports of corporate failure and the curtailment of business activities.

This poor state of the domestic market is assumed to be the result of the reform of the entire economic mechanism (including the manufacturing sector) which has been nurtured since the introduction of the UDI regime, forced by the promotion of structural adjustment under the ESAP.

## 2.2 History of Structural Reform Policies

### (1) Prior to ESAP

The manufacturing sector in Zimbabwe can generally be characterised as follows.

- The structure of the manufacturing sector in the period of the UDI (1965 - 1980) where a small number of large enterprises produced a vast number of different products (said to be some 6,500) virtually ensured self-sufficiency. As a result, various types of manufacturing industries with corresponding production equipment still exist today.
- Following independence in 1980, the new government adopted socialist economic management characterised by the nationalisation of private enterprises, price control, introduction of a minimum wage and regulated labour conditions, etc. During this period, the vested interests of white people were preserved to a large extent with a view to utilising his market and managerial know-how. Consequently, the transfer of managerial as well as production skills to the indigenous people has been rather slow.

As the economic development prospects under the government-led economic policies were limited, the scale of investment did not increase in the 10 year period after independence. The annual labour absorption rate of some 18,000 people was less than 10% of the required job creation level to provide realistic job prospects for the country's workforce. In order to rectify the situation, economic reform under the ESAP commenced in 1991 to rely on the private sector, including individuals, to increase employment and income.

### (2) Results of ESAP (1991 - 1995)

#### 1) Insufficient Reform of Fiscal Policies

The declined revenue due to a tax shortfall, drought, running deficit of state enterprises and delay of the reform of public sector employment, etc. have increased government borrowing, making the government deficit exceed the target (currently running at 13.5% of the GDP). At the same time, the increased expenditure due to subsidies for education and welfare has accelerated inflation. The adoption of a tight monetary policy in the form of high interest rates (official rate: 31.5% upto June, 1998 and 35.0% since August, 1998) has pushed up the open market rate (37 - 42%/year as of June, 1998).

#### 2) Necessity to Continue Other Reforms

The government has set wide-ranging targets, including the promotion of the rationalisation and improved efficiency of state enterprises and public sector employers, further reform of the financial sector, i.e. stock market and stock exchange,

etc., and of the fiscal sector, reduction of subsidies for agricultural products, full-scale introduction of market principles and implementation of the Poverty Alleviation Action Plan (PAAP, 1994) designed to alleviate the negative impacts of the transition from a controlled economy to a market economy on the economically poor. Particularly emphasised for the period of the ZIMPREST are the following three policies.

- ① Reform of state organizations
- ② Reform of the financial and fiscal sectors
- ③ Reform of public sector employment

What is particularly stressed is prudent fiscal management as a lesson learned during the ESAP period.

(3) Principal Vision of ZIMPREST (Zimbabwe Programme for Economic and Social Transformation: 1996 - 2000)

A nationwide poverty survey conducted in 1995 found 62% of the total population to be below the modest poverty line defined by the survey. The ratio of 72% in rural areas was high compared to 42% in urban areas.

In view of this finding, the ZIMPREST, which followed the ESAP in 1996, emphasises the necessity to expand employment opportunities to eradicate poverty in order to ensure sustainable development and to create a strong as well as sustainable economy to create employment opportunities, to encourage labour-intensive industries and to achieve the market-led redistribution of existing productive resources.

Moreover, the ZIMPREST calls for the creation of an entrepreneurial culture in society, the provision of the productivity improvement of technologies for people to assist national economic development and investment in manpower development.

(4) Minimum Targets of ZIMPREST

- 1) Continual reduction of the fiscal deficit (from the current 10% of the GDP to less than 5%).
- 2) Control of inflation together with a reduction of the fiscal deficit (from more than 20% at the start of the Programme to one digit inflation by the year 2000). Apart from the official figure, the real level of inflation is believed to exceed 30% by many observers (for example, the National Chamber of Commerce).

Table 2-2 Comparison Between ESAP and ZIMPREST

	ESAP (Economic Structural Adjustment Programme)	ZIMPREST (Zimbabwe Programme for Economic and Social Transformation)
Background	- Necessity to vitalise the economy by shifting from a highly controlled economy to a market-led economy	- Inherited from the ESAP while making the best use of the lessons learned
Targets	- Loosening of government control of the economy for economic liberalisation by means of emphasis on market principles, encouragement of productive investment by the private sector, improved efficiency of both the public and private sectors and export promotion	- Strengthening of international competitiveness - Manpower development: technical education and vocational training - Employment promotion: fostering of labour-intensive industries - Control of inflation: increase of savings and investment
Period	1991 - 1995	1996 - 2000
Concrete Policies	- Trade liberalisation - Fiscal reform - Privatisation of state enterprises - Reform of the monetary and financial systems - Eradication of price control - Mitigation of the social conflict caused by structure adjustment and relief for socially weak persons	- Reduction of the fiscal deficit, export increase, reduction of the external debt and price stabilisation - Fostering of the mining and manufacturing industries and commerce, featuring SMEs - Establishment of EPZs to promote the export of industrial products - Promotion of the land redistribution policy and the privatisation of agriculture-related enterprises - Creation of productive employment opportunities
Management Targets	- Continual GDP growth of 5%/year	- Real economic growth: 6%/year - Creation of employment opportunities: approximately 44,000/year
Expected Benefits	- Liberalisation of the market will increase the GDP, resulting in export growth, increased employment and an improved standard of living	- Creation of SMEs with international competitiveness, creation of secured jobs and fostering of engineers and skilled workers
Outcome	- The high inflation and high interest rates substantially weakened the business strength of enterprises while competition with imported products became harsh in the domestic market - Deterioration of the economy due to drought in 1992 and 1995 - The ending of the trade agreement with the Republic of South Africa in 1992 led to a loss of the regional trade market due to the introduction of a high tariff policy by South Africa	- Privatisation of state enterprises • Dairy Marketing Board (June, 1996) • Cotton Marketing Board (September, 1996) • Cold Storage Commission • Electric Supply Authority • Post and Telecommunication Agency - A revised trade agreement with South Africa was signed and came into force (April, 1997). South Africa revised the import tariff as well as quota for textile products with a gradually lowering of the import tariff upto 2002

Sources: - Government of Zimbabwe: "ZIMPREST (1996 - 2000)"  
- JETRO: "Framework of Economic Reform in Zimbabwe (1991 - 1995)"  
- Others

- 3) Continual improvement of savings and the investment performance (increase of the domestic savings ratio and more efficient investment to achieve an average figure of 23% of the GDP).
- 4) Export growth (annual growth rate of 9% on the US dollar base).
- 5) Maximisation of employment in parallel with economic growth (indigenisation, development of SMEs and other measures to maximum an increase of employment) (past experiences shows that the GDP growth rate is not necessarily followed by an increase of the employment rate).

### **2.3 Current Financial Situation**

At present, the government is maintaining a tight monetary policy as described earlier and the base rate of the RBZ increased to 35% in August, 1998 from 31.5% which was introduced at the beginning of 1998. Consequently, the lending rate in the financial market has been hiked to around 40%. The monthly money supply figure on the previous year in terms of M3 gradually declined from 34.9% in December, 1997 to 33.7% in January, 1998, 29.4% in February, 25.4% in March and 20.1% in April but the annual increase rate is still as high as more than 20%. Meanwhile, the consumer price index increased by 29.31% in May, 1998 on the previous year and 29.8% in June. Food prices showed a particularly high increase rate of 36% in May, 1998 on the previous year and 39% in June (RBZ Monthly Report: May, 1998).

Under these economic circumstances, the Government of Zimbabwe was given stand-by credit by the IMF as part of the policy adjustment agreement with a credit limit of SDR 130.8 M (approximately US\$ 175 M). The Government of Zimbabwe immediately withdrew SDR 39.2 M (approximately US\$ 52 M) while reserving the right to withdraw the remaining sum each quarter based on the performance of the agreed policies.

As outlined above, the present economic situation of Zimbabwe deters any optimism and much attention is being paid to the findings of this joint mission and their implications vis-a-vis further funding by these organizations.

### **2.4 SMEs Promotion Policies**

#### **(1) Institutional/Organizational Problems**

The Ministry of Industry and Commerce (MOIC) is responsible for affairs relating to SMEs and its internal structure is vertically divided to deal with individual industries. Therefore, the MOIC has currently no core body in charge of operation that coordinates the SMEs as

the whole (or the whole of four industries) across the priority industries of this survey. Given this situation, the implementation of the following measures is deemed necessary.

- ① A single central body should be established to be responsible for the formulation and implementation of policies covering all types of SMEs, including those in the four priority industries.
- ② The said body constantly collects opinions and information on its SMEs related policies from related administrative and takes quick measures for establishing new policies.
- ③ Based on the above-described administrative arrangements, the said body should decide concrete measures for wide-ranging issues to solve the problems faced by SMEs, including the priority ranking of various policies, necessity to introduce administrative, financial and fiscal measures, necessity to request foreign aid (loans, grants, technical cooperation, acceptance of experts and dispatch of trainees, etc.) and coordination with other departments, etc. involved in the acceptance of foreign aid.
- ④ The said body should implement these measures in coordination with the Coordination Department responsible for the nationwide coordination of development policies and measures when these measures are made official by the MOIC (see Table 2-2).

The Institutional Building Sub-Steering Committee was established to example the above countermeasures concretely. The committee performed interviews and discussions with those related persons who are necessary for that agenda, installed a no core body in charge of operation in the MOIC, and obtained agreement on the roles of that body as shown in Fig. 2-1.



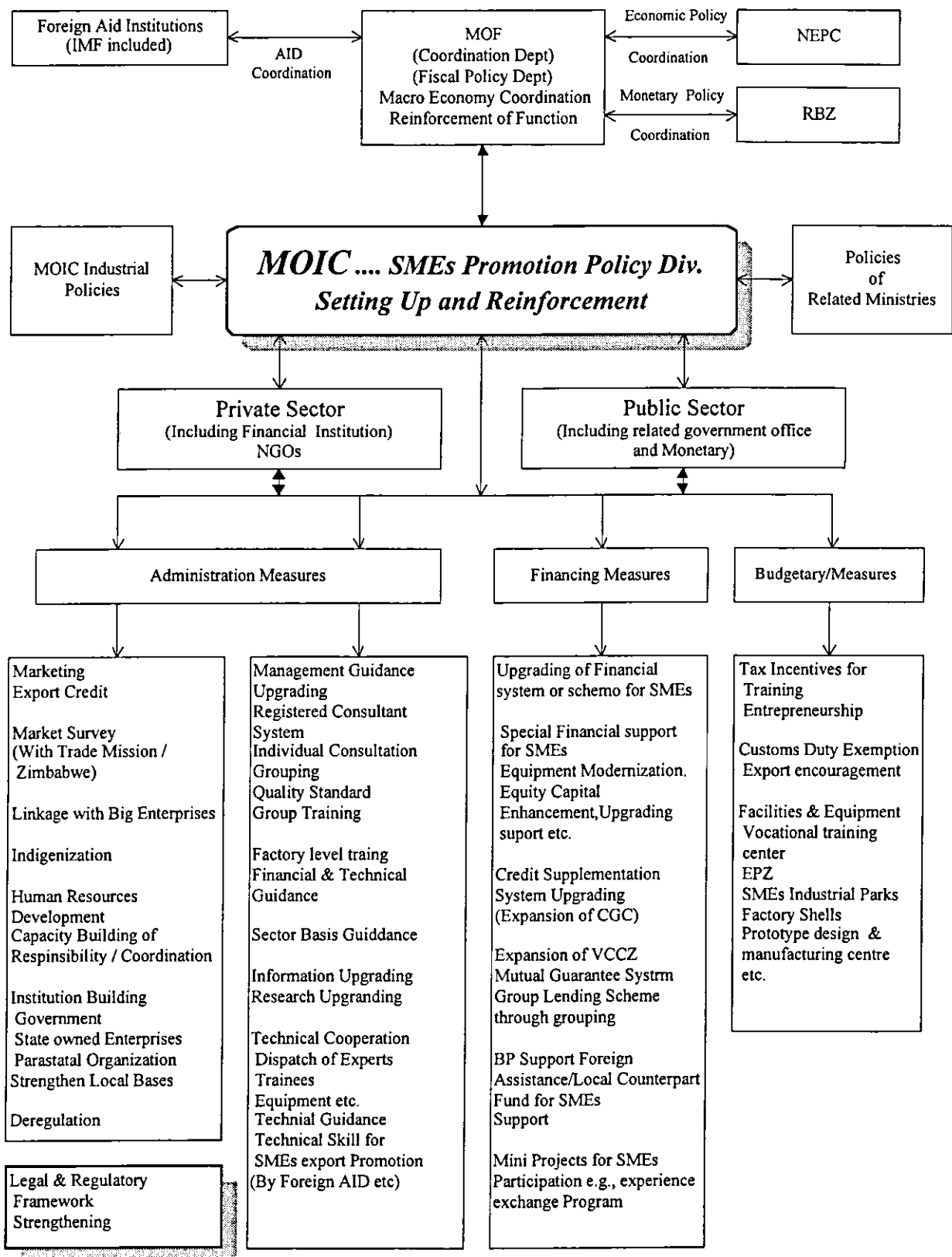


Fig. 2-1 SMEs Promotion Policies

## 2.5 Outline of Manufacturing Sector and Four Priority Industries

The manufacturing sector occupies an important position in Zimbabwe's GDP as shown in Table 2-3.

Table 2-3 Industrial Composition in Zimbabwe

(Unit: Z\$ million, 1990 prices)

		1985 (B/A)	1990 (B/A)	1993 (B/A)	1996 (B/A)
GDP	A	15,908 (100)	19,349 (100)	19,265 (100)	21,696 (100)
Agriculture	B	3,031 (19.0)	3,188 (16.5)	3,145 (16.3)	3,798 (17.5)
Mining		815	845	859	936
Manufacturing	B	3,560 (22.4)	4,403 (22.8)	3,825 (19.9)	3,875 (17.9)
Electricity and Water		327	543	443	469
Finance		978	1,336	1,578	1,876
Real Estate and Construction		710	1,089	1,182	1,252
Transport and Distribution	B	3,444 (21.6)	4,450 (23.0)	4,550 (23.5)	5,789 (26.7)
Education		1,045	1,269	1,307	1,358
Others		1,998	2,226	2,376	2,343

Source: CSO "First Quarter Statistics, 1998"

Table 2-4 shows the actual conditions of the four priority industries and the status of SMEs in the manufacturing sector using statistics compiled by a survey conducted in fiscal 1993/94.

Table 2-4 Number of Employees by Business Size in Manufacturing Sector  
(Excluding Informal Sectors)

Business Size (Number of Employees)	- 10	10-20	20-100	100-300	300-1,000	>1,000	Total
Number of Enterprises	105	138	404	187	87	35	966
Total Number of Employees	602	2,117	20,500	33,113	50,955	66,200	173,549
Production Value (Z\$ M)	49	232	2,056	3,615	6,500	9,754	23,505
Added-Value (Z\$ M)	22	104	1,044	1,437	3,248	4,351	10,203
Share in Number of Enterprises	10.9	14.3	41.8	19.3	10.1	3.6	100
Share in Number of Employees	0.4	1.2	11.8	19.1	29.4	38.1	100
Share in Added-Value	0.2	1.0	10.2	14.1	31.8	42.7	100

Source: CSO "Manufacturing Sector Statistics for Fiscal 1993/94"

Table 2-4 clearly shows that the ratio of SMEs (number of employees: 10 - 100, real assets: Z\$ 2 million or less) subject to the Study is very small, illustrating the overwhelming dominance of large enterprises. However, the actual composition of SMEs and large enterprises varies from one industry to another and the main characteristics of the four priority industries are outlined below based on the field survey findings.

① Metal Processing Industry

- The number of SMEs involved in both casting/forging and sheet processing is extremely small.
- The number of SMEs run by indigenous owners has been increasing since 1986.

② Food Processing Industry

- Vegetable processing and tinned food manufacturing are monopolised by large enterprises run by white people.
- SMEs are the majority in terms of the number of enterprises involved in flour milling and bakeries, etc.

③ Textile/Clothing Industry

- Large enterprises and SMEs coexist in a well-balanced manner.
- The number of SMEs run by indigenous owners has been increasing since 1986.

④ Wood Furniture Industry

- Large enterprises and SMEs coexist in a well-balanced manner.
- Enterprises established in 1985 or before and those established in more recent years share the market with little conflict.

One general trend worthy of note is the conspicuous increase of very small enterprises in the informal sectors in Harare where the urban population has been rapidly increasing.



## **CHAPTER 3**

# **REALITY OF SMEs IN FOUR PRIORITY INDUSTRIES**



## **CHAPTER 3**

### **REALITY OF SMEs IN FOUR PRIORITY INDUSTRIES**

The reality of SMEs in each of the four priority industries, i.e. the subject industries of the Study, are generalised in this chapter. The findings of the interview survey at the visited enterprises and the diagnosis of individual model enterprises are compiled in a separate volume (Annex 1: Master Plan Study on Promotion of Small and Medium Scale Enterprises in the Republic of Zimbabwe: Diagnostic Report on Enterprises in Four Priority Industries).

#### **3.1 On-Site Survey of SMEs**

##### **(1) Subject Enterprises**

###### **1) Selection Criteria**

The enterprises selected for the Study mainly consisted of SMEs (although some large enterprises were also included) in the four priority industries. The definition of a SMEs in Zimbabwe is not the same as that in Japan and there is no legal or customary definition of a SMEs. Consequently, the following criteria were used to select the SMEs which were the main subjects of the Study.

- ① An enterprise in one of the four priority industries subject to the Study
- ② A small enterprises with upto 100 employees and judged to be a formal business entity
- ③ An enterprise recommended by the Study counterpart as having a positive management attitude or judged by the Study Team to have a promising future
- ④ An enterprise run by an indigenous owner in line with the indigenisation of Zimbabwe's economy

The breakdown of the 84 surveyed enterprises by industry and location is shown in Table 3-1.

Table 3-1 Industrial Background and Location of Visited Enterprises

Location	Metal Processing	Food Processing	Textiles / Clothing	Wood Furniture	Total
Harare	8	8	6	7	29
Bulawayo	6	6	4	6	22
Masvingo	3	2	2	0	7
Kwe Kwe	3	2	1	2	8
Gweru	3	2	3	2	10
Mutare	2	2	2	2	8
Total	25	22	18	19	84

From among the visited enterprises, 10 model enterprises (three in metal processing, two in food processing, two in textiles/clothing and three in furniture) were selected for diagnosis with a view to identifying as well as providing advice on managerial problems and providing guidance to achieve technical improvement.

All of the completed questionnaires by the 84 visited enterprises are compiled in Annex 1: Diagnostic Report on Enterprises in Four Priority Industries.

(2) General Characteristics and Management Situation of Visited Enterprises

The general characteristics of the visited enterprises are listed below.

- Most of the visited enterprises were established in 1991 or thereafter and are, therefore, newish enterprises (55 enterprises).
- Partly because of the short history, the accumulation of own capital is not yet satisfactory.
- Despite plans to renew equipment and/or to expand business operation, fund raising is difficult.
- Compared to large enterprises, most of the visited enterprises are burdened with many handicaps, including a reluctance to provide finance on the part of possible lenders, disadvantageous payment conditions (cash payment required), gaps in terms of equipment and technology, difficulty to enter markets and difficulty of access to various types of information.



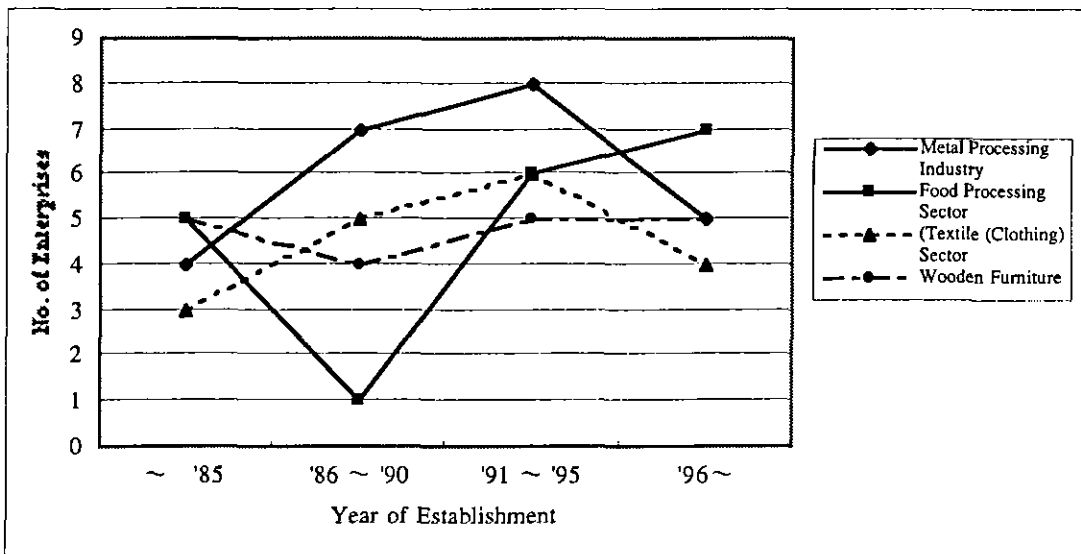


Fig. 3-1 Shift in the Year of Establishment of Enterprises in the Four Selected Industries

The general management situation is described below.

- Those enterprises which are managed by the owner, who has some managerial and technical expertise accumulated through the experience of working for a large enterprise, are generally performing well and enjoy steady growth.
- The predominance of dictatorial owners has prevented the emergence of reliable middle management, obstructing business development.
- Those enterprises where the white-led management has been indigenised tend to fall within the following descriptions.
  - Those with only inherited equipment (whole or part) are not doing well in most cases.
  - Those with inherited equipment as well as market are showing a reasonable business performance. Those enterprises which produce unique products (for example, reproduction furniture resembling antiques) or which specialise in certain products (for example, uniforms) are successful.

### **3.2 Problems Faced by Four Priority Industries**

The visits to various enterprises found the problems outlined below. As problems which hinder development slightly vary from one industry to another, further details are given in 3.3 which deals with these industries separately.

- Because of the small domestic market, there is an ongoing process of bipolarisation into medium quality products (for the middle class in urban areas) and lower quality products (for the general public in rural areas).
- There has been a conspicuous increase of vary small enterprises in the informal sector in large cities (particularly in Harare). As a result, SMEs are felling pressure in such fields as wood furniture and the processing of thin metal (window frames and other products).
- The gaps between large enterprises and SMEs are particularly noticeable in the metal processing, food processing and wood furniture industries.
- Following market and trade liberalisation, the principal of the survival of the fittest has begun to penetrate industries due to changes of the previous industrial structure. Even large enterprises are facing a crisis of factory closure and/or production reduction.
- The business start-up and closure ratio of SMEs of 20 - 40% is currently high depending on the type of business which is two or three times higher than that of industrialised countries. This high business start-up and closure ratio may indicate the dynamism of SMEs but is still a dangerous sign from the viewpoint of the stable development of SMEs. The introduction of administration measures designed to stabilise business operation by the government is desirable.

Further, the important four types of issues are summarized in the following table from the viewpoints of technology, quality, profitability, marketing and management, and labor, so refer to it.

Table 3-2 A List of Problems That Small Enterprises in Zimbabwe Face To

	Outlined Problems	Corresponding Sectors	Measures to be Taken for Solution
Technology	<ul style="list-style-type: none"> <li>Production equipment is obsolete and is not maintained sufficiently.</li> <li>Information of the newest technical trends and production equipment is insufficient.</li> <li>There are problems in the functions of products.</li> <li>Delivery periods of product are not sufficiently managed. (Insufficient production management ability)</li> </ul>	<p>All sectors</p> <p>All sectors</p> <p>Metals, furniture</p> <p>All sectors</p>	<ul style="list-style-type: none"> <li>Enhancement of training for the improvement of equipment maintenance and repairing skills.</li> <li>Enhancement of technical and informational services by public organs, etc.</li> <li>Enhancement of consultations such as the offer of technology as well as support to designing, testing, prototype manufacturing, etc. by public organs, etc.</li> <li>Enhancement of the guidance and consultation on production management skills.</li> </ul>
Quality	<ul style="list-style-type: none"> <li>Poor quality of raw materials, auxiliary materials, and parts and accordingly poor quality of final products.</li> <li>Large dispersion in quality. (Insufficient quality management ability)</li> <li>Deterioration of due to improper use of jigs and tools, and auxiliary equipment.</li> <li>Quality suitable for domestic market cannot meet the quality requirement of the export market.</li> </ul>	<p>Metals, textile, furniture</p> <p>All sectors</p> <p>Metals, textile, furniture</p> <p>Metals, textile, furniture</p>	<ul style="list-style-type: none"> <li>Expansion of the freedom in selecting supply sources.</li> <li>Enhancement of the guidance and consultation on quality management skills.</li> <li>Enhancement of the guidance and consultation on machining skills.</li> <li>Establishment of policies for encouraging OEM, assigned production and exports, etc.</li> </ul>
Profitability	<ul style="list-style-type: none"> <li>Low productivity due to the delay in rationalization and modernization of equipment.</li> <li>Suppressed profitability due to the use of operating funds at a high interest rate.</li> <li>Suppressed profitability due to the inflow of foreign products in connection with economic liberalization.</li> <li>Suppressed profitability due to the loss of time in connection with the complexity of obtaining permissions, various procedures, and so on.</li> <li>Lowered competitive power due to the rise in cost in connection with the handicaps characteristic of an inland country.</li> </ul>	<p>All sectors</p> <p>All sectors</p> <p>Foods, textile</p> <p>All sectors</p> <p>Textile, furniture</p>	<ul style="list-style-type: none"> <li>Establishment of policies for fostering the modernization of production equipment.</li> <li>Establishment of financing systems for small and medium-scale enterprises.</li> <li>Protection policies for domestic products within the permitted range (in terms of tariffs and taxes).</li> <li>Improvement of administration efficiency through the rationalization and simplification of the operations of related organs.</li> <li>Promotion of cost reduction through the modernization and rationalization of custom clearance, distribution, and transportation.</li> </ul>
Marketing	<ul style="list-style-type: none"> <li>Stable and continuous production is prevented by small sizes of domestic markets.</li> <li>Information of market trends, new products, etc. is insufficient.</li> <li>Low image of products due to poor design, finishing, and packaging skills.</li> <li>Difficulty in participation in new markets due to the lack of new product developing ability.</li> <li>Small subcontract demand due to the underdevelopment of assembling industries.</li> </ul>	<p>All sectors</p> <p>All sectors</p> <p>All sectors</p> <p>Textile, furniture</p> <p>Metals</p>	<ul style="list-style-type: none"> <li>Expansion of markets through the promotion of exports; securing of order receiving opportunities on public demand.</li> <li>Enhancement of the collection of the information of foreign countries by public organs, etc.</li> <li>Enhancement of the guidance and consultation by public organs, etc. on industrial design.</li> <li>Enhancement of the guidance and consultation by public organs, etc. on the development of new products and manufacture of prototypes.</li> <li>Enhancement of linkages between enterprises; promotion of work separation through the organization into associations or partnerships.</li> </ul>
Management and Labor	<ul style="list-style-type: none"> <li>Difficulty in participation in new businesses due to insufficient training and/or learning in management skills.</li> <li>Remarkable shortage of people of in the intermediate management layer (both managerial and technical).</li> <li>Manufacturing technology cannot be improved due to insufficient training and/or learning in skills.</li> </ul>	<p>All sectors</p> <p>All sectors</p> <p>All sectors</p>	<ul style="list-style-type: none"> <li>Enhancement of professional education in the secondary educational course and the promotion of OJT.</li> <li>Enhancement of managerial diagnosis and guidance as well as the promotion of OJT.</li> <li>Enhancement and fostering of professional training.</li> </ul>

Note : The table shown in the above is a summary of the result of a hearing survey on local enterprise as performed by the technical group in this survey team.



## **CHAPTER 4**

# **ORGANIZATIONS AND INSTITUTIONAL SET-UP CONCERNING PROMOTION OF SMEs**



## **CHAPTER 4**

### **ORGANIZATIONS AND INSTITUTIONAL SET-UP CONCERNING PROMOTION OF SMEs**

The Study Team visited a total of 56 organizations in Zimbabwe (see Appendix 3) in connection with the formulation of a master plan to promote SMEs, particularly those in the four priority industries subject to the Study.

#### **4.1 Current SMEs Promotion Measures**

The Government of Zimbabwe has established the SEID (State Enterprise and Indigenisation Department) at the President's Office and has clearly indicated that the indigenisation of the economy and the promotion of SMEs are two of the principal policies under the ZIMPREST 1996 - 2000. Meanwhile, although ministries and public corporations have been individually implementing SMEs promotion measures since the implementation of the ESAP, no comprehensive, cross-sectoral policy is being pursued at present.

Public corporations and various organizations involved in the promotion of SMEs have historically provided support, mainly focusing on small financing (several hundred dollars for working funds and several thousand dollars for the start-up of new businesses), small-scale training combined with finance to improve the managerial knowledge of entrepreneurs and management consultation. These activities, however, lack continuity or uniformity and are largely of an ad hoc nature. Because of the virtual dependence on foreign donors (UNDP, USAID, NORAD and DFID, etc.) for finance, many projects are very often prematurely terminated due to the drying-up of funds.

The predominance of micro lending and training for very small enterprises under the current system to promote SMEs does not appear to meet the actual needs of SMEs in many aspects. In fact, most of the 84 enterprises surveyed do not actively use this system

The present status and problems in the related organs and systems are summarized in the following pages with regard to finance, foreign aid, marketing and manpower development.

## 4.2 Finance

### (1) Fiscal Incentives

Financial deficit has become chronic due to the loose financial operation in the past and under such tight financial policy, even if the promotion of SMEs is one of the government's highest priority policies, it has been found difficult to urgently implement priority budgetary appropriation and preferential measures including reduction of tariffs and other taxes, to facilitate inward investment in order to boost exports.

Nevertheless, as long as the SMEs promotion policy remains the highest priority policy of the government to alleviate poverty and to create employment, it is necessary to discuss feasible incentives as part of a comprehensive policy mix from both the short-to-medium and long-term fiscal perspectives in view of the quick introduction of appropriate measures under an improved economic situation. Such a general discussion is required even after the establishment of a department directly responsible for the promotion of SMEs.

### (2) Finance and Credit Guarantee

In regard to finance for SMEs, most of the surveyed enterprises complained that lending to SMEs by financial institutions demands a high interest rate and collateral, failing to respond to the difficulty of SMEs of raising funds.

Many officials of financial institutions and those responsible for fiscal matters sympathise with the reluctance of commercial banks to lend money more liberally because of the business reality of SMEs, i.e. unstable management, financial vulnerability, lack of assets which can be used as collateral and reckless borrowing. As describe above, there are large gaps in opinions between small enterprises and banking facilities.

It is strongly hoped that while the MOIC department responsible for SMEs policies will urgently implement the policies/measures described in 2.2, the MOF and RBZ, both of which are responsible for financial policies, and such development finance organizations as the CGC, ZDB, SEDCO and VCCZ will act as coordinators between SMEs and financial institutions to jointly solve the problem of financing for SMEs.

### (3) General State of Financial Institutions

#### 1) Reserve Bank of Zimbabwe

Compared to most sub-Saharan countries, the financial system in Zimbabwe is said to be relatively diversified as well as advanced. The central role of the financial system is



played by the Reserve Bank of Zimbabwe (Zimbabwe's central bank), the predecessor of which was the Bank of Rhodesia and Nyasaland which was established in 1956 when Zimbabwe was the Federation of Rhodesia and Nyasaland.

## 2) Commercial Banks

There are seven commercial banks in Zimbabwe as listed below.

- ① Barclays Bank of Zimbabwe Limited (Barclays)
- ② Commercial Bank of Zimbabwe Limited (CBZ) (former Bank of Credit and Commerce Zimbabwe Limited)
- ③ Stanbic Bank Zimbabwe Limited (Stanbic) (former ANZ Grindleys)
- ④ Standard Chartered Bank Zimbabwe Limited (Stanchart)
- ⑤ First Banking Corporation Limited (Firstbank)
- ⑥ Zimbabwe Banking Corporation Limited (Zimbank)
- ⑦ Time Bank of Zimbabwe Limited (Timebank)

At present, operations of banks are restricted to ordinary commercial banking operations and Article 188 of the Banking Act prohibits banks from operating other financial services.

## 3) Post Office Savings Bank (POSB)

The incorporation of the POSB is stipulated in Section 249 of the Post Office Savings Bank Act. The bank is funded by small deposits collected from a network of some 200 post offices and also from banking halls throughout the country. Interest is exempt from capital gains tax and the funds are used for the purchase of government bonds, government purchase of shares, government deposits in commercial banks and investment in negotiable securities approved by the Bank's Board.

## 4) Other Financial Institutions

- ① Discount houses : 6
- ② Merchant banks : 10
- ③ Finance houses : 6
- ④ Building societies : 5

In addition to the above, Zimbabwe's financial sector incorporates the Zimbabwe Stock Exchange, development institutions, insurance companies, pension funds and trusts. The foreign exchange has now been liberalised and a new style of trading is in progress.

#### 5) Development Institutions

As development institutions provide loans for development projects and additional loans for development finance, they are an essential part of financing measures vis-a-vis SMEs.

The four object organs are as described below.

##### ① Credit Guarantee Company (CGC)

The present CGC is jointly capitalised by the RBZ, seven commercial banks and the Zimbabwe Development Bank (a development institution which joined in 1995). The RBZ invested 50% of the capital with the eight others invested 6.25% each.

When the guarantee is officially approved by the CGC, upto 50% of credit is guaranteed. The government's only commitment is a grant of 2\$ 90,000 a year.

The repayment of 58% of the loans (67.05% in terms of value) is late by more than a year shown in Table 4-1.

Table 4-1 Repayment Situation of Bank Loans with CGC Guarantee (July, 1998)

(Unit: Z\$)

Category	Number of Loans	Ratio (%)	Original Balance	Latest Balance (%)
No delay	35	22	4,769,020	3,333,948 (17.6)
Delay of 1 - 6 months	23	14	3,223,000	211,927 (11.2)
Delay of 7 - 12 months	9	6	1,074,000	78,436 (0.4)
Delay of more than 12 months	93	58	7,733,540	12,686,984 (67.1)
Total	160	100	16,799,560	18,921,295 (100.0)

6) Zimbabwe Development Bank (ZDB)

In the case of capital subscription, the minimum amount of capital subscription is made by the ZDB to improve the borrowing capacity and to fully achieve the potential of the subject enterprise.

As the activities of the ZDB are mainly directed at large companies, the ZDB has not a strong bearing on SMEs.

7) Small Enterprise Development Corporation (SEDCO)

The SEDCO is a development finance institution which was established in 1984 and which provides training and loans for small enterprises.

8) Venture Capital Company of Zimbabwe (VCCZ)

Invest in and foster so-called venture capitals. The capital of the VCCZ is subscribed by commercial and merchant banks (40%), RBZ (17%), insurance companies (10%), Commonwealth Development Corporation of the UK (9%), IFC (9%), Swissco (9%) and private enterprises (6%) and there is no government involvement

The VCCZ claims that it well understands the problems faced by entrepreneurs and strictly selects enterprises prior to investment and provides good support after investment. It also provides management services, including accounting, management, marketing and the collection of claims, etc. at a monthly cost of Z\$ 5,000 for its customers. In addition, it provides technical assistance using independent consultants, the training of entrepreneurs using the BESA and Empretec, etc. and package programmes combined with general business training. However, it does not appear to be directly involved in SMEs.

(4) Micro Lending

Under these circumstances, many foreign aid organizations and NGOs provide micro lending.

At present, micro lending is largely financed by overseas grants and NGO funds and a review of this situation is called for by some, citing insufficient management (for example, the UNDP is calling for the establishment of an international monitoring team).

#### (5) SMEs Finance Meetings

SMEs finance meetings sponsored by the MOF were held several times for the exchange of opinions between the Study Team members and representatives of those organizations involved in SMEs finance with a view to discussing measures to achieve smooth financing for SMEs under the present financial situation.

A wide variety of issues were discussed here and the contents of discussions are described in details in Section 4.2 of the body of the report, so refer to it.

### **4.3 Foreign Aid**

The MOF has jurisdiction over the acceptance of foreign aid while the Aid Coordination Domestic and International Finance department is actually responsible for foreign aid.

Zimbabwe aims at achieving fiscal rebuilding, reduction of the number of civil servants and the reform of public organizations by the year 2000 under the ZIMPREST and has adopted the promotion of SMEs as a priority policy to increase employment in order to alleviate poverty.

As it is not easy for Zimbabwe to successfully achieve these targets with the limited funds for public finance, the importance of foreign aid will persist for a long period of time.

### **4.4 Management and Marketing**

There are such industrial associations as the ZNCC (Zimbabwe National Chamber of Commerce) and CZI (Confederation of Zimbabwe Industry) in Zimbabwe but their activities are biased towards large enterprises. There has been no move to establish an industrial association of SMEs in the manufacturing sector.

From a practical point of view, SMEs mostly run by indigenous owners were mainly established after independence in 1980 and their business conditions have not yet matured enough to enable the establishment of industrial associations to proceed with various activities. At the same time, the organizations responsible for indigenisation of the economy, such as the IBDC and BESA, cannot be said to be very active. A similar observation can be made in regard to the ZBCA, an association comprising indigenous members only. The related two organizations are outlined below with the focus on export.

#### (1) ZIMTRADE

ZIMTRADE was established in 1991 to promote Zimbabwe's foreign trade and is equivalent to JETRO in Japan. Working funds come from a 0.1% levy on imports and exports (some products are exempt from this levy).

ZIMTRADE provides services via the Trade Information Centre (TIC), ranging from matters related to trade and marketing, matching of prospective buyers and sellers, creation of a database and the training of new exporters focusing on SMEs to the dispatch of trade missions and sponsoring of trade exhibitions. It also exchanges information with such related organizations as the ZNCC and CZI. It plans to permit access to its database at seven branch offices of the ZNCC across the country.

#### (2) Export Processing Zones Authority (EPZA)

The EPZA is a public agency which is supervised by the MOIC and which was established in 1996.

As the agency is still new, its achievements so far may not be substantial. It has already approved seven EPZs and 73 enterprises to operate in these EPZs.

The investment total of approved enterprises is Z\$ 1.4 billion. Metal-related manufacturing accounts for 37%, followed by food processing (20%), textiles (8%) and furniture (4%), illustrating the attractiveness of investing in the four priority industries subject to the Study.

### **4.5 Manpower Development**

#### (1) Education-Training Related Government Agencies

- Ministry of Education, Sports and Culture (MOE)
  
- Ministry of Higher Education and Technology (MOHE)

The administrative jurisdiction for education in Zimbabwe is horizontally divided in that the Ministry of Education, Sport, and Culture is responsible for primary and secondary education and the Ministry of Higher Education and Technology is responsible for all other types of education. Those educational systems under the control of these two ministries are combined into one illustration and are shown in Fig. 4-1.

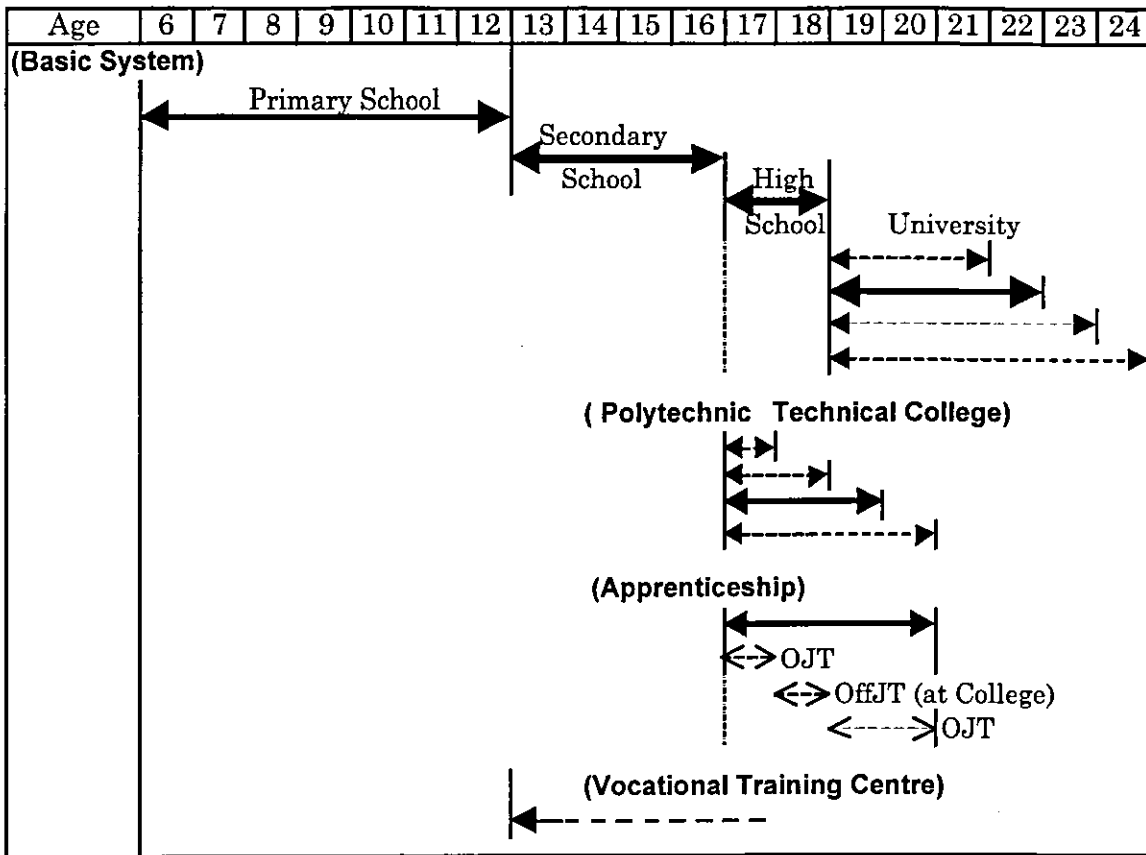


Fig. 4-1 Education System in Zimbabwe

An organization chart of the SIRDC is as shown below.

1) Polytechnics and Technical Colleges

The MOHE supervises two polytechnics (in Harare and Bulawayo) and eight technical colleges as listed.

Next, Bulawayo Polytechnic is used as an example to describe the type of education provided by these educational institutions. This polytechnic has 10 departments/divisions as shown in Table 4-2.

Table 4-2 Departments and Divisions of Bulawayo Polytechnic

	Department/Division	Enrollments in National Courses/Year
1	Department of Adult and Continuing Education	80
2	Department of Applied Art and Design	80
3	Division of Applied Science and Technology	700
4	Department of Automotive Engineering	170
5	Department of Business Studies	1,000
6	Department of Secretarial Studies	400
7	Division of Civil Engineering and Construction	340
8	Division of Electrical Engineering	350
9	Division of Hotel Catering and Tourism Studies	340
10	Division of Mechanical Engineering	300

## 2) Qualification System Related to Vocational Training

The Higher Educational Examination Council (HEXACO) has diversified qualifications systems, in which nine types of qualification are set including NFC (National Foundation Certificate), ND (National Diploma), PCC (Professional Competency Certificate), and so on.

## 3) Apprenticeships

An apprenticeship is systematic education and training with theory and practice which is provided for young workers who have completed formal school education. While apprentices are directly recruited by employers, their attendance at college courses is controlled by the Registrar of Apprentices.

Apprenticeships in Zimbabwe are usually for four years. The first six month period is a period of orientation at the factory of the employer and is usually followed by 39 weeks of college education. The remaining period is used for on-the-job training.

The cost of an apprenticeship is shared by the government and the employer which pays a levy to the Zimbabwe Manpower Development Fund (ZIMDEF). This money is used to pay the wages and training costs in the first two years of the apprenticeship. The wages for the next two years are directly paid to the apprentice by the employer. The government bears the cost related to the Industrial Training Department. Currently, and Apprenticeship system is applied to 10 professions including automobile repairing, machining, sewing, and so on.

#### 4) Trade Testing System

Under this system, the level of expertise of workers with varied careers under different training systems is graded by means of a test which is designed to assess both practical skills and knowledge. The system has four different classes. Class I (journeyman) correspond to the apprenticeship pass level. The lowest Class IV corresponds to the completion of the first year of apprenticeship. Class IV is deemed to be equivalent to the level of skill after working for three years. Similarly, Class III, Class II and Class I are deemed to be equivalent to four, five and six years of working in the same trade respectively.

#### 5) Vocational Training Centres

Only two vocational training centres at Harare (Msasa VTC) and Bulawayo (Westgate VTC) are run by the MOHE. Many others are run by other ministries, local authorities and the private sector and the education and training provided by them are based on the curricula set by the MOHE.

The Msasa VTC and Westgate VTC directly run by the MOHE are assigned slightly different roles from other vocational training centres. The education and training provided by the Msasa VTC are described below as an example.

### (2) Ministry of National Affairs, Employment Creation and Cooperatives

Create employment through the development of formal as well as informal SMEs and very small enterprises in view of the fact that only 30,000 of the 300,000 school leavers each year find jobs in Zimbabwe.

Activities cover wide fields, including agriculture, forestry, food processing, construction, transport, mining, manufacturing, crafts, tourism and various services. As part of the Ministry's activities, the National Affairs Department operates 14 training centres to provide guidance to improve technical and managerial skills. The Ministry has been involved in the establishment of other training and guidance organizations, such as the BESA and Empretec.

### (3) Business Management Skill Upgrading Training

Polytechnics and technical colleges provide business study courses with the relevant qualifications. However, it is not easy for those people running their own business to attend these courses. The organizations providing management skill upgrading training for these people and the training contents are described below.



Table 4-3 Examples of Training Courses for Entrepreneurs

Sponsor	Title
ZNCC	Small Business Training Course
ZimTrade	New Exporters Workshop
BESA	Pre-Start
	Smart-Start Functional Areas
	Entrepreneurship Preparation Programme
Empretec	Achievement Cluster
	Planning Cluster
	Power Cluster

(4) Scientific and Industrial Research and Development Centre (SIRDC)

The SIRDC was established in 1993 as a national technical centre under the direct control of office of President. It aims at achieving the transfer of technologies suited to industrial needs in its R & D promotion rather than seeking academic development. This center is aiming at technical transfer to meet the needs of industries without pursuing academic knowledge in preceding with R&D.

Table 4-4 Estimated Credit Supply for Micro Enterprises

Organization	Estimated Outstanding Amount (Z\$ million)
CAP	0.1
CBZ	1.4
CSFS	7.1
Dondolo	0.7
ENDA	0.0
Nascuz	70.0
ORAP	0.2
Phakama	0.9
SDF (EPT only)	100.0
SEDCO	2.2
SHDF	0.2
Zambuko	10.7
ZECLOF	3.7
ZWB	0.4
ZWFT	3.2
Total	200.8

(5) Standards Association of Zimbabwe (SAZ)

It is currently controlled by the MOIC and its activities are funded by a levy paid by enterprises.

The business areas of the SAZ are 1) standardisation and extension of standards, 2) SAZ mark inspection on products, 3) certification of ISO 9000s and ISO 14001 and 4) testing services. It has laboratories in Harare, Burawayo and Mtare in addition to its headquarters in Harare which conduct testing and inspection.

The SAZ has a technical and managerial advisory system for SMEs. In addition, it organizes short education courses on quality control and other subjects from time to time.

#### **4.6 Present Problems of SMEs Promotion Policies/Measures**

Based on the results of the survey on 56 local organizations, the following general problems have been identified in regard to SMEs policies/measures in Zimbabwe.

- All ministries and other organizations are well aware of the importance of SMEs for the national economy and have formulated SMEs promotion measures (projects) which reflect their own positions. However, there appears to be a lack of policy to constitute the backbone of such measures.
- Those organizations which have been implementing projects are mainly private organizations and NGOs and their diverse projects tend to lack continuity.
- The dependence on foreign aid organizations to fund the implementation of measures (projects) appears to have resulted in the dominance of the intentions of donors rather than the intentions of the recipient. (It is highly desirable that Zimbabwe receive foreign aid in a systematic and well-planned manner.)
- The shift to a market economy does not automatically mean liberalisation. Some of the guidance and policies adopted (regarding the protection of domestic industries and the rationalisation as well as simplification of administrative procedures) appear to be inappropriate.

These problems are assumed to be attributable to the absence of a strong central government body responsible for SMEs promotion policies and measures. In fact, the necessity to establish such a body is recognised by almost everyone involved in the promotion of SMEs.

## **CHAPTER 5**

# **RECOMMENDATIONS AND ACTION PROGRAMMES FOR SMEs PROMOTION POLICIES**



## **CHAPTER 5**

### **RECOMMENDATIONS AND ACTION PROGRAMMES FOR SMEs PROMOTION POLICIES**

#### **5.1 Preconditions and Points to Note for Recommendations**

##### **(1) Basic Targets of SMEs Promotion Policies**

The ZIMPREST 1996 - 2000 which stipulates the promotion of SMEs as a priority government policy lists the following action programmes.

- Removal of factors impeding the development of SMEs (and the informal sector)
- Promotion of enterprises operating in rural areas
- Improvement of business management abilities through reform of the educational system
- Promotion of R & D which meets the needs of SMEs

The implementation of the following specific actions is called for to achieve these action programmes.

- Formulation of principles for the promotion of SMEs (by the MOIC; target date: December, 1998)
- Facilitation of loans for SMEs (by the ABZ)
- Establishment of a credit guarantee system for SMEs (by the MOF and CGC; currently in progress)
- Encouragement of subcontracting and business linkage (by the SEID, MOF and others)
- Review of R & D funding (by the MOIC and others; target date: December, 1998)
- Strengthening of training organizations (by the MOIC and others; currently in progress)

In view of these officially proposed priority actions, concrete measures are recommended in this chapter, incorporating the survey findings described in Chapter 4. As a precondition for the recommendations, the objectives of SMEs promotion policies are set as follows: "In view of the important mission to be performed by SMEs in the national economy, the objectives of SMEs promotion policies are to rectify the disadvantages experienced by SMEs because of social and economic constraints, to assist the self-reliant efforts of owners of SMEs and to improve the productivity as well as trading conditions of SMEs to rectify various gaps, including the productivity gap, between enterprises in line with the

development of the national economy so that SMEs and their employees can enjoy positive development and improvement of their socioeconomic status”.

The indigenisation of industries will be sought through the realisation of these policy objectives and recommendations are made below on the systematic development of integrated measures to achieve the said objectives from the viewpoints of legislation, implementation organizations and policy formulation.

## (2) Basic Concept of Master Plan

The recent acceleration of inflation, interest increase and fall of the Zimbabwe dollar in the foreign exchange market, all of which are manifestations of the poor performance of the macroeconomy, have caused many difficulties for the management of SMEs. SMEs which are facing a serious management crisis due to insufficient funding are not exceptional.

Under these circumstances, desirable actions for the government in general and for the MOIC, which is directly responsible for SMEs promotion policies, in particular were analysed from the viewpoints of legislation, organization and policies while referring to the facts established by the field survey. This analysis adopted the following propositions.

- 1) No Impediment to Free Market Economy.
- 2) Small But Strong Government Body for Successful Structural Adjustment of Economy.

The present plan is required to be capable of accommodating changes in accordance with the times as a grand design for the promotion of SMEs in Zimbabwe. The recommendations below have, therefore, been prepared in terms of being bold enough to proceed with the necessary reforms without falling into the trap of paying too close attention to the present conditions which will lead to short-sighted policies and measures.

## **5.2 Legislation**

The introduction of a new body, the restructuring of existing bodies and the implementation of new measures should necessarily be accompanied by the enactment or revision of laws and regulations. The enactment of two basic laws for the promotion of SMEs is recommended here.

- ① Small and Medium Enterprise Basic Law
- ② Small and Medium Enterprise Modernisation Promotion Law

The Small and Medium Enterprise Basic Law (①) is a type of “Constitution” for SMEs. It states the situation and assigned roles of SMEs in the national economy in its preamble and declares the policy objectives to the public. The concrete contents to be incorporated in this law are described later. The basic stance is to rectify disadvantages originating from the small business size of SMEs and to assist the self-reliant efforts of SMEs.

The Small and Medium Enterprise Modernisation Promotion Law (②) is designed to identify the problems faced by SMEs by types of business and to promote the modernisation and structural improvement of SMEs. Under the law, designated industries formulate plans incorporating numerical targets and assistance in terms of taxation and finance, etc. will be provided for cooperatives and others in the said industries on approval of the plans by the competent minister.

As it is necessary for these laws to be deliberated and approved by the parliament, it may be a good idea to set the year 2000 as the target year for their legislation. In regard to the Small and Medium Enterprise Modernisation Promotion Law, as the Study Team and others have already completed a survey on the four priority industries, these industries could be declared designated industries to start with. It is hoped that the organizational structure of the MOIC will be further consolidated so that the year 2000 can be celebrated as the first year of the modernisation and development of SMEs in Zimbabwe.

#### (1) Small and Medium Enterprise Modernisation Promotion Law of Zimbabwe

In order to modernise SMEs in Zimbabwe, the enactment of the Small and Medium Enterprise Modernisation Promotion Law of Zimbabwe (Modernisation Law) with the contents discussed below is proposed.

- ① Financial assistance for a SMEs modernisation programme to be implemented by individual SMEs to improve their business structure
- ② Financial assistance for a SMEs structural improvement programme to be implemented by the joint, self-reliant efforts of SMEs in each industry
- ③ Financial assistance for a new SMEs business development programme to encourage groups of SMEs to move into new business fields

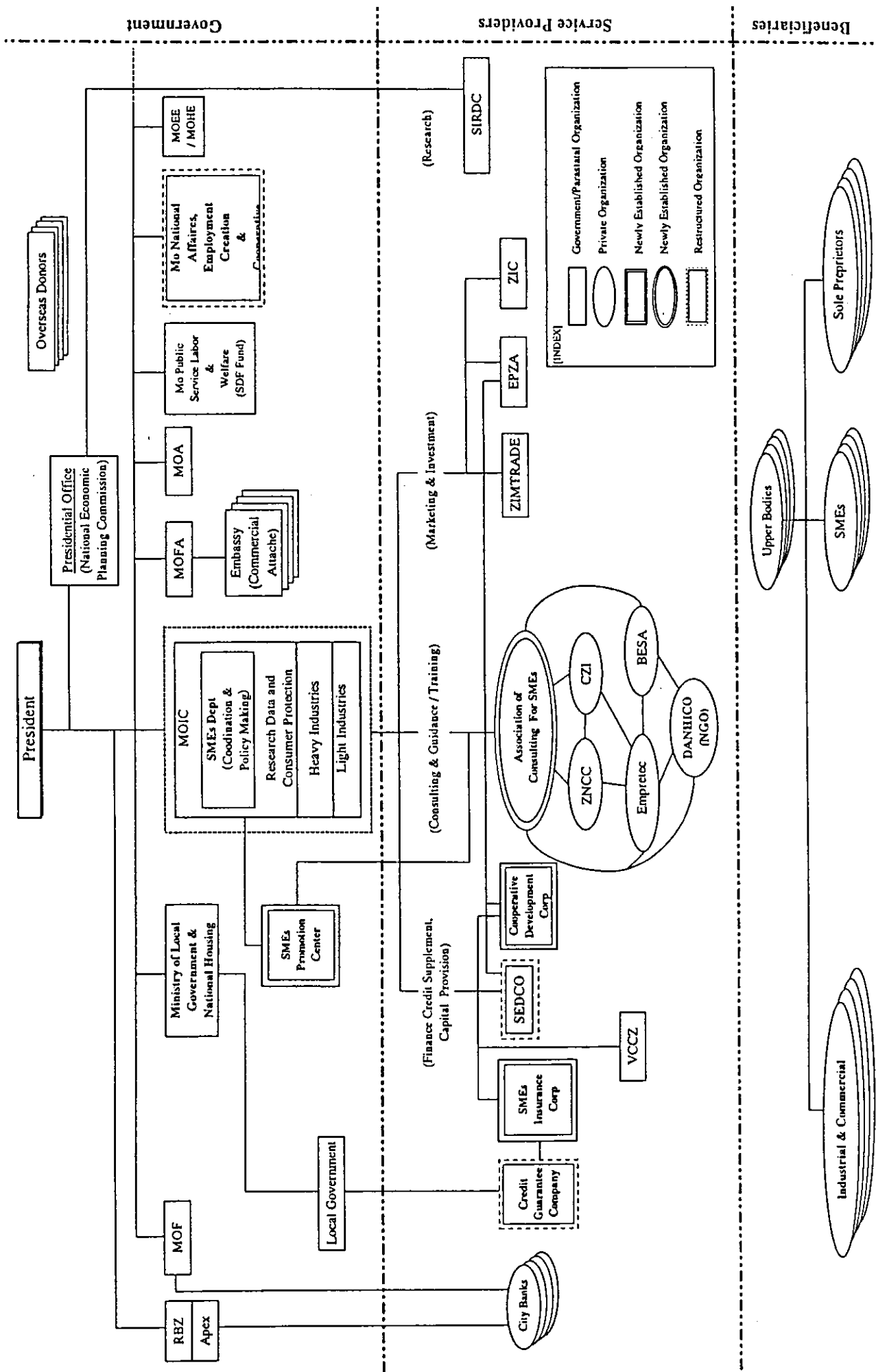


Fig. 5-1 Master Plan - Network of Institutions for Supporting SMEs



### 5.3 Improvement of SMEs Supporting Institutions

Under the master plan, the establishment of new institutions and the restructuring of some existing institutions/organizations is recommended as shown in Fig. 5-1.

#### (1) Credit Guarantee Company

The credit guarantee scheme currently operated by the CGC is rather small and cannot be said to fully meet the needs of SMEs.

The planned replacement of the present scheme to expand the scope of credit guarantee is described next. According to the plan, local governments will establish new credit guarantee corporations (new CGCs) for the purpose of guaranteeing loans made by financial institutions to SMEs. The purpose of making local governments invest in new CGCs is to provide appropriate guidance for local SMEs in order to prevent delayed payment of defaulting for the healthy development of SMEs. External consultants should be appointed if necessary to provide the necessary education and training for the top management of SMEs.

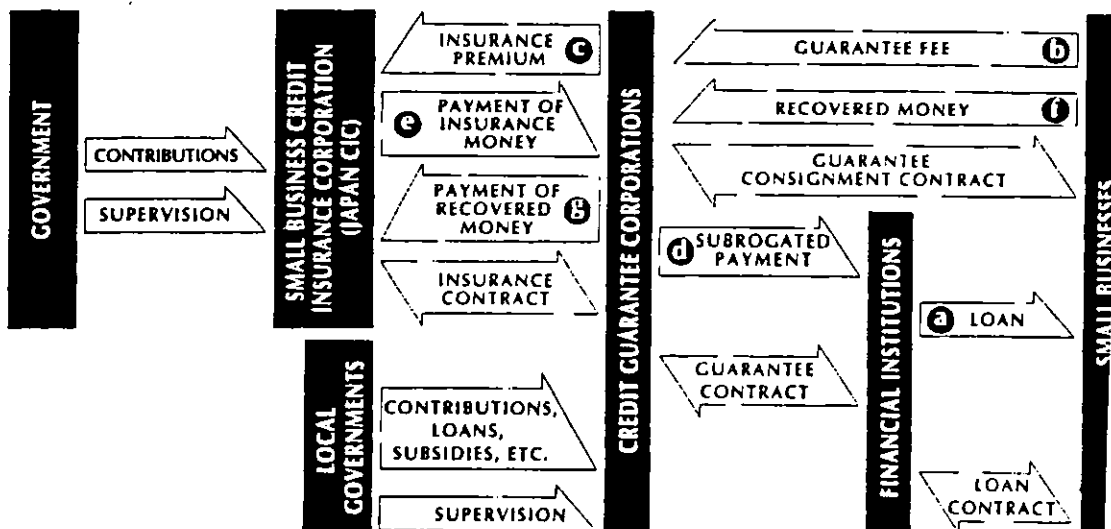
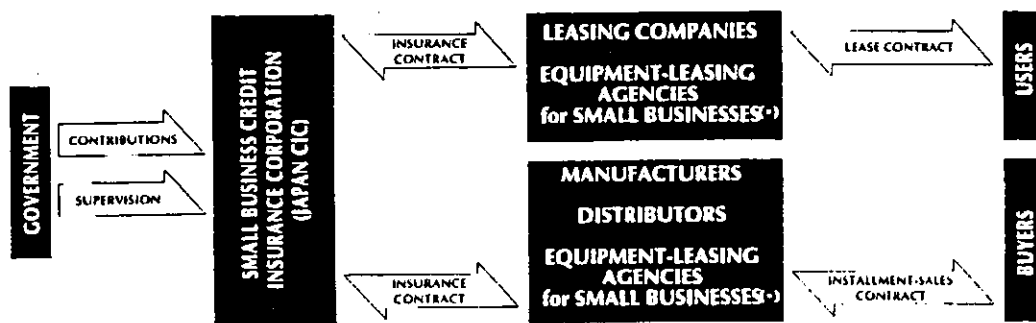


Fig. 5-2 Mechanism of Credit Supplementation System (Japanese Example)

Apart from the blanket underwriting of the credit guarantees of new CGCs, the Insurance Corporation should also underwrite the following types of credit insurance.

- ① Development finance and venture capital finance by the SEDCO, VCCZ and CDC (new)
- ② Lease or installment agreements for machinery
- ③ Credit insurance for government finance under the new SMEs Modernisation Promotion Law and others



Note: (\*) Represents an organization supported by a prefectural government (local government).

Fig. 5-3 Mechanism of Credit Insurance System: Outline of Activities

## (2) Partial Reorganization of Competent Ministry of Cooperatives

Active encouragement of the establishment of cooperatives after the example of Japan is necessary to foster SMEs by means of organizing SMEs with scarce managerial resources to improve their market competitiveness. To this effect, it is recommended that the government structure be partially changed so that cooperatives in specific business categories are placed under the jurisdiction of the respective competent ministry instead of centralised control by the Ministry of National Affairs, Employment Creation and Cooperatives. Following this change, cooperatives in the commerce and manufacturing sector should be controlled by the MOIC. This new arrangement is expected to stimulate the development of SMEs together with encouragement for SMEs to form cooperatives under the proposed Modernisation Law.

(3) Cooperative Development Corporation (CDC)

Given the difficult fiscal situation in Zimbabwe, the introduction of a similar system is worthy of consideration. In this context, the Collective Self Finance Scheme, a NGO, currently provides development finance for its member cooperatives, etc. and has been growing rapidly with the assistance of the government and overseas donors. This organization was incorporated in 1998 and is said to aim at listing on the stock exchange within the next few years. The Study Team has formulated a prototype for such a financing institution to be controlled by the MOIC together with the SEDCO for discussion by the people concerned (see Appendix). While using the above-mentioned scheme as the central core, the planned funding for this institution also comes from donors (as the scheme still plans to receive grants from donors which can be converted to capital for the new institution) and the government (the partial diversion of the World Bank's 40 year loan as capital for the new institution will reduce the scale of new government expenditure). (Body of the report, refer to data)

(4) Strengthening of the Functions of SEDCO

In this report, enactment of the Small and Medium Enterprise Basic Law and the Small and Medium Enterprise Modernisation Promotion Law is recommended. Coordination of the opinions of the ministries concerned, formulation of the articles of association of the SEDCO and consolidation of the relevant system will be required under these laws so that low interest loans can be provided to advance and modernise SMEs together with the implementation of SMEs promotion policies and measures.

(5) Association of Consultants for SMEs

Many organizations in Zimbabwe, including the ZNCC, CZI, BESA, Empretec and DANHIKO (NGO) provide consultancy services. The SEDCO and ZIMTRADE also provide consultancy, education and training services as side businesses. Here, the establishment of the Association of Consultants for SMEs is recommended to facilitate communication and information exchange between consultancy service providers and to improve the professional quality of consultants. It is desirable that this association is able to train consultants specialising in SMEs policies/measures and to provide qualifications based on training and tests in the long run. These consultants will be able to act as intermediaries between the government organizations responsible for SMEs administration and SMEs to facilitate the smooth implementation of various SMEs promotion measures.

## 5.4 Policy Development

At present, Zimbabwe does not have a coherent SMEs promotion policy. The MOIC, MOF and other ministries and various bodies recognise the need for such a policy and the introduction of a grand design determining the framework for promotion policies/measures is urgently required.

Given Zimbabwe's present conditions and problems described earlier, the following two approaches should be adopted to formulate a grand design for the promotion of SMEs.

### 1) Bolstering of the Business Base

Financial measures, taxation measures, organizational measures, management guidance measures, subcontracting normalisation measures, business coordination measures, public sector demand assurance measures and others

### 2) Support for Structural Reform

New business start-up assistance measures, measures to support business expansion in new fields, modernisation and advancement measures, labour measures, technical strength improvement measures, distribution rationalisation measures, informatisation measures, environmental and safety measures, internationalisation measures, local SMEs support measures and others

The Study Team recommends the scheme incorporating policies and measures shown in Fig. 5-4.

Basic recommendations have so far been made from the viewpoints of legislation, organization and policies to facilitate the structural reforms envisaged by the ZIMPREST 1996 - 2000. It is hoped that these recommendations will be implemented step-by-step by deciding their priority and allocating the limited budget in an efficient manner. Recommendations on concrete measures regarding management, marketing, technology, manpower and finance to promote SMEs are made next.

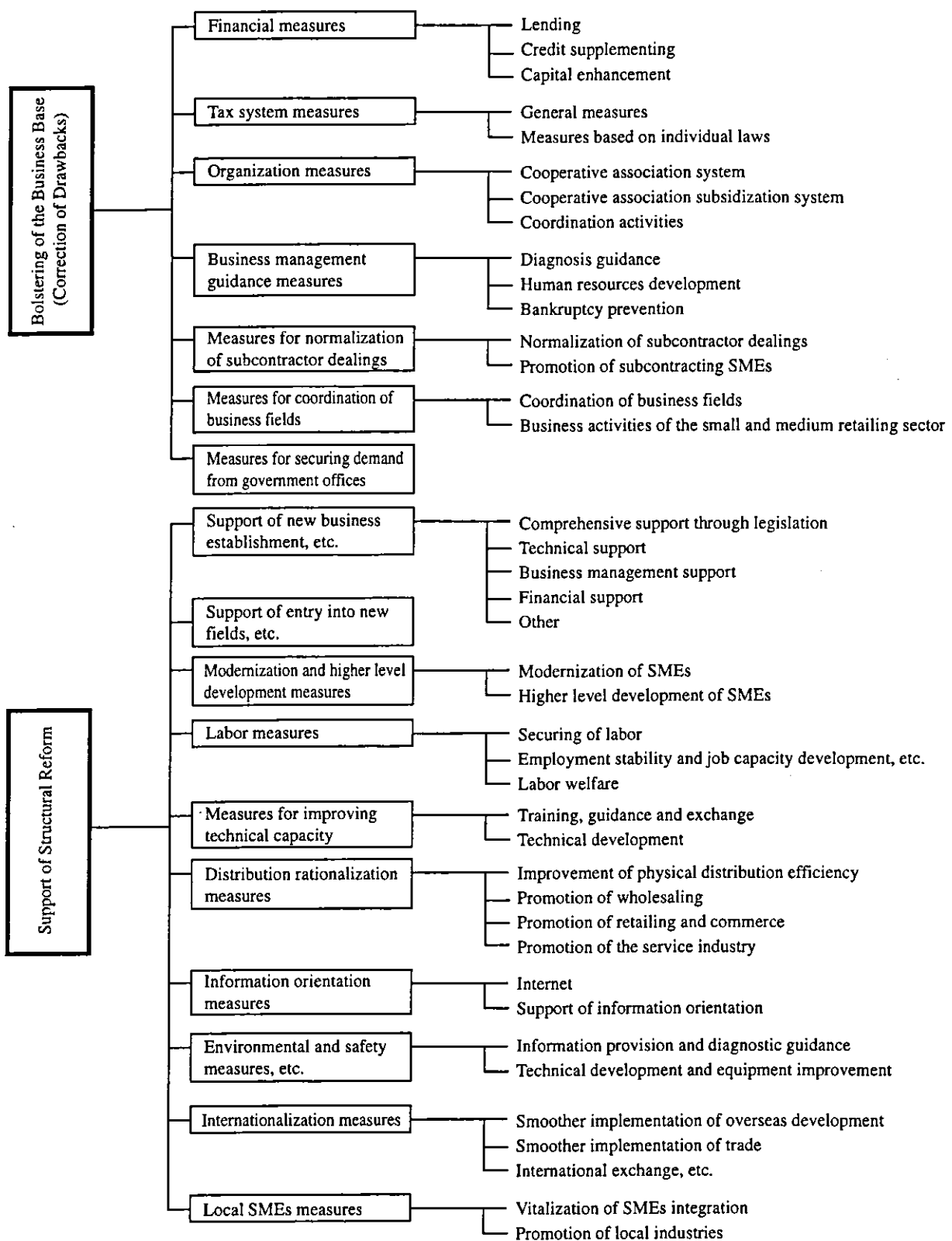


Fig. 5-4 SMEs Promotion Scheme

## 5.5 Management and Marketing

### (1) Management

<Recommendation 1: Development of information sources to improve managerial abilities>

The surveys conducted so far, however, have found a strong opinion that there is a lack of means of access to useful information for SMEs. There will be many cases where, even though the field in charge may differ, each service provider may give managerial guidance to the enterprise. The possession of diagnostic data on management, marketing and technology, etc. without coordination does not promise the successful improvement of management, so a database incorporating all relevant data should be created so that it can serve to comprehensive diagnosis.

### (2) Marketing

<Recommendation 2: Promotion of diverse forms of export (OEM and others)>

Future export promotion measures (on fiber, food processing, etc.) should focus not only on product export for the sake of the export performance but also on actual gains through OEM exports as well as consignment exports.

<Recommendation 3: Development of various export systems>

An enterprise newly established in an EPZ can enjoy the following incentives if it exports 80% of the production value.

There is a call for improvement of the present arrangements because it is risky for SMEs to try to export 80% of the product value and also because the absence of incentives before reaching this 80% quote is unfair. Another fundamental argument is that the preferential treatment of export enterprises operating only in an EPZ is highly questionable. Having assessed the opinions of the competent offices and people concerned regarding these points, the following recommendations are made.

<Recommendation 4: Rationalisation of customs clearance and bond systems>

1) Expansion of Bond System

The duty draw back system is currently employed in Zimbabwe. Although this is a system under which imported raw materials for re-export are still charged import duty which is refunded when they are actually re-exported, it is not functioning well. As bonded warehouses are already available in Zimbabwe, expansion of the present system in the following manner through a revision of the relevant laws should help to solve the problem.

- ① Rationalization of Designated Bonded Areas
- ② Rationalization of Bonded Warehouses
- ③ Rationalization of Bonded Manufacturing Warehouses
- ④ New installation of Bonded Exhibition Display Areas

<Recommendation 5: Improvement of trade-related administrative capability>

Another problem to be addressed for the promotion of trade without awaiting the introduction of the new system described above is the currently slow customs clearance process.

Unless Zimbabwe realises that its inland nature is a disadvantage and introduces a speedy customs clearance procedure, it may lose the competition with not only South Africa but also with such rivals as Botswana, Swaziland and Lesotho.

<Recommendation 6: Export promotion measures>

1) Structural Reform of Textile Industry

In the domestic market, loss of the domestic demand due to the import of second-hand clothes for low income families has had a major adverse impact on the operation rate of the textile industry. This system aims at regulating the competition between imported inexpensive products and domestic products. A primary tariff (zero or very low) is applied to imported goods up to a specified volume to protect the interests of consumers while a secondary tariff (high) is applied to imported goods above the specified volume to protect domestic producers. There are two methods of deciding a specific tariff quota, i.e. (i) the first come, first served method where applications are accepted up to the specified import quota and (ii) the prior allocation method where

allocation is made based on the import performance in the past. The latter has been accepted under the GATT regime provided that it is not introduced to discriminate against specific countries.

## 2) Export Promotion of Wood Furniture to South Africa and Other Neighbouring Countries

The survey conducted by the Study Team confirmed the economic viability of wood furniture export to South Africa although an improvement of the quality is required.

The preconditions for an improved export performance are better quality and better design. Apart from the use of public development and testing organizations described in the section dealing with metal processing, supporting measures, including, improvement of the workmanship through vocational training, will be required. (For concrete measures for this purpose, refer to Action Program: Furniture.)

### <Recommendation 7: Better organization and technical advancement of SMEs>

Active encouragement of the establishment of cooperatives after the example of Japan is necessary to foster SMEs by means of organizing SMEs with scarce managerial resources to improve their market competitiveness. To this effect, it is recommended that the government structure be partially changed so that cooperatives in specific business categories are placed under the jurisdiction of the respective competent ministry instead of centralised control by the Ministry of National Affairs, Employment Creation and Cooperatives. Following this change, cooperatives in the commerce and manufacturing sector should be controlled by the MOIC.

This new arrangement is expected to stimulate the development of SMEs together with encouragement for SMEs to form cooperatives under the proposed SMEs Modernisation Promotion Law.

## **5.6 Technology and Manpower Development**

The educational system in Zimbabwe is well developed and the use of English as the official language is an important advantage for the country's international development in the future. The following responses are recommended to further enhance such advantages to ensure the development of the economy and the creation of an industrialised society.



### (1) Upgrading of Vocational Abilities

<Recommendation 1: Fair opportunities for upgrading of vocational abilities>

- Review of the secondary school curriculum to consolidate the teaching of mathematics, science and other basic as well as practical subjects and to provide elementary vocational education
- Development of new educational/training methods for people living in remote areas, including mobile schools

<Recommendation 2: Support for life-long skill development through OJT and self-education>

- Preparation of a map detailing the skills required for each type of job and class for use as a guideline to improve vocational abilities (skills) through OJT and self-education.
- Spread of inexpensive and practical textbooks
- Development of a skill competition to encourage the further improvement of skills after the awarding of a certificate

### (2) Development of Managerial Abilities

<Recommendation 2-1: Practicality of training courses>

<Recommendation 2-2: Provision of travelling guidance by qualified consultants to ensure effective guidance on site>

<Recommendation 2-3: Creation of opportunities for joint study or discussion by SMEs owners to assist their self-education efforts>

### (3) Support for Technical Upgrading

<Recommendation 3-1: Examination of a system under which technical and research institutions in Zimbabwe and the SADC cooperate and share the work, utilising their own characteristics>

<Recommendation 3-2: R & D institutions should act as key centres for the design and manufacture of prototypes of new products to be developed by SMEs>

<Recommendation 3-3: Creation of a travelling guidance system for SMEs by experts well-experienced in manufacturing>

<Recommendation 3-4: Creation of a system where SMEs have easy access to technical information >

Manpower development training/guidance and technical development measures incorporating the spirit of the above recommendations have already been partially implemented by related ministries and institutions, such as the BESA, SEDCO and SIRDC, etc. For the systematic implementation of these recommendations, however, the use of the department assigned to plan and implement SMEs promotion policies, which will be created within the MOIC as a central organization, is strongly advised so that the implementation priority of recommendations can be determined together with the step-by-step development of the necessary legal framework and clarification of the responsible body for the implementation of each recommendation to ensure their actual implementation.

For these purposes, it will be necessary to learn more about the experiences of industrialised countries in regard to the formulation and implementation of SMEs promotion policies/measures and also to consider inviting suitable experts as advisors.

## **5.7 Recommendations Regarding Financial Policies**

When the macroeconomy of Zimbabwe suffers, causing a tight money market and widespread reluctance on the part of financial institutions to make loans, SMEs will be the first to suffer. To avoid the occurrence of such a situation, a special financial institution(s) which is friendly to SMEs is required. In addition, it is also necessary to secure funds designated for the financing of SMEs. As SMEs are economically weak compared to large enterprises, it is a common phenomenon throughout the world for the mortality, i.e. bankruptcy or business closure, of SMEs to be generally high even under a normal economic situation. This tendency is sharply manifest during a recession.

As stated in 5.3, the establishment of a special financial institution with the character of a mutual help cooperative for SMEs and the development of a credit supplement system are necessary to rectify the unfavourable conditions surrounding SMEs.

In reality, however, several hurdles must be cleared before the establishment of the above institutions, meaning that the process of establishment will be a fairly lengthy period. Because of this and the current situation of SMEs in Zimbabwe, the following immediate actions are recommended to improve or consolidate the present set-up.

<Recommendation 1: Expansion of the scope of loans for SMEs>

- Use of the counterfunds for BP support under foreign aid to provide long-term, low interest finance for the modernisation of equipment and consolidation of the capital base of SMEs
- The Apex Unit of the RBZ to be a possible provider of the above finance

<Recommendation 2: Improved lending method for SMEs (group lending)>

- Further promotion of group lending which is already practiced by the SEDCO and others on a minor scale
- Active use of loans, combining training and lending, which is also practiced by the SEDCO and others on a minor scale

<Recommendation 3: Expansion of the guarantee function of the CGC to support the creditability of SMEs>

- Increase of the capital to expand the guarantee coverage to more than 50%
- Possible introduction of a credit insurance system to avoid the risk of bad debts
- Provision of a credit guarantee for loans provided by the SEDCO and others for SMEs

<Recommendation 4: Strengthening of the functions of bodies responsible for comprehensive policy coordination>

Regular liaison meetings between the bodies responsible for financial administration (such as the MOF and RBZ) and financial institutions (ZDB, SEDCO, CGC and VCCZ) as well as the MOIC which is responsible for the promotion of SMEs promotion policies should be held to discuss desirable arrangements for the financing of SMEs and the conformity of foreign aid and domestic policies regarding the promotion of SMEs.

Needless to say, administrative and budgetary assistance will be required for the implementation of the above recommendations. As to the method of implementation, it will be necessary to conduct a detailed feasibility study. Several proposals are given in Chapter 5.7 of the main report.

## **5.8 Recommendations for Promotion of Four Priority Industries(Action Plans)**

The problems faced by the four priority industries and measures to solve them are outlined below from the technical aspect.

- a) Production control techniques (quality control, cost control, process control and factory control, etc.) noticeably lag behind the times. These techniques should be urgently improved in view of better competitiveness, particularly for export (metal processing, textile and furniture industries).
- b) In the small domestic market, SMEs are exposed to severe competition from large enterprises. SMEs must meet the following challenges for their own survival.
  - Improvement of design techniques to localise and differentiate their products
  - Development of new products to create new markets
  - Maintenance of quality through the improved skills of workers
- c) In general, equipment deterioration is noticeable and equipment maintenance is inadequate. The local production of mechanical equipment and parts must be promoted together with efforts to establish machinery specifications, i.e. standard use of such specifications across the country, and to both rationalise and simplify the equipment maintenance processes.

The recommendations described in the next section onward have been compiled to solve above problems a) and b) while taking the situation of each industry into consideration. As problem c) is deemed to be a fundamental problem for the machine and metal industries, it should be solved as soon as possible. For this purpose, the implementation of a project to establish a prototype design and production centre is separately recommended to facilitate the local production of hitherto imported machinery and parts (see Chapter 6).

### **5.8.1 Action Plan for Metal Processing Industry**

After South Africa, Zimbabwe is the only industrialised country in the region. The development of infrastructure and domestic industries produce a demand for processed metal products, centering on machinery. At present, most of these products are imported. The country's worsening economic situation makes it difficult for enterprises using imported machinery to renew their equipment or to import the necessary spare parts.

In order to rectify the situation, the domestic production of hitherto imported processed metal products for the stable supply of machinery and parts is necessary. In other words, the localisation of imported machinery and parts should be the pillar of the strategy to promote the casting and other metal processing industries.

The action plan designed to achieve the basic strategy described above will consist of the following three programmes.

<Programme 1: Improvement of production control techniques>

The precondition for “a stable supply to meet the domestic demand” is competitive quality, price and delivery date vis-a-vis imported products. Manufacturers must maintain the required quality, complete products by the required delivery data and reduce the cost to fight off the competition.

Improvement of the present situation in which the product quality, etc. is unknown until completion to a situation in which the production of good quality products is completed by a predetermined date at a target cost is necessary through the improvement of production control techniques.

<Programme 2: Improvement of design techniques and processing technologies>

Many SMEs surveys in the past have found that products are made relying on copies and previous experience. Plant and machine components must be capable of maintaining their performance and must be interchangeable. To produce such components, they must be designed so as to perform the required functions instead of reliance on the copying of existing products. In addition, appropriate production equipment and work arrangements are necessary for the efficient production of products which meet the required quality.

In view of these requirements, the establishment of a design, prototype development and testing centre at a government organization to be responsible for product design to promote localisation is recommended.

<Programme 3: Promotion of linkage with other enterprises>

The division of work in industrialised countries has progressed to the point that general enterprises, i.e. large enterprises, mainly conduct assembly and installation while SMEs specialise in casting, forging, machining and welding, etc. as subcontractors of large

enterprises. This clear division of work between large enterprises and SMEs has not yet been developed in Zimbabwe.

The development of linkage between enterprises is highly desirable for the development of the metal processing industry as a whole and for the promotion of SMEs. The government should strongly encourage the localised production of hitherto imported machinery and machine parts and subcontracting to SMEs.

### 5.8.2 Action Plan for Food Processing Industry

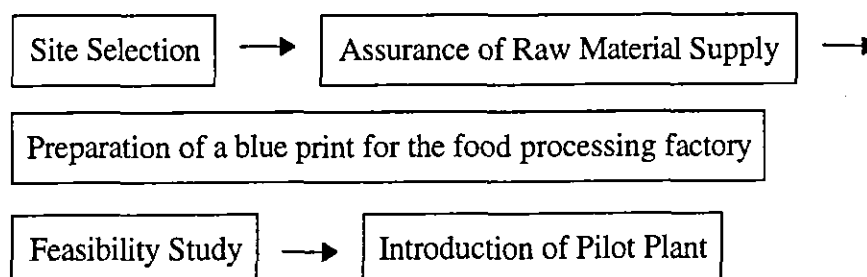
The food processing industry involves wide-ranging processing technologies as well as raw materials and, therefore, the formulation of uniform promotion measures for the industry as a whole is difficult. Promotion measures must be formulated based on careful consideration of the particular circumstances of each sub-sector. As discovered by the field surveys, flour milling and the secondary processing of flour provide wide opportunities for the entry of SMEs as the technologies involved in these businesses are easy to learn. In addition, the amount of the initial funding required is relatively small.

In comparison, tinning and drying businesses are rather capital intensive and the technologies involved are fairly complicated, making it difficult for SMEs to enter these business fields. Moreover, factory-size food processing requires a reliable link with a distribution channel for its success.

While it appears difficult for SMEs to enter and grow in business fields which are currently dominated by large enterprises, the fostering of SMEs operating in local areas where specific products are produced is still an important agenda for the government. From this point of view, a scenario for the entry of SMEs into the dried vegetable business is described next as an example.

#### <Programme 1: Promotion of food processing businesses using local products>

The processes of building and promoting an agricultural products processing base are explained here .



<Programme 2: Establishment of specialist technology and development of new merchandise>

The targeted vegetable and fruit drying technology is a new technology for Zimbabwe. The following recommendations are made in consideration of the fact that the learning and spread of such a technology is the key to stable food processing activities.

It is assumed that the SIRDC will be the responsible body for the implementation of these recommendations.

- 1) Learning and Improvement of Specialist Technology → Training of Engineers and Technicians
- 2) Training of Workers
- 3) Catching-Up With International Technological Standards
- 4) Development of New Commodities, Surveys on Market Trends, New Commodities and New Businesses
- 5) Promotion of planting of technology by research and development organs

<Programme 3: Improvement of supporting technologies>

One of the key factors to ensure successful food processing businesses is improvement of the supporting technologies/techniques in regard to the development of merchandise which is appropriate vis-a-vis consumer tastes, packaging acceptable by consumers and the consideration of sustained quality. The necessary measures to achieve such improvement are recommended next.

- 1) Research on Qualitative Characteristics of Raw Materials for Processing
- 2) Learning and Improvement of Packaging Technologies
- 3) Learning and Improvement of Manufacturing Technologies for Secondary Raw Materials

The above recommendations using dried vegetables as an example must be complementary to ensure the development of the food processing industry as a whole due to the wide-ranging sub-sectors in this industrial field.

Further recommendations for the development of the flour milling and thinning sub-sectors are made below.

<Flour Milling>

- (1) R & D on Milling of Crops Other Than Maize
- (2) Development of Secondary Processed Merchandise
- (3) Mobile Factories

< Tinned Products >

- (1) R & D on Packaging Forms Other than Tin
- (2) Commodity Development

### **5.8.3 Recommendations for Textile and Clothing Industry (Sewing Industry)**

Although the apparel industry, in which the sewing industry plays a central role, provides easy opportunities for new entry because heavy investment is unnecessary, the small domestic market and severe competition from imported products suggest the possibility of domestic manufacturers struggling with one another to increase their own share of the small market.

Due to Zimbabwe's geographical advantage, however, growth of the apparel industry may be possible through development of the export market. Neighbouring South Africa has traditionally been a major export market for Zimbabwe even though there is currently a problem regarding the trade agreement. The rapidly growing US market of African Americans (some 10% of the entire population) provides the prospect of an export market for Zimbabwe's products as African Americans have similar tastes to the indigenous people of Zimbabwe.

In short, the export market is currently the only market which provides any prospect of quantitative growth for Zimbabwe products and is open to both large and small-size sewing enterprises in Zimbabwe.

<Action Plan>

The action plan target is the "development of SMEs to a level capable of entering the export market". The following three programmes should be implemented under the action plan to achieve this target.

Programme 1 : Improvement of production control techniques

Programme 2 : Improvement of cutting, sewing and finishing skills



### Programme 3 : Market development

Proper production control is a precondition for development of the export market.

In view of the above findings of past surveys, the programmes cover the three elements of production, i.e. workers, materials and equipment, and aim at establishing a system in which skills, technologies/techniques, high morale and equipment are integrated.

As improvement of the cutting, sewing and finishing skills is inseparable from the manpower development programme to improve production control techniques, the simultaneous implementation of these two programmes is essential.

#### < Programme 3 >

For the development of the export market, it is firstly necessary to identify the particular needs of the target export market and to attract the attention of buyers by proposing merchandise which is appropriate for the market in question. It is also necessary to convince buyers that the required quality, cost and delivery terms can be properly met.

To establish a system that can handle this export, <1> enhancement of Zimtrade, incentives for exports, and promotion and enhancement of relevant industries are proposed.

#### **5.8.4 Recommendations for Furniture Manufacturing Industry**

When looking into the present status of small and medium furniture manufactures, they produce those products that are generally of medium or low class both in quality and grade and are inferior to the high quality and more expensive products of large manufacturers that are capable of exporting their products in terms of design and production technologies, etc.

Nevertheless, it is possible for SMEs to narrow the gap and to grow as enterprises with export capability, making export a realistic option as in the case of large manufacturers. The promotion of furniture exports should alleviate the excessive competition in the domestic market and, therefore, should greatly contribute to the development of the furniture industry. SMEs generally lag behind large manufacturers in the following aspects.

Based on the above mentioned present, status, an action plan and development program will be proposed so that they can compete in those export markets that have high potentiality of market development.

<Action plan>

The objective of promotion will be set as "the development into those enterprises that have such technical level that enables them to participated in export markets." The action plan to achieve the above objective will be composed of three programs as describe below.

Programme 1 : Production improvement measures

Programme 2 : Trial design of export-oriented factory

Programme 3 : Furniture design development and market development measures

## **CHAPTER 6**

# **PROJECTS TO IMPLEMENT RECOMMENDATIONS**



## **CHAPTER 6**

### **PROJECTS TO IMPLEMENT RECOMMENDATIONS**

Recommendations are made in Chapter 5 to promote SMEs from the administrative and technical aspects. In the implementation of these recommendations, it is desirable to determine their priority order for successive implementation, taking the feasibility of creating the necessary conditions, cost-benefit aspect and difficulty of implementing each recommendation into consideration.

The Study Team proposes the following projects to ensure partial achievement, at least, of the recommendations as soon as possible, taking into account the facts established by the field surveys and subsequent analysis.

- Project 1 : Training and guidance to improve local ability to plan promotion policies/measures
- Project 2 : Establishment of a “Small and Medium Enterprises Technology Support Centre” which is aimed at solving technological issues of SMEs
- Project 3 : Introduction of prototype product design and production centre to facilitate local production of hitherto imported machinery and spare parts
- Project 4 : Introduction of pilot food processing plant (using the multi-purpose, vacuum freeze-drying method)
- Project 5 : Market Development Assistance Project (Textile and Apparel Products)
- Project 6 : Opening of Wood Furniture Technical Guidance Centre

The concept of scale of these projects are described below.

<Project 1: Training and Guidance to Improve Local Ability to Plan Promotion Policies/Measures>

This project is purposed to enhance the ability to plan those laws and policies that provide a basis for the promotion of SMEs and arrange and foster the environments for promotion.

- Expert : Invitation of one foreign expert with rich experience in SMEs promotion policies
- Objectives : Advice on policies and the development of an administration system

- Activities :
  - Advice and guidance for the formulation of a policy framework (grand design)
  - Implementation of policies based on the experience of the expert's country and transfer of know-how
  - Guidance for counterparts to improve their planning ability
  - Transfer of wide-ranging knowledge through overseas training
- Subject persons : Staff of the MOIC and other related organizations

< Project 2: Enhancement of the technical training and traveling guidance systems for the improvement of technical levels >

This project is purposed to provide enterprises with competitive power in the market in terms of technology and price through the improvement of technical levels of SMEs (production control, quality control, efficiency, etc.). Outline of the project to be proposed is as follows:

- Experts : Foreign experts who have experiences in SMEs related technological administration and are familiar with one of the four priority industries (multiple experts are desirable).
- Objectives : Subsidies for the configuration of technological administration (ex.: SMEs diagnostician system) and guidance for the improvement of technical power on enterprise levels.
- Period : 5 years
- Subject persons : Employees of the organs in charge of technical promotion including the SIRDC
- Facilities : The range of facilities required to fulfill the stated objectives of the Centre is listed in Table 6-2. It is assumed in this table that facilities will be concurrently built up in Stage 1 through Stage 3 for each sector but that the timing may differ from one sector to another depending on the actual situation.
- Activities :
  - Research
  - Consultations and Guidance on Technologies
  - Tests on Request
  - Manpower Development
  - Technology Exchange

< Project 3: Introduction of Prototype Product Design and Production Centre to Facilitate Local Production of Hitherto Imported Machinery and Spare Parts >

Although Zimbabwe is currently importing many machines mainly consisting of production equipment, there are many cases where these machines are exceeding the level required by Zimbabwe. Further, it is difficult to obtain maintenance and repair parts for old imported machines and therefore, many machines that are left idle can be seen. This project is purposed to correct such inconvenience so that machinery and equipment can be used effectively. Outline of the project to be proposed is as follows:

- Experts : Design and production experts in technically advanced countries
- Building : Use of an existing building of the SIRDC or others
- Equipment : - Hardware and software for mainly computer-aided design  
- Casting and machining equipment for the production of product prototypes
- Objective : Localisation of technologies and Africanisation of machine specifications
- Period : Approximately 5 years
- Activities : - Design and production of product prototypes for the Africanisation of machine specifications (establishment of appropriate technologies)  
- Fostering of local technologies through Africanisation  
- Guidance to develop products suitable for production by SMEs

< Project 4: Food processing pilot plant (of multi-purposed vacuum chilling and drying system) >

This is a pilot project purposed to introduce new food processing technologies so that those surplus agricultural products that have been abandoned because no suitable methods for processing them were not known can be utilized effectively. Outline of the project to be proposed is as follows:

- Instructors : One expert in food processing and one instructor for operation and maintenance of equipment
- Equipment : A set of machinery and equipment is made mobile by mounting on several containers (8×8×20 feet type) so that traveling guidance to rural areas is enabled.
- Main machinery and equipment:  
Food preparation process container, processing equipment container,

power equipment container (as required), accessory accommodating container, and so on.

(Refer to the attached sheet for the details of the processing equipment container.)

**Objectives** : To promote introduction and diffusion of new technology while traveling around the local growth points specified by the government. Further, to promote the local installation of equipment concurrently through Project 3.

Incidentally, security of raw material is an important point in the food processing project. So a survey was conducted by employing local consultants as for the concrete measures for organizing small farmers and collection of material.

**Period** : Approximately 5 years

Further, although this project will be implemented as a pilot project, if technology succeeds in taking root, synergetic effects such as the increase in the opportunity for small farmers to obtain incomes and vitalization of growth points.



**CHAPTER 7**

**CONCLUSIONS**



## **CHAPTER 7 CONCLUSIONS**

The Master Plan Study on the Promotion of Small and Medium Scale Enterprises which commenced in March, 1998 was completed with the Fourth Field Survey conducted in October.

Based on the findings of four field surveys, SME promotion policies in Zimbabwe were reviewed (see Chapter 2), the present state of the four priority industries subject to the Study was investigated (see Chapter 3) and the current problems of organizations involved in such promotion policies and the institutional arrangements were analysed (see Chapter 4). The analysis results are summarised below to present an overview of the subject industries.

- (1) The rapid shift to a market economy under the ESAP introduced in 1991 has led to negative growth of the manufacturing industry as not only SMEs which are weak in terms of their business strength but also large enterprises have faced the worst case scenario of reduced production or even bankruptcy due to their inability to cope with the impacts of rapid changes. While the advance study of the possible impacts of any change of basic economic policies is essential with a view to the preparation of suitable measures to prevent adverse effects, there is no evidence that any integrated industrial policy has been formulated in Zimbabwe. The absence of a government department in charge of policy planning for SMEs in particular appears to be responsible for the lack of appropriate measures to deal with the profound change of the official economic policy.
- (2) SMEs are said to suffer from discrimination by the commercial capital market because of their inferior management strength as well as immature management resources vis-a-vis large enterprises. They are also exposed to high inflation, rising interest rates and decline of the Zimbabwe dollar in the foreign exchange market, all of which are the result of the recent deterioration of the macroeconomy, and find it extremely difficult to raise funds. Despite these apparent disadvantages of SMEs, no basic policy or supporting measure to solve the problems of SMEs has so far been introduced.
- (3) SMEs are currently facing harsh competition from the huge number of very small businesses, i.e. those in the so-called informal sector. In order to survive the competition, there is a tendency for them to be content with low quality, low price products while ignoring technical improvement. There is also a distinct technological gap between SMEs and large enterprises.

- (4) Zimbabwe has a population of 12 million, of which 62% fall below the consumption poverty line (annual income of approximately US\$ 250 in 1995). This makes the domestic market extremely small. With the inflow of foreign products to this market due to liberalisation of the economy, the products of SMEs generally faced severe competition posed by products of both large and very small companies as well as foreign products.

Recommendations to solve the problems described above must be made within the scope of the guidelines set forth by the ZIMPREST which is currently being implemented by the government. As such recommendations will constitute part of the master plan to promote SMEs in Zimbabwe, the actual recommendations (see Chapter 5) are made from the long-term perspective. The recommendations are compiled in relation to policies regarding five aspects, i.e. institutional arrangements, organization, finance, management/marketing and technological as well as manpower development. Action plans are also presented for the promotion of the four priority industries.

Firstly, in regard to the institutional aspect, the main recommendation is the establishment of a department responsible for policy planning and implementation at the Ministry of Industry and Commerce based on the understanding that the presence of an administrative department to promote SMEs development at the Ministry is essential for policy implementation. As the Government of Zimbabwe agrees with the necessity for the establishment of such a department, a resolution for its establishment has been passed by the Steering Committee. As the same time, a project has been proposed to train the staff members of this new department by foreign experts with a view to improving the policy planning ability of these staff members to make the department function properly (see Chapter 6, Project 1).

The recommendations in regard to the institutional and organizational aspects include (i) the development of a legal framework, including the Basic SMEs Law (see Section 5.2), (ii) the creation of a financing organization together with a credit supplementation system for SMEs (see Section 5.3) and (iii) the introduction of general rules governing the systematic policy framework, including consolidation of the management basis (rectification of disadvantages) as well as the structural reform of SMEs (see Section 5.4), taking the desirable future state of SMEs into consideration.

Meanwhile, the recommendations compiled to deal with the problems faced by the four priority industries typified by (2), (3) and (4) above from the policy aspect include those for the development of management information and export promotion to expand the market in terms of management and marketing (see Section 5.5) and those for improvement of the vocational and

management ability, improvement of the technical standard and the localisation of technologies in terms of technological as well as manpower development (see Section 5.6).

In regard to the financial aspect, the establishment of a financing organization as well as a credit supplementation system for SMEs is recommended as a future initiative. The background of this initiative is the judgement that, in view of the present state of the financial sector in Zimbabwe, an independent as well as cooperative financial system featuring SMEs is required to facilitate the development of SMEs. Given the economic size and current state of the macroeconomy in Zimbabwe, the establishment of a credit supplementation system for SMEs recommended here could prove controversial. Consequently, the consolidation and improvement of the existing system in which the CGC plays a central role is believed to be an urgent issue, resulting in recommendations to expand the loan facilities, to improve the lending system and to extend the guarantee function (see Section 5.7).

Action plans to promote the four priority industries are compiled with the highest priority given to improvement of the technical standard as the low technical standard of SMEs is recognised as a common problem in all industries. A project to establish a SMEs technical assistance centre is proposed for the implementation of these action plans (see Chapter 6, Project 2). The action plans also address the problem of excessive competition due to the small market size by means of developing an export market for the textile and wood furniture industries, promoting the local production of machinery and components for import substitution for the metal processing industry and promoting the processing of raw materials at their places of production for the food processing industry. Moreover, one project for each industry is proposed to verify the suitability of the action plans (see Chapter 6, Projects 3, 4, 5 and 6).

The main issues taken into consideration in the preparation of the present final report are explained above. Finally, all members of the Study Team would like to express their utmost gratitude to the officials of the JICA and Zimbabwe Ministry of Industry and Commerce and other organizations related to the Study for their kind assistance for the implementation of the Study.

Table 7-1 Recommendations and Draft Execution Measures for Promotion of SMEs

Classification	Recommendations	Priority Ranking	Draft Execution Measures	
Institutions	1. Recommendations concerning establishment of a department for planning and formulating policies	A	First establish the department described in 1, then bolster the functions given in 2, and finally implement the measures given in 3 and 4. To execute this, accept advice and guidance from foreign experts (see Project 1).	
	2. Strengthening of overall policy coordination (including assistance coordination: See Section 5.7, Recommendation 4) functions centering around the MOF	A		
	3. Recommendations for legislative measures (for example, establishment of a basic law and modernization promotion law for SMEs)	B		
	4. Recommendations concerning systemization of policies	C		
Mechanism	1. New establishment of a credit guarantee company	C	Prioritize and implement in order of importance through receiving advice and guidance from foreign experts.	
	2. Credit and insurance bank for SMEs	C		
	3. Revision of the government mechanism concerning supervision of cooperative associations	B		
	4. Development finance company for cooperative associations	C		
	5. Strengthening of SEDCO functions	A		
	6. Consultant association	B		
Finance	1. Promotion of expansion of the lending fund frame (utilization of BP support funds)	B	Speedy preparation of improvement measures with the provision of advice by the expert to be dispatched for Project 1	
	2. Strengthening of group lending	A		
	3. Expansion of credit guarantee functions (CGC)	A		
Business Management and Marketing	1. Improvement in business management capacity and access to information	B	Specific recommendation of execution measures such as preferential tax measures for bolstering exports by SMEs, revision of the EPZ system, and so on.	
	2. Examination of linkage	A		
	3. Examination of varied forms of export (OEM, etc.)	A		
	4. Revision of the EPZ system	A		
	5. Expansion of the bond system	A		
	6. Improvement of trade-related administrative capacity	B		
	7. Organization and higher level development of SMEs	C		
Human Resources and Technology	1. Improvement of vocational capability	A	A new section responsible for technical assistance for SMEs will be established at an existing R&D organization. This section must be provided with appropriate equipment and manpower and the assistance of a foreign expert will be sought to consolidate its functions.	
	2. Development of management capacity	A		
	3. Support of technical improvement	B		
Action Plans for the Four Priority Sectors	Metal Processing	1. Improvement of production management technology (production, quality, equipment maintenance, etc.)	A	1. Since improvement of production management technology is a common issue to three sectors, guidance and technical transfer by foreign experts shall be implemented (see Project 2). 2. The localisation of technology will be promoted for the metal processing industry (see Project 3). 3. Businesses using local products will be promoted for the food processing industry (see Project 4). 4. Export promotion measures will be introduced for the sawing industry. 5. A technical guidance centre will be established for the furniture industry (see Project 6).
		2. Improvement of design technology and machine working technology	A	
		3. Promotion of linkage with other enterprises	B	
	Food Processing	1. Promotion of producing area-located food processing	A	
		2. New product development and specialist technology	C	
		3. Improvement of peripheral technology	B	
	Textile Processing	1. Improvement of production management technology	A	
		2. Improvement of cutting, sewing and finishing techniques	A	
		3. Market development (for textile products)	A	
	Wooden Furniture	1. Measures for improving production (including training and patrol guidance, etc.)	A	
		2. Improvement of production management technology	A	
		3. Furniture design development and market pioneering	A	

Note Priority Ranking: A : immediate implementation recommended  
 B : to be implemented as soon as the conditions are ripe  
 C : long-term targets but with the relevant policies formulated in advance

(Note) See Table 7-1 for the contents of recommendation numbers

SMEs Measures Framework		Classification	Mechanism						Finance			Business Management and Marketing							Human Resources and Technology			Four Priority Sectors											
			Recommendation No.						1	2	3	1	2	3	1	2	3	4	5	6	7	1	2	3	Metal Processing			Food Processing			Textile Processing		
			1	2	3	4	5	6	1	2	3	1	2	3	4	5	6	7	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3
Bolstering of the Business Base (Correction of Drawbacks)	Financial measures	Lending				●	●		●	●																							
		Credit supplementing	●	●		●	●		●	●	●																						
		Capital enhancement				●	●																										
	Tax system measures	General measures													●																		
		Measures based on individual laws													●																		
	Organization measures	Cooperative association system			●																												
		Cooperative association subsidization system																															
Coordination activities																																	
Business management guidance measures	Diagnosis guidance																																
	Human resources development																		●														
Measures for normalization of subcontractor dealings	Normalization of subcontractor dealings																																
	Promotion of subcontracting Smells																																
Measures for coordination of business fields				●																													
Measures for securing demand from government offices																																	
Support of Structural Reform	New establishment support measures	Overall support through legislation																															
		Technical support																															
		Business management support																															
		Financial support				●	●																										
	Support of entry into new fields, etc.																																
	Modernization and higher level development measures	Modernization of SMEs																															
		Higher level development of Smells																															
	Labor measures	Securing of labor																															
		Employment stability and job capacity development, etc.																															
		Labor welfare																															
Measures for improving technical capacity	Training, guidance and exchange																																
	Technical development																																
Distribution rationalization measures	Improvement of physical distribution efficiency																																
	Promotion of wholesaling																																
	Promotion of retailing and commerce																																
	Promotion of the service industry																																
Information orientation measures	Internet																																
	Support of information orientation																																
Environmental and safety measures, etc.	Information provision and diagnostic guidance																																
	Technical development and equipment improvement																																
Internationalization measures	Smoother implementation of overseas development																																
	Smoother implementation of trade																																
	International exchange, etc.																																
Local SMEs measures	Vitalization of SMEs integration																																
	Promotion of local industries																																

Fig. 7-1 Correlation Chart of the Framework and Recommendations for SMEs Measures







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