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Zimbabwe

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Local Currency Evaluation

Small Enterprises Development  
Corporation

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## I. SUMMARY

### A. Preface

Both the Government of Zimbabwe and the United States Agency For International Development's mission to Zimbabwe recognised the potential importance of small scale enterprise in creating jobs, increasing economic activity and alleviating unemployment. The Government set up a parastatal corporation named the Small Enterprises Development Corporation, abbreviated to "SEDCO" USAID granted five million Zimbabwe dollars to SEDCO from counterpart funds generated from the commodity import programme.

In this report a description of the activities and achievements of SEDCO to date, particularly in relation to the USAID grant, is given. Highlighted are the successes and problems encountered. Threats to the continued success of SEDCO are identified and recommendations as to how the Corporation may overcome these are given.

It is noted that the time available for the study was prescribed. In the time it was not possible to follow all leads, nor was it possible to pursue the evaluation to the depths that may have been desirable. In particular, it was not possible to interview small enterprises that have received services or loans from SEDCO. We believe that the views of SEDCO's clients and indeed those who have applied but failed to become clients, would be of great value to the Corporation in its planning to achieve its aim; that of supporting the small scale enterprises in Zimbabwe.

### B. Description of Sedco

The Small Enterprises Development Corporation is a parastatal organisation in Zimbabwe. A "parastatal body" or Public Corporation in Zimbabwe is defined as;

" a public trading body that has a substantial degree of financial independence of the public authority that created it (Central Government)."  
and "is publicly controlled to the extent that a Minister or Parliament appoints and directs the whole or the majority of the board of management, is a corporate body which is free to manage its affairs without detailed control by Parliament and is in power to borrow within the limits laid down by Parliament and to maintain its own reserves" (7)

SEDCO is the newest of the 33 parastatal organisations in the country and is classified as "non-financial" (8).

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SEDCO is administered by the Ministry of Trade and Commerce in Zimbabwe.

SEDCO operates in two ways. Firstly it grants loans to small scale enterprises. These are issued from SEDCO's own resources and the organisation is responsible for all those activities necessary to administer the loans.

Secondly SEDCO offers a range of services designed to assist the small scale enterprise. These include training, consulting, viability studies and the like.

### C. Major Findings

#### 1. Z\$5 000 000 USAID GRANT

In December of 1984 the United States Agency for International Development granted five million Zimbabwe dollars to the Small Enterprises Development Corporation. The funds were obtained from the counterpart local currency generated under the commodity import programme 613-K-605, and were allocated to the Zimbabwe Ministry of Trade and Commerce for SEDCO.

This grant has, to date, been the only source of funds that SEDCO has had to lend. Government supplies the funding for the operation of the parastatal, but was unable to provide the capital base for the lending function of SEDCO. Without the USAID grant SEDCO may have been able to do no more than offer training, management and technical services to its clients. Access to these funds for lending has enabled SEDCO to become a significant force in the development of the small scale sector in Zimbabwe.

The USAID grant has had further impact. Recently the Government negotiated a new loan for ten million United States dollars from the International Bank for Reconstruction and Development. This money is to be used by SEDCO for lending. The five million Zimbabwe dollar capital base provided by the USAID grant was the foundation for this loan.

#### 2. Organisation established

Since its beginning in 1984, SEDCO has established a working organisation that supports the small scale sector throughout Zimbabwe. Branch offices have been set up and staffed throughout the country, and the Corporation has a fully functional Head Office in Harare.

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### 3. Loans granted by SEDCO

By June 1986 loans to a value of approximately \$3,9 million had been granted, to assist 226 small scale enterprises.

### 4. Massive demand for finance from the small scale sector

Applications from 2179 enterprises for a total of 52,3 million Zimbabwe dollars have been received by SEDCO. Support given amounts to 7,5 percent of the amount of funds asked for, and ten percent of the applicants have been granted loans. Reasons for this include;

1. The Corporation's inability to handle the volume of application.
2. Many applications are for projects that prove to be not viable.
3. Many applications are not pursued through by the applicants, due, we suspect to the cumbersome application procedure.

### 5. Sector distribution

In terms of its aims SEDCO has given preference to cooperatives. However and despite this, sole proprietaries have received the bulk of the assistance (54 percent). This was due entirely to the demand for finance from this sector.

### 6. Jobs created

It has been estimated that by June 1986, the activities of SEDCO had resulted in the direct employment of 494 people in the small scale sector. The amount of capital required, on average, for each new job was Z\$8 600.

### 7. Management

Several deficiencies in the operation of SEDCO have been identified. These relate mostly to the newness of SEDCO, and should thus ameliorate as the organisation gains experience.

The time taken by SEDCO to process an application for a loan from its clients has been excessive. On average, eight months have elapsed from application to the approval of a loan.

Loan recovery is at a rate far below the standard of the commercial banking sector, suggesting that the Corporation's funds may, in the future, be depleted through bad debts.

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At present the level of services provided (including loans) in relation to the operating expenses of the Corporation is low. SEDCO has a large staff of qualified professionals, but the level of experience is relatively low. SEDCO's staff spend a major part of their time being trained.

### 8. High operating costs

Operating costs of the Corporation are high in relation to its capital base. This is the result mainly of SEDCO's need for a large staff of qualified people needed to fulfill its functions.

### 9. Viability

The Small Enterprises Development Corporation derives substantial revenue from Zimbabwe Government grants. These grants cover the entire operating cost of the Corporation. Government plans to withdraw financial support for SEDCO from 1990. Thereafter, the Corporation's viability will be severely challenged.

## D. Recommendations

### 1. Scope of Operations

As so often happens in Parastatal organisations, SEDCO is required to fulfill both a commercial and a service function. In this there is potential dissonance. It is probable that commercial needs will, at times, conflict with the requirement to give service. This conflict is readily apparent when related to the financial performance of the organisation. The need to cut costs, for example, may result in services being curtailed. However, what is less apparent, but no less important, is the effect that potentially conflicting objectives have on management performance. It is extremely difficult for management to make decisions when it is not clear what the prime function of their organisation is. Are the managers to strive to make the Corporation self-financing, or are they to strive to support the small scale enterprises to the maximum extent? If the answer is to be somewhere between these, then argument and delay will inevitably prevail whenever a decision is needed.

The original concept for SEDCO was for support services to small scale enterprises in Zimbabwe. Envisaged was an organisation that would encourage the development of this sector by providing technical assistance, training, and advice, and by liaison with, and guarantees to, the established financial sector, enable the small scale sector to make use of the loan facilities offered by the finance houses.

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This concept was modified and the Corporation is now expected to function as a fully professional finance house, giving attractive loans to the small scale sector. In doing this the Corporation is in potential competition with the established financial organisations in Zimbabwe. At the same time, the Corporation is required to offer services to its target market, services that are not normally provided by development or commercial banks. SEDCO offers loans at lower rates than the commercial banks, and it is less stringent in its requirement for security from its clients. It thus takes greater risk. It provides additional services to its clients at uneconomic charges, and it is managed by a relatively inexperienced staff. At the same time the Corporation is expected to be self-financing and self-supporting. This, together with the peculiar feature of the Public Corporations where there is potential conflict between service and commercial objectives, puts SEDCO in a precarious position.

With this in mind SEDCO's Board and the Government may consider separating the service function from the banking function. The loans could be granted to suitable small scale enterprises from a parastatal organisation operating as a financial institution as its prime function. Those departments that supply services could be taken into the Ministry of Trade and Commerce where they could function as do the Departments of Agricultural and Technical Services and the Research and Specialist Services in the Ministry of Lands, Agriculture and Rural Resettlement. A further possibility would be for the Corporation to support small scale enterprises by offering guarantees for the loans granted to small scale enterprises by existing financial institutions.

### 2. Fund base

The Corporation's fund base is small in relation to its level of activity and thus its operating costs. If SEDCO is to continue to provide services and loans, and if Government is to withdraw its subsidy as planned, there will be an urgent need for more funds. It is recommended that the future viability of the Corporation be thoroughly analysed now, with the view to planning for its future support to the small scale sector in Zimbabwe.

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### II. INTRODUCTION

At Independence in 1980 the Government of Zimbabwe was challenged with numerous problems. Urgent action was needed to alleviate the poverty in the rural areas. Planning to reduce the level of unemployment in the Country and to raise the level of economic activity of the underprivileged population began early. The Government soon recognised the potential that small scale enterprise had to relieve these problems. It set up a parastatal organisation specifically to assist in the development of small scale enterprises in Zimbabwe. (1)

It is estimated that in 1980 in Zimbabwe there were some 7 800 small scale enterprises. These were defined as operations employing less than fifty workers. In total it was estimated that this sector employed in excess of 100 000 people. (2) It was believed that the potential for development of small scale enterprise was enormous.

The United States Agency for International Development in Zimbabwe recognised the potential importance of the small scale enterprise sector. The Agency, in its "Country Development Strategy Statement" for Zimbabwe states;

"Key among the structural economic constraints is the general lack of adequate employment opportunities coupled with surpluses of unskilled workers and shortages of skilled workers." (9)

USAID determined that support for small scale enterprise would be in accordance with their development strategy and would be in accordance with the objective of;

"Assisting the Government in raising the living standards, expanding agricultural output, rural incomes, and increasing employment opportunities while narrowing the stark dualism in the economy." (3)

Soon after the Independence of Zimbabwe the Mission of the United States Agency for International Development, in a letter to the Zimbabwe Government expressed an interest;

".. in assisting the Government of Zimbabwe to create a strong viable small business and industry sector." (4)

The Small Enterprises Development Corporation was established by Act of the Zimbabwe Parliament in 1983, with the overall objective of;

"realising the economic and social development potential of Zimbabwe's small enterprise sector" (5)

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and with the view to providing (5);

1. a reliable small enterprise promotion agency
2. services to small scale enterprise
3. advice to Government on the sector
4. encouragement to other organisations to participate
5. contact with aid agencies for funds and knowledge

The Small Enterprises Development Corporation began operations on 16th November 1984.

On 14th December 1984 USAID approved a Z\$5 million grant to the Zimbabwe Government for SEDCO. The funds were allocated from counterpart monies to be generated under the USAID 613-K-605 Commodity Import Programme to Zimbabwe. (6)

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## III. AIMS AND OBJECTS OF SEDCO

### A. Functions

The functions of SEDCO are defined in the Small Enterprises Development Corporation Act of 1983 as follows (10);

### B. Encouragement

"To encourage and assist in the establishment of co-operatives and small commercial or industrial enterprises;

### C. Assistance

"To provide an assistance, whether in the form of financial assistance, management counselling and training, information, advice or otherwise, to cooperatives and small commercial or industrial enterprises."

### D. Advice to Government

"To advise the Minister of all matters connected with cooperatives or small commercial enterprises."

### E. Other functions

"To do all things which by this Act or any other enactment are required or permitted to be done by the Corporation."

### F. Modification

These functions were modified (14) to include cooperatives in the "target sector", and to provide assistance to;

"schemes relating to reconstruction, expansion, better organisation and modernisation of existing and new cooperatives, commercial and industrial enterprises."

### G. Objectives

At the outset objectives were set for the Corporation (10). The overall "Development Objective" being;

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"To realise the economic and social development potential of Zimbabwe's small enterprise sector."

### H. Services

Intermediate objectives (10) were for the Corporation to set and establish a;

"promotional programme to provide the largest possible number of small scale enterprises with relevant services."

### I. Promotion Agency

"the Small Enterprises Development Corporation as a reliable small enterprise promotion agency."

### J. Advice to Government

"assist the Government of Zimbabwe on policy matters concerning the well-being and development of the small enterprises sector."

### K. Catalyst with existing institutions

"establish cooperation arrangement with public sector institutions, trade organisations and private sector enterprises in Zimbabwe which are willing to participate in the small enterprise development programme and are qualified to do so."

### L. Catalyst with resource agencies

"Establish cooperation agreements with local and international sources of finance and know-how for the small industry programme."

### M. Range of services

Thus it was envisaged that SEDCO would function as a service organisation providing a range of services designed to encourage the development of the small scale enterprises.

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### N. Changes to Objectives

It is apparent that it was not the original intention for the Corporation to function as a finance house. It would appear that SEDCO was envisaged as a catalyst, especially in regard to organising finance for the small scale enterprises through the established commercial financial institutions in Zimbabwe, (para 4.10 above). This concept changed early in the formation of SEDCO, and by February 1984 it was clearly the intention that the Corporation should function as a lending organisation in competition with the established financial institutions;

"Physically, as a financial and technical institution, SEDCO will compete with other private sector organisations and parastatals for the same limited financial and manpower resources." (15)

"The introduction of this intervention scheme would eventually bring SEDCO into sharp competition for the market with other private sector organisations, lending institutions, professional management and consultant institutions, development agencies and commercial banks." (15)

### O. Intrinsic Functions

The Minister of Trade and Commerce has defined the intrinsic functions of the Small Enterprises Development Corporation as follows;

"Promotion of the process of industrialisation in the country's rural and small urban areas;

Creating more employment and income generation for people living in economically depressed areas;

Stimulating and increasing exports from the small enterprises sector;

Sustaining the existence of economically viable enterprises;

Creating more wealth through increased productivity in the small scale sector;

Fostering self reliance and greater participation in economic life by the majority of our nationals through cooperative enterprise". (22)

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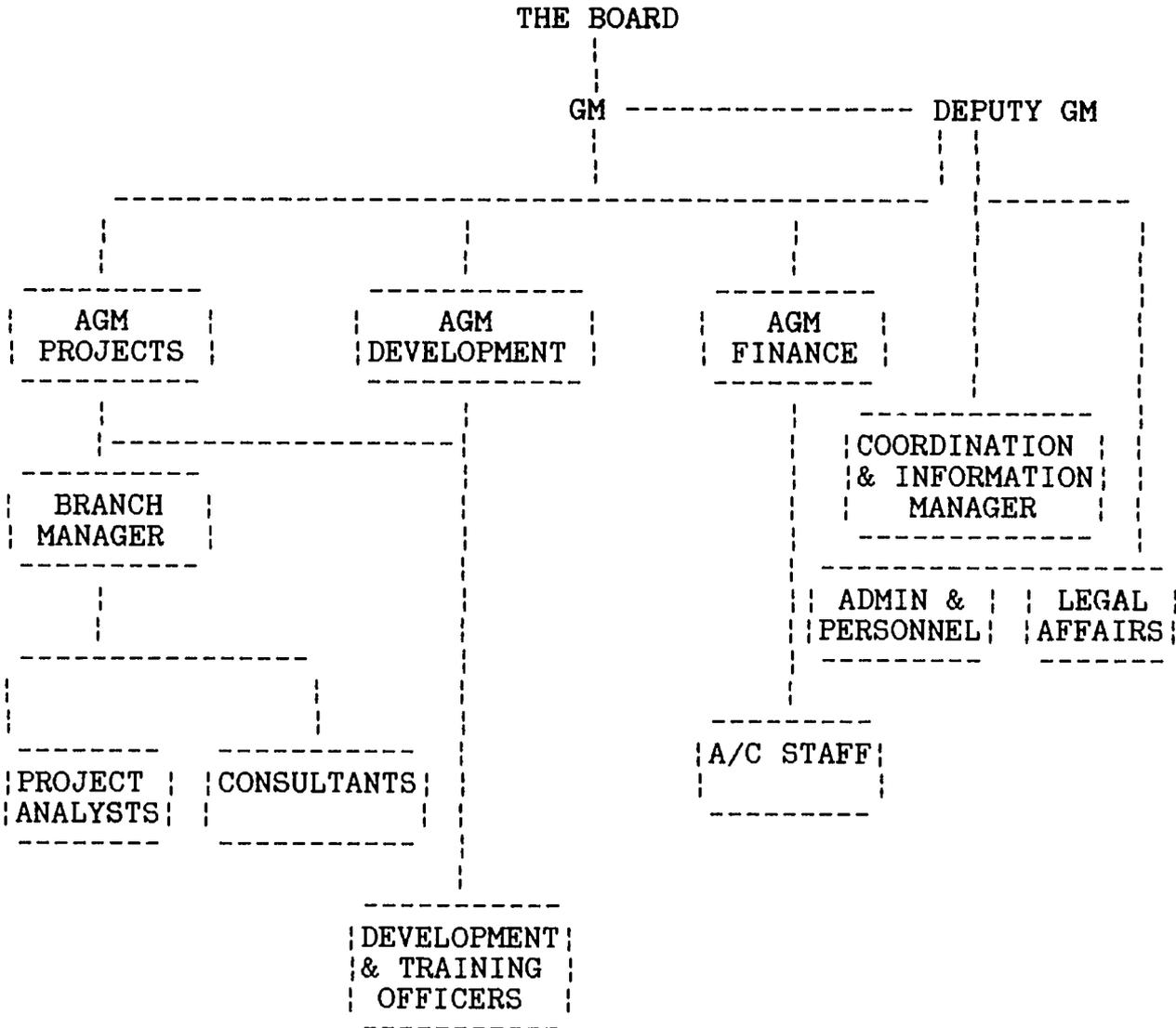
### P. Self Financing

It is the expressed intention that the Small Enterprises Development Corporation should generate enough revenue to cover its operating expenses.

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## IV. MANAGEMENT OF SEDCO

### A. Organisation Structure



### B. Board

The Board of Directors of SEDCO is composed of a maximum of nine members. There are seven at present. Representatives of the Ministries of Trade and Commerce, Industry and Energy Development and Community Development and Women's Affairs serve on the Board. The other members are drawn from the private sector and other sources. (16) SEDCO's Board is chaired by the Permanent Secretary of the Ministry of Trade and Commerce.

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### C. Divisions

SEDCO is structured on a functional division basis. There are four divisions, each catering for specific aspects of the Corporation's operations. Each Division is headed by a Division Manager and Assistant Manager.

### D. Development Division

The Development Division has the following function;

- Research and new opportunities
- Enterprise development
- Liaison with other Business Institutions
- Identification of Markets, including exports
- Establishment of Training Requirements
- Seminars and Conferences

An establishment of fourteen Development Officers, four Training Officers and fourteen Consulting Officers were envisaged for the Development Division (17). However, the Corporation has only two development officers, seven consulting officers and three training officers (18). The dearth of development officers is mainly due to a need to transfer staff to the Projects Division to cope with a backlog of projects for appraisal.

The Development Division is responsible for assistance to small enterprises. This takes the form of consulting and counselling. In addition the Division undertakes training of SEDCO staff and also provides training for SEDCO's clients.

### E. Project Division

The Project Division is responsible for;

- The assessment of loan applications
- Investigation of projects
- Project monitoring and evaluation
- Determination of lending criteria

The division is managed by the Assistant General Manager (Projects) and has an establishment of twelve project analysts.

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F. Finance Division

The Finance Division has as its functions the following;

- Disbursement of loans
- Credit control and debt recovery
- Inspection of clients' accounts
- Preparation of SEDCO's accounts
- Budgeting
- Financial management
- Financial reporting

G. Administration

The Administrative Division carries out the following;

- Secretarial duties
- Preparation of all loan documentation
- Client recording
- Typing pool
- Personnel management
- Coordination
- Public relations
- Legal matters

H. Branches

SEDCO has branch Offices in five centers in Zimbabwe. These are;

Center	Staff No
Bulawayo	10
Gweru	7
Harare	8
Masvingo	7
Mutare	6

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## V. DONOR INVOLVEMENT

### A. INTRODUCTION

Four donor agencies have given aid to the Small Enterprises Development Corporation so far. They are;

The United States Agency for International Development  
Canadian International Development Agency  
The International Bank for Reconstruction and Development  
The United Nations Industrial Development Agency

Other agencies have shown interest in supporting SEDCO, but as yet have not become involved. Among these are;

The African Development Bank  
Dutch Aid

### B. USAID

In 1983 the United States Agency for International Development granted five million Zimbabwe dollars to the Small Enterprises Development Corporation. The funds were obtained from the counterpart local currency generated under the Commodity Import Programme 613-K-605, and were allocated to the Zimbabwe Ministry of Trade and Commerce for SEDCO.

This grant has, to date, been the only source of funds that SEDCO has had for its lending operations. The Zimbabwe Government has funded operations of the parastatal, but has provided no funds for lending to the Corporation's clients. This has been derived from the USAID grant. It can safely be said that without the USAID grant SEDCO may have been able to do no more than offer support services to its clients. Access to the USAID funds for lending has enabled SEDCO to become a significant force in the development of the small scale sector in Zimbabwe.

The USAID grant of Z\$5 million has provided a foundation of equity for the Corporation and enabled the Government to negotiate a new loan for ten million United States dollars from the International Bank for Reconstruction and Development. This money is to be used by SEDCO for further lending operations.

Funds from the USAID grant were released to SEDCO by the Ministry of Trade and Commerce as follows;

22nd May	1984	\$1 000 000
21st January	1985	\$2 000 000
23rd August	1985	\$1 000 000
13th February	1986	\$1 000 000
		-----
		\$5 000 000
		=====

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### C. CIDA

In 1981 the Canadian International Development Agency first expressed interest in assisting the small scale enterprise sector in Zimbabwe. In 1984 CIDA granted approximately two million Canadian dollars to the Manitoba Institute of Management for the training of SEDCO staff.

The Manitoba Institute of Management has worked in association with the Barbados Institute of Management and Productivity in providing training which began for SEDCO in March 1985.

Phase one of the training programme has been completed, with reported success. Phase two has been suspended. This was due to the opinion held by members of SEDCO's staff that the programme has not been changed sufficiently to meet Zimbabwe's circumstances.

### D. IBRD

In March of 1985 the International Bank for Reconstruction and Development and the Government of Zimbabwe began negotiations for a loan of ten million United States dollars to finance, primarily, further lending operations of SEDCO. In August of 1985 the agreement was signed, and in August of 1986 the first tranche of funds was made available.

The funds are lent to the Government of Zimbabwe at 9,75 percent interest over seventeen years with a four year grace period. US\$8,5 million will be lent to SEDCO by the Government of Zimbabwe at a rate of interest of 9,75%, amortized over fifteen years with a four year period of grace.

The project is intended to be implemented over seven years, with the funds being utilized as follows;

- US\$8,5 million for lending to 470 small scale enterprises
- US\$0,6 million for technical assistance and training
- US\$0,9 million for technical assistance in construction.

The IBRD has specified that the small scale enterprises to be supported by this project should be industrial.

During negotiations with the Zimbabwe Government, the IBRD suggested changes in the structure and management of SEDCO, as a precondition for the loan. These included (24);

#### Capital Structure

It was agreed that Z\$5 000 000 should be paid into SEDCO as a capital base for the organisation.

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This, it was felt, was necessary as SEDCO is not required by law to have the conventional capital base required of private financial institutions. It was felt that the capital base was necessary for SEDCO's stability in a volatile sector.

### SEDCO Projects

The IBRD was to review and approve the first ten projects for loans prepared by SEDCO, and was to be satisfied with the quality of SEDCO's appraisal before funds were released to the Corporation.

### Benefits

Among the expected benefits listed was the expectation that 479 small scale industries would be supported by SEDCO with the Loan funds, and that this would create 3 900 new jobs at a rate of Z\$3 100 invested per job.

### E. UNIDO

The United Nations Industrial Development Organisation first showed interest in small scale enterprise in 1983 when it began work with the Zimbabwe Ministry of Industry and Technology. UNIDO's activities were later transferred to SEDCO as it was felt that it was the appropriate body.

UNIDO's interest is specifically for industrial development. A Technical Assistance Agreement was drawn up between UNIDO and SEDCO, that was designed to (25);

"1. Assist SEDCO in enhancing its institutional capability in the development and promotion of Small Scale Industry through an outreach approach system developed as a pilot scheme and centered around one or more units.

2. Advise SEDCO in devising operational cost effective extension services."

It was envisaged that twenty six person months of technical assistance and consultancy would be necessary. In addition training for SEDCO staff was planned. The cost of the project was estimated at US\$233 860.

Specific objectives of the project, aimed at small scale industries, were to;

1. Set up industrial units.

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2. Conduct technical and business development seminars and workshops.
3. Design improved tools/devices and new products.
4. Give institutional support in the form of a regional small industries development scheme.
5. Deliver technology.
6. Establish a common service facility center.

A Chief Technical Advisor was appointed in terms of the technical assistance component of the project. On his arrival in Zimbabwe in January 1986, he found that the level of small scale industrial development was low. He noted that the specific objectives (listed above) were not appropriate at the current stage of development. He maintained that despite the incentives offered by SEDCO insignificant progress had been made in the development of the small scale industrial sector in Zimbabwe. He concluded that this was the result of lack of entrepreneurial abilities, unfamiliarity with manufacturing activity, fear of the risks of new venture and lack of confidence resulting from inexperience. He thus devised a new plan to provide;

1. An Entrepreneurship Development Programme.
2. Identification of industrial projects.
3. Technical consultancy.
4. Training courses, seminars, clinics and workshops.

The thrust of the project now will be to;

- Identify and train entrepreneurs.
- Identify suitable manufacturing/industrial projects.
- Establish a technical extension service.
- Establish a data base of industrial data.

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### VI. OPERATION POLICY AND PROCEDURE

#### A. Type of Enterprise Supported

In providing assistance to small scale enterprise SEDCO gives priority and preference to cooperative ventures. Since the inception of the Corporation forty percent of applications for loans from cooperatives have been granted, compared to three percent of applications from companies and thirteen percent of those from sole proprietors. This preference is further illustrated by the fact that applications for loans from cooperatives have made up only three percent of the total, while eighty three percent of the applications so far have come from sole proprietors and nine percent have come from companies.

	% of applications for loans	% of applications granted	% of total loans granted
Cooperatives	3	40	7
Sole proprietors	83	13	67
Companies	9	3	18
Partnerships	5	3	8

The expressed policy is to favour cooperatives, and this is evidently being applied. However, the markedly lower number of applications for assistance from cooperatives has resulted in only seven of the total number of loans granted going to this sector.

#### B. Definition of Small Scale Enterprise

A "small scale enterprise" is defined by SEDCO as one that has less than Z\$200 000 in assets and one with less than 51 employees. This definition is presently under review, and it is proposed that the new criterion for assets is increased to Z\$500 000. It is believed that such an adjustment would increase the number of industrial enterprises eligible for assistance from the Corporation.

#### C. Loan maximum

At present the level of maximum loan is set at Z\$100 000. This is also under review with the proposal that it be increased to Z\$250 000

#### D. Assessment of loan applications

It is the policy of the Corporation that every application for financial assistance is thoroughly assessed, and this assessment includes a visit to the operating site of the enterprise.

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Final acceptance or rejection of a loan application is done at a high level. The "General Purpose Committee" of the Corporation, which consists of four of the members of the Board of Directors for amounts less than Z\$50 000, or indeed the Board itself ultimately approves or rejects all applications for amounts over \$50 000.

This policy is under review with changes proposed that will rationalise the procedure and delegate responsibility to appropriate lower levels of management.

### E. Loan disbursement

Loan agreements are prepared in Harare, where all the legal data required has to be supplied by the applicant in person. In the case of a cooperative this applies to all members. In addition the signing of the final agreement has to be done in Harare.

Disbursement of loans is controlled. Capital items are paid for by SEDCO against an invoice from the supplier of the capital equipment. Working capital is disbursed according to a schedule of requirements as prepared in the loan proposals.

### F. Equity and Collateral

Cooperatives are obliged to contribute, as equity funds, ten to fifteen percent of the loan amount for loans below Z\$20 000, and fifteen to twenty five percent for loans above that amount. Other clients contribute higher amounts, up to thirty percent on loans over \$30 000.

The requirement for a cash contribution in the form of equity has been identified by SEDCO as the single most limiting factor faced by their prospective clients. The Corporation proposes to relax, but not remove, this requirement for an equity contribution for new enterprises, and to accept collateral instead from established enterprises. Other ideas include waiving the equity requirement for small loans to recently qualified skilled entrepreneurs.

### G. Public Sector Work

At SEDCO's inception it was intended that, through the Corporation, the small scale sector would be given preference in public sector tendering where this was appropriate.

### H. Interest rates

At present, (January 1987) SEDCO lends money to small scale enterprises at the following interest rates;

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	Rural	Urban
Coops	14%	15%
Other	16%	18%

Thus the Corporation extends its policy of favouring Cooperatives and rural enterprises through the interest rates applied.

Administration fees are charged at between ,5% to 5% on the total loan.

### I. Loan categories

SEDCO loans are classified as follows;

Short term,	repayable under 2 years
Medium term,	repayable over 3 to 5 years
Long Term,	repayable over 5 to 10 years.

Loans may be used to finance fixed capital, pre-operation interest and working capital.

Periods of grace are offered; for a maximum of three months on short term loans, twelve months on medium term loans, and twenty four months on long term loans.

### J. Project Criteria

It is the policy of the Small Enterprises Development Corporation that all projects supported by it are financially viable. Once this criterion is satisfied, projects are selected on the basis of the following (23);

1. Employment generation
2. Skill and technology development
3. Provision of necessities to under developed areas
4. Decentralisation of economic activity
5. Utilisation of local resources
6. Promotion of economic activity amongst the people

### K. Security

Loans are secured against mortgage bonds and notarial covering bonds. Insurance cover on business assets is required as is life assurance cover on the principal officers, ceded to SEDCO.

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### VII. SEDCO IN THE ZIMBABWE FINANCIAL SECTOR

#### A. Zimbabwe Financial Sector

There is a well established and regulated financial sector operating in Zimbabwe. The operations of all banks is controlled ultimately through the Reserve Bank of Zimbabwe. International and locally controlled commercial banks, merchant banks, finance houses, building societies, parastatal finance institutions have all been operating in the country for many years.

Many of these operate for purely commercial reasons, while others are used to implement Government policy.

#### B. FEBCO

The Reserve Bank of Zimbabwe and the Commercial Banks have established a "Financial Trust for Emergent Businessmen". The trust operates through a company known as FEBCO (Pvt) Ltd. Its purpose is to allow new businesses to obtain finance for their operations while reducing the risk to the commercial banks. If a new business project shows potential, but cannot be granted finance because the normal lending standards are not met, the project is referred to FEBCO. If, after a viability analysis, FEBCO approves, this organisation advances half the money required while the commercial bank advances the rest. Normal interest charges then apply.

#### C. Zimbabwe Development Bank

The Zimbabwe Development Bank, a parastatal, finances development projects in the Country. The Bank finances capital equipment for manufacturing, agro-industry and mining. The Bank focuses on large scale projects with the minimum lending amount being \$100 000, and the minimum term is five years. Interest is charged at fixed rates ranging from 14 percent for foreign currency loans to 16 percent for local currency. The borrower takes the risk of exchange rate fluctuations. The Zimbabwe Development Bank will not finance more than 50 percent of a project, and the borrower is obliged to contribute at least 25 percent from his own resources.

#### D. Commercial Banks

The commercial banks tend to finance working capital. Loans are generally short term and can be called in at any time. Commercial banks require a high level of security; in most cases this amounts to more than the value of the loan. Interest charged varies with the circumstances but is normally around 18 percent per annum.

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Recently several of the Commercial Banks in Zimbabwe have established divisions specifically to cater for small scale enterprise, in apparent competition with SEDCO.

### E. Commercial Lending Institutions

The finance houses in Zimbabwe tend to concentrate on capital equipment although they occasionally give funds for working capital in the form of "business loans". Interest rates vary from 20 to 24 percent depending on the circumstances. Loans are usually given for medium terms, that is three to five years, and are secured against the equipment financed.

### F. SEDCO

Thus SEDCO offers lower interest rates than the commercial banks and finance houses, provides easier terms and conditions and accepts greater risk. The Corporation offers a greater range of services than any of the other institutions, both in the types and terms of loan and in client support services.

There has been considerable contact between SEDCO and the commercial financial sector, and there has been interest in the possibility of co-operation and joint activity. However, as yet nothing substantive has developed from this.

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### VIII. SEDCO'S ACHIEVEMENTS

#### A. Introduction

SEDCO has been in operation only since 1984. Data and opinion expressed in this formative evaluation should therefore be interpreted with moderation. Firm conclusions cannot yet be drawn, but the evidence presented indicates areas of strength and weakness and suggests where further analysis may be warranted.

#### B. Project Evaluation Criteria Reviewed

##### 1. Primary indicator

It is stated in the Draft Project Proposal (12) that the indicator for the evaluation of the success of the SEDCO project should be;

"A statistically significant increase in the number of successfully operating target group enterprises combined with an increase in the number of target group employees"

It is not possible to provide statistically tested data on the increase in the number of small scale enterprises, however it is estimated that there were 7800 small scale enterprises employing some 100 000 people in Zimbabwe in 1980. SEDCO has granted loans to 226 enterprises and created jobs for an estimated 494 people. If all loans given were to new enterprises then the increase in operating small scale enterprises due to SEDCO's activity has since its inception been 2,9 percent, while there has been an increase in employment in the sector of under 0,5 percent.

##### 2. Indicator for immediate objectives

It was intended that by the first half of 1985 the following would have been achieved (13);

##### 3. Loans

"Lending through Commercial Banks"

There has been no lending through the commercial banks. This is the result of the change in SEDCO's scope of operations to include lending on its own account. The commercial banking sector has not been used.

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### 4. Training

"Management training workshops for owners and managers of small enterprises"

Training of clients and potential client of SEDCO has taken place and reported below. Much of SEDCO's training effort has to date been directed also at its own employees.

### 5. Sub-contracting

"Sub-contracting with public and private large scale enterprises"

There is no evidence yet of successful sub-contacting with large scale enterprise.

### 6. Tendering

"Adjustment of the public procurement system to enhance small enterprise participation."

To date only two of SEDCO's clients have received work from the public sector. None have received work through the Public Tender Board procedures.

### 7. Thrust

It was envisaged that special schemes would be put into operation to support the activities of specific small scale enterprises as follows;

Rural trader programme  
Management support for rural construction schemes  
Handicraft schemes  
Rural transport and vehicle maintenance.

Due probably to a change in the direction of the emphasis for SEDCO's activity from service to lending, these have not yet been implemented

### C. SEDCO's performance

# Small Enterprises Development Corporation

## 1. Calendar

date	event/progress
	1981 Zimbabwe Government begins support for small scale enterprise
June	1981 USAID expresses interest in supporting small scale enterprise
	1983 SEDCO established by Act of Parliament
October	1983 USAID approves grant of Z\$5 million for SEDCO
April	1984 SEDCO begins organising for operation
May	1984 First USAID tranche for Z\$ 1 million released to SEDCO
November	1984 SEDCO commences operation
January	1985 Z\$2 million USAID funds released to SEDCO
March	1985 Negotiations with IBRD begin
March	1985 CIDA training starts
April	1985 23 loans disbursed to date
April	1985 Z\$428 000 in loans disbursed to date
June	1985 Z\$2 700 000 in loans approved by SEDCO to date
June	1985 148 projects approved to date
August	1985 Contract for IBRD loan signed, US\$10 million
August	1985 Z\$1 million USAID funds released to SEDCO
February	1986 Z\$1 million USAID funds released, completing Z\$5 million
March	1986 CIDA training suspended
June	1986 Z\$3,9 million approved for loans to date
June	1986 226 loans approved to date
August	1986 First tranche from IBRD loan released
December	1986 232 projects approved to date
December	1986 Z\$4 000 000 approved in loans to date
December	1986 Z\$3 260 000 disbursed by SEDCO to date

## 2. Establishment and progress

Major events in the creation and establishment of SEDCO were as follows:

In June of 1983 an act of the Parliament of Zimbabwe led to the establishment of the Small Enterprises Development Corporation. In October of the same year the United States Agency for International Development approved the grant of five million Zimbabwe dollars for SEDCO.

In April of 1984 SEDCO began to organise for operations, in May it received one million dollars from the USAID grant and in November the Corporation began operations. In this time SEDCO had set up and staffed an organisation structure, established its Head Office and Branch Offices, and fulfilled all the administrative task necessary to enable it to "open its doors" to its future clients.

By June 1985 \$2,7 million was approved for loans to Zimbabwean small scale enterprises. A year later \$3,7 million had been approved for lending and by December 1986 \$4,0 million had been similarly approved.

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Disbursement of loans was slower. \$428 000 had been disbursed by April 1985, and by December 1986 \$3,2 million had been received by clients.

The speed with which SEDCO was developed into an operational lending and service organisation is noteworthy. This is particularly impressive, when it is recognised that the SEDCO management, while being highly qualified, generally lacks depth of experience in the finance sector.

### 3. Financial performance

#### a. Operating Costs

##### i. Present performance

The audited accounts for the financial years ended June 30th 1986 show that the main source of income for the Corporation is a grant from the Government. This made up 66 percent of SEDCO's revenue for the year, (81 percent in 1984/85). The interest from loans to SEDCO's clients made up 27 percent of the income (4 percent in 1984/85), while interest from investments on the money market made up 17 percent (11 percent in 1984/85). Charges for SEDCO's services accounted for a mere 2 percent of the income of the Corporation (4 percent in the previous year).

SEDCO's operating expenses in 1985/86 at \$1,24 million, were two and a half times the income generated through its activities. These expenses amounted to 26,5 percent of the Corporation's capital base.

##### ii. Future outlook

Without the grant support from Government the Corporation's capital base would soon be consumed by operating losses. It is intended that SEDCO should be financially self sufficient by 1991. Until then it is assumed that the grant from Government will cover the entire operating expense of the Corporation. When Government suspends grant payments to SEDCO from 1991, as is planned, significant operating deficits will be incurred. This is shown by projections prepared by the staff of the Corporation, below. (Note that the data is presented in a different format from that received from SEDCO).

Of interest is the forecast of prolonged operating losses. The data indicates clearly that SEDCO will not be able to sustain itself unless operating costs are reduced dramatically, or the level of revenue generation is increased equally dramatically.

To generate the level of income predicted in the cash flow forecast SEDCO will need to have funds amounting to approximately \$38 000 lent out by the year 1996/97. The source of these funds

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is not identified. Calculations show that unless SEDCO receives additional funds the amount of capital remaining will be as little as \$14 million in 1996/97. This does not take account of possible loss from bad debts. With a level of funds at \$14 million, SEDCO will be in a position to generate only 2,3 million dollars from its loan operations (at 17% interest per annum). Contrast this with the predicted \$7,05 million earnings from interested as shown in the forecast.

The parastatal is thus forecasting an annual operating losses until 1996/97 and perhaps beyond. This is despite predictions of income from loan funds far in excess of those presently available to it.

It has been suggested that the Corporation may be able to generate the additional funds needed from the services it provides. It has been further suggested that SEDCO could itself invest in and run small scale businesses for its own account.

(35)

Both these ideas should be examined with caution. In order for the Corporation to generate sufficient money from these services a significant increase in activity will be required, and it will be necessary for the charges to be raised substantially. This poses the risk of client resistance.

The suggestion that SEDCO should involve itself directly in profit-making industrial or commercial operations in order to generate profit to contribute to the Corporations overhead expenses should be examined and approached with the greatest of care. What is proposed in effect, is that the Corporation should enter into competition with its own clients. This could be said to be negation of SEDCO's purpose. In addition it is possible that an organisation such as SEDCO would be less adept at making profit from a small enterprise than the entrepreneur. While there is no doubt that the officers of the Corporation are well endowed with the theory of operating a small business, the small scale entrepreneur enjoys the advantage of freedom to decide and to act. Equally important is the personal involvement in the business that ensures exceptional effort when this is necessary.

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### iii. Cash flow forecast

Z\$ * 1000	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
OPERATING INCOME	14	251	627	939	1480	1945	2536	2553	3105	3737	4451	5250	6139	7060
Income from service	3	62	74	98	315	363	417	481	552	635	730	840	996	1003
Income from investment	11	138	218	332	487	670	917	524	603	694	798	917	1055	1200
Income from loans	0	51	335	509	678	912	1202	1548	1950	2408	2923	3493	4088	4845
EXPENDITURE	168	1182	1525	1746	2125	2444	2811	3232	3717	4275	4916	5653	6501	7476
Operating Expenses	160	1126	1452	1663	2024	2328	2677	3078	3540	4071	4682	5384	6191	7120
Research & Development	8	56	73	83	101	116	134	154	177	204	234	269	310	356
OPERATING DEFICIT	-154	-931	-898	-807	-645	-499	-275	-679	-612	-538	-465	-403	-362	-416
Government Grants	287	1037	1240	1480	1760	2094	2490	154	177	204	234	269	310	356
TOTAL SURPLUS (DEFICIT)	133	106	342	673	1115	1595	2215	-525	-435	-334	-231	-134	-52	-60

### iv. Assumptions for income generation

Z\$*1000	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Estimated amount in deposits	1150	1817	2767	4058	5583	7642	4367	5025	5783	6650	7642	8792	10000
Estimated amount loaned	300	1971	2994	3988	5365	7071	9106	11471	14165	17194	20547	24047	28570
Total funds estimated	1450	3787	5761	8047	10948	14712	13473	16496	19948	23844	28189	32839	38570

### v. Projected fund base

Z\$*1000	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Total surplus (deficit)	106	342	673	1115	1595	2215	-525	-435	-334	-231	-134	-52	-60
Capital repayments to IBRD						616	1232	1232	1232	1232	1232	1232	1232
Capital base	5000	5106	5779	20894	22489	24088	22331	20664	19098	17635	16269	14985	13693
Interest potential @ 17%	850	868	982	3552	3823	4095	3796	3513	3247	2998	2766	2547	2328
clients potential (number)	250	255	289	1045	1124	1204	1117	1033	955	882	813	749	685

### b. Loan Recovery

A total of just over \$2 580 000 was out on loans to SEDCO's clients at 30th September 1986. At this time \$600 000 was outstanding in overdue interest and principal payments (26). The commercial banking sector works to a standard of less than 0,6

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percent in arrears (27). SEDCO's arrears are at 23 percent. Analysis of the data indicates that the Cooperative clients are the worst payers, with arrears at 32 percent (28). SEDCO has not been in operation for long and most of the loans were disbursed recently. It would be reasonable, at this stage in SEDCO's development, to expect a low level of default on interest and principal repayment.

Several explanations have been offered for SEDCO's poor performance in the recovery of loans. It was suggested that many clients were of the opinion that SEDCO, being a parastatal organisation, would not wish to pursue debt collection with the normal vigour of the banking sector. Indeed, the Management of SEDCO acknowledge that it is loath to prosecute defaulters. It was suggested that SEDCO's repayment procedures, where interest and principal amount are calculated separately each month, led to confusion among the clients, who then failed to pay. Several of the clients have been unable to meet their obligation because they just do not make enough money. Many of the retail projects in the rural areas have proved to be not viable due to controlled low margins on merchandise and the low purchasing power of the rural population. In some cases lack of attention to detail at the formative stage of a project has resulted in failure of the small enterprise, through avoidable error. In one case, for example, a rural bakery could not succeed because it did not have an allocation of flour.

The Management of SEDCO has taken several steps to improve the recovery of loans. Repayment of principal and interest will now be based on an amortisation schedule, with a fixed monthly amount due and payments will be made on banking stop order. A debt recovery unit is to be established and the organisation is resolved to implement rigorous debt recovery procedures.

#### 4. Loan disbursement performance

##### a. Creation of employment

It is calculated that since its inception to December 1986 SEDCO created 494 new jobs through its lending activity in the small scale enterprise sector in Zimbabwe. On average the Corporation lent \$8 572 to create each job.

Major objectives of the Corporation are to create employment and to bring underemployed people into economic activity. There are some 400 000 unemployed or underemployed people in Zimbabwe (30). This excludes communal farmers, who are classified as underemployed at certain times of the year. In order for SEDCO to create employment for the 400 000 at the present rate it would need to lend some \$3,4 billion. Clearly, SEDCO alone cannot be expected to have a significant impact on the country's unemployment problems. Indeed, so far in its operations SEDCO has had an insignificant effect in stimulating economic activity

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among the unemployed. The 494 new jobs created to date have reduced unemployment and underemployment by some 0,12 percent. The additional 3 900 jobs expected to be created with the US\$8,5 million from the World Bank will increase this to 1,1 percent. This, on the assumption that the number of unemployed and underemployed people does not increase in the interim. The data presented above gives an indication of the size of the problem, and enormity of the task.

### b. Processing of applications

#### i. Loan processing data

	85/86 number	value \$ m	84/85 number	value \$ m
Application forms issued	1236		2040	
Application forms completed	646	14.8	1533	37.5
Applications processed	839		803	
Applications approved	78	1.2	148	2.7
Carried forward	537		730	
% application forms completed	52		75	
% applications carried forward	39		48	
% applications approved	9		18	
% satisfaction of demand	8		7	

#### ii. Loan processing performance

In the first two years of SEDCO's operations only 6,9 percent of the applicants that showed interest in using the loan facilities of SEDCO actually received a loan. More than one third of the applicants who purchased the loan application forms did not complete and return them. Of those that were returned, a large number (47 percent in 1984/85) have not been processed by SEDCO's staff and have been "carried forward". A large proportion of the potential clients who submit proposals to SEDCO fail to follow them up. 333 such proposals lapsed in 1985/86. A total of 226 loans were approved in the first two years of SEDCO's activities, from a total of 3276 interested clients.

In the first two years of operations, SEDCO was asked for loans totaling \$52,3 million. The Corporation granted loans totalling \$3,9 million. Thus 6,7 percent of the demand was satisfied.

The major cause to this is undoubtedly a high proportion of applications for loans projects that are not viable. However, there is evidence that the loan processing methods and procedures implemented by SEDCO could be inhibiting potentially good clients. Perusal of the "Project evaluation/analysis report" form indicates lack of flexibility, while there is evidence that

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potential clients find that the application form is so complex and rigid in its requirements that they abandon SEDCO as a source of support. The method of application of the legal formalities, where, for example all members of a cooperative are obliged to supply documentation and visit Harare for signing, must be daunting particularly for rural co-operative members. These aspects require further investigation beyond the scope of this report.

### iii. Processing time

At present it is taking, on average, eight months to process a application for a loan. The target set for this process is one month.

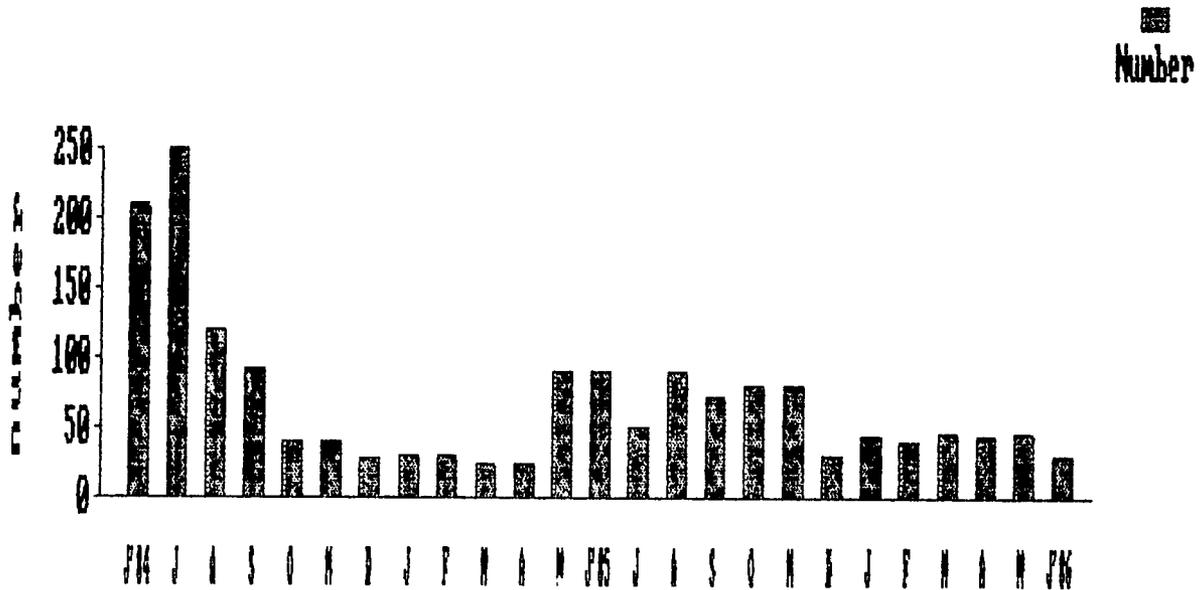
As shown in the graph below there was a great deal of interest in SEDCO when it was first established. The publicity that the organisation received resulted in an enormous number of applications for finance. Many of the applications were for projects that were manifestly not viable. However, there is the policy requirement that all applications are fully analysed and that all decisions for approval or rejection of loans is done by the General Purposes Committee or the full Board. This contributed most to the delays in processing of applications. 226 applications were approved between June 1984 and June 1986. The Board or the General Purposes Committee perused 1642 loan proposals during this time. Many of the proposals could perhaps have been eliminated at a lower level in the organisation.

### iv. Applications received by month (approx)

Month	J'84	J	A	S	O	N	D	J	F	M	A	M	J'85	J	A	S	O	N	D	J	F	M	A	M	J'86
Number	210	250	120	92	40	41	29	30	31	25	25	90	90	50	90	72	80	80	30	45	40	47	45	47	30

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Number of applications received per month



June '84 to June '86

c. Distribution of clients by sector

i. Distribution of loan funds to organisations

By far the greatest demand for finance has come from sole proprietors. This is in terms of both the number of applications and the amount of money required. Sole proprietors have made 83 percent of the applications for 64 percent of the total finance requested. At the other end on the scale, cooperatives have shown the least demand with three percent of the applications. The success of SEDCO's policy to favour cooperatives is well illustrated by a comparison of the demand for loans with those granted. While sole proprietors have made most of the applications for finance, they have in fact received only 32 percent of the money granted. At the same time cooperatives, who have made less than 20 percent of the applications, have been awarded 45 percent of the total funds granted in loans.

ii. Applications by organisation type

	% applications	% loan demand
Sole Proprietors	83	64
Companies	9	19
Partnerships	5	8
Co-operatives	3	9

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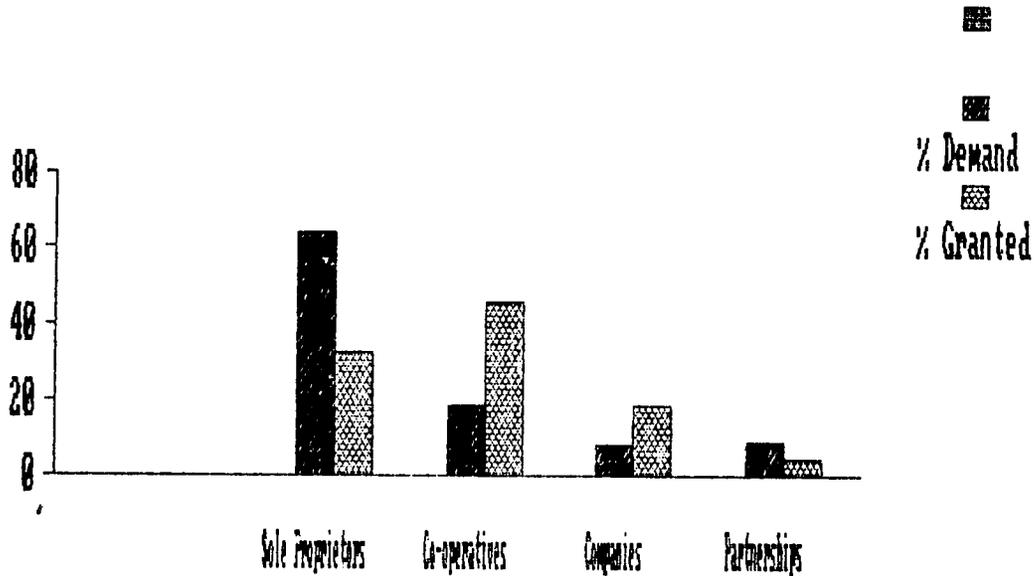
iii. Projects approved by organisation type

	\$ m	%
Sole Proprietors	.86	32.47
Co-operatives	1.19	45.14
Companies	.48	18.17
Partnerships	.11	4.21
	-----	
	2.64	100

iv. Loan demand and loans granted by organisation type

	% Demand	% Granted
Sole Proprietors	64	32
Co-operatives	19	45
Companies	8	18
Partnerships	9	4

Graph of demand and grants of loans



vi. Distribution of funds to sectors

While the greatest interest has come from sole proprietors as shown above, the majority of applications for loans have been for commercial ventures. These include such enterprises as trading stores, supermarkets and the like. 61 percent of the demand for

finance has come from this sector, totalling a little over \$9 million, while the sector has received \$2.1 million, or 57 percent of the funds granted.

Industrial ventures, so far, account for only 23 percent of the demand for funds. This sector has received an equivalent proportion of the funds granted (23 percent or \$880 000). The construction sector has shown minimal interest, with only 1 percent of applications, and 3 percent of the total demand.

vii. Applications by Sector

	% of Applications	Loan Demand
Commercial	66	61
Industrial	22	23
Service	11	12
Construction	1	3

viii. Projects approved by sector

	\$ m	%
Commercial	2.21	57.25
Industrial	.88	22.80
Service	.65	16.84
Construction	.12	3.11
-----		
Total	3.86	100

ix. Comment

The data above suggests that SEDCO's clients are predominantly sole proprietors operating in trading ventures. This, it is pointed out by the General Manager in his annual report (28), is normal the world over. Monies borrowed by the small commercial sector are used primarily for working capital, and particularly for the purchase of trading stock. Funds used in this way are not as efficient in making new jobs as those used for the development of small industrial enterprises. Consequently the Corporation's resources are not deployed as efficiently as possible in meeting one of the primary objectives of the Corporation; that of creating employment.

The International Bank for Reconstruction and Development has stipulated that its funds are to be used only for industrial projects. This stipulation, no doubt, is designed to maximise the creation of new jobs. There are fears within SEDCO, however, that the ruling will create difficulties. As most demand for

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finance comes from commercial ventures, it is believed that there is going to be shortage of funds for this sector, while there will be difficulty in finding suitable industrial projects to support.

### 5. Research and Development

#### a. Identification of projects

The Research and Development Division lost staff to the projects division during 1985/86, in order that the large number of loan applications could be processed (31). There was, thus, a further shift from the service function of SEDCO toward the function of a financial institution.

During the two years of operation to June 1986, the division identified twenty small scale development projects. Sixteen of these were for industrial enterprise. It was estimated that these projects could create 168 jobs at an investment requirement of Z\$1,06 million. (32)

#### b. Consulting

Training of the SEDCO consultants has significantly curtailed their output (33). On average, the consultants produced 2,3 reports each per month during 1985/86; a total of 186 reports being compiled during the year.

#### c. Training

There has been considerable staff training in SEDCO since its inception. In 1985/86 alone twelve courses were held, covering topics such as,

- Project evaluation
- Management
- Consulting
- Financial modeling
- Training
- Word processing

These courses were held in Harare, Ireland, Barbados, and Maseru.

Several courses for SEDCO's clientele have been held. In all 352 people have been trained by the Development Division. Courses were held in five provinces and covered such subjects as;

- Recording
- Pricing
- Sales Tax
- Shop layout

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Purchasing  
Stock Control  
Budgeting  
Marketing and Sales Management.

It is evident from this that the training so far has been aimed primarily at the commercial small scale enterprise.

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X. APPENDIX (Enterprises assisted by SEDCO)