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WASHINGTON STATE UNIVERSITY

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DEPARTMENT OF ECONOMICS

(509) 335-6651

September 5, 1984

Mr. Robert Young
Human Resource Economicst
Employment and Small Enterprise Division
AID/ST/MD/ESE
Washington, D.C. 20523

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Dear Bob:

Please find enclosed a copy of the project report as promised, together with a copy of the letter to Roy Stacy. I am not sure as to how the project certification process goes this time so I can get paid, so I leave that to you.

I excluded from my report visits to firm's or cooperatives either liquidated or that were in liquidation during my project. There were 22 such projects.

I hope the report is of some use. Thank you very much for your support in this effort.

Sincerely,

Mudzivirl Nziramasanga
Associate Professor of Economics

MN/vp

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September 5, 1984

Mr. Roy Stacy, Director
USAID
1 Pascoe Avenue
PO Box 3340
Harare
ZIMBABWE

Dear Roy:

Please find enclosed a copy of the final report on Worker Participation which I had retyped here and which now includes the employee stock ownership programme at Dunlop, as well as some comment on SEDCO's approach to small enterprise lending.

I have sent a copy to Dr. Chanaiwa at Labour. One of the problems may well be that of Jurisdiction. It may well be that Dr. Dlembeu and SEDCO are more appropriate to act on the suggestions for cooperatives, but his Ministry did not request the study; Labour did. I have no solution with regards to that problem.

I mailed Chidzero's letter to you after I looked at my ticket again and found out I had to leave on Monday, not Tuesday. Just in case you did not get it (the envelope did not have a Ministry stamp on it) I have sent you a copy for now. We can discuss it further after I hear from the UNDP.

Thank you very much for your support during my stay.

Best wishes,

Mudziviri Nziramasanga
Associate Professor of Economics

MN/vp

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Dr. Chanaiwa, Director
Department of Employment and Employment
Development
P. Bag 7707
CAUSEWAY

Dear Dr. Chanaiwa

WORKER PARTICIPATION IN PROFITS AND DECISION MAKING

Please find attached my report on the above subject for your comments and follow-up. The definition of worker participation was broadened to include self-employed persons in the framework of a cooperative, workers committees and cooperatives formed by workers to take over failing corporations. The focus on of the project was on the impact of these organizational forms on productivity and employment, and the purpose was to recommend ways of making them more viable and effective in this regard.

The results do not show a totally bright picture. One of the findings that is not emphasized in the main report is the tendency of Ministry Staff, particularly the Demobilization Directorate and the Department of Cooperatives, to exagerrate the economic impact of a project. This is because they tend to focus on the gross revenues and not the more meaningful indicators such as the per capita production, or yield per - unit of the scarce input. They also ignore operating costs. There is a need to make the staff sensitive to the more important indicators. They may need training in this regard.

The co-ordination with other Ministries is also poor. I would suggest that your Department carry out periodic reviews such as this one and introduce them to the Cabinet Committee on Development as a matter of information and assessment. This forces staff to keep contact with projects and sensitises Cabinet to the problems.

The outlined need for technical assistance cannot be over emphasized. I realize some of the necessary action may not be within the jurisdiction of your Department, but maybe you know ways of stimulating the action. Most of the suggestions would utilize funds that are already at the disposal of this Ministry in such programs as the U.S. Manpower Development Program; alternatively, they can use SEDCO funds. Whatever the recourse, it would seem as if a "hands on" approach is best for either business organization. An example that comes to mind is a U.S. Program that utilizes retired businessmen as advisors to small corporations. A similar program could be designed for this country.

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Finally project staff should be aware of the need for speedy action in project work. What I observed during the follow-up work on one ~~some~~ corporation indicated a very leisurely approach.

I hope the report is useful. Your comments are invited with regard to any aspect of the project. I would like to express my sincere appreciation for your support and that of your staff, particularly Mrs. Mtetwa and Mr. Mambo.

Sincerely

M. Nziramasanga
ASSOCIATE PROFESSOR OF ECONOMICS.

Department of Economics
Washington State University
Pullman, Washington 99164.

WORKER PARTICIPATION IN DECISION-MAKING IN ZIMBABWE

Introduction

This project is to assess the various forms of worker participation in decision-making, ownership and profit-sharing currently being practiced in Zimbabwe and their impact on productivity and employment. The purpose is to suggest ways, if any, that this impact on productivity and employment-generation can be improved, either through training or investment programmes. The definition of worker participation is that commensurate with labour contract models. This definition views all the various forms of ownership as belonging to a single continuum with the typical profit maximizing firm at one end and the labour managed firm at the other. The total output of a firm depends in part on the labour/management relationship and the business organization. The same applies to the distribution of income. The project thus looks at participation by employees of profit maximizing firms as well as by worker-owned co-operatives, and its impact on productivity. The rationale is that since some of the income generated by a business is derived from the organizational nature of the business, this income (output) would be lost if employer/employee interaction were disconnected.

The project specifically examines the effectiveness of workers committees and profit sharing schemes in promoting productivity and the opportunities and problems facing worker-owned co-operatives in both the industrial and agricultural sectors.

Justification

Increases in employment and income can be generated only if, for given wage and price levels, output per worker increases, or if there is new investment. The two are not incompatible and higher labour productivity is likely to generate more investment and hence even higher levels of employment. Government has stressed the need to increase labour productivity, both in the Budget Speech on July 26, 1984 by the Minister of Finance, Economic Planning and Development and in the outline of the 1985-90 Five Year Development Plan as presented by the Prime Minister to the ZANU (PF) Congress on August 11, 1984. Encouragement of participation by workers in decision making and profits is incorporated in the Government policy statement, Growth With Equity as well as in the Three Year Transitional Development Plan.

Methodology

A random sampling procedure was impossible because there is no readily available source of information on corporations that have worker participation and/or profit sharing schemes. The names of firms whose officials were interviewed were supplied by the Departments of Employment and Employment Development and Industrial Relations, both in the Ministry of Labour, Manpower Planning and Social Welfare. A list of the participants is included at the end of the report.

Employee/Share Ownership Programmes (ESOP)

Included in this classification are both private and publicly owned corporations that had any sort of profit sharing or share ownership schemes, but excluding random payments such as Christmas bonuses. All the firms were in manufacturing (clothing and apparels, plastics and paper products) a financial institution and mining. The firms in the survey employ over (6 200) workers.

Employee Share Ownership Schemes

Only three organisations (Nedlaw, Dunlop and Zimbank) offered stock to their employees, and the schemes are very similar. The firm endows a trust with an initial block of shares. In one case there was a 15 percent limit on the endowed stocks as a ratio of the total outstanding shares, this ratio to be attained over 9 years. There is no limit on the shares employees can purchase on the open market or through the dividends earned by the endowed stock. In both cases the stocks are jointly owned and at the moment there are no individual rights should the employment be terminated. In the case of the financial institution (Zimbank) there is no provision for an accumulation of stocks from the origional endowed block (500 000).

The shares do not carry the rights of a pro-rata representation on the board of directors, and in both firms there worker representatives, though elected, could be considered management personnel. The Nedlaw Group has one employee director on the board, Zimbank also one. The Nedlaw Group programme is handled by a Trust with half the board of directors appointed by the management in order to maintain the fund's professional integrity and the other half nominated by employees. The absolute value of shares involved up to now is small--$324 000 for Nedlaw and $500 000 for Zimbank. The per capita dividends are therefore also small. The Nedlaw Trust elected to use the dividend earnings ($ 105 000 for 1981 and 1982) as collateral for low income housing. The employee pays the financial institution and retains the right to the scheme even after he leaves the Nedlaw Group as long as he pays the requisite rates. In the case of Zimbank the dividends are paid out in cash, with 33 percent paid out on a per capita basis and the remaining two-thirds of the dividend on the basis of the employee's length of service.

Dunlop has the only scheme with individual share rights but the total number of shares offered under the scheme is restricted to 19000. Distribution was based on seniority and limited to those in employment when the scheme was inaugurated. The employee share was paid out of pre-tax dividends attributable to those shares, and terminal rights are attainable only after the full share-value is paid. Employees can, of course, participate independently on the stock market trading of Dunlop. The impact on both the paid-up share of stocks and the per capita employee earnings is very small, and not all of the 19 000 shares have been fully subscribed, even after three years of the scheme's existence. When asked why, the employees cited the declining value of Dunlop Stock and declared dividends as the reason.

Impact of Schemes

Both schemes do not provide a direct link between individual employee productivity, profitability and employee welfare, largely because of the small size of the schemes and the lack of individual rights. The Nedlaw scheme compensates for this by raising welfare through the housing scheme since each individual low income employee would otherwise not have access to the private financial market for housing loans. The benefits have a tendency to lower the turnover rate, increase employee enthusiasm and experience and thus increase productivity. The Nedlaw official felt, however, that this was difficult to measure. On the negative side the lack of terminal sale rights has the impact of increasing per capita benefits the fewer the number of employees. They (rightly) would try to seek productivity and profit increases from more capital intensive methods of production. The benefits are "internalized"—the firm gains by retaining its more productive workers the employees through the benefits of higher profits—while the country benefits are lowered through the tendency towards lower employment levels and higher capital needs.

In fact, a mining corporation (Rio Tinto) abandoned a similar ESOP after eight years because, as the official interviewed put it, the scheme was too remote from the relationship between individual employee productivity and profit rewards, the payments are too low to have any meaningful impact. The potential negative impact should not be over-emphasized, however, because the implied flexibility in production methods is not an established fact. On the other hand, the Nedlaw Group felt a plan that allowed for individual rights would be biased against non-productive workers.

Other Profit Sharing Schemes

These schemes do not involve any transfer of shares or employee representation on the board of directors. Rather, they are a direct distribution of a share of profits to employees, this share being related to wages or as a percent of incremental weekly output beyond a break-even point agreed to by management and labour. Almost all of the firms interviewed in the latter group are in the clothing industry.

The mining firm (Rio Tinto) has switched to a scheme where it paid out to employees 7,0 percent of its pre-tax trading profit (excluding extraordinary profits). This is done in two instalments and is calculated as a percent of wages. In December, 50,0 percent of a month's salary is paid out as a dividend. Then, if fiscal year profits (which are determined in January) indicate that 7,0 percent of profits is higher than the December payment, then the difference is paid out. If the firm had a loss then the payout is borne as a cost of doing business. Workers are briefed monthly on the firm's financial well-being so that they can anticipate the final results and as a way of stimulating productivity. The profit payment has a ceiling of 150,0 percent of the monthly wage of each employee. The highest bonus paid to date has been 96,0 percent of the monthly wage. In addition there are working team bonuses in the mining division as reward for higher productivity but the corporation still felt the scheme lacked the necessary immediacy of payment which links productivity to rewards and the concept of profitability, though understood by members of the workers' committee, still was far removed from the average worker. This is despite a one week training programme that allowed workers to understand the concept of costs, interest rates and profit by playing an 'entrepreneurial game' involving the financial details of opening and running a mine.

Clothing Industry

The profit sharing scheme applied in the clothing industry is based on machine-time costing methods, but with differences in the basis used for the computation of the actual share of profit distributed to labour. Two firms with about 200 employees were observed and they each use a different approach. The smaller firm (Christine Boutique) predicated its bonus scheme on the costs per unit of time it takes to produce a garment of given quality. A 'target' rate was arrived at by taking the average production over over the last two years (1982-83). The firm implicitly takes this as the break-even rate of production—total revenues and total costs, including a 'normal' profit rate, are equal. Should a production line exceed this output by a given percentage then labour's share of the implied profits is an equivalent percentage of the weekly wage. The firm also changed its production schedule so that the bonus payment is made in the same week the increased productivity occurs. The production week ran through Wednesday, and the impact has been to eliminate the proverbial 'blue Monday' decline in productivity. The scheme was explained in a hand-out to the workers committees which in turn explained it to the rest of the workforce.

The scheme has been in operation intermittently for a year. Any attempt to measure productivity changes has been complicated by the loss of the South African market which constituted about 60,0 percent of total exports, and absorbed the higher priced output. Nevertheless, management felt productivity had increased by 50,0 percent, judging from the incremental wage in those periods the plant operated at full capacity. Worker morale in the firm is very high.

The larger firm (Delswa), which has 170 employees, uses a point system based on engineering specifications for the type of production equipment in operation and the unit time it takes to make a specific part of a garment. The number of points attached to each part of a garment have been agreed to by both management and workers and the target time at the time of the visit was 28 minutes per hour worked. The firm set 80 000 points as the break-even level and each worker received an additional $2.00 if the target is attained. Garment prices are determined on a whole unit basis and using a cost-plus mark-up method. The margin was not available and it is therefore not possible to express the bonus as a percentage of the profit level.

Any additional production level above 80 000 points was rewarded at the rate of $0.20 per man per 1 000 units, and this rarely happened. Output quality was maintained because rejects from any production line were sent to that line back for correction, resulting in a loss of points.

When asked about the employees' ability to understand the point system and the concept of a break-even point the management representative said the workers were very familiar with the industry point system, but was not so sure about the break-even point. Worker morale was low since they felt the $0.20 bonus was too low a share of profits. They had asked for $2.00 for every 1 000 points.

The worker representative agreed with management on the point system, but said until then morale had been low because of differentials in targets set for each production line. Workers felt the incremental profit share was too low because management had a 'target income' approach and were not really interested in production above 80 000 points. Management disagreed.

It was obvious there was less than full information available to the workers, or they did not fully trust the point system. The firm had been in receivership the previous year and could hardly afford the larger profit payout, but the workers committee felt costs had been too high because of a 'top heavy' management. Morale was better at the time of the visit because differential targets had been removed, but there was still an air of exasperation on both sides. It is worth noting that a consultant to the firm had suggested a profit share equal to 25,0 percent of the employee's wage as the minimum required for any impact on productivity, and the actual bonuses were far below this level. It is also worth noting that the methods used by both firms work in this industry since total output is presold at fixed prices on the basis of samples. (Christine Boutique has its own outlets, however and lower costs through higher productivity allow it a measure of price competitiveness there and in the export market.) Industries where firms had market power and prices were a function of output would find the system difficult to operate.

Conclusions

(1) To the observer it is apparent that schemes which relate the profit share to the wage rate are easier understood and accepted by workers that those which do not. Workers at Delswa—even the more sophisticated members of the workers committees—seem to relate incremental output during the regular work hours as additional effort in lieu of overtime and wanted it rewarded at commensurate overtime rates. The

more complicated a scheme, it would seem, the higher the amount of information required by workers and management feels this information is not for general consumption.

(2) The share ownership schemes are still too small to have any significant impact on welfare or productivity. Their design in general is for the purpose of redistributing output. They do not directly allow for a labour input into the determination of investment and employment levels through worker representatives on the boards of directors. It is not clear at this level of labour sophistication just what this implies for productivity.

Suggestions

At this stage I would propose a series of Ministry-sponsored seminars designed to encourage both employee stock ownership schemes and profit sharing schemes:

(1) A seminar where interested firms can share experiences among themselves and also hear from industry experts how such schemes can improve productivity and welfare. All the firms interviewed in this project said informal consultation already occurred between themselves but an open forum is more preferable. External experts conversant with ESOP in other countries, either from a labour or management perspective, can then be invited to make relevant suggestions to both local management and workers committees.

(2) There is a need to educate workers on the financial aspects of their repective industry. The failure to understand the break-even concept is a case in point. Both the Rio Tinto and Christine Boutique methods are good models which could be modified to suit other industries and undoubtedly there are other models. Firms that expressed an interest in ESOPs or profit sharing could then have their workers committees involved in just such educational seminars which could be financed jointly by the firms, EMCOZ and external technical aid should outside experts be necessary. The training school should be very basic, industry oriented and involve role playing as in the Rio Tinto model, because only then can workers identify their role in improving productivity as well as the rewards.

(3) Government should encourage those schemes that have some terminal rights. It is not clear to this observer that it is either legal or ethical to deny a worker some access to a collective good because he has found better employment where his (higher) wage is commensurate with his productivity. This can be expressed in the seminar proposed in (1).

The seminars should be planned in conjunction with the Ministry of Finance Economic Planning and Development and include Ministries in charge of parastatals. It should be clear from the outset that the aim is to improve productivity, income distribution and employment prospects, rather than achieve just qualitative changes in employer/employee relations. This will encourage an empirical approach toward productivity changes. The Nedlaw Group and other firms with schemes have expressed a readiness to prepare detailed presentations on their schemes. I would recommend that experts and industrial economists from such organizations as the ILO, the Swedish and United States automobile industries among others be considered for such a seminar, and be financed from technical assistance programs as part of the Five Year National Plan Programme. It is important that an industrial approach be taken—i.e. separate sessions for the mining, textile, clothing and basic metal industries, the financial sector, and privately-owned corporations (as opposed to those with publicly quoted stock).

II WORKER CO-OPERATIVES

Three types of co-operatives were examined in this project: those organized by demobilized ex-combatants, by ordinary civilians and finally, co-operatives formed by former employees of abandoned businesses or enterprises under liquidation. Co-operatives are also classified as industrial or agricultural on the basis of the output.

All co-operatives are registered by the Department of Co-operatives in the Ministry of Lands, Resettlement and Rural Development. At the time of the report (August, 1984) there were 113 industrial registered co-operatives with 4 411 members, 116 service sector co-operatives with 4 454 members, 55 co-operatives that bought inputs for their members (9 564) and 43 agricultural collectives with 1 605 members. Most of the organisations, however, are very small, difficult to locate and in some cases go out of business without the Department of Co-operatives' knowledge. Agricultural enterprises can get technical assistance from the Ministry of Agriculture's Agricultural Technical and Extension Service. Until now the industrial co-operatives have been referred to the Ministries of Industry and Energy, Construction or Trade and Commerce depending on the nature of the problem.

The Department of Co-operatives has been limited to registration and information regarding the operation of co-operative enterprises. The Small Enterprise Development Corporation (SEDCO) now has the responsibility of project evaluation and giving financial and technical assistance, but it is still understaffed with respect to the last task.

A. INDUSTRIAL CO-OPERATIVES

(i) Worker Takeovers

Although a significant number of enterprises have gone into liquidation, worker takeovers so far have been rare. Most operations have been purchased by other enterprises. There is one prominent case (Fencing Services) which deserved study because it illustrated the promise and problems faced by such activity. There may be two other cases—a mine currently running at a loss and facing foreclosure is the subject of a court case and could be operated and part-owned by the workers. There is also a hotel in the eastern part of the country whose sale by the owner is being disputed by the workforce.

History of Fencing Services Co-operative Ltd.

The previous owner of the above firm deserted it in 1982 and left unpaid a $400 000 debt. After discussions with the liquidator, the commercial banks and Ministry of Labour, Manpower Planning and Social Welfare, the workers formed a co-operative of 145 members and assumed the debt (to be repaid at $13 000 a month). Membership currently stands at 125 and gross revenues for 1983 at slightly over $1 million. The current volume of business is $55 000-$85 000 and the firm is operating at 50 percent capacity. Members have absorbed a wage cut and now receive the minimum wage for agricultural workers. The business sustained a net loss of $90 000 for the fiscal year 1983.

The firm produces wire and wire products, perimeter and mesh fencing. Capacity utilisation is seasonal with the low levels prevailing during the rainy season. There is both a domestic and foreign market. The latest significant order came from South Africa for 75 tonnes of product a month (valued at 70 000 South African Rands) for five months to be renegotiated in 1985. Foreign exchange is required for the importation of Zambian zinc ($30 000).

Problems

The enterprise seems viable and there apparently are other entrepreneurs willing to purchase the firm. The problems facing the co-operative are the same as in other worker-owned ventures (co-coperatives) in Zimbabwe and have to do with management, the lack of entrepreneurial skills, foreign exchange and working capital. The co-operative seems to possess the necessary skills to produce a quality product but business management skills are weak. As an example, telephone orders were executed without benefit of a written confirmation. Requests for a line of credit from a commercial bank were made on the basis of a hand written order list. The Ministry of Labour officials made an appointment for the Chairman so he could file a request with the World Bank's Export Revolving Fund and for two days the Chairman did not turn up. The price list was compiled in 1982 and the requests for price increases have been inadequately filed with the Ministry of Trade and Commerce. This inadequacy is compounded by the Government's bureaucratic requirements. The Department of Co-operatives, which is the main contact group for co-operatives, did not know about the Export Revolving Fund and it is not clear even to them where the focus of decision was with regard to the normal foreign exchange allocation process—Trade and Commerce, Industry and Energy or the Industrial Import Control Division of the Confederation of Zimbabwe Industries (CZI).

There was a lack of entrepreneurial ability. This is distinct from the technical requirements of operating an enterprise and has to do with business acumen, a "take-charge" approach. As an example, the members allowed a $300 000 export order to lapse owing to a lack of foreign exchange without resorting to the threat (real or actual) of ministerial intervention to obtain positive results. The "humble" approach observed in the leadership may have been translated by the local financial market to be a lack of leadership resolve. As a result, the firm has been limited to $7 000 bank overdraft facility even though its requirements are much higher and it has a full order book (but no collateral since assets are frozen) to back it.

It must be said, however, that independent sources verified a hostility to co-operatives on the part of the established business community because of the anticipated potential implications of a successful worker turnover. At the time this report was written SEDCO was the co-operative's request for considering a line of credit.

(ii) Other Industrial Co-operatives

Other co-operatives also faced similar problems. A shoe manufacturing organisation with a membership of 10 cannot pay its members the minimum wage because of the low turnover rates, poor market penetration and competition from foreign inputs. Gross turnover, at 3 000 pairs a year, is at only 33,0 percent of capacity because the styles being manufactured were copies from out-dated foreign fashion magazines and were not popular with urban consumers. Larger firms have an allocation of foreign exchange which they use to import synthetic material more popular with buyers. There is the irony of a small firm using local leather and rubber with a low import content, being priced out of the market by mechanized large firms using imported inputs.

Market Penetration was also low due to the lack of marketing skills. There were no salesmen to keep direct contact with outlets. The product looks suitable for the regional (SADCC) market and is of high quality, but the co-operative did not know of the Trade Promotion activities of the CZI, the procedures for acquiring foreign exchange, or ways of pricing and marketing commodities like shoes with a relatively low market shelf life.

Some co-operatives face technical problems. A co-operative (Chidanyika) manufactured asbestos roofing sheets from a formula supplied by the major asbestos producers, but the sheets developed cracks after a relatively short period of time. Technical problems of a different nature face construction co-operatives. The members have to meet national criteria for construction artisans and some have done so. However, they do not fully understand local and central government tender procedures. Assistance from the Ministry of Construction in this regard could result in a conflict of interest and charges of bias. As a result the building co-operatives cannot fully participate in the public sector investment programme which constitutes the major proportion of the country's construction industry. Output marketing co-operatives seem to have a much better chance of success, particularly those concentrating on hand-made goods for the domestic and tourist trade. Two of the most visible operate in the capital; one (Kubatsirana) concentrates on hand-made women's apparel and has strong ties with the Ministry of Community Development and Women's Affairs. The other (ZIMBA) is an independent organisation with a membership of 80 craftsmen that collectively sells their output as well as products from associate clubs and individual members. Over 100 other individuals and rural clubs are associated with it. Turnover, at $10 000 a month is well below capacity and is limited by lack of quality merchandise. The management consists of three paid employees and is supplemented by voluntary work shifts by the member craftsmen. Per capita income fluctuates between $35 and $140 a month. Both co-operatives intend to expand supply by recruiting more members. ZIMBA plans an arts and crafts festival to promote productivity and quality and a catalogue to promote export sales. The major problem seems to be a lack of promotional skills and contact with other co-operatives. Though ZIMBA had exported a small volume to Sweden, New Zealand and West Germany, they were unaware of the existence of the Trade Promotion Department of the Confederation of Zimbabwe Industries. Although registered with the Department of Co-operatives they were unaware of other such productive enterprises (the shoe manufacturing co-operative, for example, which is only 3 km away) which have excess capacity in the production of fast moving hand-made goods. ZIMBA was the only co-operative to have the services of a Government contact person and co-operative expert financed by a Swedish nongovernmental organisation, but his services seem of somewhat dubious effectiveness.

B. EX-COMBATANTS CO-OPERATIVES

This group, which includes agricultural, retail and industrial projects owned and operated by demobilized ex-combatants, comprises the largest percentage of total co-operatives. They face the same problems as other worker operated enterprises but with a higher degree of difficulty. In most cases the members have no prior significant bonding relationship with each other, either through close residential or trade association. Friction tends to arise quickly and there is a "free-rider" problem. Entrepreneurial and management skills are lacking, and the participants have faced a business community that was all too willing to exploit the lack of experience by the co-operatives in the free market system. They bought ongoing enterprises at inflated prices that left them with no working capital and in some cases signed lease agreements that had very restrictive clauses with regards to repossession. Non-governmental organisations (NGOs) assisting these co-operatives complain of established financial institutions whose suspicions about co-operatives by ex-combatants border on outright hostility even in cases where the transactions involve funds owned by the NGOs. The Demobilization Directorate in the Ministry of Labour, Manpower Planning and Social Welfare is responsible for assisting all demobilized ex-combatants, but they lack staff in the areas of project evaluation, financial acumen and simple contact maintenance. As a result, the tendency is to wait for the ex-combatants to come to the Ministry for help and often by the time this happens the co-operative is in dire straits beyond redemption. The NGOs granting financial assistance have limited resources, lack technical skills and are understaffed. They face the same problem as the govenment agencies and now have the added pressure of assisting those ex-combatants who have yet to be employed. The discussion is on the basis of the most common problems faced by those co-operatives visited, which the Demobilisation Directorate said were prevalent in most co-operatives.

Shortage of Working Capital

Ex-combatants used their demobilization advance payments (up to $2 400 per capita) as start-up capital and inadequate financial planning led to the utilization of most of these funds for the purchase of ongoing enterprises, leaving no reserves as working capital. Thus, as an example, an agricultural co-operative of 21 members (Chitswachirimurutsoka) used up $40 000 of the $50 000 advance payment to buy a 340 acre farm but because of a capital shortage could only plough 36 acres in 1983. The co-operative was able to obtain a bank overdraft of $8 000 because they had title to land, but they can only expect to utilize 50 acres in the 1984/85 season and are able to reduce the bank overdraft through the sale of sand and beer. A retail organization with 30 members (K & T) still owes money to the original owner and is unable to borrow without collateral. Nine of the industrial co-operatives in the manufacturing sector went into liquidation partly because they could not finance inventories. An NGO that has been assisting the co-operatives spent over $1 million in 1983 and about $30 000 per month in 1985 on such items as irrigation pumps, insurance policies, building materials and agricultural inputs. The working capital shortage is attributed to the relatively large initial outlays for the purchase of enterprises. There are claims some of the sellers inflated purchase prices. Another problem was the intense pressure the ex-combatants put on the Ministry of Labour, Manpower Planning and Social Welfare for speedy processing of their project submissions and the resultant inadequacy of the ensuing cash flow analysis.

Lack of Group Cohesion

This group of co-operatives has more than the average level of friction among members. There are discipline and motivational problems. Chiswachirimutsoka had six of the 21 members on suspension at the time of the survey. When the Ministry staff visited the project on a workday at 11.00 a.m. the co-operative members had stopped work for the day. One of the clothing co-operatives under liquidation (Dzidzai Apa) had sold some of the equipment and some members moved into formal employment by the time the Ministry of Labour became aware of the problems.

Lack of Management Skills

The Department of Co-operatives advises on the legal and procedural aspects of operating a co-operative enterprise, but refers any industry-specific problems to relevant government Ministries. Ministries, however, are inadequately staffed to deal with economic, financial and technical questions, with the exception of the Ministries of Agriculture and Mines. As already mentioned, NGOs and other organizations assist with bookkeeping and cash management issues but are unable to assist with enterpreneurial issues such as when to expand operations, borrow funds or search for markets. This problem is more acute with demobilized ex-combatants. A typical example is a co-operative (Dzidzai Apa) formed in 1982 to manufacture clothing. The membership (15) had no textile skills and intended to keep the labour force of the previous owner for as long as it took to obtain skills. The volume of trade declined when clients heard of the change in ownership. The co-operative was able to obtain an order from the Army with the assistance of the Ministry of Labour staff. Despite the good quality of work, however, the flow of orders could not be maintained because the co-operative was not familiar with government tender procedures. They sold uniforms on account to rural schools, where the usual procedure is to obtain firm orders on the basis of samples and thus avoid having to finance inventories. Working capital thus became a constraint, and unwanted inventories accumulated. Morale declined and some members opted for employment in the formal sector. By the time a formal liquidation process started half the capital assets had been sold. Three co-operatives (a dairy and two restaurants) have been closed because the owners collected sales tax charges but did not forward them at the appropriate time to the Government. When approached, there were cash flow problems which forced liquidation. The two passenger transportation co-operatives (Ujamaa and Rutsava) apparently have been successful, but this is not clear since they have no bank accounts or appropriate books and they are uncertain as to whether the passenger volume merits the addition of additional buses.

Lack of Markets

The viability of co-operatives in some retail trades is questionable in the short term because of the current economic recession and the existence of excess capacity. This is particularly true for the clothing and textile industry, unless the output is destined for export. Rural-based enterprises have been indirectly affected by the long drought and two of the co-operatives surveyed (Dzidzai Apa, Kubatana) had large outstanding balances on their accounts because farmers were unable to pay for school uniforms. The situation is not going to get better this year.

Agricultural Co-operatives

The majority of agricultural co-operative enterprises were the result of the land resettlement programme under the so-called Model C. Farmers own the individual plots on lease from the Ministry of Lands, Resettlement and Rural Development, but farm co-operatively, i.e., they purchase inputs and sell output as a unit. A few were formed by individuals who then purchased large commercial farms. Three years of successive drought makes it difficult to assess their current economic viability, and this project was not focused on the Model C resettlement programme or on the agricultural sector. However, the constrast between the industrial and agricultural enterprises serves to highlight the major problems in the former.

(i) Previous Experience with Agriculture

Agricultural enterprises with a likelihood of success (such as Shandisai Pfungwa near Marondera and Simukai Co-op) have members who have a strong technical knowledge in commercial farming. In the first co-operative (Shandisai Pfungwa) the production manager was a former employee in the same capacity on the former commercial enterprise. The Agritex Department of the Ministry of Agriculture therefore can transmit technical information to the co-operative and it will be used productively.

(ii) Marketing Facilities

Agricultural enterprises are guaranteed an outlet for their produce and need no marketing personnel or experience. Flue-cured tobacco is an exception, however, because it is sold by auction and prices may vary on the basis of the timing of a sale.

It therefore calls for a marketing strategy and the new enterprises like Shandisai Pfungwa may have lost revenues due to inexperience. Grains are sold to the Grain Marketing Board at guaranteed prices and vegetables have an established market with daily wholesale auctions.

The small scale farmers as well as co-operatives in the resettlement areas have formed input puchasing co-operatives which in turn have amalgamated to form a single co-operative union. This single union handles the distribution of all inputs purchased using credit granted by the Agricultural Finance Corporation's Resettlement programme. The volume handled by the union's warehouses in 1983/84 amounted to $5 million. The management of the co-operative union is not necessarily dominated by the member organisations and one Government official felt the distribution of the co-operative service charges was biased in favour of the co-operative union.

Problems have to do with low incomes due to the drought. The Agricultural Finance Corporation (AFC) is the main source of credit for both the large scale enterprises and resettlement farmers. The co-operatives on large scale farms were not able to repay the AFC in full and their credit facilities for the forthcoming 1984/85 season were scaled down by the amount of the outstanding debt as well as the AFC's own estimate of the viability of each project. This creates a vicious cycle. The co-operatives are forced to cut acreage under crops, further limiting their income prospects. It would seem as if the risks involved in non-payment due to another drought are insurable, as would the probability that the enterprises could not manage a higher acreage. The policy of the AFC in this respect could be called restrictive. On the other hand they have no past credit history to guide them and they do have to make an allowance for net income that will sustain the membership. Shandisai Pfungwa could be considered the more promising of the large-scale co-operative projects. The membership of 83 took over an abandoned 2 475 hectare farm of which 1 648 hectares is arable land. Agritex recommends a three year rotation scheme so that 700 hectares are under crops in any year. The AFC allowed the co-operative a working capital loan of $36 000 which was used to plant a total 137 hectares of tobacco (20 hectares), maize (86 hectares), winter wheat and other small crops. Gross income was extimated at $61 000 (compared to $30 000 for 1982/83) and $15 000 was used to repay a part of the loan. At the normal cost level the per capita income of the members would be below the industrial minimum wage level. The AFC has limited their credit line for the 1984/85 season to $29 000 over the outstanding balance, permitting only the same acreage as in the previous season. The same applied to most of the large units, but the first annual survey of the small farm units show them sustaining gross incomes well below the explicit costs.

Recommendations

(a) A rationalization of the number of co-operatives is inevitable and a great majority will fail because the membership has neither the entrepreneurial wherewithal or the market potential to succeed. Some projects were started without any feasibility studies and most of these did not merit being even considered, particularly some of the retail enterprises by ex-combatants. Those projects already under liquidation should be allowed to fail because no amount of investment or aid can save them.

(b) Both the Department of Co-operatives and the newly-established Small Enterprise Development Corporation (SEDCO) are not likely to have the necessary technical, managerial and entrepreneurial know-how to help both individual emerging businessmen and industrial co-operatives. The latter are the same as any other enterprise and require the same type of skill and foresight. SEDCO proposes to share the management and supervisory tasks with financial institutions and this will help alleviate, but not eliminate the problem. SEDCO proposes to co-finance loans with commercial banks. The latter would carry out the feasibility study for a new enterprise. If viable, SEDCO would supply part of the capital, with the financial institution bearing a larger part of the loan repayment risk.* What is required in addition is industry-specific entrepreneurial assistance for a specified period where a businessman familiar with the industry observes and advises the co-operative on day-to-day decision making. This requires a disinterested party and I would suggest a programme which utilized retired businessmen from abroad being made available on a technical assistance programme.

(c) More attention should be paid to the proposed membership composition of a co-operative. Simply being ex-combatants, for example, is not

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* See Appendix 1.

enough. I would suggest a more individual approach, including a personality and skills profile and an identification of the leadership attributes of the members. Most co-operatives are failing because of personal differences or domineering behaviour by single individuals accompanied by submissive response from the rest of the membership. The skills to identify such personal characteristics may not be available in this country and I suggest they be made available on a technical assistance programme.

(d) There should be vested in SEDCO all the necessary assistance, follow-up and referral personnel. The Department of Co-operatives in the Ministry of Lands is a misnomer, since all they do is register co-operatives. The potential for these organizations lies not in the legal definition (which this observer feels is over-emphasized), but in the economies of scale that come from collective action, be it marketing, saving out of earned income or market power. These aspects have so far been ignored.

(e) External assistance could be used to permit co-operatives to visit other co-operatives in other countries in order to assess the potential of the organisational form. There are successful examples such as Mondragon in Spain, where a co-operative has diversified its economic base by dint of membership savings and retained income. Both Government officials and co-operative members could benefit from such an external exposure. One of the most unfortunate tendencies observed in this suvey was the overriding importance given to credit availability, sometimes in total disregard to its opportunity cost. Visits such as proposed here could show that there are alternatives. These projects should be co-ordinated by the Manpower Development Division of the Ministry of Labour, Manpower Planning and Social Welfare.

(f) The foreign exchange application process needs to be demystified. Government, it seems, has not explained the procedure sufficiently simply for the small businessman or co-operative to understand. I would propose the setting up of a foreign exchange reserve specifically for co-operatives and small businessmen without necessarily changing the criteria. Such a fund could be biased in favour of manufacturing. It is frustrating to promote small enterprises without allocating the necessary resources and this project showed that.

(g) Government Ministry officials are inadequately informed with regards to where decisions are made in other Ministries. Ministry of Labour officials in charge of co-operative projects did not know of export credit or promotion facilities; the same applied to the Ministry of Lands. The Public Service Commission should rectify this problem of inter-ministerial information sharing by continuing the seminar series held in 1982. The Ministry of Labour's Employment and Employment Development Division should assume the co-ordinating role in this regard. It may even be necessary to include issues covered here in a Cabinet Committee.

C. WORKERS COMMITTEES

The Government of Zimbabwe encouraged the formation of workers committees in every business establishment soon after independence, but the institution will only be made legally binding on both employers and employees after passage of the proposed Labour Bill.

The institution has thus operated in the shadows. The expressed purpose of workers committees has been (a) to advocate the workers' views with regards to health and safety on the shop floor, (b) to be a channel of communication between management and workers, (c) to advance worker participation in decision making, profit and ownership in the private sector and (d) to be a bargaining instrument.

The stated aim of the Government of Zimbabwe is to have a single union for each industry which would be responsible for nationwide issues while the workers committees become responsible for the firm-specific issues. This stratification in theory should benefit the worker and firm in a bargaining situation since the workers' committee would be privy to firm specific information that a union would not be aware of. The committees would also provide a firm-specific communications channel with respect to productivity issues.

Initially employers viewed the committees with suspicion, probably because they felt them to be an extension of Government supervision. All officials of the firms included in the share/profit participation schemes were also asked about the firm's perception of the workers committee. The general feeling was that the committees served a useful purpose as a downward channel of information from management to workers. When asked of the reverse process, management said that individual employees could convey their grievances through the committee and they had direct channels to supervisors in case of production suggestions. The Nedlaw Group rewarded productivity innovations by division, i.e., the employee got a reward for any suggestion deemed by management in that division to be useful. The same applied to all the other firms in the textile industry. The general feeling was that workers at the semi-skilled and unskilled levels were not yet able to comprehend the complicated technical production issues. Yet all the management personnel interviewed said members of the workers committee in their firms were "switched-on" and easily comprehended the essence of the business.

The most important function of the workers committees to date apparently has been to disprove or support the management's application to the Ministry of Labour for permission to dismiss workers for reason of either low individual productivity or general economic recession. Both the firms interviewed and the Ministry officials attested to the workers committees' impartiality in such cases. A quick sampling of the applications for dismissal done in 1982 supported this contention, since in 70 percent of the cases workers committees verified in general what the management provided as proof in its financial statements.

The shortcoming seems to be that the committees are under-utilized, in that their function seems to be confined to conflict situations. None of the firms interviewed intended to use the committee as a quality control unit, for example, in spite of the confirmed degree of sophistication. The concept of a worker's product review panel was considered impractical. The financial institutions felt workers were not yet ready to gauge the industry's productivity issues, but could take charge of worker welfare issues. Both the workers committees and management thought the channels for conveying health and safety information were inadequate. Labour, however, felt management undervalued their intellect, particularly in the advanced synthetic industries.

Recommendations

Suggestions on participation of workers committees in productivity issues should await their legalization by the proposed Labour Bill. It is apparent, however, that the atmosphere will be appropriate for a widening of the role of workers committees in productivity issues and a formalization of the reward mechanism to take this into account. Once the Bill is passed I would suggest the Ministry of Labour, Manpower Planning and Social Welfare study firm-specific product quality control and productivity programmes in other countries to see if they could be adapted to Zimbabwe conditions. Such concepts as the "quality of the work-place", worker quality control units and evaluation units could be incorporated in the proposed framework. Industry-specific exchange programmes using technical assistance programmes could be incorporated into such programmes as the USAID Manpower Programme. I feel, however, that the project should not anticipate the legislation any further than this.

APPENDIX 1

Rio Tinto's Worker Training Programme

The Rio Tinto worker seminar programme was designed to sensitize workers to the basic concerns in the mining industry—money and project management as well as the need for profit. The seminar groups are small—10 employees—and the game starts with a given endowment of funds to start a mining project. The employees are familiar with the major technical requirements of opening a mine, so they allocate money to infrastructure, supplies, wages and other costs. The initial allocation is borrowed from a bank and so interest costs are included. Initially workers tend to be extravagant in setting wage rates and when they have to resort to borrowing they realize no money is left for expansion. The investment game can be replayed over the training period.

The seminars were originally viewed with suspicion by employees and the workers committee, because they felt management was trying to dampen demands for higher wages. In the six years the profit sharing scheme has been in operation, however, demand for participation has increased and workers view it as an educational asset they can use in bargaining with management.

SEDCO LENDING PROGRAM

The original co-financing plans as outlined in the report seem about to be revised, with Sedco employing its own staff of project evaluators, and apparently being the sole source of finance for small entrepreneurs and co-operatives. Given the scarcity of managerial skills this change may not be in the best interests of SEDCO or the borrowers.

A. EMPLOYEE STOCK OWNERSHIP/PROFIT SHARING PROGRAMS

ORGANISATIONS/INDIVIDUALS CONTACTED

ORGANIZATION	CONTACT PERSON	COMMENTS
Employee Confederation of Zimbabwe	Mr. Makings	Source-Material—none available
Confederation of Zimbabwe Industries (CZI)		Source-Material—none available
Nedlaw Group (Art Printers)	Mrs. Jumpies Personnel Manager Workers Committee	ESOP
Christine Boutique (Factory)	Mr. Dando	Profit Sharing
Guest and Turner	Mr. G. Williamson	Potential ESOP at Mine under litigation
Delswa	Mrs. Keith	Profit Sharing
Dunlop (Bulawayo Headquarters)	Mrs. Lovitt	ESOP
Rio Tinto Group	Mr. Lewis	ESOP (defunct) Profit Sharing Programme
Zimbank	Mr. John Guerney Personnel Manager	ESOP
Brevet	—	ESOP—same as Delwa

B. CO-OPERATIVE PROGRAMMES

ORGANIZATION	LOCATION	ACTIVITY	MEMBER-SHIP	COMMENTS
Fencing Services	Harare	Wire Products	125	Worker Takeover
Flame Lily Co-op	Harare	Leather Goods	10	Industrial Co-op
Chitswachirimurutsoka	Epworth	Farming/Commercial Sand	21	Demobilized Ex-combatants Co-op
Ncedanani	Hatfield	Restaurant/Supermarket Farm	9	Demobilized Ex-combatants Co-op
K & T	Darwendale	Retail Outlet	30	Demobilized Ex-combatants Co-op
ZIMBA Co-op	Harare	Retail Outlet (crafts)	80	Operated and owned by craftsmen. Selling own output. Associate club members over 100
Chidanyika Co-op	Wedza	Industrial (Roofing Asbestos Sheets)	—	Defunct
Chitungwiza Blanket & Rugs	Chitungwiza	Weaving	—	
Simukai	Arcturus	Ranching/Vegetable Farming	15+	
Harare Weaving	Harare	Weaving, Crafts	—	
Shandisai	Wedza	Agriculture	83	

Government Agencies

Secretary, Ministry of Labour, Manpower Planning and Social Welfare

Director, Employment and Employment Development—Ministry of Labour, Manpower Planning and Social Welfare

Minister, Ministry of Finance, Economic Planning and Development

Deputy Secretary in Charge of Policy, Ministry of Finance, Economic Planning and Development

Officer, Department of Co-operatives (Mashonaland East), Ministry of Lands, Resettlement and Rural Development

General Manager, SEDCO

General Manager, AFC

General Manager, Industrial Development Corporation

Demobilisation Directorate, Ministry of Labour, Manpower Planning and Social Welfare