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ZIMBABWE: BUSINESS LINKAGES

FINAL REPORT

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ACRONYMS AND DEFINITIONS

ABLE	American Business Linkage Exchange, IESC project
BESA	The Business Extension and Advisory Services, IBDC
BESO	British Executive Service Overseas
CDC	Commonwealth Development Corporation
CESO	Canadian Executive Service Overseas
CIP	Commodity Import Programme
CMT	Cut, Make and Trim: garment industry subcontracting
CZI	Confederation of Zimbabwe Industries
DFC	Development Finance Company
EMPRETEC	UN Entrepreneurship Development
ESAP	Economic Structural Adjustment Programme
FMB	First Merchant Bank of Zimbabwe Ltd
FOREX	Foreign Exchange
GOZ	Government of Zimbabwe
HAWK	Hawk Venture Capital Ltd
IBDC	Indigenous Business Development Centre
IDC	Industrial Development Corporation
IEFZ	International Enterprise Foundation of Zimbabwe
IESC	International Executive Service Corps
JESA	Japanese Expert Service Abroad
JVS	Joint Venture Service, IESC project

MBCA	Merchant Bank of Central Africa Ltd
MBDA	Minority Business Development Agency, US Dept Commerce
OGIL	Open General Import License
RBZ	The Reserve Bank of Zimbabwe
SADCC	Southern African Development Co-ordination Conference
SBI	Small Business Initiative
SBSD	Small Business Services Division, ZIMBANK
SBU	Small Business Unit
SCBZ	Standard Chartered Bank (Zimbabwe) Ltd.
SCMB	Standard Chartered Merchant Bank (Zimbabwe) Ltd.
SEDCO	Small Enterprise Development Corporation (parastatal)
SME	Small and Medium Enterprise
UNCTC	United Nations Centre on Transnational Corporations
UNDP	United Nations Development Programme
VCCZ	Venture Capital Company of Zimbabwe Ltd
ZDB	Zimbabwe Development Bank
ZDC	Zimbabwe Development Corporation
ZDF	Zimbabwe Development Fund
ZIC	Zimbabwe Investment Centre
ZIMBANK	Zimbabwe Banking Corporation Ltd.
ZNCC	Zimbabwe National Chamber of Commerce
ZSE	Zimbabwe Stock Exchange

EXECUTIVE SUMMARY

This report's principle focus is the state of business linkages in Zimbabwe. It is divided into three major sections. Section I, The Policy Constraints and Audit, assesses government policies and other social factors that may prevent larger businesses from seeking and contracting with smaller indigenous businesses for supplies of inputs and subcomponents. Section II, Existing Linkage Institutions and Relations, identifies existing business support organizations in Zimbabwe and evaluates their potential to provide the services deemed critical to expanding linkages between businesses within Zimbabwe. Finally, Section III, Review of Business Linkage Activities Worldwide, looks at business linkage programs in South Africa and the United States and draws lessons that could be applied to a business linkage program in Zimbabwe.

The research indicated that the government-imposed system of foreign exchange allocations may be one of the biggest blocks to the expansion of subcontracting relationships in Zimbabwe. As it currently stands, the system of foreign exchange control negatively affects a business' ability to maintain a steady supply of key inputs and creates an uncertain business environment. This in turn gives a firm an incentive to remain large -- both to increase its "muscle" in the capital and foreign exchange markets and also to allow it to maintain larger inventories. At the same time, the uncertainty created by the distribution of foreign exchange (and hence imports) by the government authorities pushes firms to control all aspects of a good's production and distribution. In effect, no matter how inefficient and expensive it becomes for a firm to do everything in-house, the system of in-house production is superior to subjecting the production process to the further uncertainties that subcontractors will be unable to deliver a key subcomponent at the time, quality or price expected.

A second constraint on the development of a flourishing web of subcontracting relationships is the insularity of the Zimbabwean businessman, be he black or white. This fear of outsiders causes large firms to deal mainly with companies within the same corporate structure or owned by the same group of persons. Small businesses tend to deal only with family and to keep strangers (even if they have the management skills needed to help the business grow) at arms' length. In both cases, this insularity inhibits the flow of information about the products and services available in the marketplace (and therefore inhibits a firm's ability to rationalize production by subcontracting) and creates a corporate mentality that is biased against subcontracting. Based on current research, it remains difficult to assess whether this insularity is a product of current policies or has its root cause elsewhere. However, if (as is likely), the insular mentality resulted because of Zimbabwe's history and choice of policies, the government's current Economic Structural Adjustment Program may well help alter this attitude.

Zimbabwe's current program of incentives aims mainly at encouraging exports. Since most subcontracting firms would not export directly (instead they would supply exporters with subcomponents or services), these incentives do not directly benefit increased business linkages. To the extent that these export incentives translate into more business activity or a more steady flow of foreign exchange, they could indirectly benefit subcontracting activity, however. For example, as profits increase, an exporter may subcontract for larger orders, or if an exporter has access to foreign exchange and therefore a steady flow on imported raw materials, the exporter could pass these imported inputs on to a subcontractor for processing.

Finally, unlike in South Africa, Zimbabwe's labor unions may lack the political clout needed to derail a business linkage program. In effect, although labor unions may fear a loss of employment or benefits for their members if large businesses spin-off operations to smaller, more efficient entities, labor unions appear to lack the organization or political independence needed to mount an effective campaign against a government-supported business linkage initiative.

Inadequate management skills and lack of medium term financing are two of the major problems facing small businesses that wish either to start production, or to expand or modernize. A number of organizations in Zimbabwe provide management training programs and help to small businesses seeking financing. Programs, such as EMPRETEC, supported by outside bilateral or multilateral donors, can offer a range of services that may be helpful to increase the number and capabilities of smaller business enterprises in Zimbabwe. But, some of these institutions, such as the Indigenous Business Development Centre, may themselves lack the management depth to create and sustain an effective business linkage program. A well-designed business linkage program in Zimbabwe should not only attempt to aid small businesses but must also build the management and operational capabilities of the implementing organization.

A review of business linkage programs in South Africa and the United States highlighted that certain factors must be present to develop a successful program.

> First, there must be support from the top. No linkage initiative would succeed without total support of senior management of the large corporations taking part, especially in terms of monetary support to do such things as create small business development divisions or to subsidize training of the small entrepreneurs with whom relations are formed.
>
> Second, sound business principles must apply -- subcontracting relationships, to be sustainable, must be based on fundamental business principles: lowest price wins the contract; highest quality wins; delivery must be of the right quantity on the promised date.
>
> Third, "hands-on" involvement is imperative. The wide gap between the business procedures found in most small enterprises (especially in South Africa) and those required by corporate businesses which buy from them, is generally great. The full time involvement of skilled personnel in the small entrepreneur's business in the initial phase is often needed to upgrade operational procedures. On-going involvement can be necessary to verify that procedures and systems are adhered to.

Fourth, access to capital is also vital for growth. Often, programs could succeed only if the small entrepreneur could gain access to capital to upgrade existing equipment, purchase new equipment, buy raw materials and fund working capital.

Finally, perseverance is a must. Failures in business linkage initiative will be common, especially in countries whose small business enterprises are relatively unsophisticated. A business linkage initiative must be viewed as a long-term project. An understanding is required by the corporate company of the difficult operating conditions faced by small entrepreneurs.

Business linkage projects are not new to USAID; there are on-going business linkage activities in Botswana, Swaziland, South Africa and Kenya. But the activity will be new in Zimbabwe, a sufficiently different environment to require some very country-specific interventions. As a result, an effective business linkage program in Zimbabwe will require a pilot program. Any pilot program must first test a number of interventions and approaches to the business linkage issue. In this context, it is important to integrate into the pilot project design a data collection and management information system that improves institutional (both local and Mission) ability to monitor project performance and make informed management decisions. It should also minimize the reporting burden on participating institutions.

STUDY BACKGROUND AND PURPOSE

USAID has launched a multifaceted program to promote private sector development, known as the Zimbabwe Business Development Program (ZBDP). One component of the ZBDP is a Business Linkage Program intended to facilitate the "linking" of small and large businesses in Zimbabwe for the benefit of both. The Business Linkage Program will be based upon the experiences of other similar programs, especially in South Africa, and has been divided into two phases. Phase One is a diagnostic Assessment. This report is meant to assist USAID/Zimbabwe with carrying out this part of the program.

This report is divided into three parts. Part I identifies social and policies constraints which could hinder the development of business linkages in Zimbabwe. Where relevant, the report attempts to analyze how the Economic Structural Adjustment Program (ESAP) may alter such impediments. Part II identifies Zimbabwean institutions that: 1) may have a role to play in the Business Linkage Program; 2) currently undertake business linkage programs; or 3) could aid in the implementation of the planned baseline survey of existing linkage arrangements. It also briefly reviews some strengths and weaknesses of the institutions identified. Finally, Part III reviews linkage programs in South Africa and the United States. In reviewing these programs, the report highlights factors essential to successful programs and identifies possible shortcomings in the programs.

PART I

POLICY CONSTRAINTS AND AUDIT

Part I of this report will look at policies as they affect two aspects of the subcontracting issue: a) the demand for subcontracted goods and services and b) the supply of firms, especially indigenous, small and medium-sized enterprises, that can provide these services and goods.

Generally, two constraints stand out. One is the insularity of the Zimbabwean businessman, whether black or white, who tends to be suspicious of extensive contacts and interrelationships with outside firms. The second is Zimbabwe's foreign exchange distribution mechanism which has disrupted the availability and supply of important inputs and needed equipment. These shortages create incentives for firms to stay large and maintain control over all aspects of production so they can better react to unforeseen changes in the supply/foreign exchange situation. Finally, opposition from labor organizations, which is a major constraint on South Africa's business linkage program, does not appear to be a major impediment to a program in Zimbabwe.

INTRODUCTION

Zimbabwe's businesses have evolved into a constellation of nearly self-sufficient enclave conglomerates. Conditions created by Zimbabwe's economic policies, especially shortages caused by the system of foreign exchange allocation, played an important role in stimulating this business structure. These conglomerates developed by accretion, as a perceived absence of supply caused firms to start up in-house production/services that otherwise could have been subcontracted out. Fundamental policy changes under the present Economic Structural Adjustment Program (ESAP), including de-control over some imports, likely will alter this business ownership pattern, perhaps in as few as five years.

Measurable subcontracting exists in Zimbabwe, although such relationships seemingly have developed within the small circle of larger, longer-established enterprises. Among larger firms, there is a natural pattern of sourcing inputs of raw materials and semi-finished goods, such as plastic pellets, chemicals, soap base, tallow, paper and packaging materials. Yet, evidence from the interviews[1] suggests services are also often the object of subcontracts. These services range from the rudimentary (cleaning, catering and transport) to the more sophisticated (data processing and MIS).

[1] See Chapter VIII - Interviews

Without prejudicing later research, it appears that government policy, prior, during and after the Unilateral Declaration of Independence (UDI), has thwarted the growth of subcontracting activities. Under the self-defence, import-substitution policies of the UDI-Rhodesian Government, government policy limited the number of enterprises in each sector. After Independence, successor Zimbabwean Governments retained the UDI-era central command model, presumably for its favorable resemblance to a socialist state model.

It would appear from this initial research that even with the change of policy marked by adoption of an ESAP, the smaller enterprises, which are potential subcontractors, have not yet had the time to gain access to the foreign exchange or local capital markets. These constraints have made it difficult (if not impossible) for small firms to invest in the productive technology that would allow them to achieve the production standards and the performance record that would attract subcontracts.

One indicator of how subcontracting fits into Zimbabwean corporate culture is Zimbabwean enterprises' approach to questions of restructuring. In this regard, Zimbabwean industry apparently remains more interested in acquiring smaller enterprises than in selling an operational unit. For example, the Zimbabwe Stock Exchange delisted five companies in 1991 when they were taken over by other firms, but new listings have occurred only as previously private firms went public, or as operational units of extant companies have been made into separate entities while remaining under the control of the previous parent. This suggests that companies continue to pursue building conglomerates rather than rationalizing their structure by spinning off units and subcontracting for those products or services.

Finally, it is difficult to identify in what specific types of business operations subcontracting becomes attractive. In a somewhat limited way, Zimbabwe's garment manufacturers and exporters illustrate this fact. Some firms believe that, for export, all production must be in-house, since one does not have the required control of quality with Cut, Make and Trim (CMT) suppliers, but other garment firms are doing a brisk export business based on CMT production. In addition, one firm found that it is only feasible to export based on local fabric; imported fabric is too expensive. A second firm discovered the opposite -- the quality of the local fabric is too low for him to be able to export. While highlighting the difficulty of identifying one clear pattern of production that would be amenable to subcontracting, these variations also illustrate that different manufacturing patterns develop because of the differing strengths of individual producers, both in production and supervision. (See also the discussion in the case study below.)

CASE STUDY: Lessons Learned: Business Linkages in the Zimbabwe Garments Sector

There are now approximately 246 garment manufacturing firms that are members of the Confederation of Zimbabwe Industries (CZI). Many of these are large, employing more than 50 workers. Some enterprises, especially the newer firms, operate 100% as "Cut, Manufacture, and Trim (CMT)" suppliers to larger manufacturers or retailers. A review of the development and growth of the CMT subsector will illustrate some of the advantages and potential disadvantages of subcontracting as a tool for fostering entry and growth of indigenous firms with the formal sector.

Currently, the garment industry faces a stagnant domestic market and must turn to the export market. Most of the firms that can compete abroad are the large, white-owned companies. Some large exporters, however, pass on some of their orders to smaller firms. For example, one large garment manufacturer which itself employs some 1,400 people, passes on orders to some 15 other suppliers that may engage 40-50 workers each. The large firm has 12 people working full time in its CMT department supervising the flow of products, controlling the quality, and providing technical and managerial support to ensure that suppliers meet their contracts. With exports this year of over Z$100 million, this enterprise is showing one of the ways of the future to the rest of the industry. Several other exporters are also very active in CMT subcontracting. The system has some real advantages. For suppliers, it provides:

- a solution to the working capital problem, since the buyer generally supplies cloth and accessories;
- access to fabrics, particularly imported fabrics that are often required for sales in the export market, which would often otherwise be unavailable to small producers;
- guidance and supervision from the buyer firms.

For the buyers, advantages may include:

- lower costs, since the CMT suppliers often operate with lower overheads;
- flexibility in producing small lots that would not be economic for their more mass-produced line orientations;
- opportunities to fill orders that exceed their current capacity.

There are well-known disadvantages, too. For the suppliers, the main problems are three:

- Orders are unreliable. If this pattern is seen as primarily a way of handling overflow orders, then when markets decline, CMT orders can dry up completely.
- Returns are low, and CMT suppliers need to improve efficiency in order to make money.
- The suppliers find they are being kept away from the most lucrative markets. Each would like to move beyond the CMT arrangement quickly; the system does not facilitate such a transformation, but rather establishes blockages that make it difficult.

CASE STUDY (continued)

For the buyers, the difficulties have to do the unreliability of CMT supplies in terms of quality, price, and timeliness. Enterprises that rely heavily on this type of arrangement have an extensive staff engaged only in managing the CMT arrangements.

To assist small garment producers by expanding the CMT system, any initiative may have to:

- Upgrade the level of technical skills. This will require the establishment of training programs; freer access to foreign exchange to train people overseas: and easier access to work permits for foreign experts to come to the country for extended periods, to engage in production, supervision and training activities.
- Modernize. This requires foreign exchange to buy modern machines. The authorization process also allows government officials with only a superficial knowledge of the industry to judge whether a purchase of a machine is justified. This is a serious hindrance to modernization, particularly for small enterprises. A second issue is medium-term credit, lacking because of the credit squeeze, to finance purchases.
- Speedier processing by the government of applications, permits and tax/duty reimbursements.

A. SOCIAL CONSTRAINTS: INSULARITY

One theme that surfaced in nearly all interviews[2] was that Zimbabwean entrepreneurs and enterprises distrust and seek to avoid contact with "outsiders." Internal self-sufficiency was a much higher priority than was growth through contact with others. A number of observers refuted the notion that a cultural or racial gap was a key obstacle to cooperation. Instead, they point out that shared experiences of Zimbabwean business people apparently has resulted in insularity, and, sometimes in xenophobia. In any case, while difficult to document accurately, this could be a factor in the success of any subcontracting program. Identifying the major causes for such "insularity" will be critical for the design of a realistic and workable business linkage program.

The major holding and operating companies clearly defined an outsider as any company not associated with or owned by a common individual or group. Big companies have tended either to supply non-core activities from within, or to purchase them at sub-commercial rates from

[2] See Chapter VIII: Interviews Conducted.

members of their larger corporation. These companies seemingly fear the loss of control that would occur if production were "farmed out" to someone not subject to a direct employment contract.[3]

In the case of small companies -- often a one-person or family operation -- the distrust of outsiders seemingly arose from (perceived) fears of the uncontrollable, predatory forces of government and big business. The small companies were both loathe to expose their operations to official scrutiny and feared losing equity or control to any large firm or bank that got too close -- either as a supplier, buyer or lender.[4] While the smaller firms have managed to conceal assets and profits from the government, they have also concealed their capabilities from larger firms, and generally have sought to keep these potential customers at a distance.

It is difficult to establish whether this xenophobic view of "outsiders" is the cause for or the result of the heavy concentration ownership of Zimbabwe's industry.[5] (See Appendix A: Concentration and Directorships.) However, the high degree of concentration of Zimbabwe's business and industry seems a staple of the country's history and can be traced in a remarkably unbroken line from the period of the chartered company, through the period of Unilateral Declaration of Independence (UDI), and into the post-Liberation redistribution of assets and control over imports. Key suppliers continue to have monopoly or oligopoly control over the internal market, in raw materials, sub-components and access to scarce material and financial resources.

It is difficult to see at this stage of the research just how this insular attitude will affect a business linkage program, or, indeed, whether it is little more than the cultural echo of the enclave mentality the country as a whole has had with regard to the outside world for nearly three decades.

In truth, this protective attitude among the older firms making-up Zimbabwe's corporate elite must be compared to that held by such firms as Colgate-Palmolive (Z) Ltd and Continental Fashions. Driven by the dynamics of their businesses, these firms sub-contract out for many of their sub-services and components.

Following standard corporate and business practice, Colgate-Palmolive (C-P) contracts for as many of its non-core activities as possible in order to concentrate on the direct mixing and manufacture of soaps, toothpaste, and cleaning products. C-P buys packaging, printing,

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[3] Interviews with: Timothy C. Fourie, Divisional Chairman; Astra Industrial Division, Astra Corporation, 8 April 1992; John Pritchard, Monarch Steel (1991) (Pvt) Ltd, 9 April 1992.

[4] Interviews with: Bobby Maparanyanga, Director; HARI (Pvt) Ltd, 8 April 1992; and, E. Gumise, Director; Gift Creations (Pvt) Ltd, 9 April 1992.

[5] See, for example, Davis, A., Gray, Dr. C., Gordon, Dr. D. et aliae - "Study of Monopolies and Competition Policy in Zimbabwe", Zimbabwe Monopolies Commission Study, Final Draft Report, March 13, 1992, pp13-14.

packaging and maintenance services, and its basic inputs from outside vendors. The main concerns for C-P in choosing a subcontractor are price, quality and on-time delivery.

In the garment industry, Continental Fashions employs some 1,400 workers directly, but subcontracts to at least 14 separate outside companies, both for inputs and for cut, sew and trim activities. Continental is a successful exporter, manufacturing directly for such retailers as the Target stores in the U.S. and for European distributors.

As the activities of these two firms illustrate, that opportunities for subcontracting exist and will be exploited whenever the economics of the industry are right. What requires additional research, however, are how the legal, institutional, technological and financial factors affect the economics of "make-buy" decisions in different sectors and in different types of corporate-culture environments. It must be noted that the current Structural Adjustment Program has the potential to alter these fundamental factors. Under the OGIL program, for example, some of these exclusive markets will be opened to competition, as has already happened in plastics. This in turn may create opportunities for new players with new ideas.

B. FINANCE

Variability in foreign exchange allocations (as occur frequently in Zimbabwe) can affect negatively a firm's ability to maintain a steady supply of key inputs, buy needed spare parts and improve productivity through the acquisition of equipment. This in turn may give firms incentives to remain large, in effect increasing their "muscle" in the capital and foreign exchange markets and allowing them to maintain larger inventories.

In such an economic environment, small firms may find it difficult to gain access to the capital and in particular to the foreign exchange necessary to maintain consistent levels and quality of production. Such difficulties hurt a firms' potential attractiveness as a subcontractor.

On the other hand, Zimbabwe has one of the most sophisticated financial sectors in sub-Saharan Africa. Both foreign and local enterprises have recently shown an interest in investing in this formerly tightly controlled sector. Such developments suggest a degree of confidence in the domestic capital market, notwithstanding problems caused by foreign exchange imbalances.

1. Foreign Exchange and Import Regulations

a. Recent Developments

The first stage of trade liberalization began on 1 October 1990 with the implementation of the Open General Import License (OGIL) for certain goods used by exporters such as plastic granules, dyes and dyeing chemicals, binders, colorants and pigments and clinker for cement production. Some more items for the textile, clothing, pharmaceutical and packaging industries were added to the list in February 1991. The Government provided Z$75 million for imports under OGIL for the first six months of 1991.

The OGIL system of imports will be progressively expanded between 1991 and 1995 so that the current foreign exchange allocation system based on quotas will be replaced by a system based on tariffs. An Import Control Unit in the Reserve Bank monitors draw down and usage under the OGIL system generally to keep the authorities informed about its progress as well as to detect any abuse of the system.

All importers in Zimbabwe must be registered with the Reserve Bank of Zimbabwe. Authorized Dealers (Commercial and Merchant Banks) are able to assist new and existing importers on the procedures for securing registration. Where importers wish to import goods recently added to the OGIL list it is necessary for them to obtain Eligibility Certificates from the Ministry of Industry and Commerce. Authorized dealers have to ensure that the applicant is a registered Importer and that the goods to be imported are eligible under OGIL.

b. Implications for Subcontracting

To the extent that the OGIL results in a steady supply of key inputs, it may encourage subcontracting by eliminating some of the uncertainty that now may constrain firms from seeking subcontractors. If, however, OGIL results in inconsistent, variable allocations of the right to import, it may serve only as a political tool to redistribute the "rents" of foreign exchange allocations.

Zimbabwe also restricts a foreign investors ability to remit dividends or money from disinvestment. These restrictions may act as a disincentive to large companies who wish to spin-off operations. In effect, any proceeds received from selling a division to local investors would be substantially trapped in Zimbabwe where (because of remittance restrictions) the company may already be cash rich.

c. Other Import Controls and Their Implications

Import Controls in Zimbabwe are at present exercised through a combination of tariffs and quantitative restriction enforced through tight allocation of foreign exchange. The latter has been the far more powerful and effective instrument. Before the introduction of the Open General Import Licenses in October 1990, foreign exchange was allocated to companies based on their "importance" to the economy. These allocations were reviewed every quarter. Depending on the availability of foreign exchange, allocations would be increased or decreased, making planning difficult for firms and subjecting firms to decisions that could be political not economic in rationale. This uncertainty created incentives for companies to remain large and fully integrated, perhaps in part because of the possibility that size increased their clout with decision-makers.

Any imports outside this system of import licenses required a No Currency Involved Certificate (NCI) from the Reserve Bank. Like all foreign currency dealing in Zimbabwe, this had to be done through Authorized Dealers -- five Commercial Banks and four Merchant Banks. The process for getting an NCI can take a month or more. The NCI system gives incentives to those who need Zimbabwe dollars to seek foreign exchange off-shore. If the price of a good was particularly high in Zimbabwe compared to world market prices, a business could make a "killing" in local currency by importing the good using an NCI. However, given the likelihood that most companies have a limited desire to bring money into Zimbabwe, the NCIs do little to help companies solve supply problems caused by the system of foreign exchange allocation.

In addition to the supply problems caused by the system of foreign exchange control, the system may lead to distortions in business decisions. Businessmen have incentives to pursue foreign exchange rather than productive investment. In a sense, many "struggling indigenous businessmen" clearly realize that the present value of foreign currency is far greater than the future discounted earnings of any business that they may establish. They therefore turn to marketing foreign exchange to "capitalize" their connections and their ability to manipulate the system. Much management talent can be diverted from more productive pursuits by this lucrative activity.

2. Monetary Policy, Inflation and Price Controls

In general, Zimbabwe's monetary policy has created uncertainties in terms of interest rates, exchange rates, availability of capital and foreign currency, and thus in the underlying supply of key inputs. These uncertainties can make planning difficult, especially for smaller less sophisticated entities. In addition, such uncertainties may provide strong incentives for firms to control all aspects of production and pursue a strategy of self-sufficiency and self-reliance -- thereby creating disincentives for subcontracting.

Official inflation figures in Zimbabwe suggest a moderate rate of price increases over the last decade. However, because of Zimbabwe's pervasive system of price controls throughout the 1980's, the official figures understated the true rate of inflation. Price control have also likely reduced investment and job creation. Small firms whose resources were limited may have been particularly hard hit by controls which prevented them from recouping their true, underlying cost of production. The government has realized the negative effects that price controls have had on the economy and has begun to reform the system.

Inflation appears to have jumped considerably in the 1990s, pressuring firms whose resources are limited. Government efforts to deal with inflation by raising interest rates has understandably added to the financial difficulties experienced by some (especially less efficient) firms.

The government has generally used monetary policy to assure non-inflationary financing of the public sector deficit. Tight exchange and import controls (and maintaining an overvalued Zimbabwe dollar) has often led to excess liquidity in the domestic system. In general, excess liquidity results in easier credit terms for larger customers. In turn, access to cheaper credit eases pressures on such firms to spin off inefficient operations or cut costs by maintaining smaller inventories.

The government undertook a large devaluation of the Zimbabwe dollar between July and September 1991. At that time, the black market rate for the Zimbabwe dollar (a good indication of the true underlying value of the currency) was about one-third the official rate. In April 1992, the black market exchange rate Z$/US$ was Z$7-Z$8/US$1, while the official rate was closer to Z$5/US$1. This suggest that a foreign exchange shortage (and the related supply problems that give companies incentives to concentrate production in house) will continue to plague Zimbabwe's economy.

Monetary policy over the last few years has varied widely. A rapid expansion of domestic credit occurred in 1989/90. Most of this credit however, was used to cover increased production costs and maintain working capital rather than to invest in productive capital. In February 1991, the government changed course and tightened monetary policy. This led to general perceptions that there was a shortage of capital.

In March 1992, the government again changed course and eased monetary policy. It reduced the statutory reserve ratios for commercial banks from 12.5% to 6.25%. This step had the immediate effect of putting Z$400 million into the system and caused interest rates to fall by about 3 percentage points. While government policy added liquidity to the system, some major financial institutions continued to report a lack of excess liquidity and a need to cut back on lending in April 1992. Any liquidity crunch will hit smaller, start-up companies especially hard (and hence affect the supply of potential subcontractors) since these firms tend not to have collateral or a "bankable" track record.

3. <u>Venture Capital</u>

The availability of venture capital can greatly affect the "elasticity" of a sector's response to subcontracting opportunities. Most venture capital companies in Zimbabwe look for commercially viable projects. Often, these companies do not advertise, making the identification process somewhat ad-hoc. Projects often are oriented toward the small family-owned venture. Opportunities may exist to use these venture capital companies to help develop viable, indigenous subcontracting ventures.

Some companies, like the Venture Capital Company of Zimbabwe, have a priority interest in encouraging large firms to subcontract and to spin off divisions. While these companies can provide capital, it is less clear what types of technical assistance they can provide to fill skill gaps in the start-up company. (For more information on specific venture capital companies in Zimbabwe, see Appendix B.)

CASE STUDY: Transport Sector

Subcontracting opportunities manifest themselves in a variety of ways and in a wide spectrum of sectors. As this study shows, the transport sector has been on the growth areas for emerging entrepreneurs -- and subcontracting has often been an engine for that growth. The study also shows, however, that while government policy acts to create new opportunities, it can also encourage artificial monopolies favoring established businesses.

During the recent drought in Zimbabwe, Cargo Carriers (Zimbabwe) subcontracted with over 70 local trucking companies (whose fleets may have been from 1 to 10 trucks) to help in the haulage of maize from South Africa. Cargo Carriers provided support for their subcontractors by giving access to facilities in South Africa, handling permits and visas, and providing monitoring and minor repairs along the route. By offering such umbrella services, Cargo Carriers allowed some smaller firms to enter a market for which they were otherwise "unequipped," both in terms of facilities (refuelling and repair depots in South Africa) and paperwork (visas, contacts with the government).

In the early 1980s, Zimbabwe introduced the system of mixed registration to increase the availability of trucks on the road. It allows companies to keep the foreign exchange earnings of trailers registered abroad -- providing significant competitive advantages. in terms of access to new vehicles, spare parts etc. Cargo Carriers was reportedly granted a special dispensation allowing it to operate vehicles of "mixed registration." Local truckers accused cargo carriers of having an unfair advantage since it had easier access to spare parts, vehicles and facilities. When Cargo Carriers received a haulage contract from the government on the understanding that it would sub-contract to local transport companies, local truckers again complained, accusing Cargo Carriers of having an unfair competitive advantage because it had trucks of "mixed registration" that other contracts did not have.

4. The Zimbabwe Stock Exchange (ZSE)

The Zimbabwe Stock Exchange (ZSE) has provided limited opportunities for raising equity financing. The market is relatively thin and only a small portion of firm equity is actually traded. Volatility may also scare off potential investors -- between September 1991 and April 1992 shares lost more than 50% of their value.

Government regulations may play a role in keeping the market thin. First, a government ban on external trading, meant to eliminate what the government saw as capital flight, also has eliminated foreign investing in the ZSE. (Foreign trading accounted for 92% of the market's turnover in 1984, before the ban took affect.) In addition, an overvalued Zimbabwe dollar has undermined the underlying value of local industry by making it cheaper to import than to export or to produce locally. Finally, recent rises in the market may not reflect true value but instead the fact that inflation exceeded base lending rates; in effect, this has meant investors were able to borrow at negative real rates of interest, buy stock and then sell it on the inevitable rise.

The concentration of ownership may also account for some of the lack of turnover on the ZSE. Of the total capitalization of the Zimbabwe Stock Exchange (approximately Z$4.7 billion in the second week of April 1992), fully 20.3% was represented by only two firms: Delta Corporation and Zimbabwe Sun. See Table I.B.4.

In general, the government of Zimbabwe occupies an important position in the Zimbabwean stock market, through its direct ownership or control of (potentially) important assets such as ZISCO, ZESA, NZR and PTC (all of which offer subcontracting opportunities for indigenous business). The government has significant direct interest also in publicly traded companies. In addition to the Government, the leading political party, ZANU, is a significant player in the market through M&S Syndicate (Pvt) Ltd and Zidco Holdings (Pvt) Ltd. Private sector investors also appear to be a relatively small group of persons who occupy important positions, either through direct holdings, or indirectly through inter-locking directorships.

A more dynamic ZSE (which to achieve, would first require the government to institute some reforms[6]) could increase opportunities and options for financing new businesses. However, small and medium size firms will likely have to overcome problems such as lack of personal with strong management skills, few assets and lack of a track record before they could take advantage of equity financing opportunities provided by the ZSE. (These firms face similar problems when trying to access bank financing, even when banks are flush with cash.)

[6] Identifying a slate of specific reforms aimed at increasing activity on the ZSE is beyond the scope of this report. However, even if the government were to make reform of the ZSE a priority, SMEs in Zimbabwe would have to overcome many short-comings in management and production before they could turn to the ZSE as a source of financing.

TABLE I.B.4 - MARKET CONCENTRATION
ZIMBABWE STOCK EXCHANGE

COMPANY	Turnover (000Z$)	Earnings (000Z$)	Earnings/ Turnover	Shares Issued	Last PriceZ$	Capital. (000Z$)	ShareTot MrktCapit
DELTA	870200	91100	10.47%	24130	28.00	675640	14.35%
ZIMB SUN	130405	32166	24.67%	203000	1.40	284200	6.03%

The top two stocks, the second of which is a subsidiary of the first, represent 20.38% of total market capitalization, or $959,839,910. They share the same top two executive officers and the same second largest shareholder.

BARCLAY		26833		133106	1.55	206314	4.38%
BINDURA	287089	70644	24.61%	116808	1.75	204414	4.34%
TSL	205794	38474	18.70%	206517	0.90	185865	3.95%

The top five stocks represent 33.05% of total market capitalization, or $1,556,560,800.

PGINDUS	223204	16540	7.46%	91772	1.90	174367	3.70%
ART	220143	40150	18.24%	251651	0.65	163573	3.47%
ZIMALLOYS	199857	29700	14.86%	60751	2.55	154915	3.29%
MASHONAL	163403	25301	15.48%	90382	1.65	149130	3.17%

The top nine stocks represent 46.68% of total market capitalization, or $2,198,494,900.

RIO TIN Z	274722	36817	13.40%	22461	5.95	133643	2.84%
CLUFF	90756	42523	46.85%	238544	0.55	131199	2.79%
TA HLDG	801418	36970	4.61%	72138	1.80	129848	2.76%

The top twelve stocks represent 55.07% of total market capitalization, or $2,593,640,000.

DAVIDWH	203496	24318	11.95%	166784	0.70	116749	2.48%
NATFOOD	513453	20601	4.01%	63782	1.70	108429	2.30%
APEX	234935	28232	12.02%	20574	5.15	105956	2.25%
SPINNER	115755	38122	32.93%	84623	1.20	101548	2.16%
EDGARS	156517	15376	9.82%	36000	2.80	100800	2.14%
FP HLDNG	82309	12339	14.99%	80000	1.25	100000	2.12%

The top eighteen stocks represent 68.52% of total market capitalization, or $3,227,096,700.

Old Mutual Investment Corporation has holdings in 43 of 61 listed firms, valued at $572,510,000, or 12.16% of total market capitalization.

Security Nominees (Pvt) Ltd has holdings in 31 of 61 listed firms, valued at $398,035,000,
or 8.45% of total market capitalization. It has majority shareholding in three public firms.

5. Mergers and Acquisitions

An increasing number of manufacturing firms appear to be coming up for sale in Zimbabwe. Turnover of enterprises can bring new players into the market -- such as mid-level managers from larger firms striking out on their own. As the market mix changes, new players with the talents and contacts to make a go of subcontracting may appear on the scene.

The experiences of a private business broker in Harare illustrates how the volume and scope of mergers and acquisition activities is changing. The broker recalled that in 1987, his company handled 15 sales of companies, all service or retail firms. In 1988 ten companies passed through this brokerage, and again none were manufacturing firms. In 1989, the firm brokered the sale of 15 companies, of which four were in the manufacturing sector. In 1990, the brokerage sold 17 firms, five in the manufacturing sector. In 1991, 37 firms changed hands, of which seven were in the manufacturing sector. Most of these sales have been transfers between small entrepreneurs.

The major reason for selling in the past had been emigration or retirement. A few properties were sold when their owners shifted to other endeavors. More recently, however, the main reason for selling assets has been financial difficulty: the firms have been or were about to be liquidated. (As interest rates reach or approach positive real levels, such financial problems should be expected, as inefficient operations which may have survived on easy credit fall out of the market.) In 1992, five properties have been put on the market through this broker by a liquidation firm.

At the moment, there are many more sellers than buyers. Sellers are reducing prices in response, at times by 50%. The problem seems to be that the system is illiquid. The broker will not take on a client who suggests that he will get a loan to buy the enterprise.

C. TAX AND OTHER INCENTIVES AND DISINCENTIVES

The GOZ offers a series of incentives through the tax code that could affect the number, size, location and performance of firms in a position to act as subcontractors. These incentives are heavily weighted toward encouraging exports. However, because potential subcontractors would not be exporting directly, they would not likely be able to take full advantage of these incentives. (Certain small firms, however, could benefit indirectly as suppliers to those firms that because of these incentives can expand operations and in turn increase purchases from suppliers.) Finally, the Zimbabwe government does not offer any specific incentives for firms involved in subcontracting. In fact, the sales tax, as discussed later in this section, may bias firms against subcontracting.

1. Growth Points

Zimbabwe offers companies tax breaks to locate in pre-selected Growth Point areas. Potential subcontractors would be in a position to take advantage of such tax breaks, assuming the benefits exceed any cost/disadvantage that come from locating at a Growth Point instead of a some other, preferred location.

These Growth Point incentives include Special Initial and Investment Allowances, for both commercial and industrial buildings. New and unused movables may qualify for Investment Allowances, which are not subject to recoupment.

Businesses locating in Growth Point areas can receive refunds paid on sales tax charged on building materials as well as refunds on the costs of building materials and on some purchases of plant and equipment. These refunds apply to taxpayers carrying on business in Growth Point Areas as well as to certain persons leasing movable or immovable property to such businesses. Exemption from Customs and Excise duties are also available. Similar refunds will now be made in respect to import duties and sales tax on capital equipment for new projects approved by Government. These projects must be completely new projects which increase exports, create an appreciable number of job opportunities or introduce new technology.

In addition, after April 1, 1992, a company commencing manufacturing with a "new project" approved by the Minister in a Growth Point area will have the income from such operations taxed at 20% for the first five years.

2. Export Incentives

The government also offers incentives to encourage exports, especially preferential access to foreign exchange for exporters. (Table I.C.2 summarizes the export incentives.) Subcontractors, since they are not exporters *per se*, would not be in a position to benefit from such incentives directly. (But, as noted earlier, benefits such as access to imported materials could conceivably be "passed along" by qualified exporters.)

Incentives in Zimbabwe are basically designed to benefit existing exporters and to encourage new export oriented projects. The package comprises an Export Revolving Fund, an Export Retention Scheme, an enhanced dividend remittance scheme and other rights. This package of incentives can help exporters overcome problems of finding foreign exchange to import needed raw materials. The package is not very helpful in providing foreign exchange for the import of new equipment and technology.

An Export Revolving Fund was established with the assistance of the World Bank and is administered by the Reserve Bank of Zimbabwe in consultation with the Ministry of Industry and commerce. The fund aims at guaranteeing manufacturers who produce for export access to foreign exchange so that these firms can import needed inputs. Such imported content can not exceed 60% of the value of the export. While this system helps reduce supply uncertainties for exporters, its impact on subcontracting decisions are difficult to assess. On one hand, a subcontractor (who is not a direct exporter) does not necessarily benefit. On the other hand, if an exporter is willing and able to pass on the imported input to a subcontractor for processing, the Export Revolving Fund could improve the reliability of subcontractors.

An Export Retention Scheme provides an opportunity for all productive sectors of the economy to retain locally a percentage of their export earnings. All foreign exchange earners can retain locally 15% of the hard currency earned. This scheme is to be expanded to 25% for the period January to June 1992, 30% for July to December 1992 and 35% up to December 1993.

All capital goods imports for projects approved by the Zimbabwe Investment Centre (ZIC) are relieved from import tax and surtax upon application for such relief. Subcontractors could conceivably take advantage of this relief if the government considered their development a high enough priority.

Loans, Overdrafts, Credits and Guarantees are available to all companies that export at least 75% of total output or are considered to be export projects. The companies (domestic or foreign) are encouraged to use foreign long-term loans on favorable terms. For the export oriented projects, the equity to debt gearing ratio has been set at 1:1. The local borrowing is 100% of the total shareholders' funds of the export projects plus offshore foreign loans with a minimum maturity of five years. It should be noted that all external loans still require Exchange Control's prior approval. In addition, loans exceeding Z$2.5 million still require the External Loan Coordinating Committee's (ELCC) approval.

Export oriented projects qualify for up to 100% dividend remittances depending upon the ownership status and financing structure. Rules for new export projects utilizing a combination of new funds, blocked funds, switched blocked funds and/or surplus funds are in Table I.C.2. Rules for expansion export oriented projects and non-export oriented projects are also given in Table II.C.2.

Zimbabwe encourages investments mainly in manufacturing and export sectors. To do so, it has provided for either customs duty-free imports or for the refund of duty and import tax on certain imported raw materials, component and capital goods. In some instances, the law provides for the refund of domestic sales tax. In effect, this package of incentives can yield a zero rate of duty, import tax and sales tax on the applicable items as specified in "The Promotion of Investment Policy and Regulations" September 1991.

3. Sales Tax and Investment Incentives

Zimbabwe's sales tax, levied on purchases of most goods and services, can raise the cost of subcontracting and may give incentives to keep production of goods and services in house. Zimbabwe has allowed for refund of sales tax on the purchase of some goods in order to encourage businesses to locate in a certain place or to encourage the start-up of specific businesses.

Recently announced investment incentives have encouraged foreign owned companies to place new projects into separate subsidiary companies in order to maximize dividend remittances. This may create spin off opportunities further down the line. Conversely, there are incentives to retain new projects in the parent company in order to take advantage of generous tax allowances on capital investment.

TABLE I.C.2
NEW EXPORT ORIENTED PROJECTS

TYPE OF COMPANY	FUNDING STRUCTURE	DIVIDEND REMITTABILITY
a) 100% Foreign Owned	Meet ALL external and local financing requirements with OWN foreign exchange **NOTE:** Can be 100% equity injection or any combination of equity and foreign loan up to 50% foreign loan.	100% of declared dividends from net after-tax profits.
b) 100% Foreign Owned (without own blocked funds)	A combination of foreign currency injection, switched blocked funds or surplus funds. eg.: Funds injected 70% foreign funds + 30% switched blocked/surplus funds	For the first 5 years, remittance is linked to the initial foreign currency injection limited to a minimum of 50% on the downside. Where the foreign currency injection is less than 50% of the total funding, the cost of the initial foreign currency component of project must be covered before a firm can qualify for enhanced 50% dividend remittability rights. 100% dividend remittability rights after 5 years from the beginning of operations. Dividend remittable = 70% for the first 5 years = 100% thereafter
c) 100% Foreign Owned (with own blocked funds)	Own blocked funds and meets all its foreign exchange requirements from external sources. The existing blocked funds will be for local use ONLY.	100% of declared dividends from net after-tax profits.
d) Mining Exploration	Blocked and surplus funds may be used to meet local expenses of the project. Foreign currency injection required for the imported input. BUT, once the mining stage is reached any blocked or switched blocked funds utilized must be matched by an injection of foreign currency.	Dividend remittance rights as in (b), (c) and (e) once matching inflow of foreign funds is received.

TABLE I.C.2 CONTINUED
NEW EXPORT ORIENTED PROJECTS

TYPE OF COMPANY	FUNDING STRUCTURE	DIVIDEND REMITTABILITY
e) New Joint Venture (with at least 30% local participation)	Foreign partner's share of foreign currency must be from external sources. Own or switched blocked funds may be used to meet local costs. The local partner will be allocated his share of foreign currency for the import requirements of the project. eg.: Project Foreign costs = $10 m Funded by : $7 m New injection plus $3 m allocation.	100% of declared dividends from net after-tax profits.
As above (Mining)	As above PLUS the project will be allocated a further foreign currency amount equivalent to the local shareholding for the import requirements of the project. eg.: Foreign shareholding 60% = $6m Local shareholding 40% = $4m Project foreign capital requirement $14m Funded by $6m new injection plus allocation (2 x $4m)	100% of declared dividends from net after-tax profits.
f) Domestically owned (with at least 75% local participation)	Foreign currency requirement will be made available by the authorities.	Normally 25% unless foreign shareholders inject new equity equivalent to their share of foreign currency requirement.

TABLE II.C.2

TYPE OF COMPANY	FUNDING STRUCTURE	DIVIDEND REMITTABILITY
Existing	Foreign currency requirement will be made available by the authorities. Foreign currency injection to cover imported inputs encouraged. An injection of foreign currency through normal banking channels, qualifies for enhanced dividend remittability in respect of that portion of new equity on a pro rata basis.	Remittance is on the basis of the current Exchange Control policy. Example: Existing ordinary equity = $100m New injection of equity = $50m Portion of net after-tax profit with enhanced dividend is one third (ie. $50m/$150m), balance at current rate of 25%.

D. REGULATORY MEASURES

The existence of a lively and diverse small business sector increases the availability of goods in the market place and raises the possibility for subcontracting out for products or services. Zimbabwe's regulations dealing with the types of businesses recognized by law are often complex, especially for smaller entrepreneurs. Reforms aimed at allowing legal recognition of a simple, small business entity (similar to the South African Close corporation) could be a positive step in encouraging a more diverse, small business sector.

Some other regulations, especially those concerning registration of companies and the distribution of "stands," also appear to impede formation of new businesses. Small businesses find these regulations particularly burdensome, since managers/owners of these enterprises often lack the skills needed to prepare required documents while outside help in this regard is expensive.

1. Types of Business Entities Recognized by Law

Under Zimbabwe law, business people have various choices as to how they can organize their enterprise. The most popular form among individual entrepreneurs appears to be the private company. However, reform is clearly necessary in company law, to create a simple small business entity with limited liability, along the lines of the South African Close Corporation. The ground work has been done to the point that a draft act has already been prepared. Other forms of organization are simpler and more accessible to small business, but offer no protection against loss of personal property should the business fall into financial difficulties.

a. Company

The chief disadvantage of the company from the point of view of the new entrepreneur is the associated cost. Although the stamp duty associated with company formation is very low, the charge made by most professionals for registration of a company (about Z$1 000) is sufficiently high to prompt many to attempt to effect registration without professional assistance.

The complexity of the documents required for formation and the skills needed to keep the books for the running of the company are difficult for persons outside the legal and accounting professions to master. Cost constraints encourage new entrants to go it alone and the net effect is that much entrepreneurial and official time is spent in trying to get the documents right.

The casual approach to reform by officials is presumably due to a failure to appreciate the real constraints on indigenous business development which are the direct result of the unsatisfactory state of company law.

The introduction of the simple Close Corporation as a business entity in South Africa has been very successful. The formalities to form a Close Corporation are simple - articles of association are not required - though failure to comply with the requirements of the Act can lead to personal liability of the members.

Table I.D.1
Companies in Zimbabwe

Companies in Zimbabwe have the attributes of corporations worldwide, namely separate legal personality and perpetual succession. The types of company most commonly encountered in Zimbabwe are:

> Private Company - A private company may not have more than 50 members and the right to transfer shares must be restricted by the Articles. The administration of a private company is simpler than of a public company. For example, smaller companies need not appoint auditors.
>
> Public Company - A public company by definition may not restrict the right to transfer its shares. Of all business entities in Zimbabwe it is the one most suited to large scale capital raising. It is also the most closely regulated entity, with fairly extensive reporting and disclosure requirements.

In addition to the usual advantages of incorporation, other perceived advantages in a Zimbabwean context are:

> The company structure confers a degree of anonymity on the investors which is important in view of political sensitivity of many investments.
>
> A company is perceived as being of more substance, than for example, a sole proprietorship.
>
> The use of a company can result in a lessened incidence of income tax in the hands of shareholders, through various means.

b. Partnerships

Partnerships are simpler than companies to form, and virtually no legal or accounting knowledge is required to form them. In this respect, partnerships offer advantages for small businesses. However, partnerships also hold a greater degree of personal financial risk.

Partnerships are regulated mostly by common law. No legal formalities are necessary to create a partnership other than agreement on the part of the partners to make contributions to the partnership and to operate it in order to make a profit. Bringing in new partners is a possible source of new capital for the enterprise, and it is sometimes possible to defer income tax liability into a subsequent tax year. But the Companies Act prohibits partnerships of more than 20 partners (subject to certain exemptions).

Partnerships have a number of disadvantages. They have no perpetual succession -- meaning that a new entity is created each time a partner enters or leaves. More importantly, partners can bind each others credit in the name of the partnership. This renders partnership unsuitable for persons who do not know or trust each other. Finally, the partners' personal property is at risk since for most purposes, the partnership is not a separate legal entity from the partners. Partnerships tend to be found almost exclusively in three areas:

- Professional firms, which are still not permitted to incorporate as companies - not even as unlimited liability companies which are permitted elsewhere. (All professions prohibit their members from participation in multi-disciplinary partnerships.)

- Tax-driven business structures, such as film-financing arrangements, have made use of partnerships -- in particular the so-called "en commandite" partnership where, through anonymity, a partner can avoid liability to third parties and can limit his liability to other partners.

- Transactions between foreign owned companies are sometimes structured as partnerships to avoid having to obtain the exchange control approvals which might be required in a formal venture.

c. Sole proprietorship

Sole-proprietorship refers to a business carried on under a person's own name or a trade name. It is not a distinct legal entity from the trader running it. There is no protection for the trader on insolvency. Under the Insolvency Act, upon insolvency, a trader can be guilty of an offence if he failed to keep proper records while trading.

Commencement of business as a sole proprietorship is simple, quick and requires no legal knowledge. There are no bureaucratic delays to prevent trading. However, the assets of the proprietor and his family are not protected. Often, the entity is perceived by customers and lenders to be insubstantial and unprofessional, hurting its chances of being viewed as a viable subcontractor. Finally, the proprietor is the sole source of capital.

The sole proprietorship is encountered much less frequently than might be expected, even when the person doing business is only a "one man business". Certainly amongst the "emergent" traders, the tendency is to do business through a private company.

d. Co-operative Societies

"Co-ops" have been recognized since 1956. The law provides for registration of societies as co-ops if they meet stated criteria - most notably that the majority of its services be rendered to members. Membership in co-ops is limited to natural persons, and at least ten prospective members are required to form a co-op. While co-ops offer advantages on paper to small groups who wish to form a business, difficulties in managing co-ops under Zimbabwe law make them an unlikely vehicle for forming entities that could be used as subcontractors.

Since the most recent act regulating co-ops was promulgated in 1990, its provisions are untested and accordingly uncertain. Enormous administrative responsibilities are placed on the Registrar of Co-ops. Given the government's track record (e.g. the Companies Office), it is highly unlikely that these duties will be discharged efficiently. In addition, by virtue of the minimum membership requirement, the structure is unsuitable for individual entrepreneurs, while the consensus required (legally) to run a co-op may make it difficult to manage and thus uncompetitive.

Co-ops have been susceptible to fraud and mismanagement in the past. In seeking to address this problem, the new Act has detailed provisions relating to management and financial operations. In many ways it is more difficult to operate a co-op than a company, given the extent to which the Registrar is required to monitor the affairs of the co-op. It is also unlikely that co-op members will be instructed adequately in their rights and duties. <u>The result of these difficulties, we believe, is that a co-op is an unsuitable structure for anything other than the simplest manufacturing (e.g. knitting, weaving) or agricultural marketing societies.</u>

On the other hand, co-ops also are designed to be run with a minimum of legal knowledge. Provisions are made for resolution of disputes between members by the Registrar of Co-ops. The law obliges co-ops to operate for the benefit of all their members. Membership hence implies a more active participation in the affairs of the co-op than is normally associated with minority participation in a company.

Liability of members is limited to the extent of their shareholding in the co-op. In some respects a co-op shareholder is in a better position than a company shareholder - shares belonging to a shareholder in a co-op cannot be attached by a creditor of that shareholder.

2. Registration of a Company

The process to register a company is a lengthy one, requiring up to six months in many cases (see Table I.D.1). The Office of the Registrar of Companies indicated that the process is further delayed because most people seeking to register a company do not know how to do it. Errors of form account for the much of the present six-month processing time. If all the paper work were in order, registration could be completed in about 8 weeks. The Registrar of Companies feels that an organization like IBDC may have a role to play in helping potential entrepreneurs register their companies.

The preparation of the Memorandum and Articles of Association presents a special difficulty for many potential new businesses. Because of the cost involved in having a professional Accounting firm prepare the Memorandum and Articles of Association, most people establishing small enterprises try to prepare these documents themselves. This results in many errors; according to the Registrar's office, about 40% of the daily submissions of Memorandum and Articles of Association are returned to the applicants. Larger, better capitalized firms who can afford help in preparing documents are less troubled by such delays in processing the paper work.

In addition to the opportunity costs of a six month delay in registering a business, registration fees may prove burdensome for smaller, less capitalized firms. If a firm is capitalized at between Z$1 and Z$30,000, it must pay Z$60 to register (plus a Z$3 fee for the Z$30,000 Certificate of Incorporation). For any nominal capital in excess of Z$30,000, the fee increases by only 20 cents for every Z$100. Under this system, the fee for smaller companies will represent a higher percentage of capitalization than that for larger companies.

TABLE I.D.2. - So You Want To Register Your Company?

The first step is to obtain official approval for a company's name. The applicant submits Form CR21, requesting a New Name Search. The Form costs about 66 cents; the fee is Z$6.00. The Form gives a provision of up to 7 names. The Registrar of Companies will approve one name, not previously registered. This normally takes 3 to 4 weeks, but it has taken up to two months before the applicant is informed in writing of the outcome. If the Name Search does not result in an approved business name, the applicant must start the process over.

If a name is approved, the applicant submits at least two copies each of Memorandum and Articles of Association along with a CR6 Form which costs 44 cents. The fee depends on the company's nominal capital; from Z$1.00 to Z$30,000, the fee is a flat Z$60 plus Z$3 for the Z$30,000 Certificate of Incorporation. For any nominal capital in excess of Z$30,000, the fee increases by 20 cents for every Z$100.

This process to approve a Memorandum and Articles of Association takes about three weeks, but it has taken up to one month. The Office of the Registrar advises applicants to start checking after 3 weeks. The Registrar's office verifies that documents meet with the Company Act requirements, then stamps the documents and issues a certificate.

After the company has been registered the following forms must be completed:

a) Form No. CR14: To notify the Registrar of the appointments of, or change among a company's director(s) or secretaries, including any changes in their addresses. This form should be lodged within one month of incorporation or of any changes.

b) Form No. CR6: Must be filed before any changes are made. Both the situation of the office and the postal address must be given.

c) Form No. CR2: Filed within one month from date of allotment of shares. No return is required for those shares signed for in the Memorandum.

d) Annual Return: Required to be lodged within one month of the date the Annual General Meeting. Every apparent change in subsequent Annual Return Form must be supported by an immediate notification, be it in Form No. CR2, 6, 8, 14 or other similar notification. The penalties for late lodging of this return accrue at the rate of 10% per month to a maximum of 100%. The Annual Returns are submitted with a minimum fee of Z$30.

Despite such costs, the number of application for new company registration has increased from about 20 a day in 1989 to between 50 and 60 applications per day currently. Usually, from these 60 applications, only 40 would be issued with certificates. Several firms regularly advertise the availability of "shelf companies." Company Registration Service, Harare, for example, advertises the immediate availability of its inventory of 200 shelf companies. This service suggest that there is strong interest among Zimbabweans in starting businesses.

3. Stand Allocation and Inventory

The supply of lots, or "stands" on which to build a business or work place is limited, especially if electric and water/sanitary service are required at the site. Demand for stands often exceeds supply, and the costs of acquisition can be high. Conversely, pricing of government allocated stands appears unrealistically low, set at about one tenth of the market price. The time required to obtain a government stand, however, can be lengthy and unpredictable.

Telephone and electric connections also run far behind demand, and the waiting list is long. Numerous respondents accepted as a price of doing business the need to bribe one's way to the top of the queue.

Despite such problems, local government has not focussed on supplying serviced stands to meet demand. One reason for the lack of government action may be cost. For instance, the Chitungwiza Town Council finance and development committee reported in April 1992[7] that at least Z$14 million would be required from the Government to survey and service a proposed 50 hectare site adjacent to an existing industrial area. Demand at this "growth point" town exceeds the supply of stands. These stands would typically be the location for small-scale and artisanal industries manufacturing soap, cooking oil, and candles, window frames and other simple metal products -- business that could be viable suppliers to larger enterprises.

E. CONTRACT LAW

Contract law forms the base upon which many business relations are built. A company's desire to enter into relationships with another business will largely depend on its confidence that promises made will be kept. Contract law is one way to enforce such promises. The effectiveness of contract law in encouraging subcontracting will not only depend upon its perceived fairness to both parties but also upon the speed with which the courts can enforce it.

Zimbabwe has a well-developed common law of contracts. However, despite the strength of the law itself, lengthy delays in court proceedings may act as a strong incentive against contracting. Delays of up to 3 years are now typical. Such delays can favor a debtor (or defaulter on) to a contract, especially during times when real interest rates are low or negative. Delays also raise the costs of legal services required to enforce a contract. Since the courts are reluctant to award winning parties their fees (i.e. make the losing party pay some or all of the winning parties' expenses), these expenses may further erode a person's confidence that the legal system can efficiently enforce a contact.

Many agreements contain arbitration clauses. However, although arbitration should be a quicker procedure than litigation, in Zimbabwe it can take almost as long. This often results from problems in getting parties to agree on a suitable arbitrator - the senior legal practitioners in the

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[7] The Herald, April 6, 1992

country are heavily committed and the number who are perceived as suitable arbitrators is relatively small. The result is that less use is made of arbitration than should be the case given the state of the courts. Additionally, there is little incentive to submit to arbitration since one party often stands to gain by allowing the matter to drag on.

In general, Zimbabwe has a large number of laws and regulations which are in practical terms unenforceable given the current state of the police force and the courts. Business people have grown accustomed to disregarding regulations with which they disagree - such as price control - and which, if obeyed to the letter, would greatly impede business. <u>The implications are clear: efforts to encourage business linkages and the involvement of new entrepreneurs in the formal economy should be based on economic incentives (including those offered by rational economic policies) and should not rely on the coercive power of law.</u>

F. <u>LABOR LAW AND TRADE UNIONS</u>

Zimbabwe has a number of labor laws which could prove unduly burdensome to businesses and could skew investment and "make-buy" decisions. However, because of Zimbabwe's high unemployment rate, most labor laws are difficult to <u>enforce</u>. Most observers discount all <u>trade unions</u> in Zimbabwe as ineffective. Correspondingly, trade unions are unlikely to be able to disrupt any efforts to strengthen a sector of subcontractors, especially if such efforts are moving forward with government support.

Some of the more burdensome regulations that are expensive to follow or severely restrict business flexibility are:

- No employer in Zimbabwe may fire an employee without approval of the Labour Office. This rule applies, however, only where there is no labor agreement or contract. If the employer and employee come to an agreement on termination of service, the matter does not have to be reported to the Labour Office. Nevertheless many employers find this regulation burdensome, and the rule discourages businesses from expanding their staffs. On the other hand, this rule could encourage firms to use subcontracting as a way to expand production or meet cyclical increases in demand without adding to their labor force.

- It is often cheaper <u>not</u> to buy an operating division of an extant company because the sale must include all unfunded pension liabilities and accumulated staff suspensions.

- Employers are supposed to negotiate with trade unions (at the shop level) detailed Codes of Conduct. The Codes regulate behavior at the work place and are supposed to include details on procedures for settling grievances and penalties for breaches of rules. The Minister of Labour must approve all codes of conduct.

- On paper, the bulk of the small start-up businesses face problems with official minimum wage laws. In practice, however, given the high unemployment rates, the minimum wage laws are often ignored, and the unions have not been able to force compliance with them.

- In Zimbabwe, termination benefits of an employee are usually not a problem since the contributions towards pension are held by Pension funds and not by different companies. When an employee is terminated, the pension becomes a matter between the employee and the Pension Fund responsible.

Unions in Zimbabwe play a role in setting the terms of employment which are traditionally established in annual collective bargaining agreements. The strike as a bargaining tool is severely limited and made almost nugatory by the Labour Relations Act. Most observers characterize all trade unions in Zimbabwe as irrelevant.

The Zimbabwe Congress of Trade Unions (ZCTU) was founded in 1981 in order to unite the various union factions that existed before that time. This became the National Trade Union. Struggles would be waged from shop-floor to union and to the national level.

There are to date about 35 industrial unions in Zimbabwe representing about 200,000 workers. This represents 25% of the population that could potentially be represented by unions. Between 1980 and 1991, much effort in union activity has gone into building unions and their membership and in handling worker's grievances. Collective bargaining for wages, conditions of service and other benefits was pushed to the background when the Government set minimum wages.

PART II

EXISTING LINKAGE INSTITUTIONS AND RELATIONS

In this section, we will identify existing business support organizations in Zimbabwe and evaluate their potential to provide the services deemed critical to a successful business linkage program. Our assessment draws in part on the review of linkage programs outside of Zimbabwe (reported in Section III) as well as the information gathered in Zimbabwe.

A. ASSISTANCE INSTITUTIONS

1. Indigenous Business Development Centre (IBDC)

Of all the institutions identified in this section, the Indigenous Business Development Centre (IBDC) is the only one with an explicit subcontracting development agenda. It pursues this goal in a variety of ways, including developing programs to help finance start-up businesses, technical assistance and lobbying the GOZ for policies that will encourage development of indigenous business and restructuring of existing corporations so as to open up opportunities for new entrants. Many of the views voiced by the IBDC leadership, however, have proved controversial, especially with businessmen from established firms.

The Indigenous Business Development Centre (IBDC) was officially formed on February 1, 1991, as a non-profit body corporate or universitas. Its goal is "to foster, encourage, promote, protect and advance the establishment, maintenance, development and increase of Indigenous owned enterprises in Zimbabwe and in so doing act as a focal point in the development of strategies."

The IBDC has three classes of members, defined racially and functionally:

- Ordinary Members: Any indigenous person, firm, company, trade organization or body of persons in Zimbabwe directly engaged in business pursuits. Only Ordinary Members may vote in IBDC meetings.

- Representative Members: Any organization, association, society, institution or corporate body within Zimbabwe accepted by the NIBDC as representing members engaged in business, and being of "a national character."

- Special Members: Any person, firm, corporation or organization who support the objectives of the IBDC and make regular contributions and wish to be formally represented, but do not qualify by any other class of membership.

An executive committee consisting of not less than 15 members drawn from the Ordinary members and known as the National Indigenous Business Development Council (NIBDC) manages the IBDC. All property is vested in the NIBDC. IBDC's board is made up of 31 members with 15 elected members, and the others being leaders of the Zimbabwe Transport Organization (ZTO), Zimbabwe Farmers Association, Insurance Brokers, Women in Business and the five regional presidents from Mashonaland, Manicaland, Matabeleland, Masvingo and Midlands.

At the time this report was being prepared (May 1992), the IBDC found itself in its start-up, financing phase. IBDC may need client financing of up to Z$100,000 - Z$250,000 to get off the ground. This the IBDC proposes to raise mainly from dues on its membership (said to number 5,000 individuals and businesses), as well as from bi-lateral donor support. As will be seen in the paragraphs below, it has had some success in obtaining bilateral donor funding.

The IBDC's initial goals were to: (a) build capacity within the indigenous small business sector, including technical, management, and marketing skills; and (b) obtain access to finance for the indigenous small business sector.

One of IBDC's goals is to use deregulation and anti-trust legislation to pressure holding companies to restructure their non-core, non-economical activities so as to create openings in the economy. IBDC is talking with The African Development Bank about ways to encourage spin-offs, and especially divestiture by parastatals of some of their operational units. The Zimbabwe Development Corporation is prepared to assist in gradual buy-outs by loaning the equity to indigenous buyers.

Other strategies to assist the emergence of indigenous business include the creation of another Unit Trust, and perhaps an informal market of unlisted securities. IBDC officials claimed that five or six businesses were sold off in 1991 through IBDC's friendly broker services. (This apparently was an informal telephone network service.) IBDC would also like to get its members on the Boards of major corporations as non-voting observers, in order to learn more about how these organizations think and reach decisions. IBDC literature suggest that big firms' tendency to swallow small business is a purposeful and planned policy to restrict indigenous entry into business.

Since its formation, the Secretariat of IBDC has provided information on starting a business and getting projects approved. The Centre has helped members acquire commercial stands by giving them letters of support. Letters have also been given to those wishing to get road permits and bank overdrafts. The Centre has also been helping its members acquire commercial vehicles, and apparently has facilitated contacts between its members and foreign companies in the hopes of creating joint ventures.

The Secretariat is currently building a library of directories in order to provide members with information on foreign sources of commodities. It is also organizing overseas trips to familiarize members with the operations of businesses in other countries. However, because of insufficient records, it is impossible to verify the extent and success of any of these undertakings.

It is striking to compare the portfolio of activities already undertaken by SEDCO (see II.A.2, below) and those contemplated by IBDC. Where IBDC does not limit itself to rural and small town enterprises, it does include linkages between small and large enterprises, and affirmative action. In this sense, IBDC's program can be understood to have more a political-economic foundation than does SEDCO's, with its focus on technical skills development. IBDC and SEDCO have a degree of interlock at the board level.

IBDC has established the Business Extension and Advisory Services (BESA). BESA hopes to provide management skills to indigenous businesses and to promote business linkages with larger organizations. BESA solicits the support of local big business, but business has shown some mistrust of the IBDC agenda. (IBDC has tried to overcome this mistrust by creating the Business Forum, whose members include John A.L. Carter, Chief Executive Officer Apex Corporation, and Director Morewear Industrial Holdings, Roy Lander Chairman of Anglo American companies in Zimbabwe, A.C.L. Parvin, Lonrho, A.M. Chambati, Chairman of T.A. Holdings and Director of Barclays Bank, and representativeof the Zimbank and Standard Chartered Bank.)

BESA started operations in January 1992 and, while it has a computer and copy machine, it has no telephone as yet. Its staff includes Director Doris T. Mugwara, a secretary and four university graduates who have received several weeks of technical training from a UK-funded trainer. None has significant business experience,though all have MBA degrees.[8] One agent came from SEDCO, while another had some exposure to a small business.

BESA's sole criterion for the acceptance of clients is race. While apparently an equitable action to redress racial imbalance in the business community, the experience in other countries suggests that the absence of technical feasibility criteria presents management problems. BESA intends to mirror the criteria employed by banks and other institutions to evaluate projects. Its only bias is to favor moving people from retail to production.

Mugwara claims BESA has had ten to fifteen clients; all are start-ups without business experience. The clients intend to go into clothing, brick-making, transport and freight forwarding. Most need 100% financing and plan to operate low margin businesses. Servicing the required loans from revenues will be problematical. BESA plans to offer assistance in drawing up business plans for bank financing, to broker bank financing, and provided follow-up service through the corps of extension agents. It will also offer courses in Finance and Marketing. BESA will closely monitor its clients on behalf of big business if problems arise. This was a key selling point for people such as A.M. Chambati and John A.L. Carter.

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[8] According to the trainer, it is difficult to see how these otherwise inexperienced university graduates will be able to provide real service to indigenous businesses, given their level of technical skills and lack of practical experience with critical issues in the operation of a business.

BESA staff appears to lack suitable practical experience, supervision and direction. BESA is also duplicating the services offered by such local (and indigenously owned, operated and focussed) agencies as SEDCO.

S.T. Masiyiwa, Secretary General of IDBC, initially claimed that ODA had provided a three year Z$1 million grant to support BESA operating costs. Later, he said that the UK was funding BESA for two years. Other information suggests that, in fact, the UK grant is for one year, with a possible extension to two years upon demonstrated progress. The British High Commissioner said that it would make available an additional Z$1 million to sponsor projects of IBDC's choice. BESA has also received business equipment, such as a copying machine, from USAID.

IDBC has also established a one-man (an Engineer with an MBA degree) Business Research Institute which is looking into Competition Law, Privatization, Deregulation, burdens on small business, and small business policy. It will apparently function as a think-tank or research entity to support IBDC lobbying.

An IBDC member intends to produce a commercial Indigenous Business Directory, listing small businesses. IBDC also hopes to establish an Affirmative Action and Marketing Bureau.

IBDC founders have used many fora to put across their views. Some of their views have sounded very radical to established businesses. For instance, they have suggested obligatory "Africanization" of large business. Other suggestions have included extension of the Land Bill to industrial properties. Members also hold highly critical views of the government's policy toward black-owned businesses. For more details on IBDC, see Appendix C.

2. Small Enterprise Development Corporation (SEDCO)

The Small Enterprise Development Corporation (SEDCO) provides loans and training to Zimbabwean enterprises. It has been in operation for seven years. In the fiscal year ending June 30, 1991, SEDCO approved 351 loans valued at Z$28.5 million, more than double the amount for the previous fiscal year. The bulk of its loans go to businesses that are sole proprietorships. In 1991/92, SEDCO began a service to provide consulting assistance to small businesses. SEDCO draws on a pool of retired engineers and skilled technicians as consultants for this service.

The Small Enterprises Development Corporation was founded as a development finance company (DFC) to use loans to promote commerce and industry and create employment in the rural areas and small towns of Zimbabwe. It targets enterprises employing fewer than 50 people or with assets valued at less than Z$500,000. Race of the client is not a criterion for consideration, and the present management of SEDCO has adopted citizenship as the definition of a Zimbabwean. Skills training is an integral part of SEDCO's intervention, and loan recipients normally are also participants in relevant training courses. Although developing linkages between its clients and large enterprises is not a stated goal of the program, many of the services SEDCO provides are relevant for supporting a business linkage program.

In addition to its Head Office in Harare, SEDCO has staffed branches in Bulawayo, Gweru, Masvingo, and Mutare. SEDCO offers loans for business projects (both private sector and cooperative), training in business skills, and Entrepreneurship Development. SEDCO resulted from a CIDA development intervention. After designing and setting up the institution, CIDA's participation is now limited to two technical advisers: Donald Brown (project coordinator) and H. Walter Pedersen (Financial Adviser). These two gentlemen will end their relations with SEDCO at the end of 1993, at which time CIDA hopes that SEDCO will be self-sustaining.

At creation, SEDCO projected that it needed cash capital of Z$36 million for onward lending. At the end of the fiscal year on June 30, 1991, that capital base was still Z$3.7 million short. SEDCO hopes to amend its enabling legislation in order to become a share-based corporation, with an authorized capital of Z$250 million and equity shares openly available. The Council of Ministers has not officially commented on that proposal, however.

When SEDCO began, it had no criteria to guide its loan program, other than its focus on small rural and small town based projects. After a period in which receivables began to age beyond 120 days, and nonperformance increased, SEDCO tightened its criteria for new projects and instituted a more active and aggressive collection process. But, loan monitoring and collections remain critical issues. The process is extremely management intensive and requires the creation of personal relationships, both in terms of relations with clients and oversight of SEDCO's own staff. Operational difficulties appear especially in loan monitoring and collections, and are caused in part by constant staff turnover, which results in loss of tight control over cash flow.

It has proven difficult to attract and retain qualified senior staff. Staff members appear to stay only long enough to improve their C.V. before moving on. (This issue has been raised by all institutions contacted.)

SEDCO APPLICATION OF LOAN FUNDS

Purpose	1990/91 Value in Z$	Share	1989/90 Value in Z$	Share
Working Capital	5,733,777	20%	3,277,107	26%
Mach & Equip	8,639,239	30%	3,758,834	30%
Grinding Mill	456,969	2%	357,750	3%
Vehicles	12,449,100	43.6%	3,296,500	26%
Land/Bldgs	1,205,255	4%	1,453,408	11%
Electr. Install. and similar	12,253	0.4%	520,421	4%
	28,496,593		12,664,020	

The average loan for industrial projects was Z$65,361; for commercial, construction and service projects combined, it was Z$88,034. Of the 351 loans issued in FY1990/91, 47 were made to existing clients (Z$1,794,419) and the remainder to new clients. The total number of applications for the fiscal year was 703 (728 when previous year carry over is included). Mashonaland East and Matabeleland North each provided 19% of all applications, followed by Midlands at 17%, Masvingo at 16%, Manicaland at 14%, Mashonaland West at 6%, Mashonaland Central at 5% and Matabeleland South at 4%. In terms of value, however, loans to Mashonaland East represented 41% of all funds lent in 1990/91. Loans for vehicles, primarily trucks and buses for transport businesses, increased 377% over the previous year and represented the largest line item for 1990/91.

SEDCO made most loans to sole proprietorships: 76% of all loans, against 71% to sole proprietorships in FY 1989/90. Loans to companies decreased from 22% to 15% of all loans made. Loans to cooperatives and partnerships remained stable at 4% and 5% of all loans made.

SEDCO's client training includes courses in basic business operations including record keeping, Marketing Management, and Production and Operations Management.

CASE, Consulting Assistance to Small Enterprises, is a new program begun by SEDCO in the middle of the fiscal year under review. As of April 1992, SEDCO was trying to increase its pool of 73 consultants; these are typically retired engineers and technically skilled people.

3. The Zimbabwe Development Bank (ZDB)

The Zimbabwe Development Bank (ZDB) was established by the Zimbabwean government in 1984. Compared to other institutions, its loan portfolio and equity investment are small. It is geared mainly toward helping small businesses develop projects that will be hard currency earners or allow import substitution. ZDB also has a technical assistance fund and a "soft-lending" window.

Established by Act of Parliament in 1984, the Zimbabwe Development Bank (ZDB) is required to run on commercial lines. ZDB's shareholding structure is as follows:

Government of Zimbabwe	51%
Commonwealth Development Corporation (CDC)	10%
African Development Bank (ADB)	8%
Finnish Fund for Industrial Development Corporation Limited (Finnfund)	8%
Netherlands Development Finance Company (FMO)	8%
Reserve Bank of Zimbabwe	7%
German Finance Company for Investments in Developing Countries (DEG)	6%
European Investment Bank	2%

ZDB extends medium to long-term loans, provides equity finance and gives technical support. Its goal is to support projects that either save or earn foreign currency. Other criteria used in choosing projects include use of local raw materials and employment creation.

Over 80 percent of ZDB's lending has been in the form of foreign currency loans. ZDB has recently branched into supporting industrial infrastructure by financing factory shells, to provide small emerging businesses with premises. ZDB is trying to increase loans in local currency.

In 1988, ZDB established a "soft-lending" window, the Zimbabwe Development Fund (ZDF), to promote ventures at growth points and to support new entrepreneurs. The ZDB also accessed surplus funds from the Reserve Bank for lending to the smaller enterprises. In 1991, ZDF made funds available both as equity and loans to seven projects, each requiring from Z$50,000 to Z$350,000.

During 1991, ZDB was involved in 90 projects. It extended loans worth Z$105 million and contracted two new external lines of credit valued at over Z$100 million. It also has a technical assistance fund which the ADB used to support skills training for project sponsors.

While the ZDB's loan portfolio is quite small compared to other banks, its lending operations reveal a significant bias towards small to medium scale enterprises. However, most of this lending goes into expansion and replacement of existing manufacturing operations (via foreign currency loans) rather than into new projects.

4. EMPRETEC

EMPRETEC is a United Nations-sponsored program that encourages linkages between transnational corporations and indigenous small and medium-sized businesses. EMPRETEC concentrates on technical training and developing institutional linkages, including subcontracting relationships. It does not make loans. EMPRETEC has a proven track record in other developing countries. Efforts to develop joint-ventures between large corporations and small, local businesses will not begin for two years, so that EMPRETEC can identify suitable SME partners.

EMPRETEC is an entrepreneur development program of the United Nations Centre on Transnational Corporations, now in its fifth year. It began with a pilot project in Argentina, and has programs in Uruguay, Nigeria, Brazil, Chile, Ghana and now Zimbabwe. UNCTC generally seeks to promote innovative small- and medium-size enterprises (SMEs) through linkages with transnational corporations. It seeks to build the private sector's capacity to participate in national development and regional economic integration by fostering an effective and self-sustaining coalition of public officials, entrepreneurs, experienced corporate managers, bankers and executives of transnational corporations.

EMPRETEC is sponsored in Zimbabwe by UNDP and the Zimbabwe Investment Centre (ZIC). Its goal in Zimbabwe is to support Government efforts to stimulate employment, investment, technology transfer and exports through the development of small and medium enterprises, and thus help realize the aims of the Economic Structural Adjustment Programme.

These objectives will be achieved by (1) helping to develop indigenous entrepreneurial capabilities and innovative SMEs; (2) strengthening ZIC's capacity to promote foreign investment and generate bankable projects and promising export activities; (3) encouraging linkages between SMEs and larger national and transnational corporations; (4) stimulating cross-border joint ventures within the Southern Africa Region; and, (5) building the institutional capacity to promote SME development.

The Zimbabwe EMPRETEC program is in its start-up phase. Its a program budget totals US\$827,000: US\$661,000 from UNDP and US\$166,000 from the Government of Zimbabwe. Its first Entrepreneurial Workshop was to be held July 6-17, 1992. The local EMPRETEC program is recruiting a Board of Directors, which will be composed of three representatives from big business, three from the government and one from an institutional body. It was the Team's observation that this Business-Government Board of Directors will offer a unique opportunity in Zimbabwe for fruitful contacts among these sectors which normally engage in a pattern of self-protective and self-segregating behavior.

EMPRETEC plans to offer four cycles of The Entrepreneurship Development Program (EDP - a product of Washington-based Management System International) annually and graduate 100 entrepreneurs, 60% of whom ideally will already be in business. Candidates elsewhere typically are local business people who recognize a need for assistance at a difficult point in the development of a business or project. EMPRETEC will involve SEDCO, CZI, IBDC and Zimbank in the selection of candidates specifically to help them learn about development technology. EMPRETEC itself does not engage in financing or venture capital activities.

A planned Business Support Centre will provide follow-up to entrepreneurship training. The Centre will conduct a six-month Business Diagnostics program, each session involving six or seven EDP graduates who will analyze their own businesses and formulate of work plans to correct shortcomings and reinforce strengths. These sessions will run for a period of one-week under the guidance of a facilitator, typically a Zimbabwean who has been trained in the EMPRETEC methodology.

EMPRETEC will try to develop linkages through joint-venture with both local and foreign partners. This effort, however, will not begin until the second year of the program (1993), after earlier stages have identified promising candidates with whom the large corporations could successfully deal. At that time, the program will: (1) identify and select project promoters seeking links with foreign investors; (2) arrange meetings with Zimbabwe subsidiaries of transnational corporations; (3) conduct workshops for project promoters on negotiating joint ventures and technology transfer with transnational corporations; (4) organize symposia in industrial countries with presentations by ZIC and transnational corporation operating in Zimbabwe; and (5) provide expert advice to project promoters on conducting and finalizing contracts with transnational corporations. EMPRETEC's focus will be on the relations between Zimbabwe SME's and foreign transnational corporations, and not on redistribution of ownership of present large Zimbabwe companies. The EMPRETEC program, if successful, will thus inject new foreign capital into Zimbabwe's economy.

EMPRETEC will also encourage local representatives of large companies to mentor its program graduates. The program hopes to facilitate and catalyze sub-contracting relations between EMPRETEC graduates and big business.

5. Confederation of Zimbabwe Industries (CZI)

The Confederation of Zimbabwe Industries (CZI) has a stated interest in developing business linkages. In the past, it has surveyed its members for the UNDP on their interest in subcontracting. The CZI is also considering establishing a Small Business Development unit that could provide training, mentoring programs and monitoring help for small businesses. But this activity is still in its early planning stages.

The Confederation of Zimbabwe Industries (CZI) is an organization of businesses. It provides economic analysis and reporting to its members on business conditions. It conducts surveys and studies and has been interested in the issue of business linkages, especially in the person of its Deputy Director, Alistair Ross.

CZI conducted a sample survey of its membership in 1990 for UNDP on the issue of subcontracting. The resulting report was titled "Support for Small Enterprise Development By Large Zimbabwean Enterprises." Almost one half of those surveyed replied that there were no goods or services produced in-house that they would consider subcontracting to another firm, even if specifications of quality, price, and on-time delivery would be met. The 50% who responded positively indicated that they subcontract out for the manufacture of fan guards, castings for pumps and manufacture of drive shafts and impellers, spincasting of plastic and zinc parts, provision of parts for pumps, valves and other machines, transport services, catering, maintenance, distribution, recycling of cartons, packaging, cut make and trim, manufacture of buckles and clips, printing, and other similar activities.

CZI has drawn up a background paper on the creation of a Small Industries Development Unit (SIDU). The paper highlighted the need, especially under ESAP, to rehabilitate, restructure and rationalize Zimbabwe's manufacturing sector. It noted the value of small business to economic growth and employment. It suggested that a SIDU should provide support to spun-off industrial units, and other existing micro-enterprises. Other services available through a SIDU to any enterprise, whether a CZI member or not, should include networking to help secure financial services, technical and material support, training, monitoring of needs, mentoring, etc.

Practically, the SIDU would assist in a preliminary needs and opportunities assessment of organizations, develop an outreach program to identify small scale industrial enterprises, establish a computer database of the forms of support available, match needs for financial and technical support, assist in project analysis, publish an investment register of projects suitable for investment, and other services. This initiative is now being discussed within CZI.

6. British Executive Services Overseas (BESO)

The British Executive Services Overseas loans professionals to indigenous small businesses for periods of up to six months. It does not provide loans or scholarships. Development of business linkages is not a goal of the program.

British Executive Services Overseas (BESO) provides direct injection of technical expertise and training into indigenous small and medium enterprises. BESO has completed nearly 100 assignments in Zimbabwe since starting work here. It is an independent and voluntary charity based in London whose goal is the transfer of skills to developing countries by providing professionals, and technical specialists to organizations for periods of up to six months. The aim is to develop the requesting organization's human resources. BESO, CESO, IESC, JESA, and SES differ little from each other, except in their national sponsorship.

BESO assigns its personnel mainly to the industrial and business sectors. BESO services do not require foreign exchange and are free to clients, who pay only the local costs of the BESO adviser's accommodation, subsistence and transport during the assignment. No salary is payable to BESO advisers. External sterling costs, including airfares, are normally met by BESO. BESO does not provide business finance, scholarships, school fees, jobs or apprenticeships; nor does it make loans and grants.[9]

[9] BESO Zimbabwe Representative: Mr. George Godwin tel 706052; P.O. Box CH 141, Chisipite, Harare

Anglo American Corporation Zimbabwe

The Anglo American Corporation Zimbabwe (AACZ) has taken two steps towards the creation of business linkages: an internal investigation of sub-contracting opportunities within AACZ operating companies, and through participation in the venture capital company, Hawk. (See Appendix E). The venture capital option, however, has by far been the stronger of the two.

As may be seen in Part III of this report, Anglo American Corporation in South Africa has an extensive program of pro-active sub-contracting to black-owned businesses. However, according to Anglo American Corporation Services Ltd Manager Alan Wishart, AACZ looked at the Small Business Initiative in South Africa and decided that such a program would not be feasible in Zimbabwe. The primary reasons given were limitations on small business access to inputs as a result of GOZ forex allocation policies, as well as to suitable human resources. As a result, while Wishart individually and AACZ as a corporation remain committed to the idea of business linkages, they have yet to define a program that could foster such linkages.

PART III
A REVIEW OF BUSINESS LINKAGE ACTIVITIES WORLDWIDE

This section reviews lessons learned from business linkage programs in South Africa and the United States. As in Zimbabwe, black and other minority businesses in both South Africa and the United States often lack the management skills and adequate capital necessary to establish a solid track record on production. In turn without such a record, larger firms are unlikely to subcontract to these companies. To help small, minority-owned businesses overcome this barrier, successful programs have provided intensive, hands-on management assistance/training, information on contracting opportunities, information on products available from small suppliers, and access to capital in the form of low interest loans.

In some cases, large firms have provided "umbrella" services to groups of smaller enterprises. By centralizing functions such as purchasing, accounting, planning, and so on, groups of smaller firms can gain access to needed management skills at reduced costs. Overall, business linkage programs require long term commitments in terms of resources and effort if they are to develop the depth of skills needed to establish a successful, reliable subcontractor.

CASE STUDY: DIVERSITY IN PUMP MANUFACTURING IN BANGLADESH

In 1985, a study of subcontracting systems in Bangladesh looked at several subsectors and product groups, including the manufacture of pumps. For this product line, the study examined seven large enterprises engaged in producing pumps. The process is fairly simple, involving a number of different parts plus an assembly activity. Each entrepreneur had to decide whether to make each part in-house or have it made outside. If outside, how would he arrange his relationship with the supplier: as a subsidiary, as a joint venture, as a commercial transaction with an independent supplier, large or small? From how many enterprises would he obtain each part?

What was most striking about the study was the diversity in patterns in the industry. Among the seven major suppliers, no two handled these questions in the same fashion. Some did everything in-house. Others did no manufacturing at all, only assembled purchased parts. The majority were in between these extremes, making some things themselves and buying in others. All were more or less competitive, as major suppliers in the same market.

A closer look at these enterprises indicated that the different patterns reflected the various strengths of the producers, in terms of physical facilities or management capabilities. In this case, the competitive markets enabled companies to do what they did best and buy what they did less well. More over, there was no one best way to organize the production system. Attempts by the government or by a project to promote one pattern of pump-making would have prevented companies from building on individual strengths and minimizing the costs of weaknesses.

A. THE SOUTH AFRICAN EXPERIENCE

1. Introduction

Small and medium sized businesses comprise 70% of all enterprises in South Africa in 1992. The progressive abolishment of restrictive Apartheid laws since 1986, has unleashed a multitude of black entrepreneurs into the South African economy, almost all of which would be classified as small (fewer than 50 employees). Economic apartheid, however, is still prevalent in South Africa, with nearly all of the businesses in the mainstream of the economy in the hands of white businessmen or the five large conglomerates. These corporate entities have a negative attitude toward buying from black enterprises, arising primarily from the belief that the track record of black businesses as reliable suppliers is poor.

There is, however, in South Africa, a groundswell of recognition within progressive corporate world that a concerted effort is needed to form pro-active business linkages with black entrepreneurs for the supply of products and services. These programs, none older than five years, were researched for this study.

Zimbabwe is ten years in advance of South Africa in the establishment of a viable and competitive group of indigenous businesses and businessmen. However, more than a decade of black leadership has left the white Zimbabwean establishment less than convinced that the indigenous emergent businessman requires any additional boosting. It was the view of the Team that Zimbabwe's business "establishment" is now at a position that South Africa's was ten or more years ago. Many of the attitudes prevalent among both South African white corporations and black emergent businessmen were signalled in Zimbabwe during interviews. It may be that Zimbabwean businesses can adopt some of the more fruitful approaches tested in South Africa and avoid the dead ends.

2. Key Factors in a Successful Business Linkage Program

Although business linkage programs have been effectively in operation in South Africa only since 1989, a number of important lessons have already been learned. It is possible, on the basis of the Team's research, to construct the following recipe for success:

(a) Support From The Top

All respondents agreed that no linkage initiative would succeed without total support of senior management. This is manifested in the monetary support to create small business development divisions, to subsidize training of the small entrepreneurs with whom relations are formed, to expand purchasing functions to cope with the management intensity inherent in this process, and to purchase equity in viable concerns. In addition, organizational support is required to change the company's purchasing culture to accommodate black entrepreneurs and to change the company's payments procedures to facilitate prompt (often on delivery) payment arrangements. Finally, industrial support is required to make corporate buying arrangements available to the black entrepreneur.

(b) Sound Business Principles Must Apply

Every organization was adamant that no compromise should be made, to accommodate black entrepreneur. Subcontracting relationships, to be sustainable, must be based on fundamental business principles: lowest price wins the contract; highest quality wins the contract; delivery of the right quantity on the promised date is imperative.

(c) "Hands-On" Involvement Is Imperative

The wide gap between the business procedures found in most small black enterprises and those required by corporate businesses which buy from them, was a point of concern to all. The full time involvement of skilled personnel in the black entrepreneur's business in the initial phase is needed to upgrade operational procedures affecting quality control, financial management, tendering and quoting, and to facilitate the transfer of technical expertise. On-going involvement in the business is necessary to verify that procedures and systems are being adhered to.

(d) Access To Capital Is Vital For Growth

Everyone agreed that their linkage initiatives could succeed only if the black entrepreneur could gain access to capital to upgrade existing equipment, purchase new equipment, buy raw materials and fund working capital.

(e) Perseverance

A general warning was sounded to expect failures in the short term and to assure that the organization sees the linkage initiative as a long-term project. An understanding is required by the corporate company of the difficult operating conditions faced by black entrepreneurs, particularly those that are located in black townships. For example, penalty clauses for later delivery need to be waived when on time delivery could in fact put a man's life in jeopardy.

(f) Success Stories and Information Dissemination

The consensus was that success stories play a decisive role in the universal acceptance of business linkage programs, both within the pro-active corporate companies and the uncommitted business community of South Africa. It is vitally important, therefore, that the companies involved in linkage programs share their experiences and that success stories are marketed aggressively.

3. The Status of South Africa's Business Linkage Programs

3.1 Results

Research into the current business linkage initiatives between large businesses in the mainstream of the economy and the emerging small black business sector revealed that despite some notable success stories, many problems persist:

FEW MAINSTREAM FIRMS COOPERATE Only a handful of South Africa's largest corporate companies have instituted pro-active programs to provide black entrepreneurs with opportunities to supply goods and services. These include The Anglo American Corporation, Johannesburg Consolidated Investments (JCI), Anglovaal, the Premier Group, the Barlow Rand Group, the Electricity Supply Commission (ESCOM), and ENGEN.

LACK OF WILLINGNESS TO CHANGE Most other companies are either unwilling to deal with black suppliers due to the prevailing discriminatory perceptions (poor quality and unreliable delivery), or are unwilling to adjust their rigid purchasing policies to accommodate the more flexible arrangements (e.g., payment on delivery) needed by the black entrepreneurs.

LACK OF TANGIBLE BENEFIT There are very, very few success stories where linkage programs have resulted both in the purchasing company's obtaining a price competitive, quality-comparative, product or service from a black supplier, and the black entrepreneur's utilizing the opportunity to grow his business successfully.

LACK OF AFFIRMATIVE ACTION There is absolutely no evidence of pro-active support for black entrepreneurs from the public sector organizations, which continue to operate completely according to tender regulations. There is also no minority quota system in South Africa as is the case in the U.S., and as has been proposed by Zimbabwe's IBDC.

A number of problems appear to be universal to all the linkage programs in South Africa that formed part of the team's research efforts.

- Great difficulty in changing the negative perceptions held by purchasers about black suppliers.

- Great difficulty in finding suitable black entrepreneurs, particularly in the manufacturing sector, who are willing and able to adjust their business practices to satisfy the supplier requirements of the corporate organizations.

- Great difficulty in persuading purchasers to persevere with black suppliers, particularly when their performance is not up to standard.

- Great difficulty in taking contracts away from one supplier to give it to another, which is often equated with "robbing Peter to pay Paul."

- Great difficulty in establishing a "supplier relationship culture" in the corporate organization in which purchasers have traditionally been extremely powerful and ruthless with their suppliers.

- Opposition from the trade union movement to any downsizing initiatives which might injure their members.

On the positive side, while most of corporate South Africa's linkage programs are less than five years old, they recently agreed to pool their experience and databases of reliable black suppliers in an effort to accelerate the speed with which the initiatives can spread throughout their respective organizations.

3.2 Types of Business Linkage Interventions

Current linkage programs in South Africa fall into two categories:

Partnerships, in which the corporate company takes a minority equity stake in the black entrepreneur's business and creates a close, mutually beneficial and long term business relation with the organization. In these cases, the corporate companies become directly involved in the operational activities of the black owned business in an attempt to bolster those functions in which the company is weak.

Purchasing initiatives, in which corporate companies make a pro-active effort to purchase from black suppliers, but only if they can comply with standards for price, quality and delivery. In these instances, corporate companies often assist the black entrepreneur to obtain good prices on their raw materials and will also give free management advice on such things as costing and financial management.

The research indicated that most of the contracts have been awarded for the supply of products and services which could not impact core activities of the corporate company. In some instances this was the result of a reluctance to expose the organization to "the risk associated with black suppliers," while the most common reason cited was a lack of black entrepreneurs with a capability in the core business activity (e.g., a bearing manufacturer). A brief description of each company's linkage program is presented below.

3.2.1. Partnership Based Linkage Programs

(a) Anglo America Corporation: Richard Napier

Anglo American Corporation's small business initiative was started (and purportedly not as a social responsibility exercise) in 1989 under a directive from the Chairman. The Anglo American and De Beers Small Business Initiative (SBI) resulted from experience domestically and abroad indicating that the process of job creation is best served by the encouragement of small business undertakings, especially in the informal sector. The SBI adopted a three-pronged approach.[10] It is hailed in South Africa as having had the greatest success to date.

According to a Group official[11] The SBI in fact operates through the Purchasing Unit (established in 1989), which makes a proactive selection of potential vendors and then turns around to sell AAC business units on purchasing via the SBI. The difficult sell is the internal one, but as the mining industry is attempting to lower overhead and operating costs, there is genuine interest on the part of AAC business units to find ways to save money.

Seven people comprise the Small Business Division -- five people at the Head Office in Johannesburg, one in Welkom and one in Witbank. Reportedly, it awarded contracts valued at R34 million to some 120 black entrepreneurs in 1991. The initiative claims to have provided Anglo American with substantial cost savings due to the better efficiencies of small businesses. The company set a target that by the year 2000, total purchases from small black businesses would reach R500 million.

Anglo American's greatest successes have come from the businesses in which the company has taken a direct equity stake. A total of some 300 jobs have been created in this way. A separate company, LITET Ltd (Labour Intensive Industries Trust, established in 1979) invests[12] in small businesses to provide the venture capital and managerial assistance needed by newly formed enterprises. Among LITET investments is a company which cleans offices and hostels. It has annual turnover greater than R1.5 million, is very profitable and has experienced excellent growth. It employs a large number of people, pays salaries in excess of the minimum wage and offers its employees a provident fund. Another LITET investment is an industrial cleaning company on the coal fields. This partnership among a black entrepreneur, a retired white engineer and LITET is regarded as very successful.

What lessons has Anglo American learned from its experience? First, strict financial control of the company is essential and financial systems must be installed. Second, this is a management-intensive process. Full-time involvement by an Anglo consultant ensured the success of the business. The only venture that failed was located in Rustenburg, which was too remote to monitor adequately from Johannesburg. Third, the major problems encountered were not in the perfection of technical and operational activities, but rather in the control of quality and ensuring that promised delivery dates are met. Fourth, the company will consider only those business ventures which have a "nil displacement of jobs" profile. Finally, all linkage ventures operate purely on the sound business principles of best price, quality and delivery.

[10] Source: Anglo American Corporation of South African Ltd, Annual Report, 1991, p50

[11] Interviewed in London, March 27, 1992

[12] Anglo American held 50% of LITET Ltd's equity in FY 1990 and FY 1991

(b) South African Breweries: Windsor Shuenyane

South African Breweries (SAB) started two linkage programs in the mid-1980s, both based on pure business principles. These have proven successful, but are sole-supplier, mutually dependent relationships, rather than independent business ventures. The first is SABs owner-driver scheme where SAB opened its beer distribution routes to the company's drivers and assisted them to purchase their current vehicles from SAB.[13] The second is the homeland beer wholesaling and distribution scheme, where SAB assisted a number of black entrepreneurs to establish companies which are involved in the wholesaling and distribution of SABs range of beers. SAB purchased a 10-15% stake in each business and assisted the entrepreneurs to raise finance to build their warehouses and to purchase their delivery vehicles. The businesses operate on fixed margins and have proven to be extremely profitable partnerships.

(c) The Premier Group: Norman Fowler

Premier established a separate company, New South Africa (NSA) Management (together with a black industrialist, James Mbonde) in 1991 to coordinate the Group's business linkage programs with black entrepreneurs. NSA Management's modus operandi is very similar to that of Anglo American. The company takes a minority equity stake in black-owned businesses in return for assisting the entrepreneur to raise capital, obtain contracts and to provide on-going management expertise to the company (particularly in quality control). The company's greatest successes were in those ventures where a new organization was created to fill a specific gap in the marketplace. NSA Management's approach is somewhat unique in that it does not relate solely to Premier, but seeks to create linkages on behalf of black owned businesses with all corporate companies in South Africa.

While still a new venture, NSA Management has established a product profile of all the black-owned companies in its portfolio, and with whom it has formed a close relationship. It is acting as broker for the black entrepreneurs and actively markets the product list. NSA Management contributed to the successful completion of a large landscaping contract at Logos Pharmaceutical (a Barlow Rand subsidiary) awarded to NSA portfolio company Pascal Landscape. The firm opened negotiations with Austin Safes for the supply of printed circuit boards by Electro-Chem Technologies, another NSA portfolio company. It brought one of the world's leading cleaning services franchise into the South African market in an effort to provide black entrepreneurs with a number of viable business opportunities. NSA Management is negotiating a linkage relation with South Africa's largest property ownership company. The property company is offered an equity stake in the master franchise company in return for a guaranteed portion of their cleaning contracts, which will be fed into the group of franchisees as a base to establish their businesses.

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[13] This privatization of sales and distribution routes is a well-known business strategy in the U.S., as well. Tasty Baking (manufacturers of Tastee Kake) in Philadelphia went through this exercise in the late 1980s in an effort to increase bottom line efficiencies.

(d) Amalgamated Beverages

Amalgamated Beverages began experiencing problems in delivering their soft drinks to the various formal and informal retailers in the black townships in the mid-1980s. Their response was to start a linkage program with black transport operators, one of which is J. Mtshiselwa Transport Services in Cape Town. The latter now operates seven trucks purchased from Amalgamated through a "10 cents per case delivered" repayment schedule. It delivers about 800,000 cases of beverages per annum to more than 400 wholesalers and retailers in most of Cape Town's black townships. It has an annual turnover of R560,000 and net profit of R60,000.

3.2.2 Purchasing Based Linkage Programs

By far the majority of companies in South Africa are more comfortable with a simple purchasing initiative rather than with taking an equity position in the black-owned business. Some companies with purchasing based linkage program are profiled below.

(a) Anglo American Corporation; Richard Napier

Anglo American is active in purchasing products and services directly from black owned businesses. Some examples: industrial cleaning services, industrial catering services, gardening services, refuse/scrap removal services, underground timber reclamation services, odd jobs in the mines such as off-loading, reconditioning of equipment, and two cases of manufactured components.

Several steps were necessary to start a program that adheres to standard business principles of price, quality and delivery, and yet is accessible to the newcomer. The first step was to re-examine internal procedures for tenders. AAC simplified tendering procedures from a 35 page to a 5 page document. Anglo American's Small Business Division will also provide black entrepreneurs with consulting services and conduct feasibility studies for a fee.

(b) Barlow Rand; Dick Robb

Barlow's small business linkage initiative began in 1989, and is rapidly gaining momentum throughout the companies within the Group. The aim is to appoint small business consultants in each operating company of the Group, or at least one per division, to promote the purchase of goods and services from black entrepreneurs.

Rand Mines cite a number of examples of businesses and services successfully established in their mining communities. At the Blyvooruitzicht Gold Mine, a building contracting firm employs six workers and does an annual turnover of R96,000. The Duvha Coal Mine cites an electrical maintenance business in Witbank which employs two people and does an annual turnover of R42,000. A passenger transport company employing four drivers brings workers to and from Kwaguga; it does R600,000 annually in business. At the Rietspruit Coal Mine, a business employing six people cleans empty company houses and does R5,000 annually in business. Kwazulu Transport at the Welgedacht Mine employs 15 and does annually R991,000 in business. A hostel maintenance firm employs four and does an annual turnover of R180,000. Anton Keating (Group Buyer - Small Business) estimates that a total cumulative amount of R860,000 will be reached for the period 1989-1992 for purchases from small black enterprises.

Barlows Equipment Manufacturing Company (BEMCO) makes extensive use of small sub-contractors under their very successful "Co-Makership Programme", which, in addition to regular business management advice, provides the sub-contractors with: drawings and technical specifications, production and planning practices, forecast reporting and delivery scheduling, financial assistance to purchase raw materials, payment terms to suit both parties.

In return, sub-contractors are expected to offer BEMCO: a total commitment in a fluctuating production environment; continuous improvements in productivity; competitive pricing; assurance that other markets will be secured to prevent total reliance on BEMCO.

Barlows Consumer Electrical Products (BARCEP), sub-contracts the assembly of air conditioner grilles and electric wiring harnesses for washing machines. The latter work is provided by Shadax, an operation that provides job opportunities for 60 physically disabled people in Johannesburg's Alexandra township. BARCEP reports that Shadax's ability to react quickly to increased volume has been of tremendous benefit.

CG Smith Sugar has a symbiotic relation with small sugar cane growers in Natal Kwazulu. The company assists to develop cane lands for the small growers. In the 1990/91 cane season, some 220,000 tons of cane were delivered, yielding 28,300 tons of sucrose that earned the small growers R12.3 million in revenue. Additionally, some 80 successful small sub-contractors have established full time businesses in the mill areas, offering cane cutting, trans-shipping and sugar cane haulage services.

(c) Johannesburg Consolidated Investments: Rupert McKerron

Johannesburg Consolidated Investments (JCI) started its Small Business Unit in 1989, and currently has only one person actively involved in trying to source products and services from small businesses. The company is currently dealing with some 40 businesses and targeted to contract R8 million of business for 1992. JCI is adamant that contracts will be awarded only on sound business principles (price, quality and delivery), and will not be pro-actively supporting small black businesses to the detriment of white. In return, JCI offers: prompt payment on delivery, JCI's purchasing power for the entrepreneurs raw materials, and guarantees to help with the entrepreneur's creditors.

(d) Anglovaal: Hennie Borman

Anglovaal was reluctant to provide any meaningful information on their small business development program. The following issues did emerge from discussions. First, the small business initiative was started eight years ago and has taken a great deal of effort "to get off the ground." Second, the company has implemented a policy which ensures 10% of all purchase requirements must be from small business. This allowed the small business unit sufficient time (as long as two years in some instances) to find and develop small businesses which can supply the necessary products and services. Third, the company has adopted a "hands-on" development program in order to raise the level of business practices of then small entrepreneur to the standard required by the company.

(e) ESCOM: Joe Nhlapo

ESCOM, South Africa's monopoly supplier of electricity, has established a Small Business Development Unit in an effort to locate suitable small black entrepreneurs as suppliers of a wide range of products and services. The Unit also provides their suppliers with training and instruction in tendering procedures in order "to prepare the manufacturers for the future." ESCOM does insists, however, on the highest possible standards for any goods purchased. It recently awarded a two year contract to the clothing manufacturers of the Orlando West, Pennyville and other "industrial hives" for the supply of dustcoats and two piece overalls. It awarded a R32,000 contract to Pennyville hive manufacturers for burglar bars, desks, doors and security gates.

(f) ENGEN: Morakile Shuenyane

Engen is one of South Africa's largest supplies of petroleum products, many of its linkage initiatives were started by Mobil Oil before it merged with Trek. Engen purchases all its forecourt overalls and clothing requirements from small (mostly black owned) businesses. Engen sub-contracts the production and packaging of the company's range of car care products to small black enterprises.

(g) Hoechst Business Development Centre

Hoechst SA (Pty) Ltd (established in 1957 as a wholly-owned subsidiary of Hoechst AG) set up a Business Development Services (BDS)[14] unit specifically to facilitate and nurture independent black manufacturing businesses. As a first step, BDS conducted a survey within South Africa's informal sector and discovered a need for distribution and manufacturing companies. By February 1991, Hoechst had helped start 11 businesses manufacturing household detergents, one paint manufacturer, one car care manufacturer, one adhesives distributor, one veterinary products distributor and one typesetter, providing a total of 200 jobs.

Hoechst has also expanded its own market in South Africa by assisting these start-ups, all of which are present or potential customers for Hoechst inputs.

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[14] Hoechst Business Development Services, Hoechst SA (Pty) Ltd, tel South Africa 011-407-3911

BDS' manager Bernard Mugabe said the objective is to promote the growth of chemical manufacturing within the black community. Hoechst (which did not finance any of the above cited start-ups) works closely with the SBDC, which provides start-up capital, supplementing SBDC's financing with help that includes raw materials, technical assistance, business skills training, and "after-care" consultation. In some cases, Hoechst buys back the manufactured products.

In addition to providing credit lines for low cost bulk buying facilities, Hoechst keeps its vendors up to date with latest chemical technology. One of the Hoechst clients is Black Pride Chemicals, owned by Paul Gama, which employs seven people to produce household detergents, fabric softener, bleach, dishwashing liquid, and cleaners under the brand name Mama's Products from an SBDC minifactory in the Pennyville Industrial Hive. The limitations of this small scale approach became evident with the first big order of 1,000 boxes of Mama's Products with a two-week delivery schedule. When Black Pride could not meet the demand with its staff, Hoechst seconded staff to help out, and the order was produced in one week, after seven 24-hour working days.

Another client is Patrick Langa's Dutel Paints Manufacturing and Chemical Products in the Orlando Industrial Park, Soweto. Langa had been a paint distributor when he hooked up with Hoechst and set up a two-man manufacturing operation. Now he buys inputs from Hoechst, mixes them, and sells retail and to supermarkets. His client base is confined to the Reef. He supplements by taking house-painting contracts.

Langa observed, "My major problem at the moment is trying to crack the black market. Most black businessmen who own supermarkets have little confidence in a black manufacturer and tend to do business with established (white) companies. I do not blame them, because black-owned manufacturing companies are a new thing in our community." The question of brand name and franchise is perhaps more important than race. The black supermarket owners are selling into customer demand, created or natural. They cannot be faulted for not wishing to substitute an unknown brand for the known, with the risk of losing credibility as a retailer and customers. Where Mama's Products evidently have succeeded, Dutel Paint still has to labor. It is interesting that neither Hoechst nor SBDC included marketing as one of their support services. The Team's research indicates that the Hoechst effort may be folded into that of Anglovaal for reasons not ascertained.

4. Support Structures for Black-owned Business

The growing recognition of the vital role played by small and medium businesses in the South African economy has resulted in the establishment of a number of support organizations. In recent years as the plight of the emergent black entrepreneur has been recognized, the support structures have undergone changes to cater to the specific needs of this important sector of the business community. A few of South Africa's more prominent support organizations are described below.

4.1. Organizations That Provide Finance

A number of financial services organizations will consider providing black entrepreneurs with loan capital, but mostly at relatively higher interest rates than offered their white counterparts, as black entrepreneurs are regarded as "high risk borrowers". Equity capital is virtually unobtainable for black entrepreneurs, except in the case of a technologically intense operation (e.g., electronic equipment), where the financing wing (TECHNIFIN) of the Council for Scientific and Industrial Research (CSIR) might consider providing equity finance to the company. Three of the more prominent financial services organizations involved in the small business sector in South Africa are:

(a) Small Business Development Corporation (SBDC)

The SBDC is a joint enterprise of government (50%) and the private sector (approximately 150 companies) started in 1981 with the aim of harnessing "the power of entrepreneurship by developing small businesses for the benefit of all South Africans". In 1991, SBDCs operational asset base comprised loans of R506 million and property of R158 million. By 1991, the SBDC had promoted approximately 279,000 jobs at a cost of less than R4,000 per job. The organization employs some 800 staff members at 6 regional offices.

Finance: The organization's main purpose is to provide finance to those businesses, such as start-up businesses, whose "risk profile" excludes them from traditional bank finance. From its establishment to March 31, 1991, the SBDC had granted a total of 29,934 loans to small businesses at a total value of R1,036.5 million. While more than half of the loans granted in recent years have been to black entrepreneurs, it is estimated that black borrowing in fact comprises only 13% of the total amount.

The SBDC offers a range of financial packages, at rates often below those of the banks, to businesses in various stages of development.

- mini-loan program for the very small business provides a maximum of R5,000, repayment within 6 months at 1% interest per month, to be used to purchase raw materials and equipment.

- comprehensive assistance program for informal and semi-formal enterprises provides a maximum of R50,000, at subsidized interest rates for the first 36 months, with repayment period of 36 months or longer.

- general finance program for formal businesses not able to afford market related interest rates, offers a maximum of R1 million, with repayment over 36 months for operation capital, 60 months for equipment and 10-15 years for buildings, at subsidized interest rates of up to 3% below prime.

- small business start-up fund for new ventures, offers a maximum of R750,000 at subsidized interest rates and deferred capital repayments.

- small business support fund for businesses in trouble due to external, "uncontrollable" circumstances (such as drought), offers a maximum of R750,000 at subsidized interest rates.

- small builders bridging fund provides builders with cash to run their businesses until they are paid for their work, at a maximum per contract of R40,000 and maximum per builder of R100,000, at interest rates linked to prime, and payments linked to project progress payments.

- credit guarantee scheme, in which up to 60% of the credit facility provided to a small business by a commercial bank is guaranteed by SBDC.

Business Premises: SBDC is heavily committed to providing reasonably priced and suitably located industrial and commercial premises for small businesses. These projects are financed either by SBDC or in joint venture with the private sector. Examples of premises include shopping centers in developing areas (particularly black townships), office premises, industrial parks for the formal sector, workshops and industrial "hives" (low cost cubicle work stations inside a factory), market stalls and the construction and sale of portable stalls to the informal sector.

(b) Development Bank of South Africa (DBSA)

DBSA was established in June 1983, by the governments of South Africa, Transkei, Bophuthatswana, Venda and Ciskei "to mobilize and provide loan finance, technical assistance and advice for sustainable development projects." On March 31, 1991, a total of R5,370 million had been disbursed to development projects, 21% of which were directly related to business and entrepreneurial development (R1,127 million).

DBSAs Business and Entrepreneurial Development Group, manned by 29 staff in 1991, aims to provide "equitable access to market opportunities for entrepreneurs from poorer communities." The Group's support program is similar to that of the SBDC but at the macro-economic level. Finance is made available to organizations involved in the uplift of entrepreneurs rather than to individuals. A total of 18,000 black businessmen are said to have received support in 1991.

Some of DBSAs financial programs for black entrepreneurs include:

- the Bophuthatswana small business development project in which R16 million was provided to finance physical facilities, working capital and equipment, and training and consulting services to 4,721 emergent entrepreneurs in Bophuthatswana.

- the Sundumbili project in which DBSA lent R34 million to the Kwazulu Finance Corporation to finance the construction of low cost housing by five small black contractors.

- the African Council of Hawkers and Informal Businesses (ACHIB) project in which DBSA, First National Bank and Investec created a scheme whereby monthly installments of R50 from the hawkers would accumulated (via a R35 contribution to an endowment policy) and allow the hawkers to borrow up to R2,000 after a year for the purchase of goods. DBSA plays an important role in providing collateral for the scheme.

(c) Standard Bank of South Africa

The Standard Bank was at the forefront in recognizing that many small businesses and new ventures did not meet the bank's lending conditions for companies. As a consequence, it established the Small Business Development and Advisory Department (SBDAD) in 1981. The SBDAD operates via a regional network of Small Business Development Managers (in Cape Town, Durban, Bloemfontein, Pretoria, Johannesburg) who evaluate loan applications on their potential for growth and success rather than their historical track record. The SBDAD's criteria for lending to commercial, industrial or service clients includes:

- total assets of less than R1.5 million
- annual turnover of less than R5 million
- a staff complement of fewer than 100
- a borrowing requirement of up to R400,000
- the applicant must display technical and managerial competence and have a successful business track record
- the borrower must be a majority shareholder in the business
- the business proposition must be financially viable with sufficient cash flows to cover loan repayments
- the loan applicant will be expected to make a reasonable contribution to the cost of the venture (in cash, fixed property, etc)
- the loan applicant will have to provide a measure of security for the loan to be considered.

SBDAD is at the forefront of all other financial institutions in South Africa in the provision of loans to the emergent black business sector. One example was Mr. Gilbert Phalaphala who was granted a loan of some R30,000 by SBDAD in 1991 to open a public pay-telephone bureau in Johannesburg. This is now a thriving and extremely profitable enterprise. A second loan has already been extended to open up other bureaux.

4.2. Organizations that Provide Education and Training

The critical need for business related education and training has long been recognized in South Africa. This is particularly the case in black owned businesses where most entrepreneurs have been deprived of any meaningful level of schooling. A number of government and private sector sponsored training and education organizations have been established in South Africa:

(a) Small business institutes at 11 of the country's universities, including the University of Witwaterrand (WITS) and the Western Cape, where the Institute for Small Business is manned by three staff and provides training and consulting to small black businessmen in the Cape;

(b) SBDC which, by March 1991, had 4,409 attenders for their small business training courses since their inception in May 1988. A foundation has been established to subsidize the fees of poorer candidates;

(c) Triple Trust, an organization funded by DBSA and the private sector, provides a comprehensive educational program to black entrepreneurs in the Western Cape.

4.3. Organizations That Assist In Obtaining Contracts

While this is one of the most critically important issues in the successful advancement of black entrepreneurs, very few successful initiatives can be documented. There is, however, a groundswell of recognition in South Africa of the need for effective support in this area and some progress is being made in the following organizations:

(a) Matchmakers, which started in 1986, with funding from the U.S. Foreign Commercial Service, is run in South Africa by Zuko Tofile. It recently moved from the US Embassy to its own premises with a staff of three. Corporate South Africa now provides some funding for Matchmakers, which organizes an annual Matchmaker Fair held at NASREC in Johannesburg. The Fair aims at providing a venue for black entrepreneurs to display their goods and services to corporate buyers.

Matchmakers also provides corporate South Africa, upon request, with information on black entrepreneurs who can supply them with product and service requirements. Matchmakers has a computer database of some 500 suppliers. It is also devising a brokerage service which will take a pro-active role in finding contracts for black entrepreneurs and assist them in the sourcing of raw materials, obtaining funding, maintaining quality control, and training. Matchmakers is also looking to establish itself in other regional centers. Finally, it is involved in encouraging and supporting franchising initiatives in South Africa. Matchmaker was part of a delegation of black businessmen who attended the International Franchising Convention in the U.S. in August 1991.

(b) Get Ahead Foundation, established in 1988, with funding from the U.S. government and corporate South Africa, to assist the development of black communities in South Africa. GAF has a database of black entrepreneurs and of the products they offer, which it makes available on request to corporate South Africa.

(c) SBDC's Sub-Contracting Unit, formed in March 1989, with the view to facilitate business contacts between the small entrepreneur and the corporate sector. Supported by the publication "Contact Maker," the program has had considerable success: 57 big businesses awarded contracts to 121 small firms employing some 2,000 people; a total of 126 contracts were awarded with a combined value of R70 million; R40 million of the contracts involved the SBDC providing the small entrepreneur with such services as costing, tendering, material purchasing, finance, production planning, quality control and transportation.

Organized visits to the SBDCs industrial hives in the black townships have had considerable success in matching corporate purchasers with small black entrepreneurs. The SBDCs annual "Small Business Week" provides corporate South Africa with an opportunity to view the products and services offered by small entrepreneurs.

(d) Contractors Association, which is a non-profit organization established in 1991, in a bid to bring South Africa's black sub-contractors into a single body that will obtain contracts through marketing companies from corporate South Africa. The Association will be funded initially through donations but ultimately will be self-financing through membership fees and member payments for access to a full range of top quality tools, equipment and vehicles needed to execute their jobs at a professional standard; for skills training from brick laying to business management; for such business services as typing, photocopying and message taking.

The Contractors Association is targeting black sub-contractors across a wide range of business activities. These include: manufacturers of components or finished products to be incorporated in a final finished product (such as pre-drilled electronic circuit boards); providers of non-core business services such as security, landscape maintenance, printing, office cleaning, employee training; providers of core business services such as distribution of products and building services.

4.4. Organizations Involved In Advancing Black Business

There are a number of organizations in South Africa that play an active role in he advancement of black business in the country, at both a national and a local level.

(a) The National African Federated Chamber of Commerce (NAFCOC) provides a range of support services to black businessmen throughout the country.

(b) The Foundation for African Business and Consumer Services (FABCOS) was responsible for establishing the highly acclaimed Southern African Black Taxi Association (SABTA). FABCOS represents 12 black business and consumer organizations and provides specialist administrative, financial management and marketing support services to its members. In addition, FABCOS is involved in a constant drive to find business opportunities for its member associations and their individual members.

(c) The African Council of Hawkers and Informal Businessmen (ACHIB) provides its 26,000 members with a range of support services including collective representation to the government on restrictive legislation, the securing of special promotions and deals, and a magazine for informal traders.

(d) The DBSA provides financial support to a number of organizations, including, The Independent Business Enrichment Centre in East London, which supports small community-based business programs; the Black Travel Agents Association of South Africa, which provides assistance to emerging tourism entrepreneurs; the Phalaborwa Foundation, which is involved in small business development in the northern Transvaal region.

B. THE U.S. MINORITY BUSINESS DEVELOPMENT AGENCY

The U.S. Department of Commerce, Minority Business Development Agency (MBDA) was established in 1968 to address the special problems experienced by minority-owned firms and entrepreneurs in order to help them fully participate in the free enterprise system. The MBDA is charged with fostering and promoting the participation of racial and ethnic minorities in business by assisting in the formation and development of competitive minority-owned firms. It carries out this mandate by providing needed management training for minority business people and by providing information to and about minority-owned businesses.

The MBDA's service delivery system includes the Minority Business Development Center Program, the largest of the agency's programs, the American Indian Program, which includes both Indian Business Development Centers (IBDC) and the American Indian Business Consultant (AIBC) component, as well as other projects. The MBDA's National Program Initiatives include international trade programs, improved access to capital, enhanced surety bonding availability, promotion of market opportunities with Corporate America, expanded Native American business opportunities, promotion of franchising among minorities, and application of research findings based on recent Census data, toward development of new initiatives.

Minority-owned firms were believed to require special intervention because of low business formation and growth rates, and higher than normal business failure rates. These, in turn, were believed to be the direct result of under-exposure to business knowledge, restricted access to markets, and lack of management and capital. A primary objective of the MBDA, therefore, is to provide market driven technical assistance and training for the formation and development of competitive minority-owned firms. This assistance is provided through Minority Business Development Centers in eleven U.S. cities.

The Minority Business Development Center Program is funded at US$23.5 million. There are six regional offices and four district offices. This program includes 96 centers located in areas which contain 70% of the nation's minority population, 83% of the minority business, and 65% of the minority business formations. The centers provide one-on-one client-specific business development services through management and technical assistance, debt and equity financing and bonding, market research and marketing, client and program promotion, and other activities which identify and lead to public and private procurement awards. Information and referral services are also provided to existing and prospective minority business persons.

The MBDC/IBDC program is funded through competitive, cooperative agreements. There are no restrictions as to who may apply to operate a Center. The cost of operating a Center is borne in a tripartite manner. MBDA, the MBDC/IBDC and the client all share in the cost of services rendered. MBDA's maximum contribution is 85% of operational costs, and the MBDC's minimum cost-sharing contribution is 15%. The client pays a fee for Center services. The cost-sharing contribution may be comprised of cash, client fees, in-kind contributions or a combination. In-kind contributions may not exceed 50% of the total cost-sharing amount.[15]

The MBDC/IBDC program offers the MBDC Support which contracts with private commercial information vendors to provide the centers and their clients with on-line access, through nationwide electronic telecommunications networks, to the customized computer data bases containing information about national and local business opportunities, trends and conditions. Client needs met by access to these BDC data bases include:

- economic and marketing information about their industry and geographic areas in which they operate;

- timely information about opportunities to bid for contracts they are capable of performing.

Of these information services, those that help in the acquisition of procurement awards and subcontracts are the most interest to the Zimbabwe business linkage project. A key element in assisting clients to obtain procurement is the BDC Support Systems, which include the U.S. markets data base and other economic and marketing data bases from DRI. These include the F.W. Dodge Data Line and Data Resources, Inc. (DRI), CBD-PLUS data system.

C. NETWORK MANUFACTURING IN THE U.S.: AMANET

Amanet, in Los Angeles, is a pioneer in network manufacturing in the U.S.[16] Amanet provides a wide variety of management services to smaller shops. These services allow the small shops to maintain a low overhead and provide a variety of high quality goods at prices below those demanded by larger subcontractors. Amanet illustrates the advantage of providing an integrated

[15] The American Indian Program (AIP), unlike the MBDC, has no cost-share or client fee requirement because of the special trust relationship between the Federal Government and the various Indian tribes.

[16] See: Tim W. Ferguson's "Business World" column, in The Wall Street Journal, April 28, 1992, pA21; additional information gathered in interview with Robert Barbour, May 1, 1992.

technical assistance package as a tool for developing the competitive advantages of small businesses. But the model may have its limitations, particularly when placed in the context of a developing society since it builds on a highly sophisticated manufacturing base.

Founded seven years ago, Amanet supplies a variety of customers, including NASA, Xerox, bio-medical instrument makers, electronics firms, and plumbing supply firms, with dozens of metal and plastic parts. Amanet includes 120 machining, tool and die, injection molding and other job shops in its system, of which some 80 shops do 95% of the business. Thirty of the shops are captive, that is, they work only through Amanet.

Amanet was founded by Robert Barbour and arose from his experiences trying to find reliable subcontractors for his company. He learned that poor quality is endemic to the small businesses that supplied the parts he needed. The shops were run by qualified trades men and women, who had no ability or interest in the business side of manufacturing. They lacked management skills and knowledge of developments in management science.

As a result, larger corporations did not and would not employ these small shops for their orders, preferring to work with other large shops at a basic shop rate of $100-$200 an hour. Those higher rates covered the overheads of the quality control engineers, schedulers, record keepers, draftsmen, and other skilled people required to operate. Barbour believed he could centralize these functions and job out specific work, and still price himself below prevailing high end shop rates.

Amanet renders a variety of services, the most critical of which is coordinating orders with the capacity of the job shops. By knowing which lathe operator is at work on which machine doing which project, it can anticipate delays and either avert them or notify the buyer in time to avoid shutting down a major production line. This feedback reinforces the gain from sourcing components from the local industry base.

Amanet's back-stopping also includes standardized, high-quality blueprints and drawings for the customers; full payroll, accounting and bookkeeping if required; telephone and fax for customer service; marketing and "people with ties and business cards" to drum up orders; schedulers and quality control engineers, as well as bulk buying and the related front money for jobs. "We're very cash rich," says Mr. Barbour, and that allows Amanet to carry inventory when a marginal business cannot.

Barbour benefits his entire system by planning forward the network's total material needs and negotiating bulk purchase among several suppliers. This includes services as well as material inputs. Amanet maintains operational or ownership ties to most of the vendors in the network. While providing management controls and sales support for the shops, Amanet nurses, cajoles, scolds and sustains them with orders.

In its first year Amanet supplied only Windline Marine, one of Robert Barbour's other businesses which supplies gear for pleasure boats. In the second year, Amanet began supplying un-related companies. Now, by far the majo 'ty of production is sold to unrelated companies. The company reports 40% annual growth, and a profit margin of better than 12% on 1991 revenues of US$2.7 million. Amanet has 36 employees in a compact facility.

Barbour observed that companies seeking to rationalize and grow their businesses can obtain key advantages by working with an operation such as Amanet. By relying on Amanet to manufacture a network of supplies, a company enhances its ability to grow more cheaply than by using outside equity or loan capital. Moreover, Amanet itself works as a concept, particularly because of:

1. Flexibility in operations: as order mixes change, one is able to restructure the whole "company" by changing the relative mix and weight of network participants.

2. Sectoral diversification: remaining a generalized <u>service oriented</u> job shop network permits marketing and sales into any industrial sector which requires parts.

3. Unlimited market: related to flexibility and diversification, the network system can reinvent itself as the market mix in its sales territory changes; it does not have to rise and fall with one industry.

PART IV

PERSONS INTERVIEWED

U.S. Agency for International Development

S. Spielman	Deputy Director
P. Buckles	Chief PDIS
M. Stevens	Project Development Officer
D. Greenberg	USAID Trade & Investment Advisor

Other Individuals

Donald Mead
Michigan State University and University of Zimbabwe business professor

Peter F. Kunjeku
CZI Executive Officer

Anne-Maire Chidzero
UN Centre on Transnational Corporations Technical Adviser

Christiane G. Stepanek
UN EMPRETEC Technical Adviser

Mario dos Remedios, Director Advisory Services
Standard Chartered Merchant Bank Zimbabwe Ltd

Ethan G. Dube, Research Unit Manager
Standard Chartered Merchant Bank Zimbabwe Ltd

Doris T. Mugwara, Director
IBDC-Business Extension and Advisory Services Director

Dan White, Managing Director
Colgate-Palmolive Zimbabwe Ltd

Alan Wishart, Manager
Anglo American Corporation Services Ltd, Hawk Venture Capital

Zimbabwe Stock Exchange, Trading Floor
- M.J. Van Blerk, Director; Corporate Securities
- Mohamed I. Mahmed, Managing Director, Remo Investment Brokers (Pvt) Ltd
- Solomon Mugavazi; Edwards and Company (Pvt) Ltd

John A.B. Graham, Assistant General Manager
First Merchant Bank of Zimbabwe, Ltd, Hawk Venture Capital

Eric Spong, Financial Director
FP Holdings

Tony Barfoot, Consultant; Nedlaw, Secretary
Zimbabwe Stock Exchange

Strive Masiyiwa, Director
Retrofit, IBDC

Alastair Ross
Confederation of Zimbabwe Industries

John Smith, Financial Director
Delta Corp

David J.M. Vincent, Group Executive Director
Projects and Development, T.A. Holdings

Bobby Maparanyanga, Director
HARI (Pvt) Ltd

Timothy C. Fourie, Divisional Chairman
Astra Industrial Division, Astra Corporation

E. Gumise, Director
Gift Creations (Pvt) Ltd

John Pritchard
Monarch Steel (1991) (Pvt) Ltd

H. Walter Pedersen, Financial Advisor
SEDCO

John Gould, Director
Gunn Gould Associates

PART V

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PART VI

APPENDICES

Appendix A	Concentration and Directorships
Appendix B	Venture Capital Companies in Zimbabwe
Appendix C	IBDC Documents

APPENDIX A

INTERLOCKING DIRECTORSHIPS AND CROSS OWNERSHIPS
ZIMBABWE CORPORATIONS

AFRICAN DISTILLERS LTD

Gunn,KD Chairman ..... (ALSO: Chairman Rothmans of Pall Mall Zim)

Chiura,ED Director ... (ALSO: Chairman Delta Corp, Chairman Zimbabwe Sun, Director FMB Holdings, Director PG Industries)

Nyandoro,GB Director .. (ALSO: Chairman Art Corporation, Chairman Kadoma Consolidated Industries, Chairman Zagrinda)

Barnard,R Director .... (ALSO: Executive Director Rothmans of Pall Mall, Alternate Director Zimplow)

OWNERSHIP:

Likobrands S.A.
- 50.00% Rothmans Of Pall Mall Zim

Old Mutual Investment Corp (Pvt) Ltd
- 15.31% Rothmans Of Pall Mall Zim
  - 25% Afdis Holdings (Pvt) Ltd
    - 58.46% African Distillers Ltd
- Security Nominees (Pvt) Ltd
  - 4.52% African Distillers Ltd
- First Nominees (Pvt) Ltd
  - 3.94% African Distillers Ltd
- Ketay Nominees (Pvt) Ltd
  - 3.47% African Distillers Ltd
- Fidelity Life Assurance Of Zim (Pvt) Ltd
  - 2.69% AfricanDistillersLtd

AGRICOR LTD

Tracey,CG Chairman ... (ALSO: Chairman TSL Ltd, Director Cluff Resources Zimbabwe Ltd)
Nicholson,JS Director . (ALSO: Managing Director TSL Ltd)
Tawengwa,SC Director .. (ALSO: Chairman Rio Tinto Zimbabwe Ltd, Director TSL Ltd, Director Circle Cement Ltd)

OWNERSHIP:

Corner Properties (Pvt) Ltd
- 70.52% TSL Ltd
  - 35.89% Agricor Ltd
- Bonkem Incorporated
  - 32.53% Agricor Ltd
- Old Mutual Investment Corp (Pvt) Ltd
  - 15.26% Agricor Ltd
- Corner Properties (Pvt) Ltd
  - 3.90% Agricor Ltd
- Subsidiaries:
  - Agricair
  - Agricura
  - Premier Milling
  - Rumevite
  - Protea Zimbabwe
  - General Chemical Corp
  - Protea Chemical & Medical Services
  - Propak
  - Willis Faber Associates (Pvt) Ltd

AGRICULTURAL DEVELOPMENT AUTHORITY

Mhlanga,DrL Man. Dir... (ALSO: Vice Chairman Development Trust of Zimbabwe, Director Art Corporation)

APEX CORPORATION

Carter,JAL CEO .... (ALSO: Director More Wear Industrial Holdings Ltd)
Mapondera,HE Director . (ALSO: Director Merlin, Director T.A. Holdings, Director Zimplow)
Vambe,LC Director ..... (ALSO: Director Z.S.R. Ltd)
Cole,RH Director....... (ALSO: Director Zimplow)

OWNERSHIP:

Old Mutual Investment Corp (Pvt) Ltd
- 20.92% Apex Corp

Angwa Properties (Pvt) Ltd
- 20.17% Apex Corp

Mayfair Buildings (Pvt) Ltd
- 15.18% Apex Corp

Apex Corp owns:
- 20.47% More Wear Industrial Holdings

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ART CORPORATION LTD

Nyandoro,GB Chairman .. (ALSO: Chairman Zagrinda, Chairman Kadoma Consolidated Industries, Director African Distillers Ltd)
Mhlanga,DrL Director... (ALSO: Vice Chairman Development Trust of Zimbabwe, Managing Director Agricultural Development Authority)
Renshaw,MT Director ... (ALSO: Managing Director Kadoma Consolidated Industries Ltd)
Wakeling,JB Director .. (ALSO: Director Kadoma Consolidated Industries Ltd)

OWNERSHIP:
Nedlaw Investment and Trust Corp
46.04% Art Corporation Ltd
Old Mutual Investment Corp (Pvt) Ltd
21.17% Art Corporation Ltd
Art Group Employees Trust (Pvt) Ltd
11.81% Art Corporation Ltd
Art Corporation Ltd owns:
50.61% Kadoma Consolidated Industries

BARCLAYS BANK ZIMBABWE LTD

Carter,JD Chairman .... (ALSO: Director FMB Holdings Ltd, Director Delta Corporation)
Lander,RP Director ... (ALSO: Chairman FMB Holdings, Chairman Bindura Nickel, Chairman Hippo Valley, Chairman Zimalloys, Chairman National Foods)
Lewis,DJ Director .... (ALSO: Chairman Dunlop Zimbabwe, Chairman Truworths, Director FMB Holdings, Director TSL Ltd, Director Schweppes Central Africa)
Chambati,AM Director .. (ALSO: Chairman & CEO T.A. Holdings)
Zamchiya,DM Director .. (ALSO: Director Edgars Stores, Director Zimbabwe Newspapers)
Mupawose,RM Director .. (ALSO: Director Zimbabwe Sun)

OWNERSHIP:
Afcarme Zimbabwe Holdings (Pvt) Ltd
71.06% Barclays Bank Zimbabwe Ltd

INDURA NICKEL CORPORATION LTD

Lander,RP Chairman .... (ALSO: Chairman FMB Holdings, Chairman Hippo Valley, Chairman Zimalloys, Chairman National Foods, Director Barclays Bank Zimbabwe)
Kudenga,N Director .... (ALSO: Chairman Wankie Colliery)
Mancama,BV Director.... (ALSO: Director Border Timbers, Director National Foods)
Masunda,MA Director ... (ALSO: Chairman Mhangura Copper Mines, Director Zimalloys, Director Zimbabwe Sun)
Wishart,AB Director ... (ALSO: Director Commercial & Industrial Holdings, Director Zimalloys)
Nicholson,DG Director . (ALSO: Director FMB Holdings, Director Hippo Valley)
Taylor,JR Director ... (ALSO: Director Zimalloys)
Groom,DJ.DG Director .. (ALSO: Director Wankie Colliery, Director Zimalloys)
Ngugama,EG Fin. Dir. .. (ALSO: Financial Director Zimalloys)
Smart,WK Man. Dir ..... (ALSO: Managing Director Zimalloys, Director FMB Holdings)

X

OWNERSHIP:
Security Nominees (Pvt) Ltd
64.70% Bindura Nickel Corp Ltd
Prospects Of Zimbabwe (Pvt) Ltd
8.68% Bindura Nickel Corp Ltd

BORDER TIMBERS LTD

Margesson,MV Chairman (ALSO: Director Hippo Valley, Director National Foods, Director Portland Holdings)
Mancama,BV Director.... (ALSO: Director Bindura Nickel, Director National Foods)
Dennett,DE Director ... (ALSO: Managing Director Hippo Valley)
Bruce,LR Director ..... (ALSO: Dpty Managing Director Hippo Valley)
Fry,DJ Director .... (ALSO: Director Wankie Colliery)
Tasker,ML Alt.Director (ALSO: Director Wankie Colliery)

OWNERSHIP:
Security Nominees (Pvt) Ltd
54.19% Border Timbers Ltd
Tanks Investment Zimbabwe Ltd
25.00% Border Timbers Ltd

CENTRAL AFRICAN CABLES LTD

Mkushi,HP Director .... (ALSO: Dpty Chairman Zimbabwe Newspapers, Director National Foods)
Botsh,AA Director ..... (ALSO: Chairman More Wear Industrial Holdings, Director Mashonaland Holdings)

OWNERSHIP:
BICC plc UK
78.07% Central African Cables Ltd
Old Mutual Investment Corp (Pvt) Ltd
3.42% Central African Cables Ltd

COMMERCIAL & INDUSTRIAL HOLDINGS

Thompson,AC Chairman .. (ALSO: Director Tabex, Director Zimplow)
Wishart,AB Director ... (ALSO: Director Bindura Nickel, Director Zimalloys)
McClelland,AH Alt.Dir.. (ALSO: Alt. Director Hippo Valley)

OWNERSHIP:
Security Nominees (Pvt) Ltd
27.90% C&I Holdings Ltd
NRZ Contributory Pension Fund
25.90% C&I Holdings Ltd
First Nominees (Pvt) Ltd
9.52% C&I Holdings Ltd
Carsan Investment Co (Pvt) Ltd
6.23% C&I Holdings Ltd
Subsidiary: National Fencing (Pvt) Ltd

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CAIRNS HOLDINGS LTD
Jackson,MJM Chairman .. (ALSO: Director National Foods)
Knight,AH Director .... (ALSO: Director FMB Holdings)

OWNERSHIP:
ZimbabweGovernment
85.00% AstraCorp
AstraFoods(Pvt)Ltd
55.30% Cairns Holdings
Old Mutual Investment Corp (Pvt) Ltd
10.43% Cairns Holdings
Cairns,John Horace
3.53% Cairns Holdings
The Bunny Cairns Trust
3.53% Cairns Holdings
Cairns Holdings Ltd owns:
5.98% TAHoldings

CAPRI GROUP
Morley,JW Director .... (ALSO: Chairman Circle Cement, Chairman PG Industries)

OWNERSHIP:
Standard Merchant Bank Nominees
26.98% Capri Group
Shimdor (Pvt) Ltd
18.40% Capri Group
Old Mutual Investment Corp (Pvt) Ltd
10.59% Capri Group
Capri Group owns: 22% World Radio

CAPS HOLDINGS LTD
Hove,MJ CEO .... (ALSO: Director More Wear Industrial Holdings)

OWNERSHIP:
Zimbabwe Government
42.76% CAPS Holding
Old Mutual Investment Corp (Pvt) Ltd
11.49% CAPS Holding
Security Nominees (Pvt) Ltd
9.48% CAPS Holding

CIRCLE CEMENT LTD
Morley,JW Chairman .... (ALSO: Chairman PG Industries, Director Capri Group)
Tawengwa,SC Director .. (ALSO: Chairman Rio Tinto Zimbabwe Ltd, Director TSL Ltd, Director Agricor Ltd)

OWNERSHIP:
Associated International Cement
76.45% Circle Cement
K.E. Thomson (Pvt) Ltd
4.01% Circle Cement
Subsidiary: Circle Trucking Ltd

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CLUFF RESOURCES ZIMBABWE LTD
Tracey,CG Director ... **(ALSO: Chairman Agricor Ltd, Chairman TSL Ltd)**

OWNERSHIP:
Cluff Mineral Exploration Ltd
82.40% Cluff Resources Zimb Ltd
Cluff Resources Zim Employees Trust Fund
3.06% Cluff Resources Zim Ltd

DAVID WHITEHEAD LTD
Kruger,N Chairman ..... **(ALSO: Director Northchart Investments)**
Parvin,ACL Director ... **(ALSO: Chairman Northchart Investments)**
Rowland,RW Director ... **(ALSO: Director Northchart Investments)**
Munangatire,HMD Dir. .. **(ALSO: Director Northchart Investments)**
Richardson,GA AltDir .. **(ALSO: Director Northchart Investments)**
Kadhani,XM Director ... **(ALSO: Managing Director Hunyani Holdings)**

OWNERSHIP:
Textile Investment Co Ltd
64.87% David Whitehead
Industrial Development Corp
9.10% David Whitehead
Northchart Investments, Ltd
5.00% DavidWhitehead

DELTA CORPORATION LTD
Chiura,ED Chairman .... **(ALSO: Chairman Zimbabwe Sun, Director FMB Holdings, Director African Distillers, Director PG Industries)**
Carter,JD Director .... **(ALSO: Chairman Barclays Bank, Director FMB Holdings)**
Rooney,JP Man. Dir. ... **(ALSO: Dpty Chairman Zimbabwe Sun)**
Turpin,WH Director .... **(ALSO: Director T.A. Holdings)**

OWNERSHIP:
Zimbabwe Development Corp
39.56% Delta Corp Ltd
Rainier Inc.
14.55% Delta Corp Ltd
Old Mutual Investment Corp (Pvt) Ltd
14.08% Delta Corp Ltd
Tigatel B.V.
8.17% Delta Corp Ltd
Delta Ltd owns:
64.04% Zimbabwe Sun, with:
Old Mutual Investment Corp (Pvt) Ltd
12.04% Zimbabwe Sun

DUNLOP ZIMBABWE
Lewis,DJ Chairman .... **(ALSO: Chairman Truworths, Director Barclays Bank, Director FMB Holdings, Director TSL Ltd, Director Schweppes Central Africa)**

OWNERSHIP:
Dunlop Holdings Ltd
75.42% Dunlop Zimbabwe

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EDGARS STORES

Smith,DC Chairman ..... (ALSO: Director National Foods)
Mabodoko,NJ Director .. (ALSO: Director Zimbabwe Spinners & Weavers)
Mkushi,HP Director .... (ALSO: Dpty Chairman Zimbabwe Newspapers, Director Central African Cables, Director National Foods)
Zamchiya,DM Director .. (ALSO: Director Zimbabwe Newspapers, Director Barclays Bank)

OWNERSHIP:

Bellfield Ltd (S.A. Breweries -> Liberty Life 25%
60.15% Edgars Stores Ltd
Old Mutual Investment Corp (Pvt) Ltd
14.22% Edgars Stores Ltd
Sales House
Express Stores
Carousel - clothing factory

FALCON GOLD ZIMBABWE

Stephens,RG Chairman . (ALSO: Chairman & Managing Director Falcon Mines, Chairman Willsgrove Brick & Potteries)
Latilla-Campbell,P Dir. (ALSO: Director Falcon Mines, Director Willsgrove Brick & Potteries)
Palmgren,AM Director .. (ALSO: Director Falcon Mines, Director Willsgrove Brick & Potteries)
Beattie,AD Director ... (ALSO: Director Falcon Mines)
Jousse,CP Director .... (ALSO: Director Falcon Mines, Director Willsgrove Brick & Potteries, Director TSL Ltd)
Smart,WK Fin Director . (ALSO: Managing Director Bindura Nickel, Managing Director Zimalloys, Director FMB Holdings)

OWNERSHIP:

Falcon Mines plc
73.03% Falcon Gold Zim
Security Nominees (Pvt) Ltd
6.33% Falcon Gold Zim
United Factors (Pvt) Ltd
2.03% Falcon Gold Zim
Subsidiary: 40.00% Olympic Gold Mines Ltd

FALCON MINES

Stephens,RG Chairman .. (ALSO: Chairman & Managing Director Falcon Gold, Chairman Willsgrove Brick & Potteries)
Latilla-Campbell,P Dir. (ALSO: Director Falcon Gold, Director Willsgrove Brick & Potteries)
Palmgren,AM Director .. (ALSO: Director Falcon Gold, Director Willsgrove Brick & Potteries)
Beattie,AD Director ... (ALSO: Director Falcon Gold)
Jousse,CP Director .... (ALSO: Director Falcon Gold, Director Willsgrove Brick & Potteries, Director TSL Ltd)
Wigley,FL Director .... (ALSO: Director Willsgrove Brick & Potteries)
Marshall,DC Director .. (ALSO: Director Willsgrove Brick & Potteries)

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OWNERSHIP:
London & Johannesburg Registers
49.56% Falcon Mines
Security Nominees (Pvt) Ltd
3.30% Falcon Mines
Anglo American Associated Cos Pension Fund
1.99% Falcon Mines

FMB HOLDINGS LTD
Lander,RP Chairman ... (ALSO: Chairman Bindura Nickel, Chairman Hippo Valley, Chairman Zimalloys, Chairman National Foods, Director Barclays Bank)
Carter,JD Director ... (ALSO: Chairman Barclays Bank, Director Delta Corp.)
Lewis,DJ Director ..... (ALSO: Chairman Dunlop Zimbabwe, Chairman Truworths, Director TSL Ltd, Director Schweppes Central Africa)
Chiura,ED Director .... (ALSO: Chairman Delta Corp, Chairman Zimbabwe Sun, Director African Distillers, Director PG Industries)
Smart,WK Director ..... (ALSO: Managing Director Zimalloys, Managing Director Bindura Nickel)
Lewis,DJ Director ..... (ALSO: Chairman Dunlop Zimbabwe, Chairman Truworths, Director TSL Ltd, Director Schweppes Central Africa)
Bloch,EW Director ..... (ALSO: Director Merlin, Director Zimbabwe Sun)
Nicholson,DG Director . (ALSO: Director Bindura Nickel, Director Hippo Valley)
Bain,GT Director ...... (ALSO: Director Hippo Valley)
Knight,AH Director .... (ALSO: Director Cairns Holdings)
Young,JRA Director .... (ALSO: Director Johnson & Fletcher)

OWNERSHIP:
Security Nominees (Pvt) Ltd
42.80% FMB Holdings
Old Mutual Investment Corp (Pvt) Ltd
13.83% FMB Holdings
International Finance Corp
10.00% FMB Holdings

DEVELOPMENT TRUST OF ZIMBABWE
Mhlanga,DrL V. Chairman (ALSO Managing Director Agricultural Development Authority, Director Art Corporation)

HADDON & SLY
Sly,JR Chairman .... (ALSO: Chairman Portland Holdings, Director Radar Holdings)

OWNERSHIP:
Marard Investments (Pvt) Ltd
46.75% Haddon & Sly
Sly,AG
17.03% Haddon & Sly
Turner,Mr.Roy
8.02% Haddon & Sly
Holt,Mrs.JF
4.76% Haddon & Sly

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HIPPO VALLEY ESTATES LTD

Lander,RP Chairman .... (ALSO: Chairman Bindura Nickel, Chairman FMB Holdings, Chairman National Foods, Chairman Zimalloys, Director Barclays Bank)
Dennett,DE Man.Dir. ... (ALSO: Director Border Timbers)
Bruce,LR Dpty Man.Dir . (ALSO: Director Border Timbers)
Margesson,MV Director . (ALSO: Chairman Border Timbers, Director National Foods, Director PortlandHoldings)
Bain,GT Director ...... (ALSO: Director FMB Holdings)
Nicholson,DG Director . (ALSO: Director FMB Holdings, Director Bindura Nickel)
McClelland,AH AltDir .. (ALSO: Alt. Director Commercial & Industrial Holdings)

OWNERSHIP:

Security Nominees (Pvt) Ltd
43.39% Hippo Valley Estates Ltd
14.75% Old Mutual Investment Corp (Pvt)Ltd
8.31% Tate & Lyle Holdings Ltd

HUNYANI HOLDINGS

Sadza,DrDM Chairman ... (ALSO: Chairman Zimbabwe Newspapers)
Kadhani,XM ManDirector (ALSO: Director David Whitehead)
Midzi,DT Director ..... (ALSO: Group Managing Director Zimbabwe Newspapers)

OWNERSHIP:

Zimbabwe Mass Media Trust
25.45% Hunyani Holdings
Zimbabwe Development Corp
24.16% Hunyani Holdings
Old Mutual Investment Corp (Pvt) Ltd
12.69% Hunyani Holdings
Hunyani Workers Trust
12.00% Hunyani Holdings
Syfrets Nominees (Pvt) Ltd
6.11% Hunyani Holdings

INTERNATIONAL HOLDINGS LTD

Day,B Chairman .... (ALSO: Chairman Zimplow, Director Rothmans of Pall Mall)

OWNERSHIP:

EllerbyB.V.
71.50% International Holdings
MBCA Nominees (Pvt) Ltd
5.56% International Holdings

Security Nominees (Pvt) Ltd
5.48% International Holdings

JOHNSON & FLETCHER
Moxon,JRT Chairman .... **(ALSO: Chairman Tanganda Tea, Chairman ZECO)**
Cameron,MV ManDirector **(ALSO: Director Tanganda Tea, Director ZECO)**
Stephens,DE Director .. **(ALSO: Director Tanganda Tea, Director ZECO)**
Young,JRA Director .... **(ALSO: Director FMB Holdings)**

OWNERSHIP:
Donian Properties (Pvt) Ltd
44.45% Johnson & Fletcher
Saphic Holdings (Pvt) Ltd
4.25% Johnson & Fletcher
Johnson,Mr.DG
3.85% Johnson & Fletcher
Stow,Mrs.CEJ
3.02% Johnson & Fletcher
Johnson & Fletcher owns:
11.33% ZECO

KADOMA CONSOLIDATED INDUSTRIES
Nyandoro,GB Chairman .. **(ALSO: Chairman Art Corp, Chairman Zagrinda, Director African Distillers)**
Renshaw,MT ManDirector **(ALSO: Director Art Corp)**
Wakeling,JB Director .. **(ALSO: Director Art Corp)**

OWNERSHIP:
Nedlaw Investment and Trust Corp
46.04% Art Corporation Ltd
50.61% Kadoma Consolidated Industries
Old Mutual Investment Corp (Pvt) Ltd
15.94% Kadoma Consolidated Industries

MASHONALAND HOLDINGS
Botsh,AA Director ..... **(ALSO: Chairman More Wear Industrial Holdings, Director Central African Cables)**

OWNERSHIP:
Old Mutual Investment Corp (Pvt) Ltd
20.66% Mashonaland Holdings
First Nominees (Pvt) Ltd
17.25% Mashonaland Holdings
Security Nominees (Pvt) Ltd
5.11% Mashonaland Holdings
Electrical Systems (Pvt) Ltd
4.43% Mashonaland Holdings

MERLIN LTD
Bloch,EW Director ..... **(ALSO: Director FMB Holdings, Director Zimbabwe Sun)**
Mapondera,HE Director . **(ALSO: Director Apex Corp, Director T.A. Holdings, Director Zimplow)**

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OWNERSHIP:
Old Mutual Investment Corp (Pvt) Ltd
20.16% Merlin Ltd
Arell Holdings (Pvt) Ltd
20.04% Merlin Ltd
First Nominees (Pvt) Ltd
11.97% Merlin Ltd
Security Nominees (Pvt) Ltd
10.81% Merlin Ltd
Broomday Holdings (Pvt) Ltd
7.96% Merlin Ltd
Broomberg,Mr.RL
3.19% Merlin Ltd
Production Consultants (Pvt) Ltd
1.87% Merlin Ltd
Broomberg,Mr.DJ
1.49% Merlin Ltd
Broomberg,Mr.CB
1.27% Merlin Ltd

MHANGURA COPPER MINES LTD
Masunda,MA Chairman ... **(ALSO: Director Bindura Nickel, Director Zimalloys, Director Zimbabwe Sun)**

OWNERSHIP:
Zimbabwe Development Corp
54.55% Mhangura Copper Mines
Old Mutual Investment Corp (Pvt) Ltd
6.33% Mhangura Copper Mines
Johannesburg Register
6.32% Mhangura Copper Mines

MORE WEAR INDUSTRIAL HOLDINGS LTD
Botsh,AA Chairman ..... **(ALSO : Director Central African Cables, Director MashonalandHoldings)**
Carter,JAL Director ... **(ALSO: CEO Apex Corp)**
Hove,MJ Director ...... **(ALSO: CEO CAPS Holdings Ltd)**

OWNERSHIP:
MBCA Nominees (Pvt) Ltd
27.71% More Wear Industrial Holdings
Apex Corporation Of Zim Ltd
20.47% More Wear Industrial Holdings
G.A. Ware Holdings (Pty) Ltd
17.19% More Wear Industrial Holdings
Subsidiary: F. Issels & Son Ltd

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NATIONAL FOODS HOLDINGS LTD

Lander,RP Chairman	(ALSO: Chairman Bindura Nickel, Chairman FMB Holdings, Chairman Hippo Valley, Chairman Zimalloys,Director Barclays Bank)
Jackson,MJ Director ...	(ALSO: Chairman Cairns Holdings)
Mkushi,HP Director	(ALSO: Dpty Chairman Zimbabwe Newspapers, Director Central African Cables, Director Edgars Stores)
Smith,DC Director	(ALSO: Chairman Edgars Stores)
Mancama,BV Director ...	(ALSO: Director Border Timbers, Director Bindura Nickel)
Margesson,MV Director .	(ALSO: Chairman Border Timbers, Director Hippo Valley, Director Portland Holdings)

OWNERSHIP:

Security Nominees (Pvt) Ltd
25.12% National Foods Holdings
Astra Foods (Pvt) Ltd (which is 85% GOZ)
16.96% National Foods
Old Mutual Investment Corp (Pvt) Ltd
14.95% National Foods Holdings
NFH Investments Ltd
12.79% National Foods Holdings
Subsidiary(60%) SAFCO (40% Agricor)

NORTHCHART INVESTMENTS LTD

Parvin,ACL Chairman ...	(ALSO: Director David Whitehead)
Kruger,N Director	(ALSO: Chairman David Whitehead)
Rowland,RW Director ...	(ALSO: Director David Whitehead)
Munangatire,HMD Dir. ..	(ALSO: Director David Whitehead)
Richardson,GA Director	(ALSO: Alt.Director David Whitehead)

OWNERSHIP:

Willoughbys Consolidated Co Ltd
46.42% Northchart Investments
African Industrial & Finance Co
9.76% Northchart Investments
Hayes,NF
6.00% Northchart Investments
Simms Electrical & Diesel Services (Pvt) Ltd
50.00% Greystone Development Co. (Pvt) Ltd
20.40% Kariba Minerals Ltd
30.00% Northern Minerals (Zambia) Ltd

PG INDUSTRIES LTD

Morley,TW Chairman	(ALSO: Chairman Circle Cement, Director Capri Group)
Chiura,ED Director	(ALSO: Chairman Delta Corp, Chairman Zimbabwe Sun, Director FMB Holdings, Director African Distillers)

OWNERSHIP:

Prestige Investments (Pvt) Ltd
45.39% P.G. Industries
Old Mutual Investment Corp (Pvt) Ltd
32.20% P.G. Industries

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PORTLAND HOLDINGS LTD

Sly,JR Chairman .... (ALSO: Chairman Haddon & Sly, Director Radar Holdings)
Chipudhla,PWT Director (ALSO: Dpty Chairman Radar Holdings, Director Rothmans of Pall Mall, Director T.A. Holdings, Director Tedco)
Margesson,MV Director . (ALSO: Chairman Border Timbers, Director Hippo Valley, Director National Foods)
Stirling,JA Director .. (ALSO: Director Radar Holdings)

OWNERSHIP:
Security Nominees (Pvt) Ltd
19.32% Portland Holdings
Anglo American Associated Cos Pension Fund
6.51% Portland Holdings
Anglo American Corp Zim Pension Fund
6.33% Portland Holdings
Sagit Investments (Pvt) Ltd
4.65% Portland Holdings
Porthold Trust (Pvt) Ltd
3.48% Portland Holdings
Unilever South Africa Pension Fund
2.20% Portland Holdings

RADAR HOLDINGS LTD

Schofield,CJL Chairman. (ALSO: Director Zimalloys)
Chipudhla,PWT DptyChmn (ALSO: Director Portland Holdings, Director Rothmans of Pall Mall, Director T.A. Holdings, Director Teco)
Sly,JR Director .... (ALSO: Chairman Haddon & Sly, Chairman Portland Holdings)
Stirling,JA Director .. (ALSO: Director Portland Holdings)

OWNERSHIP:
Monomatapa Development Co (Pvt) Ltd
15.32% Radar Holdings
Old Mutual Investment Corp (Pvt) Ltd
8.77% Radar Holdings
LTA Trading (Pvt) Ltd
7.59% Radar Holdings
Fidelity Life Assurance Co Of Zimb (Pvt) Ltd
6.64% Radar Holdings
Radar Employees Trust (Pvt) Ltd
5.10% Radar Holdings
Subsidiaries: Radar Engineering Ltd
Radar Metal Industries
Metfab
Hogarths
Radar Building Supplies (Pvt) Ltd
United Builders Merchants & Timber & Hardware
Steyuns Engineering
Macol Agencies (Pvt) Ltd
Radar Metal Products Ltd t/a Copper Wares
Metfab
Zim-Steel
MacDonald Brothers (pvt) Ltd

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RIO TINTO ZIMBABWE LTD

Tawengwa,SC Chairman .. (ALSO: Director Agricor, Director Circle Cement, Director TSL Ltd)

OWNERSHIP:

RioTintoHoldingsLtd
55.60% RioTintoZim
Rio Tinto Foundation Co (Pvt) Ltd
8.90% Rio Tinto Zim
Old MutualInvestment Corp (Pvt) Ltd
6.94% Rio Tinto Zim

ROTHMANS OF PALL MALL ZIMBABWE LTD

Gunn,KD Chairman ...... (ALSO: Chairman African Distillers)
Day,B Director .... (ALSO: Chairman International Holdings, Chairman Zimplow)
Chipudhla,PWT Director (ALSO: Dpty Chairman Radar Holdings, Director Portland Holdings, Director T.A. Holdings, Director Tedco)
Barnard,R ExecDirector (ALSO: Director African Distillers, Alt.Director Zimplow)
Lynton-Edwards,MAManDir (ALSO: Director Zimplow)

OWNERSHIP:

LikobrandS.A.
50.00% Rothman Of Pall Mall Zim
100% Valtobac Ltd S.A.
100% House of Raleigh Ltd
49.52% Zimplow
25% Afdis Holdings (Pvt) Ltd
58.46% African Distillers Ltd

SCHWEPPES (CENTRAL AFRICA) LTD

Dorward,PD Chairman ... (ALSO: Chairman Tedco, Executive Chairman Zimbabwe Spinners & Weavers, Director T.A. Holdings)
Lewis,DJ Director ..... (ALSO: Chairman Dunlop Zimbabwe, Chairman Truworths, Director Barclays Bank, Director FMB Holdings, Director TSL Ltd)
Chavhunduka,Dr.DM Dir. (ALSO: Director Truworths)

OWNERSHIP:

CadburySchweppesZimbabwe(Pvt)Ltd
46.10% Schweppes(CA)Ltd
Old Mutual Investment Corp (Pvt) Ltd
20.59% Schweppes (CA) Ltd
Northchart Investments Ltd
5.05% Schweppes (CA) Ltd
Financial Services (Pvt) Ltd
4.86% Schweppes (CA) Ltd

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SECURITY NOMINEES (PVT) LTD

64.70% Bindura Nickel Corp Ltd
54.19% Border Timbers Ltd
53.28% Zimalloys
43.39% Hippo Valley Estates
42.80% FMB Holdings
27.90% C&I Holdings Ltd
    National Fencing (Pvt) Ltd
25.12% National Foods Holdings
    60% SAFCO (40% Agricor)
19.32% Portland Holdings
10.81% Merlin
9.48% CAPS Holding
6.33% Falcon Gold Zim
5.48% International Holdings
5.12% Mashonaland Holdings
4.97% Zimbabwe Spinners & Weavers

TABEX HOLDINGS LTD

Thompson,AC Director .. (ALSO: Chairman Commercial & Industrial Holdings, Director Zimplow)
Pichanick,ALA Director (ALSO: Member of Parliament, Director Zimbank)

OWNERSHIP:

BlairHoldings(Pvt)Ltd
    60.25% TabexHoldings
        50% THI (Pvt) Ltd
        20% Shield of Zimbabwe Insurance Co Ltd
    Zimbabwe Reinsurance Corp
        4.82% Tabex Holdings

T.A. HOLDINGS LTD

Chambati,AM Chairman .. (ALSO: Director Barclays Bank)
Dorward,PD Director ... (ALSO: Chairman Schweppes Central Africa, Chairman Tedco, ExecChairman Zimbabe Spinners)
Chipudhla,PWT Direc. .. (ALSO: Dpty Chairman Radar Holdings, Director Portland Holdings, Director Rothmans of Pall Mall, Director Tedco)
Mapondera,HE Director . (ALSO: Director Apex Corp, Director Merlin,Director Zimplow)
Turpin,WH Director .... (ALSO: Director Delta Corp)

OWNERSHIP:

Old Mutual Investment Corp (Pvt) Ltd
    22.64% T.A. Holdings
Zimbabwe Reinsurance Corp
    8.48% T.A. Holdings
First Nominees (Pvt) Ltd
    6.02% T.A. Holdings
Cairns Holdings Ltd
    5.98% T.A. Holdings
Syfrets Nominees (Pvt) Ltd
    3.16% T.A. Holdings

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TANGANDA TEA COMPANY LTD

Moxon,JRT Chairman .... (ALSO: Chairman Johnson & Fletcher, Chairman ZECO)
Cameron,MV Director ... (ALSO: Managing Director Johnson & Fletcher, Director ZECO)
Stephens,DE Director .. (ALSO: Director Johnson & Fletcher, Director ZECO)
Sagonda,DMK Director .. (ALSO: Director Zimbank)

TEDCO LTD

Dorward,PD Chairman ... (ALSO: Chairman Schweppes Central Africa, ExecChairman Zimbabwe Spinners, Director T.A. Holdings)
Chipudhla,PWT Director (ALSO: Dpty Chairman Radar Holdings, Director Portland Holdings, Director Rothmans of Pall Mall, Director T.A. Holdings)

TRUWORTHS LTD

Lewis,DJ Chairman ..... (ALSO: Chairman Dunlop Zimbabwe, Director Barclays Bank, Director FMB Holdings, Director TSL Ltd, Director Schweppes Central Africa)
Chavhunduka,DrDM Dir. (ALSO: Director Schweppes Central Africa)

T.S.L. Ltd

Tracey,CG Chairman .... (ALSO: Chairman Agricor Ltd, Director Cluff Resources)
Lewis,DJ Director ..... (ALSO: Chairman Dunlop Zimbabwe, Director Barclays Bank, Director FMB Holdings, Director Truworths, Director Schweppes Central Africa)
Jousse CP Director .... (ALSO: Director Falcon Gold Zim, Director Falcon Mines, Director Willsgrove Brick & Potteries)
Tawengwa,SC Director .. (ALSO: Chairman Rio Tinto Zimbabwe, Director Agricor Ltd, Director Circle Cement)
Nicholson,JS Director. (ALSO: Director Agricor Ltd)

OWNERSHIP:
Corner Properties (Pvt) Ltd
70.52% TSL Ltd

WANKIE COLLIERY COMPANY LTD

Kudenga,N Chairman .... (ALSO: Director Bindura Nickel)
Parke,CCW Director .... (ALSO: Director Zimalloys)
Groom,DrJDG Director .. (ALSO: Director Bindura Nickel, Director Zimalloys)
Fry,DJ Director .... (ALSO: Director Border Timbers)
Tasker,ML Director .... (ALSO: Alt.Director Border Timbers)

WILLGROVE BRICK & POTTERIES LTD

Stephens,RG Chairman .. (ALSO: Chairman Falcon Gold Zim, Chairman Falcon Mines)
Latilla-Campbell,P Dir (ALSO: Director Falcon Gold, Director Falcon Mines)
Jousse,CP Director .... (ALSO: Director Falcon Gold, Director Falcon Mines, Director TSL Ltd)
Wigley,FL Director .... (ALSO: Director Falcon Mines)
Marshall,DC Director .. (ALSO: Director Falcon Mines)
Palmgren,AM Director .. (ALSO: Director Falcon Gold, Director Falcon Mines)

ZAGRINDA Zimbabwe Agro-industrial Investment Agency

Nyandoro,GB Chairman .. (ALSO: Chairman Art Corporation, Chairman Kadoma Consolidated Industries, Director African Distillers)

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OWNERSHIP:
Development Trust of Zimbabwe
51% Zagrinda
Agricultural Development Authority
49% Zagrinda

ZECO Ltd

Moxon,JRT Chairman .... (ALSO: Chairman Johnson & Fletcher, Chairman Tanganda Tea)
Cameron,MV Director ... (ALSO: Managing Director Johnson & Fletcher, Director Tanganda Tea)
Stephens,DE Director .. (ALSO: Director Johnson & Fletcher, Director Tanganda Tea)

ZIMBABWE ALLOYS LTD

Lander,RP Chairman .... (ALSO: Chairman Bindura Nickel, Chairman FMB Holdings, Chairman Hippo Valley, Chairman National Foods, Director Barclays Bank)
Smart,WK ManDirector .. (ALSO: Managing Director Bindura Nickel, Director FMB Holdings)
Schofield,CJL Director (ALSO: Chairman Radar Holdings)
Parke,CCW Director .... (ALSO: Director Wankie Colliery)
Wishart,AB Director ... (ALSO: Director Bindura Nickel, Director Commercial & Industrial Holdings)
Groom,DrJDG Director .. (ALSO: Director Bindura Nickel, Director Wankie Colliery)
Taylor,JR Director .... (ALSO: Director Bindura Nickel)
Masunda,MA Director ... (ALSO: Chairman Mhangura Copper Mines, Director Bindura Nickel, Director Zimalloys, Director Zimbabwe Sun)
Ngugama,EG FinDirector (ALSO: Financial Director Bindura Nickel)

OWNERSHIP:
Security Nominees (Pvt) Ltd
53.28% Zimbabwe Alloys Ltd

ZIMBABWE BANKING CORPORATION LTD

Pichanick,ALA Director (ALSO: Director Tabex)
Sagonda,DMK Director .. (ALSO: Director Tanganda Tea)

OWNERSHIP:
ZimbabweGovernment
58.83% Zimbank

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ZIMBABWE DEVELOPMENT CORPORATION

100% Bestobell Zimbabwe
100% Quick Haul (Pvt) Ltd
70% Zimfreeze (Pvt)Ltd j-v with Union International plc
54.55% MhanguraCopperMines
39.56% DeltaCorpLtd
[Rainier Inc 14.55% Delta Corp]
[Old Mutual Investment Corp (Pvt) Ltd 14.08% Delta Corp]
64.04% ZimbabweSun
Delta Distribution
O.K. Bazaars
Bon Marche
Pax Cash & Carry
Bradlows
Homemakers
Pelhams
Furniture Discount Centre
Everest Carpeting
30.00% CMB Central Africa Ltd
24.16% HunyaniHoldings

ZIMBABWE NEWSPAPERS (1980) LTD

Sadza,DrDM Chairman ... (ALSO: Chairman Hunyani Holding)
Mkushi,HP DptyChairman (ALSO: Director Central African Cables, Director National Foods, Director Edgars Stores)
Midzi,DT GrpManDirector (ALSO: Director Hunyani Holding)
Zamchiya,DM Director .. (ALSO: Director Barclays Bank, Director Edgars Stores)

ZIMPLOW LTD

Day,B Chairman .... (ALSO: Chairman International Holdings, Director Rothmans of Pall Mall)
Mapondera,HE Director . (ALSO: Director Apex Corp, Director Merlin, Director T.A. Holdings)
Thompson,AC Director .. (ALSO: Chairman Commercial & Industrial Holdings, Director Tabex)
Lynton-Edwards,MA Dir . (ALSO: Director Rothmans of Pall Mall)
Cole,RH Director ...... (ALSO: Director Apex Corp)
Barnard,R AltDirector . (ALSO: Director African Distillers Ltd, Director Rothmans of Pall Mall)

ZIMBABWE SPINNERS & WEAVERS LTD

Dorward,PD ExecChairman (ALSO: Chairman Schweppes Central Africa, Chairman Tedco, Director T.A. Holdings)
Mabodoko,NJ Director .. (ALSO: Director Edgars Stores)

OWNERSHIP:
Standard Chartered Merchant Bank Nominees
84.45% ZimSpinners"A"Ords
35.85% ZimSpinners

ZIMBABWE SUN LTD

Chiura,ED Chairman .... (ALSO: Chairman Delta Corp, Director African Distillers Ltd, Director FMB Holdings, Director PG Industries)
Rooney,JP DptyChairman (ALSO: Managing Director Delta Corp)
Bloch,EW Director ..... (ALSO: Director FMB Holdings, Director Merlin)
Masunda,MA Director ... (ALSO: Chairman Mhangura Copper Mines, Director Bindura Nickel, Director Zimalloys)
Mupawose,RM Director .. (ALSO: Director Barclays Bank)

OWNERSHIP:
Delta Corp Ltd
    64.04% Zimbabwe Sun
Old Mutual Investment Corp (Pvt) Ltd
    12.04% Zimbabwe Sun

Z.S.R. Ltd
Vambe,LC Director ..... (ALSO: Director Apex Corp)

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APPENDIX B

VENTURE CAPITAL COMPANIES

1. Hawk Venture Capital

Originally known as Standard Investments, Hawk Venture Capital (funded in 1988 with Anglo American Corporation Zimbabwe (AACZ) pension funds) was capitalized at Z$15 million, which (and more) has been invested in at least ten Zimbabwe projects. The impetus for the creation of Hawk was the Reserve Bank's policy on foreign participation in Zimbabwe corporations. Standard was reborn as a localized Hawk. Its dividends were not remitted abroad, so it therefore gained access to domestic funds.

Hawk focuses on commercially sound investments in manufacturing and exports. Its only soft policies concern interest rates and gearing: Hawk will lend at commercial rates with a discount based on future success, but never below prime rate; it also accepts higher than normal gearing (3:1) in order to get a higher than average rate of return.

Hawk is not widely known, has never advertised, and does not put on promotional seminars, mostly because of the limited capital available. It has reached its capital ceiling and must examine ways to mobilize additional capital from internal sources.

Hawk looks annually at six to ten projects, or about 2-3 per quarter. Projects result from 3-4 cold calls and recommendations per month. Typically contact starts with an informational telephone call. As Hawk ages, it finds former contacts often return with new projects.

Present projects are concerned with tourism, several mining-related operations, packaging, chemicals, an MBO of the Johnson & Fletcher Carrier air conditioning agency, a fishery, a light bulb manufacturer in a Growth Point, corrugated plastic containers for horticultural exports, the manufacture of sewing machines intended for closure of hessian bags, blow molding of plastic containers, and others. Three or four of the companies have been moved into the market; two are likely to be sold in a few months, and two have been judged failures requiring disengagement. The failures, according to AACZ official Alan Wishart, may be ascribed to lack of business acumen on the part of the entrepreneurs as well as their unrealistic belief that they had a link through Hawk to AACZ's "deep pockets."

Hawk's typical applicant is operating a family enterprise and is leery of outside participation (in large part, due to a distrust of strangers). These companies often give jobs to family or close friends rather than to strangers with the specific skills critical to a successful operation. Often, these entrepreneurs do not want to spend scarce cash on feasibility studies, but come to Hawk with some rough numbers.

If the applicant has what appears to be a reasonable project, FMB will perform a true feasibility study at its own cost. If that study indicates that the project is viable, it is then sent over to AACZ's Treasury Division for further analysis. It is then sent back to FMB with a recommendation. If positive, the project is then sent to the ZIC. When it is reported out of ZIC favorably a shareholders agreement is drawn up and final lender approval is issued.

Hawk places two directors in each company in which it invests: one is a technical director and the other is an expert in Administration and Accounting, both of which areas are usually seen to be critical in each project. Basic administrative accounting failures, such as correct measurement of cash flows, are typical, as the typical entrepreneur has process-specific technical skills gained from on the job experience. (That same employment experience usually makes the entrepreneur realize that 60% effective taxation on personal income is not as favorable as 20% on dividend income.) Once the investment is made, the Hawk directors provide constant on the job training for the entrepreneur. Through its relation with AACZ, Hawk can also provide at AACZ expense the short term services of Anglo American technical personnel with process-specific expertise to work out difficulties in operations.

Hawk's failures have also been management and not project based. Marketing skills are non-existent in Zimbabwe, and Hawk has not emphasized marketing in its project critiques, largely due to the distortions caused by high market demand. That is not likely to be possible in the future.

Hawk's goal is to foster commercially profitable companies and, to exit from them after five years. If the project proves to be highly successful, Hawk may recommend additional equity participation over a longer period with the goal of making the enterprise more competitive and reaping the dividends for further capitalization of Hawk.

Hawk made some decisions which in the new economic environment may now be vulnerable. It is too exposed in plastic packaging now that the OGIL allows free import of raw materials, and additional competition has arisen especially from black entrepreneurs. In addition to the management intensity of the process, Wishart sees constraints in the GOZ forex allocations, price controls (which are now being lifted), and shortages of critical human resources. Wishart also noted the importance of "overcoming the pride of the [black] entrepreneur" which prevents him from publicly admitting and seeking technical assistance to overcome problems.[17]

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[17] This phenomenon was also noted by other whites with whom the Team spoke, as well as by indigenous Zimbabweans, both directly and indirectly. Part of the cause is the effect of years of white domination, but part is also attributed to an indigenous cultural trait of hostility to and suspicion of those outside the extended family. For a linkage program to be successful, this issue has to be addressed fruitfully.

2. The Venture Capital Company of Zimbabwe (VCCZ)

VCCZ has equity of Z$50 million. The VCCZ started operating in mid-1991. It receives an average of nine enquiries and/or project submissions per day. The smallest project approved so far involved a capital injection of Z$745,000. The VCCZ's financing involvement ranges between Z$250,000 and Z$2 million. The equity injection into a project is limited to between 20% and 49% of the issued share capital. The largest shareholder in Venture is the Reserve Bank of Zimbabwe with a 20 percent stake.

VCCZ is mainly involved in financing new projects. They are developmental in their approach but projects must be viable, and their promoters credit-worthy. Their main sector of involvement is manufacturing, but they can also consider projects in other sectors. About 60% of projects approved have been promoted by black businessman. They have produced a brochure explaining the activities of the VCCZ in 3 languages. They aim to turn-around a project in 45 days. For new projects, the VCCZ aims to disinvest in 5 to 6 years, allowing for a 2 to 3 year gestation period.

VCCZ has already spoken to a number of companies about sub-contracting and spinning-off activities to smaller firms. It is an area of particular interest for projects of up to Z$2-3 million dollars. VCCZ indicated that they encourage small businesses to go into partnership with other companies.

VCCZ has entered into an agreement with the Zimbabwe Investment Centre (ZIC) whereby any project with a foreign exchange component of up to Z$2.5 million accepted by the VCCZ is assured of approval by ZIC. VCCZ can submit large projects to ZIC on behalf of clients.

The project promoter is required to contribute to the issued share capital. VCCZ tends to use preference shares quite often because of their flexibility e.g. convertibility to loans. It can access surplus funds which it can then on-lend to projects as straight loans. The projects promoted however must have a debt to equity ratio of 2 to 1.

3. The Ipcorn Group

Ipcorn Group is an independent, privately owned development finance group. It principally functions to assist the development of industry. This is achieved by making venture capital available to companies which have sound proposals for viable new enterprises or for the expansion of existing operations. The Ipcorn Group is divided into four separate operating companies which hold, administer and provide services for the Group's equity investments. The Ipcorn Group has investments in a range of manufacturing and service companies, including a tableware manufacturer, a fresh fish producer and a plastic engineering firm.

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Ipcorn was established in 1959 to promote the development of industries for the Federation, but the Exchange Control regulations have made it difficult for Ipcorn to invest outside Zimbabwe. Currently it is 90% locally owned.

Deloitte and Touche manages Ipcorn, but is limited to a 40% shareholding. The idea is never to take control of any company. Their investment is purely on an equity basis; they never give loans or guarantees. They do not set rules for any company but place all their trust in the company's management.

Apart from looking at the viability of a company, Ipcorn would like the company to be labor intensive and export oriented. They usually do not invest more than Z$1 million in a company.

According to an Ipcorn official, they get most of the enquiries through letters, but most of these would not qualify. They do not advertise, and most of their investments have been a result of a grape vine. Acceptable projects to them are those that could receive approval by the government.

Ipcorn prefers making a permanent investment. They regard themselves as a development company that injects new money into companies in order to make them viable. They have had two failures so far. In both cases the failures were caused because Ipcorn had deviated from their standard investment policies.

Ipcorn has done well according to its officials. As a Group it has no borrowings and even has some cash held for speculative purposes. Company officials believe their success arises from good management and a very restrictive dividend policies.

4. Questor Investments (Private) Limited

Merchant Bank of Central Africa acts as investment advisor to Questor, a locally-incorporated investment company whose major shareholders are large local financial institutions and pension funds. On Questor's behalf, MBCA seek to identify additional investment opportunities.

Questor would consider any investment offering potentially high return and accept that to achieve this, a fairly high degree of risk may be inevitable, although all investment decisions would be on the basis of sound commercial principles. Areas of particular interest would be agribusiness, particularly involving further processing of locally produced commodities, wildlife management and related businesses, small scale manufacturing operations, property and service business.

Export-oriented business, and one involving a degree of import substitution, would additionally be potentially attractive avenues for investment. Both equipment investment and the advancing of loan funds would be within the company's ambit.

Typical areas of interest to Questor might include a new project requiring finance where the entrepreneur is unwilling to commit himself to a long-term loan, a situation in which a non-resident organization seeks to disinvest in an established Zimbabwean enterprise, a project where financial assistance is required to make a buy-out by management, or finally a joint venture where the partner wishes to share equity risk.

An essential prerequisite to Questor's involvement in an on-going project would be a convincing track record of past success and effective management. In start-up operations, the board would require assurance that the proposed management team possess the requisite background and skills for the project. There would be a need for timely management information with regular management accounts in order that the board may be able to monitor the progress of investments made.

There would be no question of Questor's involvement in the day-to-day running of the company, and a strictly passive role would be adopted.

It is not Questor's intention to secure a majority holding in any of its investments and an equity stake in the region of 20% to 49% is sought in individual investments. At this stage, the company does not envisage any controlling interests. In certain cases, Questor may consider granting buy-back options, but it must be recognized that Questor is a long-term investor and under normal circumstances would seek to retain at least 20% interest in any given investment. The level of any individual investment would be in broad range between $250,000 at minimum and a maximum of $2,000,000.

MBCA, on behalf of Questor, will normally be able to provide a preliminary response to investment proposals within two weeks of receiving information on the proposal. Where MBCA believes that an investment opportunity appears acceptable, it will prepare an investment appraisal report for Questor's Board. It is anticipated that a final response would be available to this submission within four to six weeks. There are no charges for initial consultation, but MBCA is obliged to recover its costs for producing an investment appraisal report.

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APPENDIX C

INDIGENOUS BUSINESS DEVELOPMENT CENTER

IBDC was founded by a number of prominent black small to medium-sized business persons in December 1990. It has an initial fund of Z$ 500 000 from contributions by its founders. Since that time it has decided that it requires membership fees in order to conduct its work on an ongoing basis. Members will be required to pay fees based upon the size and profits of their business. A minimum fee of Z$ 100,00 has been set that can be paid on installments.

IBDC is a representative organization of indigenous businesses ranging from business activities to multi-million dollar ventures. Members of the National Indigenous Business Council are as follows:

	NAME	TITLE
Executive	J. Mapondera	National President
	S. Muzanenhamo	Vice President
	C. Siziba	Vice President
	B. Ruhukwa	Vice President
	S.T. Masiyiwa	Secretary General
	P. Machipisa	Imm. Past President
Regional Presidents	J. Makamba	Reg. Mash. President
	R. Zemura	Reg.Mateb. President
	D. Chikowore	Reg.Mid. President
	C. Mandizvidza	Reg.Masving. President
	J. Sahanga	Reg.Manic. President
Sectorial Representatives	B. Mucheche	Transport
	R. Gapare	Agriculture
	G. Magadzire	Agriculture
	Mr. Munyoro	Mining
	Mrs Sandi	Women in Bus.
	P. Mkondo	Insurance Brokers
Standing C. Members Chairman	K. Sibanda	Legal Affairs
	N. Kadengu	Economic Affairs
	L. Nyamutsamba	Public Relations
	F. Muhwati	Finance Affairs
	J. Mapfumo	Joint Ventures
	A. Chikukwa	Rules and Regulations

Ordinary Board Members	M. Vengesai J. Ngerere K. Indi J. Mutasa F. Gwasira Mr. Chidziva	
Board Alternatives	R. Boka Mr. Musariri Mr. Munangagwa	

The IBDC has five Regional Development Councils (RDC) which are as follows:

NAME OF REGION	NAME OF PRESIDENT (Elected at the Launch)	OFFICIAL LAUNCH GUEST OF HONOUR
Matabeleland	Mr. R. Zemura	The Hon. Vice-President Dr. J. Nkomo
Midlands	Mr. D.T. Chikowore	Hon. Minister E. Munangagwa
Manicaland	Mr. J. Shanga	Hon. Senior Minister J. Msika
Masvingo	Mr. C.P. Mandizvidza	Hon. Minister Dr. E. Zvbogo
Mashonaland	Mr. J. Makamba	Hon. Senior Minister D. Mutasa

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The Executive Committee is comprised of:

- the President - Mr. John Mapondera;

- the National President responsible for Public Relations;

- three Vice-Presidents;

- Mr Chemist Siziba, responsible for policy and standing committee;
  Mr Douglas Ruhukwa, responsible for the five regions
  Mr. Simon Muzanenhamo, responsible for finance and internal relations;

- Mr Strive Masiyiwa the Secretary General, responsible for institutional development of the organisation (administration).

IBDC board is made up of 31 members with 15 coming in as elected (ordinary) members, the others are leaders of the Zimbabwe Transport Organisation (ZTO), Zimbabwe Farmers Association, Insurance Brokers, Women in Business and the five regional presidents from Mashonaland, Manicaland, Matabeleland, Masvingo and Midlands.

Since its formation, the Secretariat of IBDC has helped with the information on how to go about starting a business, the process of getting a project approved and producing a news letter for the members. The Centre has also been helping its members acquire commercial stands by giving them letters of support. These letters have also been given to those wishing to get road permits and bank overdrafts. The Centre has also been helping its members acquire commercial vehicles which include 103 ERF 30 tonne trucks and 50 Bedfords. It has also been arranging joint ventures between its members and foreign companies by facilitating contact between them in various sectors of small enterprises.

The Secretariat is currently building a library for directories for its members to source various commodities from outside the country, it is also organizing overseas trips for its members to familiarize themselves about the operations of businesses in other countries.

IBDC programmes are carried out through the following institutions:-

- **National Economic and Reconstruction Fund (NER FUND)**
  To mobilize all types of finance that can be made available to the members of IBDC. This is supposed to be achieved through a close liaison with organizations like SEDCO.

- **Business Extension and Advisory Services (BESA)**
  Established in October 1991, BESA is intended to provide small and medium sized enterprises with access to finance, research and information, management capacity, and business networks need to survive and grow. BESA offers members various forms of business counselling and advisory services as well as access to expert and professional

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services for emerging enterprises, and assistance in the difficult ad all too often frustrating process of securing financial resources for projects. BESA's programme include counselling, business information services, management training programmes, business seminars, project bank, venture capital services, extension services, business linkages, managed work spaces, investment forum and procurement services. BESA projects are to be available in all the IBDC regions as well as in the rural areas of the country. its clients include emergent entrepreneurs, new enterprises and existing businesses interested in expanding. Special attention is given to women, youth, ex-combatants and the informal sector with the intention of encouraging self-employment and new enterprises among these groups.

- **Business Research and Industrial Development Institute (BRIDI)**
  To study the problems of the small to medium businesses and make recommendations. To look into the existing laws that affect businesses in Zimbabwe.

- **Affirmative Action Bureau (AAB)**
  To make negotiations with Government on behalf of the members e.g. Government is required to give at least 25% of its business to IBDC members.

- **Business Linkages**
  They have a programme in place that is administered or facilitated by Mr. John Carter of Apex Group of Companies. A pool of management skilled personnel is arranged from big companies to assist small companies. The idea is to involve the big companies in assisting the small businesses.

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