Business Linkages and Enterprise Development in Zimbabwe

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Business Linkages and Enterprise Development in Zimbabwe

by

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and

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PREFACE

Donald Mead is Visiting Professor of Business Studies, University of Zimbabwe. The second author of this report, Peter Kunjeku, is Executive Officer (Projects) of the Confederation of Zimbabwe Industries (CZI). Dr. Mead's work was funded by the U.S. Agency for International Development through a buy-in from USAID's Zimbabwe Business Development Project to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, which focuses on the promotion of micro- and small-scale enterprises in developing countries. Peter Kunjeku's work was funded by CZI. This report represents the views of the authors and does not necessarily reflect the position of their funding agencies. The fieldwork for this report was completed in September 1992.

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SECTION ONE

INTRODUCTION

Business linkages — commercial dealings between separate, profit-oriented enterprises — are a common characteristic of modern economies. A reliance on market relationships enables firms to specialize, focusing their attention on those activities most closely related to their core interests while buying goods and services from other enterprises with different primary areas of focus. Well-functioning markets link firms specializing in different aspects of production and distribution, thereby raising the overall efficiency of the economic system. Particularly when management skills are scarce and overburdened, the benefits from specialization can be substantial for individual firms (raising profits) and for the economy as a whole (raising real incomes), because specialization can lead to production at lower cost.

Increased specialization through reliance on market-based linkages offers particular benefits for firms that participate as suppliers. By providing access to larger and more dynamic markets, business linkages offer a means of pulling smaller and less sophisticated producers into the mainstream of the economy. As such, programs for the development of business linkages are frequently advanced as a mechanism for the promotion of small enterprises.

The Zimbabwean economy, like that of many other countries at a similar level of development, is characterized by a high degree of dualism. A limited number of large and relatively sophisticated enterprises operates alongside a large number of very small producers and traders, many of whom are more artisanal in their orientation. Although there appears to be only limited interaction between these two segments of the economy, the promotion of commercial linkages between them may offer possibilities for cost-effective, market-based interventions leading to the growth of productive employment among efficient small producers.

If one is to move forward with efforts to expand such linkages for the benefit of both large and small enterprises, it is important to start from an understanding of what is currently happening in this area: what linkage activities are in place, what has led to their establishment, and what constraints limit their growth? This paper provides case studies exploring the nature and extent of linkage activities in three subsectors in Zimbabwe: garments and textiles, metal products, and leather and footwear. For each of these three, we start with a brief overview of the subsector itself, followed by a description of existing business linkages in the subsector (Sections Two, Three, and Four). The discussion in Section Five looks across these three subsectors and beyond to explore implications for the individual firm, in examining business opportunities emerging from the analysis; for the government, in needed policy changes; and for donors, in possible project interventions. Section Six offers conclusions.

SECTION TWO

GARMENTS AND TEXTILES

OVERVIEW OF THE SUBSECTOR

The textiles subsector plays an important role in the Zimbabwean economy. In addition to meeting the needs of the population in one of the most important consumer goods, it generates significant amounts of employment and foreign exchange for the country.

This subsector has three major components: the production and ginning of cotton, the transformation of cotton into yarn and fabric, and the conversion of fabric and yarn into garments. Although there are other activities that do not fit easily into these three categories (for example, waste cotton processing), attention here will focus on these three activities, which dominate the sector.

Cotton

The cultivation and trade of cotton in Zimbabwe reflect several forces at work. On the production side, over the past decade large commercial farmers have been gradually replaced by communal farmers and producers in resettlement areas as the principal source of supply of raw cotton. In the 1990-91 crop year, nearly 100,000 communal farmers grew cotton, supplying 45 percent of the marketed output, alongside 461 large-scale commercial and ADA farmers who provided 48 percent of the total.[1]

The parastatal Cotton Marketing Board (CMB) has an exclusive monopoly over all marketing of cotton in domestic markets as well as in foreign trade. The Board employs 1,500 people on a full-time basis, plus an additional 2,500 seasonal workers.

Over the years, the largest share of the lint has been exported by CMB. Yet there has also been increasing absorption of cotton domestically, as the local textile industry has grown. In the late 1980s, about two-thirds of the crop was exported; in 1990, cotton lint exports were valued at more than Z$200 million. CMB states that it has always given priority to domestic users, only exporting amounts not needed within the country.

CMB has followed a differential pricing policy whereby local users are given a favorable price for their purchases of lint. This involved a subsidy to local spinners and weavers of Z$2 to 6 million per year in the early 1980s, a figure that rose to more than Z$75 million in 1990-91. In the past, a part of the cost of this subsidy was born by the government, which has underwritten the losses of the Cotton Marketing Board; more recently, CMB has operated at a profit. Over the years, the largest share of the cost of the subsidy for spinners and weavers came from the price they were able to pay to growers, which was lower than it would otherwise have been. Partly as a result, the number of large commercial farmers active in growing cotton declined by 20 percent between the mid-1980s and 1990. Although some of this

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[1] The remaining 7 percent came from 8,800 small-scale commercial farms and from cotton growers in resettlement areas.

slack has been taken up by expanding numbers of communal farmers, since 1988-89 the number of communal farmers growing cotton has also declined.

In the 1989-90 and 1990-91 crop years, the local selling price of lint was only somewhat above 50 percent of the export price. Since that time, the government has adopted a policy of moving toward market-based pricing for cotton, charging local buyers a price closer to what could be earned from exporting lint, and passing these additional receipts to farmers in the form of higher prices for their cotton. The current, drought-induced crisis in the domestic market for textiles has led to a postponement in the implementation of this policy, but the government's commitment to it is reported to be firm. When implemented, it will entail a substantial increase in the domestic price of lint, and therefore of cotton textiles.

Spinning and Weaving

Five large companies dominate the domestic spinning and weaving industry. Of these, two account for close to 75 percent of the fabric supplied to domestic users. Employment in these five firms amounts to about 12,000 people, while the value of their sales is about Z$500 million. Central Statistical Office (CSO) data indicate that there are an additional 45-50 registered small- and medium-sized enterprises engaged in spinning, weaving and finishing of textiles and knitting of cloth; these provide employment for an additional 9,000 people, giving a total of 21,000 workers engaged in spinning, weaving, knitting, and finishing of textiles.

The CSO index of the volume of production in the textile industry (including ginning) increased by 15 percent per year between 1980 and 1986. Thereafter, the rate of growth slowed substantially, averaging less than 4 percent per year from 1986 through 1991. Over the decade, this is the highest overall growth recorded by any of the sectors covered in the CSO index; with 1980 = 100, November 1991 output was estimated at 229. In 1990 (the most recent data available), exports of fabrics, yarn, and thread were just over Z$80 million, between 15 and 20 percent by value of production; the export share has probably increased since then.

Garments

The production of garments in Zimbabwe is widespread. The Zimbabwe Clothing Manufacturers Association has 77 members. A few member firms have more than 1,000 workers, a few dozen more are in the 400-600 worker range, and most of the rest employ 50-100 people. CSO data report an additional 75 registered manufacturers of wearing apparel. These are not members of the association and most are probably small (less than 50 employees). In all, these registered enterprises provided employment for about 20,000 people in 1990. There are also several medium-sized garment manufacturers that operate without registration. Although it is difficult to estimate the number of such enterprises or the employment they provide, the numbers are not insignificant.

In addition to these medium- and large-scale enterprises, approximately 100,000 people find work in small firms as tailors or dressmakers. More than half of these are working alone in one-person establishments, with the remainder in enterprises engaging 2-10 workers. Finally, it has been estimated

that approximately 250,000 people are engaged in knitting and crocheting. Most of these are women working individually to produce and sell what they can.[2]

It is not clear what has happened to total employment among garment producers since 1990. Many have been hard hit by declining domestic demand, on the one hand, and by the scarcity of yarn and cloth due to the drought-induced shortage of cotton, on the other. Press reports of retrenchments during the first half of 1992 are in the range of 3,000-4,000, with more in the offing as problems in the domestic market affect increasing numbers of producers.

Nc accurate estimates are available of the aggregate value of sales of the garment sector. A rough indication of the order of magnitude of production from the sector can be gained by an estimate of the value of fabric, yarn, and thread used domestically, from domestic supplies as well as from imports. In 1990, this total may have amounted to Z$600 million. If materials account for a third of the cost of a garment, this means sales from the sector in 1990 were of the order of magnitude of Z$1,800 million.

Although CSO data suggest a rapid growth in textile production from 1980 to 1986 followed by slower expansion since then, the reported pattern for garments and footwear is consistently one of much slower growth, averaging less than 4 percent per year since independence. Relative to a base in 1980, clothing and footwear output in registered firms in January-October 1991 had risen by 47 percent, less than half the growth of textile production.

Among the small enterprises covered by the GEMINI survey, data were collected on the level employment at the time each enterprise was started, and as of the date of the survey (August 1991). For nearly 90 percent of the producers, these two figures were the same (that is, employment had not increased at all since the establishment of the enterprise). For the remaining 11 percent, however, employment expanded rapidly, averaging 32 percent per year over the life of the enterprise. For all small garment makers taken together — those that grew and those that did not — employment increased by an average of 3.6 percent per year, approximately the same rate as that for output among the larger enterprises. It is important to recall, however, that this is an average made up of close to 90 percent of the enterprises that did not grow at all, and 10 percent that grew very rapidly.

Compared with their counterparts elsewhere in the third world, many large garment producers in Zimbabwe — like large producers in other sectors of the economy — operate in ways that are highly vertically integrated. This means that they undertake many peripheral or noncore activities in-house rather than buying from more specialized outside suppliers. Their trust in markets is not sufficiently developed for them to be ready to rely on these markets for purchases of many inputs of goods or services.

Two factors may help explain this tendency toward vertical integration. The first is the shortage of raw materials and other requisite inputs that has characterized the economy over the past 25 years. Zimbabwe has operated over this period, and in large part still does today, as a shortage economy. In this situation, large firms have been under considerable pressure to take whatever steps were necessary to ensure that they had acccss to a regular supply of inputs, without which the whole production process can grind to a halt. Often, this has meant producing the inputs themselves, since the large enterprises frequently have had more of the contacts and the leverage required to obtain these inputs. Secondly, the

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[2] The figures for small enterprises are based on McPherson's survey of micro and small enterprises in Zimbabwe (GEMINI Technical Report No. 25, 1991).

fact that many large enterprises have been operating in an environment that was not particularly competitive has meant that they have been able to get away with paying a risk premium to be assured of a more reliable supply; the resulting higher costs could easily be passed on to final consumers.

There is reason to believe that both of these factors are changing. The opening up of the economy is supposed to offer easier access to required inputs for a wide range of potential suppliers. Furthermore, by increasing the degree of competition from an expanding range of domestic suppliers as well as from imports, firms may be faced with stronger pressures to reduce their costs of procuring inputs of products and services.

An additional dimension of the recent evolution of the garment industry in Zimbabwe concerns the balance between domestic and export sales. Until the late 1980s, large-scale producers of garments were content to concentrate on the domestic market; small enterprises usually had no choice in this regard, since most did not have the marketing skills required to gain access to the export market. For the larger enterprises, the domestic market was able to absorb all that was offered for sale, with little concern for quality. A study done in the late 1980s reported that garments marketed domestically were sold at prices that averaged about 35 percent higher than comparable products being exported. In this situation, producers had little incentive to look beyond the protected and profitable local market. To the extent that they did export, their higher returns on domestic sales could cover a major share of their overhead costs; in effect, domestic sales provided a subsidy for their sales abroad.

Again, in recent years, this situation has been changing in important ways. The major devaluation of the Zimbabwe dollar has meant that the price of exported garments, expressed in local currency, has increased sharply (along with the prices of imported — or exportable — inputs, which have also increased as a result of the same forces at work). On top of this, the drought has had the dual effect of reducing the supply of lint while seriously weakening the domestic market. The outcome has been a serious undermining of the relative profitability of sales in the domestic market. If there was a 35 percent advantage in favor of local sales three years ago, today — particularly taking account of the export incentive schemes in place — these two markets appear to be on a par in terms of the returns that they offer. With the domestic market stagnant or contracting, the accepted wisdom in the industry appears to be, "export or die." Exports of garments rose by a factor of four between 1986 and 1990, reaching close to 10 percent of total output in that year; they have almost certainly increased further since then.

Two other factors have changed the competitive position of domestic producers. The current credit squeeze has put pressures on firms to pay increasing attention to their inventories of inputs. In the past, unreliable access to inputs has led many large producers either to produce their required inputs themselves or to carry large stocks of inventories, to guard against disruptions of supply. Increasing international competitiveness for Zimbabwean producers will require that the system become more efficient, enabling producers to purchase from lower-cost suppliers without having to carry such large inventories. The fact that finance is currently expensive and difficult to obtain may accelerate this search for ways of reducing inventory carrying costs.[3] At the same time, increased access to foreign exchange has made it possible for some firms to modernize their equipment; furthermore, those with access to foreign exchange have been able to import fabric of qualities and types different from those available locally. Credit and foreign exchange for modernization and for the purchase of imported materials have been available to some firms but not to others; this has been important in determining which firms are able to hold their own or even to grow in the new economic environment.

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[3] Some producers have been helped by the Export Pre- and Post-shipment Finance Facility, which offers credit to exporters at favorable interest rates.

BUSINESS LINKAGES IN THE GARMENTS SUBSECTOR

This brief overview provides the context in which to explore the nature of business linkages in the textiles and garments subsector. The discussion is presented here under four headings: export contracts; production-oriented linkages, through the Cut-Make-Trim (CMT) system; the role of micro- and small-scale enterprises (MSEs) in this process; and services-oriented linkage opportunities.

Export Contracts

With the drying up of the domestic market, a number of the larger and more entrepreneurial garment enterprises are aggressively seeking contracts with buyers abroad. Some of these are with major retail chains in the United States or Western Europe (Target Stores and Banana Republic). The competition is intense, but the markets are large, and Zimbabwean products are considered to be competitive in quality and price.

Several Zimbabwean producers are scrambling to find such contracts abroad, and are succeeding in varying degrees; the export shares of the large manufacturers interviewed ranged from 10 percent to 80 percent. All are seeking to raise this share, on an urgent basis. For most, this is a survival strategy. Some, however, have dreams of making Zimbabwe into the next Mauritius or Sri Lanka, with extensive cut-and-sew operations based on export contracts. They say that wage rates here are competitive (especially as a result of the devaluations), that the required skills are available at least for the standard production operations in a selected number of firms.[4] What is needed, they assert, is a government bureaucracy that believes in these activities and is willing to facilitate the process. With changes along these lines, there is every reason to believe that there could be a substantial expansion in export sales and associated employment in the garment industry through improved business linkages between Zimbabwean manufacturers and buyers overseas. Exports clearly constitute the most dynamic segment of the garment subsector.

It should be recognized, however, that the firms most likely to be in a position to take advantage of such opportunities are the large, white-owned enterprises. They are the ones with the experience, with the existing skills, and with contacts overseas required to make this undertaking possible. Although this may be an effective way of addressing the foreign exchange problems facing the country as well as of creating significant amounts of employment (or at least of sustaining employment in the face of a declining domestic market), it will do little to expand the role of indigenous businesses unless special steps are taken to draw them into the activity. However, in the absence of an export focus along these lines, the stagnation in the domestic market will make it difficult — at least in the short run — for any kind of program for the promotion of business linkages involving small garment enterprises to succeed.

The Cut-Make-Trim (CMT) System

One way being practiced to link smaller enterprises to the more dynamic segments of the market is through CMT arrangements. This "putting-out system," whereby parent firms pay supplier enterprises to undertake some specified processing of materials supplied by the parent, is as old as industrialization

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[4] In 1992, on the other hand, the pegging of the exchange rate during a period of significant inflation has resulted in a substantial erosion of the effects of the 1991 devaluations.

itself. The pattern is well known in Zimbabwe, where the parent firms are sometimes large manufacturers, sometimes retailers. For manufacturers, the main factor that has led them to adopt this system has been the receipt of orders that exceeded the productive capacity of the parent enterprise. In a few cases in the past, the product have been for sale in the domestic market: work clothes or uniforms for large companies, the police, or the military, for example. With the current slack demand in the domestic market, this pattern of subcontracting by larger manufacturers for sale in the local market has dried up, although some smaller producers still receive CMT orders for uniforms directly from the final users of these products.

More frequent, especially today, is demand arising from export orders. A classic case here is an enterprise that employs 1,400 people in its own factories but also passes on orders to some 15 other suppliers that may engage 40-50 workers each; about three quarters of the suppliers' production goes for export. The parent 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 its suppliers carry out their side of the bargain. With exports this year of more than Z$100 million and 2,000 people employed directly or indirectly, this enterprise is showing one of the ways of the future to the rest of the industry. This company is not unique in the industry; several other companies are also active in garment exporting based on CMT product supplies.

The CMT system operates in Zimbabwe for retailers as well as for manufacturers. In this case, the focus is on the domestic market. Although this market is currently not buoyant, it still provides employment for a number of suppliers operating on the basis of CMT orders from domestic retailers. Often these products are of a specialty type, custom-made in smaller numbers for particular clients. One of the retailers operating in this way informed us that he prefers CMT suppliers primarily because of the long lead-time involved in orders placed with the large garment manufacturers, which can take six months or more to be filled. Another retailer has recently entered into a joint venture with one of his former CMT suppliers to obtain more control over the supply. Such a move can provide benefits to the supplier, but it also introduces new risks resulting from the supplier being more tightly linked to one particular buyer.

Many people in the industry are ambivalent about CMT operations. The system has some real advantages to all participants. For suppliers, it provides:

- A source of demand for their products, frequently involving indirect access to export markets when they are having difficulties finding other buyers; this can help them keep their factories working, even if they are not covering full costs;
- A solution to the working capital problem, since the buyer generally supplies cloth and sometimes the accessories;
- Access to fabrics, particularly imported fabrics that are often required for sales in the export market, and that would often otherwise be unavailable to small producers; and
- Guidance and supervision from the buyer firms that often teach suppliers what is required to produce garments of acceptable quality.

For buyers, advantages may include:

- Lower product costs, particularly because the CMT suppliers often operate with lower overheads;

- Flexibility in producing small lots that would not be economic for mass-produced line orientations; and

- Opportunities to fill orders that exceed their current capacity, particularly if these are seen as outside their core business focus, or if they are uncertain whether the demand will be sustained.

There are well-known disadvantages on both sides as well, however. For the suppliers, the main problems are three:

- Orders are unreliable. If this pattern is seen as primarily a way of handling overflow orders received by the larger enterprises, then when markets decline, CMT orders can quickly dry up as the larger firms handle everything in-house to keep their own lines operating. There is some evidence that this is happening in Zimbabwe today;

- Returns are low. The buyers are in a strong market position, which enables them to offer orders that barely cover costs for all but the most efficient of CMT suppliers; and

- Although there is clearly some training and skill upgrading involved in this market structure, these advantages do not come cost-free. Parent firms must bear these costs, which they may seek to recover by offering a lower price to the suppliers. Furthermore, suppliers find they are being kept away from the most dynamic and lucrative markets. Each would like to move beyond the CMT arrangement as quickly as possible; the system does not facilitate such a transition.

For the buyers, the difficulties have to do with the unreliability of CMT supplies in quality, price, and timeliness. To overcome that set of problems, buyers must be ready to invest a great deal of effort in supervising and controlling their arrangements with suppliers. Those enterprises that rely heavily on this type of arrangement have an extensive staff whose sole task is to manage CMT arrangements. To the extent that the parent firm is engaged in the production in-house of similar products, increasing the competence of CMT suppliers can subject them to additional competitive pressures.

In sum, it is clear that the CMT system is working in Zimbabwe; it is providing low-cost products for some buyers and expanded access to markets for some suppliers. The system does have several problems and limitations, however, which would need to be addressed before one could recommend it for widespread replication.

Where Do MSEs Fit into This Picture?

The figures in noted above indicate that probably five times as many people work as small tailors and dressmakers as in medium- and large-scale garment enterprises. Is it feasible to involve any of these microenterprises in business linkage activities?

The best answer would seem to be: Not as long as they remain very small. If it is hard for large enterprises to deal with small subcontractors, it is particularly hard for them to deal with large numbers of very small suppliers.

Evidence suggests that most small enterprises, in Zimbabwe as elsewhere in Africa, stay small; but a small minority of these firms — about 10 percent of garment producers in Zimbabwe — grow quite

rapidly. It would be an appropriate goal for a business linkage project to seek to identify a limited number of companies with 6-15 workers that have proved themselves in business and are interested in growing. Managers of such enterprises, with some experience in business and some vision of where they would like to go, are one of the most fruitful target groups in the economy for the expansion of productive employment.

It may be noted in passing that some very small garment producers in the 5-10-worker range appear to be doing well today, in spite of the economic downturn. Two explanations can be advanced for this. First, as people's incomes decline, they may be switching some of their clothing purchases to products made by small tailors and dressmakers — products that may require more time and effort to procure (buying the fabric separately, shopping around and negotiating with tailors on styles and prices, and so on) but whose cash costs are lower. Secondly, retailers have a greater incentive to search out lower-cost sources of products to sell, which may lead them to suppliers with lower overheads and perhaps lower labor costs as well — in other words, to the small suppliers. Although some very small producers are clearly hurting, others appear to be weathering the current downturn relatively well. These activities are not directly related to business linkages, and therefore are not discussed further here, but they constitute an important dimension of the present pattern of change in the sector.

Service-oriented Opportunities

The focus of the discussion to this point has been on business linkages centering around the production process. There are other opportunities, sometimes referred to as horizontal rather than vertical linkages, involving the hiring of small enterprises to undertake other functions, sometimes more peripheral, often in the service areas. Examples include the cleaning of facilities; taking care of grounds; supplying food in the cafeteria; provision of housing, schooling, and health care for employees; and the maintenance and repair of vehicles and equipment.[5]

As suggested above, a tendency in the past has been for large enterprises in Zimbabwe to undertake many of these service functions themselves. With the increasing flexibility and increasing competitiveness in the economy, however, new pressures may arise for change. These forces can open up expanding opportunities for small enterprises to supply services previously provided in-house by the larger enterprises. For this evolution to take place, it will be necessary for reliable and competent firms to come forward offering their services, ready to prove that they are capable of delivering on their promises. As for the other types of linkages under discussion here, the goal would be an increase in quality and a decrease in cost, as these services are provided by firms specializing in a narrower range of functions.

The implications of this analysis in terms of business opportunities and of requirements for policy change and project-level interventions, for garments as well as other subsectors, are explored in Section Five below.

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[5] This reasoning relating to service-based linkages applies equally to the other subsectors discussed below. It is presented here in the discussion of garments and textiles only as a matter of convenience.

SECTION THREE

METALS

OVERVIEW OF THE SUBSECTOR

In previous reviews of business linkages and subcontracting systems in Zimbabwe, the metals subsector has frequently been identified as the segment of the economy with the most activities today and with the greatest potential for growth in the future. A recent comprehensive review of small enterprises in the country highlighted metals as the segment with the greatest opportunities for subcontracting.[6] There may also be several of candidates in this sector for spin-offs of existing activities by large enterprises.

Earlier studies have remarked on the high number of backward and forward linkages in the metals sector: backwards to mining, for raw materials; and forwards to many other sectors of the economy, to which metal products are sold. In the 1980 input-output table, 22 percent of the output of the iron and steel products sector was sold back into the manufacturing sector, a figure that is somewhat above the average for manufacturing as a whole.

The following discussion starts with a brief overview of the two principal stages in the production process in this subsector: the supply of metals and the fabrication of these metals into products. This is followed by an examination of current patterns and future opportunities for linkage activities in the subsector.

Metal Supplies

There are three sources of supply of metals in Zimbabwe today: the production of Zimbabwe Iron and Steel Company Limited (ZISCO); other smaller basic metals enterprises, including those engaged in the recycling of scrap metal; and imports of basic metals.

ZISCO was started in 1938 as a private company engaged in melting down scrap for reprocessing. At that time, it was called the Rhodesian Iron and Steel Corporation (RISCO). In 1942, it was taken over by the government, which still retains more than 95 percent of the ownership of the company. ZISCO has expanded over the years, and now operates the largest integrated steel works in Africa south of the Sahara and north of the Limpopo. Although its capacity is officially rated at just over 1 million tons a year, its current true capacity is probably close to 650,000 tons.

Discussions with ZISCO staff indicate that about half of its production is exported. Virtually all exports are in the form of billets and blooms (square rods of steel of various sizes). The export of steel is handled for the company by the Minerals Marketing Corporation of Zimbabwe, a public sector corporation.

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[6] ZIMCONSULT, "Support to Small-Scale Industries and the Enhancement of Indigenous Ownership in Zimbabwe," prepared for UNIDO, draft, March 1992.

The remainder of the steel produced in the factory is sold in the domestic market. Some part of this is sold in the form of billets, sold to domestic firms (including two wholly owned subsidiaries of ZISCO) that use these to make wire and other similar products. The bulk of the sales in the domestic market, however, are window sections, fencing sections, and angles and flats that ZISCO rolls into 50 different shapes and forms needed on the domestic market.

ZISCO operates three rolling mills, converting billets into these rolled steel products. The company's rolling facilities are rather old and limited in size; it is this limitation that constrains the company's ability to supply the domestic market with the products it needs, even though the company produces a surplus of steel for export.

After extensive discussion, the government has agreed that the company should price the products it sells domestically at import parity levels (inclusive of import duties). This means that while exports are priced by the world market (at export parity prices), products sold domestically are now set by the company at import parity prices. Import duties and international transport costs being what they are, the price of a billet sold locally is currently about twice the price of the same billet sold abroad.[7] Rolled steel products are likewise now priced at import parity prices, again inclusive of tariffs and transport costs. Over the past 12 months, the price of most of these rolled steel products has more than doubled.

Although domestic users pay an import parity price that is approximately twice the level earned on export sales while all of the basic raw materials used by the company (iron ore, coal, and limestone) are of domestic origin, the company has consistently operated at a loss, often at quite a high level. This is explainable in part by the fact that much of the plant and equipment is quite old; yet these facts do not speak well of the competence of the management of the company.

A second source of metals as an input to the metal products sector in Zimbabwe is smaller basic metals enterprises. Some of these firms are working with nonferrous metals. Of those in iron and steel, a substantial number are engaged in the recycling of scrap metal. Although there are close to 10 dealers in scrap in Harare and a similar number in Bulawayo, their role in the supply of inputs to the domestic metal products sector as a whole of is minimal, focusing on particular and limited market segments: the supply of scrap steel to a foundry making grinding balls for mining, the supply of nonferrous metal scrap to several small foundries, and the recycling of parts and pieces to very small metal workers who fashion them into household or agricultural implements. In the aggregate, these uses may in the past have reached as much as 10 percent of the total metals used in domestic metals products industry; today, this figure is probably well below 5 percent.[8] The great majority of the scrap being assembled today is exported to South Africa, reportedly barely covering transport costs.

Turning to the country's external trade in metals, while exports of ingots and billets, bars, rods, and sections amounted to 250-330,000 tons per year in 1988-90, imports of similar categories were also significant. The largest quantities of imports were in bars, rods, and sections, either in sizes and shapes not produced by ZISCO or reflecting demand in excess of ZISCO's rolling mills' capacity. In tonnage,

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[7] Note the different treatment of steel compared to cotton, which is sold by the CMB to domestic spinners at a price just over half the export price.

[8] The biggest change has come from the fact that a major foundry used to sell grinding balls to Zambia, using domestic scrap as raw material; that company has reportedly lost that market to a South African supplier with the same corporate parent as the Zambian buyers.

it appears that one-third of the basic steel used domestically in 1990 — about 160,000 tons — came from imports.

CSO statistics report that employment in basic metals industries is running at just over 15,000 people (including 1,000 apprentices and temporary workers). ZISCO by itself employs some 5,000 workers, on four shifts.

Metal Products Industries

Compared with other countries in Sub-Saharan Africa, the metals products sector in Zimbabwe is large in size, and is engaged in an impressive variety of product lines. In an extensive study of medium and large enterprises, undertaken in the early 1980s, interviews were conducted with 144 established companies with a product range that reflects a sophisticated and diverse metals products sector.[9] CSO's quarterly employment surveys collect data from more than 300 registered companies engaged in the fabrication of metal products, including nonelectrical machinery and equipment. In 1990, these enterprises provided employment for 20,000 full-time employees, plus an additional 2,500-3,000 contract workers.

The relatively high level of development of this sector represents the outcome of a quarter of a century of government policies aimed at the promotion and protection of domestic producers. Many of these enterprises grew up and thrived in a sheltered environment; how they will manage in today's more competitive world remains to be seen.

The 1991 GEMINI survey of small enterprises in Zimbabwe estimated that there are more than 18,000 small enterprises with a total of 30,000 workers engaged in different aspects of metal fabrication. Over three quarters of these enterprises were in rural areas of the country, where they were primarily working in tinsmithing and welding. For the latter group, the majority were engaged in the fabrication of a limited range of relatively simple products: doors and windows, burglar bars, farm implements, and scotch carts.

One problem faced by all of these enterprises, large as well as small, has been the supply of raw materials. The amount of rolled steel made available to the local market by ZISCO has not kept pace with domestic demand. With domestic prices held artificially low (as was the case until October 1991), ZISCO has had little incentive to expand its capacity to produce rolled steel to meet local market demands. The distribution system being what it is, large-scale users have had an advantage over small producers, in terms of access as well as of reliability of supply. Those purchasing in larger volumes benefitted from substantial quantity discounts.[10] Until recently, imports of steel of the appropriate

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[9] D.B. Ndlela, J.W.E. Kaliyati, B.M. Zwizwai, and D. Mutungwazi. "A Study of the Transfer of Technology and Technology Acquisition in the Metals and Metal Goods Sector in Zimbabwe," 1990.

[10] Before October, 1991, those buying two tons or less of window sections paid a price 21 percent higher than those purchasing 40 tons or more. One small buyer reported that he regularly placed orders for 40-50 tons, but because of the shortage in the market, was supplied with only 2-5 tons (and was charged a correspondingly higher price per ton). Since October 1991, the price differences have been somewhat reduced, while the contraction of the market has meant that orders are more likely to be filled in full.

quality and type for use in the domestic products industry have been substantially more expensive than the products of ZISCO.[11] For small enterprises, there was a ready market for all they could produce of the simple, standard products on which they concentrated. That being so, there was little incentive for them to diversify or to modernize their production facilities. Their output was effectively constrained by the limited supply of inputs; they were able to earn acceptable returns producing a restricted range of products making use of those inputs.

The outcome of this set of supply constraints has been that, since independence in 1980, the metals and metal products sector has shown the slowest growth of any of the sectors separately identified by CSO. With 1980 = 100, the index for 1991 was only 114. This index is based on data from registered companies. For the smaller enterprises, the data from the GEMINI survey tell a similar story. Those figures reflect annual average rates of growth of employment over the life of the enterprise (in other words, from the time it was established until the date of the survey). Comparable data are also available from four other countries of Southern and Eastern Africa, as follows:

Annual Average Growth Rate in Employment Among Small Metal Fabrication Enterprises	
Kenya (one urban area only)	24.3% p.a.
Lesotho (countrywide)	55.7% p.a.
South Africa (two urban areas only)	38.1% p.a.
Swaziland (countrywide)	18.3% p.a.
Zimbabwe (countrywide)	6.2% p.a.

The low rates of growth of output (among larger enterprises, based on the CSO index) and of employment (among the smaller producers, using GEMINI data) are striking. They suggest that, though the nation started its new life with a relatively highly developed metals products sector, its growth pattern since then might be described as close to stagnation. The analysis presented above offers a possible partial explanation for this, in terms of the difficulties that enterprises have faced in procuring raw materials needed as inputs in the production process.

BUSINESS LINKAGE ACTIVITIES IN THE METALS PRODUCTS SUBSECTOR

An earlier study of the metals and metal goods sector in Zimbabwe includes the following passages:

> One of the most important contributions of the metals goods sector to the Zimbabwean economy as a whole and in the manufacturing sector in particular, can be highlighted by a detailed examination of the almost cobweb activity of sub-contracting by firms in this sector . . . It is often considered that the usual lack of, or highly imperfect, sub-contracting markets can induce a much higher

[11] As a result of the foreign exchange allocation system, it has also been difficult for small producers to obtain access to these more expensive imports.

> degree of vertical integration at the individual firm level. Firms are forced by the environment to have a high 'in-house' provision of goods and services that would otherwise not have been warranted given the technologically dissimilar characteristics of these goods from their main activity. The Zimbabwean metal goods sector, however, is endowed with a number of firms producing intermediate goods and services for forward markets.[12]

This study gives a long list of products made by one set of firms and supplied as inputs to other domestic users, most of which are manufacturers. They conclude that "the almost endless intertwining of firm activity in the metal goods sector indicates the level of sub-contracting activity in these sub-sectors .... Sub-contracting activity becomes crucial in the interlinkage activities if firms keep less stocks used as intermediate goods or avoid the inefficient alternative of becoming heavily vertically integrated" (p. 165).

Although this study was published in 1990, most of the field work for it was completed in 1984. A careful review of the evidence they present makes clear that virtually all of the subcontracting relationships discussed involved transactions between large, well-established enterprises. Our field work in 1992 has been nowhere near as extensive as theirs (they undertook detailed interviews with 145 enterprises). Our findings suggest two things, however: first, the same kinds of linkage activities that they documented in the early 1980s are still alive and well today; but, second, only a few, small emergent or indigenous businesses participate in this network. A recent analysis by one of the same authors laments the current situation:

> There is virtually no vertical integration in production between small scale/informal enterprises and the established large scale companies. This is explained by the disparity in the level of technologies employed in these sectors. In the small scale informal sector, there are no metalworking machine shops and without machining capabilities, the small scale industries are restricted to a narrow range of products that can be made from sheet metalworking, blacksmithing and welding and steel fabrication.[13]

Our interviews suggest that this conclusion may be too pessimistic. A limited number of small enterprises have reached the standards of quality and product reliability required to enable them to participate in these markets. Some of those with whom we have met indicated that they produce specialty products at prices substantially below those prevailing in the domestic market. One small producer informed us that he pays particular attention to product lines dominated by monopolies, since he finds these to be easy targets with particularly out-of-line prices. Another reported that he has grown rapidly and successfully selling hydraulic couplings and lifts. A third small producer seems to be doing well selling worm gears; the key to his success appears to be the machinery he has installed to cut these gears. There clearly are a small number of relatively sophisticated, small indigenous producers beginning to play a significant role in metal products subcontracting systems. However, these markets are limited to those with relatively advanced technology, relatively high skills, and careful quality control.

Discussions with several of the larger and medium-sized metals products enterprises suggest a strong preference for having all the key steps in the production process done in-house. When this is not

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[12] Ndlela et al., ibid., pp. 162-3.

[13] B.M. Zwizwai and J. Powell, "Small Scale Metal Working/Light Engineering Industries in Zimbabwe: a Sub-Sector Study," 1991, pp. iii-iv.

the case, commercial transactions are generally done with other enterprises that belong to the same parent company. The idea of one specialized firm having a guillotine, machine shop, or plating facility whose services could be purchased on a routine basis by a number of independent neighboring users evoked little interest. Having become accustomed to operating their enterprises in a vertically integrated fashion, most managers saw few advantages and considerable risks from changing this approach. Although there is a steady flow of parts bought and sold between medium-sized and larger enterprises, the idea of drawing smaller or indigenous producers into this network was met with considerable skepticism. Some of the more forward-looking enterprises have made efforts along these lines; many of these appear to have to come to naught. The issue appears to have been one of reliability in quality, timeliness, and price of the products or services supplied.

For those small enterprises capable of delivering good quality products and reasonable prices, the way forward may be not through direct linkages with large manufacturers but through competition at a retail level (for example, in hardware stores). As door locks, window fittings, or spare parts for machines and vehicles made by small producers appear in regular supply with acceptable quality and competitive prices, there will be strong commercial pressures for larger enterprises to purchase these products as inputs for incorporation into their assembly operations. Changes in attitudes may be slow in coming, but as efficient small producers offer cheaper products of acceptable and reliable quality, competitive market forces can be a potent force for changes in behavior even in advance of changes in attitudes.

SECTION FOUR

LEATHER AND FOOTWEAR

OVERVIEW OF THE SUBSECTOR

As in the case of other components of this study, the leather and footwear subsector needs to be viewed in a framework that includes the supplies of raw materials as well as their processing into finished products. There are three major dimensions in the process: the supply of raw hides, the processing of hides into leather, and the processing of leather into shoes and other finished products.

Hides

The largest share of the hides in Zimbabwe is handled by the parastatal, the Cold Storage Commission (CSC). CSC obtains hides as a by-product from its own abattoirs. Some of these hides are exported, usually in wet blue form (after a preliminary stage of processing). The CSC does not operate its own tanneries, but hires the commercial tanneries to undertake this processing for them. After some debate, an understanding was reached that the CSC would export no more than 25 percent of the hides it obtains; the rest are sold to domestic tanners.

There are three key dimensions to the supply of hides for domestic users: quantity, quality, and price. All three, but particularly the quantities, are strongly influenced by wide annual variations in animal slaughtering, in turn heavily affected by seasonal fluctuations in rainfall. CSC sells hides to domestic tanners at a price equal to the average price it receives for the hides it exports. Problems have arisen in the implementation of this policy. Tanners have complained that CSC exports the better-quality hides, while those that it sells domestically are, on average, of a lower quality. This has two disadvantages for the domestic tanners: they do not have access to the better-quality hides, and those that they do purchase are overpriced. For this reason as well as in an effort to gain access to lower-cost hides, domestic tanners have worked to develop alternative sources of supply direct from rural butchers and slaughter houses, bypassing CSC. With about a fourth of the recognized slaughtering taking place in facilities other than those of CSC, this has come to be a significant source of hides for domestic users.

The problem of hide quality is a continuing one in Zimbabwe (as elsewhere in Africa). In general, proficiency of handling of both animals and skins is higher in CSC facilities, so the average quality of hides emanating from this source is also higher. In their procurement through alternative (non-CSC) channels, some of the tanners have established a system of grading that rewards suppliers for quality, thereby providing them with an incentive to take more care in the processing of the animal. A system of differential payments based on branding procedures has also been instituted through CSC; but the differentials appear to be too small to offer a meaningful incentive for farmers to change their behavior in ways that would significantly raise the quality of hides coming through that channel.

Hides (but not finished leather) are currently on Open General Import License (OGIL). This has not been a major issue in the recent past, nor is it currently important in view of the extensive slaughtering taking place as a result of the drought. However, it will no doubt become important in the subsequent downswing of domestic supplies, making it possible for tanners to import hides of appropriate qualities to keep the domestic market supplied with leather.

Leather

The second stage in this subsector is the processing of raw hides. Zimbabwe has six tanneries. One of these is a relatively new enterprise, currently engaged only in semi-finishing of hides up to the wet blue stage, for export.[14] A second tannery only does specialty work such as sheep and goat skins and wild animals. Of the remaining four that produce finished leather from the hides of cattle, two are under the control of one company, which means that three companies control all the supply of finished leather from cattle. These three also run the three largest shoe factories in the country. In each case, the shoe enterprise was established first, with the tannery added later to supply the raw materials needed for the shoe factory.

Leather Products

In the third stage of the process, the production of finished leather products, the industry has five major categories of enterprises:

- The "big three," employing 400-3,400 workers each (including their associated tanneries), with aggregate employment of approximately 5,500. These three are privately owned by individuals or families that also own the country's tanneries;
- Four medium-large shoe manufacturers, with about 250 workers each, an aggregate employment of about 1,000 workers;
- Five small but mechanized shoe manufacturers, with 30-80 workers each and with aggregate employment of about 250;
- Approximately 15 small enterprises, mostly with an employment range of 10-40, engaged in the production of other leather products such as purses and handbags and belts. Aggregate employment in this group is about 250; and
- A large number of very small enterprises engaged in shoe repair and (in some cases) the artisanal making of shoes and leather products. The GEMINI survey indicated that there are some 9,000 of these small establishments. Of these, more than 8,000 are one-person businesses; only about 120 had more than 5 workers. Aggregate employment in this group of small enterprises was estimated in the GEMINI survey to be about 14,000.[15]

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[14] The establishment of this enterprise was controversial; some feared that it would divert too many better-quality hides into exports, starving the domestic market. The company agreed to move beyond the wet blue stage to the production of finished leather for sale domestically. To date, they are reported to have made no moves to go beyond wet blue, and are focusing exclusively on exports.

[15] CSO employment surveys reported on 28 registered enterprises engaged in the manufacture of footwear in 1990, with employment reaching 5,600 full-time employees plus an additional 500 contract workers. Their surveys presumably cover all those in the first three categories, plus a few of the enterprises in the fourth and fifth categories.

No data are available concerning overall leather use or shoe production in the industry. One knowledgeable person who has been active in the industry for more than 30 years estimated that the top seven shoe manufacturers (those in the first two categories above) absorb approximately 90 percent of the country's supply of leather.

In terms of patterns of change over time in the subsector, the CSO index of industrial production aggregates footwear with clothing, so is of no help here. The number of animals slaughtered, either in CSC facilities or in registered butchers and grading centers, reached 700,000 head per year in the late 1970s. In the first three years of independence, this figure fell to an average of just under 500,000 head per year; by 1988-90, the average had fallen again to just under 400,000 head per year. Exports of hides dropped from an average of 5,700 tons/year in the first three years after independence (about half of the total supply of hides) to only 2,400 tons/year (approximately 100,000 hides, about a quarter of the total supply) in 1988-90.

The GEMINI survey collected data on past patterns of growth in employment among enterprises covered by the survey. For this group, the category of footwear and leather showed one of the lowest rates of growth in employment of any sector of the economy; the average was only 1.9 percent per annum. In large measure, this reflects the fact that more than 90 percent of the enterprises in this category had not grown at all; over three quarters of the producers started and ended as one-person enterprises.

In sum, of the approximately 20,000 people engaged in the leather and footwear subsector, two-thirds are engaged in very small production units, mostly in one-person artisanal production. Another fourth of the work force are employed in three large, vertically integrated enterprises. The remaining 6 percent are in 25 intermediate-sized enterprises, with 30-300 workers each. In the 12 years since independence, it appears that there has been some increase in numbers of very small enterprises, but little expansion in the size of each one; some growth in the level of employment in each of the medium- and large-sized enterprises, but relatively little movement of enterprises from one category to another. In particular, over the past 12 years, very few of the less-than-10-worker enterprises have succeeded in graduating to a stage where they run integrated, mechanized production lines.

Characteristics of the Subsector

Interviews with all of the large shoe manufacturers and with a sampling of the other size categories suggest the following characteristics of the subsector.

- It is difficult for very small producers — say, those with less than 10 workers — to compete directly with large, mechanized, and integrated shoe manufacturers in the production of many standard types of shoes. There are significant economies of scale in the production of these basic types of shoes that leave the small, artisanal producers at a disadvantage compared with the larger, integrated production lines.

- The establishment of a viable production line involves the purchase of a variety of different machines, which in turn require a significant capital investment. Raw materials have also become substantially more expensive in recent months. Furthermore, the process time for a pair of shoes is not short; one manager estimated that it normally takes six months from the time he must pay for the leather until he receives payment for the shoes. In view of the current state of the capital market in Zimbabwe (in availability of loans as well as of interest rates), it is extremely difficult for a newcomer to get

established in this product line. Shoemaking is different in this regard from garmentmaking; the minimum economic size in footwear manufacturing is larger in terms of numbers of workers and (particularly) of capital requirements. Although several existing medium-sized shoe manufacturers started out several decades ago as small repair shops and later expanded into full production, this has become increasingly difficult in view of the substantial and increasing capitalization required in the industry.

- The comparative advantage of smaller producers is in specialty products based more on skills and less on a diverse array of machines. Examples include high-quality, hand-stitched shoes, sandals, or other products made of leather such as hats, garments, or handbags. To be successful, these require a high level of competence. Small firms can also sometimes make efficient use of scraps and waste leather that are of little value to the larger, mechanized production lines.

- Different points of view were expressed on the importance of leather supply as a constraint to the growth of small leather products manufacturers. Small producers virtually unanimously complained about the difficulties they face in obtaining leather. In some cases, small and large enterprises manufacture products in direct competition with each other. Small- and medium-sized firms complain that they must buy their leather from the larger, oligopolistic suppliers that manipulate the price, quantity, and quality of leather made available, to the detriment of the smaller enterprise. The large producers respond that there is more than enough leather available to anyone who can pay for it. The problem, they assert, is that many of the smaller buyers have found their markets for finished products drying up, so they have not been able to pay for leather they have ordered. Reconciliation of these two points of view may lie partly with the question of leather quality. All agreed that there is a shortage of better-quality leather, coming largely from the limited supply of higher-grade hides. Particularly for smaller producers, it appears that there are continuing problems obtaining regular supplies of the types and qualities of leather they need.

LINKAGE ACTIVITIES IN THE LEATHER AND LEATHER PRODUCTS SUBSECTOR

One of the questions raised in the interviews for this report concerns the current pattern of linkages between enterprises of different sizes, perhaps specializing in particular aspects of the production process, and the potential for the promotion of this type of business structure.

One point raised in response to this questioning was that a small amount of work is subcontracted by the large shoe manufacturers. At present, this is limited almost exclusively to the hand stitching of shoes, particularly of moccasins. Several of the large producers have found it economical to handle this step of the production process in this way. Payment is per piece. This arrangement is regulated by the labor laws, which limits all piecework payment to cooperatives, so all the suppliers are set up as cooperatives. In one case, the cooperative members come into the factory compound of the parent company to do the actual stitching; in other cases, they pick up a supply of cut leather that they take to their hired premises for stitching. The larger companies giving the orders are uniformly pleased with both the quality and the cost of the work. But they say that this arrangement is only appropriate for a restricted range of functions requiring significant amounts of hand work. One manager suggested that it might be extended from stitching to embroidery of certain types of shoes, and perhaps also to the

cutting of leather and to the sewing of leather garments; to date, it appears that no one has approached either of these tasks on a subcontracting basis.

A more significant step in this direction would involve one enterprise specializing in the production of uppers, to be assembled into finished shoes in a separate firm. At the moment, no one is operating this way in Zimbabwe, although several have considered different alternatives along these lines. One large enterprise is exploring the possibility of exporting uppers to Europe for finishing there. A second, smaller enterprise previously considered the possibility of helping one of their skilled staff to set up a separate company that would concentrate only on the production of uppers. This option was finally rejected since it was felt that the supplier would have difficulties obtaining and maintaining the machinery and equipment required for such an arrangement. A third entrepreneur indicated that several medium-sized shoe manufacturers are exploring the possibility of importing finished uppers from the Far East and sewing and assembling them here. A fourth firm is experimenting with the purchase of injection mold soles from a local supplier, which he would then join to uppers that he makes himself. The early results of this arrangement have not been encouraging; some of the soles — made according to the specifications of the buyer — were subsequently assembled by the producer of the soles and sold in the market, in direct competition with those of the enterprise placing the order. It is experiences such as these that make people unwilling to purchase parts from others, insisting rather on doing everything in-house.

Managers of two of the larger enterprises made general comments that throw further light on the possibility of promoting increased specialization through contractual relationships between independent firms along these lines. The manager of one of the integrated tanneries and shoe factories said that his company originally started out in the shoe business. When his family subsequently moved into tanning and the production of shoe components, these activities were established as separate companies, partly with the thought that these could eventually be spun off in such a way that they could be owned by and could supply several different user enterprises. In fact, this evolution has never taken place. The manager indicated that other potential users were suspicious and skeptical, so the close links of sole ownership were never altered. The second manager, well aware of the fragmented and efficient production patterns followed in the leather and shoe subsector in other parts of the world (for example, Italy and the Far East), indicated that this is not feasible in Zimbabwe; it requires, he said, a much larger industry with many specialized suppliers of components, which does not exist and could not easily be created in Zimbabwe.

One other alternative, mentioned by the manager of one of the large enterprises, concerns the marketing of shoes. He suggested that his company (which currently does not have its own marketing outlets) would be willing to work with the managers of a limited number of separately owned retail outlets, helping them establish a system of financial management and inventory control. The same manager indicated that his company is engaged in some peripheral or noncore activities involving the sewing of track suits and leather jackets, which he said could perhaps better be done through a cooperative, with payment on a piecework basis as he is currently doing for the stitching of shoes. Although he mentioned each of these as possibilities, he is not actively pursuing either of them.

SECTION FIVE

IMPLICATIONS

IMPLICATIONS FOR LARGE BUSINESSES

There are many reasons why this may be an auspicious time for large businesses to reduce costs and expand markets by exploring the possibility of increasing their purchases of goods and services from smaller suppliers.

The markets in which large firms sell are becoming increasingly competitive. This is true of their domestic sales, as local markets open up to competition with imports, as newly emerging local producers seek to penetrate these national markets, and as existing firms struggle to maintain their position in the face of declining demand. Imports will tend to come from the lowest-cost suppliers abroad, often the world's most efficient producers. Given the (often incorrect but unfortunately widespread) perception that imports are superior to local products, national producers will often need to price their products significantly below those of imports in order to maintain their market share. A shift to exports inevitably involves a corresponding move from a protected environment into a much more competitive arena.

In the face of this increasingly competitive environment, large companies are under significant pressures to reduce their administrative costs and overheads. Many companies in Zimbabwe today are top-heavy, a reflection of their highly vertically integrated patterns of operation. By devolving in-house operations to suppliers, overheads can conveniently be reduced, if not removed altogether. At issue here are factory and office space, transport costs, communications, and other invisibles such as insurance and medical aid bills, as well as the package of allowances and benefits that go with middle and higher management positions.

In addition to these pressures to reduce overhead costs, increasing competition means that there are growing pressures to search for reliable, low-cost sources of supply of intermediate inputs. These pressures may lead producers to give increasing attention to the option of cutting costs by turning to outside suppliers. The tight and expensive credit market means that changes that permit firms to economize on their holdings of inventories of inputs can be particularly important. Gone are the days when large companies could afford to pay a major premium associated with either large inventories of inputs or departments operating well below full capacity, to ensure timely or guaranteed delivery.

Increasing numbers of competent small producers are developing their ability to perform as reliable, low-cost business partners. As market liberalization proceeds, these emergent small businesses gain more reliable access to required inputs, improving their ability to modernize and perform in a dependable way.

The political and social environment is currently more supportive of such changes. Labor laws are being relaxed to make spin-offs or retrenchment of staff in higher-cost activities more acceptable.

IMPLICATIONS FOR SMALL BUSINESSES

For small businesses as well, there are important reasons for exploring the option of selling to larger enterprises. Many of the alternative markets are currently depressed. Selling to larger enterprises can provide a link to more dynamic segments of the market, whether domestically or outside the country, and also provide a solid base for launching a sustainable enterprise.

Business-to-business sales can offer a mechanism for capitalizing on the strengths of small suppliers (often with a focus on production activities) while relying on others to play a larger role in the things that they do less well (often in the areas of marketing and product development), thereby reducing the skills and resources required to launch and operate a small business.

Increasing numbers of assistance organizations are ready to help small producers develop their ability to act as reliable suppliers to large buyers.

In sum, in today's increasingly competitive environment, expanding reliance on business-to-business sales can be an important means of reducing costs and capturing new markets. Market forces are putting pressures on both buyers and suppliers to give careful consideration to this alternative. Those that succeed by following this pattern not only demonstrate the way this can work, but also put commercial pressures on others to follow suit.

IMPLICATIONS FOR GOVERNMENT: NEEDED POLICY CHANGES

Many aspects of Zimbabwe's economic policy over the past 25 years have been designed to support and promote the growth of particular segments of the economy. Frequently, these policies have operated by limiting consumer access to outside sources of supply, while channeling available supplies of raw materials, intermediate products, and capital goods to selected and favored producers. These regulations have frequently had the effect (sometimes unintended) of establishing and reinforcing the market power of a limited number of large enterprises.

Against this background, a central feature of Zimbabwe's economic reform program has been a process of market liberalization. A key dimension here has been a set of changes aimed at broadening access to markets and to inputs, creating conditions more conducive to competition between Zimbabwean producers (large and small) and between domestic suppliers and imports.

The drought has complicated that process of market liberalization. The need to purchase food for drought relief has put stresses on the government budget and on the balance of payments; the result has been an extremely tight credit market, and a shortage of funds for nonfood imports. It is difficult for the government to pursue a process of market liberalization when the macro conditions are under such severe stress.

Yet market liberalization and the associated increase in reliability of market-based relationships may be a precondition for a significant expansion of business linkages of the type under discussion here. Buyers need to be reasonably confident that, if they contract with suppliers for a certain product or service, they will get what they bargained for. Although the business people who participate bear the major responsibility for the fulfillment of such contracts, the government also has an important role to play. The government establishes the rules of the game as to how markets work; it needs to do this in

such a way that individual businesses have the opportunity to enter into and to live up to such contracts, and are appropriately rewarded when they do so.

For suppliers to be able to act as reliable partners in fulfilling their contracts, they must have dependable access, at reasonable prices, to raw materials and intermediate inputs, to machinery and equipment, and to workers with the required levels of skills. Although the government is not normally the provider of any of these production requirements (with the partial exception of the third), the policy environment has an important influence on the degree to which supplier firms have access to these inputs, and therefore can live up to agreements they make. Our review indicates that there are problems with government policy in Zimbabwe along each of these dimensions.

On the first point (access to raw materials and intermediate products), the system of marketing boards and public sector firms has been used to channel available domestic supplies of raw materials to a limited number of large enterprises engaged in the next-stage processing of these inputs. With international trade restrictions reinforcing the position of this group, small producers have been left at the mercy of marketing boards like the Grain Marketing Board, of monopolistic government suppliers like ZISCO, and of oligopolistic private producers that in turn are supplied by the marketing boards (for example, in garments and leather). With access to inputs heavily dependent on the actions of government entities and private sector oligopolies, it is not surprising that product markets supplied by small indigenous producers have remained fragile. For these markets to become more robust, the government will need to open up the economy to increased competition from both inside and outside the country, abolishing restrictions on internal trade that protect the market position of the marketing boards and the large private enterprises to which the small producers sell.

For small producers to be able to participate in a dynamic and efficient linkage program, many will need to modernize their plant and equipment, to be able to produce goods of the requisite quality and price. For this, they need access to credit as well as to foreign exchange. The existing allocation system for both of these often leaves small enterprises at the end of the queue. Furthermore, the current system whereby a government official must decide on a case-by-case basis whether the purchase of a particular machine is justified for a particular firm is arbitrary and subject to abuse. Import duties on machinery as well as on raw materials, coming on top of major devaluations of the currency, have added to the price increases for these inputs. When combined with the credit squeeze that has made credit unavailable for many and very expensive for those few who are fortunate enough to qualify for it, the result has been that many previously approved investment projects have been shelved.

For suppliers to be able to serve as reliable partners in a linkage program, they must also have access to an adequate supply of skilled workers. To ensure such a supply, the government's system of technical education needs to be strengthened and tied more closely to the needs of the business community. Existing technical institutes provide a good starting point here, but need to be reinforced and more carefully targeted in the training they offer. Business associations can play a significant role in this process, along the lines of the leather training center in Bulawayo; small enterprises should be encouraged to take greater advantage of such facilities. There is also an important role for foreign experts in on-the-job training and market development. Cumbersome approval procedures for work permits have resulted in lost business opportunities and have hindered the implementation of longer-term training programs necessary for the penetration of sophisticated and demanding export markets. Relaxation of existing restrictions on piecework pay could open up new markets for products relying on such arrangements, thereby leading to an expansion of employment.

A final problematic aspect of government policy concerns taxes. The current tax structure, reflecting the ideology of an earlier era, is in urgent need of reform. Tax brackets have not been

adequately adjusted to keep pace with inflation, so effective tax rates have increased sharply. Such high rates discourage small firms from registering and operating in full conformity with government regulations, a necessary process if they are to enter into the mainstream of the economy. Lower tax rates with a wider base would collect more money while avoiding many of the distortions and deterrents associated with tax avoidance under the current system.

IMPLICATIONS FOR PROJECT-LEVEL INTERVENTIONS

Three types of activities emerge from these discussions as appropriate functions for a project aimed at the promotion of business linkages. The first would focus on matchmaker functions centering around the identification of potential linkage opportunities. The approach here would involve developing an understanding of the things that larger enterprises might be interested in buying, and the things that small enterprises would be capable of supplying; on the basis of such information, the project could bring potential buyers into contact with potential suppliers. Associated with this might be a public relations activity aimed at informing the business community of successful examples of linkage-based employment growth. Such examples do exist in Zimbabwe today; publicizing these success stories may overcome some of the skepticism often expressed about the validity of the approach.

A second function would involve strengthening the capacity of suppliers to be reliable partners in a linkage arrangement. This might involve any of several aspects of enterprise development, including improvements in quality control, inventory management, and access to information about alternative technologies. An overriding goal here should be to instill a recognition of the importance of proving oneself to be a reliable partner.

It is important to emphasize that a new project aimed at the promotion of linkages need not itself offer all types of assistance to small suppliers. There are many groups in the country already providing such support. An important goal of a new project should be to direct small producers to existing agencies and organizations able to offer assistance in credit or management training, while at the same time helping these existing assistance programs to direct their offerings to beneficiaries best able to make use of what they have to offer. By avoiding duplication and increasing the effectiveness of existing programs, it is possible to use new resources in a highly cost-effective way.

A third function that could be performed by a new project would involve the resolution of disputes. The principal reservation that many observers and participants express about business linkages concerns the nature of the bargains that are struck, in situations often characterized by highly unequal market power. If there are gains to be derived from business linkage arrangements, these gains need to be shared between the participants in a fashion that is viewed as equitable by all participants. By monitoring the agreements and, where invited to do so, mediating disputes, an intermediary institution could help overcome some of the reluctance to participate by people on both sides of the market. It would be important to avoid creating a new, mandatory layer of approval through yet another bureaucracy, so participation would need to be strictly voluntary; but the existence of a low-cost and speedy means of resolving disputes could help overcome one source of reluctance on the part of some to participate.

An important dimension here concerns the question of pricing for services rendered. Many small suppliers have only limited skills in costing their products or services. In a situation of market contraction, they may be tempted to offer to do work on terms that are unrealistically low, and that in reality they are not able to fulfill. This is in no one's interest. Helping them make more realistic

estimates of the terms on which they are able to complete their contracts can make the system itself more viable.

SECTION SIX

CONCLUSIONS

Zimbabwe today has a remarkably complex and sophisticated economy. The share of manufacturing in Gross Domestic Product is more than twice the average for Sub-Saharan Africa, while energy consumption per capita is approximately four times the average for the rest of the continent. The country has a well-developed physical infrastructure, and substantial numbers of educated people. Yet a major share of economic activity has remained in the hands of a limited number of large companies. A central focus of government policy over the past 25 years has been to encourage and sustain this segment of the economy. Although the agricultural and mining sectors have been heavily engaged in exporting, much of the growth of the industrial sector has been inward in its orientation, focusing on selling in controlled and protected domestic markets. Zimbabwe has frequently been characterized as a shortage economy, in which enterprises found it relatively easy to sell all they could produce, with only limited concern for quality, price, or other aspects of product marketing. Shortages have also meant that large enterprises have had an incentive to do large numbers of things in-house, to avoid having to rely on external suppliers (other than those under the same ownership umbrella).

Small enterprises, and particularly small black-owned businesses, have lived in a different world. They have participated to only a limited extent in the major growth dynamic just described; yet they have been strongly influenced by it. If the central thrust of policy has been to support the growth of large producers in a controlled and inward-focused environment, small enterprises have found themselves at the end of the queue in their access to domestic raw materials, to imported inputs of intermediate products and capital goods, to credit, and to government services. Dualism is a characteristic of all developing countries, but its representation in Zimbabwe has been particularly stark, because the modern sector has been so impressively large and well supported by government policy while the traditional sector has had so few positive links with this dynamic segment of the economy. The research reported on here makes clear that some linkages are currently at work joining large white-owned with small black-owned businesses. In large measure, though, these are the exception rather than the rule; commercial dealings between these two segments of the economy are limited.

The underlying features of the economy are now changing. Drought has sharply reduced the level of demand in the country, so easy sales in a protected domestic market are largely a thing of the past. The drought has also affected raw material supplies, limiting the availability of cotton lint, for example, while expanding the supply of hides (though for a temporary period, and of low quality). At the same time, policy changes associated with the Economic Reform Program have changed the rules for foreign trading, sharply increasing the price of tradeable goods (adding in turn to the inflationary pressures arising from the drought) while bringing a selective expansion of access to imported goods. The credit market is also under heavy stress, with a major share of the available funds being required by the public sector, with the result that lending to the private sector is limited in quantity and high in price. In sum, the combination of the drought and the policy changes associated with structural adjustment are altering in a dramatic way both the opportunities and the incentives for all domestic producers, large as well as small.

An important dimension of this changing economic environment concerns the competitive pressures in the market that could lead some businesses to be more open to an increased reliance on commercial dealings between large buyers and smaller suppliers. The analysis of the paper suggests that there are things that can be done to encourage the expansion of such business linkages, thereby enabling

efficient small enterprises to participate in the most dynamic segments of the economy. For this to happen, changes are needed in the behavior of the businesses themselves as well as in government policy. These changes could fruitfully be supported by the activities of a new business linkage project. With movement on all of these fronts, there are good prospects for growth that can raise income levels while drawing small, indigenous producers into the mainstream of the economy. This is a highly desirable goal.

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