Business Linkages in Zimbabwe: Concept, Practice, and Strategies

by

John P. Gierson
SKAT
St. Gallen, Switzerland

and

Donald C. Mead
Michigan State University
East Lansing, Michigan

May 1995

This work was supported by the U.S. Agency for International Development, Bureau for Private Enterprise, Office of Small, Micro, and Informal Enterprise, through core funding to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-C-00-9080-00.
ACKNOWLEDGMENTS

The research leading to this report was commissioned by the Ministry of Industry and Commerce of the Republic of Zimbabwe, with funding provided by the Norwegian Agency for Development Cooperation (NORAD), under NORAD’s ZIB 028 SME Enterprise Development Project. Don Mead’s participation built on earlier studies he undertook of business linkages in Zimbabwe financed by the U.S. Agency for International Development through a buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contact no. DHR-5448-Q-43-9081-00. The support of both USAID and NORAD is gratefully acknowledged.
## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>v</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>THE CHANGING ECONOMIC ENVIRONMENT FOR BUSINESS LINKAGES IN ZIMBABWE</td>
<td>2</td>
</tr>
<tr>
<td>ALTERNATIVE LINKAGE ARRANGEMENTS</td>
<td>3</td>
</tr>
<tr>
<td>Subcontracting</td>
<td>3</td>
</tr>
<tr>
<td>Franchising</td>
<td>3</td>
</tr>
<tr>
<td>Unbundling</td>
<td>4</td>
</tr>
<tr>
<td>Brokerage</td>
<td>4</td>
</tr>
<tr>
<td>Sales to Government</td>
<td>5</td>
</tr>
<tr>
<td>THE BUILDING BLOCKS OF BUSINESS LINKAGES</td>
<td>5</td>
</tr>
<tr>
<td>Market Information</td>
<td>6</td>
</tr>
<tr>
<td>Capacity</td>
<td>7</td>
</tr>
<tr>
<td>Capital</td>
<td>8</td>
</tr>
<tr>
<td>ASPECTS OF PROJECT DESIGN: WHAT HAVE WE LEARNED?</td>
<td>8</td>
</tr>
<tr>
<td>Needs Assessment</td>
<td>9</td>
</tr>
<tr>
<td>Units of Assistance</td>
<td>9</td>
</tr>
<tr>
<td>Mode of Provision of Assistance</td>
<td>9</td>
</tr>
<tr>
<td>PROJECT OPPORTUNITIES</td>
<td>9</td>
</tr>
<tr>
<td>Strategy 1: A BESA/CZI Subcontracting Exchange</td>
<td>9</td>
</tr>
<tr>
<td>Strategy 2: Franchising Association of Zimbabwe</td>
<td>10</td>
</tr>
<tr>
<td>Strategy 3: Affirmative Action to Expand Sales to Government by Indigenous Businesses</td>
<td>11</td>
</tr>
<tr>
<td>CONCLUSIONS</td>
<td>12</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Business linkages are ongoing, profit-oriented relationships between buyers and suppliers. They provide important opportunities for micro and small enterprises to grow by participating in dynamic segments of the economy. Such arrangements are a widespread characteristic of successful market economies. Increasingly, business people in Zimbabwe are finding such linkages to be an efficient way of doing business as the economy moves away from its historic, vertically integrated, dualistic, and inward-looking structure. Business linkages are becoming more prevalent as restrictions and protection are removed and as increasing numbers of people develop the competence to perform as reliable partners in linkage relationships.

Linkage projects should focus on reinforcing rather than substituting for natural market forces. Linkage projects can help make information more widely available; they can also help strengthen the capacity of suppliers to perform as reliable partners. In healthy, market-based linkages, the buyer often performs an important role in mentoring the supplier. Linkage projects should encourage such mentoring relationships. Because linkage relationships can facilitate the efficient use of capital, linkage projects can be an effective complement to credit programs.

Three ideas for projects are presented in this report:

- **Support for a joint Subcontracting Exchange.** A subcontracting exchange is a central point for collecting and matching buyer-supplier opportunities for large and small enterprises. The objective of the exchange is to facilitate the formation of active and ongoing business linkages. The implementing agencies proposed for Zimbabwe are the Business Extension and Advisory Service and the Confederation of Zimbabwe Industries.

- **Support for the embryonic Franchise Association of Zimbabwe (FAZ).** The objectives are to enable the FAZ to disseminate the franchise concept in Zimbabwe, to work with franchisors and franchisees to ensure that their relationship is well founded, and to represent franchisor and franchisee interests in direct negotiations and in policy-making forums. The implementing agency proposed is the FAZ, assisted by the Zimbabwe National Chamber of Commerce.

- **Support for Affirmative Action.** The objective is to make it easier for indigenous businesses to sell to the government. The project will work with government agencies responsible for purchasing and tendering procedures to assist them in adopting practices that will enable indigenous businesses to increase their sales in this major market. It is recommended that the lead agencies include a key Government of Zimbabwe agency with considerable public sector purchasing policy influence and a business membership organization representing the indigenous business sector. At the start, it is recommended that the affirmative action endeavor focus on a particular sector of the economy, building on initiatives already under way in the construction sector.
INTRODUCTION

Business linkages are defined as commercial dealings between separate, profit-oriented enterprises. Successful market economies are characterized by an extensive array of such relationships among businesses of all types and sizes. Business linkages are win-win situations for the enterprises involved as well as for the economy and society. They can help micro and small enterprises thrive and grow in ways that lead to specialization, diversification, economic efficiency, and widespread dispersion of benefits. Because the government is a major buyer of goods and services in Zimbabwe, linkages with government can also play an important developmental role.

The Norwegian government is committed to supporting Zimbabwe’s efforts to restructure the economy using approaches that help redress historic social and economic imbalances. In 1993, the Norwegian Agency for Development Cooperation (NORAD) commissioned a series of studies of small and medium-sized enterprises (SME). The principal recommendations of these studies, which are central to the SME program of the Ministry of Industry and Commerce’s (MoIC), are to:

- Strengthen business linkages;
- Develop "enterprise institutions" — institutions that represent the interests of indigenous enterprises;
- Develop growth points;¹ and
- Ensure a support element that includes institutional development to enhance the enterprise promotion capacity of the MoIC and also its capacity to undertake SME sector research.

The focus of this report, which is part of NORAD’s series of studies, is on project activities that encourage business linkages. In January 1995, the MoIC and NORAD hosted a business linkages project design workshop in Harare. Participants included representatives of the anticipated implementing institutions, MoIC officials, representatives of leading enterprise institutions, and local and international enterprise development experts. The strategies presented in this report were developed during this project design workshop. In a broader context, they might be seen as examples of specific opportunities that arise for projects to promote the growth of small enterprises through market-based linkages.

Several underlying themes have guided the preparation of these strategies:

- The principal focus of business linkage projects should be economic.

¹ "Growth points" are places in rural Zimbabwe designated as areas that will get special benefits.
The principal measure of success should be the degree to which project activities assist in the formation of active, viable business linkage relationships.

An important characteristic of most business linkages is buyer-mentoring, whereby the buyer provides support to ensure that the supplier has the capacity to meet business linkage commitments. Buyer-mentoring is an efficient, effective, and sustainable system of support for small enterprises. Buyer-mentoring should be encouraged.

A principal constraint to developing business linkage projects is the shortage of competent institutions to implement them. Projects should address this problem by assisting in the development of local enterprise institutions, making every effort to avoid the use of temporary project management units or external implementing agencies.

Projects should, wherever possible, build on local initiatives, particularly those that emanate from these local enterprise institutions.

The project strategies put forward below have been designed paying particular attention to these themes.

THE CHANGING ECONOMIC ENVIRONMENT FOR BUSINESS LINKAGES IN ZIMBABWE

The business sector in Zimbabwe has been strongly influenced by its recent history. From the 1960s until recently, strong market incentives existed for vertical integration in a controlled economy characterized by shortages of products, services, and inputs to the production process. The shortage situation meant that, within a wide range, enterprises could sell whatever they could produce, with only limited attention to marketing. The costs of inefficiency could readily be passed on to the consumer.

As an outgrowth of this historic pattern, the economy has been and still is highly dualistic; a small number of large firms, frequently grouped into conglomerates, operate alongside a large number of small, indigenous enterprises, with very little interaction between them. Until recently, there has been little encouragement for African entrepreneurs. In the unsympathetic and even hostile atmosphere that existed, the level of entrepreneurial skills and business knowledge among indigenous business people has been limited. Correspondingly, the enterprise institutions needed to service and represent indigenous enterprises are also underdeveloped.

Since the early 1990s, many of these features of the economy are changing. Liberalization of access to foreign exchange, to credit, and to domestic raw materials, combined with the elimination of some of the most onerous regulations, has reduced the degree of protection provided by the previous policy environment. These changes have introduced new
market pressures on existing businesses — pressures that compel them through the forces of domestic and international competition to seek new ways of doing business to reduce costs.

These changes have also opened up important new opportunities for indigenous businesses. Among the most important of these are opportunities that arise in the form of business linkages. These linkage relationships enable smaller enterprises run by indigenous entrepreneurs to participate in the dynamic segments of a growing market economy.

Zimbabwe is moving toward an industrial structure resembling that of many successful market economies, characterized by increased specialization within separate enterprises linked together through the market. In the more economically advanced countries, these market-based linkages frequently involve long-term commercial relationships between buyers and sellers, often with the buyer playing a significant role in mentoring the sellers to help them perform effectively as linkage partners. Linkage projects can work best if they help foster that natural market evolution.

ALTERNATIVE LINKAGE ARRANGEMENTS

There are many types of linkage relationships, some of which can enable indigenous businesses to take advantage of new market opportunities. Those types that appear to have the most immediate potential in Zimbabwe are discussed below.

Subcontracting

Perhaps the most familiar type of business-to-business linkage relationship, subcontracting, involves a buyer making a contract with a supplier to provide a product or service. Examples include:

- The manufacture of parts, such as gears, bearings, and electronic components, to be incorporated into a product sold by the enterprise placing the order;

- Contracting with a separate enterprise to perform a service that is part of the production process, such as stitching a garment; or

- Hiring an enterprise to perform a service that is peripheral to the production process, such as caring for the grounds, food catering, or security guard services.

Franchising

An arrangement whereby a franchisor allows a product or service to be produced by a franchisee according to specifications set by the franchisor. The product or service is then sold by the franchisee directly to final consumers. Many of the basic characteristics of franchising
make it an appealing development mechanism as well as an effective approach to business creation (see Box 1).

**BOX 1. The Appeal of Franchising**

Three features of franchising stand out as particularly significant:

**A proven business idea**: franchises are a means of spreading a business idea that has been tried and tested to new locations or to new entrepreneurs.

**Permanent mentoring**: one of the strengths of franchising is that the franchisor provides initial training as well as ongoing assistance to ensure that the franchisee follows procedures established in the franchise agreement. Because the earnings of the franchisor are based in part on the sales of the franchisee, it is in the franchisor's interest to ensure that the franchisee succeeds.

**Efficient use of capital**: though franchisees are generally required to make a significant financial contribution from their own funds, having a franchise can reduce the need for start-up capital and reduce the start-up time, thereby reducing the need for working capital. Furthermore, franchisees are more acceptable candidates for credit from financial institutions, thereby improving access to credit for SMEs.

**Unbundling**

This is a process whereby an enterprise stops producing something in-house, replacing this with a product or service bought from another enterprise. Very often, particularly in the early stages of economic restructuring, the new supplier enterprise is created from a unit of, or with the assistance of, the enterprise that originally produced components or services in-house. In the present circumstances in Zimbabwe, unbundling is likely to lead to a subcontracting linkage involving the parent enterprise and the unbundled unit reconstituted as an independent enterprise.

**Brokering**

In this arrangement, an individual or enterprise acts as an intermediary, joining together different participants in the production and distribution process without performing any of these production or distribution functions directly. The broker might identify a product and a market, specify (and perhaps purchase) the required inputs, arrange for the different steps in the production process, and arrange the transportation and marketing of the product to the final buyer. Brokers earn their fees by improving the efficiency of the production and distribution system.
Sales to Government

Although the focus of linkages in this report is on business-to-business transactions, it must be recognized that the largest single buyer in Zimbabwe is probably the government. Though not strictly a business linkage, many related types of opportunities arise for indigenous businesses to sell to government.

THE BUILDING BLOCKS OF BUSINESS LINKAGES

Four major elements are involved in business linkages: opportunities, information, capacity, and capital. First, *economic opportunities* must be generated for an expanding array of large and small enterprises. The worldwide economic pressures and domestic policies shaping the Zimbabwean economy are generating a profusion of opportunities. Every sector of the economy is being compelled to seek out efficient business solutions.

The second aspect of successful economic linkages is *information*. The potential partners in business linkage relationships must know about market opportunities. Sellers must be able to identify and assess the requirements of the buyers, while buyers must evaluate the capabilities of the sellers. Accurate and timely information about markets and capacities is crucial if a diverse set of economic actors are to work together to grasp and benefit from emerging economic opportunities.

Information about opportunity must be supported by *capacity*. All businesses that are party to a business linkage relationship must have the capacity to fulfill their obligations and meet client expectations in quantity, quality, timeliness, and price.

Finally, *capital* is needed to enable businesses to take advantage of available opportunities. Relationships based on business linkages involve commercial arrangements that make efficient use of capital; they often significantly reduce the capital requirement of each linkage partner and facilitate access to credit from the formal financial system.

In successful market economies, the information, capacity, and capital needed to form successful linkages are, for the most part, generated by the market itself. The Zimbabwean economy is changing at an ever-increasing pace into a market-led economy. One of the many positive outcomes of this restructuring is the emergence of opportunities for business linkages. Many large businesses are beginning to take advantage of the early and obvious opportunities (see Box 2).

Because the market in Zimbabwe is at an early stage of development and because for many the playing field is still far from level, there is need for interventions that can speed the processes of business linkage formation that the economy has not yet initiated naturally. The following sections examine aspects of information, capacity, and capital to determine how project interventions can stimulate the linkage formation process.
Market Information

There are many information sources in developed market economies. Examples range from the well known, such as trade fairs and trade journals, to the easily overlooked, such as classified advertisements in newspapers or notices on community bulletin boards. In a few cases, such as the unbundling by profitable enterprises of economically viable units, market information is nearly perfect. In most cases, however, the market information needed is external to the enterprise and the cost of the information search is met by one or more of the linkage partners. The most common linkage information model is one where a third party commercializes market information as a discreet economic activity, but does not participate in the linkage that results. The third party broker can be an agent, a consultant, a trade journal publisher, or a variety of other types of intermediaries.

In developed market economies, market information is disseminated with reasonable efficiency and with little outside assistance. Developing information mechanisms and the enterprise culture that drives them is, however, a lengthy and complicated process. In emerging market economies, the
efforts of buyers and sellers to make contact are supported only weakly by embryonic market information mechanisms; many opportunities are lost. In such circumstances, information dissemination projects can play an important role.

Capacity

All parties to a business linkage contract must have the capacity to meet their obligations. When capacity is deficient, there is a need either to build capacity with external assistance or to adopt linkage approaches that provide capacity-building assistance as part of the business relationship. In developed market economies, capacity-building assistance is often commercialized; resources and skills that are lacking in supplier enterprises are purchased from others (for example, accounting or management consulting firms, equipment leasing firms, and so on). In other cases, the capacity-building comes in the form of advice and assistance provided by the enterprise placing the order (buyer-mentoring) to help ensure that the product or service supplied meets the buyer's requirements.

Efforts to ensure reliable supplies of required inputs can be dealt with in any of four different ways:

- Vertical integration: in-house production;
- Sink or swim: specifications are given, but no help is provided;
- Third party mentoring: a separate business or institution helps the supplier build the capacity to meet the requirements of the buyer. This third-party mentoring can be based on in-house capacity, where the mentoring institution has the resources on its own staff to provide capacity-building assistance directly; alternatively, the mentoring agency might rely on networking procedures, referring the supplier to other agencies for any required assistance to upgrade their capacity; and
- Buyer Mentoring: the buyer specifies requirements and helps the supplier meet these requirements, providing combinations of credit, equipment, and advice.

Buyer mentoring is a common characteristic of the unbundling, subcontracting, and franchising forms of business linkage. In Japan, where subcontracting is most extensive and efficient, and in the United States, where franchising is most developed and widespread, capacity-building mentoring by the buyer or franchisor is a crucial component of successful business linkages. Mentoring is a particularly strong characteristic and benefit of franchising. Whether the franchise is a well-known, highly sophisticated one such as McDonald's or Snap-on Tools, or a small, local micro-franchise such as a tutorial business or a beauty salon, the benefits of the inherent mentoring relationship, in terms of supplier capacity building, can be considerable.
Capital

Businesses need capital to perform effectively in linkage relationships. Nonetheless, capital should be viewed as a means to an end, not as an end in itself. From the point of view of a business, the role of capital is to provide the capacity to carry out business operations for profit. Businesses can and should seek ways to minimize their capital requirement while using the least costly means of meeting this minimum requirement. Business linkages are an accepted and widely applied mechanism for reducing and meeting capital requirements, and for doing so efficiently.

A common and curious aspect of enterprise development thinking is the somewhat schizophrenic view that credit is a good thing while debt is a bad thing. Credit is debt. Successful businesses recognize this, and spend as much time reducing their need to take on debt as they do seeking access to credit. Successful enterprise promotion agencies recognize this by helping businesses minimize their credit needs. Business linkages provide help in the credit area by reducing overall capital requirements for SMEs, by helping participants use available capital efficiently, and by enhancing access of participants to available credit sources.

ASPECTS OF PROJECT DESIGN: WHAT HAVE WE LEARNED?

Emerging market economies have a great need for market information, capacity-building assistance, and capital, but they also have poorly developed mechanisms for supplying these needs. Zimbabwe has better mechanisms than most, but because of Zimbabwe’s lingering dualistic economic structure, the existing mechanisms do not reach all priority economic sectors, and the inherent efficiency of natural market mechanisms is not being effectively utilized. As yet, few industries have the strategic vision to see the benefits that accrue from building capacity in their linkage partners. And fewer yet have developed the systems and capacities to undertake this task. Programs to help develop these natural market processes or to provide external assistance to support this process are also missing. Those that do exist are all too often characterized by weak needs identification mechanisms, severe limits on staff and budgets, and inadequate network linkages with other sources of capacity-building assistance.

Worldwide, project and institution-based capacity-building initiatives have often shown themselves to be characterized by high unit costs and modest impact. Typically, they attempt to provide multiple, low-level, generalized services, when real business problems tend to require specific, medium- to high-level, specialized assistance. Services are often based on a limited number of long-term relationships, when quick, brief, problem-solving assistance is what most businesspeople want and need. The cumulative effect is that assistance programs attempt to do too much for too few at too high a cost, and in the end do so neither efficiently nor effectively. There are three broad lessons learned from international experiences that have important design implications:
Needs Assessment

Accurate needs assessment is essential to ensure that assistance is focused on real business bottlenecks. The simplest measure of effective needs assessment is the level of demand for the services offered.

Units of Assistance

Assistance should be provided quickly, in the smallest unit needed, for the briefest possible period.

Mode of Provision of Assistance

Assistance need not be provided directly; it can be provided by an assisting agency, through network relationships and referral systems, by an economically motivated mentor, or by another business as a normal commercial service.

Project assistance should seek impact and efficiency through network linkages and referral systems, while encouraging the growth of natural market processes by stimulating the evolution of buyer-mentor and franchisor-mentor capacity-building models and the commercialization of linkage systems. Project-based capacity-building assistance should intervene only where the market is not providing effective services. In all cases, the design of assistance efforts should stress accurate needs assessment, followed by efficient and effective delivery of the minimum assistance needed to remove linkage-restricting bottlenecks.

PROJECT OPPORTUNITIES

Based on these general principles, three linkage project strategies can be advanced as examples of interventions appropriate for Zimbabwe today: a jointly managed subcontracting exchange, support for the embryonic Franchise Association of Zimbabwe (FAZ), and initiatives to facilitate affirmative action based on improving access of indigenous suppliers to the government as a buyer.

Strategy 1: A BESA/CZI Subcontracting Exchange

1. **Objective.** A subcontracting exchange is a central point for collecting and matching buyer-seller opportunities between large and small enterprises. The objective of the subcontracting exchange is to facilitate the formation of active commercial business linkages between enterprises.
2. **Approaches.** Subcontracting, as a development mechanism, has a number of strengths and weaknesses. The primary strength is that subcontracting enhances economic efficiency while creating opportunities for the expansion of SMEs, thus spreading the benefits of economic development. The main weakness is the inherent power imbalance, which can disadvantage small enterprises in subcontracting negotiations. The approach recommended here, selected in part to ameliorate the effects of the inherent power imbalance, is to strengthen the SMEs' negotiating position by using a suitable SME representative institution as one of two managing partners in the subcontracting exchange. The other managing partner should be a representative institution of the large industry sector. The institutions proposed for these roles are the Business Extension and Advisory Service (BESA) program of the Indigenous Business Development Centre (IBDC), and Small Industries Development Department of the Confederation of Zimbabwe Industries (CZI), representing, respectively, SMEs and large industrial interests.

The implementing partners will jointly establish an integrated database that will be the principal mechanism for searching and matching linkage opportunities. When necessary, additional assistance will be provided to negotiate the requirements and specifications of particular linkages. BESA's existing capability to provide or source capacity-building assistance will be drawn upon to help ensure that participating SMEs are reliable linkage partners. The information exchange will be supplemented by linkage workshops for active and prospective linkage partners. Workshop participants will be SMEs and large businesses in specific sectors that are actively seeking linkage relationships.

3. **Activities:**
   - Technical assistance in the design and management of a subcontracting exchange;
   - Database development and management;
   - Search and match for linkage opportunities;
   - Subcontracting workshops for small and large enterprise participants;
   - Facilitating and assisting subcontracting negotiations;
   - Capacity-building assistance through BESA for participating SMEs; and
   - Buyer-mentor training workshops by CZI for participating industries.

**Strategy 2: Franchising Association of Zimbabwe**

At present, only a few franchise operations are active in Zimbabwe. There is no association representing franchises, and no organization charged with encouraging the expansion of the franchise mechanism. The Zimbabwe National Chamber of Commerce has taken the lead in redressing this situation through the establishment of an independent association, the Franchise Association of
Zimbabwe. This new organization will represent the interests of both franchisors and franchisees. Once FAZ has been established, it will need external support. The main parameters of support for this endeavor are as follows.

1. **Objective**: to expand the number of franchisors (local and international) operating in Zimbabwe and to encourage the growth of indigenous businesses as franchisees.

2. **Approach**: to build the capacity of FAZ to support the growth of franchising relationships in Zimbabwe, paying particular attention to opportunities for new and existing indigenous enterprises to participate in such relationships.

3. **Activities**: principal activities that the Association will carry out include:
   
   - Workshops, seminars, and meetings, to popularize and publicize the concept of franchising;
   - An Information and Counseling Centre, to advise actual and potential franchisors and franchisees, to help them develop franchise opportunities in new products and services, and to help them understand the benefits as well as the responsibilities and problems that can arise in franchising relationships;
   - Dispute monitoring, or intermediation between franchisors and franchisees, to help the participants avoid the necessity of using the court system;
   - Study tours for the staff of the Association, to enable them to observe and learn from franchising support systems in Southern Africa, Europe, and the United States; and
   - Policy formulation, representing the interests of franchisors and franchisees in policy formulation and business forums.

**Strategy 3. Affirmative Action to Expand Sales to Government by Indigenous Businesses**

The Government of Zimbabwe is a major buyer of goods and services. With current institutional arrangements, it is not easy for indigenous businesses to sell to the government. Although change in this area is complex and multidimensional, important things can be done approaching these questions in a step-by-step manner. The focus would be on two aspects of the problem: changes in contracting procedures of the government, to reduce barriers and make government purchases more accessible to indigenous businesses; and improved information on both sides of the market, so that the government knows more about what is available from local suppliers while indigenous businesses know more about what the government is buying. The outline of a proposed project is as follows.

1. **Objective**: to expand the opportunities for indigenous businesses to sell to the government of Zimbabwe.
2. **Approach:** to adjust government purchasing rules and procedures, so indigenous businesses will be able to increase their sales in this market; and to increase the information about government’s needs as well as the ability of indigenous businesses to supply these needs on a commercial basis.

3. **Activities:** With regard to the simplification of purchasing procedures, activities would involve work with those responsible for government purchases to undertake the following steps:

- Break large tenders into smaller lots more manageable by smaller suppliers;
- Simplify bidding procedures for these smaller lots;
- Reexamine existing rules with a view to giving priority to internal sourcing of products;
- Reexamine procedures with a view to ensuring that payments are made promptly, perhaps even prepaid, to ease the financial strictures on indigenous suppliers; and
- Establish effective control procedures, to ensure that these changes do not compromise the government’s needs in terms of price, quality, and timeliness.

With regard to improved information flows, it is suggested that a sectoral approach be adopted, focusing in the first instance on the construction sector. This means that activities in information exchange should concentrate on indigenous businesses operating in the construction sector and government purchases in this sector.

**CONCLUSIONS**

In Zimbabwe, as in many developing countries, some components of the market show considerable dynamism while other segments of the economy — including many micro and small enterprises — operate in isolated and relatively stagnant markets. Business linkages enable these enterprises to tie into growing and dynamic components of the market. Beyond that, and perhaps even more important, linkage relationships that work well often operate as a mechanism for transferring knowledge from the buyer to the supplier: about what products are in demand, about production technology and management skills, about raw materials and machines required to produce the right products, and about where these can be obtained. In dynamic economies, these relationships are formed as a result of natural market forces, as businesses seek to expand sales and cut costs.

In Zimbabwe, as in many other developing countries, past market structures have provided little incentive for businesses to seek out and nurture efficient linkage relationships. Economic liberalization is rapidly changing that situation; but the proliferation of market-based linkages is slowed by lack of information as well as by skepticism based on a few well-known bad experiences dating from earlier periods. In such a situation, projects can facilitate the expansion of efficient, market-based relationships by strengthening institutions seeking to spread knowledge about linkage
opportunities, and by promoting structures that contribute to increases in the capacity of suppliers to perform as reliable partners.

To be successful — and particularly to combine success with cost-effectiveness — requires that project activities build on and strengthen market forces at work. Successful linkage activities rapidly become self-sustaining. They spread to other participants as this becomes recognized as a low-cost and reliable means of organizing the production and distribution system. To the extent that this is a low-cost way of doing business, the forces of competition put pressure on others to follow suit, thereby spreading the opportunities to other enterprises and sectors.

Success has not been easy to achieve or to demonstrate in this area; it is not easy to find examples of projects that have built on this approach to create cost-effective linkage activities. The strategies discussed here appear to have a good chance of working to expand opportunities for productive employment in micro and small enterprises through the spread of linkage relationships. Although only time will tell whether optimism in this regard proves to be well founded, we believe that this approach has a good chance of providing an important and cost-effective instrument for the arsenal of microenterprise promotion.
GEMINI PUBLICATION SERIES

GEMINI Working Papers:


7. "Options for Updating AskARIES." Larry Reed. GEMINI Working Paper No. 7. October 1990. $3.50


*Publications of general interest


GEMINI Technical Reports:


44. "Get Ahead Foundation Credit Programs in South Africa: The Effects of Loans on Client Enterprises." Jennefer Sebstad. GEMINI Technical Report No. 44. June 1992. $3.00


64. "Credit Unions and Microenterprises: The WOCCU Perspective." World Council of Credit Unions. GEMINI Technical Report No. 64. December 1993. $4.00


Technical Notes:

Financial Assistance to Microenterprise Section:

*1. Series Notebook: Tools for Microenterprise Programs (a three-ring binder, 1 and 1/2 inches in diameter, for organizing technical notes and training materials) and "Methods for Managing Delinquency" by Katherine Stearns. April 1991. $7.50. Also available in Spanish and in French.


*5. "Monetary Incentive Schemes for Staff." Katherine Stearns, ACCION International. April 1993. $3.80. Also available in Spanish and in French.

Nonfinancial Assistance to Microenterprise Section:


Field Research Section:

Special Publications:


Copies of publications available for circulation can be obtained from PACT Publications, 777 United Nations Plaza, Sixth Floor, New York, NY 10017, U.S.A.

5/95