FINAL EVALUATION AND CLOSE-OUT OF USAID/ZIMBABWE PRIVATE SECTOR INVESTMENT PROGRAM

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LIST OF ACRONYMS

AED	Academy for Educational Development
AID	Agency for International Development
BLP	Business Linkage Program
C&L	Coopers & Lybrand
CBT	Competency Based Training
COTR	Contracting Officer's Technical Representative
CSP	Country Strategic Plan
CZI	Confederation of Zimbabwean Industries
DA	Development Associates
DAI	Development Alternatives, Inc
DO	Delivery Order
DZL	Dairibord Zim Ltd.
EBO	Employee Buyout
EI	Entrepreneur International
EO	Employee Ownership
EOAP	Employee Ownership Advisory Panel
EOTF	Employee Ownership Task Force
EPZ	Enterprise Processing Zones
ERC	Executive Review Committee
ESAP	Economic Structural Adjustment Program
ESOP/S	Employee Stock Ownership Plan/Schemes
FAZ	Franchising Association of Zimbabwe
FED	Foundation for Enterprise Development
FRG	Federal Republic of Germany
FIAS	Foreign Investment Advisory Service
FSN	Foreign Services National
GDP	Gross Domestic Product
GOZ	Government of Zimbabwe
HIVOS	(Dutch) Humanist Institute for Cooperation with Developing Countries
HPC	Horticulture Promotion Council
ICC	International Capital Corporation
ICFU	Indigenous Commercial Farmers Union
IESC	International Executive Service Corp
IQC	Indefinite Quantity Contract
IR	Intermediate Result
IRM	Information Resource Management
ISP	Internet Service Provider
KAF	(German) Konrad Adenaver Foundation
MAPS	Manual for Action in the Private Sector
MBI	Management Buyin
MBO	Management Buyout
MCAP	Masvingo Credit against Poverty
MEDA	Mennonite Economic Development Associates

MFI	Micro Finance Institutions
MIC	Ministry of Industry and Commerce
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium-Sized Enterprises
NA	Nathan Associates
NGO	Non-government Organization
OBM	Open Back Management
OI	Opportunity International
PACD	Project Assistance Completion Date
PEDS	Private Enterprise Development Support
PID	Project Identification Document
PIET	Partners in International Education and Development
PIL	Project Implementation Letter
PIO/T	Project Implementation Order/Technical Services
PASB	Private Sector Advisory Board
PWC	PriceWaterhouse Coopers
QRF	Quick Response Fund
RI	Research International
SME	Small and Medium-sized Enterprises
SO	Strategic Objective
SOW	Scope of Work
SSG	Small Scale Growers
TA	Technical Assistance
TDY	Temporary Duty
UZ	University of Zimbabwe
VBAS	Volunteer Business Advisory Services
ZAMFI	Zimbabwe Association of Micro-Finance Institutions
ZBD	Zimbabwe Business Development
ZCTU	Zimbabwe Confederation of Trade Unions
ZED	Zimbabwe Enterprise Development
ZEDC	Zimbabwe Enterprise Development Center
ZEP	Zimbabwe Entrepreneurs Program
ZIC	Zimbabwe Investment Center
ZIMMAN	Zimbabwe Manpower Development
ZNCC	Zimbabwe National Chamber of Commerce

FINAL EVALUATION AND CLOSE-OUT OF THE USAID/ZIMBABWE PRIVATE SECTOR INVESTMENT PROGRAM

EXECUTIVE SUMMARY

A. ESTABLISHMENT OF THE USAID/ZIMBABWE PRIVATE SECTOR INVESTMENT PROGRAM

In 1992, in response to a deteriorating macroeconomic situation, the Government of Zimbabwe (GOZ) adopted a new policy framework that featured deregulation, liberalization, and an open economy. The new framework was to be put in place through an Economic Structural Adjustment Program (ESAP) that was to establish a foundation for increasing private sector investment in the economy.

In order to be supportive, the USAID Mission shifted a sizeable share of its assistance resources to the Mission's Private Sector Investment Program, which had been initiated in1992, and which consisted of two projects: the Zimbabwe Business Development (ZBD) Project and a second Zimbabwe Manpower Development (ZIMMAN II) Project. A third project, the Zimbabwe Enterprise Development (ZED) Project, was added to the portfolio in June1995.

B. PURPOSE OF THE REPORT

In August 2001, the USAID Mission in Zimbabwe contracted with Development Associates to undertake an evaluation of the Program. A three-person team spent 8 weeks in Zimbabwe from mid-August to mid-October 2001 conducting the evaluation. In addition to assessing the impact of USAID investments in private sector development over the past eight years, the team assisted the USAID Mission in preparing the documentation required to close out the Private Sector Investment Program. This included preparing six Activity Completion Reports (ACRs), three Case Studies, and two Project Closeout Reports. Copies of these reports are included in the Annexes Section attached hereto. This report constitutes the Close-out Report for the Private Sector Investment Program

C. MAJOR FINDINGS OF THE EVALUATION

1. The GOZ's Failure to Implement its Economic Structural Adjustment Program (ESAP) Forestalled the Achievement of the Purpose and Objectives of the USAID Mission's Private Sector Investment Program

The Government's failure to implement the ESAP essentially precluded the creation of a more open economy, the purpose for which the Private Sector Investment Program had been established. More importantly, it undermined the country's prospects for achieving accelerated economic growth, thereby effectively forestalling the achievement of the objectives of the Private Sector Investment Program

2. The Development of a Strategic Framework Provided an Alternative Approach to Achieving the Objectives of the Private Sector Investment Program

The development in 1996 of a Strategic Framework for the USAID Program in Zimbabwe led to a situation whereby the achievement of the Mission's Strategic Objective 2 (SO#2), which like the ESAP envisioned the achievement of "broadened ownership in a growing economy," also became the goal of the Private Sector Investment Program.

The Framework itself provided an alternative approach to achieving the objectives for which the Private Sector Investment Program had been established. This was to be accomplished through activities aimed at broadening the ownership of existing businesses, and by creating and expanding micro, small and medium-scale enterprises (MSMEs). These activities, in turn, were targeted on the development of employee stock ownership plans; the creation of business linkages between large and small/medium-scale enterprises; increased MSME access to debt and equity financing; and the development of a sustainable market in MSME training services.

3. A Major Impediment to Broadening Ownership of the Productive Assets of the Economy in Zimbabwe are the Tax and Corporate Laws that Inhibit Transfers in Stock Ownership

One of the underlying objectives of the USAID Mission's Strategic Objective No.2 (SO#2) was to broaden ownership of the productive assets of the economy through the expansion of employee stock ownership schemes. In its analysis leading up to the development of a strategy to accomplish this objective the Mission found that a major impediment to implementing such schemes in Zimbabwe were the tax and corporate laws that inhibited this type of transfer in ownership. Efforts to get tax legislation passed that would permit such transfers progressed slower than had been expected. In fact, passage of the bill never materialized.

4. A Promising Start was Made Under the Private Sector Investment Program in Establishing the Kinds of Institutions that are Essential to Achieving Broadened Ownership in a Growing Economy

One of the main purposes of the ZED Project was to strengthen the capacity of business and trade associations to establish profitable business linkages between large and small businesses through sub-contracting arrangements. Support was directed to the following activities for the purpose of accomplishing this objective:

The Confederation of Zimbabwe Industries (CZI) Business Linkages Program

The objective of the CZI program was to foster small and medium enterprise (SME) growth by encouraging the establishment of sustainable business linkages between large and small industrial firms. The larger firms sub-contracted with smaller firms, to do work that they would otherwise have performed in-house. Companies participating in the program also benefited from the evaluation and monitoring system set up by CZI, which ensures that, once established, linkages facilitate the execution of repeat orders. The program has had particular success in broadening indigenous participation in business development activities.

The Horticultural Promotion Council (HPC) Out-Growers Scheme

The objective of the Horticultural Promotion Council's (HPC) out-growers scheme was to strengthen and expand linkages between small-scale growers and large horticultural exporters. While the HPC out-growers scheme had limited success, it demonstrated that such schemes can be beneficial to exporters as well as small-scale out-growers.

Establishment of the Franchising Association of Zimbabwe (FAZ)

The Franchising Association of Zimbabwe (FAZ) was launched in July 1995 by the Zimbabwe National Chamber of Commerce (ZNCC), in response to the government's call for the establishment of more labor-intensive small and medium-scale enterprises (SMEs), as a way to increase indigenous employment opportunities. While not totally successful, FAZ did demonstrate that there is considerable potential for expanding franchising operations in Zimbabwe. A growing number of local businesses are now operating as franchisees.

Establishment and Operationalization of the Zimbabwe Association of Micro-Finance Institutions (ZAMFI)

The Zimbabwe Association of Micro-Finance Institutions (ZAMFI) was established to provide a lobbying and advocacy platform for the micro-finance industry, it is also working to improve the quality and quantity of services provided by member micro-finance institutions to micro-entrepreneurs. While ZAMFI is not yet operational to the point where it can operate from its own resources, it is a going concern and is in a position to address the various institutional and policy hurdles that are impeding the development of the micro-finance industry in Zimbabwe.

Zambuko Trust's Expansion of its Women's Trust Bank Center

Having received grant support from USAID, Zambuko Trust recently expanded its Women's Trust Bank Centers, which utilize a group approach to target the financial needs of some of the poorest women in society.

Creation of a Database on Finance Available to MSMEs

ICC created and helped to maintain a database of information on finance available to micro, small and medium-scale enterprises (MSMEs) in Zimbabwe. The main purpose of the database is to facilitate MSME access to information on the sources and types of financial services that are available in Zimbabwe;

5. The Sustainability of Program-Funded Activities

Sustainability in the institutional sense implies being able to continue operations from internally generated funds, without undue dependence on outside sources of funds. A recent survey indicated that membership fees alone could not cover the operating costs of ZAMFI. Moreover, ZAMFI has not been able to raise significant amounts of internally generated income. HPC and FAZ have a similar problem and are also currently largely dependent on donor support. Donors will need to continue to provide long-term loans and grants to support the business development activities of these institutions.

D. THE TEAM'S CONCLUSIONS

1. Further progress in promoting private sector investment in Zimbabwe is unlikely until the GOZ decides to implement an ESAP and there is a turn-around in the economic situation.

2. Notwithstanding the efficacy of having used the SO#2 Strategic Framework as an alternative approach to achieving the objectives of the Private Sector Investment Program, GOZ implementation of an ESAP is still critical to increasing private sector investment, a major step towards turning the economy around.

3. An important prerequisite to successful and broad-based employee ownership plans is sustained macro-economic stability. In a volatile economy, such plans remain a risky proposition as evidenced by the sharp decline in employee share values that occurred in Zimbabwe within a short period of time. Fiscal incentives, accelerated privatization, and EO-linked productivity enhancement programs are the main prerequisites for employee ownership, if such programs are to have a significant impact on efforts to broaden the ownership of Zimbabwe's productive assets.

4. The adverse business climate and the lack of fiscal incentives to encourage employee ownership schemes largely constrained their adoption during the period of the ZED Project. Given the current high cost of borrowing funds to finance employee share purchases, many firms and their employees have begun to see tax incentives as a prerequisite to the establishment of ESOPs.

5. Directing further assistance to the CZI sub-contracting program would be a worthwhile undertaking. Any such additional assistance should be directed at promoting both vertical and horizontal business linkages. The track record of the CZI program suggests that there is a far larger market for sub-contracting in Zimbabwe than has yet been tapped.

6. Self-sustainability is not currently a viable option with respect to ZAMFI and FAZ, and HPC. If USAID were to continue to support these activities, sustained subsidies would be needed.

E. PROGRAM FUNDING

Total Life of Project (LOP) funding provided for the three projects that had constituted the Private Sector Investment Program amounted to $US32.5 million. However the total of funds actually spent under the three projects during the eight-year period of implementation before the Program was ended in September 2000 amounted to some US$19.1 million. An additional US$0.6 million had been obligated for program-related activities but had not yet been spent. This lower level of spending reflected an AID/W decision to reduce funding for the ZED Project due to an overall reduction in the availability of Agency funds allotted to Economic Growth projects.

F. PROGRAM ECONOMIC AND NON-ECONOMIC RATES OF RETURN

Given the institution-building nature of many of the activities funded under the Private Sector Investment Program, and the lack of quantitative data concerning the total value of outputs achieved, the Evaluation Team did not attempt to compute quantitative economic rates of return for the overall Program or its component parts. A summary of the non-quantitative accomplishments of the Program is included in the Main Report and serves as an appropriate indicator of the benefits derived from the Program.

G. LESSONS LEARNED

1. The Market-Driven Nature of Private Sector Investment Programs

It was noted at the outset of this Report, that in view of the "open economy" objective of the ESAP, efforts to broaden indigenous participation needed to be achieved through market-driven private sector investment schemes, not through the nationalization of business or other centrally directed business consolidation activities. The SO#2 Strategic Framework itself is based on the premise that the successful implementation of demand-driven activities will ensure the achievement of its objectives. However, virtually all of the activities supported under the Private Sector Investment Program never reached the point where they had become demand-driven and could be sustained from their own sources of revenues, profits or fees. In the case of Zimbabwe, the deteriorating economy was a key factor inhibiting efforts to reach self-sustainability. Nevertheless, it is clear that lengthy gestation periods need to be allowed for developing ESOPs, and for establishing business linkage, micro-finance, and other support institutions in such situations.

2. Carefully Consider the Issue of Limited Local Staff Capabilities Versus the Use of Imported Short-Term Expertise in Light of Reasonably Available Resources

The issue of limited local staff capabilities versus the use of imported short-term expertise came clearly into focus in the implementation of the ZIMMAN II Project. The core talent required for training and consulting work for ZIMMAN II was not available on the local market. Too much time was spent on trying to use local and regional firms and USA volunteers in developing training products. With an adequate team, the prime contractor could have created training products a year earlier and provided significantly more service to local training provider firms and associations. As it was, too much time was spent on trying to use local and regional firms and USA volunteers in developing training products.

3. The Need to Take Account of Local Conditions and to Make Timely Adjustments at the Project Activity Level

The ZIMMAN II Project was able to respond as needed to a changing economic and political environment in Zimbabwe as well as to several changes in the focus of the Mission's development assistance strategy. The flexibility shown at the project level in this case should certainly be utilized in assessing and addressing training requirements and adjustments required thereto in future major USAID training activities. However, such flexibility should not be attained at the cost of clearly defined objectives and measurable outputs as happened in the case of ZIMMAN II.

4. The Need to Ensure that Project Budgets Adequately Provide for Local Conditions Including Inflation, Wages and Benefits, Rents, and Commodities

The failure to build-in Zimbabwe's high inflation rate created serious problems under the ZIMMAN II project in acquiring office staffing, housing, and equipment for project implementing partners. The USAID Mission should participate in the process of project budget fine-tuning to ensure that any selected bidder's budget takes into account the phenomenon of rapid inflation and is, in fact, financially feasible.

5. The Limitations of Using Business Plans to Initiate Program Activities

Under the economic circumstances that prevailed in Zimbabwe during the initial stages of implementation of the ZED Project, the decision to use Business Plans to initiate institution-building activities seems misplaced. The process of developing ZAMFI, for example, should have provided for a more realistic gestation period than the three-year period that was allowed. It takes time to build an advocacy and capacity building institution like ZAMFI. The same applies with respect to the establishment of FAZ and implementation of the HPC out-growers scheme. While the use of Business Plans may have helped to attract donor funding for the development of these institutions, expecting them to become fully operational and profitable within a 2-3 year period is unrealistic.

H. RECOMMENDATIONS FOR IMPROVING PROGRAM DESIGN AND IMPLEMENTATION IN THE FUTURE

1. A Strategic Framework Should be Developed and Used Where Feasible to Guide Program Design and Implementation Activities

The Strategic Framework that was established to guide the implementation of the Private Sector Investment Program provided a coherent framework within which the USAID Mission could implement activities, the outputs and results of which would contribute directly to the achievement of the overall goal of the Program. It also provided a mechanism through which the outputs and results of other projects could be drawn upon to serve as models for the design of activities to be implemented under the ZED Project. It proved useful in implementing the Private Sector Investment Program, and should be employed where feasible to guide program design and implementation activities

2. The Need to Compile Reliable and Timely Quantitative Indicators of Progress and Accomplishment

The records maintained by most of the SMEs that benefited from training programs supported by the ZIMMAN II Project did not provide an adequate basis for quantitatively evaluating the results of ZIMMAN II training activities. For purposes of evaluating the economic and social impact of such activities, increased attention needs to be given to devising methods that will produce meaningful and useful findings regarding the effectiveness of this program and the extent to which they are serving their proposed purposes.

I. INTRODUCTION

A. BACKGROUND AND HISTORY OF THE USAID/ZIMBABWE PRIVATE SECTOR INVESTMENT PROGRAM

The U.S. program of economic assistance to Zimbabwe began with the country's independence in 1980. Through 1992, US$623 million had been committed bilaterally to support the program. During the first half of the 1980s, U.S. assistance was aimed at supporting Zimbabwe's reconstruction and equity policies. During the second half, it was directed to activities designed to help the Government in its efforts to transform the economy through expanded private sector involvement. The USAID commitment to support private sector involvement was further strengthened during the early years of the 1990s, and focused on assisting the Government in its efforts to implement an Economic Structural Adjustment Program (ESAP).

1. USAID Support for Zimbabwe's Economic Structural Adjustment Program (ESAP)

In 1992, in response to a deteriorating macro-economic environment, the Government shifted its economic policy orientation from one that had been based on statist and socialistic policies, to one that featured deregulation, tight budgets, trade liberalization, and monetary reforms. It was anticipated that this new policy framework, which was encompassed by Zimbabwe's Economic Structural Adjustment Program (ESAP), would provide a foundation for increased private sector investment and lead to more rapid economic growth, job creation, expanded foreign exchange earnings, and broader indigenous participation in the economy.

For the new policies to be accepted politically, however, it was essential that the GOZ, private sector, and donor interventions be directed to realizing immediate short-term gains as well as sustained long-term impact. It was not enough for the Structural Adjustment Program to lead to more jobs and increased foreign exchange earnings, it also needed to bring about a wider distribution of productive assets and broader indigenous participation in the economy. Moreover, to be compatible with the goals of the Structural Adjustment Program, efforts to broaden indigenous participation needed to be achieved through market-driven private sector investment schemes, not through the nationalization of business or other centrally directed business consolidation activities.

2. Establishment of the Private Sector Investment Program

In order to be responsive to this dramatic turn-about by the GOZ, the USAID Mission modified the basic orientation of its assistance program. A sizeable share of the assistance being provided was shifted to activities that supported the Government's efforts to create a more open economy through liberalization and the adoption of market-based economic polices. The Mission's Private Sector Investment Program was thereby established in 1992 as a component of the USAID/Zimbabwe Country Program Strategic Plan. Initially, the Program consisted of two private sector-oriented assistance projects: the Zimbabwe Business Development (ZBD) Project, and the Mission's second Zimbabwe Manpower Development Project (ZIMMAN II). A third project, the Zimbabwe Enterprise Development (ZED) Project, was added to the portfolio in 1996.

The three projects played distinctive but complementary roles during implementation of the Private Sector Investment Program. The ZBD Project was used to pilot-test approaches that might help to overcome various constraints to private investment and facilitate the establishment of a policy and regulatory environment that would encourage broader indigenous participation and ownership in the economy. The Project also attempted to find ways to open up indigenous access to debt resources and equity financing and create profitable business linkage arrangements between the country's larger industrial firms and exporters, and locally owned small-scale businesses. The goal of the ZIMMAN II Project was to enhance private sector productivity in Zimbabwe by developing and implementing short-term professional, technical, and managerial training programs. The ZED Project sought to broaden indigenous ownership through growth-enhancing mechanisms, by promoting employee stock ownership schemes, strengthening trade and business associations, and increasing access to capital for micro, and small and medium-scale enterprises. The purpose of the project was to generate increased private sector investments in ways that would lead to broadened ownership of business enterprises.

B. CHANGING ECONOMIC AND POLITICAL CIRCUMSTANCES IN ZIMBABWE AND THE CONSEQUENT NEED FOR RELATED ADJUSTMENTS IN THE USAID COUNTRY PROGRAM ASSISTANCE STRATEGY

As a follow-up to its decision to support the Government's Structural Adjustment Program and to implement the Private Sector Investment Program, the USAID Mission, in May 1993, formulated a new USAID Country Program Strategic Plan (CPSP). The Plan, which was to guide USAID funding allocations over the 5-year period, FY 1994-1998, sought to help bring about economic growth in Zimbabwe that was participatory and equitable, by helping to broaden indigenous participation, ownership and investment throughout the economy.

Three years later, however, in 1996, as part of a worldwide reorganization program and having taken note of the country's own self-sustainable potential for economic development, the USAID Mission in Zimbabwe was identified by USAID/ Washington as one of the USAID Missions that was to be downsized or closed out. This led in April 1997 to the formulation of a revised USAID Country Program Strategic Plan geared to preparing the Mission in Zimbabwe for a closeout in 2003.

Under the new strategy, USAID/Zimbabwe's assistance activities were regrouped under three Strategic Objectives teams. Private sector investment activities fell under the auspices of the Mission's Strategic Objective 2 (SO#2) Private Enterprise Team. As indicated in Annex F, the SO#2 team was responsible for achieving results related to the Mission's objective of achieving broadened ownership in a growing economy.

The application of the new strategy to the Mission's ongoing program portfolio required that a number of activities that dealt with macro-economic issues, such as strengthening the stock exchange, the privatization of parastatals, and monopoly regulation, had to be foreclosed. Funds that had been allocated to these activities were then reallocated to other activities that were having more direct and measurable impact on the transfer of assets to Zimbabwe's poor, such as employee stock ownership schemes, access to capital, business linkage activities, and business training programs.

In late 1998, however, having taken note of the emerging HIV/AIDS crisis in Zimbabwe, the country's tense and worsening political situation, and rapidly deteriorating economy, USAID/Washington directed the Mission to produce a new assistance strategy to help meet these evolving challenges. This led to the development of a crisis mitigation/prevention Country Program Strategic Plan (CPSP) for the period 2000-2005. The new Plan was approved in May 1999. Concurrently, the USAID Administrator reversed an earlier decision to close the USAID/ Zimbabwe assistance program. The premise of the new strategy was to assist Zimbabweans in mitigating the effects of the country's current crises through targeted interventions in areas where USAID had a comparative advantage. The private sector element of the Mission's SO#2, which was aimed at achieving "broadened ownership in a growing economy", was terminated. This brought to a close all activities related to the Private Sector Investment Program.

As shown in Annex G, total Life of Project (LOP) funding provided for the three projects that had constituted the Private Sector Investment Program amounted to $US32.5 million. The total funds actually spent under the three projects during the eight-year period of implementation before the Program was ended in September 2000, amounted to some US$19.1 million. An additional US$0.6 million had been obligated for program-related activities but had not yet been spent. Basically, this lower level of spending reflected an AID/W decision to reduce funding for the ZED Project due to an overall reduction in the availability of Agency funds allotted to Economic Growth projects.

C. THE PURPOSE OF THE EVALUATION

In August 2001, the USAID Mission in Zimbabwe contracted with Development Associates (DA) to undertake an evaluation of the USAID/Zimbabwe Private Sector Investment Program. A three-person team spent 8 weeks in Zimbabwe from mid-August to mid-October 2001, conducting the evaluation. In addition to assessing the impact of USAID investments in private sector development over the eight- year term of the program, the team assisted the USAID Mission in preparing the documentation required to close out the Private Sector Investment Program. This included the preparation of three Case Studies (Annex A), six Activity Completion Reports (ACRs), (Annex B), and two Project Closeout Reports for the ZBD and ZIMMAN II Projects (Annex C). Copies of these reports are included in the Annexes Section attached hereto.

This Final Evaluation Report constitutes the Close-out Report for the USAID/Zimbabwe Private Sector Investment Program and for the ZED Project, inasmuch as the Report is based in large part on the Evaluation Team's assessment of activities funded under the ZED Project. It also incorporates the findings of Team assessments of the ZBD and ZIMMAN II Projects. As noted, reports closing out these two projects are contained in Annex C.

It had been anticipated that, during the evaluation, the Evaluation Team would undertake field visits to assess the implementation experience and on-site impact of various Program-funded activities. This was not feasible because of recurring hostile confrontations in many of the rural areas being impacted. Accordingly, the team relied on documentary research and interviews with program participants and beneficiaries to compile the information needed to assess the design, implementation and impact of these activities.

II. RESULTS OF THE TEAM'S ASSESSMENTS

A. ZIMBABWE BUSINESS DEVELOPMENT (ZBD) PROJECT

1. Project Status and Objectives

At the end of the 1980s, the low rate of investment in Zimbabwe by the private sector, particularly by the foreign private sector, was identified as one of the leading causes of inadequate economic growth in Zimbabwe. The goal of the ZBD Project was to increase private sector investment and thereby promote more rapid economic growth, increased job creation, greater foreign exchange earnings, and broadened indigenous participation in the economy.

The primary purpose of the project was to test the effectiveness of selected interventions in fostering private enterprise growth by facilitating both local and foreign private sector investments. It was expected that these interventions, which were characterized as pilot-testing activities, would by the end of the project have helped guide the establishment of the legal and regulatory regime needed for the GOZ and the country's private sector to operate Export Processing Zones (EPZs). The interventions were also used to identify the approaches best suited to facilitating the establishment of profitable business linkages between large and small business firms, and to decide which of a number of alternative business advisory services models would best serve as practicable, efficient means of providing technical expertise to Zimbabwean clients. About three-fourths of Project funds were allocated to operational-pilot testing activities; the remaining one-fourth were used to underwrite analytical research activities aimed at testing business linkage assumptions, and at finding ways to improve the effectiveness and efficiency of pilot-tested interventions.

In addition, a Quick Response Fund was established under the project to provide funding for initiatives that appeared likely to have a major positive impact on private sector development. For example, the Fund underwrote the cost of the technical assistance needed to develop legislation that would curb restrictive business practices, and contributed funds for the computerization of the Registry of Deeds and Companies.

It was noted in the ZBD Project Paper that the USAID Mission had chosen a pilot approach in implementing the ZBD Project for several reasons. For one, Zimbabwe had just begun to institute the economic reforms needed to open up its economy after nearly a decade of state control. Accordingly, the Mission needed to retain a degree of flexibility in adapting its project portfolio to meet the needs of the adjustment process. Zimbabwe's private sector at the time was not well defined, particularly in the micro, small and medium enterprise (MSME) sub-sector, which made it difficult to target interventions except in terms of general areas of business activity. In fact, creating a basis for targeting interventions was expected to be one of the major outcomes of the pilot-testing process. Finally, the Mission's financial resources were limited relative to the needs of the economy; and taking account of lessons learned through pilot-testing activities enabled the Mission to use its limited resources strategically.

Initially, ZBD Project-funded pilot-testing activities fell within three main categories. The first category encompassed efforts directed at assessing the feasibility of developing an Export Processing Zone in Zimbabwe. The second involved activities aimed at determining ways in which technical assistance might be used effectively in forging business linkages between large and small firms. Among the options considered were sub-contracting arrangements; spinning off operating units of larger firms and setting them up as smaller independent businesses; and utilizing joint purchasing arrangements. The third category involved testing innovative ways in which International Executive Services Corps (IESC) agents might be effectively employed to help broaden indigenous involvement in business development activities.

The analytical research activities funded by the ZBD Project involved underwriting studies primarily related to the development and expansion of Zimbabwe's micro-enterprise sector. These studies included a research activity that was undertaken to evaluate the results of business development interventions to determine whether they might point to new directions for private sector support activities. In addition, a database was developed for use in analyzing the productive sectors of the economy (public and private) to assess their respective contributions to the economy. This activity drew heavily upon the database development experience and expertise gained by AID/W in implementing its GEMINI Project.

The formulation in 1993 of a new USAID Country Program Strategic Plan led to the increased use by the USAID Mission of ongoing activities like the ZBD and ZIMMAN II Projects to channel support to increasing indigenous participation in selected sectors of the economy. ZBD Project activities were accordingly focused on helping to broaden indigenous participation, especially as it related to business development; access to finance and equity markets; investment; and stock ownership activities.

2. Funding Contributions and Inputs

The ZBD Project was authorized in August 1991 at a funding level of $5.54 million. USAID funds were to be obligated incrementally over the planned three-year life of the project. Host country contributions amounted to $1.846 million, including cash and in-kind contributions, bringing total project resources to an estimated $7.386 million. Funds provided under the project for IESC activities for the seven-year period, 1991-1998, totaled some $3.145 million, up from the $1.0 million initially committed through 1994. These additional funds became available due to the discontinuation of EPZ development and the business linkage pilot-testing components of the project. Residual funds from these two activities were shifted to the IESC component. Having received four PACD extensions, the ZBD Project was finally terminated in March 1998.

3. Outputs and Accomplishments

During the first year of the project, USAID/Zimbabwe contracted Ernst & Young to conduct operational testing in the area of business linkage development. This led to efforts to establish business linkage models whereby large firms would spin-off a division or sub-contract with a smaller firm to produce and/or supply an intermediate product or component that would normally have been produced by the large firm itself. The purpose for creating these linkages was to lower the cost of production and improve efficiency while providing business development opportunities for indigenous entrepreneurs.

The owners of SMEs as potential sub-contractors showed considerable interest in the program; however, the larger corporations showed insufficient interest to continue pilot-testing the idea. Their lack of interest, plus the high cost of the program led to its cancellation as a ZBD Project-funded activity. Nevertheless, business linkage models that had been pilot-tested under the ZBD

Project and that were viewed by potential sub-contractors as having considerable potential for broadened indigenous participation in SME business development ventures, provided a basis for their expanded application under the ZED Project when it was authorized in 1996.

In late 1991, the ZBD Quick Response Fund was used to finance Zimbabwe's first Gemini survey of small and medium enterprises. Survey results showed that there were some 800,000 SME businesses employing more than 1.2 million people, in operation at that time. The results were disseminated widely and served as a catalyst in promoting programs aimed at further expansion of the SME sector. The 1991 survey was updated in 1993 and used to assess the impact on SMEs of the drought that had occurred that year, as well as the continuing effects of the Structural Adjustment Program. A second update was undertaken in 1998, to show changes within the SME sector and to gain information on the status and development of micro and small-scale enterprises. The results of the survey continue to be a major source of information on the SME sector in Zimbabwe.

Since its decision to undertake an Economic Structural Adjustment Program in 1991, the GOZ had recognized the need to establish a Monopolies Commission that would work to lower barriers to foreign entry into Zimbabwe's economy and prevent abuses of market power as wage and price controls were lifted. In late 1991, the Government requested assistance from USAID to undertake background analyses and to make recommendations for the next steps to be taken in the implementation of the Monopolies Commission. USAID responded by fielding a consulting team through the AID "Implementing Policy Change" (IPC) project, using resources available under the ZBD Quick Response Fund to finance the venture.

USAID also used the ZBD Quick Response Fund as the source of funds to grant $100,000 to the Foreign Investment Advisory Service (FIAS). The funds enabled the FIAS to undertake analyses and recommend changes to GOZ investment policies to encourage foreign investment in general, and to craft incentives to encourage broadened indigenous participation in equity schemes (whether through ESOPs, joint ventures, or other means). FIAS also worked with the Zimbabwe Investment Center (ZIC) to facilitate implementation of its new investment policies, and with other GOZ agencies to ensure that their policies and procedures were consistent and supportive of the Government's new investment policies.

The ZBD Quick Response Fund was also tapped by USAID to underwrite the cost of two studies undertaken by Price Waterhouse and Coopers & Lybrand on the "Background on Employee Ownership (EO) in Zimbabwe", and "Employee Ownership in Zimbabwe" in 1995. The reports noted a past and present demand for Employee Ownership schemes and uncovered opportunities for future schemes. USAID relied heavily upon these findings to define the specific tasks to be pursued under the ZED Project, wherein the development of ESOPs became a central focus of project activities.

4. Problem Resolution

Based on various factors, including a change in U.S. legislation regarding the provision of assistance for the establishment of EPZs, and the costs incurred in creating a sustainable, replicable business linkages program, USAID Zimbabwe determined that further support of these pilot interventions was no longer feasible under the ZBD Project. Accordingly, all assistance for or related to the implementation of these two components was eliminated and ZBD Project funds earmarked for these purposes were transferred to the IESC component of the Project, or to the Quick Response Fund. Implementation of the ZBD Project had moved slowly until 1993, primarily because of the time it took to "pilot-test" proposed business linkage interventions.

B. THE ZIMBABWE MANPOWER DEVELOPMENT II (ZIMMAN II) PROJECT

1. Project Status and Objectives

The goal of the ZIMMAN II Project was to expand the human resource development infrastructure needed in Zimbabwe to implement programs aimed at promoting equitable and rapid social change and economic development. The project's main purpose was to assist Zimbabwe in addressing its long term labor market requirements by providing training, and training-related consultants and equipment to meet the country's priority manpower development needs in agriculture, engineering, science, technology, administration, management, health and education.

A need for the USAID Mission to take a new approach in providing training assistance to Zimbabwe emerged in 1990, however, as a result of the many changes in labor market requirements caused by the Government's Economic Structural Adjustment Program and by the Mission's shift to a private sector-based assistance strategy. Accordingly, the ZIMMAN II Project was converted in July 1990 from one that had reflected a broad-based USAID approach to training, to one that was focused on accelerating the development of Zimbabwe's private sector.

The overall thrust of the USAID approach was redirected again in January 1994, when it became targeted exclusively on helping to meet private sector human resource development requirements for SME development in six selected sectors. These included grain marketing; construction; family planning and HIV/AIDS; natural resource management; road freight transportation; and telecommunications. A further modification was also undertaken in November 1994, whereby project-funded training activities were redirected towards assisting Government efforts to establish a support industry for SME development.

ZIMMAN II training activities were managed by two contractors. The prime contractor was the Academy for Educational Development (AED), which was responsible for organizing in-country training through grants and sub-contracts. A second contractor, Partners in International Education and Development (PIET), was responsible for designing customized study tours in accordance with requests made by Entrepreneurs International (EI) participants in the U.S. The project was designed to support 79 long-term and approximately 105 short-term training programs. The proportion of women trainees participating in these programs was set to increase to 35 percent under ZIMMAN II, compared to the 20 percent that had participated in similar programs under the ZIMMAN I project.

2. Funding Contributions and Inputs

ZIMMAN II became operational in 1986, and ran concurrently with ZIMMAN I for four years. The original Grant Agreement for ZIMMAN II authorized USAID funding at a level not to exceed US$15,000,000. The Project Assistance Completion Date (PACD) was initially set for

September 1993. In April 1992, however, an implementation order was issued approving a 24-month no-cost extension to September 1995. It was subsequently extended to September 1997.

The Interim Evaluation of the ZIMMAN II Project conducted in April 1995 by AMEX International, noted that the expenditure rate for the project had been slow throughout its nine-year history (as of that date). For the first four years (1986-1990), this was due to a Mission decision to utilize residual funds from ZIMMAN I for the reduced level of training actually realized during those years. When ZIMMAN II underwent a major modification in July 1990, and was transformed from being a traditional USAID training program to becoming a private sector support activity, most training was shifted from U.S. and third-country sites to local sites, and became decidedly less expensive. Up through 1994, a total of US$4,964,000 had been obligated and US$2,730,000 had been spent. As shown in Annex G, the total amount of funds obligated and spent under ZIMMAN II as of October 2001, the Project's final PACD, was $US8,224,945.

3. Outputs and Accomplishments

a. Impact on SME Development

Some 2,042 persons received training under ZIMMAN II between 1993 and 1997 in areas of technical expertise related to SME owner needs. There were eight SME business development programs and nine SME training of trainer courses conducted during the 3-year period, 1994-1997. Of the 112 participants enrolled, 17 percent were women and 83 percent were men. The average cost of the eight business development programs per participant was US$2,415. Of the total 124 participants enrolled in these programs, 29 percent were women and 71 percent were men. Of the total number enrolled, 94 percent completed the course, while 6 percent were dropouts. The total cost of the nine SME training of trainer programs was US$130,118 representing a cost per participant of US$1,122.

b. The Effect of the Changes in Project Design on Project Accomplishments

The several shifts in ZIMMAN II Project objectives, noted earlier, had a pronounced effect on the training results achieved. As a consequence of the first shift in 1990, training courses were conducted without a clear definition of targets or measurable outputs (individuals, courses, days of training, etc.). Assessments of project impact were flexible, leaving the definition of target beneficiaries up to the ZIMMAN II Project Manager (with guidance from USAID/Zimbabwe officers, the Private Sector Advisory Board (PSAB), and AED, the prime contractor). In retrospect, the flexibility allowed left too much to "chance". As a consequence, participant selection criteria and training objectives varied widely during the different phases of project implementation. PSAB participation in the evaluation process was ineffective, inasmuch as the Board no longer had a clear understanding of its operational mandate or procedures in regard to ZIMMAN II activities

Similarly, in January 1994, the shift in the ZIMMAM II Project objectives led to a situation wherein training activities continued to be focused almost exclusively on six sectors that had exhibited low demands for training. In the meanwhile, in sectors where the demand for training and the potential for black empowerment were comparatively high, opportunities for training were limited. This situation had occurred despite the proposed change in policy that had been incorporated in the new CSPS developed in 1993, wherein it had been indicated that ZIMMAN II training activities were henceforth to become focused on SME training and related business development activities. The sustained lack of interest demonstrated by locals in taking advantage of training opportunities was attributed in part to this skewed choice of sectors. A further modification to the program was undertaken in November 1994, whereby project-funded training activities were indeed redirected towards assisting Government efforts to establish a support industry for SME development.

Another goal that was unduly affected by the realignment of ZIMMAN II priorities in 1994 was the proposed increase in the number of trained women professionals. The selection of areas of training under ZIMMAN II largely precluded sectors in which women generally participated in the Zimbabwean economy. This oversight compounded a situation where, in practice, few women were able to take advantage of long-term courses for various sociological, family and cultural reasons. Whereas the amended ZIMMAN II project retained a goal whereby 35 percent of enrolled trainees were to be women, only 13 percent had been enrolled and trained by 1995.

ZIMMAN II was eventually successful, however, in conducting training courses linked to the development of an SME support industry in Zimbabwe. Courses offered included Competency-Based Training of Trainers, Business Audit and 30-Day Solutions, and IESC Volunteer Attachments. ZIMMAN II was also instrumental in the start-up of the Indigenous Commercial Farmers Union (ICFU), providing assistance on organizational structure development; the establishment of a farmers extension and advisory services program; image building, and setting up a levy and licensing system. This resulted in ZIMMAN II providing funding for the Union's First and Second Annual Congresses in 1995 and 1996. ZIMMAN II also succeeded in developing training products that were broadly in demand. The Small Millers Association was formed in late 1994 as a result of the various ZIMMAN II small miller survival courses held in and around Harare.

Following presentations to 400 delegates of the ICFU, the Project received a large number of requests for participation in the Business Success Competence Training programs being held for ICFU members throughout the country.

Other major beneficiaries of ZIMMAN II training programs, included the Zimbabwe National Chamber of Commerce (ZNCC), Women in Business in Zimbabwe, the Zimbabwe Development Bank, the Confederation of Zimbabwean Industries (CZI), the Ministry of Industry and Commerce (MIC0, and the Ministry of Justice (Computerization of the Deeds and Companies Office).

4. Problem Resolution

The change in the objectives of the ZIMMAN II project that occurred in 1990 reflected the new market orientation of the USAID development assistance strategy. The new orientation represented a shift from high cost (U.S.) to low-cost (in-country) training, and caused some delays in project implementation. To facilitate the shift, a demand-driven approach was adopted pursuant to the completion of a "Private Sector Training Needs Assessment" which had been commissioned under the ZIMMAN II Project in 1990.

The need for the shift primarily reflected a vast increase in the number of students leaving school to seek employment (estimated at 300 000 annually); lacuna in technical know-how that was inhibiting investment in existing plant and equipment, accelerated business growth, and a related increase in new job generation. In an effort to address these changes and to accommodate the recent shift in the Government's development strategy towards expanding the role of the private sector, the goal of ZIMMAN II was revised in July 1990 to focus on private sector training needs.

The revised project purpose had significant impact. It helped to improve technical and management capabilities in the private sector; increased institutional support for private sector development; and helped to improve the policy environment and skills in the application of government regulations affecting the private sector. The net result of these adjustments was improvement in the efficiency of public sector services being provided to the private sector and a corresponding increase in private sector contributions to the economy.

C. THE ZIMBABWE ENTERPRISE DEVELOPMENT (ZED) PROJECT

The Zimbabwe Enterprise Development (ZED) Project sought to increase indigenous ownership of the productive assets of the economy through growth-enhancing mechanisms. The project focused on activities related to increasing employee ownership, strengthening trade and business associations, and increasing access to capital for micro, small and medium-sized enterprises. The purpose of the project was to help generate increased private sector investments in ways that would lead to broadened ownership

The source of funding for the ZED Project was the USAID Development Fund for Africa (DFA). US$18.6 million was authorized for the project upon its being approved in June 1995. The funds were to be disbursed over six years. A subsequent reduction in the overall amount of Agency funds allotted to economic growth projects led to a significant drop in the level of funds available for the ZED Project. The total of funds that had actually been obligated under the project as of the end of October 2001 amounted to only US$5.3 million.

The U.S. consulting firm, Coopers & Lybrand (C&L), was contracted by USAID to provide the technical assistance needed to implement the project. Its local partner in this undertaking was the International Capital Corporation (ICC). This assistance was spread over a sixteen-month period, October 1997 to January 1999. When their contract ended in January 1999, project implementation responsibilities were taken over by USAID staff.

1. Employee Ownership Component

a. Activity Status and Objectives

One of the underlying objectives of the USAID Mission's Strategic Objective No.2 (SO#2) was to broaden ownership of the productive assets of the economy through the expansion of employee ownership schemes. In its analysis leading up to the development of a strategy to accomplish this objective the Mission found that a major impediment to implementing such schemes were the tax and corporate laws that inhibited this type of transfer in ownership. Accordingly, a key objective of this component of the ZED Project was to put into place a Regulatory Framework for Employee Stock Ownership Schemes (ESOS) that would overcome this impediment. A related objective was to promote the enactment of tax incentives that would encourage local businesses to adopt Employee Stock Ownership Schemes.

Employee stock ownership schemes had first been explored by the Mission in the ZBD Project in 1995, when initial pilot testing was being done to find ways to broaden indigenous ownership through innovative approaches such as Employee Stock Ownership Programs (ESOPs). Both the ZBD and the ZIMMAN II Projects had adopted a theme of increased indigenous ownership and investment at all levels of the economy. The heavy orientation of the ZED Project in this direction was the consequence of the results of ZBD-funded analysis which had indicated a demand for such schemes, and the inclusion of the SO#2 in the USAID Mission's Strategic Framework which was approved in 1996.

In April 1999, USAID modified its contract with ICC and extended its ZED-related activities to include Open Book Management (OBM) training. The intent was to introduce the concept and provide competency in Open Book Management to individuals in business and business advisory firms. A second objective was to provide employees down to the shop floor level with detailed financial and business statistics on corporate operations. It was expected that such information would give employees some influence over management decisions that would, in turn, have favorable spillover effects on productivity and corporate governance.

b. Funding Contributions and Inputs

The major tasks related to the Employee Ownership Component of the ZED Project were pursued in terms of four sub-activities. These involved developing a package of employee ownership incentives and generating support for their implementation; providing assistance in transacting and setting up employee stock ownership plans (ESOPs); expanding and updating a database on employee ownership; and providing training to foster increased employee ownership.

As a first step, Coopers & Lybrand and ICC developed and targeted a prioritized shortlist of companies that were to be offered transaction assistance in support of their efforts to set up employee ownership schemes. They then provided in-depth assistance to five companies in structuring employee ownership transactions and in implementing them, completing two transactions by the end of the contract period. They also completed a case study of one of the transactions in order to demonstrate to other companies and legislative members weighing the benefits of employee ownership schemes, the processes involved and the benefits of setting up an ESOP. Over 40 companies received transaction assistance; however, only one of these companies successfully implemented such an EO scheme.

The contractors also developed, with the guidance and support of an Employee Ownership Advisory Panel and USAID, and the benefit of a stakeholder workshop, a series of legislative incentives designed to promote Employee Stock Ownership Plans (ESOPs). The fiscal effects for each were measured. Draft legislative documents were created. Efforts in public advocacy with relevant GOZ stakeholders were pursued. The Ministry of Public Service, Labor, and Social Welfare agreed to sponsor the introduction of the legislation to the GOZ Cabinet. Despite these efforts, the Cabinet did not endorse the proposed legislation. As a consequence, the main goal for this component of the ZED Project was not achieved.

c. *Accomplishments*

Of the five parastatals that had received in-depth ESOP strategic/transaction assistance under the ZED Project, three met EO expectations whereas two fell short. Where they fell short, the perception was that management had been more concerned about being seen to encourage broader ownership, than to take steps to enable employees to share in corporate management and profit. This perception was, likewise, reflected in the survey results contained in the EO database report.

Two ESOP transactions were completed during the term of the Delivery Order; however, one had more impact than the other. Dairibord Zimbabwe Ltd. (DZL) enlisted 97 percent of its employees to purchase the 10 percent of stock pre-allocated to employees by the GOZ. Shortly thereafter, sold on the benefits, the employees went back to ask for another 10 percent. According to DLZ's Managing Director, overall corporate effectiveness and morale had unquestionably improved. "Employees began to think on their feet more." Altogether, there is much evidence to suggest that this transaction had achieved its objectives.

Training sessions conducted for the Zimbabwe Confederation of Trade Unions (ZCTU) was by far the most successful intervention, according to ICC, both in terms of indoctrinating employees of parastatals that were facing privatization and in terms of promoting Open Book Management. It is expected that the success of these efforts will facilitate the adoption of employee ownership schemes in the future that are more in line with ZED Project objectives. Training workshops on Open Book Management were conducted by ZCTU throughout Zimbabwe. The participants in these workshops were drawn from professional groups (trainers, accountants, and lawyers), the ZCTU, senior management from companies, and representatives of the donor community. In all, ten organizations were represented.

d. *Problem Resolution*

Efforts to get ESOP tax legislation passed progressed slower than had been expected, particularly at the level of the Senior Secretary of the Ministry of Finance whose support was critical if the bill was to be passed into law. In October 1999, a program of education for Members of Parliament was conducted. Initially, the purpose of the program was to educate the Members on ESOPs, so that they would be familiar with the concept in the legislation when it came to the Parliament, and could then add their support to the measure. However, having noted the slow progress being made through the usual Government channels, the Members offered to promote passage through a private members bill.

They suggested that the best way forward was to put a motion to the House that Members wished the ESOP legislation to go through. It was agreed, and this was done immediately. Parliament reconvened after a Christmas break, on February 15, 2000. ICC felt that a final push over the next two to three months would see the Regulatory Framework in place, and were assured that through passage of the Member's bill, the proposed tax incentives would be incorporated into the 2001 Budget. But, unfortunately, passage of the bill never materialized. While a way to resolve the problem had been identified, it now remains for an opportunity to arise that will permit a second try. The initial effort did, however, generate wide knowledge and support for the concept, and might therefore have "paved the way" for when the circumstances are right.

2. The Business and Trade Association Support Component

The main purpose of the Business and Trade Support Component of the ZED Project was to help develop and implement approaches that would profitably link small and large businesses through sub-contracting arrangements. The three business and trade associations identified below received support from ICC to assist them in establishing such linkages.

a. Support for the Confederation of Zimbabwe Industries (CZI) Sub-contracting Program

(1) Activity Status and Objectives

The CZI Business Linkages Program was originally proposed to USAID by CZI in 1994. The main objective of the Program was to foster small and medium enterprise (SME) growth by encouraging the establishment of new, sustainable business linkages between large and small firms, specifically by encouraging the larger firms to sub-contract work to smaller firms that they ordinarily would have performed in-house. It was expected that this approach would create new, sustainable business opportunities for the smaller firms and expand their access to markets while enabling the larger firms to focus on their core business activities, giving them an opportunity to reduce costs and lower their risks.

A Cooperative Agreement (CA) was entered into between USAID and CZI to implement the activity, which was to involve the establishment of a Zimbabwe Enterprise Development Center (ZEDC); the creation of a membership database; and the development of a national business linkages and referral network. In addition, CZI agreed to conduct a series of seminars, workshops, and other public information activities which would enable it to present to prospective clients on both sides the advantages of the sub-contracting arrangements. CZI also agreed to sponsor at least one seminar/workshop during each six-month period of the Cooperative Agreement to elaborate on how the sub-contracting arrangements would be managed.

(2) Contributions and Funding Inputs

USAID provided financial support for the business linkages program through the Cooperative Agreement with CZI. The first grant provided by USAID under the Cooperative Agreement was for the amount of US$287,060. It was to be disbursed over a two-year period, from November 1995 to November 1997. CZI was given a second grant in 1998, covering the period March 1998 to May 2000. The amount of the second grant was US$138,673. Thus, the total amount provided was US$425,733.

CZI also received technical assistance under the second grant in the form of technical services provided by ICC, a USAID contractor. ICC developed recommendations as to how the sub-contracting program might be organized, marketed and managed. Their services included the design of a financial sustainability strategy; entrepreneurial training for potential SME clients by EMPRETEC; and SME training in customer care, marketing, and the general maintenance of a business by Development Training Associates (DTA). For its part, CZI provided cash and in-kind contributions (e.g. office space) under the Cooperative Agreement. The activity areas for the USAID-assisted business linkages program were the Mashonaland provinces.

(3) Accomplishments

Over the 5 years of USAID support, CZI can point to an encouraging record of achievement. The program established a number of sustainable sub-contracting linkages in the manufacturing, services and transport sectors in Harare and the Mashonaland provinces. Since 1996, the CZI business linkages program has created a total of 669 linkages, worth Z$979 million. A total of 9,323 jobs have been created in the process. In the USAID areas of assistance, a total of 251 linkages, worth Z$765 million, have been created and a total of 3,723 jobs. A recent survey indicated that 94 percent and 54 percent of SME and large firms, respectively, considered the CZI business linkages program to be a worthwhile undertaking.

In sum, the CZI business linkages program has been viewed as a legitimate success in the country's efforts to broaden indigenous participation in business development activities. In addition, it has effectively increased interaction and rapport between large firms and the SMEs and other service providers by sponsoring organized seminars, and by providing clients up-to-date information on sub-contracting transactions that have been brokered by CZI. A number of case studies have shown that firms involved in sub-contracting have experienced cost-savings, improvements in product quality and service, increased revenues, a broadened customer base, firm expansion, and a growing trend towards export market ventures. Companies have also benefited from the evaluation and monitoring system set up by CZI which ensures that, once established, linkages facilitate the execution of repeat orders.

(4) Problem Resolution Assessment

CZI met its commitment, as specified in the first Cooperative Agreement with USAID, to share with USAID in funding the business linkages program; but the program, itself, has failed to attain self-sufficiency. A 1997 evaluation indicated that this was an area where CZI needed assistance. USAID accordingly commissioned the ICC to develop a financial sustainability strategy for the CZI program. However, in the view of CZI management the strategy developed was not suited to the realities of the business linkage process and not practically sustainable given the financial needs of the program. As a result, at the end of USAID funding, the CZI business linkages program was operating without the benefit of a financial sustainability plan.

It has been estimated that had CZI received a one percent (1%) commission on the value of the 669 linkages that it has created over the past five years (worth Z$979 million), it would have earned approximately Z$9.8 million in income. A survey conducted in 1999 indicated that 100 percent of the SME firms surveyed would be willing to pay a two percent (2%) brokerage fee for linkage services, although only 46 percent of the corporate companies surveyed indicated that they would.

Efforts to achieve financial sustainability were made considerably more difficult by the adverse economic conditions that prevailed in the country during the latter part of the 1990s. A record high inflation rate, high interest rates, a serious shortage of foreign exchange, and high budgetary deficits have resulted in a massive loss of investor confidence. Many companies, both large and small, are reeling under these circumstances and there has been a pronounced decline in CZI membership and a subsequent fall in revenues.

Notwithstanding these developments, CZI has managed to continue its linkages program. Instead of establishing the Zimbabwe Enterprise Development Center (ZEDC), as initially proposed, it is using its own facilities to run the program. It has expanded its mandate to include developing horizontal business linkages, between small firms. This initiative has resulted in the formation of a Business Linkages Association in which members pay annual membership fees, although not on a scale sufficient to sustain the program.

Forming business linkages is now an acceptable business option in Zimbabwe, and CZI foresees financial sustainability as an attainable objective. Whether it will be achieved, however, will depend largely on the re-emergence of an enabling macro-economic environment; continued increases in the number of long-term linkages created; wider application of a brokerage fee structure; and the increased utilization of tested, results-based marketing schemes.

b. Support for the Horticultural Promotion Council's (HPC) Out-growers Scheme

(1) Activity status and objectives

The objective of the Horticultural Promotion Council's (HPC) out-growers scheme was to strengthen and expand linkages between small-scale growers and large horticultural exporters. The activity involved working with three exporters that had arranged programs of contract farming with small-scale growers, and was aimed at strengthening and expanding these linkages. The USAID-funded activity, which was to be completed over a period of 30 months, was designed to demonstrate to the rest of the horticultural community in Zimbabwe that contract-farming relationships make good sense. It was also aimed at ensuring that the small-scale growers who were being assisted received an adequate price for their export crops and enjoyed a fair and competitive return to their inputs of land, labor, expertise, and capital.

HPC anticipated that strengthening and expanding small-scale grower and exporter linkages would lead to increased export horticultural production in Zimbabwe, by raising the production levels of small-scale growers already producing for export and by taking account of the number of small-scale growers expected to participate in project-sponsored schemes. In addition, it was expected that a number of other exporters and out-growers were likely to enter into export linkage arrangements because of the demonstration effect of the HPC activity.

The scheme would also serve other purposes. It would directly assist small-scale growers to ensure that they are able to negotiate on a relatively equal basis with the larger exporters, thereby improving the financial returns to the growers. It would increase on-farm employment and stimulate investment in the industry, and increase horticultural exports. An Executive Review Committee (ERC) guided implementation of the activity and set down selection criteria for exporters to participate in the schemes. These were advertised publicly. Five exporters responded to the advertisement of which four were selected. However, only three actually participated in the program.

The Agreement allowed for technical assistance and training to be provided to the exporters, enabling them in turn to provide a mix of training and technical assistance to small-scale growers. It also provided for "field days" to be conducted. These were on-farm demonstrations organized in collaboration with exporters. The objective of the demonstrations was to address constraints faced by small-scale growers in the production of export crops. Fourteen field day events were held during the term of the Cooperative Agreement. A study tour visit to Kenya was also arranged. The purpose of the visit was to study the small-scale horticultural industry in Kenya and to draw lessons that could be applied to the industry in Zimbabwe.

(2) Contributions and Inputs

The total cost of the activity was US$526,616; with USAID contributing US$396,000 through a Cooperative Agreement with HPC, and with HPC contributing from its own resources the equivalent of $130,616 (or 25% of the total). In addition, exporter groups and small-scale farmers participating in the venture made additional contributions of approximately US$100,000 and US$15,000, respectively. The effective date of the Cooperative Agreement was January 23, 1998, and the completion date was September 30, 2000.

The Horticultural Promotion Council (HPC) also received some technical assistance to develop small-scale out-grower expansion plans for horticultural exporters. The contractors undertook to assess the financing requirements and assist the horticulture exporters in raising finance for implementing expansion plans. Delays in securing HPC's direct grant support from USAID limited the assistance period over which the contractors could offer such support.

(3) Accomplishments

The impact of the project on production and exports has been difficult to measure. Exporters were not required to provide information on production statistics, making it difficult to assess this aspect of project impact. According to the ICC, the activity achieved only 39 percent of the numerical target that had been cited in the Work Plan for the first year of operations (656 out-grower linkages established versus the target of 1,700). And, it had achieved only 4 percent of the value target (Z$ 311, 600 versus Z$ 7.2 million). Delays in signing the Cooperative Agreement left HPC with only six months to achieve an annual target. Poor performance of the out-grower development program was also a factor. There is also a likelihood that the targets were simply too ambitious, given the start-up nature of the activity.

There is, nevertheless, a consensus among those who were involved in the project that it did not fully meet its intended objectives. This lack of success can be attributed to several factors. Among them is the fact that project objectives and those of the exporters involved were not always the same, and this was evident throughout the life of the project. As stakeholders, the exporters felt that they had not been consulted during the design process. Moreover, the political environment in the country during much of the time the scheme was being implemented was clearly not conducive to the success of such an activity.

In its Final Report, HPC noted that the project had not fully met its intended objectives. However, valuable lessons had been learned and very useful information had emerged from this initial phase of the activity. The Report cited the need for all stakeholders to be involved in the planning stages of an out-grower program. It recommended that such programs be viewed as long-term farmer-exporter relationships that need careful management, not as short-term expedients to meet market shortfalls. It noted that, when managed properly, these arrangements can be highly beneficial to both exporters and out-growers.

In addressing the question whether the HPC would be able to continue on with the activity after the Cooperative Agreement was ended: USAID staff noted that HPC had a relatively strong and sustainable financial base because it is funded primarily by levies on members' exports. Moreover, at the time the program was initiated, the prospects for growth in exports and therefore expansion of the HPC revenue base were bright. Except for current economic dislocations, that is still the case. Secondly, the objective of the program was based on demonstrating that contracting with small-scale growers for exportable horticultural products was cost effective and would have broad appeal among small-scale growers in general. Moreover, it was not essential that HPC would need to continue to provide exactly the same package of services being provided before the USAID grant expired. It could develop and provide its own package of services.

(4) Problem Resolution Assessment

HPC indicated at the outset of the Agreement that it considered the activity to be too short in duration if, as planned, it was intended to have meaningful impact and develop a base for self-sustainability. In response, USAID agreed to redefine the role of the HPC so that its purpose was confined to facilitating the development of linkages between exporters and growers. The exporters involved could then guarantee sustainability by continuing with extension and training activities when the USAID grant ended.

In its Final Report on the Out-growers Scheme, HPC determined that the number of small-scale growers participating in export horticultural production had actually gone down during implementation of the program. While accurate statistics are not available, HPC concluded that the number of exporters participating had certainly not increased.

In following up on this, an internal USAID memorandum noted that the initial results expected in terms of new small-scale farmers participating might have reflected high growth assumptions, even though these assumptions appeared to be realistic based on experience with small holder contract growing schemes implemented elsewhere in Africa. It was also noted that, at the time the program was initiated, the environment in Zimbabwe appeared suited to rapid expansion. Many of the farmers to be contracted were already organized as members of an irrigation scheme or other grouping, which made the task of recruiting larger numbers relatively easy. In any event, the goal of the program was to demonstrate the viability of the scheme; not to achieve a certain level of contracted farmers.

The HPC program presupposed the existence of a favorable market for participating farmers, i.e. the contracting exporter. Exporters who participated in the program did not themselves identify market information as a constraint to developing linkages with smaller scale farmers. The small-scale farmers, however, complained of a lack of transparency on the part of the exporters, and said that it would have been more desirable if they had had better insights into the pricing, risk factors, and margins required by each of the players in the marketing chain. It was clear from the start that the intent of the HPC scheme was to build reasonably long-term arrangements to the benefit of both parties, but this shouldn't preclude farmers from checking the deals offered by other exporters just to be sure that they are being offered a reasonable package.

Access to finance has generally been identified as a major constraint facing small-scale growers in Zimbabwe, as elsewhere. This problem was mentioned but was not adequately addressed in the Cooperative Agreement. Financial institutions consider small-scale growers to be high-risk borrowers lacking collateral and sound business principles. Most of them are unable to access funding sources due to poor repayment records. An ICC assessment noted that, for HPC, the difficulty in securing financing for out-growers was a serious constraint to the success of the program. Most financial institutions' decisions regarding small-scale out-grower schemes seem to be driven by the poor repayment history of small-scale farmers. Few institutions seem to be capable of comprehending feasible alternatives such as the out-grower exporter linkage schemes devised by HPC.

On the basis of the one-week HPC Kenya Study Tour undertaken in July 1998, it was recommended that Exporter Plans include a component of working capital funds to finance needed inputs as determined by the small-scale grower groups, with the approval of the exporter involved. To address this constraint, the Cooperative Agreement was amended to permit the establishment of a revolving fund that was to be used by small-scale growers to borrow the funds needed to purchase necessary inputs.

c. Support for the Establishment of the Franchise Association of Zimbabwe (FAZ)

(1) Activity Status and Objectives

The Franchising Association of Zimbabwe (FAZ) is a membership organization that was launched in July 1995 by the Zimbabwe National Chamber of Commerce (ZNCC). FAZ was designed to promote the creation of employment by small businesses at least cost but with the greatest prospects for succeeding. ZNCC launched FAZ having observed the high failure of newly established businesses. The ZNCC was also responding to the government's call for the establishment of more labor-intensive small and medium-scale enterprises (SMEs), as a way to increase indigenous employment opportunities.

The mission of FAZ was to enhance the operating environment of franchisees, franchisers and service/product providers in Zimbabwe and, in the process, create new business opportunities for aspiring entrepreneurs and employment opportunities for jobless workers. The three main goals set for the program were to: (a) create new businesses that would contribute to national economic growth; (b) increase the value of business assets owned by small-scale indigenous entrepreneurs; and (c) increase the number of long-term jobs created for Zimbabwe's workers.

(2) Contributions and Funding

Since ZNCC did not itself have the funding required to sustain FAZ, USAID was approached for financial and technical assistance. USAID agreed to provide funding, and a Cooperative Agreement with ZNCC was drawn up in July 1995. The total amount of funds provided by USAID was US$235,858. The termination date for the Agreement was September 30, 1998.

For its part, ZNCC on behalf of FAZ agreed to expend funds amounting to not less than one-third the amount contributed by USAID, on a cost-sharing basis. A Memorandum of Understanding (MOU) arranged between ZNCC and FAZ specified the details of the financial, administrative and substantive arrangements cited in the Co-operative Agreement.

FAZ also received some technical assistance under the Cooperative Agreement. ICC, in particular, played a pivotal role in assisting FAZ, by preparing financial projections for use in assessing the Association's financial sustainability; by formulating alternative strategies for developing franchising in Zimbabwe; and by helping potential franchisers prepare business plans. It also assisted potential franchisers during the brokering process, and developed recommendations regarding the future development of franchising in Zimbabwe. These activities led to three main outputs: the preparation of profit and loss forecasts, including cash flow projections, by FAZ; the establishment of Gold Print and Instant Shoe Repair franchisee operations; and a refocusing of the Association's future objectives, organizational structure, and possible and funding strategies.

(3) Accomplishments

Momentum was created for franchising during the life of the project, but from the short-term and high expectation views of some stakeholders, FAZ was a failure. This might have been avoided had FAZ given some priority to the establishment of a supportive legal environment for franchising in Zimbabwe. A study of the issue was conducted, but follow-up action was not then taken to frame proposals for legal and fiscally-related tax breaks, that would have boosted support for franchising and that might have led to a statute dealing specifically with franchising issues. This was a missed opportunity to bring about a business environment more conducive to the development of a franchising program.

FAZ did demonstrate, however, that there is potential for franchising in Zimbabwe. The Association had established a membership base of 80 members by 1997. While it is not clear how many of these were fully paid-up members, FAZ was viewed by its members as a success. In addition, the concept of franchising as an approach to business development in Zimbabwe and as a potential source of new jobs was validated. A growing number of local businesses are now operating as franchisees.

Notwithstanding the success of these activities, a number of constraints hindered the ability of the Association to fully exploit the potential for developing franchising in Zimbabwe. These included a shortage of professional staff and the low level of management effectiveness of the Association's first Executive Director. In addition, FAZ was unable to accomplish the basic objectives for which it had been established; namely, to engage in advocacy and lobbying activities on issues critical to the franchising industry, and the development of a code of conduct to promote ethical franchising.

These constraints led to other problems: underdeveloped membership services; the insufficient marketing and promoting of public events; and low visibility to members, potential members and business/financial institutions. Other factors also militated against successful franchise development, including a rapidly deteriorating economic situation; skewed membership in favor of aspiring franchisees; limited in-country expertise for providing assistance throughout the franchising process; and little support from financial institutions for franchise financing.

3. Access to Capital Component

ICC assistance to this component was provided mostly in the form of business plan development, to improve management processes and to help secure financing for client MSMEs. A database of information on financing that is available to MSMEs was completed at the beginning of 1999, and made available to micro-finance lending institutions. The ZED Project Team also provided startup assistance to four institutions that had received or were expecting to receive direct grant support from USAID. These included the establishment of the Zimbabwe Association of Micro Finance Institutions (ZAMFI), Zambuko Trust, the Phakama Economic Development Company, and Mazvingo Credit Against Poverty (MCAP).

a. *Zimbabwe Association of Micro-finance Institutions (ZAMFI)*

(1) Activity Status and Objectives

ZAMFI was launched on September18, 1997. It held its first annual meeting on November 27, 1997, at which a draft of the organization's business plan was discussed. As indicated in the plan, one of ZAMFI's main objectives is to provide a lobbying and advocacy platform for the micro-finance industry, and to use it to bring about the establishment of an enabling policy and regulatory environment for the industry. A second objective is to promote professionalism within the industry to facilitate its becoming an integral part of the country's financial system. This entails setting minimum standards and best practices to ensure that members meet performance standards and maintain accountability and transparency in the conduct of business. The third objective is capacity building, to enable members to provide financial services and affordable finance to an increasing number of low-income clients on a sustainable and competitive basis.

(2) Technical Assistance Contributions and Funding

USAID/Zimbabwe provided a two and a half year grant of Z$14,043,497 to Opportunity International (OI) to establish and operationalize ZAMFI. Throughout USAID involvement, OI ARO provided technical support and managerial oversight to ZAMFI on behalf of USAID. This included assistance in establishing a Secretariat, and technical support in the areas of training and systems development. In addition, OI ARO staff also put varied amounts of time into executing other related activities, and two senior officials of OI ARO served on the ZAMFI Executive Committee. The time component of this assistance constituted a major part of the inputs provided by OI ARO. Other donors, such as the Dutch Humanist Institute for Cooperation with Developing Countries (HIVOS) and the German Konrad Adenauer Foundation (KAF), provided grants for equipment and workshops.

The manner in which ZAMFI was to operate and the kinds of activities it would undertake in carrying out its mandate, were presented in some detail in the 3-year Business Plan (1998-2000) prepared for ZAMFI under the USAID Zimbabwe Enterprise Development (ZED) Project contract with ICC and Coopers & Lybrand. Short-term consultants and other experts with skills in association management and micro-finance development programs were made available by USAID or other donors independently of the support provided through the grant agreement and as desired and requested by the ZAMFI Executive Committee

(3) Accomplishments

The intent, purpose and focus of USAID assistance were to bring about the establishment of ZAMFI and to assist in starting up its operations. USAID succeeded in accomplishing both of these objectives. While ZAMFI is not yet operational to the point where it can carry out its mandate from its own resources, it is now a going concern and is in a position to address the various institutional and policy hurdles that are impeding the development of the country's micro-finance industry.

ZAMFI is now also poised to direct a greater share of its resources towards the expansion and growth of the MFI sector, and to improving the quality and quantity of services provided by member micro-finance institutions to micro-entrepreneurs. This approach is expected to have positive impact at some point in the near future on the profitability and sustainability of businesses being run by micro-entrepreneurs. To the extent that these businesses become sustainable and achieve profitability, the establishment and successful start-up of ZAMFI will have contributed significantly to the achievement of USAID's Strategic Objective #2.

ZAMFI has not been successful to date, however, in lobbying for needed legislation and policy adjustments, although it has made efforts to bring these matters to the attention of legislators and policymakers. Similarly, ZAMFI has not yet been successful in getting financial sector players and policymakers to regard micro-finance institutions as credible financial players. It has, however, gotten agreement from its membership on the establishment of a Code of Conduct for members as proposed in ZAMFI's Constitution. The Code, as drafted, would require that member institutions agree to adhere to a set of best practices in the micro-finance industry.

With respect to capacity building, ZAMFI has been able to increase its membership from 11 founding members in January 1997, to 72 members as of March 2001. Some 45 percent of the members are technical service providers and consumer lending institutions, however, not micro-finance institutions (MFIs). ZAMFI is currently publishing a newsletter and has produced and distributed several comprehensive publications regarding issues related to the micro-finance industry.

(4) Problem Resolution Assessment

Sustainability implies being able to continue operations from internally generated funds, without dependence upon outside sources of funds. From a recent survey, it was indicated that membership fees alone could not cover the operating costs of ZAMFI. Moreover, ZAMFI has not been able to raise significant amounts of internally generated income. Advocacy and professional enhancement activities are generally not chargeable to members except by being included in membership fees. These two activities therefore need to be subsidized.

There remains, therefore, the need for ZAMFI to continue to attract long-term grant support. In addition, donors must continue to be induced to provide capacity building funds to MFIs, to pay for advocacy activities; research and information services; conferences and workshops; and technical assistance and training services.

b. Activities to Increase MSME Access to Debt and Equity Capital

(1) Activity status and objectives

A key task of ICC under the ZED Project was to provide technical assistance to up to three institutions providing finance to micro and small enterprises, and to create and maintain an up-to-date database of information on finance available to MSMEs in Zimbabwe. As agreed with USAID, the activities to be conducted under this task were to be demand-driven and were to respond to the evolving needs of the micro-finance industry in Zimbabwe.

(2) Technical Assistance Contributions and Inputs

The technical assistance provided by ICC was focused on developing business plans and helping to install management processes as a basis for improving capabilities and securing funds. The activities to be conducted under this task were to be demand-driven and were to respond to the evolving needs of the micro-finance industry in Zimbabwe. During the first quarter of 1998, the Project Team began by providing assistance to ZAMFI and to Masvingo Credit Against Poverty (MCAP).

(a) Zambuko Trust

USAID provided support for a number of micro-finance activities with Zambuko Trust. The Trust received grant support through programs offered by USAID's Office of Micro-Enterprise Development in Washington. The USAID Bureau for Africa also provided a grant of US$550,000. The grants were channeled to Zambuko through Opportunity International. The grant funds were used to facilitate the expansion of financial services to women entrepreneurs in Zimbabwe. An exchange rate windfall accompanied the grants, enabling the Trust to buy a house to serve as its Headquarters.

Zambuko has expanded its Women's Trust Bank Centers, which utilize a group approach to target some of the poorest women in society. The Information Resources Management (IRM) division of USAID/W supported a pilot project to test computerized links between Zambuko's main office and its branch and regional offices. If the pilot project is successful, Zambuko intends to replicate the computerized links on a national basis.

(b) Phakama Economic Development Company

In June 1996, USAID/W committed $750,000 to support the Phakama Economic Development Company through a grant to the Mennonite Economic Development Associates (MEDA). USAID/Zimbabwe provided additional grant support of $50,000.

In February 1997, a team from USAID/W conducted an assessment of Phakama and noted a number of problems. One of the key problems was the lack of financial expertise on the Board of Directors. Phakama was scheduled to report to USAID by October 31, 1997 on its progress in resolving this problem and in making changes needed in four other important areas of the Company's operations. USAID had indicated that it would terminate its grant assistance to Phakama, if appreciable progress had not been made in addressing these problems. Sufficient progress was not made, and USAID suspended its support.

In 1999, following a restructuring of Phakama's Board of Directors and additional equity investments by the company's main shareholders, USAID/Zimbabwe engaged the services of ICC to provide technical support to Phakama and turn the situation around. The ICC support led to the development of a new business plan that enabled Phakama to seek funding from other donors, e.g., HIVOS.

(c) Masvingo Credit Against Poverty (MCAP)

MCAP is a micro-enterprise finance program that focuses on providing credit to women in peri-urban areas in Masvingo Province, an area where no other micro-finance institutions were active at the time. The program was to be structured to be implemented as a non-governmental organization. USAID received a proposal on October 22, 1997 to support the MCAP Program. The proposal was reviewed by a group of international donors, including USAID. It was agreed that the proposal needed to be developed further and, more specifically, that it needed to be supported by a business plan.

Representatives from USAID, MCAP and the ZED Project Team met in early November 1997, to discuss potential areas of assistance. It was decided at the meeting that a funding proposal already developed by MCAP with the support of ICC be re-cast as a business plan, to strengthen its potential for obtaining funding while also serving to guide the management of MCAP. The plan envisioned the following types of support: review and refinement of financial, accounting and management systems; review and refinement of operational procedures; and review and development of an interest rate policy. The business plan was completed in 1998; however, MCAP failed to secure substantial support from donors.

(3) Accomplishments

Available information shows that as of the end of 1998, loans provided by MFIs had reached 13,400. The number of MSME loans disbursed by MFIs exceeded the target by 79 percent. The value of the loans exceeded the target by over 96 percent. Loans provided to women performed even better, exceeding the volume target by 97 percent and the value target by 105 percent. The percent of loans provided to women remained consistently at 83 percent compared to a target of 75 percent.

4. The Creation of an Up-to-date Database of Information on Finance Available to MSMEs in Zimbabwe

a. Conceptualization of the Structure and Functions of the Database

Members of the ZED Project Team conceptualized the structure and functions of the database. Its purpose was to provide information to MSMEs, donors and financial intermediaries on the sources and types of financial services available in Zimbabwe; the procedures and criteria to access these services; interest rates, terms and conditions of financial services offered; and contact persons and addresses. In addition, the database was to provide information on the financial performance of institutions, as well as information concerning their legal and institutional structure.

b. Maintenance and Use of the Database

The Project Team organized workshops to present the Database and to demonstrate how it could be accessed and used by MSEs. It identified an information service provider (ISP) to take over the management, marketing, and maintenance of the database and transferred the database to the ISP (Empretec/Datafin). It is now possible to obtain access to Datafin as a marketing tool by visiting or phoning Empretec. In addition, Empretec is currently investigating the possibility of allowing organizations to provide their data electronically through the internet.

5. Improvements in Information and Analysis Available on MSMEs on a Nationwide Basis

Another ICC task called for the design and implementation of the third nationwide "Gemini" survey of micro and small enterprises in Zimbabwe. Development Alternatives, Inc. (DAI), a sub-contractor to Coopers & Lybrand, conducted the survey. The terms of reference called for the survey to include MSMEs in three sectors that had not been included in two previous surveys, i.e., agriculture, mining and forestry. In addition, USAID sought to use the survey to obtain information on micro-enterprise "hot spots": areas such as the traditional markets in Harare and Bulawayo where there is a concentration of micro-enterprise activity. . Research International (RI), a local firm engaged by DAI to help conduct the survey, undertook to set up the logistical arrangements for conducting the survey which began in early January 1998, and which was successfully completed in the first quarter of 1999. The Gemini survey remains the primary source of information in Zimbabwe on development related to the MSME sector.

6. The Development and Implementation of a System for Monitoring and Analyzing the Progress of the ZED Project and Other SO#2 Activities

To facilitate the task of managing the project implementation process, ICC developed a system designed to monitor and evaluate the progress of project-funded activities towards the achievement of SO#2. The system included a set of performance indicators for each of the three main components of the Project. A data collection plan was developed for each indicator and for key program-level data. As designed, the database provided a selection of 33 pre-formatted charts and supporting data tables, which were to be used to track project performance on a quarterly basis against actual current year indicators and projected next year targets. The charts also provided a basis for analyzing and tracking the progress of project implementation against performance indicators at the SO#2, Intermediate Results (IR), and program levels. They also provided a basis for conducting detailed analysis by size, location, gender, and ethnicity.

Despite difficulties encountered in collecting data from nearly all available sources, ICC prepared an initial Baseline Data Report using actual indicator performance data compiled for FY1996 and FY1997. The information contained in this report was supplemented with data on performance targets that had been projected for FY 1998 and that served as the baseline for the development of Quarterly Monitoring and Evaluation Reports for FY 1998. Due to the USAID/W decision in May 1999 to terminate the private sector element of the Mission's SO#2, data collection and monitoring activities related to the preparation of a Baseline Data report and Quarterly Monitoring and Evaluation reports were also discontinued.

III. Returns on Program Investments

A. METHODOLOGY USED TO COMPUTE THE RETURNS ON PROGRAM INVESTMENTS

The methodology used by the Evaluation Team to compute the returns on USAID funds invested in Private Sector Development Program projects and activities took into account the fact that the Program's overall goal was the achievement of a strategic objective, i.e., broadened ownership in a growing economy. Achieving this objective entailed the development and implementation of a variety of activities, not all of which could be measured in quantitative terms.` These included efforts to foster employee stock ownership plans; the creation of SME linkages to large businesses; support for the development of appropriate training programs; and the development of SME micro-finance support institutions. There were also the problems of rapid inflation and a grossly overvalued local currency to US$ exchange rate during the 8-year period of program implementation which made it difficult to assess returns given the joint USAID funding and local in-kind contributions that normally constituted inputs to project activities.

Certain areas of activity where outputs were expressed in units were amenable to quantitative assessment, such as, the number of persons who received training under the ZIMMAN II Project; the number of business linkages arranged through the CZI sub-contracting program; or the number and value of loans provided by MFIs to MSMEs. In addition, the Team used the quantitative indicators and performance data generated by USAID through its system for monitoring and analyzing the progress of Progress funded activities, whenever such indicators were available and applicable.

B. OVERALL COST OF THE PROGRAM

As noted earlier, the Private Sector Investment Program absorbed approximately $19.1 million in USAID investments over an eight-year period, before being ended in September 2000. Virtually all of the US$5.5 million authorized for the ZED Project was spent. The original Grant Agreement for the ZIMMAN II Project authorized USAID expenditures of US$15.0 million. This was subsequently reduced to US$8.4 million, of which approximately US$8.2 million was spent. Funds authorized for the ZED Project from the Development Fund for Africa were initially set at US$18.6 million. Obligations under the project currently total US$6.0 million, of which US$5.4 million has been spent. The PACD for the ZED Project having been extended to September 30, 2002, it is anticipated that some portion of the remaining US$0.6 million that is still in the pipeline will be spent prior to that date.

C. QUANTITATIVE AND QUALITATIVE RESULTS ACHIEVED

The ZBD Project consisted of a series of pilot interventions that were broken down into different stages and marked by "go" and "no-go" decision points. Estimated returns on investments can thus best measured and understood as qualitative, binary results. From this perspective, the overall project was a success: it provided the Mission with a means to determine the feasibility and effectiveness of project interventions to improve the environment for investment.

The value and benefits of inter-project linkages also need to be taken into account. The results of ZBD activities formed the basis for the ZED Project, which shared a similar project purpose and goal. Specifically, the ZBD Project's ESOP and Business Linkage pilot-testing activities informed the development of the ZED Project's ESOP and Business Linkage components. Similarly, the GEMINI database on SMEs developed under the ZBD Project was revised and updated under the new ZED Project and continued to be useful to the private sector as the primary source of SME market data in Zimbabwe. The analytical studies component of the ZBD Project had the desired result of preparing the Mission staff for a better ZED project design effort.

Training effectiveness under the ZIMMAN II Project was measured by how well the training achieved desired results. In general, the participants of ZIMMAN II gave the courses a resounding "thumbs-up". ZIMMAN II training served to open the eyes of the vast majority of its participants and improved their ability to perform both managerial and technical tasks.

PWC/ICC developed and targeted in-depth assistance to five companies in structuring and implementing employee ownership transactions, completing two transactions by the end of the contract period. The contractors completed a case study on one company so that it could demonstrate the processes and benefits of setting up an ESOP to other companies, and to legislative members weighing the benefits of employee stock ownership plans. These two outputs also provide a useful platform for future efforts to promote and implement such plans.

A recent survey indicated that 94 percent of SMEs and 54 percent of large firms regarded the CZI sub-contracting program to be a worthwhile undertaking. Since 1995, the program has facilitated the formation of some 270 linkages through the program being sponsored by the U.S. The linkages are estimated to be worth more than Z$300 million through USAID support.

A number of case studies show that firms involved in the CZI sub-contracting program have experienced cost-saving, improvement in product quality/service, increase in revenues, increase in their customer base, firm expansion, and venturing into the export market. In addition, the program has been a success in the drive for indigenization, and has developed a well maintained and functioning corporate and SME database. CZI extended its mandate from setting up vertical linkages between large and small companies to include horizontal linkages among small companies. The sustainability of the CZI program is now an acceptable business option.

D. PROGRAM ECONOMIC AND NON-ECONOMIC RATES OF RETURN

Given the lack of quantitative data related to the total value of outputs achieved through the Program, the Evaluation Team did not see any utility in attempting to compute a quantitative economic rate of return for the Program. A summary of the non-quantitative accomplishments presented above, serves as an appropriate indicator of the non-economic benefits derived from the Program.

E. MAJOR FACTORS AFFECTING RETURNS

Under the HPC Project, the impact of the project on production and exports has been difficult to measure. Exporters were not required to provide information on production statistics, making it difficult to assess this aspect of project impact. Delays in signing the Cooperative Agreement left HPC with only six months to achieve an annual target.

The lack of a well-structured enabling environment for SME businesses severely limited the ZIMMAN II Project's ability to achieve the project's stated goals. It is inappropriate to expect training projects to increase jobs or to change government capability to support private sector initiatives without considerable policy change efforts. The effectiveness of ZIMMAN II efforts were directly affected by the policy environment. Many Zimbabwean SME owners face imminent business failure and personal bankruptcy directly due to the constraining policy environment. Increased coordinated donor influence on GOZ policy change is urgently needed.

The records maintained by most of the SMEs that participated in ZIMMAN II training activities, do not provide an adequate basis for evaluating the results of these activities. Consequently, it is vital for purposes of evaluating and investigating the impact of an activity to devise methods that can produce meaningful conclusions on effectiveness

IV. Summary of Findings and Conclusions

A. SUMMARY OF FINDINGS

1. The GOZ's Failure to Implement its Economic Structural Adjustment Program Forestalled the Achievement of the Purpose and Objectives of the USAID Mission's Private Sector Investment Program

When it was established in 1992, the stated purpose of the Private Sector Investment Program was to support the GOZ in its efforts, through a recently developed Economic Structural Adjustment Program (ESAP), to create a more open economy in Zimbabwe through liberalization and the adoption of market-based economic policies. Accelerated economic growth and broader indigenous participation in sharing the benefits of that growth were two of the main objectives of the ESAP. They were also key objectives of the USAID Mission's Private Sector Investment Program. It had been anticipated that implementation of the ESAP would have provided a foundation for increasing private sector investment. Unfortunately, the GOZ failed to follow through on implementing the Program. Its failure to do so effectively precluded the creation of a more open economy, the main reason for which the Private Sector Investment Program had been established.

The budgetary deficits, reduced output, stagnating commerce, rampant inflation, high rate of unemployment, and persistent shortages of foreign exchange that have resulted largely because the ESAP has not been implemented, have effectively undermined the country's prospects for achieving accelerated economic growth. Not doing so will, in turn, greatly diminish any economic benefits that might accrue to the indigenous population from efforts to broaden their participation in the economy. Accordingly, one of the more unfortunate effects of the GOZ's failure to implement its Economic Structural Adjustment Program was that it forestalled the achievement of the purpose and objectives of the Private Sector Investment Program

2. The Development of a Strategic Framework Provided an Alternative Approach to Achieving the Objectives of the Private Sector Investment Program

The development in 1996 of a Strategic Framework for the USAID Program in Zimbabwe, led to a situation whereby the achievement of the Mission's Strategic Objective 2 (SO#2) also became the goal of the Private Sector Investment Program. The Framework itself provided an alternative approach to achieving the objectives for which the Private Sector Investment Program had been established.

As shown in ANNEX F, the SO#2 segment of the USAID/Zimbabwe Strategic Framework, like the ESAP, envisioned the achievement of "broadened ownership in a growing economy." This was to be accomplished through activities aimed at broadening the ownership of existing businesses, and by creating and expanding micro, small and medium-scale enterprises (MSMEs). These activities, in turn, were targeted on the development of employee stock ownership plans; the creation of business linkages between large and small/medium-scale enterprises; increased MSME access to debt and equity financing; and the development of a sustainable market in MSME training services.

The importance of the Strategic Framework to the implementation of the Private Sector Investment Program was that it provided a coherent framework within which the USAID Mission could implement activities, the outputs and results of which would contribute directly to the achievement of the overall goal of the Program. It also provided a mechanism through which the pilot-tested outputs and results of the ZBD Project and the training initiatives pursued under the ZIMMAN II Projects could be drawn upon to serve as models for the design of activities to be implemented under the ZED Project. The Framework also ensured that lower-level project and activity goals were aligned with the strategic goal of the Private Sector Investment Program and SO#2. In addition, it served as the framework for implementation of the ZED Project.

3. A Major Impediment to Broadening Ownership of the Productive Assets of the Economy in Zimbabwe are the Tax and Corporate Laws that Inhibit Transfers in Stock Ownership

One of the underlying objectives of the USAID Mission's Strategic Objective No.2 (SO#2) was to broaden ownership of the productive assets of the economy through the expansion of employee stock ownership schemes. In its analysis leading up to the development of a strategy to accomplish this objective the Mission found that a major impediment to implementing such schemes in Zimbabwe were the tax and corporate laws that inhibited this type of transfer in ownership. Efforts to get ESOP tax legislation passed that would permit such transfers progressed slower than had been expected.

Having expressed concern regarding the slow progress being made through the usual Government channels, several Members of Parliament offered to promote passage of the ESOP through a private members bill. They suggested that the best way forward was to put a motion to the House that Members requested the ESOP legislation be allowed to pass through. Unfortunately, passage of the bill never materialized. Thus, while a way to overcome this impediment has been identified, it now remains for an opportunity to arise that will permit a second try. The initial effort did, however, generate wide knowledge and support for the concept, and might therefore have "paved the way" for when the circumstances are right.

4. A Promising Start was made under the Private Sector Investment Program in Establishing the Kinds of Institutions that are Essential to Achieving Broadened Ownership in a Growing Economy

The Evaluation Team found that a promising start was made under the Private Sector Investment Program in establishing and administering the kinds of private enterprise development institutions and programs that are essential to achieving broadened ownership in a growing economy and to overcoming the constraints to achieving this objective. Support was directed to the following activities for the purpose of achieving this objective:

The Confederation of Zimbabwe Industries (CZI) Business Linkages Program

The CZI Business Linkages Program was originally proposed to USAID by CZI in 1994. The main objective of the Program was to foster small and medium enterprise (SME) growth by encouraging the establishment of new, sustainable business linkages between large and small firms. The program has had particular success in broadening indigenous participation in business development activities.

The Horticultural Promotion Council (HPC) Out-Growers Scheme

The objective of the Horticultural Promotion Council's (HPC) out-growers scheme was to strengthen and expand linkages between small-scale growers and large horticultural exporters. HPC anticipated that strengthening and expanding small-scale grower and exporter linkages would lead to increased export horticultural production in Zimbabwe. In its Final Report, HPC noted that the project had not fully met its intended objectives. However, it recommended that such programs be viewed as long-term farmer-exporter relationships that need careful management, and be continued. When managed properly, these arrangements can lead to expanded exports to the benefit of both exporters and small-scale indigenous out-growers.

Establishment of the Franchising Association of Zimbabwe (FAZ)

The Franchising Association of Zimbabwe (FAZ) was launched in July 1995 by the Zimbabwe National Chamber of Commerce (ZNCC). The ZNCC launched FAZ to promote franchising, having observed the high failure rate of newly established small-scale businesses. It was also responding to the government's call for the establishment of more labor-intensive small and medium-scale enterprises (SMEs), as a way to increase indigenous employment opportunities. While not totally successful, FAZ did demonstrate that there is considerable potential for expanding franchising operations in Zimbabwe. A growing number of local businesses are now operating as franchisees.

Establishment and Operationalization of the Zimbabwe Association of Micro Financing Institute (ZAMF)

The Zimbabwe Association of Micro-Finance Institutions (ZAMFI), which was established to provide a lobbying and advocacy platform for the micro-finance industry, is now poised to direct a greater share of its resources towards the expansion and growth of the MFI sector. It is also working to improve the quality and quantity of services provided by member micro-finance institutions to micro-entrepreneurs. This approach is expected to have positive impact at some point in the near future on the profitability and sustainability of businesses being run by indigenous micro-entrepreneurs. To the extent that these businesses become sustainable and achieve profitability, the establishment of ZAMFI will have contributed significantly to the achievement of USAID's Strategic Objective #2.

Zambuko Trust's Expansion of its Women's Trust Bank Canters

Having received grant support from USAID, Zambuko Trust recently expanded its Women's Trust Bank Centers, which utilize a group approach to target the financial needs of some of the poorest women in society. The Information Resources Management (IRM) division of USAID/W supported a pilot project to test computerized links between Zambuko's main office and its branch and regional offices. If the pilot project is successful, Zambuko Trust intends to replicate the computerized links on a national basis, which will significantly broaden women's access to micro-finance.

Creation of a Database on Finance Available to MSMEs

IC created and helped to maintain a database of information on finance available to micro, small and medium-scale enterprises (MSMEs) in Zimbabwe. The main purpose of the database is to facilitate MSME access to information on the sources and types of financial services available in Zimbabwe; the procedures for accessing these services; interest rates, terms and conditions of financial services offered; and contact persons and addresses. It also provides information on the financial performance of micro-finance intermediaries, including their legal and institutional structure.

5. The Sustainability of Program-funded Activities

Institutional sustainability implies being able to continue operations from internally generated funds, without dependence upon outside sources of funds. From a recent survey, it was indicated that membership fees alone could not cover the operating costs of ZAMFI. Moreover, ZAMFI has not been able to raise significant amounts of internally generated income. Advocacy and professional enhancement activities are generally not chargeable to members except by being included in membership fees. These activities therefore need to be subsidized. There remains, therefore, the need for ZAMFI to continue to attract long-term grant support. In addition, donors must continue to be induced to provide capacity building funds to MFIs, to pay for advocacy activities; research and information services; conferences and workshops; and technical assistance and training services.

B. THE TEAM'S CONCLUSIONS

1. Further progress in promoting private sector investment in Zimbabwe is unlikely until the GOZ decides to implement an ESAP and there is a turn-around in the economic situation.

2. Notwithstanding the efficacy of having used the SO#2 Strategic Framework as an alternative approach to achieving the objectives of the Private Sector Investment Program, GOZ implementation of an ESAP is still critical to increasing private sector investment, a major step towards turning the economy around.

3. An important prerequisite to successful and broad-based employee ownership plans is sustained macro-economic stability. In a volatile economy, such plans remain a risky proposition as evidenced by the sharp decline in employee share values that occurred in Zimbabwe within a short period of time. Fiscal incentives, accelerated privatization, and EO-linked productivity enhancement programs are the main prerequisites for employee

ownership, if such programs are to have a significant impact on efforts to broaden the ownership of Zimbabwe's productive assets.

4. The adverse business climate and the lack of fiscal incentives to encourage employee ownership schemes largely constrained their adoption during the period of the ZED Project. Given the current high cost of borrowing funds to finance employee share purchases, many firms and their employees have begun to see tax incentives as a prerequisite to the establishment of ESOPs.

5. Directing further assistance to the CZI sub-contracting program would be a worthwhile undertaking. Any such additional assistance should be directed at promoting both vertical and horizontal business linkages. The track record of the CZI program suggests that there is a far larger market for sub-contracting in Zimbabwe than has yet been tapped.

6. Self-sustainability is not currently a viable option with respect to ZAMFI and FAZ, and HPC. If USAID were to continue to support these activities, sustained subsidies would be needed.

7. The ICC's development of a database of information on finance available to micro, small and medium-scale enterprises (MSMEs) in Zimbabwe, represents the kind of ancillary activity that is essential to achieving broadened ownership in a growing economy and to overcoming impediments to achieving this objective.

V. LESSONS LEARNED

During the course of implementing the Private Sector Investment Program, the various components and project activities incorporated within the Program projects covered a broad spectrum of situations that could provide guidance for the implementation of similar programs in the future. Following is a brief discussion of some of the lessons drawn from this experience.

1. The Market-Driven Nature of Private Sector Investment Programs

It was noted at the outset of this Report, that to be compatible with the goals of the ESAP, efforts to broaden indigenous participation needed to be achieved through market-driven private sector investment schemes, not through the nationalization of business or other centrally directed business consolidation activities. The SO#2 Strategic Framework itself is based on the premise that the successful implementation of demand-driven activities will ensure the achievement of its objectives. However, virtually all of the activities supported under the Private Sector Investment Program never reached the point where they had become demand-driven and could be sustained from their own sources of revenues, profits or fees. In the case of Zimbabwe, the deteriorating economy was a key factor inhibiting efforts to reach self-sustainability. Nevertheless, it is clear that careful consideration needs to be given to prolonging the gestation period for developing ESOPs, and for establishing business linkage, micro-finance, and other support institutions in such situations.

2. Carefully Consider the Issue of Limited Local Staff Capabilities Versus the Use of Imported Short-Term Expertise in Light of Reasonably Available Resources

The issue of limited local staff capabilities versus the use of imported short-term expertise came clearly into focus in the implementation of the ZIMMAN II Project. The core talent required for training and consulting work for ZIMMAN II was not available on the local market. Too much time was spent on trying to use local and regional firms and USA volunteers in developing training products. With an adequate team, the prime contractor could have created training products a year earlier and provided significantly more service to local training provider firms and associations. As it was, too much time was spent on trying to use local and regional firms and USA volunteers in developing training products.

In the case of ZAMFI, it was important for ZAMFI to build local capacity to provide needed technical expertise for sustainability reasons, and to cut the cost of importing expensive talent. It was a common occurrence that expert consultants brought in to help with an institutional development program were hired from the same organization that has been tasked with managing the budget. This led to design problems that reflected a lack of familiarity with local conditions. It may have also led to excessive expectations as to what could be accomplished, given limited local staff capabilities and a scarcity of financial training opportunities.

3. The Need to Take Account of Local Conditions and to Make Timely Adjustments at the Project Activity Level

As noted earlier, the ZIMMAN II Project was able to respond to a changing economic and political environment in Zimbabwe as well as to several changes in the focus of the Mission's development assistance strategy. The flexibility shown at the project level in this case should certainly be utilized in assessing and addressing training requirements and adjustments required thereto in future major USAID training activities. However, such flexibility should not be attained at the cost of clearly defined objectives and measurable outputs as happened in the case of ZIMMAN II.

The need to take account of local conditions and to make timely adjustments as required at the project activity level was also especially relevant in the case of the Steering Committee that monitored the progress of ZED Project implementation. The membership configuration of the Committee varied considerably from meeting to meeting and did not, at times, adequately reflect the specific interests of the program's sponsoring agencies. Selecting an array of members that can continue to be involved in monitoring activities from conception to completion would help to create a sense of project ownership among the members. This would, in turn, facilitate efforts to follow the project through to its conclusion and bridge the gaps that frequently emerge between government and the donor community.

In several instances legislative approval was necessary for project initiatives to succeed. In these cases, political traction played a significant role in the achievement of necessary legislation. The importance of political traction was demonstrated with the successes achieved by the Monopolies Commission. In contrast, where political support was less forthcoming, as was the case for the Zimbabwe Investment Center (ZIC) and ESOP, the initiatives were stalled even though many groups were lobbied within the executive and legislative branches of government as well as the private sector.

4. The Need to Ensure that Project Budgets Adequately Provide for Local Conditions Including Inflation, Wages and Benefits, Rents, and Commodities

The failure to build-in Zimbabwe's high inflation rate (over 50 percent in 1993, and exceeding that level in 2001) created serious problems under the ZIMMAN II project in office staffing, housing, and equipment procurement for project implementing partners. The USAID Mission should participate in the process of project budget fine-tuning to ensure that any selected bidder's budget takes into account the phenomenon of rapid inflation and is, in fact, financially feasible.

The need to change project capacity as Mission needs changed stretched ZIMMAN II contractors. Contracts should be very specific about the deliverables required; they should differentiate input deliverables from output deliverables; and they should also differentiate deliverables from general purposes/strategic directions that the Project might contribute to, but not be responsible for delivering.

The Mission should consider requiring bids for contracts under projects like the ZED Project that contain specific statements regarding deliverables, as to exactly which decisions the bidder will delegate to the field office and which decisions it will reserve for the home office. This would enable bidders to consider these issues well in advance and develop the capacity for faster on-the-ground readiness to respond to Mission requests.

5. The Limitations of Using Business Plans to Initiate Program Activities

Under the economic circumstances that prevailed in Zimbabwe during the initial stages of implementation of the ZED Project, the decision to use Business Plans to initiate institution-building activities seems misplaced. The process of developing ZAMFI, for example, should have provided for a more realistic gestation period than the three-year period that was allowed. It takes time to build an advocacy and capacity building institution like ZAMFI. The same applies with respect to the establishment of FAZ and implementation of the HPC out-growers scheme. While the use of Business Plans may have helped to attract donor funding for the development of these institutions, expecting them to become fully operational and profitable within a 2-3 year period is unrealistic.

6. The Need to Maximize Coordination Between Donors and Other Projects

There was considerable duplication of effort and competition among donors in Zimbabwe to provide assistance for the development of training programs. ZIMMAN II was asked to develop a market-price cost-recovery system for training within this scenario. When most donors were lobbying to assist the same organizations and giving their services away free, this exponentially compounded the cost-recovery deliverables difficulty factor.

The Mission's ZED Project implementation team tried to introduce a matrix of who was doing what and with whom, to begin the process of deciding how to coordinate and maximize the impact of donor efforts. This effort should be continued to increase the opportunity for recipients to focus on programs that fit their development needs and capacities to digest and to forestall possible duplication of effort. Such coordination would be greatly facilitated were it to occur at the point at which donors were developing their respective Strategic Frameworks to guide the development and implementation of their development assistance programs.

VI. RECOMMENDATIONS FOR IMPROVING PROGRAM DESIGN AND IMPLEMENTATION IN THE FUTURE

1. A Strategic Framework Should be Developed and Used Where Feasible to Guide Program Design and Implementation Activities

The Strategic Framework that was established to guide the implementation of the Private Sector Investment Program provided a coherent framework within which the USAID Mission could implement activities, the outputs and results of which would contribute directly to the achievement of the overall goal of the Program. It also provided a mechanism through which the outputs and results of other projects could be drawn upon to serve as models for the design of activities to be implemented under the ZED Project. The Framework also ensured that lower-level project and activity goals were aligned with the strategic goal of the Private Sector Investment Program and SO#2. It proved useful in implementing the Private Sector Investment Program, and should be employed where feasible to guide program design and implementation activities

2. MSME Access to Capital and Micro-finance

The Team recommends that more cost-effective and low-cost tools be developed for identify economically disadvantaged groups in the light of studies that confirm the country's failure to channel resources to this segment of the population. Wide sharing of existing data banks is also a requirement, given the general scarcity of information available on this segment of the population. The application of more cost-effective management techniques is critical to the success of organizations like ZAMFI, which must provide management and technical services at minimum cost to low-income clients like micro-entrepreneurs.

3. The Need to Allow More Flexibility in the Implementation of Technical Assistance and Training Programs

The Team's experience in evaluating the three projects that were included within the framework of the Private Sector Investment Program suggests a need for the USAID to develop more flexibility in the implementation of technical assistance and training programs. This flexibility is needed to permit field missions to respond more quickly to rapidly changing economic conditions in countries like Zimbabwe. The Quick Response Fund that was instituted and used effectively under the ZBD project illustrates the feasibility and benefits of pursuing such an approach.

4. The Need to Compile Reliable and Timely Quantitative Indicators of Progress and Accomplishment

The records maintained by most of the SMEs that benefited from training programs supported by the ZIMMAN II Project did not provide an adequate basis for quantitatively evaluating the results of ZIMMAN II training activities. For purposes of evaluating the economic and social impact of such activities, increased attention needs to be given to devising methods that will produce meaningful and useful findings regarding the effectiveness of these activities and their impact on the economy.

ANNEX A
CASE STUDIES

Case Study One

The Failure to Pass Legislation Related to the Technical Support of Employee Stock Ownership Schemes

DESCRIPTION OF THE ACTIVITY

Through the Zimbabwe Enterprise Development (ZED) Project, USAID/Zimbabwe supported the growth of employee share participation in Zimbabwe as a means of "broadening the ownership of productive assets within the growing economy".

Under the ZED Project, USAID's support for employee ownership (EO) began in July 1996 when a database on the status of employee ownership in Zimbabwe was updated. In December 1996, the ZED Project held a two-day conference to launch a series of activities geared toward creating awareness of the concept and benefits of employee ownership. A public and private sector study tour was arranged to the United Kingdom and Hungary in the first half of 1997. In addition, the ZED Project was assisting state-owned enterprises undergoing privatization and private/public companies to structure and implement employee share ownership schemes. Productivity and EO workshop orientation sessions were provided to key personnel within firms to convey the benefits of employee ownership.

A key component of the ZED Project's activities in support of employee ownership was the development of legislative (fiscal) incentives to create an enabling environment that would encourage companies to introduce employee share ownership schemes. Legislation would be required – as it is in all countries that have successfully established employee share participation in mainstream business – for employee ownership to have a meaningful impact on broadening ownership.

The need for Open Book Management and a general education and awareness campaign at all levels was seen as a vital complement to the enabling legislation if employee ownership in Zimbabwe was to have a widespread effect. So it, too, was pursued under ZED Project.

PLANNED VS ACTUAL LEVEL OF FUNDING

According to the ZED Project Paper, planned USAID obligations for this component of the ZED Project were projected at $7.6 million, and were to be complemented by a GOZ contribution of $6.8 million. These levels were based on an initial Life of Project (LOP) funding level of $18.6 million. By the end of the Project, however, actual obligations for the overall project were $6.0 million, while those for the EO component, had been reduced to $2.1 million.

INPUTS AND OUTPUTS

The process of developing employee ownership encompassed four sub-activities. These included: 1) developing a package of incentives and supporting their implementation; 2) assisting in transacting/setting up employee stock ownership plans (ESOPs); 3) expanding and updating a database on employee ownership; and 4) providing training to foster increased employee ownership. In the first year, these sub-activities were carried out by the implementing partner Coopers & Lybrand (C&L), with the support of two subcontractors, the Foundation for Enterprise Development (FED) and International Capital Corporation (ICC). In the second year, C&L and ICC. In the final two years, the technical assistance needed was provided by ICC and the USAID Mission.

The Mission's employee ownership activities may be better understood by looking at the specific activities that were undertaken to institutionalize it. The most notable effort was the unsuccessful attempt noted above to secure new tax incentives to encourage widespread employee ownership. As already indicated, the initiative was a failure because implementing legislation was not adopted by the GOZ legislature.

A second concerted effort was made in the area of transaction assistance and the development of "smarter" employee ownership schemes. The contractors involved developed and targeted a prioritized shortlist of companies to offer transaction assistance in support of employee ownership. They provided in-depth assistance to five companies in structuring and implementing employee ownership transactions, completing two transactions by the end of the contract period. The contractors completed a case study on one transaction to demonstrate the benefits of setting up ESOPs to other companies or legislative members weighing the benefits of employee ownership. Over 40 companies received transaction assistance; however, only one is known to have successfully implemented an EO scheme.

A third effort was vested in promoting the use of Open Book Management (OBM) to help educate and connect people from the shop floor to the higher echelons of management on the use of performance measures to achieve greater corporate transparency, accountability, and effectiveness. Training workshops were carried out throughout Zimbabwe on the topic of Open Book Management. Participants were drawn from professional groups (trainers, accounts, lawyers), the ZCTU, senior management from companies, and representatives of the donor community—over 110 organizations were invited to join in the effort.

A fourth area of concentration was a subset of the training effort underwritten by the ZED Project: the two most in-depth EO workshops were conducted for the Zimbabwe Congress of Trade Unions' (ZCTU) affiliate privatization committees. Sixty members from 12 trade unions (five from each union) received fundamental ESOP education; next, a five-day training-of-the-trainers seminar was provided for 20 technical union members who were viewed as likely to play a more direct role in disseminating the benefits and mechanisms of employee ownership to ZCTU beneficiaries. Of all the beneficiaries targeted, many felt that this group would be the most benefited by EO education and the most likely to affect the kinds of change envisaged by the sponsors of employee ownership training programs.

FACTORS THAT LED TO THE UNSUCCESSFUL COMPLETION OF THE ACTIVITY

Unfortunately, the adverse business climate and lack of fiscal incentives to encourage employee ownership schemes largely constrained widespread employee ownership development during the period. In 1998, large annual government budget deficits, led to rapid increases in inflation, labor unrest, and expanded government control of key political and economic institutions. The impact of the deficits on the poor was devastating, as the proportion of the population living in poverty rose from 48% to over 75%. Promoting employee ownership schemes in volatile conditions such as these proved to be a risky proposition, and was soon reflected in sharp declines in employee share values and below interest dividend payout rates. Clearly, this points to the importance of sustaining economic stability as a prerequisite to the success of broad-based employee ownership schemes.

As the economy deteriorated, the cost to borrow funds increased. In fact, given the high cost of borrowing funds to finance employee share purchases during this period (40%), many firms and their employees began to see employee ownership tax incentives as a crucial requirement before they could further consider ESOPs. Despite repeated efforts with several ministers to secure a GOZ champion to promote ESOP legislation to the GOZ cabinet, the Mission and its collaborators were unsuccessful. The lack of substantive ESOP legislative developments in turn inhibited Mission's efforts to achieve SO#2 goals.

In some cases, employee ownership training was misdirected or fell on deaf ears. This was exemplified in the case of two out of the five parastatals that privatized during the period. Management in both cases was perceived to be more concerned about showing broader ownership than actually taking steps to enhance employee share in corporate management and profits. This kind of attitude was also seen in certain firms included in the employee ownership database survey, which was part of the employee ownership activities. With the notable exception of ZCTU training, discussed below, some insiders wondered if the employee ownership education carried out predominantly through the ZED Project, lived up to its potential impact. To them it seemed that the training catered more to managers and transaction specialists than employees. This may have simply been the result of the executive's/outsider's top-down perspective and usually stronger financial position. Timing and venue seemed to favor them, too.

The ZCTU training was by far the most successful, according to ICC in terms of educating employees at parastatals facing privatization. Unfortunately, ZCTU came to be viewed as an adversary by the government and funding for this type of training stopped before significant gains could be realized. As a consequence, union members at the shop-floor level did not get a chance to be directly supported by USAID/Zimbabwe by the end of this period.

ALTERNATIVE TACTICS THAT WOULD HAVE HELPED

The creation of an enabling environment for employee ownership should be managed as a gradual process. Throughout this process, the focus of support on the various types of employee ownership activities should shift over time to those activities that are most likely to create the momentum needed to achieve a real breakthrough.

For instance, in retrospect, the tactics used for introducing employee ownership tax incentives might have proceeded differently. The approach might have begun with a review of the GOZ's tax system. There could have been an assessment of the willingness of top government officials to invest in the economic future of the country by assuming short-term tax concessions. The Mission could have also looked for prior examples where the Ministry of Finance used tax incentives to encourage economic growth. The Mission could seek a Cabinet member, preferably the Minister of Finance, to champion the legislation through Parliament.

As a second phase to this alternative process, the Mission or contractors could have proceeded to the Ministry of Privatization and Indigenization to conduct a similar evaluation of its motivations, mechanisms, and requirements for mobilizing employee ownership activities as indicated in the ZED Project.

The third and final stage of this scenario might have been the employee ownership initiatives as they currently stand in the ZED Project Paper. Based on this approach, Phase One and Two establish the political foundation and understanding which would have been useful for determining if and how to proceed with project implementation.

According to the ZED Project Paper's logframe, several project assumptions were made, but few seem to have shaped ongoing project activity. For instance, ZED was predicated upon a continuation of ESAP macro-economic policy reforms and a decline in interest rates. Both deteriorated over the course of the project, yet the project remained as planned.

Although this was not addressed as a problem, the quality of employee ownership transactions would have improved had the EO intermediary position been better defined. ESOP transactions are often characterized by their conflicts of interest. USAID/Zimbabwe's contractors served as representatives for both employees and managers during transactions for several firms. Achieving a balance between these conflicting and competing interests requires careful planning. One possible solution could have been to consistently side with one party, say the employees, and then to help arrange for the assistance of independent agents to represent the other parties to the transactions.

Case Study Two

CZI Sub- Contracting Program Successful Expansion of Business Marketing and Export Linkages

DESCRIPTION OF THE ACTIVITY

The main objective of the Confederation of Zimbabwe Industries (CZI) Sub-Contracting Program, now known as the CZI Business Linkage Program (CZI/BLP), is to arrange sub-contracts, or business linkages, between established large industrial or business firms and small to medium-scale enterprises (SMEs). The linkages forged by CZI to date have ranged from service sector activities such as cleaning, catering, and transport, to manufacturing and assembly-type, value-added industrial enterprises. CZI sets up prospective linkages by conducting manufacturing and cost accounting "audits" of larger firms to determine areas where savings may be achieved through sub-contracting, and by screening listings of smaller firms to find candidates that might serve the needs of the larger firms. It then serves as a broker in arranging and implementing sub-contracting agreements between the larger and smaller firms.

THE BENEFITS OF SUB-CONTRACTING

For the economy, sub-contracting boosts overall economic growth and industrial output by ensuring the more efficient use of available resources. It also contributes to broadening the ownership of businesses in Zimbabwe and to job creation. Moreover, the process of arranging linkages has helped to create a business environment that has been beneficial to both the corporate and SME sectors.

For corporate firms, the linkages have enabled firms to reduce costs, lower risks, and concentrate on core products and operations. The firms are able to screen potential SME suppliers for reliability, quality, and the timely delivery of products and services. This has improved the efficiency of their operations, and increased profitability. It has freed up manpower and financial resources and enabled firms to invest in expanded productive capacity.

For the SME sector, the program has provided a window on the corporate market, and access to reliable and lucrative markets. Participating SMEs have been afforded low-cost opportunities to gain experience and know-how through interaction with large corporations. This has led to increased volume of output, reduced cost, and increased efficiency. It has given them access to high-quality technical expertise thereby facilitating their efforts to produce and deliver higher quality products and more reliable services.

LEVEL OF FUNDING AND INPUTS AND OUTPUTS

USAID provided a total of US$425,733 to the CZI Sub-Contracting Program since its inception in 1995. This includes an initial grant of US$287,060 that was disbursed over a two-year period, from November 1995 to November 1997, and a second grant in 1998 for US$138,673, which was to be disbursed over the two-year period from March 1998 to May 2000. The end date of the second grant was subsequently extended to August 2000.

A share of the USAID funding provided under the second grant was used for technical assistance activities undertaken by the International Capital Corporation (ICC), EMPRETEC, and Development Training Associates (DTA). The assistance included the design by ICC of a financial sustainability strategy for the CZI sub-contracting program. EMPRETEC provided entrepreneurial training of potential partner-SMEs; and DTA provided training to SMEs in customer care, marketing and general maintenance of a business.

In addition to USAID assistance, CZI has also received funding from NORAD, the Norwegian development assistance agency. USAID funds have been used to support sub-contracting programs in Matabeleland and Mashonaland. NORAD funds have supported programs in Manicaland and the Midlands/Masvingo area . NORAD funding for the program was renewed for a three-year period recently, extending its support to 2004.

Since 1996, the CZI business linkages program has created a total of 669 linkages, worth Z$979 million. A total of 9,323 jobs have been created in the process. In the USAID areas of assistance, a total of 251 linkages have been created, worth Z$765 million; and a total of 3,723 jobs have been created.

FACTORS THAT LED TO THE SUCCESSFUL COMPLETION OF THE ACTIVITY

Over the five years of USAID support, CZI can point to an encouraging record of achievement. A number of case studies show that firms involved in sub-contracting have indeed experienced cost-savings, improvement in product quality and service, increased revenues, an expanded customer base, and an enhanced willingness to venture into export markets. A recent survey conducted by CZI has noted that established linkages are beginning to become sustainable through the execution of repeat orders. In the face of economic decline and political uncertainty, the CZI business linkage program is regarded as one of the more successful efforts in Zimbabwe's current drive to promote indigenization.

1. THE DEVELOPMENT OF A CORPORATE AND SME DATABASE

The program has also led to the development of a well-constructed corporate and SME database, which provides up-to-date information on the sub-contracting arrangements brokered by CZI. The database provides information for each potential and actual linkage, including the identity of the corporate seller; the SME involved; the business being out-sourced; the type of business linkage being forged; and the number of jobs created as a result of the linkage. A survey conducted in 1999 indicated that 100 percent of the SMEs involved in linkage arrangements are now willing to pay a 2 percent brokerage fee for linkage-related services; however, only 46 percent of corporate companies are prepared to pay for such services.

2. EXTENDING THE MANDATE FOR ESTABLISHING BUSINESS LINKAGES

Currently, CZI is in the process of extending its mandate for establishing linkages, and proposes to begin establishing linkages between complementary smaller firms, i.e., horizontal linkages. In addition, CZI has recently set up a Business Linkage Association to promote SME interests. The Association will continue efforts to establish business employees; control the quality of services and products produced by SMEs; assist members in obtaining finance; help them to develop management skills; and carry out capacity audits to ensure that SME's can fulfill contracts.

3. THE GROWING MARKET FOR LINKAGES

A number of positive factors have begun to weigh in favor of the sustainability of the CZI Business Linkages Program. Business employees have now become widely known as an acceptable business option. The track record of the program suggests that there is a far larger market for sub-contracting in Zimbabwe than has yet been tapped. The sustainability of the program will continue to hinge, however, on the establishment of a more conducive macroeconomic environment, results-based marketing, and the expanded training of SMEs to ensure quality control, product development and professionalism.

4. NETWORKING FORUMS AND TRAINING SEMINARS

Members of the Business Linkages Program are regularly invited to Network Forums that are held weekly. At the forums, members discuss their out-sourcing needs and opportunities and are encouraged to establish formal linkages. The forums provide a conduit for useful feedback to members. A number of successful deals have been closed at the forums.

CZI has sub-contracted with EMPRETEC to conduct training programs for member firms. The courses offered include marketing, costing and cash flow management. Empretec was chosen to run the training program given their focus on entrepreneurial development. The training programs have been well attended and will likely be continued.

5. SMALL BUSINESS EXPOSITION AND TRADE FAIR

The small business exposition conducted annually in Zimbabwe is an important event for SMEs in that it provides opportunities for companies to promote their businesses, market their products, and make valuable contacts. It also gives them an indication of the competition that they face in their respective sectors and provides a platform for networking with large corporations and financial institutions. CZI has been participating in the trade fair for some years. It sees the trade fair as effective way to market the linkages program to SMEs and corporations

THE SUCCESS OF THE PROGRAM AND THE WAY FORWARD

Implementation of the CZI/BLP has shown that the existing, largely autonomous management structure of the CZI is capable of developing the program further, even after external funding for capacity building activities in Zimbabwe has ended. This in itself is an important accomplishment. Expansion of the program will require that CZI equip itself with the capacity to train SMEs and continue to co-operate with local and external service providers and technological support institutions. In addition, the overall functions and responsibilities of the Business Linkages Program need to be extended, from merely setting up linkages to facilitating the transformation of small-scale firms into credible and vibrant business entities.

CZI staff who manage the program believe that a major share of Zimbabwe's economic growth and job creation opportunities lie with the further development of the SME sector. In this regard, SMEs are viewed as providing the basis for growth in the domestic economy. The larger companies are providing opportunities for economic growth in the regional and global spheres.

A Possible Alternative Approach

A network of sector-based business-linkage associations would constitute a practicable alternative approach to effecting business linkages through sub-contracting arrangements between large-scale and small-scale firms. Such an approach would have the advantage of providing a more focused and specialized scenario within which to establish linkages. It could, however, lead to duplication of effort and could pre-empt small-scale firms from taking advantage of cross-sector linkage opportunities, unless sector database information is widely shared, well defined in term of sub-sectors, and readily accessible to both larger firms and SMES.

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Case Study Three

SUPPORT FOR HPC OUT-GROWERS SCHEMES A SUCCESSFUL PROGRAM WITH INNOVATIVE APPROACHES

A. Description Of The Activity

Horticultural Promotion Council (HPC) out-growers schemes were basically business linkage activities instituted under a small-scale growers-exporter linkage program managed by HPC. Under the program, technical assistance was provided by HPC to horticultural exporters who then, in turn, provided small-scale growers with the necessary mix of technical assistance, training, quality control, marketing assistance, and financial support to help them produce and sell high quality produce to the exporter, at a competitive price. Technical assistance and training was also provided directly to the small-scale growers, when appropriate and as required.

While these activities were focused on increasing the stake of small and medium-scale indigenous farmers in horticultural exports, it was expected that the program would benefit the entire industry as well as the rural economy through increased farm production and the expanded export of high quality horticultural products.

B. Level of Funding and Inputs and Outputs

The total cost of the HPC Program was US$526,616; with USAID contributing US$396,000 through a Cooperative Agreement with HPC, and with HPC contributing from its own resources the equivalent of $130,616 (or 25% of the total). In addition, exporters and small-scale farmers participating in the venture made additional contributions of approximately US$100,000 and US$15,000, respectively. The effective date of the Cooperative Agreement was January 1998, and the completion date was September 2000.

In addition to providing funds, the purpose of the USAID Cooperative Agreement with HPC, signed in January 1998, was to support the Council's efforts to strengthen and expand linkages between small-scale growers and large-scale horticultural exporters. It was anticipated that these efforts would help to increase financial returns to the small-scale growers participating in the program, and lead to increased on-farm employment, expanded investment, and the establishment of a broader productive base in Zimbabwe for horticultural exports. The project fell under the rubric of Results Package 3.1 "Business Linkages between Large and Small/Medium Enterprises", within USAID/Zimbabwe's Strategic Objective #2, "Broadened Ownership in a Growing Economy". USAID funding for the program ended in September 2000.

C. Factors That Led to the Successful Completion of the Program

The factors that led to the successful completion of the program were the combination of innovative technical assistance and training activities arranged by HPC to ensure its success. These included the following:

1. A VISIT TO KENYA

The visit to Kenya involved a six-person team from implementing organizations. The purpose of the visit was to study the small-scale export horticultural industry in Kenya and to draw lessons that could assist further development of the industry in Zimbabwe. In effect, the trip provided a set of benchmarks against which to measure the success of out-grower schemes in Zimbabwe. Virtually all small-scale growers in Kenya own the plots they farm. Kenyan export volumes are approximately three times those from Zimbabwe and there are more exporters in Kenya vying for horticultural produce than is the case in Zimbabwe. In contrast, exporters in Zimbabwe function like monopolists in their areas of operation. Whereas Kenyan exporters serve a wide range of markets from bulk packs for the wholesale market to pre-packs for supermarkets, exporters in Zimbabwe generally target the upper end of markets and this serves as an entry barrier for small-scale growers as quality standards are very stringent.

2. THE DEVELOPMENT OF A MANAGEMENT TRAINING PROGRAM

The management-training program developed by HPC was aimed at equipping small-scale growers with a business-like approach to their farming activities. It had been noted that a sizable proportion of small-scale farmers in Zimbabwe did not have a business-like approach. Other modules in the training program included sessions during which participants were exposed to different business experiences wherein some businesses were successful and grew from strength to strength, whereas others were struggling and had in some cases collapsed completely.

Other sessions or training modules covered problems associated with producing horticultural products outside contracts; planning ahead through projected cash flows; setting prices that cover costs while leaving a profit margin for the farmer; and systems designed to minimize losses particularly with perishable products. An evaluation of the training program by an expatriate training expert indicated that the courses offered were highly appreciated by participants. The evaluation also noted a need for the program to place greater emphasis on how the various processes like a cropping program, budgeting and cash flow projections were connected. In addition, it was indicated that there was also demand for training courses on income and expenditure accounts; profit and loss accounting; and record keeping. As a result of the evaluation, the program was modified to contain modules addressing these needs.

3. THE ESTABLISHMENT OF A SMALL-SCALE GROWER EXPORT REVOLVING FUND

Small-scale growers enrolled in the HPC program generally lacked access to working capital for crop inputs. Commercial finance institutions consider them to be high-risk borrowers lacking in collateral and sound business principles. Training alone without the provision of inputs, could severely restrict project effectiveness.

For their part, exporters in Zimbabwe are increasingly unable to provide necessary inputs to out-growers due to financial constraints that they themselves now face. Consequently, HPC found it essential to create a revolving fund that served to ameliorate the problem. A study of the Kenyan out-grower scheme had demonstrated that out-grower export schemes were likely to fail if out-grower scheme had demonstrated that out-grower export schemes were likely to fail if participant growers were not supplied with adequate inputs. In Zimbabwe, schemes where exporters were supplying inputs to out-growers were shown to be more successful than schemes where the exporter was not able to supply inputs.

4. THE INSTITUTION OF FIELD DAYS

The major objective of the field days was to address constraints faced by small-scale growers in the production of export crops. Fourteen such field days were held during the course of the project. Exporters collaborated with HPC in providing technical expertise to farmers in areas such as sugar beans, *mange tout,* citrus and baby corn production, the safe use of chemicals, grading techniques, and record keeping.

5. PACK-HOUSE VISITS AND WORKSHOPS

Pack-house visits were arranged by the HPC as a way of demonstrating to small-scale growers the level of sophistication required, in terms of hygiene, grading and packaging, to properly prepare products for export. The feedback from small-scale growers who visited the pack-house was positive. The event clearly made them realize the importance and necessity of establishing linkages with exporters to meet the quality requirements of export horticulture.

6. ETHICAL TRADING INITIATIVE

Ethical trade involves trade in goods that are produced under conditions that are environmentally and economically sound. It addresses concerns among overseas consumers about conditions in the production chain. The Ethical Trading Initiative was established in 1998. It is an alliance of companies, NGOs, and trade unions working together to improve working conditions in developing countries. HPC signed on to the program having decided to introduce in Zimbabwe a local code of practice that establishes common minimum standards across the horticultural industry. HPC is still in the process of evolving a strategy to get small-scale growers to comply with the requirements of the code.

7. OTHER INITIATIVES

To further the objectives of its own program, HPC has gotten involved in collaborative work with other institutions, including the Natural Resources Institute (UK) and the Cornell International Institute for Food, Agriculture and Development (CIIFAD).

The Natural Resources Institute (NRI) has initiated a project on food safety assurance. HPC agreed to collaborate in the project, particularly on information dissemination of project outcomes using the small-scale out-growers network established by HPC under the USAID Project. The NRI project is directed at identifying the nature and extent of food safety risks associated with horticulture at the production and marketing levels. It addresses the problem of quality assurance that generally precludes resource poor farmers from accessing export markets. Produce is tested at various stages of production and along the marketing chain for microbial and chemical contamination. Zimbabwe's Horticultural Research Center is leading the project and the Katsaga Research Station is collaborating on the chemical analysis aspects of project-funded activities.

The Cornell Institute (CIIFAD) has been working with small-scale growers in various parts of the country. The Institute has been trying to assist the growers to overcome problems of soil fertility, pests and diseases, post harvest handling, and transportation of produce. The USAID/HPC Project provided agribusiness management training to a group of small-scale growers at the Chipo Irrigation scheme. The results of the training program were very favorable and CIIFAD put forward a proposal to Cornell University to further fund projects of a similar nature.

D. – The Success of the HPC Program

The main objectives of the HPC Program were to increase the production levels of small-scale growers already producing for export, and to broaden their production base by increasing the number of small-scale growers participating in schemes connected with the HPC program. It also sought to increase the number of exporters participating in out-grower schemes. While the project did not meet its intended objectives fully, valuable lessons were learned and the schemes showed that they could be highly beneficial to exporters as well as small-scale out-growers.

The success of the program was centered on the innovative approaches that HPC undertook get linkages established In combination with the long-term vision and attention given by HPC to ensuring that activities were manageable, attuned to market signals, had flexibility, and were practical. Considerable attention was also given to ensuring that participant out-growers were kept informed about market trends, received fair value for their products, and were properly capitalized.

Possible Alternative Approaches

The best possible alternative approach would be for small-scale out-growers operating on their own to establish an association or network among themselves, and collectively seek out and pursue potential export leads. A step in this direction of arranging horizontal linkages has already been taken by HPC. The HPC approach, however, would still rely on HPC acting as an intermediary and as presently conceived it would be utilized only in bringing together 2-3 small-scale growers and not a collective group. This is a feasible first step, however, which over time could lead to the establishment of a small-scale out-grower collective or association. Database sharing on export leads would be essential to the success of such an approach.

Another possible alternative would be for large-scale exporters to act on their own in teaming up with small-scale out-growers. Historically, this approach has always been an option and is one that has undoubtedly been utilized. One can foresee HPC playing a major role as a facilitator or broker under this arrangement, as opposed to being an active intermediary. Considerable inputs of technical assistance and training would likely be needed to bring this approach to fruition. The most likely source of required inputs would be the exporter involved. There are only 2-3 exporters in Zimbabwe who have a sufficient scale of operations at present to underwrite the cost of sustaining this kind of an arrangement.

ANNEX B
ACTIVITY COMPLETION REPORTS

1. Technical Support of ZED Project Activities, Price Waterhouse Coopers/ International Capital Corporation (ICC)

ACTIVITY OBJECTIVES

ZED was one of several USAID/Zimbabwe projects targeted to engage the problems associated with economic growth in Zimbabwe. The ZED Project sought to increase indigenous ownership of the productive assets of the economy through growth-enhancing mechanisms. The project focused on activities related to increasing employee ownership, strengthening trade and business associations, and on increasing access to capital for small and medium sized enterprises. The project's objectives supported increased investment and broadened ownership in the Zimbabwe economy. The project implementation contractor for the period of focus was the US firm Coopers & Lybrand (C&L); its local implementing partner was International Capital Corporation (ICC).

On the ownership side, ZED sought to increase the number of Zimbabweans with an economic stake in the ownership of assets. Simultaneously, through the stimulation of investment, it sought to promote economic growth leading to new opportunities for asset accumulation. The two are intertwined and mutually reinforcing, and it was judged that ownership, expansion and new investment were equally important indicators of ZED Project success. This approach was also fully consistent with the Government of Zimbabwe's (GOZ's) objective of promoting economic growth while simultaneously assuring that "indigenization"—spreading the ownership of assets to include large numbers of economic participants—was rapidly achieved.

The Country Program Strategic Plan (CPSP) for the USAID Mission in Zimbabwe at the time the ZED Project was authorized concerned four main problem areas: family planning and health, economic growth, the environment, and AIDS prevention. As indicated in Annex F, at Strategic Objective No. 2 (SO-#2) addressed economic growth and was defined as "broadened ownership in a growing economy." SO-2 was itself segmented into a three-part strategy consisting of: (1) broadened ownership of existing businesses (2) the creation and exponent of micro, small and medium enterprises (MSMEs) and (3) broadened ownership of low-cost housing. The ZED Project addressed two parts of SO-2, while other USAID projects were concerned with the low-cost housing initiatives.

ZED's broadened ownership component aimed to address policy, information, and expertise constraints to increase employee ownership of business assets in a growth enhancing and sustainable economic environment. The business and trade association component was geared to provide short-term technical assistance and training to business and trade association on a demand-driven basis for programs that would increase investment or broaden ownership of the economy. Technical assistance in the area of access to capital was aimed to address the constraints faced by SMEs in accessing both debt and equity capital to finance their businesses.

USAID Zimbabwe executed three Delivery Orders (DO) in order to provide technical assistance supporting the ZED Project. The focus of the first Delivery Order was the project's setup, called ZED Phase 1, which lasted from October 11, 1996 until Jun 30 1997 and which was carried out by the USAID Mission and Coopers & Lybrand (C&L). The second Delivery Order marked the arrival of the institutional contractor and the implementation phase (Phase 2) of the ZED Project. It lasted 16 months from October 10, 1997 to January 31, 1999 and was implemented by C&L, and International Capital Corporation (ICC). The third and final Delivery Order began March 1, 1999 and was scheduled to close out with the Mission's SO#2 efforts in September of 2000; it was jointly carried out by the by ICC and the USAID Mission. The focus of this Activity Completion Report (ACR) is on the second Delivery Order, PCE-0026-Q-3031-00, and the activities in which C&L and ICC were engaged.

ACTIVITY INPUTS AND OUTPUTS

Total contract expenditures under the second Delivery Order were $1.869 million. Based on anticipated expenditures indicated in the Project Paper, this was divided into three principal component areas: $1,100,000 for employee ownership, $385,000 for trade and business association support, and $295,000 for access to capital. The specific activities initiated under each of the three component areas are discussed below.

EMPLOYEE OWNERSHIP

The larger activity of developing employee ownership was split into four sub-activities: 1) develop package of incentives and support their implementation; 2) assist in transacting/setting up employee stock ownership plans (ESOPs); 3) expand and update database on employee ownership; and 4) provide training to foster increased employee ownership.

The contractors developed—with the guidance of the Employee Ownership Advisory Panel (EOAP), USAID, and a stakeholder workshop—a series of legislative incentives to promote Employee Stock Ownership Plans (ESOPs). The potential fiscal effects of each of the ESOPs were measured. Draft legislative documents were created. Efforts in public advocacy with the relevant GOZ stakeholders were pursued. The Ministry of Public Service, Labor, and Social Welfare agreed to sponsor the introduction of the legislation to the GOZ Cabinet. However, by the end of this DO, the Cabinet had not yet endorsed the proposed legislation.

The contractors developed and targeted a prioritized shortlist of companies to which it offered transaction assistance in support of employee ownership. They provided in-depth assistance to five companies in structuring and implementing employee ownership transactions, completing two transactions by the end of the contract period. The contractors completed a case study of one of the transactions in order to be able to demonstrate the processes and benefits of setting up an ESOP to other companies or legislative members weighing the benefits of EO. Over 40 companies received transaction assistance to a lesser extent; however, only one of these companies was able to successfully implement an EO scheme. Some 2,500 employee owners were created as a result of USAID-assisted transactions.

The contractors undertook to revise an employee and management ownership database created in ZED Phase One and converted it into a computer format. C&L and ICC produced a strategy on how to sustain the database it and transferred it to USAID. A final report prepared by ten contractors summarized the current status of EO and provided recommendations on ways to improve Zimbabwean employee ownership schemes.

Several EO workshops were held to promote employee ownership among the public and private sectors, labor unions, and professional service providers in Bulawayo and Harare. They were conducted by area specialists brought in to Zimbabwe by the contractors. The two most in-depth workshops presented ICC training programs for the Zimbabwe Congress of Trade Unions (ZCTU) affiliate privatization committees.

TRADE AND BUSINESS ASSOCIATION SUPPORT

Three trade associations promoting and facilitating linkages between small and large businesses received implementation support from the contractors over this period, as described below. By the end of this buy-in period, all ZED funds earmarked for this component were committed.

For the Confederation of Zimbabwe Industries (CZI), the USAID contractors developed recommendations on how its business linkages sub-contracting program should be organized, marketed and managed. CZI also received advice on how to make the association financially self-sustaining.

The Franchise Association of Zimbabwe (FAZ) received performance evaluation support and assistance in formulating strategies for developing franchising in Zimbabwe. Assistance was provided to potential franchisers to prepare business plans. Promotional materials and case study examples were created to help convey the advantages of franchising with the business financial community. The main outputs of the assistance effort were 1) the development of a profit and loss forecast including cash flow projections to FAZ; 2) the establishment of Gold Print and Instant Shoe Repair franchisee operations, followed by financial proposals for the two franchises, and 3) a refocusing of FAZ's future objectives, structure, and the development of strategies on organizational structures.

The Horticultural Promotion Council (HPC) received technical assistance to develop small-scale out grower expansion plans for horticultural exporters. The contractors assessed the financing requirements and they assisted the horticulture exporters in raising finance for implementing expansion plans.

ACCESS TO CAPITAL

Startup assistance was provided to four institutions that had received or were expecting to receive direct grant support from USAID: the Zimbabwe Association of Micro Finance Institutions (ZAMFI), Masvingo Credit Against Poverty (MCAP), Zambuko Trust, and Phakama Economic Development Company. This assistance was provided mostly in the form of business plan development to improve management's processes and capabilities to secure financing for client MSMEs. A database of information on financing available to MSMEs in Zimbabwe was completed at the beginning of 1999, and was then made available to each micro finance lending institution participating in the program.

DEVELOPMENTAL IMPACT

By the end of this phase of ZED Project implementation, substantial progress had been recorded in the areas of tax and fiscal incentives, firm level assistance, and training for the business and financial advisory services industry. However, given several factors—poor to declining economic conditions, GOZ foot dragging, long privatization processes, delays in approving or extending grantee co-operative agreements—the impact of the various sub-activities were often limited.

EMPLOYEE OWNERSHIP DEVELOPMENT

Because over half of the Delivery's Order's resources were directed to economic ownership development during the period, much of the SO-2 depends upon the strategic accomplishments in this area. Given the high cost of borrowing funds to finance employee share purchases at the time (40%), however many firms and their employees began to see tax incentives as crucial before they could consider further ESOP activity. Hence, the lack of substantive ESOP legislation developments greatly inhibited meeting SO-2 goals in EO by period end.

Of the five Project-assisted transactions that occurred over the life of the ZED project, two cases are illustrative and show how ESOPs may or may not lead to obtaining the Mission's SO#2. Dairibord Zimbabwe Limited (DZL) enlisted 97% of its employees to purchase the 10% of stock pre-allocated to employees by the GOZ during the firm's privatization. Shortly thereafter, the employees, sold on the benefits, went back to ask for another 10% from the GOZ. According to DLZ's Managing Director, overall corporate effectiveness and morale had unquestionably improved. "Employees began to think on their feet more." Altogether, there is much evidence to suggest that this transaction achieved its objectives. In contrast, the Commercial Bank of Zimbabwe (CBZ)'s ESOP was set up without employee representation and provided limited EO incentive mechanisms. The pre-determined allocation and self-interest of management limited the transaction's EO impact.

ZCTU training was by far the most promising training of trainers program initiative according to ICC in terms of educating employees in parastatals facing privatization. This was anticipated to result in EO schemes which were more in line with ZED objectives. However, over time, the ZCTU became viewed as an enemy to the State, and the USAID Mission saw continued technical support as futile.

BUSINESS AND TRADE ASSOCIATION SUPPORT

CZI chose not to use the implementation support that they had received from C&L and ICC; hence, there was little impact. FAZ accepted more assistance from the contractors, but FAZ's mismanagement and poor performance in the face of adverse economic conditions halted its effectiveness altogether. USAID did not extend its funding to FAZ beyond September 1998. Delays in securing HPC's direct grant support from USAID limited the assistance period over which the contractors could offer technical support.

ACCESS TO CAPITAL

Business plans for each of the institutions involved were completed at various points during this period. It is too soon to tell whether the plans served the purposes of SO-2. It will be a matter of implementation, market acceptance and an economic turnaround. The database on micro finance lending institutions was completed too late to gauge its impact at the end of the contract. However, given the demand expressed for it at the time, it holds a lot of promise.

SUSTAINABILITY

With the exception to EO activities, most of the support provided by Coopers & Lybrand and International Capital Corporation was in the form of institution building or creation. For Business Association support and Access to Capital activities, technical assistance was usually provided to help in the creation of business plans. If the contractors had had more direct operational involvement in operations of these associations, then they would have been more accountable for the sustainability of their activities relative to the grantees.

In EO-related activities—a central focus of the ZED Project and even larger focus of this delivery order—target achievements depended upon a macroeconomic turn around and a successful push to secure Employee Ownership Advisory Panel (EOAP)-proposed tax legislation. Neither materialized by the end of the contract period. Had they occurred, EO activity results would have been more subject to sustainability analysis.

LESSONS LEARNED

EMPLOYEE OWNERSHIP

Fiscal incentives, accelerating privatization, and EO-linked productivity enhancement programs would have been important precedents for employee ownership and had a significant impact on broadening ownership of Zimbabwe's productive assets during this contract period.

Three main stakeholders—government, professional/financial institutions, and the private sector—will need to create an enabling environment. In doing so, they must share the same objectives of employee and management ownership in the Zimbabwe context: enhancing economic growth; broadening ownership; facilitating privatization; and increasing productivity and company performance.

Economic instability significantly hampered broad-based EO development during this period. The extremely adverse economic climate in Zimbabwe caused companies to focus on other priorities than the introduction of employee ownership. Employee share values and dividend payout rates declined, in the latter case falling substantially below market interest rates; both provided disincentives to consider EO schemes.

It became increasingly clear that a GOZ champion with Cabinet-level clout was imperative to obtaining EO tax legislation. The Mission's project officer and other's on the project team believed that the ZED Steering Committee could have played a larger role in bridging this gap to government than they did; the Committee's effectiveness was deemed to be significantly hampered by its lack of member cohesiveness and involvement.

A representative at International Capital Corporation believed EO lobbying difficulties might have been anticipated had an additional study of the GOZ been made in advance. Had the GOZ previously used fiscal measures and tax incentives to achieve its economic growth objectives? As it turned out, short term revenue concessions significantly dampened the GOZ's receptiveness to the new legislation, despite evident demand for it the private sector and the long term benefits implied from the experiences of other nations.

With greater knowledge, EO will become more explicitly linked to overall company strategy through the introduction of employee participation and empowerment. However, if the schemes exist only to convey dividend rights and not the right to capital gains, then the real impact to economic growth and broadened ownership will be negligible. The EO survey conducted under this delivery order provided evidence to suggest that the majority of ESOPs formed in Zimbabwe had been structured in this fashion.

ESOP transactions are often characterized by their conflicts of interests. USAID contractors serve as representatives for employees on the one hand and managers on the other (and may work with several more). Achieving a balance between them requires careful planning; another solution may be to side with one party, say the employees, and then to help arrange for the assistance of independent agents to represent the remaining parties.

BUSINESS/TRADE ASSOCIATIONS AND ACCESS TO CAPITAL

Contractors should provide implementation assistance that will be practical, not "too theoretical". Local conditions should have precedence in determining the form of implementation support not the composition of standard practices. Good technical assistance seldom counteracts poor grantee implementation or poor market conditions.

2. *Promotion of Employee Ownership Tax Legislation and Employee Ownership Schemes, International Capital Corporation (ICC)*

ACTIVITY OBJECTIVES

ZIMBABWE ENTERPRISE DEVELOPMENT

One of the key components of the USAID/Zimbabwe Mission's Strategic Objective No. 2 (SO-2) was to broaden ownership of the productive assets of the economy through growth enhancing mechanisms. In its Country Strategic Plan, approved by USAID/Washington in May 1996, the Mission identified expanding employee ownership and the productivity gains that accompany it as a critical step in achieving this objective. The mission found in the analysis leading up to the strategy that the key factor inhibiting the expansion of employee ownership were the tax and corporate laws that inhibited this type of transfer in ownership.

The Zimbabwe Enterprise Development (ZED) Project was the basis for the USAID Mission's major initiative to assist the Government of Zimbabwe (GOZ) and the Zimbabwean private sector to expand employee ownership. However, after the first two implementation phases of the project were completed, little progress had been made to change tax and corporate laws that inhibited the expansion of employee ownership. Many of the ZED Project's remaining initiatives hinged on this development. So, it became a leading objective of Project to put in place a Regulatory Framework for Employee Stock Ownership Plans (ESOPs), and to promote and enact through a Finance Bill, tax incentives to encourage local firms to adopt ESOPs.

USAID Zimbabwe has executed three Delivery Orders (DOs) to obtain technical assistance supporting the ZED Project. This Activity Completion Report (ACR) focuses on the final one, DO 690-C-00-99-00220-00, which covered an open-ended period beginning March 1, 1999. International Capital Corporation (ICC) was selected to be the Project's implementing contractor.

Tactically speaking, USAID decided to continue its activities to promote ESOPs in two phases. The objective of the first phase was to concentrate on getting the legislation on the statute books by January 31, 2000. For the second phase (which was only to be funded up on successful completion of Phase 1), the objective was to involve company-specific work on the design of successful ESOPs and on the effective marketing and promotion of ESOPs within the business community.

OPEN BOOK MANAGEMENT (OBM)

Executing a Modified Acquisition and Assistance Request Document (MAARD) on April 30, 1999, USAID/Zimbabwe extended its ZED Project (OBM) activities to include OBM. The intent was to introduce the concept and provide competency training in OBM to individuals in business and business advisory firms.

The objective of OBM is to provide employees down to the shop floor level with detailed financial and business statistics on corporate operations. In turn, this enables employees to have some influence over operational and strategic management decisions, and lead to favorable spillover effects on productivity and corporate governance.

ACTIVITY INPUTS AND OUTPUTS

The total planned input cost for Phases 1 and 2 of ZED activities was US$242,219 (Z$9,245,481). Total inputs for Phase 1 would be US$ 126,448 (Z$4,826,518) and for Phase 2, US$ 116,110 (Z$4,431,918). The planned input amount for OBM expenses is US$75,000.

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPS)

Since legislation may be either introduced by the Executive or Legislative wings of government, efforts during Phase 1 were simultaneously pursued in both. The Project Team anticipated a progressive series of steps to pass the legislation.

For the Executive Approach:

Target Result 1:	Tripartite Committee—Labor, Government, Business—formally approves Employee Ownership Incentive Legislation (EOIL)
Target Result 2:	Ministry of Labor introduces Cabinet Memo
Target Result 3:	Cabinet approves and submits package to AG's office
Target Result 4:	AG produces final draft legislation
Target Result 5:	Ministry of Labor introduces Legislation to Parliament
Target Result 6:	Parliament debates and passes Legislation

For the Legislative Approach:

Target Result 1:	Tripartite Committee—Labor, Government, Business—formally approves EOIL
Target Result 2:	Parliament introduces a private bill
Target Result 3:	The AG produces final draft legislation
Target Result 4:	Parliament debates and passes legislation

Until early 1999 the lead Government Department in this process was the Department of State Enterprises. However, it became clear at this time that the process needed to be shepherded through Government by a Ministry with Cabinet representation (which the Department of State did not have) and the Ministry of Labor (MOL) agreed to take the lead.

This involved much additional input/training as personnel in the MOL had had little exposure to ESOPs, and ICC worked with MOL through August 1999, culminating in the preparation, in conjunction with MOL staff, of a Policy Paper for Cabinet.

At this point, it was believed that the legislation to introduce a Regulatory Framework, and tax incentives, could get through the legislative process by December 1999/January 2000.

However, progress was slower, particularly at the level of the Senior Secretary in the Ministry of Finance, who needed to lend his support to the tax incentives. In October 1999 a program of education for Members of Parliament (MPs) commenced. Initially this was to educate MPs on ESOPs, so that they would be familiar with the concepts when the legislation came to Parliament (via the MOL), and could add their voice to promoting ESOPs. However, the MPs expressed their concern about the slow progress being made through the usual Government channels, and offered to promote ESOPs through Parliament. Initially it was thought that they could do this through a Private Bill, but this proved to be impossible, as the proposed tax incentives would impact on the fiscus.

The best way forward, therefore, was for the MPs to put a motion to the House that they wished this legislation to go through, and they agreed to do this immediately. Parliament reconvened after the Christmas break on February 15, 2000.

ICC felt that a final push over the next two to three months would see the Regulatory Framework in place, through and ESOPs Bill, as well as progress on ensuring that the proposed tax incentives would be incorporated into the 2001 Budget. But it never materialized. The hurdles for ESOPs proved insurmountable and the Mission had to concede defeat in the current situation.

Developmental Impact

The objectives of this activity were to put in place a Regulatory Framework for Employee Stock Ownership Plans (ESOPs), and to promote and enact through a Finance Bill, tax incentives to encourage local firms to adopt ESOPs. After substantial effort, these objectives were not achieved.

Sustainability

The sustainability of this activity did not emerge as an issue inasmuch as the objectives of the activity were not achieved, as noted above...

Lessons Learned

EMPLOYEE OWNERSHIP

Fiscal incentives, accelerating privatization, and EO-linked productivity enhancement programs are the main prerequisites for getting employee ownership plans adopted. The positive momentum towards getting such plans adopted that had been developing in Zimbabwe since 1995, has all but come to a halt, for the following reasons:

1. An extremely adverse economic climate which resulted in companies having priorities other than the introduction of employee ownership;
2. The absence of employee ownership legislation and the resulting lack of incentives for companies to introduce EO;
3. The continued slow rate of privatization;
4. A continued lack of understanding of the potential benefits of EO, both at the company and employee levels.

To rekindle efforts to implement such plans, the three main stakeholders in the process—government, professional/financial institutions, and the private sector—will first need to create an enabling environment by ensuring that the pre-requisites cited above are fully met.

3. Establish and Support the CZI Sub-Contracting Program

ACTIVITY OBJECTIVES

The CZI Sub-Contracting Linkages Program was originally proposed by the CZI in 1994, and in 1995, the program received support from USAID under Component Two of the Mission's ZED Project. The main objective of the program was to foster small and medium enterprise (SME) growth by encouraging new, sustainable business linkages between large and small firms, specifically through the subcontracting of work, which larger firms had usually performed in-house. The program sought to create new, sustainable business opportunities by offering SMEs access to reliable and lucrative markets, while offering larger businesses the chance to reduce fixed costs, lower risks and focus on core business activities.

The underlying concerns for the linkages program were; the creation of employment through greater SME industrial growth and its contribution to broadened ownership i.e. "indigenization", in a growing Zimbabwe economy. These two issues were consistent with the purpose of the USAID mission's revised Strategic Objective (SO) # 2, which led to ZED. The purpose of ZED is, "to expand indigenous ownership of the productive assets of the economy through growth-enhancing mechanisms".

One of the three ways through which the ZED project sought to achieve its objectives entailed program grants and short-term technical assistance to a wide range of business organizations aimed at specific measures to increase employment, enterprise creation/expansion, and opportunities to disadvantaged sections of the nation. In this particular case, the CZI, a national industry representative body, sought and obtained assistance from USAID in setting up its Zimbabwe Enterprise Development Center (ZEDC), in funding initial capital equipment requirements and in covering a significant proportion of operating expenses for the Business Linkages Program. The cooperative agreement (CA) between USAID and CZI was therefore designed to support and enhance the role of the CZI in promoting the broadening of ownership of productive assets through the establishment of sub-contracting linkages, within the USAID's SO-2. The building of sub-contracting linkages by CZI would be achieved through:

- *Manufacturing and cost accounting "audits" of larger firms, to determine areas where savings may be achieved through sub-contracting;*
- *Screening of smaller firms to find several candidates with abilities to serve the needs of the larger firms; and*
- *Brokering of actual subcontract agreements between the larger and smaller firms.*

INPUTS AND OUTPUTS

USAID provided financial support for the CZI/BLP in the form of co-operative agreements between themselves and CZI. The activity area of the CZI/BLP was the Mashonaland province of CZI. The first grant was worth US$287,060 and was disbursed for an initial two-year period from November 1995 to November 1997. In 1998, CZI received a two-year renewal of a slightly modified CZI/BLP grant for the period March 1998 to May 2000. This second grant was worth Z$3,938,020 (US$138,673). Therefore, CZI/BLP effectively received a total of US$425,733

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from USAID since its inception in 1995[1]. Under the cooperative agreements, CZI was obligated to contribute towards each of the two grants, in the form of cash and direct in-kind contributions (e.g. office space). The CZI/BLP also received technical assistance during the second grant through services provided by the International Capital Corporation (ICC), EMPRETEC, and DTA. Some of the services provided include; design of financial sustainability strategy for CZI/BLP by ICC, entrepreneurial training of potential partner-SMEs by EMPRETEC and training of SMEs in customer care, marketing and general maintenance of a business by DTA.

The first two years of the Business Linkages Program consisted of five main activities scheduled to take place in two phases:

PHASE ONE – STARTUP

Establishment of a fully operational CZI Zimbabwe Enterprise Development Center (ZEDC)

Staffing

This entailed the recruitment of a small team comprising two professional staff and one administrative staff, with the capability of building an effective national business linkages and referral network, to establish ZEDC and initiate its services. The two professional staff would be an Executive Director, and an SME Specialist while an Administrative Assistant would handle administration of the program. The activity also required all necessary office equipment to be acquired during this period.

Data Base

This activity required the development of a CZI database to capture data of its member SME companies and Zimbabwean SMEs at large which are interested in sub-contracting. CZI to take action, as needed, to procure needed software and equipment to install the recommended database.

PHASE TWO – IMPLEMENTATION

Delivery of business linkages and sub-contracting services to the Zimbabwean business community.

Marketing

In order to build public awareness of the benefits of business linkages, particularly among large firms, which were targeted as potential buyers of subcontracted products or services, a series of seminars, workshops, and other public information activities were to be held to present the rationale for subcontracts as well as a clear indication of their advantages and pitfalls. CZI would sponsor at least one seminar/workshop, during each six-month period of the CA.

[1] CZI/BLP also received support from NORAD for its linkages activities in Midlands and Manicaland.

Brokering Support for Specific Subcontracts

Identification of potential SME subcontractors would be accomplished using primarily the database developed in activity 2. Identification of potential large firms on the other hand would result principally from contacts initiated through the marketing of the ZEDC program in Activity 3. Management and cost audits of companies (40 initially) targeted for subcontracting activity would be conducted and these companies would be linked up with pre-screened SMEs (drawn from the database) most suitable for the subcontracted work. CZI's responsibilities would include providing advice, assistance, or training to participating firms. CZI was expected to broker at least 50 subcontract transactions by the end of the CA.

Financial Sustainability

The expectation was that overtime, a successful ZEDC program, managed and offered by CZI, would be financially self-sufficient through the structuring of appropriate means for sharing certain costs of the program with participating companies and other wise determine where and from whom fees for services can/should be charged. An assessment by CZI of its prospects for financial sustainability and actions towards this objective would be the basis of whether the current CA would be extended beyond the initial two years.

The implementation of planned program activities was reasonably done, with the exception of one. CZI/BLP did not undertake any of the planned 40 formal "audits" of larger companies to identify needs for business linkages. This was mainly for two reasons; first, companies were reluctant to allow outsiders to review their operations and second, through informal assistance from CZI/BLP, the companies proved their ability to identify potential linkage areas.

The second cooperative agreement funded by USAID started in 1998. It consisted of six activities that would serve as benchmark indicators for the program:

Staffing

CZI would hire CZI/BLP Regional Managers for Mashonaland and Matebeleland Chambers and in an attempt to save money and ensure sustainability, the position of National Executive Director was eliminated and his responsibilities transferred to the Manager of CZI Secretariat.

Marketing

CZI/BLP would undertake a number of efforts to market its services to large corporations and SMEs. This would involve 1 seminar for large companies and 1 seminar for small companies each year.

Brokering

CZI/BLP would be responsible for facilitating new business linkages between large corporations and SMEs and sustaining existing ones. The outputs would be 120 new linkages & 90 business linkages sustained for 1 year.

SME Training

CZI/BLP would provide training seminars that help the SMEs understand the needs of larger corporations, and impart the skills needed to meet those needs. This would be achieved through 4 seminars per year for qualified SMEs and 2 SME Expositions

Impact Assessment

CZI/BLP would undertake 2 annual surveys to help assess the indirect impact or demonstration effect of their program activities.

Financial Sustainability

Due to CZI/BLP's failure to attain financial sustainability, USAID commissioned ICC to provide a financial sustainability strategy for the program. The proposed strategy would need to be approved by the CZI/BLP Committee before implementation. CZI was expected to contribute a substantial portion of the cash costs of the program as well as continue to provide office space, office services and supplies.

DEVELOPMENTAL IMPACT

Over the 5 years of USAID support, CZI/BLP can point to an encouraging record of achievement. The program established subcontracting linkages in particularly in manufacturing, services and transport in Harare and Mashonaland provinces. A recent survey indicated that 94% and 54% of SME and large firms respectively regarded CZI/BLP to be a worthwhile program. More specifically the linkages program has had a significant impact on target beneficiaries in the following areas:

- Since 1996, the CZI business linkages program has created a total of 669 linkages. A total of 9,323 jobs have been created in the process for an average of 14 jobs per linkage. In the USAID areas of assistance, a total of 251 linkages have been created, and a total of 3,723 jobs have been created for an average of nearly 15 jobs per linkage.

- A number of case studies show that firms involved in sub-contracting have experienced cost-saving, improvement in product quality/service, increase in revenues, increase in customer base, firm expansion, and venturing into the export market. Companies have benefited from the monitoring and evaluation exercise by CZI/BLP, which has ensured that the established linkages are sustainable through the execution of repeat orders;

- In the face of economic and political inefficiencies, the CZI/BLP has been one of the few success stories in the drive for indigenization;

- The program developed a well functioning corporate and SME database, which provides up-to-date information on the subcontracting transactions brokered by CZI. Specifically the database provides information for each potential and actual linkage on: (i) the corporate seller; (ii) the SME; (iii) the business outsourced; (the potential linkage; (v) the actual linkage; (vi) the type of linkage; (vii) the jobs created as a direct result of the linkages created; and (viii) the location.

- CZI/BLP has increased the interaction and rapport between large firms and SMEs as well as with other service providers through seminars that they organize e.g. Meet the Buyer Seminars, Meet the Financier etc.

SUSTAINABILITY

As part of its grant program, CZI was supposed to develop a strategy toward financial self-sustainability of the CZI/BLP. Financial sustainability was to be achieved through fee-for-service elements in appropriate parts of the program (e.g. the costs of audits of large companies, brokering fees, etc.); and other participating and dedicated corporate (large industry) financial support.

CZI met the commitments specified in the first CA, to share costs with USAID for funding the CZI/BLP, but failed to attain self-sufficiency. A 1997 evaluation indicated that the area of financial sustainability was one, which CZI should strengthen. Thus USAID commissioned the ICC to provide a financial sustainability strategy for the CZI/BLP. However, in the view of CZI/BLP management the ICC-designed financial strategy was far-removed from the realities of business linkages promotion and there were serious questions raised about its practical applicability. As a result, by the end of USAID funding, CZI/BLP was still operating without any substantive sustainability strategy.

Efforts to achieve financial sustainability and to create sustainable linkages were made the more difficult by the adverse economic conditions that prevailed in the country during the latter part of the 1990s. The economy was characterized by record high inflation rate, high interest rates, shortage foreign currency, high budget deficits and breakdown of the rule of law resulting in massive loss of investor confidence. Consequently, many companies both large and small are reeling under these conditions resulting in a decline of CZI membership and subsequent fall in revenues.

For a long time CZI/BLP was perceived as providing a public good, but having demonstrated concrete results, the partners in business linkages program had anticipated_that corporations would be more willing to pay for the services. It has only raised insignificant funds through membership fees, seminar/training fees, and failed to find a successful means of charging a fee for brokering linkages. E.g. if CZI/BLP had received only 1% commission on the value of the 669 linkages (Z$979 million) it created over the past five years, it would have earned Z$9.8 million as income. A survey held in 1999, however, indicates that 100% of SMEs are now willing to pay a 2% brokerage fee for linkages services although only 46% of corporate companies are prepared to pay a fee for the linkage.

Notwithstanding, the problems mentioned earlier, the CZI/BLP managed to make significant progress towards sustaining its program activities. Instead of establishing the Center, as initially proposed, the program was built on the already existing structures of CZI. Currently CZI/BLP is in the process of introducing a new concept that is structured differently but which has its foundations on the initial program. CZI/BLP has extended its mandate from setting up linkages between large and small companies to include linkages between small firms themselves i.e. horizontal linkages. This initiative of information sharing meetings by groups of SMEs has resulted in the formation of a Business Linkages Association in which members pay annual membership fees. These measures are aimed at bolstering the sustainability of the Association.

In sum, a number of positive factors weigh in favor of the sustainability of CZI/BLP as it is now an acceptable business option. However, the sustainability of the program will hinge on a conducive macroeconomic environment, the number of long-term linkages created, wider brokerage fee charging, prudent financial management, results-based marketing and adequate training of SMEs to ensure quality control, product development and professionalism.

LESSONS LEARNED

The promotion of business linkages of CZI/BLP by CZI has yielded a number of important lessons and observations. These lessons come from both successful and unsuccessful linkage attempts.

- CZI/BLP found that "capacity audits" of SMEs, to ensure that weaknesses are identified and corrected before entering into sub-contracts with larger firms are more important than large company audits;
- Large corporations and SMEs, while interested in the services that CZI/BLP offers, did not value these services enough to pay up-front. SMEs claimed to lack the financial means to pay at the onset of the linkages while corporate companies felt the success of the linkages should be judged on the sustainability of the linkage rather than on the linkage per se;
- Large corporations take longer than expected to make a decision about sub-contracting, and longer still to implement the decision;
- Regarding a sectoral-based strategy, the CZI/BLP experience is that the sector of a firm is less important than the firm's individual circumstances, such that the program had to deal with firms across sectors;
- There is need to replicate and deepen the linkages projects particularly to involve SMEs in processing activities;
- Linkages projects need support from the people involved for them to succeed i.e. they should be demand-driven and not imposed from above;
- In the medium-to-long term, more linkages can be created indirectly through the demonstration effect than can be created directly through hands-on CZI/BLP assistance;
- The track record of CZI/BLP suggests that there is a far larger market for subcontracting in Zimbabwe than has yet been tapped.

Implementation to date of the CZI/BLP has shown that the existing, largely autonomous management structure of the CZI is capable of developing the project further, even after the external funding for capacity building tasks has ended. Two important lessons learnt are (a) that CZI/BLP must continue to equip itself with the capacity to train SMEs and continue to co-operate with local and external service providers and technological support institutions. This will be important if CZI/BLP activities will deliver on quality management, just-in-time inventory systems, technology audits and technology acquisitions, etc; and (b) that the overall functions and responsibilities of the Business Linkages Program need to extend from merely setting up linkages to facilitating the transformation of small-scale firms into more credible and vibrant business entities.

An excellent start has been made in building on favorable local business and institutional conditions to overcome attitude and information constraints. The administration of CZI/BLP works reasonably well, except for the delays that were experienced in the actual implementation of phases of the project and in both cases, the delay was linked to the unavailability of key personnel for the program. However, the co-existence of the CZI/BLP Manager as a full-time employee of the CZI and at the same time being the Business Linkage Coordinator, has served as a cost-effective measure for the program, but this may have comprised the potential of the Business Linkages Program due to difficulties in time-allocation.

4. Establish the Franchise Association of Zimbabwe (FAZ) to Introduce Franchising as a Business Linkage Model in Zimbabwe

ACTIVITY OBJECTIVES

The Franchising Association of Zimbabwe (FAZ) is a membership organization that was launched in July 1995 by the Zimbabwe National Chamber of Commerce (ZNCC). FAZ is an initiative that was designed to promote the creation of employment by small businesses at least cost but with the greatest prospects for succeeding. The launching of FAZ followed an observation by ZNCC of the high failure rate of newly established businesses. The ZNCC was also responding to the government's call for the establishment of small and medium-scale enterprises (SMEs), which would be more labor intensive in order to increase employment opportunities.

The FAZ program as a part of ZED, comes under the USAID revised Strategic Objective (SO) #2 and its attempt to increase ownership and investment by offering SMEs a proven method of entering and operating a business. The mission of FAZ was to enhance and safeguard the operating environment of franchisees, franchisers and the service/product providers to Zimbabwe's franchise sector, create new business opportunities for aspiring entrepreneurs and employment opportunities for Zimbabweans. FAZ was meant to assist in the creation of national franchise expositions on franchising. The three main development goals set for the FAZ's program were (a) create new, profitable businesses that contribute to national economic growth; (b) increase the value of business assets owned by small-scale indigenous entrepreneurs; and (c) increase the number of long-term jobs created for Zimbabweans.

INPUTS AND OUTPUTS

Since ZNCC did not have the required resources to sustain such an initiative, USAID was approached for financial and technical assistance which it agreed to provide. The effective date of the Cooperative Agreement was July 1, 1995 with a Project Assistance Completion Date (PACD) of September 30, 1998.

The total amount of the project award was US$235,858. The recipient agreed "to expend an amount of not less than 33% of the amount contributed by USAID on a cost sharing basis". A memorandum of understanding (MOU) signed between ZNCC and FAZ specified the details of the financial, administrative and substantive arrangements under the co-operative agreement. Other expenses associated with the preparation and implementation of the first National Franchise Conference would be covered by the USAID ZIMMAN Project. These were not reimbursable under the Cooperative Agreement.

FAZ's activity inputs and outputs were implemented in two phases: *Phase 1*: recruitment of a core team of three principal staff and their training in franchising within a specified period of time from the start of the program; *Phase 2*: implementation of franchising promotion services for the business community. Following the recruitment of staff and their training under phase 1, the five main activities to be undertaken during Phase 2 were:

- ***Franchising Database and FAZ Studies*** – sought to seek the services of a qualified local consulting company to conduct a survey of existing franchises and inviting these to join FAZ. Subsequent surveys would ascertain status reports and measure the number and performance of newly established franchises. This would be supported by the development of a pro-active legal environment through establishing a Franchising Code of Conduct, a Standard Franchise Agreement and for internal purposes the development of a FAZ Constitution (Articles of Association) and FAZ By-Laws. All this work under the first activity would result in the creation of a reference (local and international) library on franchising for public access.

- ***FAZ National Franchise Conferences*** - Hold an annual National Franchising Conference to educate (and protect) the public, while creating business and job opportunities in franchising. Each conference would bring together franchise companies, franchise experts, and representatives of the financial, accounting and legal professions.

- ***Membership and Seminars/Raining Activities*** – FAZ would (i) mobilize and recruit members by offering different types of membership and fee charges, to accommodate the various groups which will seek involvement in the Association e.g. franchisers, franchisees, supporting organizations and individuals; (ii) plan and conduct special programs (6-10 per year) to educate the public, potential franchise owners, member companies, professional groups etc. on franchise topics. Fees charged at the seminars would become a significant source of FAZ.

- ***Brokering Support for Franchising Arrangements*** – FAZ would "broker" initial contacts and assist in establishing the specific franchising agreements, between interested parties. This activity would rely mainly on the construction of a database of existing and potential franchisors (national and international) and franchisees. General training of franchisees to ensure quality maintenance would be provided under Activity 5.

- ***Financial Sustainability*** – By the end of the USAID agreement, realistic judgments would be made by FAZ as to the prospects for achieving financial self-sustainability, and when a breakeven point might be reached based on well-analyzed cost and income projections. Revenue generation should could include membership fees, workshops and seminars, the National Franchise Conferences, publications etc.

FAZ received some technical assistance under the Cooperative Agreement (CA). In particular, the ICC played a pivotal role in (a) assisting FAZ in preparing the latter's financial projections for purposes of financial sustainability, (b) assisting potential franchisers during the brokering process, and (c) preparing recommendations for the future development of franchising. These three activities respectively led to three outputs: (a) profit & loss forecasts including cash flow projections by FAZ; (b) establishment of Gold Print and Instant Shoe Repair franchisee operations, to be followed by developing financing proposals for Gold Print and Instant Shoe Repair; and (c) refocusing of FAZ's future objectives, structure and strategies and organizational structures.

DEVELOPMENTAL IMPACT

The prevailing macro-economic and social conditions affecting Zimbabwe during the project's implementation period largely affected the implementation of the FAZ project. High inflation, high interest rates and a volatile and unpredictable exchange rate regime from end of 1997 through 2000 negatively affected project implementation. At the same time unemployment continued to increase, creating pressure for the development of new businesses and employment-generating opportunities. A possible by-product of these retrenchments for FAZ were the retrenched managers, with experience and assets, who could have been channeled into franchise opportunities. From its inception, FAZ implemented a number of activities, but with varying degrees of success and impact:

ORGANIZATION AND RESOURCES

The Association was successfully established and a membership base of 80 members was created by 1997. It is not clear however, many of these were fully paid members. Training was provided for the Executive Director and technical assistance was sourced through the IESC volunteer program. Various shortcomings and constraints hindered FAZ's ability to fully exploit the potential for developing franchising in Zimbabwe. These included (i) a shortage of professional staff including low effectiveness of first Executive Director due to limited briefings, (ii) insufficient administrative support, (iii) lack of systematic performance tracking system to facilitate planning, etc.; and (iii) limited financial, information and marketing management systems.

MEMBERSHIP SERVICES AND PROMOTIONAL ACTIVITIES

FAZ's development of base-line information on franchising was a success followed by its promotion of franchising through conferences, seminars, articles, and publications. On the lower-end of the scale of success was the establishment of membership services (training, brokering, library), the launching of advocacy/lobbying on key issues (duty rebates, royalty remittances, education of financial institutions) and the development of a code of conduct for ethical franchising.

FRANCHISE DEVELOPMENT

In terms of concept development FAZ is viewed as a success by the Association membership. Zimbabwe's business community now knows the concept of franchising and there is a growing number of businesses operating as franchisees. A number of franchise agreements became operational through FAZ, e.g.: DZL (ice cream products), Gold Print (photographic products), and Instant Shoe Repair (shoe repairs).

There were, however, factors that militated against franchise development and these included (i) a generally declining economic situation where businesses were no longer growing; (ii) skewed membership in favor of aspiring franchisees, (ii) limited in-country expertise for providing assistance throughout the franchising process, and (iii) little support from the financial institutions for franchise financing.

SUSTAINABILITY

The factors that affect sustainability also impinge on improvements made and opportunities missed during the project cycle. There were a number of shortcomings and constraints that hindered the association's ability to take advantage of opportunities for growth of franchising in Zimbabwe. These included (a) inadequate financial, information and management systems for providing timely inputs for policy and executive decisions, this being compounded by ZNCC's inability to produce timely accounts; (c) lack of effective systems of performance tracking thereby constraining FAZ's ability to plan, monitor and control its activities; (c) FAZ membership remained at embryonic status and skewed in favor of aspiring franchisees rather than actual and active franchisees and franchisers; and (d) an underlying conflict between FAZ and the ZNCC in the utilization of membership resources for the development of business opportunities of new franchises.

Some momentum was created for franchising during the life of the project. From the high expectations viewpoint of some stakeholders, FAZ was a failure. There is merit in this argument, especially when viewed from the lack of the concept catching on within the financial sector (only Trust Bank and Barclays Bank backed the program), and the neglect of proposals addressing the legal and fiscal related tax breaks that would have boosted support for franchising. While an extensive review of "The Legal Environment For Franchising in Zimbabwe" was done, steps were not taken to establish a statute that deals specifically with franchising. This was obviously a missed opportunity which, if taken, would likely have resulted in an environment more conducive to franchising business.

LESSONS LEARNED

It was always quite obvious that it was unlikely for FAZ to become self-funding in the near future because of the limited number of established and paying members. It was on this basis that mid-way through the project, it was recommended that FAZ reforms its activities towards the development of business format franchising, rather than membership driven activities. This was to be achieved by: (a) deferring the trade association function until such time as a critical mass of established franchisers and franchisees could adequately fund a member-driven association; (b) emphasizing the development of local franchises with lower investment costs in order to create affordable opportunities for aspiring franchisees with limited resources; and (c) developing local/low cost franchises that offer growth opportunities for local businesses with a potential to become franchisers.

The program was re-focused in its early phase of implementation, and most of the activities cited above were undertaken. However, what was overlooked or simply glossed over was the issue of the follow-up needed to achieve the originally intended objectives, e.g., the two surveys that were proposed to establish a general and legal environment for franchising were done, but the subsequent lobbying of the GOZ to enact legislation to have a franchising law in Zimbabwe was not done. None of the stakeholders, from the key service providers and the Association itself even remember exactly what went wrong and why certain actions were not taken or followed through. Other activities, however, namely a franchise reference library, a national franchising conference, mobilization and recruitment of members for FAZ, brokering support for franchising agreements including active participation of at least two financial institutions (Trust Bank and Barclays Bank) were done. Nevertheless, over time there was little consolidation of these key activity outputs.

The lesson learned here relates to the inadequacy of the program's institutional capacity. The program had a visionary founding chairman, and the FAZ program suffered a blow when the program's most capable Executive Director died prematurely in the project's life cycle. Thereafter, the Executive Director of ZNCC took over the helm of FAZ, a situation that caused the development of a stressed relationship between ZNCC as the mother body and FAZ as a sub-program housed under ZNCC. On the political front, the program had the active support of a non-cabinet Minister of State Enterprises and Indigenization Department, the Ministries of Industry and Commerce, the Ministry of Labor, Social Welfare and Public Service, but unfortunately lacked the support of the powerful Ministry of Finance.

A closer inspection reveals an unsettling remote control monitoring system in the activity's implementation process. It would appear that many players took part in project formulation, but relinquished their responsibilities during actual implementation, e.g., the project management team at FAZ was so removed from the original objectives, time scheduling of the project such that they were caught unawares when the project was terminated. The chain of communication and task assignment from USAID, to MIC, ZNCC, ICC and the FAZ management team left a lot to be desired.

On the other hand, the strength of the program's activities lay in the development of linkages as shown below.

LINKAGES

As the founder and initiator of FAZ, ZNCC provided office accommodation and limited finance to enable the association to take off. USAID's financial resources were committed to support the development of franchising activities through a number of linkages, while incorporating the economic, social, environmental, and political trends that might have affected these activities.

In terms of linkages, FAZ should not lose sight of the following issues that emerged during the implementation of the program (i) the performance of FAZ as a franchising association, (ii) the performance of FAZ in maintaining the ship on course and promoting franchising, (iii) how well FAZ demonstrated that it can perform, both as an association and as a franchise developer under very restrictive financial environmental conditions?, and (iv) the need to keep the perspective of program objectives and activities in focus.

Left long enough on its own, FAZ has developed its own sustainable way of forging linkages. The evaluators were even surprised to find that FAZ was even functioning with very little self-generated funding. Since the departure of the former ZNCC Executive Director in mid-2000, FAZ's main problem has been for lack of funds to hire an Executive Director to run the program on a full time basis. Enquiries on franchising business continue to come in, e.g., SAFA is having discussions with FAZ on forming a regional franchising association, establishing common data base, etc. Despite a very grim macro-economic situation, FAZ members have shown resilience and see a future in their own efforts to grow business through the route of franchising. In that respect, FAZ has demonstrated that there is still a future for franchising in Zimbabwe.

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5. Support for the Horticultural Promotion Council's (HPC) Out-Growers Scheme

ACTIVITY OBJECTIVES

The objective of the Horticultural Promotion Council's (HPC) out-growers scheme was to strengthen and expand linkages between small-scale growers and large horticultural exporters. The activity involved working with three exporters that had programs of contract farming with small-scale growers, and was aimed at strengthening and expanding these linkages. The USAID activity, which was to be completed over a period of 30 months, was designed to demonstrate to the rest of the horticultural community in Zimbabwe that contract-farming relationships make good sense. It was also aimed at ensuring that the small-scale growers who were being assisted received an adequate price for their export crops, and enjoyed a fair and competitive return to their inputs of land, labor, expertise, and capital.

HPC anticipated that strengthening and expanding small-scale grower and exporter linkages would facilitate bringing about increased export horticultural production in Zimbabwe, by raising the production levels of small-scale growers who were already producing for export. In addition, it would broaden the sector's production base for exports by increasing the number of small-scale growers participating in project-sponsored schemes, as well as the number of exporters and out-growers who were likely to enter into similar arrangements because of the demonstration effect of the activity.

The scheme would also serve other purposes. It would directly assist small-scale growers to ensure that they are able to negotiate on a relatively equal basis with the larger exporters, thereby improving the financial returns to the growers. It would increase on-farm employment and stimulate investment in the industry, and increase horticultural exports. Given these prospective results, the activity falls well within the rubric of USAID's Results Package 3.1 "Business Linkages between Large and Small/Medium Enterprises", and will contribute to the achievement of USAID's Strategic Objective #2, "Broadened Ownership in a Growing Economy".

An Executive Review Committee (ERC) guided implementation of the activity and set down selection criteria for exporters to participate in the schemes. These were advertised publicly. Five exporters responded to the advertisement of which four were selected.

ACTIVITY INPUTS AND OUTPUTS

The total cost of the project was US$526,616; with USAID contributing US$396,000 through a Cooperative Agreement with HPC, and with HPC contributing from its own resources the equivalent of $130,616 (or 25% of the total). In addition, exporter groups and small-scale farmers participating in the venture made additional contributions of approximately US$100,000 and US$15,000, respectively. The effective date of the Cooperative Agreement was January 23, 1998, and the completion date was September 30, 2000.

HPC indicated at the outset of the Agreement that it considered the activity to be too short in duration, if it was intended as planned to have meaningful impact and to develop a base for self-sustainability. In response, USAID agreed to redefine the role of the HPC to indicate that its purpose was confined to facilitating the development of linkages between exporters and growers. The exporters involved could then guarantee sustainability by continuing with extension and training activities when the USAID grant ended.

The Agreement allowed for technical assistance and training to be provided to the exporters, enabling them in turn to provide a mix of training and technical assistance to small-scale growers. It also provided for "field days" to be conducted. These were on-farm demonstrations organized in collaboration with exporters. The objective of the demonstrations was to address constraints faced by small-scale growers in the production of export crops. Fourteen field day events were held during the term of the Cooperative Agreement. A study tour visit to Kenya was also arranged. The purpose of the visit was to study the small-scale horticultural industry in Kenya and to draw lessons that could be applied to the industry in Zimbabwe.

In its Final Report on the Out-growers Scheme, HPC determined that the number of small-scale growers participating in export horticultural production had actually gone down during implementation of the program. While accurate statistics are not available, HPC concluded that the number of exporters participating had certainly not increased.

In following up on this, an internal USAID memorandum noted that the initial results expected in terms of new small-scale farmers participating might have reflected high growth assumptions, even though these assumptions appeared to be realistic based on experience with small holder contract growing schemes implemented elsewhere in Africa. It was also noted that, at the time the program was initiated, the environment in Zimbabwe appeared suited to rapid expansion. Many of the farmers to be contracted were already organized as members of an irrigation scheme or other grouping, which made the task of recruiting larger numbers relatively easy. In any event, the goal of the program was to demonstrate the viability of the scheme; not to achieve a certain level of contracted farmers.

DEVELOPMENTAL IMPACT

The impact of the project on production and exports has been difficult to measure. Exporters were not required to provide information on production statistics, making it difficult to assess this aspect of project impact.

According to the ICC, the activity achieved only 39% of the numerical target that had been cited in the Work Plan for the first year of operations, i.e., 656 out-grower linkages established versus the target of 1,700. And, it had achieved only 4% of the value target, i.e., Z$ 311, 600 versus Z$ 7.2 million. Delays in signing the Cooperative Agreement left HPC with only six months to achieve an annual target. Poor performance of the out-grower development program was also cited as a contributing factor.

Accordingly, there is a consensus among those involved in the undertaking that the project did not fully meet its intended objectives. The lack of success can be attributed to several factors. Among them is the fact that project objectives and those of exporters were not always the same and this was evident throughout the life of the project. As stakeholders in the project, the exporters noted that they had not been consulted during the design process. It was also noted that the political environment in the country at the time the scheme was being implemented was clearly not conducive to the success of such an activity.

In its Final Report, HPC noted that the project had most probably not met its intended objectives. However, valuable lessons had been learned and very useful information had emerged from this initial phase of the activity. The Report cited the need for all stakeholders to be involved in the planning stages of an out-grower program. Secondly, it reiterated that such programs should be viewed as long-term farmer-exporter relationships that need careful management, not as short-term expedients to meet market shortfalls. When managed properly, these arrangements can be highly beneficial to both exporters and out-growers.

SUSTAINABILITY

In addressing the question whether the HPC would be able to continue the job at hand after the Cooperative Agreement was ended, USAID staff noted that HPC had a relatively strong financial base because it is funded by levies on members' exports. Moreover, at the time the program was initiated, the prospects for growth in exports and therefore expansion of the HPC revenue base were bright. Except for current economic dislocations, that is still the case. Secondly, the objective of the program was based on demonstrating that contracting with small-scale growers for exportable horticultural products was cost effective and would have broad appeal among small-scale growers in general. Finally, it was not essential that the HPC would need to continue to provide exactly the same package of services being provided before the USAID grant expired. It could develop and provide its own package of services.

The HPC program presupposed the existence of a favorable market for participating farmers, i.e. the contracting exporter. Exporters who participated in the program did not themselves identify market information as a constraint to developing linkages with smaller scale farmers. The small-scale farmers, however, complained of a lack of transparency on the part of the exporters, and said that it would have been more desirable if they had had better insights into the pricing, risk factors, and margins required by each of the players in the marketing chain. It was clear from the start that the intent of the HPC scheme was to build reasonably long-term arrangements to the benefit of both parties, but this shouldn't preclude farmers from checking the deals offered by other exporters just to be sure that they are being offered a reasonable package.

Access to finance has generally been identified as a major constraint facing small-scale growers in Zimbabwe, as elsewhere. This problem was mentioned but was not adequately addressed in the Cooperative Agreement. Financial institutions consider small-scale growers to be high-risk borrowers lacking collateral and sound business principles. Most of them are unable to access funding sources due to poor repayment records. On the basis of the one-week HPC Kenya Study Tour undertaken in July 1998, it was recommended that Exporter Plans include a component of working capital funds to finance needed inputs as determined by the small-scale grower groups, with the approval of the exporter involved. To address this constraint, the Cooperative Agreement was amended to permit the establishment of a revolving fund that was to be used by small-scale growers to borrow the funds needed to purchase necessary inputs.

An ICC assessment noted that, for HPC, the difficulty in securing financing for out-growers was a serious constraint to the success of the program. Most financial institutions' decisions

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regarding small-scale out-grower schemes seem to be driven by the poor repayment history of small-scale farmers. Few institutions seem to be capable of comprehending feasible alternatives such as the out-grower exporter linkage schemes devised by HPC.

LESSONS LEARNED

A long-term vision is needed. An out-grower program should not be viewed as a short-term response to a market need, but as a long-term strategy. A sound plan is necessary if success is to be achieved. Adequate investment is essential. Exporters engaged in linkage programs must manage many variables that will always need to be adjusted to fit the changing environment. It is best to start simple and keep the design manageable, as experience, participating out-growers, and the market dictate.

Kenyan exporters serve a wide range of markets from bulk packs for the catering and wholesale market to pre-packs for the supermarket. Exporters in Zimbabwe generally target the upper end of markets and this acts as an entry barrier for small-scale growers, as quality and trace-ability aspects are very stringent. Kenyan exporters also use farmer-selected locally based technical advisors who are then trained by the exporters. This is cost effective for the small-scale growers; it is financially sustainable; and it boosts local employment

The Executive Review Council felt that one of the major problems in the small-scale farming sector was that the farmers did not have a business-like approach to their farming activities. Exporters did not always support training courses because such courses empowered the small-scale growers. Nevertheless, a decision was made to equip selected small-scale growers with the necessary skills and knowledge to empower them and strengthen their ability to deal with exporters. The Executive Review Council selected a locally registered consulting firm to develop and provide an appropriate training course to selected groups of participants. An evaluation indicated that the course was highly appreciated. The small-scale growers that participated, however, seemed to have had very little understanding of the cropping program that was presented. Moreover, most of the participants felt that the instruction provided on maintaining a budget was the most important output of the course, but they had difficulty relating it to the overall process of farm management. Accordingly, It was replaced by a course that would enable participants to develop an annual production plan.

Out-grower programs are based on relationships. Small-scale growers trust in their relationships with exporters is critical to the success of linkage programs. Exporters should engender grower trust and try to maintain it through frequent and open communication with the growers. These bonds of trust were not always forged between the exporters and small-scale growers who participated in the HPC scheme.

Some out-growers who participated in the HPC scheme felt that they had not received fair value for their products. Out-growers must be given the means to determine whether they are receiving adequate compensation, vis-a-vis alternative opportunities, if their participation in such schemes is to be long-lived. Exporters generally have ready access to information regarding market prices. Small-scale growers should be given similar access to enable them to keep informed and to forestall misunderstandings as to whether the prices they have been paid are fair.

6. Establish and Operationalize the Zimbabwe Association of Micro-Finance Institutions (ZAMFI)

ACTIVITY OBJECTIVES

The idea for establishing the Zimbabwe Association of Micro-Finance Institutions (ZAMFI) emerged during a Small Enterprise Education Promotion (SEEP) Conference held in Harare in January 1997. Participants at the conference anticipated that ZAMFI would provide a vehicle in Zimbabwe for coordinating efforts to address the various institutional and policy hurdles impeding development of the country's micro-finance industry. Overcoming these hurdles is essential to fulfilling the purpose of the Zimbabwe Enterprise Development (ZED) Project, which aims at " expanding indigenous ownership of the productive assets of the economy through growth-enhancing mechanisms", and to achieving the USAID Mission's Strategic Objective #2, which envisions "Broadened Ownership in a Growing Economy".

Following the conference, a Steering Committee was established to draft a Constitution for the new organization. As stated therein, the main purpose of ZAMFI is to group together, promote, and represent the interests of member micro-finance institutions. In return, these institutions are bound by a commitment to improve the lives of the economically active poor in Zimbabwe (i.e., poor people owning enterprises) by providing them financial services that will enable their enterprises to become financially sustainable. Implicit in this commitment is a recognition that poor people are "bankable" (are a good credit risk) and able to pay for sustained access to financial services. Such access will help to improve their incomes and livelihood and allow for needed financial services to be provided to them on a market-driven and commercial basis.

ZAMFI was launched on September 18, 1997. It held its first annual meeting on November 27, 1997, at which a draft of the organization's business plan was discussed. As indicated in the plan, one of ZAMFI's main objectives is to provide a lobbying and advocacy platform for the micro-finance industry, and to use it to bring about the establishment of an enabling policy and regulatory environment for the industry. A second objective is to promote professionalism within the industry to facilitate its becoming an integral part of the country's financial system. This entails setting minimum standards and best practices to ensure that members meet performance standards and maintain accountability and transparency in the conduct of business. The third objective is capacity building, to enable members to provide financial services and affordable finance to an increasing number of low-income clients on a sustainable and competitive basis.

INPUTS AND OUTPUTS

USAID/Zimbabwe provided a two and a half year grant of Z$14,043,497 to Opportunity International (OI) to establish and operationalize ZAMFI. Throughout USAID involvement, OI ARO provided technical support and managerial oversight to ZAMFI on behalf of USAID. This included assistance in establishing a Secretariat, and technical support in the areas of training and systems development. In addition, OI ARO staff also put varied amounts of time into executing other related activities, and two senior officials of OI ARO served on the ZAMFI Executive Committee. The time component of this assistance constituted a major part of the inputs provided by OI ARO. Other donors, such as the Dutch Humanist Institute for Cooperation with Development Countries (HIVOS) and the German Konrad Adenauer Foundation (KAF), provided grants for equipment and workshops.

The manner in which ZAMFI was to operate and the kinds of activities it would undertake in carrying out its mandate, were presented in some detail in the 3-year Business Plan (1998-2000) prepared for ZAMFI under the USAID Zimbabwe Enterprise Development (ZED) Project contract with ICC and Coopers & Lybrand. Short-term consultants and other experts with skills in association management and micro-finance development programs were made available by USAID or other donors independently of the support provided through the grant agreement and as desired and requested by the ZAMFI Executive Committee.

The intent, purpose and focus of USAID assistance were to bring about the establishment of ZAMFI and to assist in starting up its operations. USAID succeeded in accomplishing both of these objectives. While ZAMFI is not yet operational to the point where it can carry out its mandate from its own resources, it is now a going concern and is in a position to address the various institutional and policy hurdles that are impeding the development of the country's micro-finance industry.

ZAMFI is now also poised to direct a greater share of its resource towards the expansion and growth of the MFI sector, and to improving the quality and quantity of services provided by member micro-finance institutions to micro-entrepreneurs. This approach is expected to have positive impact at some point in the near future on the profitability and sustainability of businesses being run by micro-entrepreneurs. To the extent that these businesses become sustainable and achieve profitability, the establishment and successful start-up of ZAMFI will have contributed significantly to the achievement of USAID's Strategic Objective #2.

DEVELOPMENTAL IMPACT

ZAMFI's budgets for 1999-2001 were largely administrative in nature, and a large share of the funds allocated during this period was directed towards institution building. Within the comparatively short period of its existence, ZAMFI has, however, brought together an association of over 72 MFIs and allied institutions, including commercial banks and technical service providers. It is now poised to direct a greater share of its resources towards the expansion and growth of the MFI sector, and to improving the quality and quantity of services provided by member micro-finance institutions to micro-entrepreneurs. This approach is expected to have positive impact at some point in the near future on the profitability and sustainability of businesses being run by micro-entrepreneurs. To the extent that these businesses become sustainable and achieve profitability, the establishment and successful start-up of ZAMFI will have contributed significantly to the achievement of USAID's Strategic Objective #2.

ZAMFI has not been successful to date, however, in lobbying for needed legislation and policy adjustments, although it has made efforts to bring these matters to the attention of legislators and policymakers. Similarly, ZAMFI has not yet been successful in getting financial sector players and policymakers to regard micro-finance institutions as credible financial players. It has, however, gotten agreement from its membership on the establishment of a Code of Conduct for members as proposed in ZAMFI's Constitution. The Code, as drafted, would require that member institutions agree to adhere to a set of best practices in the micro-finance industry.

Professionalisation: ZAMFI has not been successful to date in gaining recognition by financial sector players and policymakers on the role of micro-finance institutions as credible financial players. It has, however, taken a number of steps in this direction.

ZAMFI co-hosted a recent Micro-credit Summit of Africa, in which it engaged all of its micro-finance players in developing a set of Professional Standards and a Code of Conduct for Micro-finance Institutions. It then held a Conference on Professional Standards and Code of Conduct for MFIs in Zimbabwe, to discuss the matter further. This led to a number of resolutions that were adopted by the forty-six members who constituted the delegation that attended the Conference. A proposed set of Professional Standards and a draft Code of Conduct were drawn up, but have not yet been adopted.

In addition, ZAMFI has sponsored, publicized, and brought to the attention of its members the results of a survey that addressed key micro-finance issues, including issues of governance, wholesale capital funding, and a regulatory framework.

Capacity Building: ZAMFI has been able to increase its membership from 11 founding members in January 1997, to 72 members as of March 2001. Some 45 percent of the members are technical service providers and consumer lending institutions, however, not micro-finance institutions (MFIs). ZAMFI is currently publishing a newsletter and has produced and distributed several comprehensive publications regarding issues related to the micro-finance industry.

SUSTAINABILITY

Sustainability implies being able to continue operations from internally generated funds, without dependence upon outside sources of funds. From a recent survey, it was indicated that membership fees alone could not cover the operating costs of ZAMFI. Moreover, ZAMFI has not been able to raise significant amounts of internally generated income. Advocacy and professional enhancement activities are generally not chargeable to members except by being included in membership fees. These two activities therefore need to be subsidized.

There remains, therefore, the need for ZAMFI to continue to attract long-term grant support. In addition, donors must continue to be induced to provide capacity building funds to MFIs, to pay for advocacy activities; research and information services; conferences and workshops; and technical assistance and training services. Inasmuch as sustainability is clearly an objective, this indicates a need for ZAMFI to explore new forms of capitalization. The current trend in developing countries is for MFIs to evolve into full-fledged commercial financial institutions. In its efforts to build capacity, ZAMFI will need to acquire the expertise needed to facilitate the evolution of MFIs to a more advanced stage of becoming banks or other share holder institutions.

Economic liberalization in Zimbabwe, though currently on hold, in past years has meant greater access to goods and markets and has fueled entrepreneurial activity among the poor. During this period, the number of micro-enterprises (with up to 9 employees) was estimated at 1 million, and was experiencing yearly annual increases of 4% in rural areas and 7% in urban areas. The opportunities that arose from liberalization were illustrated by the rapid increase in self-employment and micro-enterprise activity that occurred, and that became an important source of increased income for the poor. Despite such remarkable progress, however, the major constraint to micro-enterprise development and expansion in Zimbabwe remains a lack of access to credit and other financial services. The UNDP has estimated the current demand for micro-enterprise credit at Z$900 million, while the available supply stands only at Z$200 million.

Micro-finance institutions have emerged over the last 5 years to serve the rapidly growing demand for their services. The industry is still young, however, and lacks institutional capacity, diversity, and competitiveness. It will take a considerable amount of investment in institutional capacity building and growth before the micro-finance industry can adequately serve the demand for credit and other financial services currently needed by low income borrowers.

ZAMFI stakeholders have noted that there is a lack of internal capacity to effectively and competitively deliver demand led services such as capacity building, appropriate management information systems, and technical assistance. A comparatively high rate of staff turnover exists in the industry. This is partly attributable to micro-finance being a young and growing industry. It has not been easy to find, attract, and retain well-trained staff.

Lessons Learned

Member expectations were excessive as to what could be accomplished with limited staff and limited funding resources. There was, for example, a need for more realistic planning that took account of administrative and technical staff limitations and staff training requirements.

It is important for ZAMFI to build local capacity to provide needed technical expertise; for sustainability reasons, and to cut the cost of importing expensive talent. It is a common occurrence that expert consultants brought in to help with an institutional development program are hired from the same organization that has been tasked with managing the budget. This led in the case of ZAMFI to design problems that reflected a lack of familiarity with local conditions. It may have also led to excessive expectations as to what could be accomplished, given limited local staff capabilities and a scarcity of financial training opportunities.

The process of developing ZAMFI should have provided for a more realistic gestation period. It takes time to build an advocacy and capacity building institution like ZAMFI. Once such an organization has been established, it is important to engage government right away and to move aggressively to influence the change of all negative legislation against the sector. This should be considered no matter what the existing political situation. The purpose of advocacy is to effect change. This requires keen insights into the legislative history of the issue at hand, as well as an accurate reading of the political climate surrounding the issue.

ZAMFI staff members need to be trained so as to be able to answer and resolve for members complicated queries relating to issues such as the negative macro-economic environment and high interest rates. Staff should, in addition, be able to provide relevant documentation and information at the touch of a button. It should, in addition, be able to address the capacity building needs of each member organization at all levels, including by sector, geographic area and gender. ICC reportedly undertook to provide such a facility, but with limited success.

The application of more cost-effective management techniques is critical to the success of organizations like ZAMFI, which must provide management and technical services at minimum cost to low-income clients like micro-entrepreneurs. When feasible, such institutions should be able to source wholesale funds, i.e., micro-credit funds that can be accessed continuously.

ANNEX C
PROJECT CLOSEOUT REPORTS

Zimbabwe Business Development Project

PROGRAM HISTORY

The goal of the Zimbabwe Business Development (ZBD) Project was to increase private sector-led economic growth so as to bring about increased job creation, foreign exchange earnings and broadened indigenous participation in the country's economy. This was also a key objective of Zimbabwe's Economic Structural Adjustment Program (ESAP), and the project was seen as a pilot effort to assist the GOZ in implementing its ESAP.

The purpose of the Project was to test the effectiveness of selected interventions in fostering private sector enterprise growth. This involved testing ways of promoting investment and providing firm-level technical assistance activities that would increase the competitiveness of the private sector and, thus, its attractiveness to investors. The pilot mode of testing was chosen in view of the Mission's limited and lack of resources and experience in working with the private sector. The rationale behind the pilot testing approach was to provide opportunities to assess the effectiveness and efficiency of various project interventions before committing them to full operational support.

The interventions addressed two critical constraints to private sector investment. The first involved determining the feasibility of pursuing export enhancement policy reforms and incentives that would provide a framework for the creation of an enabling policy and regulatory environment for an Export Processing Zone (EPZ) provided the feasibility for one could be demonstrated. The second involved assisting private sector firms in testing ways of enhancing their use of technical assistance in ways that would enable them to take advantage of the ESAP reforms.

The ZBD Project was authorized at a funding level of $5.5 million in 1991, which was to be obligated incrementally over the planned three-year life of the project. The Project Assistance Completion Date for the project was July 1994. USAID funding was to be complemented by host country contributions of $1.8 million through cash and in-kind contributions from the GOZ and the Zimbabwean private sector, bringing total project resources to an estimated $7.4 million. By March 22,1994, the ZBD Project was fully obligated; and 42% of the funds authorized had been committed. Disbursements stood at 27%, leaving an unexpended pipeline of 73%. Four PACD extensions were approved over the next several years. These included extensions to permit the orderly completion of International Execution Service Corps (IESC) and Volunteer Business Advisory Services (VBAS) business development assistance activities; to allow ZBD Project support for the computerization of the registry of Deeds and Companies; and to extend the activities of the Quick Response Fund. The final PACD for the Project was March 31, 1998.

PROJECT COMPONENTS

ZBD Project components were broken into two main categories. The first, pilot operational testing interventions, would absorb approximately 75% of the project budget. The second, comprising analytical activities, would expand the knowledge of the private sector, test project assumptions and improve the effectiveness and efficiency of pilot operational components. The Project also established a Quick Response Fund that allowed for a flexible capability to finance operational testing and analytical components that met the ZBD Project criteria.

Operational testing components were planned to encompass three areas. The first would assess the feasibility of export processing zones (EPZ) in Zimbabwe. The second would test the effectiveness of technical assistance in promoting business linkage relationships between large and small firms. The third component, Volunteer Business Advisory Services (VBAS), would test the feasibility and effectiveness of establishing a local Zimbabwe Executive Services Corps.

The ZBD Project's analytical components were split among into three areas of activities: analyzing micro/small enterprises, describing the productive sector, and implementation support research. Micro/small enterprise analysis consisted of a number of studies that utilized standard survey methodologies and analytical techniques that had been developed under the AID/W GEMINI Project. Productive Sector Description consisted of developing a database and conducting analyses of the productive sector (public and private) and its contribution to the Zimbabwean economy. Implementation Support Research was geared to test project assumptions and support interventions, and to point to new directions for private sector support.

The Quick Response Fund (QRF) component of ZBD was designed to allow a flexible and rapid response to initiatives which promised to have a major positive impact on private sector development.

PROJECT MODIFICATIONS

Based on various factors, including a change in U.S. legislation on assistance for EPZs, and the cost involved in creating a sustainable, replicable linkage program, USAID Zimbabwe determined that further support of these pilot interventions was not feasible under the ZBD Project. In accordance with Agency policy and statutory requirements, all assistance for development or otherwise related to EPZs was eliminated from the project and funds were de-earmarked for this purpose. Volunteer Business Advisory Services (VBAS) activities absorbed part of the de-earmarked funds initially targeted for the EPZ and Business Linkages, components, increasing from 35% of the project budget to 57%; the Quici Response Fund received the rest.

Additional operational testing activities were added at the request of the GOZ of Zimbabwe to support the review of options and development of legislation for a Monopolies Commission which would reduce restrictive business practices and promote greater competition. Assistance was also provided to the nascent Zimbabwe Investment Center (ZIC) through a grant to the Foreign Investment Advisor Services (FIAS) group of the World Bank. The funds were to be used to expand the Center's investment registration activities, specifically with respect to track indigenous participation.

Studies were also commissioned by the Mission to evaluate Zimbabwean public and private Employee Stock Ownership practices.

ESTIMATED RETURNS ON PROGRAM INVESTMENTS

The overall Project was a success: it provided the Mission with a means to determine the feasibility and effectiveness of project interventions to improve the environment for investment. The operational testing and analytical studies components of the ZBD Project helped Mission staff in the ZED project design effort in 1996. The results of ZBD Project pilot testing experiences in business linkages, ESOPs, and GEMINI reporting were important precedents for ZED.

Given the lack of quantitative information available during this period, it is difficult to tell whether the environment for investment was improved measurably as a result of these operational pilot tests. Results tended to be nuanced. Moreover, since the project was associated primarily with institution and capacity building, start up costs tended to run high.

IESC launched a local office in Harare; however, it was unable to set up the VBAS program as originally conceived. For example the cadre of local executives that was to work with local small and medium enterprises never materialized. The net result was a more traditional IESC arrangement where U.S. Executives worked with large local companies. However, attempts were made to access smaller firms when possible. The IESC component was a success, once a change had been made in the initiative's targeted beneficiaries. The initiative's pilot orientation permitted the flexibility that led to this success.

CASE STUDY

It is instructive to compare the ESOP and Monopoly Commission project interventions. Some participants felt the ESOP intervention was a GOZ policy failure on the one hand but at the same time, an economic success. It was conceived by the Mission during the ZBD project and implemented directly through the ZBD. The GOZ did not pass the proposed legislation that would have provided the necessary incentives to facilitate widespread ESOP adoption. Yet over the life of the project corporate knowledge and interest in ESOPs substantially increased, ESOP quality and standard practices improved, and a strong foundation was laid for future activity that resulted in the creation of successful EO schemes.

A review of the Monopoly Commission component of the ZBD Project, in contrast, shows a different pattern of development and consequence. The GOZ introduced the idea of establishing the Commission to the USAID Mission and provided the political traction needed to ensure the passage of enabling legislation. Although the Commission became operational, it and its anti-trust laws had relatively little impact on reducing the concentration of industrial ownership in Zimbabwe.

LESSONS LEARNED

Including multiple analytical studies in a pilot project may help to determine which methodology works best given local market conditions. In the ZBD project, it was thought that a properly constructed Manual for Action in the Private Sector (MAPS) effort would provide the most useful information to guide project-funded business development assistance activities. Afterwards, however, it was clear to the Mission Project Officer that the MAPS study was not categorizing firms into useful sub-groups. In contrast, Gemini studies were. And, since the government was not producing statistics on this segment of the market, nor were other organizations in the donor community, the Mission's Gemini study results became the starting point for businesses interested in learning about the micro and small enterprise sector.

In cases where legislative approval was necessary for project initiatives to succeed, political traction played a significant role in getting the necessary legislation passed. This was clearly demonstrated in the case of the Monopolies Commission. In contrast, where it was not applied, for example in support of the Zimbabwe Investment Center and ESOP legislation, the initiatives were stalled. In these cases, many groups were lobbied within the executive and legislative branches as well as the private sector, but to limited effect.

It is a credit to the Mission that despite legislative setbacks, complementary efforts elsewhere generated meaningful interest in ESOPs and the Zimbabwe Investment Center.

Redirecting the operational focus of a subcontractor such as IESC, which is normally oriented to large local firms, to a new small size target market may prove to be ineffective. IESC was unable to create VBAS as it was originally described in the ZBD Project Paper, and reverted to its usual technical assistance practices of matching highly skilled retired U.S. executives to large local companies. The Mission's Project Officer in charge of project activities at the time felt that this was in part the result of stretching a contractor beyond his normal scope of operations. On the other hand, the initiatives might have been more successful had the GOZ given greater emphases to implementing the ESAP. This certainly could have been the case with respect to the ZIC and business linkages initiatives.

Zimbabwe Manpower Development Project II

PROGRAM HISTORY

The Zimbabwe Manpower Development (ZIMMAN) Project was funded by USAID for the purpose of enhancing private sector productivity and increasing national economic growth by developing and supporting short-term professional, technical, and managerial training programs. ZIMMAN was to provide support and advice to USAID/Zimbabwe on training for private sector development, plus, ZIMMAN was to develop and manage in-country training that was likely to increase employment, business survivability, and black-ownership of the economy. The project was implemented in two broad phases: ZIMMAN I and ZIMMAN II. This report covers the second phase of the project, ZIMMAN II.

The goal of ZIMMAN II was to improve and expand was to increase Zimbabwe's human resource infrastructure as required to implement programs directed at equitable and rapid economic and social development. Its proposed outputs were to provide long- and short-term training and technical assistance in the U.S. or third country for the University of Zimbabwe (UZ) and for Zimbabwe's public and private sectors. The project was designed to support 79 long-term and approximately 105 short-term training programs. The proportion of women trainees was set to increase from 20 percent under ZIMMAN I to 35% under ZIMMAN II.

The purpose of ZIMMAN II was to assist Zimbabwe in meeting its long-term labor market requirements by providing training and related support, and training related consultants and equipment, according to national development requirements in manpower planning, agriculture, engineering, science, technology, administration, management, health and education.

ZIMMAN II became operational in 1986, and ran concurrently with ZIMMAN I for four years. The Project Assistance Completion Date (PACD) for ZIMMAN II was initially set for September 1993, but later extended to September 1997. As noted in the Interim Evaluation conducted by AMEX International in April 1995, the expenditure rate for the project had been slow throughout its nine-year history (as of that date). For the first four years (1986-1990), this was due to a Mission decision to utilize residual funds from ZIMMAN I for the reduced level of training actually realized during those years. Also when ZIMMAN II underwent its major modification from a traditional USAID training program activity to a private sector support activity in July 1990, most training was shifted from U.S. and third-country sites to local, and became decidedly less expensive.

The original Grant Agreement set the funding level at US$15.0 million. Of this amount, US$5.0 million had been obligated through 1994, and US$2.7 million had been spent. By September 1997, the PACD, the total of funds obligated under ZIMMAN II was $US8,224,945. Over the life of the projected as shown in Annex G, obligations remained at this level as compared to the US $8,397,176 that had been authorized for the project. All of ten funds obligated had been spent by the end of the project.

ZIMMAN II activities were handled by two contractors: Partners in International Education and Development (PIET) and Academy for Educational Development (AED). PIET was responsible for designing customized study tours according to the requests made by Entrepreneur

International (EI) participants in the U.S. The tours were put together and monitored by the USAID Training Officer. The prime contractor, AED, was responsible for organizing in-country training through grants and sub-contracts.

PROJECT MODIFICATIONS

In an effort to address changes in economic trends and the labor market and to support the GOZ's strategic shift to the private sector investment activities under its Economic Structural Adjustment Program (ESAP), the goal of ZIMMAN II was revised in July 1990 to focus on private sector training needs. The Project log frame was shifted to emphasize increased numbers of skilled private sector professionals, technicians, managers and entrepreneurs; increased numbers of women trained in the private sector; expanded private sector capacity to provide quality training; and better informed and more highly motivated public sector managers responsible for policy, provision of services to the private sector, and enforcement of regulations pertaining to the private sector.

By virtue of this first major amendment, the ZIMMAN II project was converted from what had been a broadly-based USAID training activity for improvement of the functioning of the public and private sectors and institutional strengthening into a project focused on development of the Zimbabwe private sector, including intervention in the public sector to help formulate or accelerate the changes and implementation of policies designed to foster private sector growth. This also represented a shift from high cost (U.S.) training to low-cost (in-country) training.

In January 1994, ZIMMAN II was updated to reflect USAID's new CPSP Strategic Objective II, to increase indigenous ownership and investment at all levels of Zimbabwe's economy. This adjustment in training priorities reflected the Missions' recognition of the underdevelopment of training and consulting services available to SMEs in these areas. Thus from 1994, ZIMMAN II worked towards achieving three objectives: developing a support industry for SME businesses, developing long-term local capacity to sustain support for SME businesses, and developing private-sector relevant evaluation mechanisms that could be used to support the competency Based training (CBT) modules.

To achieve these objectives, four integrated strategies were implemented simultaneously. These included the development local training and consulting firms for SME's in high impact industries; provision of training and consulting services directly to SME sector businesses in high economic impact industries; assistance in industry association development; and assistance the development of and in private sector enabling environment.

ESTIMATED RETURNS ON PROGRAM INVESTMENTS

Training effectiveness is measured by how well the training achieves desired results. In general, the participants of ZIMMAN II gave the courses a resounding thumbs-up. ZIMMAN II training served to open the eyes of the vast majority of its participants and improved their ability to perform both managerial and technical tasks.

According to AED, between 1993 and 1997, 2 042 people received training under ZIMMAN II in competency-based training in areas that met SME owner/demand, i.e., business auditing, 30-

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day solutions to business problems, production management systems, business simulations, and enterprise management systems.

SME TRAINING PROVIDER INDUSTRY DEVELOPMENT PROGRAM

Out of nine planned training of trainers programs two programs were carried out in 1994-95, five programs were started and completed in 1995-96, and the rest were completed in 1996-97. The total cost of the nine programs was US$130,118 representing a participant cost of US$1,122 each. Participants contributed 19% in cash; in kind payments totaled 110%. Out of a total of 124 participants enrolled in the training programs, 29% were women and 71% men. Out of the total number enrolled, there was a 94% completion rate and a drop-out rate of 6%.

SME BUSINESS DEVELOPMENT

Out of eight planned programs conducted during the fiscal year, one program was postponed to 1995-96, two programs started and completed during fiscal year 1995-96, while five programs were completed in 1996-97. Of the 112 participants enrolled, 17% were women and 83% men. The total cost of the 8 programs was US$145,555 at an average participant cost of US$2,415.

In conclusion, ZIMMAN II was quite successful in its training for the development of the SME Support Industry for all its program elements, which included Competency-Based Training of Trainers, Business Audit and 30 Day Solutions, IESC Volunteer Attachments, Entrepreneur International visits that took place under the auspices of the ZED Project, and Indigenous Commercial Farmers Union capacity development.

CASE STUDY

Through the services of AED, ZIMMAN II was instrumental in the start-up of the Indigenous Commercial Farmers Union (ICFU), providing assistance on organizational structure development, establishment of a farmers extension and advisory services program, image building and setting up of a levy and licensing system. This resulted in ZIMMAN II funding both the Union's First and Second Annual Congress in 1995 and 1996 respectively. ZIMMAN II also succeeded in developing training products that were demanded by the market. Following presentations to 400 delegates of ICFU, the Project received requests for its Business Success Competence Training programs for ICFU members through out the country for its members. In fact, in 1997, ZIMMAN II provided a grant of Z$271,365 to ICFU to conduct and manage three training programs. These programs were conducted in Nyamadhlovu (Bulawayo), Chegutu and Gweru. Today, the ICFU.

The successful establishment of the ICFU merely points to one success story of ZIMMAN II. Other industrial associations and ministries also benefited from the training programs, including ZNCC, Women in Business in Zimbabwe, Zimbabwe Development Bank, Confederation of Zimbabwean Industries, and the Ministry of Justice (Deeds and Companies Office). However, less success was achieved in training personnel from the Zimbabwe Guild of Competency Based Practitioners (ZimGuild) and the Ministry of Industry and Commerce. The lack of success was due to long-term failure of commitment and performance to goals by both institutions.

LESSONS LEARNED

Training teams need to possess core project skills and materials early on in the project. Relying upon the assumption that local talent and training materials exist may delay the implementation of the project. As it was with ZIMMAN II, considerable time was spent trying to use local and regional firms and USA volunteers in developing training products.

Insure that the project budget adequately provides for local conditions including inflation, wages and benefits, rents, and commodities. For example, the failure to build-in Zimbabwe's high inflation rate (over 50% in 1993) created serious problems in offices staffing, housing, and equipment procurement for project implementing partners.

Special measurements are necessary for evaluating the effects of training projects. The records maintained by most SMEs participating in ZIMMAN II training do not provide the basis for any quantifiable evaluation of the results of ZIMMAN training. Consequently, it is vital for purposes of evaluating and investigating the impact of an activity to devise methods that can produce meaningful conclusions on effectiveness

Training should be relevant and appropriate, implying that course design and participant screening should match. Customized training is generally more relevant than off-the-shelf training as long as the screening is appropriate. The prime contractor's in-country experiences earlier in the program showed that the best customized materials lose impact when participants are not screened to match the design.

It was unfortunate that for a delimited USAID had mandated that training activities under ZIMMAN II were to be focused for the most part on six CPSP sectors (SMEs in related industries were not considered target beneficiaries). While this did not preclude other programs from being presented, e.g., a valuable course for small program producers that resulted in the formation of the Small Grain Millers Association and, in 1994, well attended CBT training of Trainers courses and courses in agri-business for ICFU members. This presented one of the major challenges to the project because training opportunities in the USAID CPSP sectors met with very low demand for training in Zimbabwe. Activities that were responding to the demand generated at the beginning of ZIMMAN II were shelved at USAID request yet the demand had not been adequately addressed. CPSP target indicators for SO2 showed very low results due to the low demand for training in the target sectors. e.g., project staff had to devote over 30 staff-days per program just to find enough participants to make each program feasible and even then the programs were still half empty.

Zimbabwe Annex C – Project Closeout report – R101

ANNEX D
LIST OF PEOPLE INTERVIEWED

USAID/Zimbabwe

Ms.Sara Bishop, Team Leader
Economic Opportunities Special Objectives

Ms. Tichaona Mushayandebvu, Economic Advisor

Mr. Donald Greenburg, Former Private Sector Advisor

Government of Zimbabwe (GOZ)

Mr. Owen Tshabangu, Former Deputy Sec (MIIT)

Mrs. C. C. Zhanje, Under Secretary to MIC

International Capital Corporation (ICC)

Mr. Bernard T. Chidzero, Jr., Chief Executive

Mr. Bengt Post, Managing Director

Ms. Sue Haiey, Executive Director

Confederation of Zimbabwe Industries (CZI)

Mr. Malvern Rusike, Chief Executive

Mr. Bernard Mufute, Manager
Economic Research and Policy Intervention

Franchising Associations of Zimbabwe (FAZ)

Mr. Wonder Maisiri, Former ZNCC Director

Mr. Ishmael Jengera

Horticultural Promotion Council (HPC)

Mr. Stanley Heri, Director HPC

Mr. Gordon Lind, Admin. Executive

Zimbabwe Association of Microfinance Institutions (ZAMFI)

Mr. Mathias Ndlova, Executive Director

Ms. Ladne Madzima, Former Executive Director

Opportunity International (OI)

Mr. Andrew House, Africa Director
Africa Region

Southern Africa Microfinance Capacity Building Facility (SAMCAF)

Ms. Theresa Moyo, Manager

National Association of Cooperative Savings & Credit Unions of Zimbabwe (NACSCUZ)

Mr. Alex Mushaike, Manager

Dairibord (Z) Ltd.

Mr. Thomson Mabika, Managing Director

Zimconsult

Mr. Peter Robinson, Economist

Zimbabwe Annex D – List of Persons Interviewed-R101

ANNEX E
LIST OF DOCUMENTS REVIEWED

GENERAL

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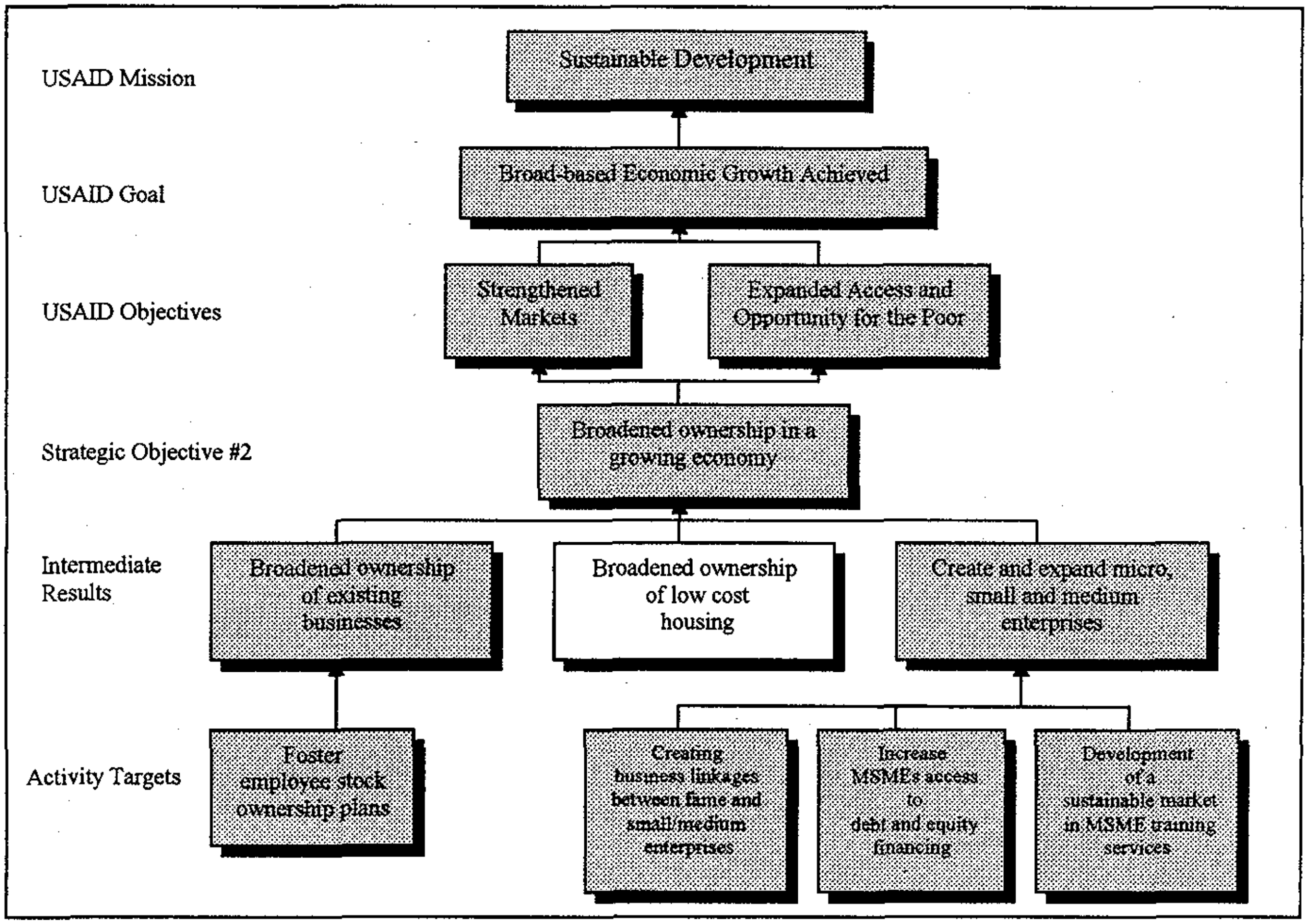
ANNEX F
USAID ZIMBABWE STRATEGIC FRAMEWORK

Performance measurement allows an organization to track progress toward its goals, flag opportunities for improvement, and demonstrate success to stakeholders. To ensure the right things are being measured, a performance measurement plan must be grounded in a larger strategic framework. In the fall of 1995 the Administrator established a Strategic Framework for USAID. That Agency-level model was further refined by USAID Zimbabwe and approved by USAID/W in June 1996.

The figure below illustrates USAID Zimbabwe's Strategic Objective 2 in the context of the Agency's overall Strategic Framework.[1]

USAID Zimbabwe Strategic Framework
(Approved by USAID/W in June 1996)



[1] The performance for the Private Sector Investment Program addresses only the darkly shaded blocks in Figure Two: the lightly shaded areas are outside the SO 2 Private Enterprise Team's sphere of influence.

ANNEX G
USAID / ZIMBABWE
SUMMARY PROJECT FINANCIAL REPORT BY PROJECT ELEMENT
AS OF 10/31/01
(U.S.Dollars)

PROJECT NO./ ELEMENT NO.	PROJECT TITLE/ ELEMENT DESCRIPTION	FUND TYPE	START DT/ PACD	LIFE OF PROJ FUND	OBLIGATIONS TO DATE	EARMARKS TO DATE	COMMITMENTS TO DATE	EXPENDITURES TO DATE	PIPELINE
6130220	ZIM, MANPOWER DEV. PROGRAM II	G	06/03/86	8,397,176	8,224,945	8,224,945	8,224,945	8,224,945	0
01	TRAINING		10/22/01		0	0	0	0	0
02	TECHNICAL ASSISTANCE				0	0	0	0	0
03	COMMODITIES				0	0	0	0	0
04	CONTINGENCY/INFLATION				0	0	0	0	0
10	PRIVATE SECTOR TRAINING				5,888,141	5,888,141	5,888,141	5,888,141	0
11	PUBLIC SECTOR TRAINING				1,432,777	1,432,777	1,432,777	1,432,777	0
12	PLACEMENT CONTRACT				6,235,303	6,235,303	6,235,303	6,235,303	0
13	EVALUATION/AUDIT				192,039	192,039	192,039	192,039	0
14	CONTINGENCY-INFLATION				0	0	0	0	0
16	PROJECT MANAGEMENT				88,458	88,458	88,458	88,458	0
6130232	ZIMBABWE BUSINESS DEVELOPMENT	G	08/07/91	5,540,000	5,495,113	5,495,113	5,495,113	5,495,113	0
01	OPERATIONAL TESTING COMPONENTS		03/31/98		3,839,666	3,839,666	3,839,666	3,839,666	0
02	ANALYTICAL COMPONENTS				687,374	687,374	687,374	687,374	0
03	USAID PROJECT MANAGEMENT				870,761	870,761	870,761	870,761	0
04	MONITORING AND EVALUATION				97,312	97,312	97,312	97,312	0
05	AUDIT				0	0	0	0	0
06	CONTINGENCY/INFLATION				0	0	0	0	0
6130239	ZIMBABWE ENTERPRISE DEVELOPMENT	G	06/30/95	18,600,000	6,015,934	5,670,141	5,612,808	5,367,291	648,643
01	EMPLOYEE OWNERSHIP		09/30/02		2,094,000	2,094,000	2,094,000	2,094,000	0
02	TRADE & BUSINESS ASSOCIATIONS				1,690,000	1,551,810	1,551,789	1,407,491	282,509
03	ACCESS TO CAPITAL				762,525	604,922	570,830	530,693	231,832
04	RESEARCH/QUICK RESPONSE				850,000	850,000	827,592	776,871	73,129
05	CONTRACT MANAGEMENT				135,858	135,858	135,858	125,497	10,361
06	PROJECT MANAGEMENT				483,551	433,551	432,739	432,739	50,812
07	EVALUATION/AUDIT				0	0	0	0	0
08	CONTINGENCY/INFLATION				0	0	0	0	0
TOTALS				32,537,176	19,735,992	19,410,199	19,332,566	19,087,349	648,643