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INSTITUTIONS, TRANSACTION COSTS AND MICRO AND SMALL ENTERPRISE PERFOMANCE IN ZIMBABWE: IS THERE ANYTHING WE CAN LEARN FROM THE ASIAN NICs?

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1. Introduction

In this paper we define a number of key concepts which are central to our understanding of the processes of micro and small enterprise behaviour and dynamics, with special attention being paid to highlighting the more common types of transaction costs in the products, credit and labour markets. The definition of these terms culminates into the design of an analytical framework which is couched within the transaction and information costs economics micro-theoretic perspective meant to illuminate or explain the processes of micro and small scale enterprise behaviour and dynamics. The latter is achieved by establishing conceptually a link between institutions, transaction costs and the processes of micro and small scale enterprise behaviour and dynamics. Our next task is to point out at some of the few organizational institutional arrangements that can be designed or adjusted and then utilized to minimize the adverse impacts of these various transaction and information costs on the processes of micro and small enterprise growth and survival in the areas of micro-finance, marketing, skills training and contract enforcement. In some of the latter cases we will be drawing heavily from a few selected examples of such institutions from one of the East Asian NICs that were put into test and found to be effective in overcoming some of these constraints in the products, credit and labour markets. It is also our contention that it is only through the joint concerted efforts of both the government and other private sector groups who are in a position to help in changing positively the nature and form of these transaction and information costs by either adjusting existing institutions so that they can function better or can create new ones to fill in the existing institutional vacuum and therefore can go a long way towards meeting the objective of genuinely empowering the intended beneficiaries.

2. The Bounded Rationality Conundrum

The term bounded rationality can be taken to mean behaviour that is intendedly rational. In other words, it means that the economic agent's rationality to some certain extent is limited and therefore is confronted with the so called "competence-difficulty gap", which is a gap between the economic agent's competence and the degree of complexity of the problems (s)he is expected to grapple with. The greater is the gap, the more difficulty it becomes for the economic agent to come up with the best solution to his or her problem(s), instead more mistakes will be the outcome rather than solutions the more (s)he attempts to solve the problems(Knudsen, 1993). Of course in some developing country situations, including our own Zimbabwean situation, the competence-difficulty gap can be equated to outright "ignorance" on the part of the economic agent(s) emanating not only from the informational, limited memory and computational problems but also from uncertainty arising from the language problem that may prevent perfect communication of those things that are known or should be known, breeding the much observed and talked about lack of knowledge amongst these micro and small scale entrepreneurs. For example, to cite just one good example, all bank loan application forms in Zimbabwe, in addition to being complex in terms of the details required to be filled in and the legalistic type of language used, are all written in english and must be filled out in english and some other rigid bank formalities must be adhered to as well. The same holds also for many other government official documents, rules and regulations, regardless of the well known fact that micro and small scale entrepreneurs constitute the bulk of the least educated members of our society and therefore the majority of them are illiterate or semi-illiterate. As a consequence many of these entrepreneurs are not likely to be familiar with these complex rules and procedures as well as how to execute complex contracting tasks. In general, therefore without the aid of the indigenous languages, micro and small scale entrepreneurs are not in a position to eloquently articulate their problems and effectively communicate with bank officials, distributors, input suppliers, NGO officials, government officials, etc. Instead, fieldwork experiences show that they are actually scared to confront these elitist groups of people with their business problems and demands and by all possible means try to avoid meeting them. Some entrepreneurs, basing on the comments they made during our fieldwork discussions treat it as a shear waste of time since they are already convinced that nothing positive will come out of it. And in terms of exchange relationships this type of problem, that is bounded rationality, therefore, makes it impossible for parties to an exchange to sign long-term comprehensive contracts, the so called state contingent contracts which permits them to specify in advance exchanges to be executed in all conceivable contingencies that may occur in the future and at the same time clearly specifying all the obligations of each party to an exchange, for example what should be done if a customer fails to pay on an agreed date; if the entrepreneur fails to fulfil an important order; an employee fails to turn up for work because (s)he had to attend to a funeral or was sick or if the employer fails to pay his or her employees as per agreement, etc. In a typical developing country situation, like Zimbabwe besides the language problems, this limited competence of micro and small entrepreneurs to completely specify their contracts is due to and is further exarcebated by the fact that the distortions that characterize many developing country product and factor markets makes them poor providers of information. Information concerning the prices, quantities, and qualities of goods and factors of production is usually non-existent. The costs of generating and disseminating such information are exorbitant. Hence state contingent contracting is very difficult to undertake. Instead these informational problems leaves the micro or small scale entrepreneur vulnerable to opportunistic behaviour of both the *ex ante* and *ex post* type, that is opportunism resulting from adverse selection(hidden information) and moral hazard(hidden action) respectively. But the recognition that the economic agent's competence is limited leaves room for the renegotiation of most contracts and the use of alternative contractual or institutional arrangements, for example the contract can be left incompletely specified, in order to minimize the adverse effects of bounded rationality. Leaving the contract incomplete, however, means that contract enforcement problems that are in most cases even more costly to the enterprise, will inevitably arise in the future due either to unavoidable or opportunistic breach. Therefore, in general, for most rural micro or small scale entrepreneurs the majority of their business transactions are still being carried out in a high risk contracting environment which is characterised by doubt, ignorance and mistrust where either opportunistic or unavoidable contractual breach is the norm rather than the exception. Under normal circumstances, therefore, bounded rationality results in two types of transaction costs;

viz the costs to each party of anticipating the various eventualities that may occur during the life of the relationship and the cost of deciding and reaching an agreement on how to deal with such eventualities once they occur. We also want to emphasis that in addition to imperfect communication problems, in general the costs of information gathering and therefore the overall transaction costs incurred by micro and small scale entrepreneurs in the products, credit and labour markets is also negatively correlated with each entrepreneur's level of literacy or illiteracy.

3. Transaction Costs Types

3.1. Products Market Transaction Costs

Given the above trading uncertainties through the market and the inevitably to arise opportunistic behaviour by other transacting economic agents due to the above cited incomplete or distorted disclosure of information with the objective of making some economic gain, most of the micro or small scale enterprise's transaction costs in the products market must emanate from the trading costs sub-category of transfer costs which involve the transfer of property rights between transacting economic agents through such activities as measuring the legal and physical characteristics of a transaction e.g mass, volume, colour, texture, size, length, etc, including the knowledge about the true characteristics of the other party to the contract, for example the search costs for information pertaining to the quality of production inputs, products or services that are being offered and the reliability of the customers or suppliers who are either individuals or organizations, the negotiation, monitoring and enforcement of contracts, along with a measure of uncertainty. Some of these transaction costs are partly market costs and therefore, they are direct and can be measured. Amongst this group we have got legal and other direct fees, and the various costs involved in organizational supervision, coordination, monitoring and metering quality of goods to be exchanged. Some other transaction costs, however, are indirect and very difficult to measure[1]. It is very difficult to measure, for example the time spend gathering information, queuing, paying bribes and losses due to imperfect monitoring and contract enforcement. Although difficulty to measure, with respect to real business transactions, the micro or small scale entrepreneur is exposed to various types of transaction costs arising from *ex post* opportunism as a result of imperfect monitoring and contractual incompleteness, that is contract enforcement difficulties. Firstly, this may arise from the costs of forgone profits, arising from a customer's refusal to accept the goods once a customized order is finished with the intention possibly to renegotiate the terms of the contract, mostly on the grounds that the goods are of poor quality or defective. Secondly, from the loss of revenue which arises from a customer who, after accepting delivery of the goods refuses to pay him or her because in this case contractual incompleteness gives the customer the opportunity to plead cash-flow problems or to delay payment with the possibility of again renegotiating the price down, thus again the delinquent defaulter if the goods are customized finds the opportunity to flex his or her *ex post* bargaining power. With the latter, a lot of time must be devoted to debt follow-ups and loss of revenue can result from cumulative bad debts too. Finally, costs may be incurred that are associated with the breach of contract involving the delivery of different quality of products, especially raw materials, than that initially specified in the contract. This often happens in situations characterised by low volumes of trust, where again one party to an exchange agreement holds superior information pertaining to the goods or services to be exchanged and therefore the degree of the extend of his or her compliance with the terms of the contract are not guaranteed. Alternatively, this also often happens in cases where the input supplier is either a monopolist which creates some kind of bilateral dependence or has a good reputation and the bargaining power of the micro or small scale entrepreneur is limited or generally switching costs may be prohibitive for the entrepreneur when it comes to changing suppliers because of the previously incurred learning costs that engenders some form of bilateral dependency again. These switching costs must therefore be viewed as a form of sunk costs because each time the micro or small entrepreneur decides to switch to a new supplier or large customer, resources will have to be again invested in evaluating the true characteristics of the new supplier or customer and establishing new relationships. Therefore in situations where switching costs are expected to high, past experiences and actions are extrapolated and they actually influence future transaction decisions. Worse still, micro and small scale entrepreneurs may be forced to pay side payments in order to win contracts to supply private sector and government institutions with their goods and services. These side payments constitutes bribes and they do escalate the transaction costs of complying with private and government institutions procurement rules and regulations and often keeps micro or small enterprises from bidding for these tenders, even where they may be in a position to competently fulfil these contracts.

Another subset of transfer costs, which is commonly associated with the products market but not directly linked to the exchange process itself are the pure transfer costs of which handling and transportation fees are good examples. The group of transaction costs that seem to be easier to measure is that of transportation costs, middleman service charges and the cost of holding inventories of finished goods, work in progress and raw materials. These costs are determined both by the number of distinct transactions, that is the number or size of orders made and the volume of goods exchanged, hence they can be viewed as variable exchange costs. For the micro or small scale entrepreneur, the costs depend on the frequency of travel either to buy inputs or sell the enterprise's output and the volumes thereby involved. In terms of transaction costs, all this can be collapsed into time and travel expenses. It is important to note that for the latter, these costs are indirectly influenced also by the state of telecommunications and the road networks that affect the micro and small scale entrepreneur's queuing and waiting time. Exchange costs are bound to be high by adding time, due to delays, to both exchange and production activities if communication facilities and roads are non-existent or are in a dilapidated condition[2]. However, the cost of holding inventories, that is storage costs, is another category of transaction costs that can affect the growth and performance of the micro or small scale enterprise. The amount of inventories the micro or small scale entrepreneur must hold is determined by the waiting time which must elapse between consecutive transactions, either buying or selling transactions. If the waiting time is short, little resources will therefore be committed to inventory and the converse is true. Since in most developing countries and Zimbabwe being no exception, transactions take time to be executed we expect inventory holding costs to constitute a large proportion of the micro or small scale enterprise's transaction costs, unless the entrepreneur resorts to the use of other innovative transaction costs economizing institutional arrangements, for example production on order and therefore mostly using the customer's own raw materials.

3.2. Labour Market Transaction Costs

Transaction costs are also incurred in the labour market. With respect to the recruitment process of labour into the micro or small enterprise, fieldwork observations and discussions indicated that in Zimbabwe micro or small scale entrepreneurs incur both high search costs and bargaining costs in their efforts to find the most suitable and reliable or trustworthy employees. In terms of bargaining costs, labour market imperfections and therefore the non-existence or perennial shortages of skilled labour in most rural areas implies that the entrepreneur has to pay a higher scarcity rent than a large firm or comparable micro or small enterprise located in an urban area in order to attract skilled labour into the enterprise. Once the employees are recruited, these micro and small scale entrepreneurs often incur some output loses due to effort shirking, absenteeism and wasteful use of raw materials if supervision is slack or just from the mere fact that the employees will be generally young and inexperienced. Alternatively, employees can deliberately damage production tools and equipment. This also often leads to considerable output looses due to work stoppage over and above the high maintenance and repair costs. In instances were equipment breakdown can be a result of poor or inappropriate technical skills on the part of the employees, the entrepreneur will have to incur both some training and retraining costs in order to minimize these breakdowns. The probability is also very high that the employees after gaining enough training and experience in the micro or small scale enterprise, they will cancel their employment contracts prematurely in search of "greener pasturers", a factor which makes micro and small scale entrepreneurs very reluctant to send their employees for further training since it always turns out to be a risky strategy due to the non-enterprise specific nature of the skills acquired during the training period. Employees can also resort to another worst form of *ex post* opportunistic behaviour, that is theft. Therefore what it means is that in all the above cases high monitoring costs will have to be borne by the micro or small scale entrepreneur, either by spending some of his time doing the supervision him or herself or someone else must be employed to perform the supervisory duties. The latter will cost the enterprise some money through increased unit labour costs.

3.3. Credit Market Transaction Costs

However, when it comes to the credit market, micro and small scale entrepreneurs in most developing countries are notoriously known by financial institutions for their high affinity to borrow little amounts of money whilst at the same time they are endowed with relatively little borrowing experience. As a consequence financial institutions are very hesitant to lent out some money to these entrepreneurs because of the high transaction costs and risks these small loans attract. To the lending institutions the costs are usually fixed non-interest expenses incurred in evaluating or screening borrowers, disbursing, monitoring and collecting repayments[3]. A huge proportion of these costs take the form of administrative costs, for example wages and office paperwork and default costs in the form of reserves that must be set aside to off-set defaults or accumulated bad debts. It is these costs in most instances that compels banks to restrict their lendings to a few large, but low-risk borrowers.

But the entrepreneurs themselves also incurs some costs. In the context of the Zimbabwean situation these borrower transaction costs can be classified into two distinct groups, all of which are non-interest expenses incurred by the borrowers. The first set of costs falls under the generic name of service costs and include explicit cash costs that include expenditure on travel, entertainment, bribes and gifts, forced purchase of other lender services or products and other expenses connected with the requirements imposed by the lender. Amongst these explicit costs financial institutions as rule, based on information gathered during the fieldwork period, insist that the following charges associated with the process of loan application be met before final disbursement of the funds, viz loan application fees, training fees, consultancy fees, bond registration fees, insurance policy costs and bank commission in cases where security in the form of a bank guarantee is pledged as collateral. For all the fore-mentioned costs, with the exception of the application and bond registration fees which must be paid directly by the loan applicant, are built into the loan package. Also, given their limited knowledge or ignorance on how the financial system functions most micro and small scale entrepreneurs are forced to negotiate their loan demands through a third party before a loan application is formally reviewed. In cases where the lending institution is government owned or otherwise, such a person may be an extension or project officer who is also expected to visit and appraise the entrepreneur's project or the inventory of his current business operation, that is, to carry out a qualitative assessment of the project's viability, the overall more observable characteristics of the borrower and his business. Hence in order to curry some favours and have the loan application speedily processed some borrowers may resort to offering gifts or bribes-*vhuramuromo*, invitations for lunches and beer drinks and, therefore, these can constitute one of the major sources of the micro or small scale entrepreneur's transaction costs in the credit market.

However, in Zimbabwe as in other developing countries, the second group and possibly the largest set of transaction costs emanates, as is the case in the products market, is the entrepreneur's implicit or opportunity costs of time spend applying for and obtaining the loan, that is the opportunity cost of lost production time as well as travel expenses incurred in the process of executing the loan transactions. In most cases these costs are positively correlated with the number of visits to the bank and therefore tend to increase or decrease depending on the duration of the time taken to obtain approval. As a matter of fact, fieldwork data shows that delays in approving or disapproving the loan applications is usually the norm for micro and small scale borrowers because they always take their time to submit all the necessary requirements which go together with the loan application, for example documents pertaining to security pledges in the form of title deeds and financial statements of the business, for example bank statements and cash flow projections. Therefore, the micro or small scale entrepreneur is expected to visit the lending institution several times to negotiate the loan, withdraw a certain fraction of the loan if (s)he is luck to have the application finally approved and make some repayments. This actually, in addition to the lost productive time, involves travelling long distances and therefore budgeting for transport costs. Worse still, micro or small scale borrowers can incur some indirect transaction costs stemming from the perceived risk from the lending institution's side emanating from the fact that contract enforcement costs will be very costly so the loan application will obviously be turned down regardless of the viability of the project. Although under these circumstances the lending institution's contract enforcement costs will be simply zero, the micro or small scale borrower will incur a very huge cost, that of the loan not being approved. Prolonged delayed disbursement of approved loans can have almost similar effects. In brief, therefore, it may always turn out to be true that the opportunity costs of formal borrowing are therefore always higher for micro and small enterprise borrowers all the time when compared with their large enterprise counterparts.

4. The Institutional Environment[4]

For the purpose of this paper, we define the institutional environment as a set of all formal rules, informal rules and their enforcement mechanisms, past and present hence the importance of culture in which society's history is embedded, as well as organizations and their entrepreneurs as both rule setters and players of the game that influences the production, exchange and distribution activities in any given economic system. The rules that govern property rights and the right of contract, societal beliefs, norms and values are good examples. And these are the rules that structure incentives and help in the regulation of the behaviour of economic agents. In terms of organizations we can think of two major groupings which can either be national or sectoral in outlook, namely the formal economic, social and political organizations and indigenous organizations. Amongst the most prominent economic organizations examples are regulatory agencies, labour bodies, the financial system, private intermediary organizations, enterprises, collective action bodies and public action organizations. Political organizations encompass the three main organs of the state, viz the judiciary, parliament and the executive as well as local and regional authorities. Good examples of indigenous organizations are the traditional court system, women's social clubs, savings and credit clubs. Whilst under social organizations we have educational and training organizations, clubs, religious bodies and professional organizations. All these organizations, in one way or the other, play a crucial role in the formulation and enforcement of formal rules and regulations that include laws of the land, economic policies and strategies, political and social rules, technical standards including standards for weights and measures, quality standards and contracts. Enforcement of these rules is done in most cases through the use of the formal courts system. But in some cases it is more economic to rely on out of court dispute enforcement mechanisms, that is resorting to private as opposed to court ordering. On the other hand indigenous institutions, both as organizations and culture, also generate their own set of informal rules and enforcement mechanisms which are constituents of the institutional environment and also dictates and therefore structure the behaviour of economic agents. Culture is an all embracing concept meant to capture such informal institutions as routines, customs, traditional rules, rites, beliefs, etc, all of which have their roots in well known and recurring behaviour. Both formal and indigenous organizations, besides their rule formulation and enforcement tasks, can also be actively involved in the transacting game either as active producing economic agents or providers of institutional support services to other economic agents involved in the transacting game. Therefore, the function of these organizations goes beyond merely setting the rules of the game, but becoming important and active players of the game itself.

However, some further elaboration ought to be made here on the three types of private ordering which are known to exist, viz self-enforcement, bilateral and collective enforcement mechanisms. Bilateral contract enforcement mechanisms are mainly concerned with the use and threats of physical violence or coercive force, the role of reputational effects, taking or exchanging hostages, complaining or voice, threats to terminate or actual termination or exiting of exchange relationships. In most instances, actual use or threat of use of physical violence is preferred because it makes enforcement threats become more credible. Whilst collective contract enforcement mechanisms rely on invoking social sanctions which are applied through use of family and kinships ties, friendship ties, community bonds, ethnicity, patronage, etc, and work through ostracism or loosing face by heaping shame on the offending individual. Self-enforcing mechanisms depend on contract adherence norms and beliefs or generalized trust to restrain opportunism such as honesty behaviour, guilty conscience, traditional norms, religious norms, ethical standards, etc. These latter arrangements act as mechanisms of social control and as a guarantee that contractual agreements will be fulfilled and are all embedded in a given society's cultural institutions and its people.

It is important to note that if *trust*[5], a highly invisible institution, can be defined as the expectations that arises within a given community or society of regular, honest and co-operative behaviour based on commonly shared and enforced norms on the part of other economic agents of that community or society, then trust can be taken as part of a web of the above cited informal rules which constitutes our institutional environment and is also culturally induced and therefore must be impregnated with a lot of historical anecdotes. As a result (mis)trust can also be said to be path dependent in nature because it is these past historical experiences that determine or model individuals' current political, economic and social perceptions. For example bitter memories of past ethnic strive, colonial discriminatory rules, regulations and practices which continue to actively shape the current Zimbabwean institutional environment can be a source of ever lasting suspicion and mistrust between economic agents from different racial and ethnic groups, and between government and private entrepreneurs, thus breeding a culture of "low trust" within the whole economic system and therefore the much observed dislike of markets, high tensions, suspicions, the seemingly unending pulling and dragging in opposite directions, etc. But what we in fact actually need is both more trust and more markets not less, because without both it is difficult to imagine how mutual cooperation amongst contracting economic agents can be attained and opportunities of gainful exchange thereafter to be exploited fully. Hence, we can conclude that (mis)trust also resides within the institutional environment and is an important ingredient of the economic system which helps in lubricating or dislubricating exchange relationships, cooling down or raising tensions between transacting economic agents by minimizing or maximizing the amount friction due to high transaction costs and related sunk costs, generated within a given economic system.

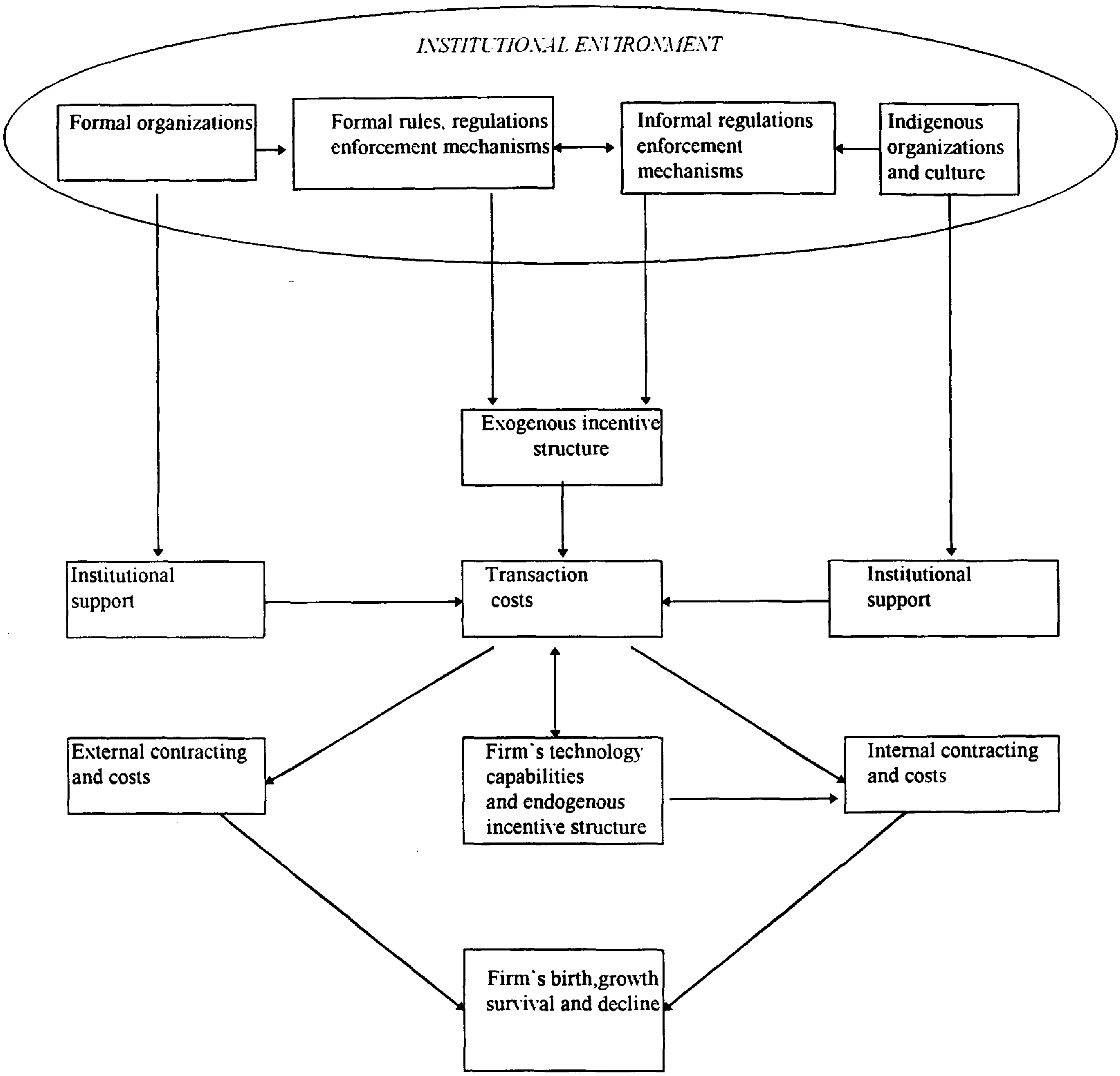
In cases where formal rules, for example rules that ensures contract compliance and security of property rights, exist and enjoys community or society-wide legitimacy, trust can also be based on these formal institutions or it can be induced through professional ethics, or common membership of a business, religious or other community organizations. With the latter it is not necessary for economic agents to know each other personally, as in the case of friends and family members, trust and overall acceptance is generated through certain kinds of attributes or characteristics associated with a given group or community which are imputed to all other representatives of the group or that community(Lyons et al, 1997:246). We can call these, group-based traits or characteristics. Ben-Porath(1980) describes this mechanism as equivalent to the transitivity of a "brand name". He suggests that affiliation to recognised groups, such as the family, the local church or local business community signals traits such as honesty, fidelity or skill(s) which are very important ingredients of the institutional environment. But unfortunately, the same group traits can also act as a powerful tool for statistical discrimination or group exclusion when it comes to real contracting. Alternatively, the development of formal means of ensuring contract compliance, for example an effective legal systems and the relative reliability of institutionalised trust mechanisms, for example credit rating bureaus, business information bureaus, national standardised weights and measures, international quality standards for example the use of ISO9000, employment agencies, etc, also reduce the need to rely on personal knowledge and trust of exchange partners and, therefore, can facilitate impersonal exchange through the price mechanism and specialization, thereby increasing one's contracting opportunities as long as the latter institutions can be relied upon and all contracting parties will have confidence in them.

5. The Link

With all the conceptual tools we have developed so far it becomes much easier to envisage a composite analytical framework that links institutions, transaction costs, the micro or small scale enterprise's contracting and networking behaviour, organizational choice and its dynamics at the micro level. This analytical framework which is based the Northian-Williamsonian macro-micro link and is a further extension of the Alston model(1994) is crucial to our further understanding of the determinants of the firm's decision making processes, contracting behaviour, contract choices, choice of investment activities and strategies, organizational structure, other related institutional arrangements that may be adopted by the micro or small scale entrepreneur including the observed industry firmsize distribution. And at the same time we explicitly recognize the special transaction and information cost economizing potential or function of public and private sector formal organizational institutions and indigenous or informal organizational institutions, trust and social networks. By so doing with respect to the latter variables we, therefore, directly take cognisance of the importance of the entrepreneur's social capital variable and other related socio-cultural parameters, within this analytical set up. A more or less complete schematic representation of this analytical framework is demonstrated in figure 1 below. This schematic linkage takes three major paths which can have positive or negative micro or small scale enterprise dynamic outcomes depending on whether the overall effect of the prevailing institutional environment is both production and transaction costs economizing or not.

The first link, the institutional environment as rules and their enforcement mechanisms-exogenous incentive structure-transaction costs and firm dynamics linkage is indirect. As we can observe from figure 1 below, following the arrows from the formal, informal rules and their enforcement mechanisms boxes this link is established through the effects of these rules on the exogenous incentive structure. For example if property rights, intellectual property rights, contract rights can only be enforced through say closed ethnic, kinship or locality-based social networks that swiftly provides both the required reliable information and the much needed trust or social identity between transacting economic agents, but at the same time having the potential effect of stifling competition and acting as an entry barrier to potential entrants especially the mistrusted ones or those of a different social and cultural identity such groups are bound to experience high transaction costs. Government strategies, economic and political policies, tendering rules; national and sectoral labour laws; bank lending rules; traditional values, etc, in situations where they are heavily weighted to benefit large enterprises at the expense of small ones have the same effect and therefore exposes the latter group to unduly high policy induced transaction costs. Together, the effects of these social and rule induced costs directly feeds into the overall transaction costs incurred by transacting economic agents in the various markets they execute their transactions. This in turn directly determines the firm's decision making processes in terms of both contracting, investment and technology choices. All investment decisions and the actual acts of contracting, choosing technology and investment entails that the firm incurs some irreversible transaction or sunk costs which can be high or low depending on the prevailing levels of (mis)trust, personal, institutional or otherwise, within the firm's transacting environment.

Figure 1: A schematic representation of the link between Institutions, transaction costs and small firm dynamics



This in turn, goes on to determine the firm's organizational form(market, hybrid/networks, hierarchy or a combination) and other transaction costs economizing coping strategies, including cultural norms, direct communication and negotiation as coordination mechanisms. Organizational form on its part, in turn shapes the firm's contracting behaviour and contracting choices, that is simple versus complex contracting[6] or a mixture of the two which in turn influences the cost structure to be confronted by each firm. It is this series of events which actually then influences the dynamics(growth, survival and decline) and the size of the enterprise at micro level depending on whether the transaction and production costs experienced by each individual enterprise have a growth chocking effect or not and the actual magnitude of these costs experienced at the enterprise level is determined by the enterprise's preferred contracting choice. In cases where perceived risk and transaction or sunk costs are high, for example, where the negotiation, monitoring and enforcement of property and contract rights is perceived to be costly for some enterprises, it may result in their lack of access to private and public contracts or loss of credibility vis-a-vis banks, suppliers, customers, etc, or entrepreneurs themselves may deliberately limit the scale of their investments and enterprise sizes as a transaction costs minimizing strategy thereby directly stifling the growth prospects of the enterprise through forgone increased division of labour. The transmission of the effects of these transaction costs at the enterprise level are felt through the totality of their effects on both the enterprise's contracting costs(internal & external) and production costs, as indicated by the arrows in figure 1 above. Production costs are affected through the choice of technology(simple or complex) and the adopted organizational form as well as investment decisions at the enterprise level. For the latter case, the institutional environment through the incentive structure and then via transaction costs associated with insecure property rights giving rise to uncertainty and risk, through say lack of title deeds; uncertain or unpredictable and biased macroeconomic policy measures for example customs and excise duties, credit ceilings, arbitrary taxation, preferential foreign exchange allocation or rationing, inadequate provision of law and order, etc; local customs, practices, other socio-cultural factors, values and beliefs, for example the negative effects of traditional social arrangements and customs or practices that penalises instead of rewarding achievers and works against female entrepreneurs; combined with bad politics characterised by predatory and rent-seeking behaviour either by the state or other economic agents involved in the transacting game may act as a disincentive, by generating mistrust between potential contracting parties and hence directly adversely impinging on the net profitability of investments undertaken due to the resultant high costs of transacting emanating from unchecked incentive problems for enterprises to invest in new plant and advanced growth enhancing technologies or simply by stifling learning thereby destining the enterprise's technological upgrading capabilities into a state of limbo or perpetual stagnation. Alternatively, in cases where high transaction costs may impede some enterprises to secure the requisite funds, raw materials and skills in the credit, products and labour markets respectively, these enterprises might find themselves not in a position again to invest in those production techniques requiring initially huge loan financing, special inputs and skills, further limiting their growth opportunities. Even the so called appropriate labour intensive production technologies, if they lead to high supervision or monitoring costs their chances of being adopted is very minimal. This is depicted in figure 1 above by the arrow's movement from the transaction costs box into the enterprise's technology, capabilities and endogenous incentive structure box, which in turn feeds into the enterprise's internal contracting and production costs via the medium of transformation costs. As a chain reaction, this will ultimately also affect the enterprise's external contracting behaviour and the associated costs. On a positive note, however, the exogenous incentive structure can be a source of dynamic traditional norms, values and belief systems that helps to promote mutual trust and solidarity, and penalises any form of strategic behaviour by transacting economic agents, therefore, directly acting as a restrain against both *ex ante* and *ex post* opportunism and consequently making contracts to become self-enforcing. This tremendously minimizes both transaction costs and other related sunk costs. And through the enterprise's contracting decisions and choices, this will positively affect the processes of enterprise dynamics through the promotion of beneficial exchange relationships, including the use of complex contracting and therefore specialization. The ultimate effect is that this will positively impinge on the enterprise's total cost structure due to both growth enhancing price and productivity changes.

The second linkage is the enterprise's technology, capabilities and endogenous incentive structure-transaction costs and enterprise dynamics connection. For static analysis purposes, if we assume that in the short run the enterprise's technology and capabilities are given then the enterprise's existing technology and capabilities endowments affects both transaction and production costs, hence enterprise behaviour and dynamics in two discernible ways. Firstly, by tracing the arrow from the enterprise's technology, capabilities and endogenous incentive structure box, an enterprise's production costs which are an internal outcome, emanates from the overall transformation costs which are directly determined by the enterprise's existing technology and capabilities endowments. Then these production costs jointly with the enterprise's internal contracting costs feeds into the processes of enterprise growth, survival and decline as indicated by the arrows in figure 1 above. Secondly, the state of the enterprise's technology, capabilities and endogenous incentive structure indirectly via transaction costs affects both its external and internal contracting costs and decisions, for example in cases where asset specificity and quality control matters, in order to minimize *ex post* bargaining costs, vertical integration will be the prefer organizational arrangement as opposed to say, subcontracting arrangements. Alternatively if the enterprise's technology and capabilities are simple and underdeveloped giving rise to huge disparity with technologies employed by other enterprises, the ensuing deficiencies in product quality, the narrow range of products the enterprise is therefore in a position to manufacture and possibilities of delays in meeting set delivery times which in turn generates high transaction costs in the form of measurement, monitoring and enforcement costs will adversely affect the enterprise's external contracting behaviour and costs including any possibilities of creating inter-enterprise vertical integration production processes because of both the enterprise's technological and cultural disconnect with its larger enterprise counterparts. Thus again, through this technology, capabilities and endogenous incentive structure-transaction costs-contracting behaviour-enterprise dynamics link, this chronological sequence of events again takes us into the micro processes of enterprise growth, survival and decline. However, at each point in time, transaction costs and related sunk costs experienced by the enterprise are directly proportional to the effects of the enterprise's endogenous incentive structure composed of its capabilities or productive capacities, that is organizational, managerial and social or networking capabilities and human resources as well as the enterprise's codified and uncodified rules and regulations which constitutes its own internal coordination mechanisms, including the owner's personal attributes, cultural values and beliefs. If the enterprise is well endowed with social capabilities that allows it to effectively network resulting in an extensive set of trust enhancing information supply, signalling, screening and marketing contacts, with employees, suppliers, financiers, customers, public and private agencies, which permits it to elicit all the resources it requires it is bound to enjoy lower transactions costs and possibly greater productivity gains and growth. But in cases where internal rules and routines become inflexible and dysfunctional, social capabilities are underdeveloped, this promotes mistrust, both internally and externally, which will negatively impinge on the enterprise's dynamics by increasing both production and transaction costs because by not belonging to the existing social networking arrangements prevailing in its social and business environment, the enterprise is discriminated against. Every time it wants to transact, it will be made to pay more and therefore incur higher costs vis-a-vis other existing enterprises which are members of the social network, in order to enjoy the same benefits, be it by other transacting economic agents or state agents. The general tendency is therefore to increase the enterprise's transaction and production costs through increased contracting costs, lowering the net returns on investment and ultimately negatively affecting enterprise growth, if not leading to decline. Therefore the utility of the enterprise's endogenous incentive structure lies in its ability to align incentives that are conducive to the creation of a trusting atmosphere and engenders compliance within and outside the enterprise which therefore goes a long way in attenuating the inevitable incentive or agency problems and the consequent high transaction costs emanating from incomplete contracting, moral hazard and adverse selection cases. In the long run, learning or accumulation of capabilities within the enterprise itself, if ever it takes place, will have the same effects and the positive ripple effects of such learning again goes a long way towards minimizing both the enterprise's overall transaction and production costs by positively affecting the enterprise's contracting behaviour and organizational choice.

The third and final linkage, which is direct and fits well into the schema, is the institutional environment as organizations-institutional support-transaction costs and enterprise dynamics connection. Following the arrows again, organizations both formal and indigenous ones feed directly into the enterprise's transaction costs box as indicated by the arrows in figure 1 above via these institutions' behaviour either as providers or non-providers of both supply-side and demand-side institutional support services or as active users or non-users of the enterprise's products which has got the same transaction and production costs increasing or decreasing effects as the other two linkages above. In a similar way the resultant effects will have the same influence on both the enterprise's contracting choices and behaviour, choice of organizational form and the dynamics at the micro level. The contribution of these institutions may take various forms which may include from a technical point of view, provision of expertise in assisting with the introduction of new and improving existing manufacturing technologies, with the direct effect of strengthening the technological capacities and competitiveness of these enterprises; skills upgrading, offering technical assistance in product development and diversification, testing, packaging, quality control services or product standardization. The latter may involve the implementation of local and international trust enhancing product manufacturing standards and specifications, including environmental management and control systems with respect to the minimization of water, air and soil pollution. Hence we can see the direction of the arrow in figure 1 above again moving from the institutional support box via transaction costs into the enterprise's technology and capabilities box and here it affects both the enterprise's internal and external contracting costs, feeding into the processes of enterprise dynamics at the micro level. All the latter services when provided, have a tremendous potential to reduce monitoring and measurement costs and thus can naturally lead to the promotion of inter-enterprise production linkages and therefore enterprise growth. The same can be said with respect to the provision of credit, market intelligence, marketing assistance and training in financial management skills that includes buying, costing, pricing, stock control, record keeping, etc, in which organizational institutions can take an active role in screening or guaranteeing borrowings by micro and small enterprises from banks and other financial institutions or these intermediary institutions themselves can act as direct lenders. Also subcontracting, franchising and licensing production arrangements can be facilitated when private sector intermediaries themselves, for example marketing cooperatives, brokers, traders, distributors or trade associations, with proper incentives put in place, take the risk to act as both quality guarantors and representatives of these firms thereby getting involved in direct price negotiations, advertising, buying and selling of these enterprises' products using say a common brand name. By acting at the same time as quality guarantors they will be therefore bridging the notoriously lacking properly constituted signalling mechanisms. This means that it will be these organizations' role, in addition to capacity building, to link up micro and small enterprises with key national or international distribution channels and monitor the quality of products and their prices and ensure their reliability through timeous delivery of orders to customers or replacement of rejected items. These institutions will also therefore have to perform the task of penalizing their affiliate producers if they supply shoddy products. The aim of all this, being to enhance the visibility of the micro and small enterprises' products through direct negotiations and cooperation with formal distribution channels' management to grant display and shelf space to these enterprises' products in their show rooms and retailing chains. This also calls for the provision and setting up of less expensive and time consuming contract enforcement and dispute resolution services.

Alternatively, these organizations can either commit themselves to the preferential awarding of both public and private contracts to these enterprises, thus creating a captive market for their products or foster the creation of organizational forms that promotes economies of scale through the encouragement of collaboration and networking behaviour amongst micro and small enterprises themselves for example clustering, although these arrangements demand a high degree of trust especially of the generalized type that needs to be nurtured continuously, goodwill and cooperation amongst these clustering economic agents hence the need to put in place the appropriate incentives to overcome the likely problems to arise from the incentive to free ride and the obvious social and cultural barriers. Collaboration, including group based ownership and use of production equipment, resource pulling arrangements, bulk input purchases and output sales, etc, as a means of attaining economies of scale can also help them to establish the much needed reputation, goodwill and credibility of their products and enterprises thereby broadening their marketing options and profit opportunities. Therefore, the creation of these stable, long lasting business relationships and networks can enable the generation of mass markets and the attainment of economies of scale which would otherwise not be available to these micro and small enterprises in their natural atomistic form of existence by lowering both transportation and communication costs, for example. Such behaviour and many other information brokering and infrastructure upgrading activities will assist in influencing the allocation of risk between the transacting enterprises and the intermediary organizations involved. Therefore, institutional support may actually lower both transaction and production costs and the risks encountered by transacting micro and small scale enterprises thereby determining and positively influencing both the choice of technique, organizational form, contracting decisions and behaviour at the enterprise level. This process can be traced by following the arrows through the transaction costs box in figure 1 above down to the enterprise level again and it may be enterprise growth friendly if transaction costs are kept to a minimum. The converse is true.

However, in relation to all the above three linkages it can be said that transaction costs are generally higher and risk abounds when both personal and institutional trust is lacking, therefore stifling enterprise growth because the incentive structure will be uncertain, especially with respect to the stability of property rights, and if facilitative institutional support is not forthcoming. Therefore, what is crucial above all it seems, with respect to micro and small enterprise dynamics in such high risk transaction environment(s) and contract uncertainty, is the availability of trusting behaviour or simply the existence of a trusting atmosphere between transacting agents themselves and their solid faith in other institutions which are part and parcel of their overall institutional environment, state or private institutions, that supports the exchange process through their function of constantly checking on both *ex ante* and *ex post* opportunism. In this case trust and therefore the transacting economic agent's identity becomes the necessary and sufficient condition that helps to minimize the diversion of scarce resources towards the protection of property rights and in turn ensures stable expanding markets, mutual beneficial exchange and hence positive outcomes with respect to enterprise dynamics. But, it is important to take cognizant of the fact that with respect to trust-based social networks and related informal contracting processes, whilst trust may be high and localized, within these small homogenous groups of transacting economic agents resulting in lower transaction costs and risk, which give rise to a number of positive externalities due to exchange or allocative efficiency within the group(s), low trust between heterogenous groups of transacting economic agents implies that contracting or exchange relationships between these groups may be susceptible to varying degrees of exchange or production inefficiencies and thus breeding some kind of negative externalities, due to the resultant high transaction costs and a dearth of resource and risk pooling mechanisms including the emergence of such organizational forms like partnerships, joint ventures, strategic alliances or consortiums, emanating from lack of a common system of contracting practices or a desired pattern of social behaviourial relations between them. The low levels of trust between groups effectively stifles the free flow of information across these groups resulting in diverse adverse impacts with also varying degrees of severity on the processes of micro and small scale enterprise dynamics. Therefore, contrary to what traditional microeconomic theory say, that is the universal prevalence of an unfettered and non-discriminatory impersonal market exchange system, in this analytical framework it seems that both exchange and production relationships are also determined by the existing within group endogenous non-price informal institutional arrangements or practices and statistical discrimination may be pervasive. These social relationships serve to exclusively restrict contracting or exchange to a few selected and preferred economic agents or small homogenous groups of economic agents. The exclusionary or discriminatory nature of these institutional arrangements or practices can only be rationally justified on the grounds of their transaction costs economizing and risk spreading or pooling function(s). And as long as the opportunity costs of exclusion remain lower than the costs of transacting across heterogenous groups, the within group exchange arrangements will rein supreme and therefore flourish forever. But as we have already highlighted the efficiency of the whole internal trade or contracting process may suffer from such "lock in" effects with micro and small scale enterprises absorbing most of these non-growth promoting adverse effects.

6. The Indonesian SMEs Assistance Model and its Applicability to Zimbabwe.

In this section, in light of the above theoretical insights, we are going to discuss a few selected success stories of innovative SMEs transaction costs economizing and trust or market enhancing institutional arrangements from Indonesia initiated both by private and public organizations. We will start by analyzing its rural micro-finance project, the Unit Desai system; briefly discuss the complementary marketing strategies and then draw some lessons for Zimbabwe.

6.1. The Unit Desai Rural Banking System[7]

Whilst a number SMEs support programmes have been implemented in Indonesia, what has achieved real success and therefore drawn the world's attention is its innovative grass-roots level semi-formal institution, the unit Desai rural banking system. The latter are village-level savings and loan associations and is run by Bank Rakyat Indonesia(BRI) one of the five state owned banks in Indonesia responsible for marshalling financial resources for rural development. The Bank Rakyat Indonesia's Unit Desai system currently serves 2.5 million micro-loan clients and 12 million small savers through the bank's 3600 rural offices or Unit Desas and at least 85% of loans granted are for working capital loans(CGAP). The organization of each unit Desas is based on a simple four person structure, a general manager, a loan officer, a cashier and a bookkeeper but can increase staff up to a maximum of ten. The bank's lending methodologies are strongly built and anchored on existing known informal financial mechanisms and strong social structures, namely group cohesion, at the village level which allows the system to reach large numbers of micro-loan clients. Therefore, the latter's success emanates from the fact that these institutions were provided with a simple but innovative lending technology for increasing the likelihood of payment under the group-based or individual-based incentive lending schemes. The group scheme is very much similar to the solidarity-group lending methodology pioneered by Grameen Bank. This involves organizing clients into groups of five individuals and making loans to two group members at a time, on a staggered basis, with all five group members jointly reliable for repayment. Whilst under the individual incentive scheme, these innovations consists of discounts and other incentives for those who repay their loans on time, performance incentives such as profit related bonuses for bank employees and repayment related bonuses for the village-level community leaders who act as character referees for borrowers, therefore assisting with the speeding up and simplification of the loan appraising system. All borrowers who make every loan payment promptly are free to request a second loan which will be twice the previous one. Late payments implies that the next loan amount will be made smaller than the previous one. If repayments are made two months after the expire date, then the borrower will not be eligible for another loan(Reed *et al*, 1994).

However, under each of the above schemes portfolio risk management is implemented through the granting of small initial loan amounts, but incrementally raised after each and every successful repayment of the previous one. And in order to further reinforce the latter pressures or incentives, loan instalments are collected every week at or near the borrower's premises, a move which cuts tremendously on borrowers' transport costs. At the same time, in both schemes borrowers are required to pull a small amount of savings either as a group or individual fund. The latter fund acts also as an insurance fund, thereby generating an innovative substitute for the imperfect or non-existent rural insurance market. Therefore, according to Mosley(1995) largely as a result of the effectiveness of this technology, repayment rates on the loans made by the Indonesian BRI Unit Desai institutions are extremely high-over 97%, or far in excess of what is achieved by commercial banks throughout Asia. The secret of this unsurpassed success lies with the provision of a much simplified and low-cost lending technology for making the rural capital market work more efficiently under uncertainty, viz either by the practice of lending to groups of borrowers of which no other member of the group is allowed to receive an additional loan whilst still any other member of the group is still in arrears or has defaulted, so that the pressure to repay of group members is added to that emanating from the lender or through the individual incentive scheme in which default can lead to loss of benefits and future chances to borrow, hence the desired to preserve one's self-interests also become a compelling factor to honouring one's debts. Therefore, in each of the latter options it is either the group or individual incentive scheme institutional arrangement and the consequent loss of reputation which act as an innovative substitute for formal collateral requirements.

6.2. Marketing Arrangements

However, it is always true that any credit programme intended for micro and small scale enterprises often fail to achieve the desired results if its design does not take into account the pull effects of effective demand either on the domestic or international market. In Indonesia, they did not loose sight of the latter issue. A coherent marketing strategy to cater for both the domestic and export market which involved the forging of strategic alliances between small scale producers, private domestic and international marketing organisations or buyers was put in place. Extensive use of consultancy services was made use of in the areas of quality improvement, covering quality control systems, packaging and labelling, creation of new designs, etc. But specifically for the rural enterprises. traders played an important middleman role and there is quite well documented proof on how the Indonesian rural entrepreneurs depended on wider markets which these middlemen made accessible to them(Weijland, 1990). These trade networks also acted as a conduit of market intelligence, input supply and finance provision. Therefore, the transfer of buyer-seller relationships managed to occur at the firm-to-firm level within the context of well defined market channels. Unlike with other marketing arrangements that involve third parties as intermediaries which often results in the institutionalization of lack of trust between transacting parties, the Indonesian strategy of deliberately promoting SMEs trading networks allowed trust to be nurtured bit-by-bit and later on develop and flourish. A study by Berry and Levy(1994) confirmed this. Their study found that any aggressive efforts to seek out buyers and match them with suppliers do not pay off. Instead it was confirmed that firms value services where they can develop private-to-private or face-to-face transactions, such as trade fairs organized either locally or abroad. Hence the study concluded that micro and small scale entrepreneurs must be encouraged to establish and maintain their own trade networks as it has proved to be very successful in some parts of Indonesia.

6.3. Relevance of the Model to Zimbabwe

As to whether the above analyzed Indonesian lending methodologies and marketing strategies as transaction costs economizing institutional arrangements can be applicable to the Zimbabwean situation, will all depend to a large extend on the country's prevailing institutional setting. Firstly, the success of stimulating small rural banks depends to a large extent on the confidence of the public in those banks, because all markets and especially the financial markets need some minimum volumes of trust in order for them to function properly. In order to prevent bank failures the Zimbabwean Reserve Bank will have to come up with appropriate prudential banking rules and to monitor closely the soundness of these rural banks and the quality of their management because it could be true that the recent Indonesian financial crisis could have been also triggered partly by the lax monitoring of its financial system. Secondly, the financial authorities and government may stimulate the establishment of small rural banks through selective intervention in various areas. This can be done by improving the investment climate in the field of small rural private banks and by setting up government-initiated projects such as the Unit Desai system, provided that requisite conditions for viability and sustainability are observed. With respect to the latter the good news about Zimbabwe is that the infrastructure that can be adapted for the purpose of either implementing the group or individual based incentive lending schemes is already there.

1. As a first option, the Unit Desai system can be accomplished by simply changing the mandate of say all rural Post Office Savings Banks(POSB) which are already strategically located on all the country's growth points by adding the lending portfolio to them given the fact that these rural entrepreneurs have already some extensive experiences in banking with this institution. In fact for the majority of them, that is the only place where the much sort after information about their credit or banking histories can be easily found.

2. Like the POSB, the Small Enterprise Development Corporation(SEDCO) is a good candidate for the Unit Desai type of banking arrangement, but unlike the POSB its mandate can be extended to cover savings mobilization. By simply extending and increasing its branch network into the rural areas and getting the incentives right, direct savings mobilization could be one of the best solutions to SEDCO's perennial undercapitalization problem. Moreover SEDCO by 1994 had already started experimenting with its micro-enterprise group lending scheme, of which if it succeeds can tremendously bring down monitoring costs and possibly improve on repayment performance.

3. Alternatively, the Agricultural Finance Corporation(AFC) also given its long history and experience of working closely with communal farmers, like these Indonesian rural banks before

their restructuring in early 1984, can be urged to diversify its lending portfolio in order to directly take on board the borrowing requirements of rural micro and small scale entrepreneurs. The AFC also has some substantial working experience of its group lending scheme to communal farmers, therefore it will be to its best advantage to consolidate and capitalize on this knowledge and design similar micro and small scale entrepreneurs' lending groups that utilize existing grass roots social links and institutions that tend to foster and sustain group cohesion and trust.

Once initiated and the project starts running the above institutions can be gradually enticed or provided with additional incentives to offer non-financial services such as retail outlet facilities for the products of their clients, performing the market intelligence function, etc in order to make their support programmes become multi-pronged and therefore real integrated ones. It will be an added advantage if bank staff can also be recruited from within the localities, such that in addition to the possibility of offering them lower wages they will be having first hand information about their potential loan clients. But above all the latter may help in overcoming the "elitist" attitude of most urban-based bank officials thereby instilling some confidence and trust in the minds of local borrowers as they will feel very free to interact with the locally recruited bank employees. Local information and the knowledge about the identity of local borrowers that will be imbedded in these locally recruited employees will therefore help in identify the *ex ante* risks associated with prospective borrowers. Hence the problem of borrower anonymity, which underlies most adverse selection cases will therefore be minimized.

The last option, which is really an empowerment option will be for the government with the assistance of provincial, district and local community leaders to encourage the formation of rural banking cooperatives. And this implies that some form of government support in the form of start-up capital and administrative costs subsidies may be necessary. The subsidy is no surprise because although the Indonesian system is now being run on a commercial basis, initially it also heavily benefited from both government and private sector financial and non-financial support. However, with the passage of time we expect these institutions to become self-sustaining from the savings they will be mobilizing. But what must be made clear and therefore emphasised is that the Indonesian micro-finance program succeed mainly because the incentive system was made to be right and therefore conducive to all borrowers, savers, bank employees and community leaders alike and also the political will was there to sincerely empower the disadvantaged. These are very important prerequisite for any country that may contemplate experimenting with the Unit Desai Indonesian micro-finance model.

As far as marketing is concerned, there is no doubt that micro and small enterprises in Zimbabwe face a severe handicap in this area and what we can learnt from Indonesia is its systematic efforts towards helping its SMEs in setting up quality production standards, offering quality control and packaging and labelling assistance. Therefore, in the Zimbabwean case it will make more sense if the Standards Association of Zimbabwe(SAZ) which hitherto has been offering its services only to large firms can be encouraged to decentralize its certification marking scheme and testing activities to all provincial centres in the country, where they may be readily accessible to rural based SMEs whilst at the same time making some concerted effort to reach all urban based SMEs with its services. Product testing and the consequent certification by SAZ, on its own will greatly enhance the marketability of the Products of SMEs given the fact that they would have been manufactured under an effective system of testing, control and monitoring which guarantees product quality, safety and reliability. There is no other effective way of signalling, promoting inter-firm production linkages, enhancing competitiveness or bridging the technical needs gap of the micro and small enterprises than the latter arrangements.

The above must be then supplemented by the continued hosting of national and provincial annual or bi-annual Small Business Expos specifically designed to cater for micro and small scale entrepreneurs where they can have a chance to exhibit their old and new products thereby enhancing their visibility. The latter can also be carried out as a way of promoting business networking and the establishment of enduring trust based exchange relationships with both their new customers and suppliers. But the problem with the latter arrangements as we have indicated in section 2 above, is that most rural entrepreneurs are often ignorant of such exhibitions for reasons we have already specified in that section. Therefore, the existence of such shows must be extensively publicized in order to reach the often neglected rural entrepreneurs.

However, although in this paper we did not select any Indonesian case on skill training in the SME sector the labour problems, especially the shortage of skilled labour, faced by the small scale entrepreneur in Zimbabwe can be summed up as a serious conundrum always ready to unfold itself as a double tragedy in which whilst the more experienced employees in the firm become difficult to supervise and the entrepreneur can no longer trust them and at the same time is not in a position to accommodate their grievances and try to retain them by paying them the requisite wages, (s)he cannot at the same time attract other outside non-kin group skilled employees into the firm for basically the same reasons. Any efforts toward in-house training besides their weak resource capacity to do so, is further hampered by the non-firm specific nature of the skills acquired during the training process which makes it very difficult for entrepreneurs to recoup their training costs fully. Therefore, due to the latter pervasive incentive problem in particular and the public good nature of skills acquired during training, the government can therefore act as a catalyst say through the offer of a training subsidy in order to stimulate establishment of provincial and district level privately run, low-cost and demand-driven training centres to serve rural SMEs in different subsectors of the manufacturing sector.

Lastly, an additional area that need to be urgently addressed although not raised under the Indonesian model is the need to strengthen existing appropriate local contract enforcement mechanisms as an interim solution towards the enhancement of SMEs contracting opportunities. The problems of non and late payment are pervasive and most micro and small scale entrepreneurs are loosing a lot of their revenues this way. From fieldwork discussions it was made quite explicit that it was very costly and therefore uneconomic to engage lawyers and higher order courts, whilst for those who sought help from the local community court system not much help was forthcoming. The problem with the latter is that the presiding officers who man these local courts are ignorant of formal contract law and at the same time are not well versed with the informal contracting and general business practices of these entrepreneurs. Therefore it is difficult for them to come up with properly constituted dispute resolution mechanisms and most of their verdicts are made on the basis of *ex post* fairness grounds that permits the defendant not to adequately compensate the plaintiff. So, it will be a good idea if the Small Claims Court system currently confined to large urban centres can also be decentralize to cover small towns and rural growth points and its law officers must make an effort to acquire basic first hand knowledge about the business practices of micro and small scale entrepreneurs in order for them to function effectively.

7. Conclusion

In this paper we have attempted to highlight theoretically some of the major types and sources of transaction costs found in the products, credit and labour markets and how they are interconnected with the processes of micro and small scale enterprise dynamics. We have also picked specific Indonesian institutions as case studies on how they were utilized to overcome and minimize the adverse impacts of these costs and analyzed their relevance to Zimbabwe in terms of what organizational arrangements can be adapted to perform the same functions. However, what all the above discussions may entail is the need to establish a coordinating institution made up of people from government, the private sector and real representatives of micro and small scale entrepreneurs at the grass roots level. This may involve, for example, the establishment of an advisory service scheme if one is not yet in place which will be tasked with the responsibility of constantly identifying the problems faced by micro and small entrepreneurs. This implies that they will be a need to make frequent field trips to meet micro and small scale entrepreneurs in order to elicit and probe specific problems they will be confronting and thereafter providing them with appropriate instant solutions and extension services that includes monitoring and making evaluations for any progress that may be taking place. Although in our case study we did not say anything substantial pertaining to the role the macroeconomic policy environment on enterprise dynamics, our schematic presentation is quite explicit on the influence of such policies on SMEs birth, growth, survival and decline processes. Therefore, whilst there is a need to plug the cited institutional gaps, their effectiveness in further enhancing the contracting opportunities of rural micro and small scale entrepreneurs will only be achieved if complementary supportive or transaction costs economizing macro-policies are also put in place. If this can be achieved the probability is very high that SMEs in Zimbabwe can start to actively assume their rightful role and therefore start to meaningfully contribute towards the country's development process.

Notes

1.For a more detailed discussion on the measurement problems of these types of transaction costs see North(1990).

2.Lack of communication infrastructure is more severe in the rural areas of the whole of Sub-Saharan Africa, with for example 0.48 telephone per 100 people in Sub-Saharan Africa when compared with 60 per 100 people in the USA. The Zimbabwe rural economy is no exception to this.

3.For an early analysis of transaction costs in the credit market see Adams, Dale W and G.I Nehman(1979) and on recent empirical work see Zia U Ahmed(1989)

4.Conceptually the distinction we make here between the institutional environment and institutional arrangements is more in line with Williamson's(1994) approach in which the former is treated as a more macroanalytic perspective concerned with the political and legal rules of the game and the latter is considered to be a more microanalytic perspective dealing with firm and market modes of contract and organization. It is important to note that in this paper our definition of the institutional environment is much broader than Williamson's rules definition.

5.For additional literature on trust, especially on how it is differently defined or generated and sustained see in particular Luhmann(1979), Zucker(1986), Sako(1992), Williamson(1993), Dasgupta(1988) and for more rational choice inspired explanations see Kreps(1990)

6.A detailed distinction between simple and complex contracting can be found in North(1990) and Williamson(1985)

7.A more detailed historical picture of the origins of the Indonesian rural banking system can be found in Schmit(1991)

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