

## **The potential impact of public-private partnerships in developing the small to medium sector in Zimbabwe<sup>1</sup>**

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### **Introduction**

Public-private partnerships (hereafter referred to as PPPs) are in their infancy stage in Zimbabwe although they have existed in other parts of the world for decades. However, in the face of declining government revenue and the parallel depreciation of our infrastructure, PPPs appear to offer a solution to the infrastructure challenges facing Zimbabwe. Traditionally these PPPs have been undertaken by large corporations which have the capacity in technology and financial resources. The participation of small to medium enterprises (hereafter called SMEs) in PPPs has been low despite the role SMEs play in the economy in terms of employment creation, poverty and inequality reduction. PPPs provide an opportunity for Zimbabwe and other developing countries to develop a viable SME sector. Therefore, there is need for government to encourage the participation of SMEs in PPPs. This can enable governments in developing countries to tap into the potential that PPPs have for solving socio-economic challenges affecting developing countries such as unemployment and poverty. There is a need to rethink on the models used to execute PPPs as the traditional model discourages the participation of SMEs because of lack of technological know-how and inadequate finances. There is therefore a need to find means to encourage SMEs participation in PPPs.

### **Problem Statement**

SMEs play an important role in the economic development and growth of an economy through job creation, offering diversified and innovative products and services in an economy. However, the participation of SMEs in PPPs is very limited and there is need to find strategies to increase the participation of SMEs as a strategy to spread economic opportunities. The traditional models of PPPs underestimate the potential impact the PPPs can have in creating a viable SME sector that can create employment and provide income for the poor while addressing the infrastructure backlogs.

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## **Research Objectives**

The research sought to find out how PPP projects in Zimbabwe can help SME development. Furthermore, the research sought to identify strategies that can increase the participation of SMEs in PPP projects.

## **Research Questions**

1. How can PPPs assist in the development of SMEs in Zimbabwe?
2. What strategies can be implemented to increase SME participation in PPP projects?

## **Research Methodology**

The research methodology employed for this study is the mixed-method. This method encompasses desktop research where a review of literature is done as well as survey where questionnaires and interviews are used to gather information and some elements of quantitative method to analyze data gathered.

## **Literature review**

### **Definition of PPPs**

The definition of public-private partnership is wide. However, the Fiscal Affairs Department of the IMF define PPPs as arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government. This definition accommodates the various types of arrangements under the PPPs. Farrugia and Orr (2008) define PPPs in terms of participation of the private sector in infrastructure and in this respect, PPPs are often referred to as “private finance initiative”, public-private partnership, alternative financing and procurement or performance –based infrastructure”. Grimsey and Lewis define PPPs as arrangements whereby private parties participate in, or provide support for, the provision of infrastructure and PPP projects results in public infrastructure being delivered by a private entity on a contractual basis. De Bettignies and Ross argue that universal definition is not possible because the term is used in slightly different ways that result in a precise definition not being possible.

## **The role of PPPs in SME sector development**

Mabuza (2018) argue that in order to have a viable PPP sector that can support SME development certain requirements must be met. These include a strong legal, regulatory and institutional framework which is able to protect the interests of consumers, the private and public sectors. Hussain et al (2012) points out that there are many differences between SMEs and large corporations in terms of resources, strategies and structure which tend to explain the high rate of failure among SMEs compared to large firms and the slow growth of SMEs as well. The question is therefore whether PPPs can be used to assist SMEs to address their challenges. Mabuza argue that by subcontracting certain goods and services this can help improve the sustainability SMEs as it provides SMEs with access to markets and a sustainable income. The provision of infrastructure through PPPs provides an opportunity to develop a viable SME sector in both developing and developed countries as argued by Warner and Sullivan (2004). The subcontracting of services to SMEs often result in employment through creating backward and forward linkages with SMEs creation thus according to Mutsigwa (2009). He further argues that SMEs can benefit from PPP arrangements through capacity building of SMEs in areas such as procurement, business management skills and technology transfer. According to WBCSB the corporate sector can also acquire new customers by working with SMEs where those customers are not accessible through traditional distribution networks.

## **Research Methodology**

The research paper used the mixed research method which incorporates both quantitative and qualitative research methods as both methods share the goal of understanding the world we live in. The mixed method was able to balance the requirements of both the quantitative and qualitative approaches for better analysis. Furthermore, problems in the world can rarely be approached exclusively with one research method because most major areas in the social and behavioral sciences now employ multiple methods. Questionnaires were sent to officials in government departments, those in the SME sector and employees in the PPP companies.

## **Research Results**

The research first shows the distribution of the respondents in terms of employment status as well as number of years of experience in that sector or both.

### Employment status of respondents

PPP company	45%
Contractor to PPP	20%
Public Sector/Agency	35%

*Source: Survey by authors*

Respondents' years of experience in PPP

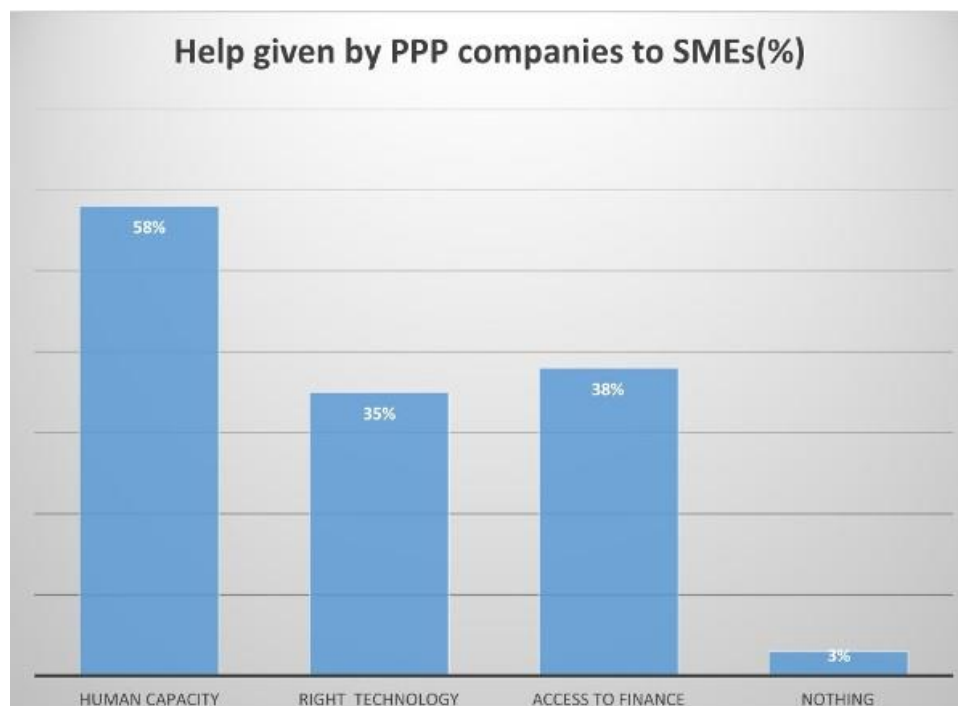
PPP company	32%
Contractor to PPP company	34%
Experience in both sectors	34%

Source: survey by authors

The respondents are people with considerable experience in both in public-private partnerships and private sectors and this enabled the research to have balanced views.

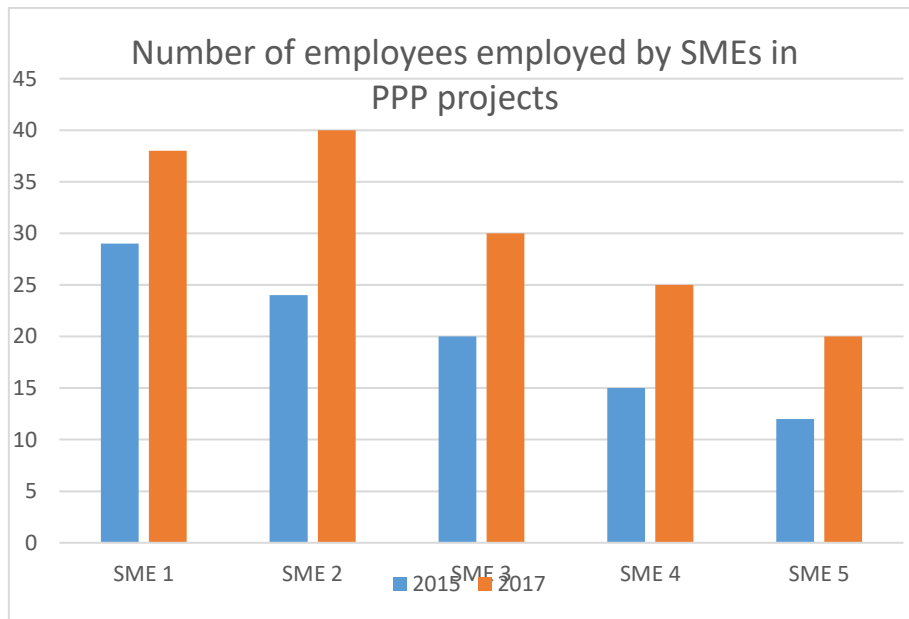
**(1) How PPP projects in Zimbabwe can help SME sector development?**

- (i) The research found that PPP projects have helped the development of SMEs in various ways. Many respondents identified human capacity, technology and access to finance as key areas in which PPP companies have intervened to assist the SME sector. About 58% of PPP respondents pointed out they had helped the SME sector with human capacity building while 38% indicated that they had assisted the SME sector to access finance. About 35% also indicated that assistance had been given to the SME sector to develop or acquire the relevant technology to enable them to carry out the outsourced jobs. However, only 3% of the PPP firms indicated that they had not done anything to assist the SME sector. Figure below illustrates the results graphically.

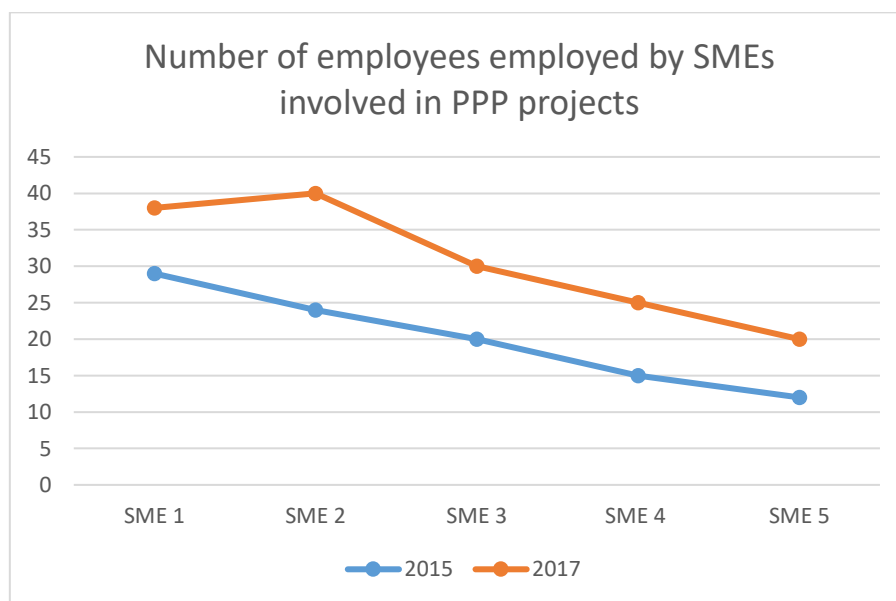


**(ii) Employment**

It has also been argued in literature that contracting certain services to SMEs has enabled them to grow and employ more workers. This section analyzes the response from the SME sector involved in PPP projects on their employment statistics since they started PPP projects.



Source: Authors own survey



Source: Authors own survey

The statistics gathered show that for SMEs with two or more years contract with a PPP company the number of employees increased over a period of two years showing the potential of SMEs to create more employment the longer they are involved in the PPP contracts. For example, the 0-25 category show a 31% increase over 2 years, the 26-50 category show a 66.7% increase and the 51-75 category show a 50% increase in employment considering both contract and permanent employees

## **(2) What can be done to improve the involvement of SMEs in PPP projects?**

The aim of this section was to find out the respondents' opinion on what can be done to improve the involvement of SMEs in PPP projects.

The majority of public sector and SME respondents felt the government must come up with legislation that makes it mandatory for PPP projects to involve SME enterprises. According to respondents this will make it mandatory for PPP companies to outsource such services which can be supplied by SMEs. Respondents identified services like security, catering, laundry, tolls collection and maintenance as some of the services that can be provided by SMEs. PPP sector respondents (78%) pointed the need for SMEs to be competent in the area of financial management and general management skills. In their responses, respondents conceded that a responsibility need to be shared between government and PPP companies. PPP sector respondents were also of the view that government should put in place incentives to PPP companies that actively incorporated SMEs in their projects. Moreover, respondents felt government should provide preferential treatment to such companies. The SME sector was of the opinion that there must be realistic requirements in PPP contracts which is in line with the capacity of SMEs. The SME companies also urged the government to make information available about opportunities for PPP projects on its website so that SMEs can also participate with adequate information.

## **Conclusion**

The research showed that SME development is positively impacted in areas of human capacity development, access to finance, management skills and in acquiring the right technology. In terms of strategies to increase SME sector participation it was suggested that government play a leading role by enacting legislation that make it mandatory to involve SMEs in PPP projects and provide incentives to PPP companies that involve SME participation.

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