

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE ¹⁵²
 A = Add
 C = Change
 D = Delete
 Amendment Number

2. COUNTRY/ENTITY Zimbabwe

3. PROJECT NUMBER 613-0232

4. BUREAU/OFFICE Africa [06]

5. PROJECT TITLE (maximum 40 characters) Zimbabwe Business Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
 07 31 94

7. ESTIMATED DATE OF OBLIGATION
 (Under "B." below, enter 1, 2, 3, or 4)
 A. Initial FY [91] B. Quarter [4] C. Final FY [93]

8. COSTS (\$000 OR EQUIVALENT \$1 =)

| A. FUNDING SOURCE | FIRST FY | | | LIFE OF PROJECT | | |
|------------------------|-----------|---------|-----------|-----------------|---------|-----------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | 1,800 | 200 | 2,000 | 5,099 | 441 | 5,540 |
| (Grant) | (1,800) | (200) | (2,000) | (5,099) | (441) | (5,540) |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Host Country | - | 700 | 700 | - | 1,846 | 1,846 |
| Other Donor(s) | | | | | | |
| TOTALS | 1,800 | 900 | 2,700 | 5,099 | 2,287 | 7,386 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) DFA | 719 | 840 | | | | 5,540 | | 5,540 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 5,540 | | 5,540 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To test the effectiveness of selected interventions in fostering private sector enterprise growth through facilitating local and foreign investment and expanded indigenous enterprise.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 01 94 09 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

USAID/Zimbabwe Controller concurs with the proposed methods of implementation and financing.

Clearance: Controller, USAID/Zimbabwe: MLLewellen: *M. Lewellen*

17. APPROVED BY

Signature: *Ted D. Morse*

Title: Ted D. Morse, Director

Date Signed MM DD YY
 08 07 91

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY

PROJECT AUTHORIZATION

Cooperating Country: Zimbabwe
Project Title: Zimbabwe Business Development
Project Number: 613-0232

1. Pursuant to the Foreign Assistance Act of 1961, as amended, the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1989, Africa Bureau Delegation of Authority (DOA) 551, as amended, and the authority delegated under 90 State 410437, I hereby authorize the Zimbabwe Business Development Project (ZBDP) for the Republic of Zimbabwe (Recipient), involving planned obligations of not to exceed Five Million Five Hundred and Forty Thousand United States Dollars (\$5,540,000) in grant funds from the Development Fund for Africa (DFA), over a three-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. Except as A.I.D. may otherwise agree in writing, the planned life of the project is three years from the date of initial obligation.
2. The project is designed to test the effectiveness of selected interventions in fostering private sector enterprise growth through facilitating local and foreign investment and expanded indigenous enterprise. To achieve this purpose, the Project will test means of assisting policy reform implementation and providing firm level technical assistance activities to increase the competitiveness of the private sector and, thus, its attractiveness to private sector capital.
3. The Project Agreement, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegation of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

The source and origin of commodities and nationality of services financed under the project shall be in accordance with Africa Bureau DOA 551, Section 5F. Accordingly, commodities financed by A.I.D. under the project shall have their source and origin in Zimbabwe, the United States or any other country included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing.

Except for ocean shipping, the suppliers of commodities or services shall have Zimbabwe, the United States or any other country included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on a flag vessel of the United States.

b. Conditions Precedent to Disbursement Under the Export Processing Zone Component

The Project Agreement shall contain, in substance, the following conditions precedent to disbursement under the Export Processing Zone (EPZ) component of the Project:

- (1) Prior to the disbursement of funds, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made for Phase 2 of the EPZ component, the Grantee shall furnish, in form and substance satisfactory to A.I.D., evidence that it has established and designated an official Joint Private/Public Sector EPZ Working Group which shall have the responsibility for implementation of the EPZ program, including the development and drafting of legislation, procedures and regulations.
- (2) Prior to the disbursement of funds, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made for Phase 3 of the EPZ component, the Grantee shall furnish, in form and substance satisfactory to A.I.D., evidence that Parliament has passed EPZ enabling legislation satisfactory to USAID/Zimbabwe. Alternatively, the Grantee may furnish evidence that the President of Zimbabwe, through Presidential decree, has created the equivalent of EPZ enabling legislation satisfactory to USAID/Zimbabwe.



Ted D. Morse
Director
USAID/Zimbabwe

Subject: Project Authorization
Zimbabwe Business Development Project 613-0232

Prepared: Donald Keene, RLA/SA, 6/12/91

Clearances:

| | | | |
|-------|---|------------------------------------|----------------------------------|
| RLA | : | DKeene (Keene/Spielman fax) | Date: <u>June 19, 1991</u> |
| DDIR | : | SSpielman (draft) <i>SS</i> | Date: <u>July 8, 1991</u> |
| PRM | : | RDaugherty (draft) | Date: <u>June 25, 1991</u> |
| CONT | : | MLewellen (draft) <i>MLewellen</i> | Date: <u>July 1, 1991</u> 8/5/91 |
| TIA | : | DGreenberg (draft) | Date: <u>June 23, 1991</u> |
| CPDIS | : | PBuckles (draft) | Date: <u>June 24, 1991</u> |

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Project Data Sheet | |
| Project Authorization | 1 |
| List of Acronyms | 7 |
| Design Participants | 9 |
| | |
| <u>1. Project Summary and Recommendations</u> | |
| 1.1. Recommendations | 10 |
| 1.2. Project Summary | 10 |
| 1.3. Response to AID/W Guidance | 11 |
| | |
| <u>2. Project Background</u> | |
| 2.1. Economic Trends..... | 12 |
| 2.2. Zimbabwe's Evolving Economic and Policy Environment | 12 |
| 2.2.1. 1989 Trade Liberalization Initiatives | 14 |
| 2.2.2. 1990 Liberalization Activities | 15 |
| 2.2.3. 1991 Liberalization Initiatives | 15 |
| A. Fiscal/Monetary Policy | 16 |
| B. Foreign Exchange Decontrol, Trade Liberalization, Export Incentives | 16 |
| C. Deregulation | 16 |
| 2.3. Government of Zimbabwe Policies and Priorities..... | 16 |
| | |
| <u>3. Project Strategy and Rationale</u> | |
| 3.1. Problem Statement..... | 18 |
| 3.1.1. The Cause of the Problem | 18 |
| A. Economic Policies | 19 |
| B. Other Factors Leading to Inadequate Investment | 22 |
| 3.1.2. The Consequences of the Problem | 23 |
| 3.2. Project Response..... | 24 |
| 3.3. Project Rationale..... | 25 |
| 3.3.1. Support for GOZ Policies and Priorities..... | 25 |
| A. Job Creation | 25 |
| B. Foreign Exchange Earnings | 26 |
| C. Broader Indigenous Participation in the Economy | 26 |
| 3.3.2. Other A.I.D. and Donor Assistance..... | 28 |
| A. Small/Micro-Enterprise (SME) Assistance. | 29 |
| B. Volunteer Business Advisory Services ... | 29 |
| C. Investment/Export Promotion | 30 |
| 3.4. Project Strategy..... | 31 |
| 3.4.1. Criteria for Selection of ZBDP Components... 32 | |
| A. Operational Test Component Criteria | 32 |
| B. Criteria for Analytical Components | 33 |
| | |
| <u>4. Project Description</u> | |
| 4.1. Project Objectives..... | 34 |
| 4.2. Project Components..... | 34 |

| | <u>Page</u> |
|--|-------------|
| 4.2.1. Pilot Operational Testing Components..... | 34 |
| A. Development of Export Processing Zones. | 35 |
| B. Business Linkage..... | 36 |
| C. Volunteer Advisory Business Services... | 39 |
| 4.2.2. Analytical Components..... | 41 |
| A. Small/Micro-Enterprise Analysis..... | 41 |
| B. Description of Productive Sector..... | 42 |
| C. Implementation Support Research..... | 45 |
| 4.2.3. Quick Response Fund..... | 46 |
| 4.3. Cost Estimate and Financial Plan - Table A..... | 49 |
| Cost Estimate and Financial Plan - Table B..... | 50 |
| Cost Estimate and Financial Plan - Table C..... | 51 |
| | |
| 5. <u>Project Implementation</u> | |
| 5.1. Management Roles and Responsibilities..... | 52 |
| 5.1.1. Role and Responsibilities of A.I.D..... | 52 |
| 5.1.2. Role and Responsibilities of GOZ..... | 54 |
| 5.1.3. Roles and Responsibilities of Implement- ing and Cooperating Institutions..... | 54 |
| 5.2. Methods of Implementation and Financing..... | 57 |
| 5.3. Procurement Plan..... | 60 |
| 5.3.1. Procurement Entity..... | 60 |
| 5.3.2. Pilot Operational Testing Components..... | 61 |
| 5.3.3. Analytical Studies..... | 63 |
| 5.3.4. USAID Project Management..... | 64 |
| 5.3.5. Evaluation/Audit..... | 64 |
| 5.3.6. DFA Determination..... | 65 |
| 5.3.7. Gray Amendment..... | 65 |
| 5.4. Monitoring and Evaluation Plan..... | 66 |
| 5.4.1. Monitoring Plan..... | 67 |
| 5.4.2. Evaluation Plan..... | 71 |
| 5.5. Audit Plan..... | 74 |
| 5.6. Implementation Schedule..... | 75 |
| | |
| 6. <u>Project Analyses Summaries</u> | |
| 6.1. Technical Analysis | 80 |
| 6.2. Social Soundness Analysis..... | 87 |
| 6.2.1. The Socio-Economic Context..... | 88 |
| 6.2.2. Socio-Cultural Feasibility..... | 89 |
| 6.2.3. Gender Considerations..... | 90 |
| 6.2.4. Participants and Beneficiaries..... | 91 |
| 6.3. Economic Analysis..... | 92 |
| 6.3.1. The Structural Adjustment Program..... | 92 |
| 6.4. Institutional/Administrative Analysis..... | 94 |
| 6.4.1. Export Processing Zones..... | 94 |
| 6.4.2. Business Linkage..... | 94 |
| 6.4.3. Zimbabwe Executive Service Corps (ZECO).... | 95 |
| 6.4.4. Analytical Research Components..... | 95 |
| 6.5. Financial Analysis..... | 95 |

| | <u>Page</u> |
|---|-------------|
| 7. <u>Conditions, Covenants and Negotiating Status</u> | |
| 7.1 Conditions Precedent to Initial Disbursement..... | 95 |
| 7.2 Conditions Precedent to Disbursement of Funds Under the Export Processing Zone (EPZ) Component.. | 95 |
| 7.2.1. Condition Precedent to Phase II..... | 95 |
| 7.2.2. Condition Precedent to Phase III..... | 96 |
| 7.3 Notification..... | 96 |
| 7.4 Negotiating Status..... | 96 |

ANNEXES

Annex I: Legal Exhibits

- A. Request for Assistance
- B. PID Approval Cable
- C. Statutory Checklist
- D. Environmental Determination
- E. Gray Amendment

Annex II: Technical Exhibits

- A. Logical Framework Matrix:
- B. Position Description for PSC Project Manager
- C. Justification of Non-Competitive Award of IESC Grant
- D. Response to AID/W and Mission Guidance

Annex III: Project Analyses

- A. Technical Analysis
- B. Social Soundness Analysis
- C. Economic Analysis
- D. Institutional/Administrative Analysis
- E. Financial (Including Budgets) Analysis

Annex IV: Detailed Project Description

Annex V : Detailed Monitoring and Evaluation Plan

LIST OF ACRONYMS

| | |
|-------|---|
| ABLE | American Business Linkage Enterprise (IESC) |
| AID/W | Agency for International Development/Washington Office |
| AMSCO | African Management Service Corporation |
| APDF | African Project Development Facility |
| AIDS | Acquired Immune Deficiency Syndrome |
| CASE | Canadian Assistance from Senior Executives |
| CIDA | Canadian International Development Agency |
| CIP | Commodity Import Program |
| CZI | Confederation of Zimbabwe Industries |
| DFA | Development Fund for Africa |
| EEC | European Economic Community |
| EOPS | End of Project Status |
| EPZ | Export Processing Zone |
| EPZA | Export Processing Zone Authority |
| ESAP | Economic Structural Adjustment Program |
| ESOP | Employee Stock Ownership Plan |
| FAA | Foreign Assistance Act |
| GDP | Gross Domestic Product |
| GOZ | Government of Zimbabwe |
| HB | Handbook |
| IBDC | Indigenous Business Development Council |
| IEE | Initial Environmental Examination |
| IESC | International Executive Service Corps |
| IFC | International Finance Corporation |
| IQC | Indefinite Quantity Contract |
| ISR | Implementation Support Research (ZBDP component) |
| IRIS | Institutional Reform and the Informal Sector |
| ITDG | Intermediate Technology Development Group |
| LDC | Less Developed Country |
| JVS | Joint Venture Services (IESC) |
| MFEPD | Ministry of Finance, Economic Planning and Development |
| MIC | Ministry of Industry and Commerce |
| ME | Ministry of Education |
| ODA | Overseas Development Agency (United Kingdom) |
| OGIL | Open General Import License |
| OPIC | Overseas Private Investment Corporation (US Agency) |
| PACD | Project Assistance Completion Date |
| PID | Project Identification Document |
| PIO | Project Implementation Order |
| PIOT | Project Implementation Order Technical Services |
| PP | Project Paper |
| PSC | Project Services Contractor |
| PSTNA | Private Sector Training Needs Assessment |
| REDSO | Regional Development Support Office |
| RLA | Regional Legal Advisor |
| RPED | Regional Program on Enterprise Development (World Bank) |
| SAP | Structural Adjustment Program (Zimbabwe) |
| SEDCO | Small Enterprise Development Corporation (Zimbabwe) |

SIDA Swedish International Development Agency
SME Small and Micro-Enterprise (both formal and informal)
UDI Unilateral Declaration of Independence (of the then-Rhodesia's White minority Government)
UN United Nations
UNDP United Nations Development Program
USAID United States Agency for International Development
VE Volunteer Executive
ZBD Zimbabwe Business Development (Project 613-0232)
ZDT Zimbabwe Development Trust
ZENA Zimbabwean Entrepreneur National Association
ZEPP Zimbabwe Export Promotion Program
ZESC Zimbabwe Executive Service Corps (ZBDP component)
ZIC Zimbabwe Investment Centre
ZNCC Zimbabwe National Chamber of Commerce

LIST OF DESIGN PARTICIPANTS

| | | |
|--|---|---|
| Project Development Officers | : | Jim Harmon, Brad Wallach (USAID/Zimbabwe) |
| Technical Design | : | Don Greenberg, Trade and Investment Advisor (contract to USAID/Zimbabwe) |
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| Concept Paper | : | Kimberly Finan (AFR/SA) |
| Project Dev. Asst. | : | Kulsum Mohamed (USAID/Zimbabwe) |

1. Project Summary and Recommendations

1.1. Recommendations

The Project Development Committee recommends that the Director, USAID/Zimbabwe, approve and authorize the Zimbabwe Business Development (ZBD) project (613-0232) at a level of US\$5.54 million in DFA grant funds over a three year life of project (1991-1994).

1.2. Project Summary

In the first decade of Independence, the development policy of the GOZ focused on improving equity -- unintentionally, at the expense of growth. The set of restrictive policies inherited from the UDI Government, and the new set of GOZ policies meant to improve equity, effectively choked off productive private investment, both foreign and local. The consequence was sluggish and uneven growth, barely keeping pace with population growth.

The GOZ, however, has now embarked on a wide-ranging and thorough set of reforms that collectively are referred to as the Structural Adjustment Program (SAP). If implemented as planned, the SAP reforms should lay the foundations for sustained, broad based economic growth.

USAID/Zimbabwe has identified several areas where focused technical assistance would assist the GOZ in implementing SAP reforms and incentives, and would assist the private sector in responding to the challenges and opportunities presented by the SAP. Given limited Mission resources, and USAID/Zimbabwe's limited experience in working in the private sector arena, the Mission has chosen to start with a pilot project, to test the effectiveness and efficiency of approaches before commitment to full operational support. A pilot project approach has necessitated particular attention to develop a thorough monitoring and evaluation system.

As befits a pilot project, the purpose of ZBD Project is to test the effectiveness of selected interventions in fostering private enterprise growth through facilitating local and foreign investment and expanded indigenous enterprise. The goal of ZBD Project is to increase private sector-led economic growth, that results in increased job creation, foreign exchange earnings, and broadened indigenous participation in the economy.

The specific components of ZBD can be broken down into two categories. The first, pilot operational testing components, is the actual pilot project interventions, and will absorb approximately 75 percent of the project budget. The second category, analytical components, expands our knowledge of the private sector, tests project assumptions, or improves the effectiveness or efficiency of the pilot operational components. The analytical components will require less than 15 percent of the budget total project. The components are:

I. Pilot Operational:

- A. Export Processing Zones (EPZ). Assess the feasibility of EPZs in the Zimbabwean context. If found feasible, support development of the appropriate enabling environment.
- B. Business Linkage. Test the effectiveness of technical assistance to promote subcontracting between small and large firms, and spin-offs of divisions of large businesses to small independent businesses.
- C. Volunteer Business Advisory Services (VBAS). Continue and strengthen the retired American VBAS program -- IESC, but experiment with means to reach smaller and Black-owned businesses. Test the feasibility and effectiveness of a local Zimbabwe Executive Service Corps, and the use of IESC South Africa volunteers.

II. Analytical Components:

- A. Small/Micro-Enterprise Analysis. Analytical work on the small/micro-enterprise sector in Zimbabwe.
- B. Productive Sector Description. Develop a detailed database and analysis of the productive sector (including public and private enterprise) and its contribution to the Zimbabwean economy.
- C. Implementation Support Research. Discrete analyses that test project assumptions, expand knowledge of the private sector, or point to new directions for ZBD and follow-on private sector activities.

The life-of-project cost of the project over three years is expected to total US\$7,386,000, of which US\$5,540,000 will be provided by USAID/Zimbabwe and the local currency equivalent of US\$1,846,000 will be provided by the Government of Zimbabwe (US\$269,000) and participating private entities (US\$1,577,200) in cash or in kind.

1.3. Response to A.I.D./W Guidance

The AID/W Executive Committee for Project Review (ECPR) met on September 28, 1990, to review the PID. Concerns centered on the issue of the sufficiency of the project's analytical base. The points raised during the AID/W review of the PID and USAID/Zimbabwe's subsequent reviews of the draft Project Paper and the project design's response to each concern are discussed in detail in Annex II.E. All concerns were reviewed in the final USAID/Zimbabwe review of the Project Paper and have been determined to be adequately addressed.

The key issue in reviews concerned the appropriate level of analysis for a pilot intervention. As a result, project activities have been structured as either (a) operational testing mechanisms to determine the feasibility and

effectiveness of project interventions in improving the environment for investment, or (b) analytical studies designed to increase understanding of various aspects of the private sector and their relationship to enhanced investment and economic growth in Zimbabwe. The project design considers the various stages of each pilot activity and phases them accordingly, with "go" and "no-go" decision points.

2. Project Background

2.1. Economic Trends

During the first decade of Independence, Zimbabwe's Government grew in size and in its scope over the economy. The public share of GDP rose from a fifth to a third; numerous new public enterprises were established; pervasive controls were applied to prices, wages, and industrial relations; and all foreign currency transactions and investment decision-making were subject to Government approval.

The economy began to stagnate as investors lost confidence in the business environment. The central Government's fiscal deficit was in excess of 10 percent of GDP during much of the 1980s. This led to central Government debt reaching 71 percent of GDP by 1989, 36 percent of which was external debt. Total public sector debt was even larger at 90 percent of GDP. Inflation averaged around 15 percent per annum during the 1980s. Nominal interest rates averaged 12 percent and hence the real interest rate was negative. The budget deficit climbed to 12 percent. Inflation rates began to approach 20 percent. There was a net outflow of capital with disinvestment exceeding new inflows. Economic growth averaged less than 3.5 percent annually -- barely adequate to keep pace with population growth. Unemployment increased from 200,000 eleven years ago to an estimated 1.25 million in 1991, officially estimated at 26 percent of the workforce. In 1989, gross capital formation fell below 11 percent of Gross Domestic Product -- its lowest level since World War II. The continued negative net investment has resulted in shrinking, aging, and often-obsolete capital stock. Exports have stagnated.

2.2. Zimbabwe's Evolving Economic and Policy Environment

Zimbabwe's stagnating growth must be viewed in its historical context. Zimbabwe is not a typical Sub-Saharan Africa (SSA) country in many respects. In most SSA countries, the agricultural sector contributes more than 30 percent of GDP; in Zimbabwe, agriculture only contributes about 15 percent. Conversely, the Zimbabwean manufacturing sector contributes an exceptional amount to GDP, 26 percent. ^{1/} As for external trade, exports and imports now account for about one half of GDP. This combination of exports and imports makes Zimbabwe the fifth largest trader in SSA after South Africa, Nigeria, Cote d'Ivoire, Zaire, and Cameroon. Zimbabwe rises to fourth place in Africa if oil exports are excluded. With ferrochrome and steel making up the bulk of

the export category, some 40 percent of Zimbabwe's exports are classified as manufactured goods. Tobacco and gold each contribute about 18 percent to exports while ferro-alloys contribute another 10 percent. The tight controls on imports have led to a concentration on investment and intermediate goods, with few consumer goods allowed. Consumer goods represent about 2-3 percent of imports, although if non-recorded trade were included that percentage would likely be higher.

Zimbabwe's economic history is unique relative to its African neighbors, and has resulted in a peculiar set of circumstances which impact on its present potential for growth. Beginning with minority White Government's Unilateral Declaration of Independence (UDI) in 1965, the productive sector in what was then Rhodesia was faced with a variety of problems. The UN reacted to UDI by imposing a set of comprehensive economic sanctions -- unmatched in their stringency until the recent economic sanctions imposed on Iraq in late 1990. The UN sanctions were implemented fairly rigorously by most of Rhodesia's traditional trading partners. Although goods did flow in and out of Rhodesia, some goods simply could not be imported or exported by "sanctions busting". Those imports that did come in cost far more; the return to Rhodesia for exports was far less, both because of the necessity of working through middlemen. Technology transfer, financing, and other "invisible" services also dried up with sanctions.

As a result of the sanctions, the UDI Rhodesian Front Government headed by Ian Smith saw the need to introduce wide-reaching and stringent controls, especially over access to foreign exchange, marketing, and prices. The main reasons for the controls were twofold; one, to allocate the scarce supply of hard currency to areas of priority to the UDI regime and, two, to keep capital in the country and force companies to maintain business activity and reinvest profits, even though the business climate became increasingly unfavorable.

The combined effect of the externally imposed UN sanctions and internally imposed UDI controls was to create an isolated, inward-oriented autarkic economy. Initially, however, the economy boomed, as domestic organizations retooled to serve the local protected market. Import substitution became a matter of national survival; and, as a result, the country became over-industrialized. Between 1965 and 1982, the number of industrial products made in the country increased tenfold, from 600 to 6,000.

By the mid-seventies, the tide began to turn against both the UDI regime and the Rhodesian economy. The two main factors were Mozambique's independence and South Africa's reversal of policy of support of Rhodesia. The exodus of skilled White Rhodesians accelerated with the escalation of the civil war during the mid- to late-seventies. Many of the remaining Whites were diverted from their jobs by military call-ups for nearly half of every year. 2/

At independence, the wide-ranging system of state controls over business and the allocation of resources developed by the Smith regime were retained to serve the interests of Black nationalism, the Government's new policy of "Growth with Equity", and the development of a socialist regime. Few firms

objected, however, to the continuation of the highly restrictive and protected business environment, which was conducive to firms that had become inefficient in the world market as a result of controls and sanctions of the UDI period.

The new Government of Zimbabwe (GOZ), however, added on new layers of control over business. The GOZ introduced laws and regulations that greatly reduced flexibility in labor force management, and it became very difficult to lay off workers, even for just cause. The GOZ greatly increased its consumption of resources in the economy, and therefore had to increase corporate and personal income taxes. The small corps of civil servants dramatically increased in size, while its effectiveness and efficiency dropped. Finally, the GOZ also vastly increased its role as a direct actor in the economy. Government purchased shares in agricultural, industrial, and financial enterprises -- although almost always on a willing buyer/willing seller basis.

The net effect of the accumulation of restrictive UDI and GOZ economic policies has been discussed above; it has choked off investment, and thereby limited growth, the ability to create jobs, earn foreign exchange, and enable emergent Black entrepreneurs to enter the economy. Although the tightly managed economy has not faltered seriously, the policies have meant that much of the productive sector's equipment is at the end of its useful life. Deteriorating and depreciating capital stock is not being replaced. One very real cost to productive efficiency is the rent-seeking activity that occurs as a result of the policy to allocate the foreign exchange among many groups. As might be expected, the managed allocation system is imperfect. Numerous firms do not have sufficient foreign exchange to meet their legitimate needs for spare parts, etc. As a consequence, much time is spent locating those firms with unused allocations.

Although there were some attempts at trade liberalization after Independence, the macroeconomic management of the economy has changed little until recently. 3/ Around 1988, a consensus began to develop within the GOZ that the controls introduced under UDI and expanded under the GOZ were slowly grinding the economy to a halt. Since that time, the GOZ has introduced a series of liberalization and reform measures that have culminated in the recent SAP. A brief recap of the liberalization initiatives follows.

2.2.1. 1989 Liberalization Initiatives

GOZ approved a new investment code in April which introduced new incentives, especially for export-oriented new investments. The major changes were:

- 100 percent foreign ownership of new investments approved, on a case-by-case basis; in the past, joint ventures with local partners were a de facto requirement, even if not required by law.
- 100 percent repatriation of profits approved, on a case-by-case basis; in the past, only 50 percent of profits from new investments could be repatriated.

- The definition of what is a domestic company was broadened; therefore certain onerous restrictions on foreign companies would not now apply to the formerly "foreign" firms that would now be classified as "domestic."
- The Zimbabwe Investment Centre (ZIC) was created, meant to act as a "one stop shop" for investment approval, and also promote investment.
- GOZ reduced the value of the Zimbabwe dollar by 8 percent in real terms.

2.2.2. 1990 Liberalization Initiatives

Collective bargaining was introduced in February, eliminating direct state intervention in labor agreements for all but agricultural and domestic workers. The Budget and Economic Policy Statement and Finance Bill of July 1990, introduced the broad concepts of new export incentives (EPZs were specifically addressed), and previewed the SAP, which was introduced in 1991. Corporate taxes were reduced slightly. Details of the Export Incentives were introduced in September, the main points of which were:

- Open General Import License (OGIL) list was expanded.
- Exporters retained for their own use 5 to 7.5 percent of export earnings.
- Export Promotion Bonus was increased.
- Export-oriented investments were given certain incentives, such as 100 percent dividend repatriation rights.
- The authority and mandate of the ZIC were increased.
- Prices were decontrolled, strict controls remained on only 10 essential goods and services.
- The Zimbabwe dollar was devalued by 12 percent in real terms over the year.

2.2.3. 1991 Liberalization Initiatives

The SAP was introduced with the release of the document "Zimbabwe -- A Framework for Economic Reform (1991-1995)." This document is unique in both the specificity of reforms to be undertaken and their timing. The main points can be categorized in three areas: 4/

A. Fiscal/Monetary Policy

- GOZ deficit as a percentage of GDP is to be reduced from 10 percent to 5 percent by 1995, through cost savings (reduction in parastatal subsidies, GOZ workforce), despite revenue reductions from lower taxes.
- Tax burden is to be reduced from 35 to 33 percent of GDP by 1995.
- Inflation rate is to be reduced from 20 to 10 percent by 1995.
- Interest rates are to be decontrolled.

B. Foreign Exchange Decontrol, Trade Liberalization, Export Incentives

- OGIL for most, if not all, goods and services by 1995. Phased approach in the following order of liberalization: raw materials, intermediate goods, capital goods and, finally, profit remittances and consumer goods.
- Tariffs lowered to an average 14 percent by 1995.
- Exchange rate maintained to favor exporters.

C. Deregulation and Other Measures

- (1) Investment - (i) ZIC project approval authorities and abilities are to be strengthened, promotional authority is to be strengthened, and a mandate has been given to establish Export Processing Zones; (ii) Dividends and other invisible remittances are to be decontrolled by 1995.
- (2) Price/Marketing - (i) Most controls are to be eliminated by 1995; (ii) Agricultural marketing restrictions are to be relaxed by 1995.
- (3) Labor - Streamlined hiring and firing regulations are to be implemented.
- (4) Local Authorities - Zoning, licensing, and other registration rules were relaxed.
- (5) Transport - Deregulation permitting greater competition was accomplished.

2.3. Government of Zimbabwe Policies and Priorities

As noted above, the GOZ has recently initiated a Structural Adjustment Program (SAP) which has a primary objective of increasing the rate of economic growth in Zimbabwe. The SAP "Framework" is a detailed, internally coherent document

and, if implemented according to schedule, will go most of the way towards changing the policy environment favoring private sector-led economic growth.

Many factors favor Zimbabwe's ability to implement the SAP, especially when compared with other African countries. The country's physical and human capital is one key factor. Also, Zimbabwe begins the structural adjustment process with a debt service ratio of about 24 percent -- quite unlike the experience of most LDCs which, when they finally are forced into structural adjustment, often find themselves faced with debt service ratios approaching 100 percent.

The SAP "Framework" was not comprehensive. For example, there are no specific provisions to introduce antitrust measures to break up the monopoly situation that exists in so many subsectors, no plans to remove the stringent disinvestment policies, and a lack of specificity on corporate tax rate reductions. While these omissions are important, they will not prevent the SAP from having significant impact. The major players in the GOZ and the private sector are well aware of these gaps, and steps can easily be taken to incorporate them into the SAP. For example, there are already moves to establish a Monopolies and Margins Commission.

At the time this Project Paper was written, however, the unresolved issue of land resettlement presents the potential for a major impact on the investment climate, as well as the financing and implementation of the SAP. Changes have been made in the Constitution that greatly increase the powers of the GOZ to acquire agricultural land for resettlement. Previously, the GOZ was empowered to purchase land only on a "willing buyer/willing seller" basis, at a fair price, in hard currency, with the courts having the power of arbitration. The constitutional changes allow the GOZ to acquire land at an "adequate price", payment subject to the availability of funds, without impartial arbitration from the courts or any other independent body. The potential impact on the farming sector could be serious; farmers fearing a buyout on unfavorable terms with no recourse may be inclined to run down their farms. This would lower export earnings, reduce the supply of raw materials to industry, reduce the tax base for Government, reduce the food supply to the nation, and sap business confidence in all sectors. 5/

Although the land resettlement provisions would probably not be applied to international firms, the proposed land resettlement measures nonetheless could conceivably send a cautionary message to potential foreign investors. Although a matter of concern to USAID/Zimbabwe, the precise impact of the land resettlement issue cannot be assessed now. The implementing legislation for land resettlement has not been adopted by Parliament; it could contain provisions mitigating many of the above concerns.

The political will of the GOZ, especially at the highest levels, to implement the SAP is clear. The resources of the civil service to carry out the reforms, especially the fiscal and deregulatory changes, will have to be enhanced. The support of the ruling party officials needs to be maintained through what will undoubtedly be a very difficult time of adjustment.

The private sector's understanding of the SAP and its ability to respond to the challenges and opportunities also will have to be supported. Special programs will need to be developed to facilitate the transition to a competitive economy. Firms will need to rationalize their operations and focus only on those product lines that are most competitive. This will provide opportunities for smaller businesses to take on the production of some of the discarded lines. Some of these small businesses, in fact, could be started by the redundant managers and laborers with the knowledge and experience needed to run the operations. With the right kind of guidance, Zimbabwean firms, large and small, could rapidly specialize and grow more efficient.

3. Project Strategy and Rationale

3.1. Problem Statement

Since Zimbabwe's Independence in 1980, the economy has experienced a low rate of economic growth that has barely kept pace with the growth in population. Slow growth has meant inadequate job creation and foreign exchange earnings. It also has meant limited ability for emergent Black entrepreneurs to enter the economy and thrive.

Economic growth, while on average low, has been uneven. The lifting of severe sanctions, the end of the civil war, and superb agricultural conditions led to a short-lived boom where GNP grew at 11 percent in 1980 and 10 percent in 1981. The economy stagnated between 1982 and 1987, with GNP lagging population growth, but it has experienced modest real growth since 1988. The net effect, however, is that Zimbabweans today, on average, are only marginally better off than they were at Independence, and worse off than they were in 1982.

3.1.1. The Cause of the Problem

The fundamental reason behind the sluggish growth of Zimbabwe's economy is a low rate of investment by the private sector, and especially by the foreign private sector.

Net capital formation, or investment, has dropped from 14 percent of GDP in the early seventies (pre-Independence), to 1 percent of GDP in the last several years. Local private sector investment has been higher than foreign; not so much because of greater confidence in the economy, but because exchange controls have prevented export of capital to more attractive locations. Much of this enforced local investment has been in real estate rather than productive capacity. Although productive investment, particularly from domestic sources, has recouped slightly in the past year or two, it is well below the 20 percent level considered necessary if the economy is to attain a sufficient growth rate. The private sector's share of investment has dropped from approximately 60 percent before Independence, to less than half at present.

New foreign investment since Independence has been negligible until recent months, about US\$ 50 million. Two U.S. multinationals, Heinz and Cummins Diesel, account for about half of this figure. The recent trickle of foreign investment reflects increased optimism in Zimbabwe's economic future.

Moreover, there has been substantial disinvestment from Zimbabwe on the part of multinationals. Many firms, particularly a large number based in South Africa, sold their interest to local partners and to the GOZ. According to CZI statistics, foreign shareholders controlled 52 percent of the productive assets of the country in 1985; now they control about 25 percent. Much of the foreign (and to a lesser extent local) disinvestment, however, has come from allowing plant and equipment to depreciate without replacement and is not captured in the available statistics.

The primary factors behind inadequate investment, and the resulting sluggish performance of the economy, are inappropriate Government policies. These policy factors are summarized below 6/:

A. Economic Policies

(1) Fiscal Policies:

GOZ budget deficits have ballooned, in spite of a high nominal taxation regime, as a result of:

- An effort to redress the past imbalances in the provision of vital social services such as education, health and infrastructure.
- High level of defense expenditures necessitated by regional and internal security considerations.
- Massive losses from uncompetitive parastatal and other GOZ-owned enterprises.
- Bloated civil service payroll.

The financing of the deficit apparently has not crowded out investment directly -- possibly because interest rates have been negative in real terms and there has been a high degree of liquidity in the financial system. However, with investment demand expected to pick up substantially, the continued financing of a high budget deficit will impose a constraint on growth by limiting financial resources available for new productive investment.

Nominal corporate tax rates have been very high (50 percent); although for larger corporations with allowances and deductions the effective tax rate for new investment can be closer to 30 percent, and the marginal tax rate is close to zero. The high nominal business tax rates, and the even higher personal tax rates (60 percent at the top bracket), however, are a severe barrier to formality for smaller businesses.

(2) Price/Wage/Employment Controls

At Independence, the Government maintained the rigid price and wage controls from the UDI Government, and introduced equally rigid controls on labor hiring and firing. The GOZ maintained price controls to ensure the supply of basic and essential commodities at "reasonable" prices, to ameliorate restrictive trade practices, and to secure remunerative prices for farmers. The price controls have had the effect of eroding margins, especially for those dependent on imported inputs, with an adverse effect on returns on investment. Price controls have also been responsible for periodic shortages of goods, particularly when a price increase appears to be under consideration.

Minimum wages were introduced to improve the standard of living for the workforce; maximum wages were introduced to reduce "unfair" income differentials. Market wages have normally exceeded minimum wages, and employers generally seem able to avoid the restrictions on maximum wages.

Stringent regulations on hiring and firing of regular employees were introduced to protect the worker from arbitrary employer action. They have had a pernicious impact on business as well as the unemployment rate. Because of the difficulty of letting go of unnecessary or incompetent employees, many firms have excessively high payrolls and an unmotivated, inefficient workforce. As a result, firms have been reluctant to bring on new employees, resorting to the use of casual labor when needed.

Restrictions on the number of allowable expatriate employees has reduced the attraction of Zimbabwe for new foreign investment and has reduced the competitiveness of existing domestic and foreign firms.

(3) Foreign Exchange

Access to foreign exchange, and the pricing of foreign exchange, are inseparable issues. Because of a consistently over valued currency, exports have been discouraged and thus foreign exchange earnings have been low. // At the same time, the over valued exchange rate means that the demand for foreign exchange greatly exceeds supply. Because of the supply/demand mismatch, foreign exchange -- whether for imports of raw and intermediate materials, capital equipment, or invisibles -- has been rationed by the GOZ since UDI through import licensing and administrative regulations.

Foreign exchange shortages have also meant restrictions on profit remittances. Firms that invested after independence were allowed to remit 50 percent of profits; firms that were already in Zimbabwe were only allowed to remit 25 percent.

Although both the pricing and the process of administering foreign exchange have been relatively transparent and free of corruption, the problems caused by the foreign exchange allocation systems have been nonetheless severe:

- Private sector projects requiring foreign exchange, as most do, have been crowded out by GOZ and parastatal demands for foreign exchange.
- Investment and business decisions have been made by bureaucrats rationing essential foreign exchange, and not by entrepreneurs responding to market forces.
- Exports have been less lucrative in local currency terms and are thus discouraged; imports are cheaper, which discourages market-driven import substitution.
- Inability to replace, let alone modernize, outdated plant and equipment has resulted in highly inefficient and uncompetitive production.
- Inability to source raw/intermediate materials, resulting in low capacity utilization, has further reduced efficiency and employment.
- Dividend policy discriminates against existing investors; even new investors face restrictive policies.
- Managerial time has been spent on "working the system" rather than attending to marketing, production, and other vital functions.
- A class of "briefcase businessmen" has developed, exploiting opportunities for economic rent, rather than productive activities.
- Investment and other business decisions have been based on administered, not market, price signals.
- Rules and administration of allocation favor existing businesses, especially existing exporters, creating high barriers to entry for new businesses.

(4) Monetary Policy

Since the Government has relied on direct controls to protect the balance of payments, relatively few monetary and credit policy instruments have been used. Interest rates have been kept low, and usually negative, in an attempt to stimulate business development and growth. Negative real interest rates have penalized savings; but, because of tight controls over capital flight, savers have had few options, so the supply of funds has been adequate. The adverse investment climate has meant that demand for funds is low.

Interest rate ceilings, however, have meant the banks have had little motivation to take greater risks and loan to startups or indigenous businesses.

(5) Red Tape and Over Regulation

A host of administrative controls and procedures, and their increasingly inefficient implementation, has slowly strangled the Zimbabwean economy. Investment approvals, distribution restrictions, zoning and licensing regulations, and transport rules have hurt everyone, including the multinationals, the emerging Black business, and especially the informal sector.

B. Other Factors leading to Inadequate Investment

There are a number of other factors that can, at most, only partially be blamed on the inappropriate policy regime of the GOZ. These are summarized briefly below:

(1) Lack of Technical Expertise and Market Contacts

Zimbabwe's hostile investment climate, especially its foreign exchange shortages, has meant that contact with external markets, and external sources of expertise, has been constrained. Funds to attend trade fairs, visit suppliers/customers, or subscribe to foreign publications are limited. Technological expertise embedded in new equipment is usually not available because new equipment is rarely purchased. Foreign consultants/advisors are not attracted to operate in Zimbabwe. Multinationals do not find it attractive (or at times possible) to transfer technology or invest in their workforce. Domestic education of the workforce is inadequate -- school leavers are literate and numerate, but with few practical skills and high expectations.

(2) Country and Region Risk Factors -- Real and Perceived

Zimbabwe is a relatively remote African country, with a de facto one party Government that until recently was avowedly Marxist-Leninist, hostile to the private sector, and scathingly critical of the profit motive and free markets. In actual practice, however, many of the Government's policies, and implementation of those policies, have been reasonable and pragmatic; although this fact has often been drowned out by the ruling party's rhetoric.

The surrounding region poses even more problems. Two of Zimbabwe's immediate neighbors, Zambia and Mozambique, are in severe economic distress. Mozambique is still in the grips of a vicious civil war.

The uncertainty over the future direction of South Africa's political and economic policy is a major factor in determining country risk. Although a democratic, free-market, nonracial South Africa would provide both a good market for Zimbabwe and a source of appropriate expertise, it also would provide stiff competition in regional markets, increasingly act as a magnet for Zimbabwe's skilled labor, and prove more attractive to foreign investors. Alternatively, should South Africa plunge into chaos and civil war, then the investment climate in the whole region would suffer.

The net effect of country and regional risk factors is to increase the discount rate (or decrease the net present value of expected cash flows) of projects sited in Zimbabwe because of the high degree of uncertainty and perceived risk. A higher discount rate for Zimbabwe means that an investor might turn down a project in Zimbabwe that would be "bankable" if sited in Thailand.

(3) Infrastructure

Much of Zimbabwe's infrastructure, while quite good by African standards, is deteriorating and is stretched beyond capacity. Internally, much of the problem is due to inappropriate Government policy. Secondary roads serving the rural districts are in poor condition. The railway system has been neglected. The telecommunications network is severely overloaded, quality is poor, new telephone connections are very difficult to obtain, and spot outages are frequent.

Externally, moreover, Zimbabwe has suffered significantly from the ravages of civil war in Mozambique. Renamo rebels fighting the Frelimo Government of Mozambique have repeatedly sabotaged transport routes. The two closest links to the Indian Ocean, the Beira and Limpopo (Maputo) corridors, are only now coming back into operation. The Tete corridor, Zimbabwe's closest link with Malawi, is still extremely dangerous.

(4) Social Norms

De facto discrimination on the basis of sex or race has hindered investment, especially in the SME sector. Local cultural norms, whether traditional, imbued in the public education system, or promoted from state-controlled media, may also have had a role in discouraging entrepreneurship and hence investment.

(5) AIDS Epidemic

In early 1991, the Ministry of Health estimated that by 1992, 28 percent of the workforce will have AIDS. Outside of the tremendous human tragedy that this statistic represents, it has dramatic implications for the economy -- and the attractiveness of Zimbabwe for investors. Lowered labor productivity, increased health costs for corporations and insurance companies, the loss of scarce skills, and the viability of training programs are a few examples of these impacts.

3.1.2. The Consequences of the Problem

As discussed above, sluggish economic growth, primarily due to inadequate productive investment, is the primary economic development problem facing Zimbabwe. As a consequence of the investment shortfall, there has been inadequate job creation, foreign exchange shortages, and a narrow distribution of the productive assets of the country.

The previous section outlined the constraints to private sector investment in Zimbabwe; inappropriate GOZ policies have been by far the most important. The GOZ has recognized these policy shortcomings, at least since 1988, and has taken a series of steps to overcome them, culminating in the Structural Adjustment Program for 1991 - 1995 (or, the SAP). If implemented as planned, the SAP will address most of the policy problems that have constrained investment and growth in the Zimbabwean economy, but will require substantial donor financing and technical assistance.

In addition to inappropriate policies, other constraints to private sector investment, either indirectly related or totally unrelated to GOZ policy, are:

- Technical Expertise and Market Contacts;
- Country and Regional Risk Factors;
- Internal and Regional Infrastructure;
- Social Norms;
- AIDS epidemic.

3.2. Project Response

While recognizing the importance of all constraints to private sector investment, ZBD Project will focus on only two areas: (1) assisting the GOZ to determine the feasibility of establishing certain export enhancement policy reforms and incentives (the EPZ component); and (2) assisting the private sector to test means of enhancing technical expertise and improving market contacts -- especially in ways that will allow firms to take advantage, or rise to the challenge, of the SAP related reforms (Business Linkage and Volunteer Business Advisory Service components).

The components were chosen for a number of reasons. First, they are major constraints to long-term sustainable economic growth. Second, they fall into areas -- policy reform under the DFA throughout Africa, and provision of technical expertise under a number of programs in Zimbabwe -- where A.I.D. has a comparative advantage in offering assistance. Finally, they can be implemented through a pilot project or operational testing project mode by which the GOZ, the local private sector, A.I.D. and other donors stand to learn a great deal about effective ways to encourage private sector development.

Additionally, A.I.D. pilot project assistance in export policy reform and the provision of technical expertise will complement the overall donor assistance program in Zimbabwe. Although a number of efforts by other donors, the private sector, and GOZ are already under way to resolve the other constraints to private sector investment discussed above, there has been a lack of empirically-based, operational testing interventions in areas such as export policy reform and the provision of appropriate technical expertise to the private sector.

3.3. Project Rationale

3.3.1. Support for GOZ Policies and Priorities

The policy framework laid out by the SAP provides the foundation for increased private sector investment, and therefore increased economic growth. In the long run the SAP will increase the competitiveness of the local economy and thus lead to job creation, foreign exchange earnings, and broader indigenous participation in the economy. Nonetheless, to be acceptable in the short-run, both politically and developmentally, there must be GOZ, private sector and donor interventions to encourage immediate impacts in these areas as well. The reasons why are discussed in more detail below.

A. Job Creation

The employment situation in Zimbabwe is bleak. Although statistics are not very reliable, sources currently estimate that 1.5 million out of a population of less than 9 million are unemployed. Soon, up to 300,000 school leavers per year will join the workforce; while only 10,000 to 30,000 jobs per year are created by the formal sector. The rest will have to be absorbed by the informal sector, the communal lands, or join the ranks of the unemployed. By the year 2000, assuming population growth rates of over 3 percent, the ranks of the unemployed could swell to 3.0 million out of a population of 12 million.

Since Independence, job creation in the private sector has been minimal. From 1980 to 1987, mining and agricultural employment has dropped about 15 percent, and manufacturing employment has not changed. In the commercial farming sector, the move from labor- to capital-intensive production has meant a loss of jobs of between 50,000 and 75,000 jobs since Independence. The public sector's share of employment, on the other hand, has grown over 30 percent from 1980-1987; this does not include education's share of employment, which has grown 135 percent in the same period.

With the SAP, growth in public sector employment will not only halt, but become negative. About 28,000 jobs are scheduled to be cut in the GOZ and parastatals over the next five years. Job creation in the private formal sector will accelerate modestly, but with painful beginnings -- as many as 20,000 jobs will be lost due to the closure of uncompetitive operations. About 10,000 new private sector jobs per year are expected, not counting an unspecified amount that will be regained from increased capacity utilization.

On balance, therefore, net job creation from the SAP has been estimated by the architects of the SAP to be modest over the next four to five years, while growth in the size of the labor pool will continue and, in fact, accelerate.

The tragedy of rampant unemployment is especially poignant because Zimbabwe has one of the better educated and more literate work forces in the region -- including South Africa, whose Government has crippled a generation of Blacks'

chances with its "Bantu" education policies. Education without opportunity, however, is a recipe for discontent. Part of the problem is that many of the positions that are open demand skills and experience not found in the workforce. The inability to fill certain key vacancies with expatriates often means expansion projects cannot be undertaken which, in turn, means that potential unskilled jobs are not created.

Increasing unemployment is potentially destabilizing and could jeopardize the consensus (or acceptance) that seems to have developed for the necessity of the SAP reforms.

B. Foreign Exchange Earnings

Although the balance of merchandise trade has been positive since 1983, foreign exchange availability has been a constant and critical constraint to investment and expansion since Independence. Services, debt repayments, dividend remittances and other invisibles have kept the current account in deficit in every year since Independence except 1988. Export growth has not kept pace with foreign exchange demand -- and this is demand that has already been severely depressed by controls. Much of the foreign exchange available has not been directed to productive, export-oriented investment but instead to inefficient import substitution, and social infrastructure and services.

Under the SAP, exports are expected to increase about 9 percent annually -- from about 6 percent annually in recent years. Promising sectors include horticulture, processed foods, textiles, leather goods, metals and certain manufactured goods. Tourism will also play an increasingly important role in earning foreign exchange.

The projected growth in exports notwithstanding, the successful execution of the SAP will require external financing more than US\$3 billion. The greater the acceleration in export earnings, the more secure the progress of the SAP, and the less Zimbabwe will be dependent on the ability and desire of donors to provide funds.

C. Broader Indigenous Participation in the Economy

At Independence, one of the highest priorities of the new Government was to redress the extreme imbalances inherited from the colonial and UDI regimes. In the areas of education and health services, the GOZ has been highly successful.

As far as broadening the control over productive assets of the economy is concerned, success has been more limited. The approximately 100,000 White Zimbabweans may only have negligible political power, but they still dominate most areas of the economy.

(1) Agriculture

In agriculture, considerable advancements have been made in redistribution, and not completely at the expense of production. At Independence, about 6,000 White farmers owned 40 percent of the land -- about 15 million hectares. Now, about 4,500 White farmers own 33 percent of the farmland -- about 11 million hectares.

White farmers are still responsible for over 80 percent of marketed output, although they have shifted away from maize and cotton to other tobacco and horticultural crops. In contrast, about 750,000 Black commercial and communal farmers produce about 20 percent of marketed output. These smallholders have made considerable strides in cotton and maize production, but the sustainability of these achievements is questionable. The new land legislation is an attempt to accelerate the pace of resettlement and distribution; but, as pointed out earlier, this land reform may possibly be at the expense of a drop in production, reduced food security, environmental degradation, and the loss of business confidence. Furthermore, land distribution as a means of promoting greater equity is an option with little impact, given the amount of land available, pace of resettlement, and population growth.

(2) Industry

In industry, successes have been more limited. In the past, the GOZ's policy of encouraging indigenization of industry has been implemented through increased state control of the economy, not encouraging Black business development. Indigenization in the Zimbabwe context, therefore, has meant increasing the direct participation of Government in the economy. The GOZ has purchased, either directly or through parastatals, shares of a wide range of firms, especially from emigrating/retiring White residents and South African firms. A wide variety of parastatals has been created in mining, manufacturing, finance, and tourism. Nonresident ownership of the larger manufacturing firms (where statistics are readily available) has dropped from well over half at Independence, to roughly 25 percent in 1988:

Control of Larger Manufacturing Firms in Zimbabwe, 1988

| | |
|----------------|------------|
| Local | 51 percent |
| Foreign | 25 percent |
| GOZ/Parastatal | 16 percent |
| Mixed | 8 percent |

Although precise statistics are not available, it is estimated by a prominent economist that well over 90 percent of the locally owned manufacturing firms are White controlled. The commercial and service sectors have seen more Black success stories.

Increased GOZ participation in the economy has concentrated ownership of productive assets of the economy. The massive losses incurred by the parastatal sector have sapped the economy's strength. 8/

It is true that Black managers in state-owned firms have had increased opportunities for advancement and responsibility. Unfortunately, those appointed do not always have requisite skills experience. This kind of Government intervention in operations has come at the cost of quality, productivity and profits. If the SAP-mandated reforms are implemented, parastatals will be commercialized or privatized.

The excessive regulation and red tape that has hampered the informal sector, placed large barriers to entry into the formal sector, and favored larger and existing businesses will be reduced by the SAP-mandated reforms. The existing and emergent Black entrepreneur, however, will especially require assistance in responding to the changed environment. The ruling party's rhetoric has moved from indifference towards outright encouragement for indigenous capitalism. Technocrats in the ministries are interested in helping local business grow.

The continued inequitable distribution of the productive assets of the economy is potentially disruptive. If market forces and signals do not result in change, then there will be political pressure for the state to do so, as is already happening in the agricultural area. It is not enough for the SAP process to create jobs and earn foreign exchange; wider distribution of productive assets and a generally broader indigenous participation in the economy must result or discontent will result. Compatible with the SAP, such redistribution needs to be undertaken through market driven mechanisms, not through credit allocations, nationalization of existing business, or other statist tools of the trade.

The objective of broadening ownership of productive assets should not be construed as being incompatible with encouraging foreign investment. Foreign direct investment is absolutely essential -- to supplement domestic savings, to introduce new technologies, to help Zimbabwe break into new markets. Black entrepreneurs can and should benefit from collaboration with appropriate foreign partners.

3.3.2. Other A.I.D. and Donor Assistance

Bilateral and multilateral donors have a strong interest in supporting the private sector in Zimbabwe. However, many are constrained to working only with GOZ institutions -- and GOZ capabilities in this area are limited. Similarly, NGO budgets and abilities, outside of large business groups like CZI, are limited. The for-profit private sector's interest, and actual support, rarely extends outside of the sphere of narrow business interests, into what could be termed "enlightened self interest".

For the purposes of our discussion, non-USAID assistance activities ongoing in Zimbabwe in support of the private sector are divided into three broad categories; Small/Micro-Enterprise (SME) assistance, Volunteer Business Advisory Services (VBAS), and export/investment promotion. Although many activities overlap categories, the distinction is useful.

A. Small/Micro-Enterprise (SME) Assistance

The SME sector (including formal and informal enterprises) has attracted the most interest from the donor community to date. In this category we include all credit, infrastructure, and technical assistance to SMEs, in all sectors of the economy and areas of the country.

Four major conclusions can be derived from our examination of other assistance activities in the SME sector:

- (1) A major flaw underpinning all activities in this area is a lack of hard data on the SME sector. Some of the fundamental characteristics of the sector -- such as the number of SME enterprises; employee characteristics; geographic location; backward, forward, and cross-sectoral linkages -- are poorly understood.
- (2) There appears to be more than enough donor funds available to finance credit facilities or credit guarantees with institutions, private or public, that are willing to provide credit to SMEs. Also, with the interest rate decontrol mandated in the SAP, the private financial institutions will take a much greater interest in serving the larger end of the SME/informal sector. Equity or venture capital facilities targeted to the SME sector, on the other hand, are not a current donor target, and private sector response to the SAP will likely be less immediate than in the credit area.
- (3) No donor has placed a priority on working with the GOZ on the regulatory and administrative barriers that hinder informals from becoming formal; or that hinder SMEs from expanding or becoming more profitable. The World Bank has financed several useful studies in this area, but has not determined whether more direct support will be targeted.
- (4) Outside of some work in the agricultural sector, assistance activities have tended to marginalize SMEs by treating them as a separate sector, rather than attempting to link them to the larger formal sector. There has been little emphasis on trying to bridge the wide gap between the SME and formal sectors.

B. Volunteer Business Advisory Services

The major donor vehicle for Volunteer Business Advisory Services is the retired executive volunteer service programs, such as the A.I.D.-funded IESC program. At least four other countries have volunteer executive programs in Zimbabwe: the Netherlands, Germany, United Kingdom, and Canada. All are patterned closely after the IESC model; but IESC has the widest and deepest skill base on offer and charges higher fees to clients. Because of its expense and the expertise of its volunteers, IESC occupies the high end of the market.

CIDA, through SEDCO, has started a retired Zimbabwean executive service program that will provide free advisory services to smaller businesses. Interestingly, a local for-profit agency also provides retired consultants for local businesses, charging a fee.

C. Investment/Export Promotion

Because of the severe foreign exchange shortages, the most common request by the GOZ and private sector firms to donors interested in supporting investment or exports is for foreign exchange transfers. Many donors, including A.I.D., have agreed to this, but with an increased interest in linking the cash with policy reform.

On the policy front, the major donor concerned with the issues that underlie export and investment promotion is the World Bank, which has worked closely with the GOZ to help structure a credible SAP. The UNDP intends to facilitate the SAP process by providing technical assistance to the GOZ in macroeconomic and policy planning. The Bank, of course, is the donor most willing and able to provide a major part of the foreign exchange financing necessary to implement the SAP.

Donor interest in export or investment incentive measures has centered around the Export Revolving Fund, with major support provided by the World Bank and others. In addition, the IFC has provided specific assistance on structuring an attractive investment regime, and through the APDF, in providing project development services. The UNDP, using the Malaysian Investment Centre, has provided assistance to the Zimbabwe Investment Centre. The UNDP affiliate, AMSCO, alleviates an important constraint to investment success by supplying expatriate line managers on a medium term basis while training their African successors.

The EEC has developed a highly regarded program of technical assistance to exporters, the Zimbabwe Export Promotion Program (ZEPP), which has proven very successful in helping firms export within the existing policy and incentive context. ZEPP is a pilot project and its function will be transferred from the Ministry of Industry and Commerce to an autonomous private/public institution, Zimtrade. Less comprehensive technical assistance has been provided by the Nordic countries, through GOZ agencies, in packaging and marketing for export.

Our review of donor involvement in investment/export activities indicates at least three gaps. The first such gap is in national export promotion activities; it is expected, however, that the further EEC funding of ZEPP (or its successor) will shortly be forthcoming. Second, there are no vehicles for brokering foreign private sector capital to local business opportunities; the SAP reforms will provide more incentive for this to occur in the marketplace, but given Zimbabwe's position (see Problem Statement discussion), this effort may need some donor support. Third, no donor at present is focusing on the EPZ concept, which is unique in that it weaves together policy analysis and

implementation, the development of export/investment incentives, and promotional activities. Based on A.I.D.'s experience elsewhere, the World Bank is likely to become interested in the EPZ concept if it gains momentum within the GOZ and private sector.

3.4. Project Strategy

The ZBD Project strategy is twofold: (1) To test means of assisting the private sector to meet the competitive challenges, and take advantage of the new opportunities that will flow from the SAP liberalization, decontrol, and fiscal/monetary measures; and (2) To test means of assisting in the implementation of SAP reforms or incentives. This will occur in two ways. First, ZBD Project components that succeed in accelerating job creation and broader indigenous participation in the economy will improve the political and social acceptability of the SAP reforms. Second, ZBD Project components that succeed in accelerating foreign exchange earnings will help finance the SAP.

USAID/Zimbabwe has chosen a pilot approach for the current life of the ZBD Project for several reasons:

- o Zimbabwe is just embarking on the SAP liberalizations, after nearly a decade of heavy state control of the economy. The Mission needs to retain a degree of flexibility to adapt the project portfolio to meet the ongoing needs of facilitating the SAP process.
- o The Mission has limited staff time to devote to private sector project development and management. Current staff with experience in private sector project design and implementation is limited -- a contract Trade and Investment Advisor, and direct-hire Agribusiness specialist and PDIS office chief, all with extensive regional or supervisory responsibilities that will allow them little time for direct project management.
- o The Mission's private sector strategy has not been refined nor targeted -- although this will occur as part of the lessons learned through implementation of ZBDP, as well as ZIMMAN, and other USAID/Zimbabwe funded projects.
- o The Mission's financial resources are limited relative to the economy and the dimensions of the development problem, and this resource constraint necessitates a prudent approach to project development and implementation.

The ZBD Project will be implemented through two broad sets of project components, operational testing and analytical.

Operational testing components will test means of achieving project purpose and goals. Each operational testing activity will be phased, with discrete go/no go decision points. Each operational testing activity will be tracked carefully by a comprehensive monitoring and evaluation system, which will assist in the Mission's ability to evaluate the go/no go decision criteria.

Analytical components will enhance the Mission's understanding of the productive sector of the Zimbabwean economy and its constraints, test assumptions and analyze constraints, modify ZBD Project components, and to develop additional private sector project concepts.

Because of the pilot project approach, an important component of the ZBD Project is the Quick Response Fund, an unprogrammed reserve that will be available to enhance the effectiveness of the initial ZBD Project components, operational testing or analytical, or to develop others that meet the project criteria as discussed below.

3.4.1. Criteria for Selection of ZBDP Components

USAID/Zimbabwe has developed a rigorous set of criteria to select current project components and to guide the use of the Quick Response Funds in identifying potential new project components.

A. Operational Test Component Criteria:

- o Components must have potential for measurable impact towards achieving suitable economic growth -- measured by job creation, foreign exchange earnings, and broadened indigenous participation in the economy; or the ZBD Project purpose -- an enhanced enabling environment for private sector investment. This criterion has important implications for project design. Components that may have tremendous potential, but whose impact is difficult to measure, or whose impact will not be felt until after the authorized life of project, have been rejected.
- o Components must have strong interest and support on the part of the GOZ or the private sector. The Mission does not have the management time nor funds to develop, sell, and implement project components without the strong collaboration of the Zimbabwean public or private sector.
- o Components must complement and build on other donor, NGO, GOZ, and private sector components that are working to the same goal or purpose. The Mission should not work in areas, regardless of their importance, that are being served adequately.
- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W activities in Zimbabwe. ZBD Project components should not only be mutually reinforcing, but should complement all A.I.D.-sponsored activities in Zimbabwe, regardless of funding sources. ZBD Project components must also be manageable by the experience and skills of staff and contractor resources available to the Mission.
- o Complement and build on A.I.D.'s and the Mission's comparative advantages, and avoid areas of comparative disadvantage. An example of comparative advantage is our experience and expertise in working directly with private sector firms and associations; an example of comparative disadvantage might be implementing SME credit programs.

- o Be feasible, given USAID/Zimbabwe's limited financial resources. Activities that require large amounts of funding, such as policy reform based nonproject assistance, infrastructure development, or credit projects, cannot be undertaken under ZBDP, regardless of their advisability.
- o Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges. Although the ZBD project components would have some impact in the status quo environment, they have also been selected by their ability to facilitate the SAP process.
- o Contribute to ZBD Project purpose or goal even if SAP is not implemented on schedule. Of course, timely SAP implementation will greatly enhance impact of ZBD Project components; conversely, successful implementation of ZBD Project components will aid in timely implementation of the SAP.

B. Criteria for Analytical Components

- o Components must enhance the Mission's understanding of the private and productive sectors of the economy. This understanding is important in refining current project components, developing new project components, and refining the Mission private sector strategy.
- o Build on previous research and analysis. Zimbabwe, for an African country, has a reasonably complete statistical base, and has been the subject of a number of surveys and reports. Our analytical efforts must be designed to build on this base and develop new information and insights of value to the Mission, as well as to the GOZ, other donors, and the private sector.
- o Contribute to the effectiveness or measurability of current and potential operational testing components under the ZBD Project. The Mission's resources are too limited to produce documents of general interest not applicable to our own portfolio.
- o Explore constraints and assumptions that directly affect the ability of the ZBD Project to achieve project goal and purpose. For example, the AIDS epidemic is a potential constraint to achieving purpose and goal, but its implications are poorly understood.

4. Summary Project Description

4.1 Project Objectives

A low rate of investment by the private sector, and especially by the foreign private sector, has been identified in the Problem Statement to be the fundamental cause of inadequate economic growth in Zimbabwe.

The purpose of the ZBD Project, therefore, is to test the effectiveness of selected interventions in fostering private sector enterprise growth through facilitating local and foreign investment and expanded indigenous enterprise. During the life of project, ZBD Project will test means of assisting policy reform implementation and for providing firm level technical assistance activities that will increase the competitiveness of the private sector and, thus, its attractiveness to private sector capital.

Without proper market signals and incentives, economic growth -- even private sector-led economic growth -- would not necessarily lead to job creation, foreign exchange earnings, or broadened control of productive assets. 2/

The goal of ZBDP, therefore, is to increase private sector-led economic growth that results in increased job creation, foreign exchange earnings and broadened indigenous participation in the economy. The goal of the ZBD Project is, in essence, also the objective of the SAP.

4.2 Project Components

ZBD Project components are grouped in two general areas: operational testing components, and analytical components. The project also has established a Quick Response Fund that will allow a flexible capability to finance operational testing and analytical components that meet the ZBD Project criteria.

The following are brief descriptions of ZBD Project components. Complete descriptions and an assessment of each component can be found in Annex 4, Detailed Project Description. Justification for selection of each project component was based on its fulfillment of the ZBD Project criteria, as described in Section 3.4.1, Criteria for Selection of ZBDP Components.

4.2.1 Pilot Operational Testing Components

Each operational testing component was chosen through a careful selection procedure. The choices were informed by the experience of the successes and failures of initiatives in other countries, especially Africa, carefully adapted to the Zimbabwean context.

The design of these components was based on extensive consultation with both private and public sector, as well as the donor community. On the private sector side, individual firms were contacted as well as mainstream organizations such as CZI and the Chamber of Commerce, as well as newer organizations, such as ZENA and the IBDC representing emergent and Black business interests. On the public sector side, the Ministry of Finance, Economic Planning and Development and Ministry of Commerce and Industry, the Reserve Bank, and the Zimbabwe Investment Centre were consulted. Donor and multilateral finance groups consulted include the World Bank, SIDA, ODA, CIDA, the EEC, the UN organizations, as well as local NGOs such as ENDA and ITDG.

A. Development of a Competitive Export Processing Zone (EPZ) Regime

Analysis undertaken during project development led to a development hypothesis: a competitive EPZ regime in Zimbabwe can accelerate investment, job creation, and foreign exchange earnings. Moreover, if structured properly, an EPZ regime could also help broaden the participation of indigenous entrepreneurs in the economy, either as EPZ firms, or as suppliers and subcontractors to EPZ firms. Phase I of this component, the EPZ feasibility study, will test this hypothesis. If determined by A.I.D. and the GOZ to be correct, A.I.D. will assist in EPZ implementation by means of components undertaken in Phases II and III (all phases are described in detail below).

The ZBD approach for supporting development of a competitive EPZ regime in Zimbabwe is based upon the experience of the successes and failures of EPZ initiatives in Mauritius, Senegal, Cameroon and other African countries, as well as EPZ experiences worldwide. The design team consulted closely with all segments of the Zimbabwean private sector, as well as the Ministry of Finance, Economic Planning and Development, the Ministry of Commerce and Industry, the Zimbabwe Investment Centre, and the World Bank.

The EPZ component will assist the GOZ, with private sector input, towards the rapid development of the enabling environment for EPZs. By enabling environment, we mean the laws, regulations, and institutions necessary for EPZ development. The ZBD Project will not finance industrial estates and other necessary infrastructure; this will be undertaken by the private sector, multilateral financial institutions, and possibly the GOZ. Although A.I.D. will provide funding for technical assistance, GOZ interest, participation, and implementation will be critical; equally as important, we expect the private sector to take a leading role in developing and operating the EPZ regime.

ZBD activities in the EPZ component have been organized into three phases. An assessment will be made at the end of each phase to determine whether or not to proceed with A.I.D. support for the subsequent phases. The three phases are:

Phase I Feasibility analysis designed to provide the comprehensive analytical basis for the GOZ and USAID to determine if operational testing activities in Phases II and III are warranted. If feasible, then Phase II will be undertaken.

Phase II Development of competitive EPZ enabling legislation, and the framework for regulations and streamlined administrative arrangements. If legislation developed is acceptable to the EPZ Working Group, and is adopted by the GOZ, then Phase III will be undertaken.

Phase III Development of EPZ implementing regulations and procedures. Specifically, this phase will entail design of institutional framework; viz., the appropriate authorities for development, regulation, and promotion of the EPZ. If the regulations, procedures, and institutional framework recommended are acceptable to the EPZ Working Group, and implemented by the GOZ, then the groundwork for the operation of the EPZ by the GOZ will have been completed.

Assuming that EPZ completes Phase III, then project elements will be:

Inputs provided will be a comprehensive package of short- and long-term technical assistance activities including studies, workshops/seminars, briefings, exposure tours, training exercises and in-country technical expertise.

Outputs expected will be an analysis of the feasibility of EPZs in Zimbabwe; a private/public sector working group that acts as the main advocate for EPZ development; a heightened consciousness of the aspects of successful EPZs on the part of the GOZ, potential EPZ developers, as well as potential EPZ investors; EPZ enabling legislation; EPZ enabling regulations and procedures.

EOPS expected are either that EPZ regulations and operating procedures will be accepted in principle as operational or rejected as not viable by A.I.D. and GOZ.

B. Business Linkage

The Business Linkage pilot component of ZBD will facilitate the linkage of small and large businesses in Zimbabwe, to the benefit of both. Business Linkages can occur in at least three ways:

- o Subcontracting/Local Purchase of goods and services by larger firms from smaller firms;
- o Spin-off of operating units from larger businesses, to be set up as smaller independent businesses. Generally, the parent continues some relationship with the spun-off business.
- o Joint Purchasing of goods and services, coordinated by the larger businesses that have expertise, market clout, and financing. 10/

It is a project hypothesis that facilitating business linkages will prove to be a highly cost-effective means of furthering the ZBD Project purpose and goal -- now, in the current constrained environment, and especially as the SAP

reforms are implemented. First, enhanced business linkages will increase the number and strength of indigenous small businesses, thereby widening the ownership of productive assets and broadening indigenous participation in the economy. Second, jobs will be created as smaller firms are established and grow in size. Equally as important, jobs will also be saved from oblivion, if firms spin off marginal operations rather than close them down. Third, market-driven business linkages will enhance the competitiveness of both small and large firms, increasing their ability to export and earn foreign exchange. Equally as important, foreign exchange will be saved through efficient, market-driven import substitution.

The design of the ZBD Business Linkage component is based upon the experience of the successes and failures of linkage activities elsewhere, particularly in South Africa. The design team consulted extensively with larger and smaller firms and their business associations, as well as with the Ministry of Commerce and Industry, and the World Bank.

ZBD activities in the business linkage component are grouped into two phases, Diagnostic Assessment and Pilot Operational Testing. An assessment will be made at the end of Phase I on whether or not to proceed with operational testing, Phase II. The two phases are described below.

Phase I Diagnostic Assessment: The diagnostic activities in Phase I are:

- Baseline survey of current linkage activities in Zimbabwe and lessons learned.
- Policy and other external constraints to business linkage.
- Exposure tour of targeted group to business linkage programs in the region.
- Workshop reviewing findings, analysis, and obtaining private and public sector input.
- Detailed workplan for implementation, including the kinds of assistance and institutional structures, with USAID/Zimbabwe and workshop input.

Phase II Operational Testing of Business Linkage Assistance component:

The operational assistance activities of Phase II will work with up to 15 larger firms and up to 20 smaller firms. These activities are:

- Needs assessment for the larger firms: what goods and services can be outsourced to smaller firms, and what operations should be spun off as independent units; and how this would be accomplished.
- Needs assessment for the smaller firms; what goods and services could they produce for larger firms; how this would be facilitated.
- Technical assistance for operational testing facilitation.

- Pilot Operational Support for Business Linkage, as outlined in the approved workplan, and modified to accommodate needs as identified above.

The larger firms will be chosen for the pilot project by three basic criteria. First, is their interest in entering into subcontracting relationships with smaller firms. Second, is their interest in participating in this pilot effort. Third, is a significant need for goods and services of the kind that can practically be provided by smaller firms in Zimbabwe.

Larger firms will be provided assistance in adapting their purchasing and quality control procedures to smaller vendors, in publicizing their interest in purchasing goods and services from smaller vendors, in devising creative financing and payment schemes for smaller vendors, and other areas identified in the needs assessment.

Smaller firms will be chosen for the pilot project by two basic criteria. First, is their interest in entering into, expanding, or improving their contracting relationships with larger firms. Second, is their potential to successfully subcontract in areas needed by the larger firms, after receiving the kinds of technical assistance provided by this component and other sources.

Smaller firms will be assisted in bidding and tendering procedures, quality control, business planning, costing and pricing, marketing and promotion, logistics, purchasing, and other areas identified in the needs assessment.

Assuming that the Business Linkage component completes Operational Testing Phase II, then:

Inputs provided will be a package of short- and long-term technical assistance activities including the needs assessments, workshop, and advisory services. Commodities such as a vehicle, computer hardware and software, and other office equipment may be supplied to the Grantee that will implement pilot operational support.

Outputs expected will be increased understanding of the potential, practicality, and operation of a business linkage initiative in Zimbabwe. Operational tests of a sample of Business Linkage arrangements, linking small manufacturing and services firms to larger industrial firms, will be completed.

EOPS expected are measured performance of a sample of business linkages, based on results of the Phase II Operational Testing that indicate the extent of linkage development and associated impact on employment creation and broadened indigenous participation in the economy.

C. Volunteer Business Advisory Services (VBAS)

A.I.D. has financed much of the costs of a Volunteer Business Advisory Service (VBAS) in Zimbabwe since 1985. The VBAS has been implemented through the International Executive Service Corps (IESC), who provide the expertise of retired American executives for assignments in Zimbabwe as well as for research in the United States.

Even in the highly constrained, pre-SAP environment, the IESC program has had a significant impact on firm level competitiveness, manifested by higher sales, increased investment, and capability to export. The demand for IESC services is expected to grow dramatically as the SAP unfolds.

The IESC program was less successful than anticipated, however, in two areas: assisting smaller, Black-owned businesses (although in the past six months the trend has changed), and promoting U.S. - Zimbabwe business links. For a detailed explanation of why IESC was less than successful in meeting the targets of reaching small Black-owned business, and promoting U.S. - Zimbabwe linkages, please refer to the August 1990 evaluation.

Under ZBDP, we will be testing the following six innovations to IESC:

- o Outreach to Small, Black-owned Business. This will be encouraged by providing additional compensation to IESC for organizing group projects. Under the current program, IESC receives the same lump payment for all assignments -- without any compensation for the considerable expenses of organizing group projects.
- o Promote Joint Ventures between U.S. and Zimbabwe firms. This will be achieved through the Joint Venture Service described below. Although this has been on offer for several years, with no takers, we believe that as the SAP reforms unfold, demand will be there.
- o Use of Regional VBAS. The local IESC Country Director and USAID/Zimbabwe will examine the political acceptability and feasibility and, if appropriate, make arrangements with the IESC Project in South Africa to tap into their base of local retired executives. This will allow IESC a wider, more appropriate skills base to draw from, as well as provide substantial savings on travel and overseas costs.
- o Improve Client Tracking, Monitoring, and Evaluation Systems and Data Bases. The IESC Country Director's office will be responsible for managing the new systems with short-term consultant support.
- o Develop Zimbabwe Briefing Sheets for the VEs, which will outline in basic terms the trade liberalization and other SAP measures and their likely impact on the business environment. The notes should include a discussion of the rapidly changing southern African environment and its likely impact on Zimbabwean businesses.

- o Expand Volume of Services. As the SAP reforms unfold, firms will be unleashed to invest, expand, and export. Demand for IESC services, especially in the areas of marketing, cost reduction, organizational development, and technology sourcing, is expected to increase dramatically.

In addition, ZBD will:

- o Explore the use of Local Retired Executives to Form a Zimbabwe Executive Service Corps. ZBD will finance an assessment using local retired executives to provide more appropriate and intensive services to small Black-owned firms. IESC and other organizations/mechanisms will be considered to address this service requirement.

IESC, under ZBDP, will continue to offer the three basic services, which are:

- o Regular Volunteer Executive (VE) projects, under which VEs come to Zimbabwe for a period averaging 60 days to work with a single client or group of clients on a hands-on basis to provide assistance in areas such as management, production, marketing, sales promotion, accounting, financial planning and a wide variety of technical matters.
- o American Business Linkage Exchange (ABLE) projects, which are in-depth low cost research reports conducted in the United States. ABLE reports give Zimbabwean businesses strategic business information on U.S. markets, technology, potential partners.
- o Joint Venture Service (JVS) projects, which involve an IESC volunteer working in the United States on behalf of an overseas client, locating equipment, technology, or searching for a joint venture client. JVS projects most often flow from a VE or ABLE project.

Under the current IESC program, A.I.D. had set a small business (less than 50 employees) target -- 25 percent of all VE and ABLE projects. This target has been dropped for several reasons. First, the real problem is not reaching small business in general, but reaching small Black-owned business. Second, the target was unrealistic because of the nature and costs of the services IESC can offer at present. Under ZBDP, instead of artificial targets, IESC will be given the proper incentives and tools for the job of reaching Black-owned small business (group project bonus, local retired executives, and access to regional VBAS projects).

Inputs provided will be short-term technical assistance to private sector firms and operational support and equipment for the IESC Country Director's office.

Outputs expected will be a VBAS program that can serve the needs of a broad spectrum of private sector firms through assignments in Zimbabwe and in the United States. The private sector firms served will be more competitive and in a better position to invest, hire more workers, and export.

EOPS expected are net job creation, greater number of viable Black-owned businesses, and increased foreign exchange earnings. This will occur directly through the changes made in individual client firms, and indirectly through the development of a more competitive private sector.

4.2.2 Analytical Components

The analytical components are intended to complete our understanding of the private sector. 11/ The results of these analytical activities will also greatly benefit the GOZ, private sector, and researchers concerned with economic development in Zimbabwe. This is necessary for several reasons:

- o To refine and focus A.I.D. interventions.
- o To contribute to the effectiveness or measurability of ZBD Project components.
- o To explore constraints and test assumptions that directly affect the ability of ZBD to achieve project goal and purpose.

The analytical components have been painstakingly designed so that we take full advantage of research that has been done in the past, and complement ongoing and future research projects undertaken by other parties.

A. Analysis of the SME Sector 12/

The GOZ, as well as donor agencies, is placing increased attention on the role of SMEs in generating income and employment in Zimbabwe. Assistance efforts to date have been handicapped by the lack of comprehensive, up-to-date information on informal and small-scale enterprises. Most such firms elude the standard Governmental statistical nets and are typically unobserved. A few special studies have provided some limited, initial glimpses of these activities in Zimbabwe.

Some basic parameters of the sector are not known. In brief, what is missing are data on: the actual number of SMEs, the sectors in which they operate, location, ownership and employment characteristics, income, linkages with each other and the formal sector, assistance received, perceived constraints, entrepreneurial character, business history, and firm dynamics.

These kinds of data, and expert analysis of the data, would enable USAID/Zimbabwe to:

- o Develop a baseline against which the effectiveness of proposed projects or policies can be evaluated.
- o Determine needs of SMEs, as well as the constraints under which they operate. This will guide implementation of ZBD components.

- o Target subsectors or geographic areas needing assistance.
- o Design project components and subcomponents.

Before the project begins, a Baseline SME Survey will be implemented through a buy-in to GEMINI, a centrally-funded project operating out of the Bureau for Asia and Private Enterprise. The GEMINI project has developed a standard survey methodology for establishing a baseline of SMEs, tested in over 10 other countries in Africa. This standard survey methodology has been adapted to the purpose and goal of the ZBD Project, and the Zimbabwean context.

Phase I: Baseline Survey Results Seminar

Phase I of the Analysis of SME Sector will consist of a workshop to disseminate and analyze the results of the SME baseline survey undertaken before project implementation. The workshop participants will include researchers, the GOZ, business associations, and other interested parties. The workshop could be a component of a larger regional conference that will be hosted in Harare, which will address the SME survey work that has been undertaken in east and southern Africa over the past several years.

In addition to the dissemination of results, the workshop will help USAID/Zimbabwe to determine the need for funding further SME research components, discussed below.

Phase II: Focused SME Research

Longitudinal Surveys, tracking a selected sub-sample of firms into the second and third year, to track firm level SME change, the impact of the evolution of the SAP and the economy, and assistance efforts.

Subsector Analyses, analyzing one or more subsectors in depth to elucidate the relevance of the baseline GEMINI survey results. This is done by a combination of survey, focus group, and desk analyses.

Baseline Resurvey

Although not funded under this project, a Baseline Resurvey will be appropriate four to five years after project authorization. The Resurvey will allow us to capture on a more complete basis the changes due to the evolution of the SAP, the economy, and assistance efforts.

B. Description of the Productive Sector

The GOZ has taken an increasing interest in the role of the private sector as the lead actor in economic development and growth. A paucity of usable information on the productive sector, however, has hampered the ability of the

GOZ -- as well as USAID/Zimbabwe and other donors -- to develop appropriate policies, guide their implementation, and provide technical assistance, credit or other inputs. Zimbabwean businesses as well are hindered in their analysis and planning by the lack of usable information.

A wealth of data exists on the productive sector -- embedded in corporate annual reports, GOZ statistical surveys, donor funded analyses, CZI and other business association reports, the University of Zimbabwe Business Studies and Economics departments, and private sources such as the Grey Matter Pvt data bases. These data need to be collected, analyzed, and placed on a computerized data base so that usable information is available for use by all interested parties.

The Description of the Productive Sector will be undertaken by a buy-in to an AID/W Central Project -- likely to be PEDS -- that can access firms and individuals that have had experience conducting MAPS. ^{13/} These firms and individuals have done similar productive sector descriptions in nearly 20 African and Latin American countries.

It is anticipated that the MAPS Team will consist of an expatriate business economist, a policy analyst and, if necessary, a survey specialist who will work together with local subcontractors that will provide local expertise, contacts, and cost-effective logistical support.

Unlike the informal sector, a firm level survey of the formal sector may not be necessary. Pre-existing survey data, from GEMINI and other sources, will be used, of course. Therefore, the Description of the Productive Sector will first be developed from secondary sources and interviews with knowledgeable informants. Only if there is a clear need perceived by the MAPS team and confirmed by the Mission will Phase II, survey and focus group work, be undertaken.

The Productive Sector Description data will be placed in a user-friendly PC-compatible data base to be housed in a GOZ agency or local private business organization. Copies will be made available to other interested parties; there is a considerable amount of interest in the results on the part of the GOZ and private business associations.

Phase II -- Description of the Productive Sector from Secondary Data

The MAPS team will develop a report that will provide a description and analysis of the productive sector, disaggregated by subsector, ownership, and geographical location.

- o Contribution to GDP, employment, overseas and regional trade, taxes.
- o Industrial concentration, competition, and competitiveness.
- o Backward, forward, and cross-sectoral linkages -- within the formal sector and to the informal sector.

- o Trends of growth, investment, productivity, employment, trade, investment, ownership, and industrial concentration.
- o Constraints and opportunities for private sector growth, in the context of the evolution of the SAP reforms.

To the extent possible, the MAPS team will collect and analyze data over a 20-year period, from 1970 to 1990, from 10 years before majority rule to the present.

If recommended by the MAPS team, and endorsed by USAID/Zimbabwe, Phase II, survey and focus group activities, will be undertaken to fill in data gaps from the secondary data, and better understand managerial/entrepreneurial perceptions of the results.

Phase II -- Description of the Productive Sector supplemented by Survey and Focus Group Work

The Survey will fill gaps in the data gathered and analyzed in Phase I, and analyze opportunities and constraints facing various types of firms in the formal and informal sectors, as perceived by the business owners and managers.

The Survey will be carried out using the MAPS team leader, survey specialist, and local subcontractor, using survey instruments and sampling techniques that would be agreed upon with the Mission prior to drafting the detailed terms of reference. The survey instrument and sampling techniques design would build on the results of the PSTNA, the GEMINI survey, and the World Bank Regulatory Impact surveys.

The MAPS team will:

Identify the data gaps from Phase I, and determine how a survey will fill those gaps. This will require a review of the questionnaires, sampling methodologies, and results of the previous relevant surveys.

With input from the Mission, design a questionnaire and determine a sampling universe and methodology that will yield the required data with statistically significant results.

Undertake the survey with local subcontractor support.

Draft a report which describes and analyzes results of the survey data, making sure that results are placed on the PC compatible computer data base developed in Phase I.

The results of the Survey, taken together with the earlier analysis of the structure and role of business in the Zimbabwean economy, will be presented to business owners and managers in focus groups, the composition of which will be

determined in a strategy session with the Mission. The focus group discussions will enrich and validate (or raise questions about) the interpretation of the results from the studies and surveys.

Specific tasks to be performed by the MAPS Team Leader and Policy specialist are:

Identify with the Mission the key sectors, actors, etc., to be included in the focus groups or dialogue seminars and develop a general format for the groups and seminars;

Prepare synthesized presentations of the data collected in previous phases that are targeted to specific focus groups;

Organize and conduct feedback sessions; and

Document and disseminate the discussion themes and major conclusions of each session.

C. Implementation Support Research (ISR)

Focused studies will be undertaken to assist in effective implementation, maximize the utility of lessons learned, and assist in the design of future private enterprise assistance activities. In accomplishing these objectives, of course, the ISR-focused studies will advance the project purpose and goal. Although the general nature of the studies can be identified now, detailed design will be undertaken in collaboration with the GOZ and other implementing partners.

The topics of the studies are likely to include:

- o Feasibility of adopting an agribusiness focus, or agribusiness subsectoral focus (e.g., horticulture) for current and future ZBD Operational Testing components. Potential to sharpen the focus to better achieve the goal and purpose of ZBD Project, and be synergistic with other USAID/Zimbabwe activities.
- o The role of women in productive enterprises in Zimbabwe; the perceived and actual constraints to women's enterprise and proposals to redress such constraints. Potential to enhance our achievement of broader distribution of productive assets and indigenous participation in the economy.
- o Competition and competitiveness: an assessment of firm and industry competition in Zimbabwe and its impact on competitiveness. Supports research into an identified gap in the SAP, which may effect the degree to which we achieve the project goal and purpose.
- o Social norms in Zimbabwe, their impact on achieving the ZBD Project purpose and goals, and recommendations for change. Improves our understanding of an identified constraint to achieving the project purpose and goal.

- o The potential for deregulatory components that allow the formalization of the informal sector. Potential to develop component concepts to enhance the achievement of wider distribution of productive assets of the economy.
- o The impact of the AIDS epidemic on economic growth, investment, and ZBD components. Increase our understanding of an identified constraint to achieving project goal and purpose.
- o Analyze the investment cost per direct and indirect job created in the private sector, by sub-sector.
- o Track implementation of SAP measures relevant to ZBD achieving the project purpose and goal.

The Implementation Support Research component will be contracted out to a local consulting firm that will provide short-term consultancies at the request of USAID. It will be managed by the PSC ZBD Project Manager, with guidance from the direct-hire ZBD Project Officer and the contract regional Trade and Investment Advisor.

4.2.3 Quick Response Fund

Approximately US\$160,000 of the ZBD Project budget and any fallout from nonimplementation or surplus from other components, has been allocated to the Quick Response Fund which has two major objectives. First, the Quick Response Fund will modify or strengthen ZBD operational testing or analytical components so that they better work towards achieving project purpose and goal. Second, the Fund will assist in developing new private sector project components, operational testing or otherwise, to implement during the full course of this or other projects.

The Quick Response Fund will permit a flexible and rapid response to opportunities that are consistent with the purpose and goals of the overall project.

Proposals for potential Quick Response Fund activities will be reviewed and processed by the Project Officer, with technical assistance from the contract ZBD Project Manager and the regional Trade and Investment Advisor. Each proposed activity must pass muster when weighed against the Operational Testing or Analytical component criteria outlined earlier.

In addition, to be eligible for financing from the Quick Response Fund, a proposed activity must satisfy all of the following criteria:

- A. The proposed activity must fit within the stated project purpose and goal, and otherwise be consistent with the ZBD Project Grant Agreement between A.I.D. and the Government of Zimbabwe.

- B. The Quick Response Fund may be used only to finance technical assistance, training, authorized travel or the procurement of commodities.
- C The Mission Environmental Officer must certify and the RLA must concur that the activity will be within the scope of the IEE Categorical Exclusion approved for the entire project.
- D. The Mission Director, USAID/Zimbabwe, must concur with the inclusion of the activity, and in particular determine that the proposed activity has adequate financial and technical planning.

An illustrative listing of Quick Response Fund activities follows:

Existing Components:

A. EPZ

Support of promotional activities by the EPZ Promotional Authority.

Support of regulatory activities by the EPZ Authority.

B. Business Linkage

Phase III; amplified pilot operational phase that will expand the services available beyond the limited test group.

C. VBAS

Increase volume of IESC services.

D. Implementation Support Research

Add additional studies that may arise out of internal needs, GOZ or private sector requests.

Possible New Components:

A. Conferences and Seminars Fund

Support for the sponsorship of conferences and seminars of private sector organizations.

B. Deregulation and the Informal/SME Sector

Manual of SME incentives in English, Shona, and Sindebele.

Focused action research to identify the costs and benefits of small business regulation on the books, and draft possible solutions.

In addition to providing the project with a mechanism to quickly pursue opportunities consistent with the project purpose, the Fund will also facilitate reprogramming of funds that may become available under one of the "phased" project components. Given that ZBD is a pilot project, it is possible that at least one of the project components will not prove to be a viable means of achieving project objectives at a "Go - No Go" decision point and, therefore, will not be funded through all phases. If this occurs, project funds will be reprogrammed from the discontinued component to the Quick Response Fund where they will be used to further finance, according to established selection criteria, activities to respond to targets of opportunity in support of Operational Testing or Analytical project components.

4.3 Summary Cost Estimate and Financial Plan

Over the three year life of this project, USAID and the host government expect to provide resources totaling \$5,540,000 and \$1,846,203 respectively for activities described in this Paper. The host government's contribution will be both from the public (15%) and private (85%) sectors. The majority of the private sector's contribution will be generated under the Volunteer Business Advisory Service component of the project.

The major budget elements are presented in Table A below. The A.I.D. budget will cover short- and long-term technical assistance, workshops and study tours, evaluation and research, and project management. Reasonable allowances have been provided for contingency and inflation.

Planned obligations by fiscal year are shown in Table B. The obligation plan is based on the planned implementation and contracting schedule. The host country's contribution to the project budget is reflected in Table C. Detailed supporting schedules for all project elements are included in Annex 3.E.

TABLE A - SUMMARY COST ESTIMATE

| USE | AID (US\$) | | HOST COUNTRY (US\$) | | TOTAL (US\$) | |
|--------------------------------------|------------|-----------|---------------------|------------|--------------|------------|
| | FX | LC | FX | LC | FX | LC |
| OPERATIONAL TESTING COMPONENTS | | | | | | |
| EXPORT PROCESSING ZONE | :1,110,715 | : 0 | : 0 | : 168,110 | :1,110,715 | : 168,110 |
| BUSINESS LINKAGE | : 407,800 | : 145,000 | : 0 | : 400,800 | : 407,800 | : 545,800 |
| VOLUNTARY ADVISORY BUSINESS SERVICES | :1,789,753 | : 145,000 | : 0 | :1,194,293 | :1,789,753 | :1,339,293 |
| ANALYTICAL COMPONENTS | | | | | | |
| PRODUCTIVE SECTOR DESCRIPTION | : 300,000 | : 0 | : 0 | : 12,500 | : 300,000 | : 12,500 |
| SME SURVEY | : 250,000 | : 0 | : 0 | : 70,500 | : 250,000 | : 70,500 |
| IMPLEMENTATION SUPPORT RESEARCH | : 339,600 | : 0 | : 0 | : 0 | : 339,600 | : 0 |
| QUICK RESPONSE FUND | : 163,873 | : 0 | : 0 | : 0 | : 163,873 | : 0 |
| USAID PROJECT MANAGEMENT | : 0 | : 151,250 | : 0 | : 0 | | : 151,250 |
| EVALUATION AND MONITORING | : 198,100 | : 0 | : 0 | : 0 | : 198,100 | : 0 |
| AUDIT | : 56,600 | : 0 | : 0 | : 0 | : 56,600 | : 0 |
| INFLATION | : 218,500 | : 0 | : 0 | : 0 | : 218,500 | : 0 |
| CONTINGENCY | : 263,809 | : 0 | : 0 | : 0 | : 263,809 | : 0 |
| PROJECT TOTAL | :5,098,750 | : 441,250 | : 0 | :1,846,203 | :5,098,750 | :2,287,453 |

TABLE B - PLANNED OBLIGATIONS (US\$)

| ACTIVITY | : FY 1991 | : FY 1992 | : FY 1993 | : TOTAL |
|--------------------------------------|-------------|-------------|-------------|-------------|
| OPERATIONAL TESTING COMPONENTS | : | : | : | : |
| EXPORT PROCESSING ZONE | : 226,400 | : 334,220 | : 550,095 | : 1,110,715 |
| BUSINESS LINKAGE | : 252,150 | : 150,750 | : 149,900 | : 552,800 |
| VOLUNTARY BUS. ADVISORY SERVICES (1) | : 1,046,960 | : 545,000 | : 342,793 | : 1,934,753 |
| ANALYTICAL COMPONENTS | : | : | : | : |
| PRODUCTIVE SECTOR DESCRIPTION | : 120,000 | : 180,000 | : 0 | : 300,000 |
| SME SURVEY | : 110,000 | : 140,000 | : 0 | : 250,000 |
| IMPLEMENTATION SUPPORT RESEARCH | : 0 | : 339,600 | : 0 | : 339,600 |
| QUICK RESPONSE FUND | : 0 | : 60,000 | : 103,873 | : 163,873 |
| USAID PROJECT MANAGEMENT | : 50,000 | : 50,000 | : 51,250 | : 151,250 |
| EVALUATION AND MONITORING | : 20,000 | : 25,000 | : 153,100 | : 198,100 |
| AUDIT | : 0 | : 0 | : 56,600 | : 56,600 |
| INFLATION | : 87,245 | : 87,715 | : 66,195 | : 241,155 |
| CONTINGENCY | : 87,245 | : 87,715 | : 66,195 | : 241,155 |
| PROJECT TOTAL | : 2,000,000 | : 2,000,000 | : 1,540,000 | : 5,540,000 |

Notes:

- (1) Comprised of \$1 million for IESC and \$46960 for ZECs in yr 1; \$400,000 for IESC and \$145,000 for ZESC in yr 2; and \$342,793 for IESC in yr 3.

TABLE C
HOST COUNTRY CONTRIBUTION
FOR FY 1991-93

| | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|--|----------------|----------------|----------------|------------------|
| PRIVATE SECTOR | | | | |
| IESC CLIENT CONTRIBUTIONS | 405,333 | 328,980 | 328,980 | 1,063,293 |
| ZESC CLIENT CONTRIBUTIONS | 0 | 20,000 | 30,000 | 50,000 |
| EPZ EXPOSURE TOURS | 90,610 | 0 | 0 | 90,610 |
| BUSINESS LINKAGE EXPOSURE TOURS | 70,800 | 0 | 0 | 70,800 |
| BUS LINK OFFICE, EQUIP, SAL, OPERAINS | 0 | 75,000 | 155,000 | 230,000 |
| BUSINESS LINKAGE CONTRACT FEES | 0 | 27,500 | 45,000 | 72,500 |
| TOTAL PRIVATE SECTOR | 566,743 | 451,480 | 558,980 | 1,577,203 |
| PUBLIC SECTOR | | | | |
| EPZ — STAFF SALARIES, OFFICE SPACE FOR DEV. LAW, REG, EPZA, EPZPA | 12,500 | 32,500 | 32,500 | 77,500 |
| BUSINESS LINKAGE — PARTICIPATION | 2,500 | 12,500 | 12,500 | 27,500 |
| IESC — PARASTATAL & GOVT CLIENT FEES | 24,000 | 27,000 | 30,000 | 81,000 |
| PRODUCTIVE SECTOR DESCRIPTION PARTICIPATION | 2,500 | 7,500 | 2,500 | 12,500 |
| SME ANALYTICAL WORK — PARTICIPATION | 7,500 | 7,500 | 7,500 | 22,500 |
| GEN'L INFO DISSEMINATION | 7,500 | 8,000 | 8,500 | 24,000 |
| GEN'L OVERSIGHT — SALARIES, SPACE | 7,500 | 8,000 | 8500 | 24,000 |
| TOTAL PUBLIC SECTOR | 64,000 | 103,000 | 102,000 | 269,000 |
| TOTAL HOST COUNTRY CONTRIBUTION | 630,743 | 554,480 | 660,980 | 1,846,203 |
| AS A PERCENTAGE OF AID FUNDING | | | | |
| PRIVATE SECTOR'S SHARE | 32 | 28 | 43 | 33 |
| PUBLIC SECTOR'S SHARE | 29 | 24 | 36 | 28 |
| | 3 | 4 | 7 | 5 |

5. Project Implementation

5.1 Management Roles and Responsibilities

5.1.1 Role and Responsibilities of A.I.D.

The project will be implemented by a personal services contractor (PSC) under the overall guidance of the Chief of the PDIS office, who will delegate direct supervisory responsibilities to a direct-hire Project Officer. The Project Officer will rely on the contract regional Trade and Investment Advisor for technical input, especially in the first three to four months of authorized project life, before the PSC Project Manager is in place.

The Project Officer will be responsible for monitoring implementation progress against output targets with assistance provided by the PSC Project Manager. He or she will have the responsibility to:

- resolve implementation problems and prepare periodic implementation reports and other project documents;
- review and provide administrative approval of vouchers and financial reports;
- manage and coordinate formal project evaluations and audits;
- prepare and process PIOs and other related contracting documentation for the procurement of project-funded commodities and technical assistance.

As previously mentioned, due to the significant A.I.D. administrative workload anticipated, a full-time, local-hire, personal services contract Project Manager will be required. Despite the relatively small funding level of the project, the test mode nature of the pilot ZBD will place an especially heavy burden on Mission management to monitor and assess the progress of the operational testing components. This workload, in addition to a significant amount of coordination of analytical teams, necessitates that the Mission hire a project-funded manager throughout the duration of the activity. The PSC will be responsible for day-to-day project management, monitoring, and internal/informal evaluations of the project. As Project Manager, he or she will be responsible for coordinating of short- and long-term technical assistance provided under this project, review of vouchers for administrative approval by the direct-hire Project Officer, drafting of project related documentation, liaison with local institutions and other project administration/implementation tasks as directed by the Project Officer. As the Project Manager gains experience in A.I.D. administrative procedures, he/she will gradually be assigned tasks of the Project Officer noted above.

An annual implementation plan will be developed by the Project Manager and with input from the GOZ and cooperating agencies, such as CZI. The Project Manager will be responsible for:

- advising Mission management of technical issues and implementation progress;
- keeping abreast of other donor activities and maintain a close liaison to ensure that all donors are cognizant of any problems that could jeopardize the achievement of global project objectives.

The Regional Legal Advisor, USAID/RSA, will provide legal assistance throughout the duration of project implementation. He/She will confirm the satisfaction by the Government of Zimbabwe of Conditions Precedent to Disbursement and review and approve contracting procedures and grant documents. As appropriate, he/she will review and clear project implementation documentation and advise Mission management if and when legal issues arise.

To take advantage of low prices and an efficient procurement mechanism, USAID/Zimbabwe will be responsible, if necessary, for the procurement through RPOT/Tokyo of any vehicles financed under the project. The Project Officer will prepare the PIO/C with assistance, as required, from the Regional Commodity Management Officer, to ensure that all specifications are in compliance with A.I.D. regulations and the grantee's needs. The PIO/C, after completion, will be forwarded to USAID/Zimbabwe Executive Officer for contracting action. It is not envisaged that A.I.D. will procure any other commodities because the purchase of any office equipment or other related items financed under the project will be carried out under either HB 13 procurement rules by the local institution(s) involved in the Phase II Operational Test of Business Linkages or by contractors conducting the Implementation Support Research component or various assessments.

The Regional Contracting Officer, REDSO/ESA, will be responsible as an advisor or procurement agent for all contracts or grants utilized under the project. RCO will advise the Mission on all buy-in procurements contracted by the Office of Procurement in AID/W. He/she will either be the contracting officer or will advise EXO, USAID/Zimbabwe, on the PSC for the Project Manager. He/she will be the contracting officer on the technical assistance contract with a local firm for the Implementation Support Research project component as well as the grants officer for Phase III of the Business Linkage operational test activity.

The Controller, USAID/Zimbabwe, will have responsibility for project accounting and financial accountability. Payments to grantees, contractors, or consultants under this project will be made by direct payment or reimbursement, which are discussed in Section 5.2, Methods of Implementation and Financing. To the extent required, periodic advances may be provided to non-profit making grantees or contractors in accordance with U.S. Treasury cash management guidelines.

Due to the significant anticipated involvement with AID/W buy-ins, the Project Officer, PSC Project Manager and contract Trade and Investment Advisor will have to stay closely in touch with both the Office of Procurement and the appropriate AID/W private sector development Project Officers monitoring

activities like PEDS. This close contact will be necessary to ensure that buy-in procedures and contracting deadlines are met and that the various analytical and assessment teams are scheduled properly and mobilized on time.

5.1.2 Role and Responsibilities of GOZ

The Ministry of Finance, Economic Planning and Development will serve as the authorized signatory for the Project Grant Agreement on behalf of the Government of Zimbabwe (Grantee). An official within the MFEPD, or a designee(s) of the MFEPD, will act as authorized signatory and Liaison Officer of the Grantee for all GOZ actions and official correspondence related to project implementation. The GOZ will furnish a statement of the person or persons holding or acting in the office of the grantee specified for this function.

Technical oversight of the project, including responsibility for review of this Project Paper, is the responsibility of the Ministry of Industry and Commerce (MIC); specifically, the office of the Under Secretary (Planning and Policy). MIC will be involved in the development of annual implementation plans prepared by USAID Project Officer, with assistance from project contractors and grantees.

The GOZ will be consulted in most aspects of project implementation, and provided with semi-annual Project Implementation Reports. Specific actions that need to be taken by the GOZ for the implementation of specific components are addressed in the following section.

5.1.3 Roles and Responsibilities of Implementing and Cooperating Institutions

The pilot, phased nature of the ZBD Project notwithstanding, we have a fairly defined picture of the roles and responsibilities of the implementing or cooperating institutions, even where we may not have actually selected a given institution as a partner. A more detailed and refined definition of the roles and responsibilities of these institutions, and their selection, are part of the first phases of the various ZBD components. The following description of roles and responsibilities, therefore, is preliminary, and will be refined in the course of project implementation.

One of the first steps of project implementation will be an examination of the consolidation of the Private Sector Advisory Board for USAID/Zimbabwe. The purpose of the consolidation of the Private Sector Advisory Board will serve to maximize input from the members, while minimizing the burden on participants. At present, various divisions and projects within USAID/Zimbabwe use various uncoordinated committees and boards (IESC, ZIMMAN/training, e.g.). If created, the Private Sector Advisory Board (PSAB) as a whole will give insight into general private sector developments in the economy, and advise on general aspects of USAID/Zimbabwe private sector project and program

development. More detailed insight and advice will come from various PSAB subcommittees. Some of these PSAB subcommittees are already formed, some would need to be created (EPZ, Business Linkage).

A detailed description of roles and responsibilities follows, on a component by component basis.

A. Export Processing Zone

Phase I of the EPZ component is an economic and social feasibility assessment of EPZs in the Zimbabwean context. The study is being undertaken at the request of, and on behalf of the Economic Policy Unit of MFEPD. The MFEPD has been given the mandate by the GOZ to undertake the necessary analyses to determine whether an EPZ regime is advantageous in the Zimbabwean context. The consultants performing the task, of course, will work closely with the private sector as well in preparing their analysis.

Before Phase II, Legislative Development, commences, an official private/public EPZ Working Group will have been convened. This EPZ working group will serve as the chief advocate and promoter of the EPZ concept in Zimbabwe. The Working Group will have been officially charged by the GOZ as responsible for preparing legislative and regulatory draft proposals for consideration by Parliament, and for gazetting, respectively. The formation of the EPZ Working Group is a condition precedent for USAID/Zimbabwe funding of Phase II.

For the EPZ concept to become a reality, the Parliament of Zimbabwe must pass the draft EPZ legislation (that will have been developed by the specialist consultants, and refined by the EPZ Working Group). The Parliament, of course, will consider and decide upon such legislation in its own time. The procedure is as follows.

The concept for proposed legislation is first discussed in Cabinet. If Cabinet considers the proposal to have merit, then it is assigned to the Legislative Drafting subcommittee. This subcommittee prepares a draft, and submits it for review to the Ministry of Justice (MOJ). The MOJ checks the proposed legislation to ensure that it does not conflict with other law, and that it has been drafted in the appropriate format. The Ministry responsible for the legislation, in this case the MFEPD, then makes final modifications and submits it for consideration to Parliament. Assuming Parliament is in session, and the legislation has the strong support of senior politicians, then the process of adoption can take as little as one month. If the legislation must be redrafted, and resubmitted, and if one has to wait for another session of Parliament, then the process could take up to nine months.

It should be noted that the President has the authority to promulgate law by Presidential decree, without requiring Parliamentary vote.

The enabling regulations (again, drafted by the specialist consultants and refined by the EPZ Working Group) must be gazetted by the GOZ.

Implementing regulations may be issued by the line ministry without further reference to Cabinet, or Parliamentary approval, providing the enabling legislation has been passed and gazetted. Thus, all that is required is consensus within the line ministry, in this instance the MFEPD. This process can take from two to six months, if the implementing regulations are not controversial.

The Export Processing Zone Authority (EPZA), to be established by the enabling regulations, will act as administrator and regulator for the EPZ regime. The actual form that the EPZA takes is dependent on the outcome of the analysis undertaken in earlier stages, tempered by the political and administrative reality in Zimbabwe. The EPZA could be an entirely public sector entity (as in Taiwan) or, preferably, it could be an autonomous public/private authority (as in the newer EPZ regimes in Cameroon and Togo). This activity is not included under the ZBD Project.

The EPZ Promotional Authority (not project funded) will be responsible for promotion of the EPZ regime to foreign investors. This promotional body could be an extension of the promotional functions that are slated for Zimtrade or the Zimbabwe Investment Centre; or, preferably, EPZ promotion would be undertaken by a private sector nonprofit body such as in Costa Rica or the Dominican Republic regimes.

B. Business Linkage

Phase I of Business Linkage is an assessment of the potential for promoting subcontracting and spinoffs in the Zimbabwean context, especially in the context of the SAP reforms. Special consultants will undertake the assessment, but they will receive logistical and some analytical support from CZI.

Phase II of Business Linkage will facilitate business linkages between a pilot group of large and small businesses. The action plan generated in Phase I will make detailed recommendations about how this will be structured. We anticipate that implementation will be undertaken by a business association, funded by a grant from ZBDP, that will run the program with a knowledgeable local hire, and be able to call in specialized technical assistance when necessary. Of course, one of the more important criteria for selection of the grantee business association will be its interest in undertaking this pilot operation, and expanding it if successful.

C. Volunteer Business Advisory Services (VBAS)

Under the VBAS component, IESC Zimbabwe will continue its program of recruiting and fielding retired American executives to provide managerial and technical assistance to Zimbabwean firms. IESC Zimbabwe will also be asked to examine the feasibility and, if judged by IESC Zimbabwe to be politically acceptable, undertake the same kind of recruiting and fielding of South African retired executives.

Because the nature of the ZESC component has not been finalized, it is not possible to identify an implementing agent. At least four options will be considered by the feasibility assessment team: one, to implement through expanding the IESC country office; two, to create a new non-profit organization; three, to work through SEDCO and leverage the CIDA funding; four, to set up a fund to defray the costs of using commercial services.

D. SME Analytical Work

The baseline survey results seminar will be undertaken by the GEMINI project contractor. Longitudinal tracking, subsector analysis, and other SME analytical work will be undertaken through an AID/W buy-in contract with a U.S. organization, but will be shaped and guided by institutions who have expressed a strong interest in the results. These institutions include the MFEPD, NPA, MIC, World Bank, IBDC, CZI and ZNCC. Research results will be disseminated freely to all of these interested parties, including copies of the raw data on computer diskettes.

E. Productive Sector Description

The analytical work of the Productive Sector Description will be undertaken by outside consultants, but the results will be also shaped and guided by institutions that have a strong interest in the outcome. These institutions include MIC, CZI, IBDC and ZNCC.

As with the SME analytical work component, research results will be disseminated freely of these interested parties, including copies of the raw data on computer diskettes.

F. Implementation Support Research (ISR)

The Implementation Support Research component will be contracted out to a local consulting firm or consortium of local firms that can access and provide the required expertise to carry out the range of ISR activities. The ISR consultant will also provide financial assessments of potential project funded grantees.

5.2 Methods of Implementation and Financing

This project will be implemented using the standard operating procedures which have been established between the Government of Zimbabwe and USAID for bilateral grant agreements. Specifically, the project will be obligated by a grant agreement signed between the Government of Zimbabwe and USAID. The grant will authorize USAID to negotiate and sign a specific support grant agreement with IESC who will administer a volunteer business advisory service for local businesses; buy-ins to several AID/W projects or contracts for

technical assistance, research, surveys, etc.; a contract(s) negotiated with a local consulting firm(s) to provide short-term technical assistance; grants or cooperative agreements with several local associations or institutions to provide private sector project implementation capability; and a personal services contract Project Manager to assist the Mission with project implementation monitoring. Methods of Implementation and Financing are summarized in Table D below.

TABLE D
METHODS OF FINANCING AND IMPLEMENTATION
ZIMBABWE BUSINESS DEVELOPMENT PROJECT

| <u>ELEMENT</u> | <u>METHOD OF IMPLEMENTATION</u> | <u>METHOD OF FINANCING</u> | <u>TOTAL</u> |
|------------------------------|--|--------------------------------------|--------------|
| PILOT OPERATIONAL COMPONENTS | | | |
| Export Processing Zone | Direct contract Invitational trvl | Direct reim- bursement | \$1,110,715 |
| Business Linkage | Direct contract Grant | Direct reim- bursement | 552,800 |
| Voluntary Business | Grant | Direct reim- bursement advance | 1,934,753 |
| ANALYTICAL COMPONENTS | | | |
| Productive Sector | Direct contract | Direct payment | 300,000 |
| SME Survey | Direct Contract | Direct payment | 250,000 |
| Implementation Support | Direct contract | Direct payment | 339,600 |
| Quick Response Fund | Direct contract Purchase order Invitational trvl. Grant | Direct payment/ advance | 163,873 |
| PROJECT MANAGEMENT | Personal Services Contract | Direct Payment | 151,250 |
| MONITORING & EVALUATION | Direct contract | Direct payment | 198,100 |
| AUDIT | Direct contract | Direct payment | 56,600 |

The grant will contain in Annex 1 a detailed project description which will provide a project narrative, and an overall project budget.

Annex 1 will describe the responsibilities of all parties under the grant and will be supplemented by a project implementation letter which will amplify specifically how the project will be administered and implemented.

USAID/Zimbabwe, using the approved workplan as amended by quarterly reviews, will have complete authority and responsibility for implementing the project. Day-to-day operational decisions and implementation will be administered by USAID Project Manager without further review by the other parties to this project outside of the Mission.

USAID/Zimbabwe will have responsibility for project management and financial accountability. The project will be administered by the PSC Project Manager under the direction of the Chief of the Project Development and Implementation Support Office, with technical assistance provided by the Mission's contract Trade and Investment Advisor.

Payments to grantees, contractors, or consultants under this project will be made by direct payment or reimbursement which are A.I.D.-approved methods of financing. To the extent required, periodic advances will be provided to non-profit making grantees or contractors in order to facilitate implementation of project activities. Advances will be limited to the amount required for immediate disbursing needs in accordance with U.S. Treasury cash management guidelines.

USAID/Zimbabwe and the RPOT/Tokyo will be responsible for procurement of the vehicle under the project. Other minimal project support commodities are anticipated to be procured by contractors or grantees. Procurement of the technical services required under this project will be done primarily through AID/W buy-in contracts, IQCs, grants or cooperative agreements, and a technical assistance contract with a local firm. The USAID/Zimbabwe Project Officer and PSC Project Manager will be responsible for preparing the necessary A.I.D. documentation, i.e., PIO to instruct the contracting/grants officer accordingly. Upon completion of the applicable document, it will be forwarded to the cognizant contracting agent for action. The USAID/Zimbabwe Project Officer will be required to draft the scopes of work for all technical services needed to implement the project.

It is anticipated that most activities or elements under the project will be implemented through existing AID/W buy-in contracts or IQCs. These contracts provide for work orders to be issued as required for services up to a maximum ceiling. The Mission does not anticipate requesting services under any of the contracts which would cause this ceiling to be exceeded.

As this is a bilateral project, the Government of Zimbabwe is responsible for assuring USAID that at least 25 percent of the total project costs will be provided by the host country. The host country contribution under this project will be provided by the private sector, primarily through the VBAS component, and the GOZ, primarily through in-kind contributions to both operational testing and analytical components. As a condition of the grant

to IESC, each private sector firm that receives services under the IESC grant, on average, must provide for nearly half of the costs of each volunteer; these are payable in local currency. Emergent businesses will be required to pay on a sliding scale basis, in relation to their ability to pay.

Non-Federal audits (NFAs) will be provided under the regional indefinite quantity contracts managed by RIG/Nairobi or under a direct contract awarded by REDSO/ESA. Evaluation(s) will be handled under either the AID/W or REDSO/ESA indefinite quantity contracts for evaluation at the end of the project. Funds have been provided under the audit element for annual accounting assistance/reviews of IESC to ensure an adequate accounting system exists to track all contributions and uses of project funds.

5.3 Procurement Plan

Procurements under this pilot project will focus primarily on the provision of a wide variety of short- to mid-term technical assistance required to: implement project operational testing interventions, and conduct the analytical studies. These activities are summarized in Section 4.2 above and are described further in Annex 4, Detailed Project Description. Due to the diverse nature of the pilot project interventions included under this project, technical assistance is envisaged to be sourced from the United States, Zimbabwe and the region. In accordance with DFA guidance, U.S. procurements will be utilized to the greatest practicable extent in achieving project objectives. The project will also finance a local PSC Project Manager who will monitor and coordinate project activities under the supervision of the Chief of USAID/Zimbabwe Project Development and Implementation Support Office. It is envisaged that a small amount of office equipment and a vehicle may be required to support several of the long-term technical assistance activities. The exact nature of the required commodities will be related to the level of administrative and logistical support to be provided by various organizations housing the technical assistance teams. These organizations, and their administrative support commodity requirements, will be determined by the results of project funded institutional analyses. A modest budget designated for commodity procurement (i.e., a car and office equipment envisaged for a grantee) on an as needed basis is included under the Business Linkage Component in Annex 3.E, Financial Analysis.

5.3.1 Procurement Entity

A.I.D. direct contracting will be utilized to implement all non-grantee procurement. The rationale is that the vast majority of the procurements will be for technical assistance to provide a large number of diverse and sequential surveys/analyses/studies. Therefore, A.I.D. direct contracting will provide optimum management control over the process. Also, this is a pilot project to test the effectiveness of various project interventions in stimulating investment in Zimbabwe, not an operational project that would

normally fall clearly under the line management control of a particular ministry. The small amount of possible required commodities will best be procured by A.I.D. direct contractors or grantees since the equipment will not revert to a GOZ agency after the completion of the project.

The Office of Procurement in AID/W will be the primary procurement agent for required technical assistance through the issuance of delivery orders against AID/W buy-ins (and possibly IQCs) with U.S.-based firms experienced in the specialized area of business development and investment promotion. The buy-in mechanism will be utilized to the maximum practicable extent to conduct the required studies and to develop the required drafts of policy and regulatory documentation under the EPZ component and the Phase II assessment and the facilitation work under Business Linkage. It is anticipated that a buy-in under a single project in the APRE Bureau (possibly PEDS) will be utilized to carry out as many activities as possible, therefore holding to a minimum the contracting and contract administration actions necessary to achieve project objectives. In the event that an AID/W buy-in is not the best mechanism to provide required services, the REDSO/ESA Private Sector Services IQC will be utilized. It is envisaged that the REDSO IQC will also be utilized to carry out the Phase I assessment work under ZESC.

An AID/W buy-in with a U.S. firm (most likely under the GEMINI Project) will also be utilized to carry out the required SME surveys and analyses. Where applicable, grants will be utilized with U.S. or local NGOs experienced in the transfer of business related technology (i.e., IESC). In accordance with DFA guidance, grants or cooperative agreements with U.S. organizations will be utilized to the greatest practicable extent. Local or regional NGOs would be utilized if the Mission determines they are the best source of providing the required expertise on the local business environment. It is anticipated that a technical assistance contract will be competitively negotiated with a local or regional firm to provide a variety of short-term consultancies and financial assessments of project-funded local grantees under the Implementation Support Research component. Either the RCO, REDSO/ESA or USAID/Zimbabwe Executive Officer, with the assistance of RCO, will act as the contracting and/or grants officer for all procurement actions not implemented by the Office of Procurement in AID/W.

Each project component, classified as either Operational Testing or Analytical activities, is thoroughly discussed in Annex 4, Detailed Project Description. Timing, duration and implementation responsibilities for activities are laid out in Section 5.6, Implementation Schedule.

5.3.2 Pilot Operational Testing components:

A. Development of Competitive Export Processing Zone

The project will use a buy-in like the Private Enterprise Development Support (PEDS) Project in the APRE Bureau in order to utilize their proven expertise in the field, minimize the contracting burden to implement this relatively small pilot project component and to take advantage of the flexibility of the

buy-in process to meet project contracting requirements. The buy-in contractor will implement a three phase program consisting of: Phase I - a feasibility analysis of an EPZ regime; Phase II - the development of EPZ legislation; and Phase III - the development of regulations, policies and procedures necessary for a competitive EPZ regime.

The buy-in mechanism is particularly appropriate because U.S. firms available through existing AID/W projects have substantial expertise in the field. The buy-in also provides a mechanism to hire a highly qualified contractor which otherwise might not be accessed through the normal competitive process due to the small value nature of the contract. Finally, the buy-in avoids the complex, time consuming and expensive competitive procurement process required under HB 14 for A.I.D. direct technical assistance contracts. The speed of the buy-in will be essential to implement the EPZ intervention at a pace necessary to provide desired policy reform results, in light of the anticipated schedule of the Structural Adjustment Program in Zimbabwe. The time required to advertise and competitively award the required T.A. contract would cause such a delay in project implementation that the intervention could lose much of its potential impact.

A long-term U.S. advisor has been fully budgeted during year 3 of the project. The advisor will be hired under a buy-in or technical assistance contract. An institutional contract will be required as the contractor will need home office backstopping support for research and other analytical activities to carry out state of the art field work.

B. Business Linkage

The Mission will also utilize a buy-in under an AID/W project (most likely the same as EPZ) to field a consultant team to carry out the first, and part of the second, phase of the Business Linkage intervention comprised of: I - Diagnostic Assessment, and II - Needs Assessment of Targeted Large and Small Firms and technical assistance for operational testing facilitation. The reasons for utilizing the buy-in mechanism are the same as those for the EPZ component.

To implement the major Phase II activity, Operational Testing of Business Linkages, it is envisaged that a grant or cooperative agreement would be signed with a local institution such as CZI. Local business associations and institutions have the best contacts with the business community and have the ability to successfully carry out the the required business linkage operational testing (a detailed institutional analysis will be carried out under Phase I of Business Linkages to enhance the Mission's current knowledge of the capabilities of potential implementation organizations). The grant or cooperative agreement will fund the costs of a long-term (approximately 1 year) local-hire advisor to manage the activity, several short-term specialists to be provided by an organization like IESC, limited office equipment, and a vehicle. The technical assistance will be hired and the office equipment will be procured by the grantee utilizing HB 13 procedures. Part of the Phase I assessment is to analyze local NGOs for capabilities to undertake Phase II activities. Equipment will revert to that organization

after the completion of the project. For reasons of adequate local service back-up and availability of spares, it is envisaged that office equipment and the vehicle will be purchased from the normal A.I.D. Geographic Code 935 sources.

C. Volunteer Business Advisory Services

(1) Zimbabwe Executive Service Corps (ZESC)

This component, which will investigate alternatives to establish ZESC, is comprised of two phases: I - Needs Assessment, and II - Operational Testing of ZESC. Phase I will be contracted through the buy-in to the AID/W project in the APRE Bureau or a REDSO/ESA IQC. The contractor will conduct the needs assessment comprised of: a. demand analysis, b. supply analysis, c. analysis of implementation options, and d. action plan recommendations.

As is the case with all the buy-in or IQC options, the PIO/T requesting the delivery order will be prepared by the Project Officer, with technical support provided by the Trade and Investment Advisor of USAID/Zimbabwe. If the Phase I Action Plan is determined by the Mission to be a viable mechanism to achieve project objectives and sufficient funding is available, the implementation of Phase II will be approved by the Mission and will proceed according to the Action Plan.

Phase II, Operational Testing of ZESC, will be implemented through a grant or cooperative agreement with a local organization such as CZI, or IESC if appropriate. A thorough analysis of the capabilities of potential organizations will be provided under Phase I. Phase I investigative work will develop sufficient contacts with and information about such organizations to allow USAID/Zimbabwe to review proposals and, with the assistance of REDSO/ESA/RCO as Grants Officer, award a project-funded grant or cooperative agreement.

(2) International Executive Service Corps (IESC)

Based on considerable experience with IESC, a Grant will be signed to continue their work with medium- to large-size private sector firms. The results of an A.I.D. evaluation and audit of a past A.I.D.-financed similar activity have been communicated to IESC so the proposed funding agreement will include this guidance. REDSO/ESA/RCO will be the Grants Officer. A justification for the non-competitive award of a grant to IESC is included as Annex 2.D.

5.3.3 Analytical Studies

A. Small and Micro-Enterprise Analysis

Phase I of this project component, a workshop to disseminate survey results, will likely be implemented through AID/W buy-in contract DHR-5448-Q-00-9081-00 under the GEMINI Project. If so, PIO/T will be issued by USAID/Zimbabwe to

the Office of Procurement in AID/W for issuance of a delivery order to instruct the contractor to conduct the workshop.

B. Description of the Productive Sector

This component, comprised of two phases, will be implemented under the buy-in to an AID/W project (i.e., PEDS) used for other ZBD Project interventions and/or the REDSO/ESA Private Sector Services IQC. The buy-in or IQC contractor will have the required expertise to complete both Phase I - Description of the Productive Sector, and II - Productive Sector Survey and Focus Group Work. As in other phased project interventions, project funding of Phase II is contingent on a USAID/Zimbabwe evaluation of Phase I that indicates a go-ahead.

C. Implementation Support Research

This component, comprised of a number of short term-consultancies, will be implemented under a technical assistance contract with a local firm that has extensive experience with and a sound knowledge of the Zimbabwean private sector. The contractor will carry out various studies on topics of interest and utility to the Mission, GOZ, private sector and other donors, and will conduct financial assessments of potential project-funded local grantees. A PIO/T will be issued to REDSO/ESA/RCO who will assist the Mission with the HB 14 competitive procurement process - from the advertising to the award of the contract. The evaluation criteria will give consideration to locally-based firms because experience working in Zimbabwe is an essential requirement to the achievement of project objectives.

5.3.4 USAID Project Management

A Project Manager will be hired to assist USAID/Zimbabwe with project implementation. The contractor will be a local citizen or permanent resident since an intimate knowledge of the Zimbabwean private sector and business climate will be essential to successfully perform required tasks. The contractor will be hired as soon as possible after project authorization and will coordinate and monitor all project activities under the supervision of the A.I.D. direct-hire Project Officer for ZBD throughout the duration of the project. A scope of work is included as Annex 2.C.

5.3.5. Evaluation/Audit

Project evaluation will be comprised of implementation monitoring and a formal, final evaluation. Several project monitoring activities will be carried out during project implementation. Right after project authorization, the Mission will develop a project management outline to act as a road map for project monitoring. It is envisaged that this activity will be carried out in-house by the PDIS office. If minor assistance is required, the Executive Officer of the Mission would be requested to issue small purchase order,

funded out of the evaluation budget, to a local contractor. A second monitoring tool will be a data base, established to organize and store project baseline and performance information, as well as information provided by the analytical studies. A purchase order, issued by the Executive Officer and funded from the project evaluation budget, will be used to develop and debug the data base.

A formal, final project evaluation will be conducted at the end of year 2.5 of project implementation. It is envisaged that an AID/W or REDSO/ESA IQC will be utilized to complete the work. The PIO/T will be prepared by the Project Manager with assistance by the Project Officer.

A final Non-Federal audit (NFA) will be conducted shortly after the PACD. It is envisaged that the NFA will be procured under an IQC or PSC mechanism, with the PIO/T prepared by the Project Officer and Controller.

5.3.6 DFA Determination

This project will be financed by resources provided under the Development Fund for Africa (DFA). Per congressional guidelines set forth in the legislation authorizing the DFA, all reasonable efforts will be made to maximize U.S. source and origin goods to the greatest extent practicable. This procurement plan, which involves only minimal commodity procurements, was reviewed and approved by the Regional Commodity Management Officer and the Regional Contracting Officer, REDSO/ESA. Due to local right-hand-drive requirements, if a vehicle is financed under the project, Code 935 will be utilized by the Mission for procurement through RPOT/Tokyo on behalf of the grantee (or possibly the contractor) that will be the recipient. It is envisaged that minor procurement of office equipment will be made by a grantee(s) or local contractor yet to be determined. The exact nature of the office equipment to be financed under this project cannot be determined until institutional assessments have been completed under the project that will indicate the capabilities and resources of potential local project implementing institutions. However, USAID/Zimbabwe will require that all commodity procurements be approved prior to project financing. To the extent that U.S. office equipment can be adequately serviced in country, the Mission will require U.S. source/origin. Contractors and grantees will be required to include in their quarterly reports to the Project Officer the project-financed commodities purchased during the period, the A.I.D. Geographic Code and the amount. This will allow USAID/Zimbabwe to report required procurement information to AID/W on a yearly basis in compliance with DFA and Buy America guidance.

5.3.7 Gray Amendment

The procurement plan of this project has been developed with full consideration of maximally involving Gray Amendment organizations in the provision of goods and services. The project will be implemented using A.I.D. direct contracts, as well as grants. It is envisaged that A.I.D. direct

contracts with U.S. firms will be under AID/W buy-ins, therefore removing Gray Amendment contracting considerations from the Mission to AID/W where the contracts were let. All other contracts will either be with non-U.S. firms and/or will be well under the US\$500,000 threshold. Nonetheless, the Mission will give every consideration to contracting or subcontracting with Gray Amendment firms. A further discussion of Gray Amendment considerations and the Certification by the Director, USAID/Zimbabwe, is included as Annex 1.E.

5.4 Monitoring and Evaluation Plan

The purpose of the ZBD Project is to test the effectiveness of selected interventions in fostering private sector enterprise growth through facilitating local and foreign investment and expanded indigenous enterprise. The project's goal is to increase private sector-led economic growth that results in increased job creation, foreign exchange earnings and broadened indigenous participation in the economy. ZBD has been developed as a pilot, "learn-by-doing" set of operational test interventions to explore ways of achieving the project purpose and goal. The analytical components will provide the necessary analytical base for the project's operational test components, will complete our understanding of the productive sector of the Zimbabwean economy and will provide input into the Mission's Private Sector Development Strategy.

The ZBD monitoring and evaluation (M&E) system is designed to test the project's operating hypothesis: that ZBDP's operational test components -- Export Processing Zone, Business Linkage, and Volunteer Advisory Business Services -- are viable means to achieve the project purpose and contribute to the project goal. To test this hypothesis, the M&E system will provide a framework for responding to project management's information needs in a timely manner. A detailed set of questions has been developed for the project's empirical components (see Annex V) to guide management's decision-making during project implementation and to provide a basis for formulating recommendations regarding follow-on project activities.

The monitoring and evaluation functions are closely linked by the Decision Point Evaluations central to ZBDP's implementation strategy. Implementation of each project component is divided into distinct phases, with each phase being followed by a "go/no go" decision point. At these points, implementation progress will be assessed and a decision taken on whether to proceed or not with subsequent component activities. Criteria for the decision-point evaluations provide an analytical framework within which management can perform these evaluations. The project's monitoring system will provide the specific information required for the evaluations.

The following sections describe the monitoring and evaluation strategies in detail, and the number, purpose, and timing of decision-point and other evaluations.

5.4.1 Monitoring Plan

The monitoring system is a fully integrated component of the project. Specifically, the system will:

- (i) provide administrative information to project management for
 - tracking ZBD Project input disbursement and use; and
 - monitoring the project implementation timetable;
- (ii) provide project management with feedback relative to ZBDP's development goal and purpose, assisting management to monitor
 - the substantive (development-oriented) results of project activities;
 - key indicators of the project goal and purpose;
 - changes in important assumptions which may affect achievement of the project purpose;
 - key elements of the project's exogenous environment (political, social, economic) to guide project implementation.

Information generated through the monitoring system will provide the basis for informal ongoing evaluation, for formal progress evaluations, and, ultimately, for long-term impact evaluations to be conducted well after project completion.

A. Administrative Monitoring

Tracking of ZBD Project inputs will be the responsibility of the Project Manager, under the supervision of the Project Officer. The Project Manager will monitor the delivery of inputs by ensuring that contracts/grants and disbursements have been accomplished in a timely manner, noting slippage from the project implementation schedule. Outputs consist primarily of assessments, workshops, tours, and drafts of legislation and regulations. The Project Manager will, in conjunction with the Project Officer who has ultimate responsibility, ensure that all the outputs are provided on schedule, that the required quality is provided and that resulting information is disseminated to Mission management for decision-making and to the local community, as appropriate. The Project Officer, with the assistance of the Project Manager, will ensure that all "go/no go" decisions are made promptly under the operational test components and that formal evaluations are carried out on schedule and in accordance with Mission approved scopes of work.

As stated above, responsibility for monitoring project implementation schedule will rest with the Project Officer and the Project Manager. Feeding into this process will be the ZBD detailed workplans specifying: (i) realistic implementation timetables; (ii) USAID/Zimbabwe inputs -- and disbursement timing -- required to keep to the schedules; and (iii) assumptions concerning local conditions which, if proved false, could require revisions to the timetables.

Quarterly reports will compare actual implementation progress with the detailed workplans developed at project initiation. Any discrepancies (delays or accelerations) should be explained and implications for project implementation considered. Where required, recommended mitigative actions should be included in the reports. Changes in assumptions about the project's operating environment should be discussed in detail as well as recommended actions which could be taken to increase the probability of the assumption's occurring (see "tracking important assumptions" below).

(1) Project Goal- and Purpose-Level Monitoring

At the core of ZBDP's monitoring system is a mechanism for providing project management with analytical feedback relative to the project's development goal and purpose. The system will track the status of key goal, purpose, and output indicators (as defined in Annex 4), including progress towards the end-of-project-status (EOPS) indicators outlined in Annex 2.A, Logical Framework. Two key monitoring tools will be used for these purposes.

Project Management Information Outline. The first project monitoring tool is a detailed outline of management's information needs relative to the project's development objectives (see Annex 5, Detailed Monitoring and Evaluation Plan). The outline defines management's questions and the mechanisms for generating the requisite information; the outline format for each project component is as follows:

- key information users;
- management's key questions at the project goal, purpose and output levels to be addressed through component activities;
- indicators to answer the management questions;
- objectives and expected outputs for each component activity;
- detailed decision-point evaluation criteria;
- where necessary, suggested data collection methodology and data sources.

Firm-level Database. The second project monitoring tool is a firm-level database, to be created during project implementation, which will help establish a project baseline for goal, purpose, and output indicators defined at the firm level. The database will facilitate micro-analyses which will, in turn, contribute to the macro-analyses necessary to determine purpose-level and long-term goal-level project impacts.

The firm has been selected as the unit of analysis for several reasons. First, Business Linkage, VBAS, SME Survey, and the Productive Sector Description all have the firm as the target for intervention and are expected to generate quantitative, firm-level data. Second, many indicators at the project purpose level relate to the firm. Finally, data collection costs related to smaller units of analysis, such as the household or individual, are beyond the scope of the project to absorb.

The computerized firm-level database will contain descriptive information of firms surveyed under the project and/or firms participating in project-sponsored activities. The database structure will be the model for

firm-level data collection within the project, for monitoring change over time within the firms, and for tracking firm-level project impacts. As the project progresses, the database will be updated and changes over time of data related to key indicators will be recorded.

While details of the content and structure of the database will be developed during project implementation, variables for each firm will likely include: name; location; size; initiation and/or formal incorporation dates; primary and secondary business activity; sex/race of proprietor; number/sex of employees at start/currently/maximum number/minimum number; forward/backward linkages (nature/source of inputs, location/type of product outlets).

Short-term technical assistance will be commissioned to develop guidelines for the database content, format, and structure. The contractor will ensure that: (i) the database is MS-DOS compatible and utilizes one of the standard relational database/statistical software packages (e.g., Paradox, dBase IV, SPSS/PC); (ii) the format and content of the database is consistent with the information needs of each project component; and (iii) the requisite hardware and software to conduct analyses with the database are in place locally.

To monitor the substantive (development-oriented) results of project activities, management will need answers to key questions. For the operational testing components, the goal-, purpose-, and output-level questions are as follows:

(a) Development of a Competitive EPZ Regime:

Goal-level Management Question: To what extent can a competitive EPZ regime in Zimbabwe contribute to increased economic growth of the type which will:

- create jobs;
- increase foreign exchange earnings; and
- broaden participation of indigenous entrepreneurs in the economy (either as EPZ firms or as suppliers/subcontractors to EPZ firms)?

Purpose-level Management Question: To what extent can a competitive EPZ regime in Zimbabwe improve the enabling environment for private sector investment in Zimbabwe?

Output-level Management Questions:

Phase I -- Is there a need for and demand for EPZs in Zimbabwe? Would EPZs in Zimbabwe be internationally competitive? What actions would be required to develop a competitive EPZ regime? What would be the composition, mandate, and authorities of an EPZ Working Group? By Decision Point 1, is the Working Group operational?

Phase II -- Once the need for and competitiveness of an EPZ regime in Zimbabwe has been established, what form will competitive EPZ enabling legislation take? What will be the framework for EPZ regulatory policies and

administrative/institutional principles? By Decision Point 2, has competitive EPZ legislation been enacted (or will be enacted within an acceptable timeframe) by Parliament?

Phase III -- Once the EPZ legislation and a preliminary policy framework are developed, what will be the detailed regulations and operating procedures for implementing a competitive EPZ regime? What form will the implementing regulatory and promotional institutions take? By decision point 3, has GOZ adopted a competitive set of EPZ regulations and procedures?

(b) Business Linkage:

Goal-level Management Question: To what extent can business linkages -- sub-contracting and spin-off arrangements -- between large and small businesses in Zimbabwe:

- broaden control of productive assets by increasing the strength of indigenous Black-owned businesses;
- create jobs as smaller firms are formed or grow in size;
- save jobs through spin-off arrangements;
- increase foreign exchange earnings by enhancing firm export competitiveness; and
- save foreign exchange through efficient, market-driven import substitution?

Purpose-level Management Question: To what extent are business linkages -- sub-contracting and spin-off arrangements -- between large and small businesses in Zimbabwe's industrial sector a viable means to increase private sector investment and employment by enhancing the competitiveness of both business linkage partners?

Output-level Management Question: If business linkages can increase private sector investment in the current environment, what form should a program of operational support take which would facilitate the establishment of productive business linkage arrangements in Zimbabwe's industrial sector? What project inputs would be required?

(c) Volunteer Business Advisory Service:

(1) Zimbabwe Executive Service Corps:

Goal-level Management Question: To what extent can a Zimbabwe Executive Service Corps contribute to:

- broadened control of productive assets by increasing the strength of indigenous Black-owned businesses;
- create jobs as smaller firms grow in size?

Purpose-level Management Question: To what extent would activities of the ZESC contribute to increased investment by enhancing the competitiveness of small Black-owned businesses?

Output-level Management Questions: If the activities of the ZESC would contribute to increased investment in the current environment, what form should a program of operational support take which would facilitate the implementation of a pilot ZESC program? What project inputs would be required?

(2) International Executive Service Corps (IESC):

Goal-level Management Question: To what extent do IESC basic services -- Volunteer Executive, ABLE, and JVS projects -- contribute to:

- job creation resulting from improved efficiency and increased profitability of participating firms,
- increased foreign exchange earnings by expanding capability to export and by enhancing firm competitiveness?

Purpose-level Management Question: To what extent do IESC basic services contribute to increased private sector investment by developing the competitive advantage of competing firms?

Output-level Management Question: Which IESC program innovations enhance the contribution of Volunteer Executive, ABLE and JVS projects to the project purpose and goal?

The monitoring system will also track changes in important assumptions which may affect achievement of the project purpose. Based on passed experience and familiarity with local developments, it is expected that the assumptions specified in the project's logical framework have a strong probability of occurring. Nevertheless, should any of the assumptions prove false, project management would need to adjust the project implementation strategy accordingly. The monitoring system will rely on two information sources to keep management fully abreast of the status of project assumptions. First, contractors' and grantees' quarterly reports will contain assessments of observed discrepancies between the assumptions and current reality. Second, ZBDP's Implementation Support Research component includes several studies designed to identify important nuances about the assumptions. With the information from contractors' reports and the special studies, management will be in a position to redirect project implementation accordingly. If additional information is required before action decisions can be taken, this will be obtained through further work under Implementation Support Research.

5.4.2 Evaluation Plan

Using the information collected through the project monitoring system, the evaluation system will:

- evaluate the output of each activity, as it is completed, to assess its achievement of component objectives (as defined in Annex 5);
- evaluate the collective outputs of the empirical components to accept or reject the project's operating hypothesis -- that ZBDP's empirical components (Export Processing Zone, Business Linkage, and ZESC) are viable means to achieve the project purpose and contribute to the project goal;
- evaluate the effect of changes in project assumptions on achieving project outputs and purpose.

Evaluations will be of two types: component-level and project-level. The elements of each are discussed in the following sections.

A. Component-Level Evaluation

ZBD is a test of several means to achieve the project purpose and contribute to the project goal. As such, the desirability and feasibility of proceeding with the tests must be periodically assessed during project implementation. The evaluation mechanism at the component level is designed to help management assess the pros and cons of proceeding with the next steps in the components.

Two types of evaluations will be conducted at the project component level.

Decision-Point Evaluations: Incorporated into the implementation strategy of each component are "go/no go" decision points where progress is assessed and a decision taken on whether to proceed or not with subsequent component activities. Criteria for the decision-point evaluations provide an analytical framework within which management can make these decisions.

Project Data Reviews: Prior to each decision-point evaluation, a preliminary review will be conducted to ensure that the data required to carry out the evaluations are available. This will involve a review of the decision-point criteria, and of the data being collected through the monitoring system. If data are deficient, provisions should be made to fill the gaps. The reviews should be ongoing, but should be finalized one month before the respective decision-point evaluation. The PSC Project Manager and the Project Officer will conduct the reviews and summarize the findings in memos to Mission management.

The ZBD Implementation Schedule (Section 5.6) specifies the timing of decision-point evaluations relative to component activities; the purpose of the evaluations is presented below.

(1) Development of a Competitive EPZ Regime

Two Decision-Point Evaluations will be conducted as part of EPZ implementation: one following Phase I -- Feasibility Analyses; and one following Phase II -- Developing EPZ Enabling Legislation/Consciousness Raising. Criteria to be met at Decision-Point One include: (i) an established need for and competitiveness of a Zimbabwe EPZ regime; and (ii) an operative EPZ working group. Among the Decision-Point Two criteria is a competitive EPZ

law enacted (or to be enacted within an acceptable timeframe) by Parliament. Detailed criteria are presented in Annex 5.

The Decision-Point One Evaluation will be conducted by the Project Officer, with input from the feasibility analysis contractor. Due to the technical nature of the Decision-Point Two Evaluation criteria, a third-party contractor will be engaged for that evaluation.

(2) Business Linkage

Decision-Point Evaluation: Following implementation of Phase I -- Diagnostic Assessment, a formal evaluation will be conducted to decide whether or not to proceed with Phase II -- Implementation. Criteria to be met include: (i) sufficient demand and potential for a business linkage program; (ii) binding constraints to business linkage which are within the scope of the project to address; and (iii) assumptions about the project operating environment still hold. Specific Decision-Point criteria are presented in Annex 5.

The Decision-Point Evaluation will be conducted by the Project Officer, with input from the contractor.

(3) Zimbabwe Executive Service Corps

Decision-Point Evaluation: A formal decision-point evaluation will follow completion of Phase I -- Needs Assessment. Criteria to be met include: (i) sufficient demand and potential for a ZESC program; (ii) a viable workplan for implementing the pilot program.

The Project Officer will conduct the evaluation, with input from the contractor.

(4) International Executive Service Corps

Quarterly reports of the grantee will be assessed by the Project Manager and Project Officer, with summaries passed to Mission management for informal and formal reviews such as semi-annual PIRS. Of special importance will be IESC progress in responding to recommendations of the April 1991 Deloitte and Touche financial assessment of IESC operations.

B. Project-level Evaluation

At Project Year 2.5 (six months before end-of-project), a formal evaluation of project activities to date will be conducted. The evaluation will: (i) compare expected with actual outputs and analyze any discrepancies; (ii) assess current status of end-of-project-status indicators and analyze any discrepancies; (iii) determine the current desirability and feasibility of the ZBD purpose and goal; (iv) determine whether the project's operational

hypothesis -- that ZBDP's operational test components are viable means to achieve the project purpose and contribute to the project goal -- is true or false; and (v) make recommendations to USAID/Zimbabwe concerning additional funding for project activities.

For the operational test components, much of the technical assessment required for the project evaluation will have been completed at the various component decision points. For the analytical components, a full technical assessment will be required. The component-specific issues to be addressed by the evaluation are discussed in the following paragraphs.

(1) EPZ:

Assuming EPZ activities were not eliminated at the two decision points earlier in the project, by Year 2.5 it is expected that the component will have completed its preparatory phases and be poised to embark upon pilot implementation of the EPZ regime. The 2.5-Year Project Evaluation will assess Phase III performance, and make recommendations to USAID/Zimbabwe concerning operational support for pilot implementation (not included under this project). Criteria for making these judgements include: (i) EPZ operating regulations adopted by GOZ which are consistent with the spirit of the EPZ law; and (ii) an established EPZ regulatory authority with the necessary GOZ mandate to proceed with pilot EPZ implementation. Detailed evaluation criteria are presented in Annex 5.

(2) Business Linkage and ZESC:

Assuming activities were not eliminated at decision points earlier in the project, by Year 2.5 it is expected that both the business linkage and ZESC pilot programs will have been in an operational testing phase for at least one year. The project evaluation will: (i) compare the Business Linkage and ZESC pilot programs' workplans with actual program achievements and analyze any discrepancies; (ii) assess the contributions of the respective pilot programs to achieving project purpose and goal; and (iii) make recommendations regarding the justification for continued operational support for the Business Linkage and ZESC programs under a follow-on project, including recommended adjustments to the current implementation strategies.

5.5 Audit Schedule

Non-Federal Audits (NFAs) will be provided under the regional indefinite quantity contracts managed by RIG/Nairobi or under a direct contract awarded by REDSO/ESA (see Section 5.6, Implementation Schedule for details on timing required administrative arrangements).

5.6 Implementation Schedule

The schedule of implementation actions has been divided into ten principal areas.

| <u>Proposed Dates</u> | <u>Activity</u> | <u>Responsible Organization</u> |
|------------------------------------|---|---------------------------------|
| <u>1. Initial/General</u> | | |
| 06/90 | Project Paper completed | USAID/Zimbabwe |
| 07/91 | Project authorized | USAID/Zimbabwe |
| 07/91 | Project Grant Agreement signed | USAID/Zimbabwe, GOZ |
| 07/91 | Initial Condition Precedent satisfied | USAID/Zimbabwe, GOZ |
| 05/92 | Condition Precedent for EPZ Phase II satisfied | USAID/Zimbabwe, GOZ |
| 01/93 | Condition Precedent for EPZ Phase III satisfied | USAID/Zimbabwe, GOZ |
| 07/94 | PACD (7/31/94) | |
| <u>2. USAID Project Management</u> | | |
| 06/91 | Advertisements placed | USAID/Zimbabwe |
| 09/91 | Evaluation of applications completed | USAID/Zimbabwe |
| 11/91 | Contract for PSC Project Manager completed | USAID/Z/EXO or REDSO/ESA/RCO |
| 01/92 | Project Manager on board at USAID | USAID/Z/PDIS |

| <u>Proposed Dates</u> | <u>Activity</u> | <u>Responsible Organization</u> |
|---|--|--|
| 3. <u>Export Processing Zone</u> | | |
| a. <u>Phase I</u> | | |
| 09/91 | PIO/T(s) for all activities completed | USAID/Z/PDIS |
| 11/91 | Buy-in/IQC delivery orders completed | AID/W/MS/OP or REDSO/RCO |
| 11/91-2/92 | Feasibility study carried out | Contractor |
| 04/92 | USAID reviews feasibility study with GOZ | USAID/Z, GOZ |
| 05/92 | Workshop conducted | Contractor, GOZ Private Sector USAID/Z |
| 05-06/92 | Decision Point 1 | USAID/Z, GOZ |
| b. <u>Phase II</u> | | |
| 06/92 | PIO/T(s) for all activities completed | USAID/Z/PDIS |
| 08/92 | Buy-in/IQC delivery orders completed | AID/W/MS/OP or REDSO/RCO |
| 09-12/92 | Drafting of legislation completed | Contractor, GOZ EPZ Working Group |
| 09-12/92 | Consciousness raising carried out | Contractor, EPZ Working Group |
| 01-03/93 | Decision Point 2 | USAID/Z, GOZ, EPZ Working Group |
| c. <u>Phase III</u> | | |
| 01-03/93 | PIO/T(s) for short- and long-term TA under buy-in and/or IQC completed | USAID/Z/PDIS |
| 04-06/93 | Delivery orders for short- and long-term TA completed | AID/W/MS/OP or REDSO/RCO |
| 07/93-07/94 | Drafting of legislation completed | Contractor, GOZ EPZ Working Group |
| 08-93-07/94 | Long-term TA performs in-country | Contractor |

| <u>Proposed Dates</u> | <u>Activity</u> | <u>Responsible Organization</u> |
|---|---|-------------------------------------|
| 4. <u>Business Linkage</u> | | |
| a. <u>Phase I</u> | | |
| 09/91 | PIO/T(s) for technical assistance under buy-in and/or IQC completed | USAID/Z/PDIS |
| 11/91 | Delivery orders for technical assistance completed | AID/W/MS/OP or REDSO/RCO |
| 11/91-3/92 | Diagnostic assessment completed | Contractor |
| 04/92 | Decision point | USAID/Z |
| b. <u>Phase II</u> | | |
| 07/92 | Grant completed with local private sector business organization | USAID/Z, NGO |
| 09/92 | PIO/T for needs assessment and facilitation under buy-in or IQC completed | USAID/Z/PDIS |
| 11/92 | Delivery orders for technical assistance completed | AID/W/MS/OP or REDSO/RCO |
| 5. <u>Volunteer Business Advisory Services</u> | | |
| 07/91 | Negotiate IESC grant | USAID/Z, IESC |
| 08/91-7/94 | IESC performs under grant, under A.I.D. purview | IESC, USAID/Z |
| 02/92 | PIO/T for ZESC assessment under buy-in or IQC completed | USAID/Z/PDIS |
| 04/92 | Delivery order for technical assistance completed | AID/W/MS/OP or REDSO/RCO |
| 05-07/92 | ZESC assessment carried out | Contractor |
| 07/92 | Decision point | USAID/Z |
| 08-10/92 | Negotiate ZESC grant agreement | USAID/Z, NGO |
| 11/92-7/94 | ZESC grantee performs under A.I.D. purview | Grantee, USAID/Z |

| <u>Proposed Dates</u> | <u>Activity</u> | <u>Responsible Organization</u> |
|--|---|-------------------------------------|
| 6. <u>Small/Micro-Enterprise Analysis</u> | | |
| a. <u>Phase I</u> | | |
| 07/91 | PIO/T for SME conference under GEMINI buy-in completed | USAID/Z/PDIS |
| 09/91 | Delivery order for technical assistance completed | AID/W/MS/OP |
| 11/91 | SME conference carried out | Contractor |
| b. <u>Phase II</u> | | |
| 02/92 | PIO/T for subsector assessment under GEMINI buy-in completed | USAID/Z/PDIS |
| 05/92 | Delivery order for subsector assessment under GEMINI buy-in completed | AID/W/MS/OP |
| 05-07/92 | SME subsector assessment carried out | Contractor |
| 05/92 | PIO/T for longitudinal survey under GEMINI buy-in completed | USAID/Z/PDIS |
| 05/92 | Delivery order for longitudinal survey TA under GEMINI buy-in completed | AID/W/MS/OP |
| 05-07/92 | SME longitudinal survey carried out | Contractor |
| 7. <u>Implementation Support Research</u> | | |
| 11/91 | PIO/T for competitive procurement of local contractor completed | USAID/Z |
| 06/92 | HB 14 contract negotiated and signed | RESDO/RCO, contractor |
| 07/92-7/94 | ISR contractor performs under USAID/Z purview | Contractor, USAID/Z |

| <u>Proposed Dates</u> | <u>Activity</u> | <u>Responsible Organization</u> |
|--|--|-------------------------------------|
| 8. <u>Productive Sector Description</u> | | |
| 02/92 | PIO/T for assessment under buy-in or IQC completed | USAID/Z/PDIS |
| 05/92 | Delivery order for descriptive work under buy-in or IQC completed | AID/W/MS/OP or REDSO/RCO |
| 07-10/92 | Descriptive work carried out | Contractor |
| 11/92 | PIO/T for diagnostic survey under buy-in or IQC completed | USAID/Z/PDIS |
| 02/93 | Delivery order for diagnostic survey under buy-in or IQC completed | AID/W/MS/OP or REDSO/RCO |
| 04-05/93 | Diagnostic survey carried out | Contractor |
| 9. <u>Evaluation</u> | | |
| 07-10/91 | Project Management outline (in-house) | USAID/Z |
| 01/92 | PIO/T completed for procurement of local contractor to develop data base | USAID/Z/PDIS |
| 05/92 | Contract for data base development signed | USAID/Z/EXO local contractor |
| 07-09/92 | Data base developed and de-bugged | USAID/Z/PDIS local contractor |
| 09/93 | PIO/T for final evaluation under IQC completed | USAID/Z/PDIS |
| 12/93 | Delivery order for final evaluation under or IQC completed | AID/W/MS/OP or REDSO/RCO |
| 02/94 | Final evaluation carried out | Contractor |

| <u>Proposed Dates</u> | <u>Activity</u> | <u>Responsible Organization</u> |
|-----------------------|--|---------------------------------|
| 10. <u>Audit</u> | | |
| 05/94 | PIO/T for final audit under IQC completed | USAID/Z/PDIS |
| 07/94 | Delivery order for final audit under IQC completed | AID/W/MS/OP or REDSO/RCO |
| 09/94 | Final audit carried out | Contractor |

6. Project Analysis Summaries

6.1 Technical Analysis

This analysis provides a technical assessment and justification for project interventions, organized by project component:

- A. Export Processing Zones
- B. Business Linkages
- C. Volunteer Business Advisory Services
- D. Small Micro-Enterprise Analysis
- E. Productive Sector Description

A. Why the Export Processing Zone Component was Selected

The design team weighed the EPZ component against the ZBD Project criteria. The results of some of the more important criteria reviewed are summarized below:

- o Have potential for measurable impact towards achieving the ZBDP goal -- measured by job creation, foreign exchange earnings, and broadened control of the economy; or the ZBDP purpose -- an enhanced enabling environment for private sector investment; during the life of the ZBD Project.

EPZs have had dramatic impacts on attracting foreign and local investments in countries that have implemented them successfully. We are confident that the entire package of EPZ incentives will be in place, and that investors will have received approval to operate under EPZ regime, before the end of project life.

- o Have strong interest and ownership on the part of the GOZ or the private sector.

The SAP framework document outlined the GOZ's plans for EPZ development, to quote: "The Zimbabwe Investment Centre has also been given responsibility for an extensive promotional role, e.g., overseeing the establishment of free trade zones (FTZ), export processing zones (EPZ), and Bonded Warehouse Operations (BWO)".

The private sector has been a vocal supporter of EPZs in Zimbabwe since early July 1990, when the CZI President announced the intention to form an EPZ working group. Individual CZI members have also expressed strong support for EPZs, both as potential developers or as potential exporters. ZENA and IBDC have also indicated strong support for the EPZ, as long as the needs of the indigenous businesses are considered.

- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W components in Zimbabwe.

The Mission has already played an important role in educating the public and private sectors about the potential of EPZs through consultancies arranged before and during project design. Also, AID/W underwrote the costs of private and public sector attendance at the October 1990 Mauritius Conference on EPZ Development Strategies, and USAID/Zimbabwe funded the travel and per diem of local private and public sector leaders.

- o Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges.

EPZs in Zimbabwe are intended to quickly eliminate in part of the country, either in an industrial estate or bonded managed warehousing pilot setting, the many trade and economic growth-inhibiting policies that have become institutionalized in the Zimbabwean economy.

While the GOZ is clearly committed to the five-year timetable to implement the SAP, it is a difficult political and economic process fraught with many dangers and pitfalls. The SAP-mandated changes will have profound effects upon prices, incomes, and production, and will be threatening to some segments of the GOZ, private sector, and the population at large. By jump-starting job creation, EPZs can enhance the political acceptability of the SAP. By jump-starting foreign exchange earnings, EPZs can assist the GOZ to finance the SAP.

Many of the incentives in a typical EPZ package go far beyond what has been mandated in the SAP framework document, or what has been intended for future reforms for the economy at large. If the more far ranging SAP reforms are implemented along with an EPZ regime, this would greatly increase the likelihood of backward and forward integration of EPZs into the local economy.

- o Measurable impact on ZBDP purpose or goal even if SAP is not implemented on schedule.

If the SAP reforms are not implemented on schedule, then establishing an EPZ regime could still be feasible. The impact would be lessened, particularly on the backward linkages to the local economy.

B. Why the Business Linkage Component was Selected

The best way to justify the Business Linkage Component as part of ZBD is to match it against the ZBD operational testing component project criteria.

- o Have potential for measurable impact towards achieving the ZBDP goal of economic growth -- measured by job creation, foreign exchange earnings, and broadened control of the economy; or the ZBDP purpose -- an enhanced enabling environment for private sector investment; during the life of the ZBD project.

The Business Linkage component will have a clear and measurable impact on broadening control of the economy. This will flow directly from enhancing the enabling environment for investment, for both large and small businesses. Business Linkage may also create or save jobs, which will be easily measured.

- o Have strong interest and support on the part of the GOZ or the private sector.

The GOZ, especially the MCI, has strongly endorsed the business linkage concept. MCI, in fact, is working with UNDP on developing a business incubator concept as another strategy.

The private sector has strongly endorsed the business concept. CZI, in fact, has made it the center part of their SME development strategy. Some factions of the IBDC, however, have in the past expressed concerns that institutionalized racialism may prevent business linkage efforts from having a real impact. In the opinion of the design team, institutionalized racialism has not prevented the success of business linkage projects in South Africa, the United States, or other countries with a long history of legal and de facto racial discrimination. Large businesses are concerned with the reliability of small business; this is true anywhere in the world, and is why donor intervention to bridge the gap is warranted.

- o Complement and build on other donor, NGO, GOZ, and private sector components that are working to the same goal or purpose.

SME projects have attracted an increasing amount of interest and funding from the GOZ and the donor community. USAID/Zimbabwe's strategy is focused on

forging business linkages between small and large firms, and rely on other efforts to facilitate access to credit, training, and other necessary inputs.

- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W components in Zimbabwe.

Business Linkage participants will benefit from the ZIMMAN project training resources -- and if the SME construction sector training project is undertaken by ZIMMAN, it will benefit from the Business Linkage activities.

- o Complement and build on A.I.D.'s and the Mission's comparative advantages, and avoid areas of comparative disadvantage.

A.I.D. has long experience in fostering business linkages, and USAID/Zimbabwe will benefit greatly from ongoing business linkage activities being undertaken by USAIDs in Botswana, South Africa, Swaziland, and Kenya.

- o Be feasible, given USAID/Zimbabwe's limited financial resources.

The business linkage component will be undertaken by a contractor, with only general oversight from USAID/Zimbabwe.

- o Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges.

Business Linkages will help large and small firms be more competitive, and take advantage of the SAP opportunities and challenges.

C. Why the Volunteer Business Advisory Services Component was Selected

The best way to evaluate the VBAS component is to match it against our criteria for operational testing components. It comes out quite favorably, as the following review of the more important criteria indicates.

- o Have potential for measurable impact towards achieving the ZBDP goal of economic growth -- measured by job creation, foreign exchange earnings, and broadened control of the economy; or the ZBDP purpose -- an enhanced enabling environment for private sector investment; during the life of the ZBD project.

On the goal level, the VBAS component will have an impact on earnings of foreign exchange, creating jobs, and broadening control of the productive assets of the economy. Considering individual firms, it is possible that a

successful assignment may accomplish none of the above -- but by increasing firm level competitiveness and productivity, this will be accomplished at the macroeconomic level.

On the purpose level, the VBAS component is expected to have a significant impact on improving the enabling environment for private sector investment. Not only will firms be helped to make investment decisions, but they will also be more competitive and profitable businesses, and therefore better able to attract financing, either from retained earnings, the entrepreneurs' savings, other shareholders, or financial institutions.

- o Have strong interest and support on the part of the GOZ or the private sector.

The IESC component of the VBAS has strong support from the private sector, and the direct participation of business on the Advisory Board. The ZESC concept was proposed in a general form in the August 1990 evaluation of the IESC. The GOZ, especially the Ministry of Industry and Commerce, strongly endorses the ZESC idea. The IESC Advisory Board, made up entirely of businesspeople, also strongly endorses the concept. Use of regional volunteer business advisory services, in particular, IESC South Africa, is a natural extension of the concept of using local retired executives.

- o Complement and build on other donor, NGO, GOZ, and private sector components that are working to the same goal or purpose.

At least five other donor agencies run services patterned after the IESC model. Demand for all the VBAS services greatly exceeds supply, however. Furthermore, IESC operates in a special niche -- more expensive services, but more specialized or experienced assistance. Analogous to the ZESC concept, CIDA has started its own local retired advisory service. The design team does not see a conflict with pursuing the ZESC option, for two main reasons: First, the demand for retiree business advisory services very likely will exceed the capacity of the CIDA operation. This is certainly true for the international executive services -- five donors operate these, and demand is not saturated. Second, the CIDA services are implemented through SEDCO, who have not to date been an effective medium for providing responsive, market-driven advisory services.

A for-profit agency offering retirees as consultants has been in operation in the Harare area for over a year. The Mission is not interested in setting up ZESC to act as unfair competition to this service. In fact, one potential option would be to establish ZESC as a cost sharing fund that would underwrite the costs of the commercially provided service for the target SMEs.

It should be noted that if the Phase I assessment does in fact not recommend that Zimbabwe Business Development Project proceed with the pilot operational stage, then the ZESC concept will be dropped.

- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W components in Zimbabwe.

One of the more exciting aspects of VBAS would be the support that it could lend to facilitating the Business Linkage subcontracting and spin-off operations. In South Africa, the local IESC program, using only local retirees, has been modified to do just that. An IESC volunteer is acting as an honest broker in negotiations between a Cape Town firm and the employees of the firm that wish to buy out a local installation. Another IESC volunteer is undertaking the feasibility study to ensure that the spun-off operation will be viable. A third party financial institution has agreed to finance 80 percent of the shares sold to the employees.

VBAS VEs could also complement the training support businesses are receiving under ZIMMAN II, or rural based groups seeking to develop natural resource based businesses receiving assistance under the Zimbabwe portion of the NRMS project.

- o Complement and build on A.I.D.'s and the Mission's comparative advantages, and avoid areas of comparative disadvantage.

The Mission has six years of experience with IESC in managing an executive service corps type of project. It is one of the few areas where the Mission has demonstrated ability with a private sector project. The ZESC component would be a fairly straightforward project to manage, easily within the capabilities of the contract Project Manager.

- o Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges.

VBAS could well be utilized to assist the GOZ to implement the SAP reforms. For example, IESC may be used to undertake scoping or feasibility studies in preparation for the commercialization or privatization of parastatals -- IESC has, in fact, received requests of this nature.

VBAS will definitely assist the private sector to take advantage of the SAP opportunities and challenges, by increasing their competitive edge.

D. Why the SME Survey and Analyses are Included

The GOZ, as well as donor agencies, is placing increased attention on the role of SMEs in generating income and employment in Zimbabwe. This heightened interest stems from the desire to generate jobs outside the existing formal sector to help accommodate the anticipated wave of unemployed school leavers -- up to 300,000 a year by the end of the century -- school leavers that will not find employment in existing formal sector businesses.

The GOZ and donors are continuing to develop programs of support for SMEs. The World Bank and EEC, for example, are planning new project activities targeting credit to SMEs. Financial institutions are also interested in small business; today's marginal small customer is tomorrow's profitable large customer.

Assistance efforts are handicapped by the lack of up-to-date information on informal and small-scale enterprises. Most such firms elude the standard Governmental statistical nets and are typically unobserved. A few special studies have provided some limited, initial glimpses of these activities in Zimbabwe.

In brief, what is missing are data on: the number of firms, the sectors in which they operate, location, ownership and employment characteristics, income, linkages with each other and the formal sector, assistance received, perceived constraints, entrepreneurial character, business history, and firm dynamics.

This kind of data, and expert analysis of the data, would allow:

- o The development of a baseline, against which the effectiveness of proposed projects or policies can be evaluated
- o Determination of needs and constraints
- o Target subsectors or geographic areas for assistance
- o Design of project components and subcomponents

The data would also test certain pre-conceptions of the small sector in Zimbabwe; e.g., is the perceived limited number of small enterprises in Zimbabwe due to the undercounting of such enterprises - a phenomenon that is found in much of the world - or whether there are indeed relatively few small enterprises in the country - a situation that has been found to exist, for example, in Lesotho.

Although the baseline survey has been funded out of PD&S funds, the results will play an integral role in the development and implementation of the SME Analysis component, as well as the Productive Sector Description component.

E. Why the Productive Sector Description is Included

The specific objectives of the Productive Sector Description are as follows:

1. To provide USAID/Zimbabwe and others with current, reliable data on the structure of formal and informal business, by sector and subsector (e.g., leather goods manufacture as a subsector of industry) on GDP, employment,

tax revenue generation, regional growth, productivity, linkages, and industrial concentration that will guide decisions by the Mission regarding targeted assistance to the Zimbabwean private sector.

2. To inform USAID/Zimbabwe and others on the perceptions of a wide spectrum of business owners and managers regarding constraints and opportunities for private sector growth and development that will suggest areas of priority for Mission strategy.
3. To provide USAID/Zimbabwe and other interested parties with the raw material to evaluate a range of program and project options in such areas as: (a) support for direct service delivery programs to small and micro enterprise and to the informal sector; (b) encouragement of deregulation and policy reform; (c) stimulation of cooperation and policy dialogue between the private sector and the GOZ; and (d) the promotion of linkages such as supplier contracts between large and small manufacturing firms.
4. To identify for USAID/Zimbabwe and others, an array of local institutions that have the commitment and potential capacity to support private sector development efforts over the longer term, and to suggest how these institutions might be strengthened to become more effective.

This description and analysis of the structure and role of the various industrial, primary, and service sectors of the Zimbabwean economy will be undertaken after the GEMINI comprehensive SME survey. This will ensure a broader data base and more in-depth knowledge on the part of the GOZ, the Mission and others, of structural factors such as concentration or fragmentation of certain sectors which will in turn permit a more informed dialogue as plans for a longer-term private sector program begin to materialize.

6.2 Social Soundness Analysis

The social soundness analyses undertaken during Project Paper development informed and guided project design. Together with other analyses, the social soundness analyses led the design team to drop certain components included in the PID, and modify other components. Due to the pilot nature of the project, the social soundness analysis presented below provides only a limited assessment of social impact and feasibility of the present ZBD components. Additional analyses are incorporated into Phase I assessment activities under each operational testing component of the project. The complete analysis in Annex 3.B will provide to the interested reader detailed background on some of the design team's decisions in the context of the Zimbabwe socio-economic and socio-cultural environment. A summary of this analysis follows.

6.2.1 The Socio-Economic Context

A. Overview

As a result of Government's commitment at Independence to give priority to education, Zimbabwe's population has one of the highest education levels in Africa. Paradoxically, in making tremendous progress in educating the masses, the GOZ is now faced with a severe unemployment bottleneck. The Labor Force Survey (LSF) of 1986/87 estimated that one-third of the unemployed in that year were Form IV (secondary school) graduates, compared with only 11 percent in 1982.

By all accounts, high unemployment is one of Zimbabwe's most critical socio-economic problems. Approximately 7.2 percent of the total labor force were unemployed in 1986-87, 16 percent if communal farmers are excluded. Current unemployment estimates range as high as 30 percent. Nearly eight in ten of the unemployed are concentrated in urban areas.

Black Zimbabweans comprise 95 percent of formal sector employment. For some occupations, particularly among the professional and managerial groups, Whites remain a significant minority.

B. Business Environment

Reactions from the business community towards the policy changes mandated by the SAP reforms are as diverse as the business community itself. A number of firms function profitably under the currently protected and monopolistic economic production and distribution structures and will therefore be reluctant to compete in a free market environment. At the other end of the spectrum are businesses poised to take the utmost advantage of liberalized trade policies. Firms in the textile, clothing, and footwear industries, for example, are extremely efficient and competitive producers of current overseas fashions. Managed by younger, more progressive and dynamic managers, these firms are economically fit and adept at producing and selling their wares in a competitive market. Many do not expect employee retrenchments in a liberalized economy because they currently maintain an optimal work force. On the contrary, as they import new equipment, some expect to hire more employees.

A politically charged issue in the current business environment is that of the distribution of wealth. The pre-Independence concentration of economic and decision-making power persists today. While statistics conflict on the percentage of White- versus Black-owned businesses, it is clear that Whites still control a disproportionate number of these firms.

6.2.2 Socio-Cultural Feasibility

A. Business Linkages

The political and economic incentives for big business to create business linkages and sub-contract production activities to smaller, independent firms are quite powerful. Major corporations wish to be seen as supporters of Government's "growth with equity" policy by assisting smaller businesses in breaking into new markets. A further incentive in a liberalized economy will be the economic necessity for businesses to streamline their own operations to face competition in the new market. The parent firm would then sub-contract an independent firm for the service formerly provided by the in-house division.

Most likely, early business linkage (or sub-contracting) opportunities will be found in the manufacturing or high technology sectors. Traditionally, these have been strongholds for White businessmen. Black-owned small enterprises tend to be concentrated in the commercial sectors, so the project may be an important tool to encourage indigenous businessmen to start up small-scale manufacturing enterprises to supply large firms with items such as component parts. Without special programs such as ZBD to encourage disadvantaged Black-owned firms to enter into business linkages, it is likely that the majority of successful sub-contracting agreements in Zimbabwe would be between White-owned firms. By definition, a pilot project cannot have an equitable distribution of benefits. Those firms which will participate in business linkage agreements will be trail-blazers -- those willing to take the lead. Once A.I.D. assesses the experience gained through this project, it will be in a stronger position to reach a wider and more equitably distributed segment of the population.

Where a large firm has taken the decision to spin off one of its divisions, it may wish to offer support to the division's line manager to take over the operation as a private enterprise. Careful assessment of the line manager's entrepreneurial skills would be critical to the success of the new enterprise as an excellent line manager may not necessarily make a successful entrepreneur.

B. Export Processing Zones

(1) Incorporating a Sociological Perspective

Detailed feasibility analyses and impact assessments should be conducted in Phase I of the project's EPZ component. Relevant social concerns should be incorporated into each study. A comparative analysis of EPZ experience worldwide should include an assessment of social impacts. In designing the policy regime, measures mitigating potentially negative social impacts should be incorporated and indicators through which their impact can be tracked should be specified.

(2) Ownership Distribution

A frequent criticism of EPZ programs is that the wealth they create ends up concentrated in the hands of a few. Experience shows that this is not necessarily true. Creative EPZ policy frameworks developed in other countries have in fact facilitated a broader ownership.

In short, examples of EPZ programs which have incorporated distribution concerns can be found. The investigative surveys of Phase I might contain case studies of worldwide EPZ program efforts to address the issue of ownership distribution. Both successes and failures should be documented.

C. Voluntary Business Advisory Services

This pilot project will test the effectiveness of a new Zimbabwe Executive Service Corps (ZESC), as well as several innovations in a program such as the current A.I.D.-funded IESC program. Faced with increased competition reflected in the GOZ's current liberalization program, many firms will require technical assistance on capital investment decisions, market analysis, advertising, etc., areas in which IESC can provide experienced volunteer executives. Hence, incentives for firms to seek IESC assistance are strong.

Based on experience, the Mission has determined that the IESC volunteer executive program is not the best vehicle for reaching small businesses. ABLE activities of IESC, on the other hand, have tended to support much smaller businesses than those supported by volunteer executives. The majority of ABLE projects implemented to date have been feasibility studies for new ventures, while the remainder have supported existing small businesses interested in expanding their operations. Approximately 20 ABLE projects have been completed thus far, many of them for Black entrepreneurs. Alternatively, the option (presented in the 1990 IESC evaluation) of finding support among local working or retired executives should be considered and tested through ZESC.

6.2.3 Gender Considerations

A. Historical Context

Women's current status in Zimbabwean society derives from the combined influences of traditional customs, colonial law, and post-Independence legal reforms. The colonial state recognized two co-existing bodies of law, the General Law applicable to all citizens and the colonial customary law applicable only to Africans. Under colonial customary law, women were reduced to the perpetual status of minors, entrenching their traditionally subordinate position in the family and society.

With Independence, new legislative measures were passed aimed at removing "all customary, social, economic and legal constraints" that inhibited women's full participation in the country's development. Despite these legal breakthroughs, pre-Independence customs are still very strong and, in reality, the great majority of women remain economically dependent on men.

B. Women in the Work Force and Private Sector

Ninety percent of female employment in this sector is concentrated in seven occupational groups: medical technicians, teaching, clerical, sales/shop assistants, domestic, agriculture, and textiles. The 1981 Equal Pay for Equal Work Regulations are rarely enforced and many women still earn lower wages than their male counterparts.

As in most African countries, the majority of women involved in business are found in the informal sector and women's labor predominates in communal agriculture. Despite laws supporting equality for women, their participation in the modern sector and, more particularly, in business has evolved differently than that of their male counterparts.

C. Implementation Strategies

Because of the added cultural traditions of male dominance, constraints to reaching the target group and facilitating an equitable distribution of benefits are magnified when designing strategies for reaching women. Nevertheless, there are interventions, outlined below.

The VBAS component of the project might consider ways to encourage VBAS Volunteers to focus on the technical and managerial needs of women. Business linkage could place particular emphasis on identifying partnerships involving women. To assess socio-economic impact of new jobs created by export promotion efforts, A.I.D. could develop a monitoring and evaluation system to determine impact on employee, household, expenditure patterns, and on socio-economic indicators such as fertility rates, children's health and nutrition.

6.2.4 Participants and Beneficiaries

A. Participants

For business linkages, a small group of corporate leaders and owners/operators of emerging enterprises from Zimbabwe's manufacturing and commercial sectors will be the primary participants. Participants in the development of export processing zones will be leaders of GOZ ministries representing the public sector and business leaders representing the private sector. Volunteer executives and local client firms will participate in IESC and ZESC activities.

B. Beneficiaries

Beneficiaries of business linkage activities will most likely be established firms in the manufacturing or high technology sectors and their small enterprise partners. Additional beneficiaries will be the unemployed who secure newly-created jobs when the financial position of participating firms improves and operations expand. The ultimate beneficiaries will be the EPZ

firms and their employees. Corporations will benefit through the full range of EPZ incentives. The unemployed who secure much needed jobs in EPZ firms will be obvious beneficiaries. The IESC program benefits two types of firms: larger White-owned corporations through the Volunteer Executive program, and smaller business or emerging entrepreneurs through the ABLE program. Users of the MAPS and Small-Scale Enterprise survey results will benefit through their enhanced capacity to more accurately target their programs.

6.3 Economic Analysis

Since Independence in 1980, Zimbabwe has made substantial achievements in the areas of education, health, population and small holder agriculture. The Government of Zimbabwe's equity successes, however, have not been matched by economic growth. Since 1980, the economy has grown at an average annual rate of 3.3 percent -- marginally above the estimated rate of population growth. Accordingly, there has been no material improvement in real living standards.

During the 1980s, the economic growth depended heavily on public sector spending. About 40 percent of growth in GDP between 1980 and 1989 emanated from education, public administration, health, and transport.

Net investment (gross fixed capital formation less depreciation) fell from 13.5 percent of GDP at the height of the "sanctions boom" in the early 1970s, to a low point of 1 percent during the 1987-1989 period. Since the depreciation calculation -- 3.5 percent of the estimated capital stock -- is extremely conservative, it is probable that the capital stock has been declining since 1987 and possibly even longer.

The primary factors behind the inadequate rates of investment, and the resulting sluggish performance of the economy, are inappropriate Government policies of the past (many of these policies, of course, have already been modified, and many more will be in the course of implementing the Structural Adjustment Program -- this will be discussed in detail later). These inappropriate policies, and other factors over which the GOZ has had less control, have already been analyzed in section 3.1.1, "The Cause of the Problem".

6.3.1 The Structural Adjustment Program

The GOZ has recently initiated a Structural Adjustment Program (SAP) which has a primary objective of increasing the rate of economic growth in Zimbabwe. The SAP "Framework" is a detailed, internally coherent document, and if implemented according to schedule, will go most of the way towards changing the policy environment favoring private sector-led economic growth.

The "Framework for Economic Reform" has identified the key macro-economic constraints in Zimbabwe and made provisions for the necessary policy actions to address them over the five years of the program. Many donors, including ourselves, have referred to it as the best such program that they have seen from sub-Saharan Africa. Specifically, it deserves to be commended for the following reasons.

- It spells out a detailed timetable for reform against which performance can be evaluated.
- It recognizes that reform is a process, not an event.
- It recognizes that reform at the macro-economic level must be accompanied by specific sectoral initiatives to "operationalize the package" and produce an impact on the economy.
- It recognizes that the Government's role in the economy as a producer, a regulator and a claimant on resources must be reduced and that controls have been largely counter-productive.
- Through its commitment to the establishment of a fully operational Open General Import Licensing System by 1995, the Government has implicitly recognized the importance of a market-determined exchange rate that provides a real incentive to exporters.

The SAP, for all its virtues, is not comprehensive. For example, there are no specific provisions to introduce antitrust measures to break up the monopoly situation that exists in so many subsectors, no plans to remove the stringent disinvestment policies, and a lack of specificity on corporate tax rate reductions. While these omissions are important, they will not prevent the SAP from having significant impact. Furthermore, the major players in the GOZ and the private sector are well aware of these gaps, and steps can easily be taken to incorporate them into the SAP.

At the time this Project Paper was written, however, the unresolved issue of land resettlement presents the potential for a major impact on the investment climate, as it adds significantly to country risk. Resolution of the land resettlement issue will also undoubtedly have an impact on the financing and implementation of the SAP.

The political will of the GOZ, at least at the highest levels, to implement the SAP is clear. The interest and ability of the civil service to carry out the reforms, especially the fiscal and deregulatory changes, will have to be strengthened. The support of the ruling party officials needs to be maintained through what will undoubtedly be a very difficult time of adjustment.

Many factors favor Zimbabwe's ability to implement the SAP, especially when compared with other African countries. The country's physical and human capital is one key factor. Also, Zimbabwe begins the structural adjustment process with a debt service ratio of about 24 percent -- quite unlike the experience of most LDCs which, when they finally are forced into structural adjustment, often find themselves faced with debt service ratios approaching 100 percent.

The private sector's understanding of the SAP, and its ability to respond to the challenges and opportunities also will have to be supported. Business confidence already seems to have turned a corner; domestic investment rates

seem to be greatly increased in the past year. Nonetheless, special programs will need to be developed to facilitate the transition to a competitive economy. Firms will need to rationalize their operations and focus only on those product lines that are most competitive. This will provide opportunities for smaller businesses to take on the production of some of the discarded lines. Some of these small businesses, in fact, could be started by the redundant managers and laborers with the knowledge and experience needed to run the operations. With the right kind of guidance, Zimbabwean firms, large and small, could rapidly specialize and grow more efficient.

6.4 Institutional/Administrative Analysis

6.4.1. Export Processing Zones

For the EPZ component, the three identifiable key players are the MFEPD's Policy Analysis Unit, the ZIC, and the Ministry of Commerce and Industry. On the private sector side, the CZI and the other business groups will play a key role, particularly in Phases II through IV.

The MFEPD Policy Analysis Unit will take the lead in Phase I, the economic and social feasibility analysis. This Unit has proven its capability to undertake highly sophisticated policy analysis; it had the lead responsibility in producing the highly acclaimed SAP Policy Framework document. The Unit is more than capable of helping guide the work done in Phase I, absorbing the results, and making recommendations.

If Phase I is positive, and EPZs have been fully accepted as a policy instrument on the part of the GOZ, then the ZIC will take the lead in implementation, from the public sector viewpoint. The ZIC has begun to build its strength in investment analysis and promotional activities, and the EPZ component will provide specialized assistance where and when necessary. It should be noted that, even now, the ZIC staff are recognized as highly competent and efficient.

The Ministry of Commerce and Industry's role is less defined, but as the lead ministry for ZBDP, and one with a great interest in the success of the EPZs, their guidance and input will prove invaluable to this component. The Permanent Secretary and the Under Secretary (Planning and Policy) are expected to take a particularly strong role. Both individuals are experienced, dedicated civil servants with a long track record of successful collaboration with donors, including USAID.

6.4.2. Business Linkage

Because an analysis of the appropriate institution to house the Business Linkage component is part of Phase I of the implementation process, an institutional analysis of this component is premature.

6.4.3 Zimbabwe Executive Service Corps (ZESC)

Because an analysis of the appropriate institution to house the ZESC component is part of Phase I of the implementation process, an institutional analysis of this component is premature.

6.4.4. Analytical Research Components

The analyses and data bases of the analytical research components will be used and maintained by USAID/Zimbabwe. Other institutions, however, particularly Government ministries and the private business associations, have expressed strong interest in "ownership" of the results. Although dissemination of the results is not a specific goal of ZBDP, USAID/Zimbabwe will make every effort to do so. Because the ZBD purpose or goal is not dependent on the institutional capability of the recipient organizations, an institutional analysis is not required.

6.5 Financial Analysis

Refer to self-explanatory Financial Tables in Annex 3.E.

7. Conditions, Covenants and Negotiating Status

7.1 Conditions Precedent to Initial Disbursement

Prior to the first disbursement, or the issuance by USAID of documentation pursuant to which disbursements will be made, the Grantee shall furnish, in form and substance satisfactory to USAID, a statement of the name of the person holding or acting in the name of the Grantee, and of any additional representatives, together with a specimen signature of each person specified in such statement.

7.2 Conditions Precedent to Disbursement of Funds under the Export Processing Zone (EPZ) Component

7.2.1 Condition Precedent to Phase II

Prior to the disbursement of funds, or the issuance by USAID of documentation pursuant to which disbursement will be made for Phase II of the EPZ component, the Grantee shall furnish documentation, in form and substance satisfactory to USAID, that it has established and designated an official EPZ working group which shall have the responsibility for implementation of the EPZ program, including the development and drafting of legislation, procedures and regulations.

7.2.2 Condition Precedent to Phase III

Prior to the disbursement of funds, or the issuance by USAID of documentation pursuant to which disbursement will be made for Phase III of the EPZ component, the Grantee shall furnish evidence that Parliament has passed EPZ enabling legislation satisfactory to USAID Mission to Zimbabwe. Alternatively, the Grantee may furnish evidence that the President of Zimbabwe, through Presidential decree, created the equivalent of EPZ enabling legislation, in form and substance satisfactory to USAID Mission to Zimbabwe.

7.3 Notification

When USAID has determined that the conditions precedent specified above have been met, USAID will promptly so notify the Grantee.

7.4 Negotiating Status

The aforementioned conditions precedent have been discussed with the Ministries of Finance, Economic Planning and Development, as well as Industry and Commerce, who have agreed with them in both form and content.

Endnotes:

1. A strong case can be made that Zimbabwe is in fact over-industrialized; the cumulative impact of sanctions which forced widespread import substitution, and subsequent policies of control and protection, have continued to encourage inefficient import substituting industrialization.
2. The few far-sighted Rhodesian firms that trained and developed Black managers were far less affected by White emigration and the military call-ups.
3. Since 1983 the GOZ has introduced certain export incentives, such as the Export Revolving Fund, that have had genuine but limited successes. The consensus for change that appeared to emerge around 1988 recognized that the "band aid" approaches were not enough and that fundamental reform was necessary.
4. See the SAP Policy Matrix.
5. The constitutional amendment does not limit its definition of property that can be acquired by the GOZ in the national interest to commercial farmland; in principle, all property, including intellectual property, is fair game for acquisition by the Government according to the new rules of the game.
6. Some of these factors discouraging investment are analyzed in greater depth in section 2.2, "Zimbabwe's Evolving Economic and Policy Environment."
7. One indication of the overvalued nature of the Zimbabwe dollar is its value on the parallel market -- roughly Zim \$1.00 equals US \$0.20, slightly more than half of the official rate of about Zim \$1.00 equals US \$0.33.
8. In Zimbabwe, parastatals are firms specifically incorporated as parastatals under special law -- just because the GOZ owns some fraction of the shareholder's equity of a firm does not make it a parastatal. Many firms with substantial state ownership, even control, are allowed to operate on a relatively commercial basis and are profitable.
9. In Zimbabwe, much economic growth has been in capital-intensive industries controlled by the same narrow group of entrepreneurs. Operating under massive protection, these enterprises have neither created many jobs, earned (or saved) foreign exchange, nor broadened control of productive assets of the economy.
10. Joint Purchasing arrangements will not be directly supported by the ZBD Business Linkage component.
11. Although ancillary to this project, an important spinoff of this increased understanding of the private sector will prove invaluable in the process of developing, refining, and implementing USAID/Zimbabwe private sector strategy.

12. SME, as used in this Project Paper, includes both formal and informal small enterprises.

13. MAPS, "Manual for Action in the Private Sector", is described in Annex Four.

Telegrams: "MINFIN", HARARE

Tele: 2141

Telephone: 722101/794571

Private Bag 7795, Causeway
Zimbabwe



ZIMBABWE

Annex 1A

Reference:

A. 28/75

MINISTRY OF FINANCE, ECONOMIC
PLANNING AND DEVELOPMENT

Mushumutapa Building

Samora Machel Avenue

Harare

19 July 1991

Mr. T. D. Morse
The Director
USAID/Zimbabwe
1 Pascoe Avenue
Belgravia
HARARE

Dear Mr. Morse

RE: REQUEST FOR SUPPORT TO ZIMBABWE BUSINESS DEVELOPMENT
PROJECT

The Government of Zimbabwe welcomes support from donors in implementing the Structural Adjustment Program and providing assistance to the business community. The Zimbabwe Business Development Project, providing approximately US\$5.5 million over a three year period, will assist in our effort to increase investment and economic growth.

The goal of this project is to increase private sector - led economic growth that results in increased job creation, foreign exchange earnings and broadened indigenous participation in the economy. This is in line with the current economic reform programme.

I hereby, on behalf of the Government of Zimbabwe, formally request the Government of the United States of America, through you, to support this project.

I hope this request will meet your favourable consideration and that we will be signing the Project Grant Agreement very shortly.

Yours sincerely

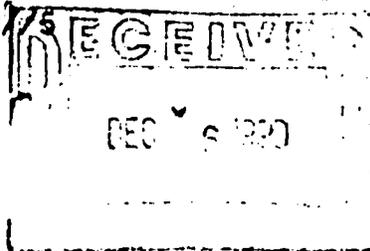
A handwritten signature in dark ink, appearing to read 'A. Gunduza'.

A. Gunduza (Ms)

for: SENIOR SECRETARY FOR FINANCE

- 99 -

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INFO RUEHNR/AMEMBASSY NAIROBI PRIORITY 6651
RUEHMB/AMEMBASSY MBABANE PRIORITY 3538
BT

CHRON

UNCLAS SECTION 01 OF 04 STATE 410437

AIDAC NAIROBI FOR REDSO, MBABANE FOR RLA

E.O. 12356: N/A

TAGS:

SUBJECT: ZIMBABWE BUSINESS DEVELOPMENT PROJECT
(613-0232), PID ECPR GUIDANCE

REF: STATE 311216

1. SUMMARY. THE ECPR MET ON 28 SEPTEMBER 1990 TO REVIEW THE SUBJECT PID. TIM BORK, DIRECTOR, AFR/PD, CHAIRED THE ECPR WHICH WAS ATTENDED BY REPRESENTATIVES FROM AFR/SA, AFR/PD/SA, AFR/DP/PAB, PPC/PB, AFR/MDI, GC/AFR, PRE, AND AFR/TR/ANR. PROJECT OFFICER PATRICIA BUCKLES REPRESENTED THE MISSION. THE ECPR COMPLIMENTED THE MISSION FOR A WELL-PRESENTED AND DEFENDED PID. AFTER DISCUSSING ISSUES AND CONCERNS, THE MEETING APPROVED THE PID AND STATE 311216 AUTHORIZED DIRECTOR, USAID/HARARE TO APPROVE AND AUTHORIZE THIS DOLS 4.45 MILLION PROJECT.

2. PID STRENGTHS. THE ECPR COMPLIMENTED THE MISSION FOR ITS INNOVATIVENESS IN PROPOSING ACTIVITIES TO PROMOTE CORPORATE RESPONSIBILITY AND UTILIZE RETIRED LOCAL EXECUTIVES TO PROVIDE COST-EFFECTIVE TECHNICAL ASSISTANCE TO SMALL BUSINESSES. THE MISSION WAS ALSO

COMMENDED FOR THE WAY IN WHICH IT OPENLY DEALT WITH EQUITY ISSUES. THE RATIONALE FOR SPECIAL ACTIVITIES TO ASSIST BLACK ENTERPRISES WAS CLEARLY DEFINED. THE PROPOSED STRATEGY OF USING LOCAL BUSINESS EXPERTISE IS INNOVATIVE.

ONLY ONE ISSUE WAS FORMALLY ADDRESSED DURING THE ECPR (SEE PARA. 3, BELOW). OTHER ISSUES RAISED WERE RESOLVED PRIOR TO THE MEETING AND GUIDANCE IS PROVIDED IN PARA. 4 BELOW.

3. ISSUE: IS THE ANALYTICAL BASIS FOR THE PROJECT SUFFICIENT?

DISCUSSION: THE ECPR EXPRESSED CONCERN THAT THE PID DID NOT INDICATE THAT THE PP WOULD CONTAIN A SUFFICIENT KNOWLEDGE BASE, ANALYSIS AND ADEQUATE PLANNING FOR THE

MAGNITUDE OF SPECIFIC PROJECT OUTPUTS EXPECTED TO BE ACHIEVED. FOR EXAMPLE, THE PID ANTICIPATES ESTABLISHMENT OF EXPORT PROCESSING ZONES (EPZ) BY THE END OF THE PROJECT. AID'S INPUT WOULD BE CONSULTANCIES, BUT THERE IS NO CONSIDERATION OF REQUIRED REGULATORY CHANGES NOR THE INFRASTRUCTURE FINANCING THAT WOULD PRODUCE AN OPERATING EPZ.

THE PROJECT COULD BE APPROACHED IN TWO DIFFERENT WAYS:

(1) AS A TRADITIONAL PROJECT HAVING A SET OF LIMITED SCOPE ACTIVITIES AIMED AT ACHIEVING HIGHLY TARGETED, DEMONSTRABLE IMPACTS. THE PP FOR SUCH A PROJECT SHOULD CONTAIN A RIGOROUS CONSTRAINTS ANALYSIS THAT PROVIDES A SOLID JUSTIFICATION FOR UNDERTAKING THE PROPOSED INTERVENTIONS. THE ANALYSIS WOULD NEED TO DEMONSTRATE HOW ALL OTHER POTENTIAL CONSTRAINTS TO SUCCESSFUL ACHIEVEMENT OF PROJECT ACTIVITIES ARE BEING ADDRESSED.

(2) ALTERNATIVELY, THE PROJECT COULD BE VIEWED AS A PILOT PROJECT, I.E., AS A VEHICLE FOR DETERMINING WHICH INTERVENTIONS WILL HAVE THE GREATEST IMPACT AND AS A WAY OF LEARNING MORE ABOUT THE OBSTACLES THE PRIVATE SECTOR FACES. THE ANALYTICAL REQUIREMENTS FOR THIS TYPE OF PROJECT WOULD BE OF A DIFFERENT NATURE. HOWEVER, THE CONSTRAINTS ANALYSIS WOULD STILL NEED TO BE STRENGTHENED TO SUPPORT THE PROJECT'S FOCUS. THE MISSION WOULD NEED TO LAY OUT THE KINDS OF QUESTIONS IT SEEKS TO HAVE ANSWERED THROUGH THE PROPOSED ACTIVITIES. THE PP WOULD

NEED TO FOCUS ON DEVELOPING SYSTEMS FOR MONITORING AND EVALUATION THAT WOULD ENABLE IT TO ANSWER THESE QUESTIONS. A PILOT PROJECT WOULD INVOLVE REFOCUSING THE PROJECT PURPOSE ALONG THE LINES OF TESTING THE FEASIBILITY OF, OR IDENTIFYING THE OPTIMAL MEANS OF, FOSTERING PRIVATE ENTERPRISE GROWTH THROUGH FACILITATING LOCAL AND FOREIGN INVESTMENT AND EXPANDED INDIGENOUS ENTERPRISE. PROJECT ACTIVITIES WOULD FOCUS MORE ON EXPLORING MODALITIES, AND PROJECT OUTPUTS WOULD BE DEFINED MORE IN TERMS OF DEVELOPMENT OF REPLICABLE RESULTS AND/OR DETERMINATION OF WHETHER INTERVENTIONS ARE FEASIBLE, RATHER THAN IN TERMS OF ACHIEVING SPECIFIC IMPACTS. FOR EXAMPLE, IF AN OBJECTIVE WAS TO EXPLORE THE FEASIBILITY OF ESTABLISHING EXPORT PROCESSING ZONES, IMPLEMENTATION COULD INCLUDE EXPLORATION OF THE NECESSARY REGULATORY CHANGES AND EXPLORATION OF WHO MIGHT BE ABLE TO UNDERTAKE CONSTRUCTION.

THE MISSION REPRESENTATIVE NOTED THAT ALTHOUGH SEVERAL

SURVEYS AND STUDIES ARE PROPOSED UNDER THE PROJECT, THIS SHOULD NOT BE INTERPRETED AS MEANING THAT THE MISSION IS ONLY NOW BEGINNING TO STUDY THE SECTOR. SHE POINTED OUT THAT THE MISSION AND OTHER DONORS HAVE ALREADY CONDUCTED SEVERAL STUDIES AND ANALYSES OF THE SECTOR WHICH SHE THOUGHT PROVIDED SUFFICIENT UNDERSTANDING OF THE SECTOR FOR THE MISSION TO ENGAGE IN PILOT LEVEL ACTIVITIES.

GUIDANCE:

A. TECHNICAL ANALYSIS OF PROPOSED INTERVENTIONS. THE ECPR, WITH CONCURRENCE OF THE MISSION REPRESENTATIVE, CONCLUDED THAT THIS SHOULD BE A PILOT ACTIVITY AND THAT THE PP SHOULD CONTAIN AN APPROPRIATE ANALYTICAL BASIS. CARE SHOULD BE TAKEN THAT THE FULL EXTENT OF THE MISSION'S KNOWLEDGE OF A PARTICULAR SUBSECTOR IS REFLECTED IN THE PP. IN ADDITION THE PROJECT PAPER SHOULD OUTLINE THE VARIOUS STAGES OF EACH PILOT ACTIVITY AND DISCUSS THE PHASING OF THESE STAGES. THE PP SHOULD ALSO CONSIDER HOW MANY OF THE PROPOSED ACTIVITIES THE MISSION HAS THE CAPACITY TO IMPLEMENT SHOULD THE ANALYSES INDICATE THAT ALL ARE WORTH PURSUING.

IF SOME PORTION OF THE PROJECT CONSISTS OF A SERIES OF TO-BE-DETERMINED SUB-ACTIVITIES, THE PP COULD MEET SECTION 611(A)(1) REQUIREMENTS FOR ADEQUATE PLANNING BY ESTABLISHING CRITERIA FOR SUBACTIVITY SELECTION (AND

EXPLAINING HOW THEY WILL RESULT IN ACHIEVEMENT OF PROJECT PURPOSE), ESTABLISHING PROCEDURES FOR SUBACTIVITY SELECTION AND REVIEW, AND LISTING ILLUSTRATIVE SUB-ACTIVITIES, COSTED OUT, AT LEAST TOTALING THE EARMARKED AMOUNT. THIS USE OF CRITERIA MAY BE ESPECIALLY APPROPRIATE FOR THE STUDIES COMPONENT OF THE PROJECT. TO ENSURE THAT 611(A)(1) ADEQUATE PLANNING REQUIREMENTS ARE MET, IT IS IMPORTANT THAT THE RLA BE INVOLVED EARLY IN PROJECT DESIGN.

THE PP SHOULD ALSO EXAMINE WHETHER THERE ARE ANY SECTION 611(A)(2) ISSUES. 611(A)(2) PROVIDES THAT IF THERE ARE ANY LEGISLATIVE CHANGES WHICH ARE NECESSARY FOR ORDERLY ACCOMPLISHMENT OF THE PROJECT PURPOSE, AID MUST HAVE A REASONABLE BASIS (WITH SUPPORTING FACTS) FOR CONCLUDING, PRIOR TO OBLIGATION, THAT THE CHANGES WILL BE ACCOMPLISHED IN TIME FOR ORDERLY ACHIEVEMENT OF THE PROJECT PURPOSE. RESTRUCTURING THE PROJECT AS A PILOT ACTIVITY, AS DESCRIBED ABOVE, MAY SUBSTANTIALLY REDUCE THE LIKELIHOOD OF 611(A)(2) PROBLEMS.

P. TECHNICAL ANALYSIS OF REJECTED INTERVENTIONS. THE PID PROPOSES THAT PROJECT ACTIVITIES FOCUS ON SMALL BUSINESS DEVELOPMENT IN THE (URBAN) MANUFACTURING SECTOR AND ON INVESTMENT PROMOTION IN/BY LARGER COMPANIES. WHILE THE PID PRESENTS A CLEAR MACROECONOMIC AND SOCIAL RATIONALE FOR THE PROPOSED EMPHASIS (E.G. JOB CREATION) IT DOES NOT DISCUSS EXPLICITLY WHAT OTHER INVESTMENTS IN OTHER SUB-SECTORS WERE CONSIDERED AND REJECTED. FOR EXAMPLE, WOULD INVESTMENTS IN RURAL-BASED AGRIBUSINESSES

HAVE A SIGNIFICANTLY LOWER COST/BENEFIT RATIO? WOULD INVESTMENT IN THE TOURISM SECTOR GENERATE LESS JOBS? IN SETTING THE ECONOMIC FRAMEWORK IN THE PROJECT PAPER, THE MISSION SHOULD PRESENT A FULL RATIONALE FOR THE PROPOSED FOCUS.

C. FUTURE ACTIVITIES. THE MISSION WAS ENCOURAGED TO UNDERTAKE THE INITIAL MAPS AND GEMINI SURVEY AS SOON AS POSSIBLE. THIS EXERCISE SHOULD ASSIST THE MISSION IN IDENTIFYING NEEDED SECTOR STUDIES, WHICH IN TURN SHOULD REVEAL THE KINDS OF INSTITUTIONAL DYNAMIC STUDIES THAT ARE NEEDED.

4. THE FOLLOWING ISSUES WERE RESOLVED PRIOR TO THE ECPR MEETING AND MISSION AGREED TO GUIDANCE PROPOSED:

A. PARTICIPATION OF HOST COUNTRY ENTITIES. IT WAS APPARENT FROM DISCUSSIONS WITH THE MISSION REPRESENTATIVE THAT THE PID HAD BEEN DEVELOPED WITH A GREAT DEAL OF PARTICIPATION BY GOVERNMENT AND THE PRIVATE SECTOR. THE ECPR ENCOURAGED THE MISSION TO TAKE THIS PARTICIPATORY PROCESS ONE STEP FURTHER BY FACILITATING TO THE EXTENT POSSIBLE, THE PARTICIPATION, AND MORE IMPORTANTLY, THE LEADERSHIP OF GRANIEES AND BENEFICIARIES IN THE CONCEPTUALIZATION, DESIGN AND IMPLEMENTATION OF PROJECT ACTIVITIES. THE MISSION IS SPECIFICALLY REQUESTED TO INCLUDE IN THE PP UNDER EACH PROJECT ACTIVITY, AN ANALYSIS OF THE ADMINISTRATIVE AND OUTREACH CAPABILITY OF THE ENTITY (GOVERNMENT PRIVATE SECTOR, OR NONGOVERNMENTAL ORGANIZATION) RESPONSIBLE FOR MANAGING THE ACTIVITY. IN ADDITION, THE DISCUSSION SHOULD INDICATE WHICH SMALL BUSINESS ORGANIZATIONS WILL PARTICIPATE IN THE PROCESS, AND HOW THEY WILL BE ABLE TO

PARTICIPATE. FOR EXAMPLE, WILL INDIVIDUAL GRANTEEES PROMOTE SEMINARS' WORKSHOPS, ETC.?

B. LAUTENBERG. THE LAUTENBERG AMENDMENT PROHIBITS THE USE OF PROJECT FUNDS QUOTE TO PROCURE DIRECTLY FEASIBILITY STUDIES OR PREFEASIBILITY STUDIES FOR, OR PROJECT PROFILES OF POTENTIAL INVESTMENT IN, THE MANUFACTURE UNQUOTE OF CERTAIN COMMODITIES FOR EXPORT TO THE U.S. OR TO THIRD COUNTRIES IN COMPETITION WITH U.S. EXPORTS. IT ALSO PROHIBITS USE OF THESE FUNDS QUOTE TO ASSIST DIRECTLY IN THE ESTABLISHMENT OF FACILITIES SPECIFICALLY DESIGNED FOR THE MANUFACTURE UNQUOTE OF SUCH COMMODITIES. THUS, THERE ARE SEVERAL PARTS TO THE LAUTENBERG TEST THE TYPE OF ACTIVITY (E.G. FEASIBILITY STUDY) ASSISTANCE AS DIRECT OR INDIRECT, COMMODITY, AND EXPORT IMPACT. WHILE THE PID DOES NOT GIVE DETAILS REGARDING THESE LAST THREE TESTS, CERTAIN OF THE TYPES OF ACTIVITIES SUGGEST THAT FURTHER EXAMINATION UNDER LAUTENBERG MAY BE NECESSARY. THESE INCLUDE, WITHOUT LIMITATION (1) THE JOINT VENTURE PROMOTION COMPONENT, WHICH ANTICIPATES THAT ITS ASSISTANCE WILL RESULT IN SIGNIFICANT NEW INVESTMENT IN PRODUCTION FOR EXPORT, AND (2) THE COMPONENTS ESTABLISHING A SMALL BUSINESS INCUBATOR AND EXPORT PROCESSING ZONE. IS THE INTENT THAT ZEDA ITSELF FINANCE THE FEASIBILITY ANALYSES AND AID FINANCE ONLY THE COMPREHENSIVE SURVEY OF EXISTING SMALL BUSINESSES? BECAUSE THESE TESTS ARE COMPLICATED, IT IS IMPORTANT THAT THE RLA BE INVOLVED IN THIS QUESTION AT AN EARLY POINT IN PP DESIGN, TO HELP THE PP SIMPLIFY APPLICATION OF LAUTENBERG AS MUCH AS POSSIBLE.

C. FUNDRAISING ACTIVITIES. THE PP SHOULD ENSURE THAT THE PROPOSED ASSISTANCE TO CZI FOR FUNDRAISING FOR ZEDA STAY WITHIN THE EXCEPTION, SET FORTH IN OMB'S NOV. 18, 1998 LETTER TO CIRCULAR A-122'S DISALLOWANCE OF FUNDRAISING COSTS. THIS EXCEPTION IS THAT UNDER HE 13 A.L.D. MAY FINANCE THE COSTS OF TA TO AND TRAINING OF INDIGENOUS OVERSEAS ORGANIZATIONS IN THE METHODS AND TECHNIQUES OF FUNDRAISING TO INCREASE THEIR CAPABILITIES TO RAISE CAPITAL, THROUGH METHODS SUCH AS SEMINARS AND WORKSHOPS IN FUNDRAISING TECHNIQUES, ASSISTANCE IN PROPOSAL WRITING, AND ADVICE ON THE FUNDRAISING INDUSTRY IN GENERAL, INCLUDING METHODS OF SELECTING POTENTIAL DONORS, PRESENTING PROPOSALS TO SUCH DONORS AND CONTRACTING WITH FUNDRAISING AGENTS. A COPY OF THIS LETTER WAS GIVEN TO USAID/HARARE PDO. MISSION SHOULD ALSO CONSULT WITH RLA ON THIS POINT EARLY IN PP DEVELOPMENT.

D. GENDER ISSUES. THE MISSION HAS SUBMITTED A SOW FOR A GENDER SPECIALIST TO PERFORM A SOCIAL SOUNDNESS ANALYSIS AS PART OF THE PROJECT PAPER DESIGN. IN ADDITION THE MISSION AND PPC/WID HAVE AGREED THAT A GENDER-SPECIALIST WILL ASSIST IN THE PROPOSED SMALL SCALE ENTERPRISE SURVEY.

E. FUTURE OIP FUNDING LEVELS. LANGUAGE IN THE PID

SUGGESTS THAT THE OYB FOR THE BILATERAL PROGRAM IN ZIMBABWE WILL BE INCREASED IF THE GRZ SUCCESSFULLY IMPLEMENTS POLICY REFORM MEASURES. THE ECPR REMINDED THE MISSION THAT NO DECISIONS IN THIS REGARD HAVE BEEN TAKEN. STANDING PROGRAM GUIDANCE REMAINS VALID. THEREFORE, CARE SHOULD BE TAKEN THAT THE PROJECT NOT BE DEPENDENT UPON AN INCREASED OYB OR A LARGE NPA FOLLOW-ON EFFORT.

F. HOST COUNTRY CONTRIBUTION. THE EP SHOULD INCLUDE A DETAILED BUDGET FOR THE 25 PERCENT HOST COUNTRY CONTRIBUTION WHICH DETAILS WHAT THE HOST COUNTRY WILL CONTRIBUTE. NEW GUIDANCE ON HOST COUNTRY CONTRIBUTIONS IS CIRCULATING FOR CLEARANCE. THE GUIDANCE IS LIKELY TO BE FAIRLY RIGID ABOUT ALLOWABLE HOST COUNTRY CONTRIBUTIONS AND MONITORING THEIR RECEIPT. THE PROJECT PAPER SHOULD ALSO CONTAIN A DISCUSSION OF PROJECT MANAGEMENT SYSTEMS FOR MONITORING COUNTERPART

CONTRIBUTIONS SINCE THEY ARE LIKELY TO COME FROM A VARIETY OF SOURCES. THE HOST COUNTRY CONTRIBUTION CONTAINED ON THE FACE SHEET FALLS SLIGHTLY SHORT OF 25 PERCENT OF THE TOTAL PROJECT COST, AND SHOULD BE RAISED TO EQUAL 25 PERCENT.

G. PROJECT MANAGEMENT. THE ECPR SUPPORTED THE MISSION'S PROPOSAL THAT A SARP-FUNDED BUSINESS ADVISOR PSC MANAGE PROJECT ACTIVITIES. THIS IS BASED ON THE ASSUMPTION THAT THE PSC WILL SPEND MORE THAN 50 PERCENT OF HIS/HER TIME ON ACTIVITIES THAT ARE ON THE SARP QUOTE PROGRAMME OF ACTION UNQUOTE. TO MEET THE STATUTORY TERMS OF THE SARP EARMARK THAT EARMARKED FUNDS BE USED FOR QUOTE ACTIVITIES SUPPORTED BY SADCC UNQUOTE EARMARK-FUNDED

ACTIVITIES HAVE ESSENTIALLY HAD TO BE ON THE SADCC QUOTE PROGRAMME OF ACTION UNQUOTE. WHILE, GIVEN THE PILOT NATURE OF THIS EFFORT WE EXPECT THAT THE PSC WILL BE IN THE BEST POSITION TO IDENTIFY POTENTIAL SUCCESSES FOR REGIONAL REPLICATION, THIS WOULD NOT QUALIFY THE PSC FOR SARP FUNDING.

Annex I.B.
Page 7 of 8

H. IEE. THE PID DISCUSSION OF THE RECOMMENDED ENVIRONMENTAL THRESHOLD DECISIONS CONTAINS TWO CONTRADICTORY POINTS. (1) IT STATES, INCORRECTLY, THAT BY SIGNING THE PID FACESHEET, THE MISSION DIRECTOR CONCURS IN A NEGATIVE DETERMINATION, WITHOUT ANY SUPPORTING NARRATIVE, AND (2) IT THEN STATES THAT AN IEE WILL BE CONDUCTED DURING PID DESIGN, IMPLICITLY REQUESTING A DEFERRAL OF THE IEE UNTIL THE PP STAGE. IN ORDER FOR AN IEE TO BE APPROVED, THE MISSION MUST SUBMIT THE COMPLETED IEE, WITH SUPPORTING NARRATIVE, TO THE BUREAU'S ENVIRONMENTAL OFFICER. THE MISSION AGREED TO SEND IN AN IEE REQUESTING A CATEGORICAL EXCLUSION FOR TA AND TRAINING. IF ANY PORTION MUST BE DEFERRED (FOR INSTANCE, IF THE PROJECT WILL INCLUDE ASSISTANCE TO THE PHYSICAL PART OF THE BUSINESS INCUBATORS), IT SHOULD CONTAIN A REQUEST FOR A DEFERRAL FOR THAT PORTION, WITH A SUPPORTING EXPLANATION AND ANTICIPATED TIME (PRIOR TO PP FINALIZATION) WHEN THAT PART OF THE IEE WILL BE SUBMITTED. DETERMINATION. IN ORDER FOR AN IIE TO BE APPROVED, THE MISSION MUST SUBMIT THE COMPLETED IIE TO THE BUREAU'S ENVIRONMENTAL OFFICER. THE MISSION AGREED TO SEND IN AN IEE REQUESTING A CATEGORICAL EXCLUSION.

I. GRAY AMENDMENT CONSIDERATIONS. WHILE THE PID INDICATED THAT FIRMS ELIGIBLE FOR PREFERENTIAL

CONSIDERATION UNDER GRAY AMENDMENT PROVISIONS WILL BE ENCOURAGED TO PARTICIPATE IN PROJECT PAPER DESIGN AND IN SUBSEQUENT PROJECT IMPLEMENTATION ACTIVITIES, THE MISSION IS REMINDED THAT THE INVOLVMENT OF U.S. DISADVANTAGED ENTERPRISES IN THE DESIGN AND IMPLEMENTATION OF USAID/ZIMBABWE ACTIVITIES OVER THE PAST SEVERAL YEARS HAS BEEN, AT BEST, MINIMAL. THIS PROJECT AFFORDS THE MISSION WITH AN OPPORTUNITY TO IMPROVE ITS PERFORMANCE ON GRAY AMENDMENT CONTRACTING.

IN ADDITION, A.I.D. IS REQUIRED TO INCLUDE IN ANY CONTRACT IN EXCESS OF \$500,000 (UNLESS THE PRIME CONTRACTOR IS ALREADY A DISADVANTAGED ENTERPRISE), A PROVISION REQUIRING THAT NOT LESS THAN TEN PERCENT OF THE DOLLAR VALUE OF THE CONTRACT BE SUBCONTRACTED TO DISADVANTAGED ENTERPRISES.

AFR MINORITY/SMALL BUSINESS ADVISOR WILL BE HAPPY TO PROVIDE MISSION WITH NAMES OF DISADVANTAGED ENTERPRISES THAT POSSESS THE EXPERTISE TO PARTICIPATE IN EITHER DESIGN OR IMPLEMENTATION OF THIS ACTIVITY.

J. THE ECPR UNDERSTOOD (P. 26) THAT THE INTENT WAS TO OBLIGATE FUNDS WITH THE GOZ AND TO COMMIT (NOT OBLIGATE) THEM THROUGH DIRECT A.I.D. CONTRACTS.

K. SOME ELEMENTS OF THE MAPS SCOPE OF WORK (ANNEX B) READ AS IF THEY ARE MORE APPROPRIATE FOR PD AND S, RATHER THAN PROJECT, FUNDING, IN THAT THEY ARE FRAMED IN TERMS OF PROVIDING ASSISTANCE TO A.I.D. IN MEETING ITS OWN PLANNING AND ANALYTICAL REQUIRMENTS, RATHER THAN ASSISTANCE TO ZIMBABWE. THE EXPR SUGGESTS THAT THE SOW BE REFRAMED TO MAKE IT APPROPRIATE FOR PROJECT FUNDING.

5. SUBJECT TO THE GUIDANCE CONTAINED HEREIN, MISSION AUTHORITY TO APPROVE THE PP AND AUTHORIZE THE PROJECT PER DOA 551 IS HEREBY CONFIRMED. PLEASE SEND AFB/PD A COPY OF THE PP, THE PROJECT AUTHORIZATION AND SUPPORTING DOCUMENTS (INCLUDING ACTION MEMORANDUM AND MISSION ISSUES PAPER FOR ECPR-TYPE REVIEW) UPON COMPLETION. PER MISSION SCHEDULE, WE ANTICIPATE RECEIPT OF DOCUMENTATION IN FEBRUARY 1991. BAKER
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5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. Negative certification (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No

b. Positive certification (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct

N/A

source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

c. Government Policy (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)).
(This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.)
If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress

N/A

listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. Indebtedness to U.S. citizens (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

3. Seizure of U.S. Property (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

4. Communist countries (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by

No

the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. **Mob Action (FAA Sec. 620(j)):** No
Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

6. **OPIC Investment Guaranty (FAA Sec. 620(l)):** Yes
Has the country failed to enter into an investment guaranty agreement with OPIC?

7. **Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5):** No
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. **Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)):** No
(a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds? No

- 100

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Zimbabwe, s UN obligations are fully paid.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

No

No

b. Airport Security (ISDCA of 1985 Sec. 552(b)). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. Discrimination (FAA Sec. 666(b)). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

14. Nuclear Technology (FAA Secs. 669, 670). Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 669E permits a special waiver of Sec. 669 for Pakistan.)

No

15. Algiers Meeting (ISDCA of 1981, Sec. 720): Was the country represented at Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

N/A. While reported to have failed to disassociate itself from the communique, this was taken into consideration by the Administrator at the time of approval of the Agency OYB.

16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

B. **COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")**

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary

No

sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

N/A

115

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of country to receive assistance. This section divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources; Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts
(FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development an use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The project will encourage private sector initiatives and competition, discourage monopolistic practices and improve technical efficiency of industry and commerce.

2. U.S. Private Trade and Investment
(FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will encourage joint ventures between local and U.S. firms and promote business linkages between large and small firms, some of which may well be U.S. organizations

116

3. Congressional Notification

a. **General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes, Congress has been properly notified.

b. **Notice of new account obligation (FY 1991 Appropriations Act Sec. 514):** If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)):** If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans (FAA Sec. 611(a)):** Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

5. **Legislative Action (FAA Sec. 611(a)(2)):** If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action

N/A

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A to this project.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The project will encourage private sector initiatives and competition, discourage monopolistic practices and improve technical efficiency of industry and commerce.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will encourage joint ventures between local and U.S. firms and promote business linkages between large and small firms, some of which may well be U.S. organizations.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The Financial Tables indicate Host Country contribution, and will form part of the project grant agreement.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

| | |
|---|-----|
| (1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, | Yes |
| (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account? | Yes |

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of No

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

14. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Yes

Yes

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Yes

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This requirement will be met.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy):

Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms?

Yes

Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

Yes

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No

b. Will any funds be used to lobby for abortion? No

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? N/A

21. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. The Financial Tables indicate Host Country contribution, and will form part of the project grant agreement.

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? N/A

22. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes, every arrangement has and will be given.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? Yes

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

Yes

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

N/A

h. U.S. air carriers

(International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes

j. Consulting services

(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes

k. Metric conversion

(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest

Yes

Yes

125

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? Yes

1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

3. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

25. **Communist Assistance** (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S. unless a waiver is obtained? Yes

31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? N/A
32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? N/A
33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? N/A
34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? N/A
35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes
36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? No

37. **Marine Insurance (FY 1991 Appropriations Act Sec. 563):** Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

38. **Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569):** Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment):** If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

N/A

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project will provide appropriate technical expertise to the business community and promote needed business linkages between large and small firms which will increase efficiency and employment opportunities.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries

The project will broaden indigenous participation in the economy at the small scale level through the provision of low, cost appropriate technical expertise and by facilitating spin-offs from large to small firms.

and the improvement of women's status; and
(e) utilize and encourage regional
cooperation by developing countries.

7. Recipient Country Contribution
(FAA Secs. 110, 124(d)): Will the
recipient country provide at least 25
percent of the costs of the program,
project, or activity with respect to which
the assistance is to be furnished (or is
the latter cost-sharing requirement being
waived for a "relatively least developed"
country)?

Yes, the Host Country will
provide 25% of project costs

8. Benefit to Poor Majority (FAA
Sec. 128(b)): If the activity attempts to
increase the institutional capabilities of
private organizations or the government of
the country, or if it attempts to
stimulate scientific and technological
research, has it been designed and will it
be monitored to ensure that the ultimate
beneficiaries are the poor majority?

Yes

9. Abortions (FAA Sec. 104(f); FY
1991 Appropriations Act, Title II, under
heading "Population, DA," and Sec. 535):

a. Are any of the funds to be
used for the performance of abortions as a
method of family planning or to motivate
or coerce any person to practice
abortions?

No

b. Are any of the funds to be
used to pay for the performance of
involuntary sterilization as a method of
family planning or to coerce or provide
any financial incentive to any person to
undergo sterilizations?

No

c. Are any of the funds to be
made available to any organization or
program which, as determined by the
President, supports or participates in the
management of a program of coercive
abortion or involuntary sterilization?

No

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

N/A

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

It is impossible to determine an exact portion at this time as potential project implementing partners will be identified in initial phases of project components.

12. **Biological Diversity** (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. **A.I.D. Regulation 16**: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

N/A

b. **Conservation**: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

N/A

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

| | |
|--|----|
| c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; | No |
| (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; | No |
| (3) activities which would result in the conversion of forest lands to the rearing of livestock; | No |
| (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded | No |

forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

No
No

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

N/A

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

Yes

Yes

private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

Yes

Yes

Yes

Yes

16. **Debt-for-Nature Exchange (FAA Sec. 463):** If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

126

17. Deobligation/Reobligation
(FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. Loans

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. Long-range plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. Interest rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from

The project's goal is to increase economic growth of the kind that broadens indigenous ownership of small firms.

12/2

cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

- a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N/A
- b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; N/A
- c. research into, and evaluation of, economic development processes and techniques; N/A
- d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A
- e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A
- f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A
2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? N/A
3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A
4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A
5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:
 - a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

N/A

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

N/A

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

N/A

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

INITIAL ENVIRONMENTAL EXAMINATION

Country: Zimbabwe
Project Title: Zimbabwe Business Development (613-0232)
Funding: Proposed Life of Project Funding - \$4.5 Million (DPA)
Life of Project: Three Years (FY's 1991-94)

Activity Description:

The project is intended to foster private enterprise growth by facilitating local and foreign investment and expanded indigenous entrepreneurship. It consists of a set of technical assistance and training activities that will contribute to the success of the Government's recently announced economic structural adjustment and trade liberalization programs. Project-funded activities will include: technical assistance for business development, technical assistance and training for investment promotion, and studies and analyses.

Environmental Action Recommended:

Positive Determination _____
Categorical Exclusion _____ X _____
Negative Determination _____

Discussion:

The project qualifies for a categorical exclusion in accordance with Section 216.2(c)(2) of the Code of Federal Regulations relating to technical assistance and training (sub-section I) and to development of host government capacity for future planning (sub-section xiv). The project does not include activities directly affecting the environment.

Determination:

Ted D. Morse, Mission Director, USAID/Zimbabwe

Approved: Ted D. Morse

Date: Nov. 14, 1990

Bureau Environmental Officer's Recommendation:

Approved: ✓ Jul. J. [Signature]
Disapproved: _____

Date: 11/21/90

APR/GC Clearance: 11/11/90
12/7/90

Gray Amendment Considerations

Discussion:

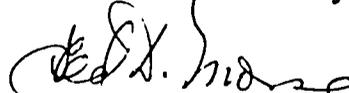
The Gray Amendment (Section 579 of P.L. 101-167, the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1990) requires AID to ensure participation in AID projects by business concerns which are owned and controlled by socially and economically disadvantaged individuals, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic American, and private voluntary organizations which are controlled by individuals who are socially and economically disadvantaged, including women, (referred to herein as Gray Amendment entities).

The requirements of AIDAR Notice 90-2, implementing Section 579 of the Foreign Assistance Appropriations Act requires that for any contract in excess of \$500,000 (except for a contract with a disadvantaged enterprise) not less than 10 percent of the dollar value of the contract must be subcontracted to Gray Amendment entities, unless the contracting officer certifies that there is no realistic expectation of U.S. subcontracting opportunities or unless the administrator approves an exception. This provision applies to buy-ins as well as project specific contracts.

Certification:

Elements of this project are appropriate for minority or Gray Amendment organization contracting. The procurement plan of this project has been developed with full consideration of maximally involving Gray Amendment organizations in the provision of required goods and services. The Mission will make every effort to identify disadvantaged enterprises, particularly women and minority-owned firms, which can handle studies and analyses planned in the project. Where possible, qualified Gray Amendment firms will be given consideration for direct contracting by the Mission as well as consideration under buy-in options for services required.

Furthermore, the Mission will, in the case of any contract in excess of \$500,000 funded from amounts covered by the Gray Amendment, include a provision requiring that no less than 10 percent of the value of the contract be subcontracted to Gray Amendment entities unless the contracting officer certifies that there is no realistic expectation of U.S. subcontracting opportunities, or unless the prime contractor is a Gray Amendment entity.



Ted D. Morse, Director

Date: Aug. 5, 1991

Clearance:

RLA: Keene/Spielman fax of 6/19/91

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

ASSUMPTIONS

GOAL

Increase private sector-led economic growth that results in increased job creation, foreign exchange earnings and broadened indigenous participation in the economy.

(a) EPZ (b) Business Linkage (c) VBAS

Number of jobs created by targeted beneficiaries.

Forex earned by targeted beneficiaries.

(b) Business Linkage and (c) VBAS

Number of indigenous-owned businesses created or strengthened within targeted beneficiaries.

(a), (b) and (c)
Project-funded baseline studies.
Final Evaluation.

1. Post sanctions South Africa will not adversely affect Zimbabwe trade, labor and capital flows to preclude economic growth.
2. AIDS epidemic will not preclude economic growth.
3. SAP will not be derailed, thereby maintaining suitable climate for economic growth.

PURPOSE

Test the effectiveness of selected interventions in fostering private sector enterprise growth through facilitating local and foreign investment and expanded indigenous enterprise.

(a) EPZ

EPZ regulations and operating procedures determined operational by AID and GOZ and accepted as capable of stimulating investment in principal by GOZ or rejected as not viable.

(b) Business Linkage

Performance of sample measured using results of operational test provided to AID by Phase II grantee indicating extent of business linkage development and associated impact on investment.

(c) VBAS

Feasibility of establishing Zimbabwe Retired Executive Service Corps is determined using results of operational test of ZESC provided to AID by contractor.
Number of IESC assistance packages prescribed in Grant completed and client firms are more efficient and worthy of increased investment.

(d) Analytical Reports

Series of assessments to add to general understanding of SME, large sectors and various business related topics by AID, other donors and GOZ that will assist in designing interventions to increase investment.

(a) EPZ

AID evaluation and review of GOZ strategy to implement regulations and procedures.

(b) Business Linkage

Qualitative and Quantitative assessment of test results in form of grantee report and AID evaluation.

(c) VBAS

AID project evaluation of IESC activities. Grantee reports on operational testing phase of ZESC.
IESC grantee quarterly reports.

(d) Analytical Reports.

Assessment by AID, other donors and GOZ of assessments.

1. GOZ maintains political will to support SAP. Activities need to provide required investment climate.
2. Sufficient financial support exists to establish EPZ related industrial infrastructure.
3. Private sector takes leading role in developing EPZ regime.
4. General investment climate is enhanced by SAP.
5. Sufficient financial and political support exists to ensure the continuation of SAP.

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | ASSUMPTIONS |
|---|--|--|--|
| OUTPUTS | | | |
| <p>1. EPZ</p> <p>a. Feasibility and analytical work completed.</p> <p>b. Implementing institutions in place and EPZ consciousness raised.</p> <p>c. Legalization of EPZ.</p> <p>d. Environment for operational EPZ in place.</p> <p>2. Business Linkage</p> <p>a. Increased understanding of existing Business Linkages and their constraints.</p> <p>b. Increased understanding of need and opportunities for Business Linkages.</p> <p>c. Operational Testing of sample of Business Linkages.</p> <p>3. VBAS</p> <p>a. Increased understanding of requirements to establish ZESC program and potential benefits to be provided.</p> <p>b. Transfer of technical expertise to Zimbabwe private sector.</p> <p>4. Analytical Studies</p> <p>a. Increased understanding of productive sector.</p> <p>b. Increased Understanding of SME sector.</p> <p>c. Increased understanding of various topics under ISR.</p> <p>5. Quick Response Fund</p> <p>Flexible support for project components and flexible reprogramming mechanism.</p> | <p>1. EPZ</p> <p>a. Feasibility analysis complete.</p> <p>b. EPZ working group established and exposure tours, workshops, seminars, training conducted.</p> <p>c. EPZ legislation adopted.</p> <p>d. EPZ regulations and operating procedures drafted.</p> <p>2. Business Linkages</p> <p>a. Baseline Survey, constraints analysis, exposure tour implementation recommendations and workshop completed.</p> <p>b. Needs assessments completed of large and small firms.</p> <p>c. Standard commercial performance statistical parameters, i.e. profitability sales revenue, etc., tailored to individual firms observed.</p> <p>3. VBAS</p> <p>a. Needs assessment completed.</p> <p>b. VEs, ABLEs, Joint Venture packages detailed in Grant SOM completed.</p> <p>4. Analytical Studies</p> <p>Surveys, analyses and studies.</p> <p>5. Quick Response Fund</p> <p>Completion of activities.</p> | <p>1. EPZ</p> <p>a. AID review of analyses and AID project evaluation.</p> <p>b. AID liaison with working group and relevant GOZ officials. AID observers at workshops, seminars and minutes from same. Exposure tour trip reports. AID project evaluation.</p> <p>c. AID review of documentation on legislation. AID evaluation.</p> <p>d. AID review of regulatory and procedural documents. AID evaluation.</p> <p>2. Business Linkage</p> <p>a. AID review of survey, analyses and other appropriate documentation. AID observer at and minutes of workshop. Exposure tour trip reports. Commodity arrival accounting by Grantee.</p> <p>b. AID review of assessments. AID project evaluations.</p> <p>c. Accounting and financial records of firms involved in operational test. Grantee performance reports, AID project evaluation.</p> <p>3. VBAS</p> <p>a. AID review of assessments and contractor/grantee performance reports.</p> <p>b. Grantee performance reports. Liaison between AID and Grantee.</p> <p>4. Analytical Studies</p> <p>a. AID review of completed analyses.</p> <p>b. Final project evaluation.</p> <p>5. Quick Response Fund</p> <p>a. AID review of assessment and contractor/grantee reports.</p> <p>b. Project monitoring and final evaluation. MACS Accounting reports. Contract documentation and performance reports by contractors.</p> | <p>Due to phased nature of project components, "Go Ahead" decisions must be justified at each "Go-No-Go" decision point during project implementation; outputs will be reduced in unsuccessful components that are discontinued.</p> |

146

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | ASSUMPTIONS |
|--|---|--|-----------------------------------|
| INPUTS | | | |
| 1. EPZ a. Long and short term technical assistance. b. Studies, workshops, seminars, briefings, exposure tours, training. 2. Business Linkages a. Long and short terms technical assistance b. Needs assessment, workshop, advisory services. c. Office equipment and vehicle 3. VBAS a. Short term technical assistance (ZESC) b. Grant Support (IESC) 4. Analytical Studies a. Short terms technical assistance b. Long-term technical assistance contract, to provide short-term consultancies 5. Quick Response Fund Interventions to be determined according to project criteria in support of project purpose. | 1. EPZ Timely expenditures and AID direct contracting 2. Business Linkages Timely expenditures and AID direct contracting/signing of grants. 3. VBAS Timely expenditures and AID direct contracting (ZESC)/ signing of a Grant (ZESC and IESC) 4. Analytical Studies Timely expenditures and AID direct contracting 5. Quick Response Fund Expenditures in compliance with project programming criteria. | 1. EPZ MACS Accounting reports. Contract documentation and performance reports by contractors. 2. Business Linkages MACS Accounting reports. Contract documentation and performance reports by contractors/ Grantees. 3. VBAS MACS Accounting reports. Contract documentation and performance reports by contractors/ Grantees. 4. Analytical Studies MACS, contractor performance reports 5. Quick Response Fund MACS reports, project monitoring, contractor performance reports | Required funds will be available. |

1997

Annex 2.B

ILLUSTRATIVE POSITION DESCRIPTION FOR ZBD PROJECT MANAGER (1)

Article I. Objective:

The Project Manager will be responsible for management and implementation of the Zimbabwe Business Development Project. The Project Manager will also serve as a principal liaison officer with the local business community and a technical resource person to the Mission on the planning for and development of private sector activities in the Mission's project/program portfolio.

Article II. Responsibilities:

The contractor will provide leadership and guidance for the timely and successful implementation of the ZBD project.

The contractor will be responsible for all aspects of ZBDP implementation. This includes, but is not limited to,

- * developing the necessary scopes of work and PIO/Ts for ZBDP contractors,
- * liaising with the AID/W central project officers for all buy-ins,
- * liaising with the GOZ, and ZBDP implementation entities (contractors, grantees, etc), and other interested private sector entities.
- * reviewing contractor proposals and deliverables where appropriate,
- * organizing and managing the internal ZBD project development committee, and the external Private Sector Advisory Board (the latter in coordination with ZIMMAN project management),
- * preparation of all project related implementation documentation and official correspondence,
- * day to day project monitoring and management of informal evaluations,

The contractor will produce and present the necessary internal USAID/Zimbabwe documentation for ZBDP, under supervision of the ZBD Project Officer. This includes, but is not limited to, the Project Implementation Orders, Letters and Reports, Congressional Notifications, and review of vouchers.

Note:

In recognition of the fact that individuals with required qualifications are in very high demand in the local economy, alternatives to pay a competitive salary will be investigated.

The contractor will stay current with private sector developments in Zimbabwe and the region, including other donor projects, and brief the mission, especially where it may directly affect ZBDP implementation or effectiveness.

The contractor will assist in preparing for the scheduled final ZBDP evaluation and audit.

Article III. Administrative Relationship

The Project Manager will report directly and be supervised by the direct hire Project Officer who has responsibility for ZBDP. He/she will also be provided technical guidance by the Regional Trade and Investment Advisor.

Article IV. Work Plans

The project manager will be required to develop with his or her supervisor an Annual Work Plan. The work plan will detail strategies and schedules for the completion of key project implementation activities.

Article V. Terms of Performance

It is envisaged that the contract period will be approximately 2 years, subject to review of performance after the first year. USAID/Zimbabwe will retain an option to renew the contract for up to one year, subject to the needs of the Mission and the availability of funds.

Article VI. Qualifications:

Academic:

Undergraduate degree in business, economics, or related discipline from a well regarded program; overseas would be a plus.

Prefer a Masters level degree in business, economics, or related discipline, especially from an well regarded overseas university (note: specialized undergraduate degree not required if candidate has specialized masters level degree).

Work Experience:

At least two years work experience in an industrial, financial, or commercial business; overseas work experience a plus.

Alternatively, at least two years experience in an organization serving the business community (e.g., chamber of commerce, or small enterprise development corporation).

Experience in the following considered a plus -- subcontracting, foreign investment or export promotion, policy analysis, business advisory services.

Experience with USAID systems and procedures a plus.

Zimbabwe Permanent Resident or Citizen only:

USAID/Zimbabwe has made a multi-year commitment to the ZBD Project, and therefore expects to achieve a degree of continuity from the Project Manager. A strong preference will be given to a permanent Zimbabwe resident or citizen with a commitment to the country, who would be interested in staying in this position for at least several years.

ACTION MEMORANDUM TO THE COGNIZANT GRANTS OFFICER

Subject: Justification for Noncompetitive Award of a Grant to the International Executive Service Corps (IESC)

FROM: Jim Harmon, PDO

Discussion:

IESC is a private, non-profit organization that provides business advisory services through its corps of retired volunteer executives and technical experts. The organization was founded in 1965 and, to date, has completed over 11,500 projects in more than 80 countries. IESC is funded by grants from AID, by client contributions and by contributions from sponsors in the U.S. and abroad. Headquartered in Stamford Connecticut, the organization has a resource bank of about 10,000 retired executives and a council of local business leaders in each country of operations who help direct the activities of that particular branch. IESC's mission is to help businesses in developing countries to upgrade management skills, improve basic business technologies and promote better trade relations around the world.

In achieving its mission, IESC provides four basic services, which are:

Volunteer Executives (VE) - who offer in-country management or technical expertise directly to client firms.

ABLE projects which are in-depth information services giving clients access to technology sources, marketing opportunities and funding availability.

Joint Venture Feasibility Fund (JV) which encourages joint ventures between U.S. companies and firms in developing countries.

Diagnostic projects where a volunteer spends two to three weeks with a client to pinpoint problems and opportunities.

IESC has operated in Zimbabwe under AID financing since September 13, 1985, when \$100,000 was provided through a subgrant, authorized under a bilateral grant between the Governments of the United States and Zimbabwe. The subgrant, with a PACD of September 30, 1986, provided funding for the establishment of a local office, coverage of operating expenses, and the provision of per diem and travel for volunteer executives. Under this initial subagreement, IESC successfully achieved the stated purpose of the program to provide low cost technology transfer and management expertise to Zimbabwe in the form of VEs and supply information through ABLE projects.

The IESC subgrant was subsequently amended four times to bring total project funding to \$560,000 and extend the PACD to September 30, 1990. These amendments reinforced the the need for IESC to target small businesses (less than 50 employees) for VE assistance. To date the IESC program in Zimbabwe has completed over 80 VE projects, with a number of companies having more than one VE. Since 1988, 11 ABLE projects have also been completed. Although eligible for funding, no JVs have been completed.

IESC has a long and successful history of providing managerial and technical expertise to the Zimbabwean business community; similar PVO assistance has not been generally available. No other American organization has provided in the past or is currently planning to provide low cost, experienced volunteer business advisory services (VBAS) in-country. Although a Peace Corps program is now being established, their volunteers are usually much less experienced than IESC personnel and are provided on a long term basis, not for short term consultancies required by IESC clients. Other countries have VBAS programs in Zimbabwe, including the Netherlands, U.K. and Germany. However, none of them provide the breadth or depth of IESC's corps group of volunteers or services. The other VBAS programs are less expensive than IESC, some as little as one fifth of the cost of IESC. On the other hand, demand for IESC VEs greatly exceeds supply, even with the relatively high fee structure. Clearly the market is clamoring for IESC services and is willing to share a large share of the costs.

One of the most salient characteristics of IESC assistance in Zimbabwe is the number of client requests for repeat consultancies. Out of the total number of over 80 VEs to date, nearly twenty have been repeats. In addition to an obvious vote of confidence in the quality and value of IESC services, this is indicative of the fact that the business community values the working relationship developed over the years with IESC. IESC understands important variables such as the types of firms comprising local business community, business support organizations, regulatory environment, level of technical and managerial sophistication, and labor force. Since the funding to be provided under ZBDP will assist the same target group that included past beneficiaries, it is highly likely that a number of local firms will desire to continue their client relationships with IESC. Furthermore, the Government of Zimbabwe repeatedly expressed its desire to continue the relationship with IESC by approving 5 subgrants which provided AID funded assistance between 1985 and September 1990. The GOZ reinforced their desire to continue the relationship during ZDBP project design and preliminary reviews of the project paper. The IESC Private Sector Advisory Board have also requested on numerous occasions that AID continue to support and expand IESC services in Zimbabwe.

An August 1990 program evaluation concluded that "In general, IESC has achieved its purpose and and it has provided substantial assistance to a broad range of clients within the established productive sector." The evaluation noted that the program had assisted in increasing employment and turnover, and had demonstrated a positive impact on production streamlining, cost cutting, improved quality control and and better safety measures. The major shortcoming of the program was that it had not met USAID expectations in respect of assistance to small businesses. Only the relatively minor ABLE program had been consistently been used by small businesses. The evaluation consultants concluded that the program deserved continued USAID support to ensure its sustainability and that there could be a requirement for an increase in support if the evaluation recommendations to target small businesses were effectively implemented.

152

Major evaluation recommendations and their current status are summarized below:

| <u>Recommendation</u> | <u>Status</u> |
|--|--|
| USAID should consider funding a small business development director. | To be included in ZBD funded program. |
| The IESC advisory business council should be expanded to include one or two heads of African-owned businesses. | Implemented by IESC. |
| The client should be given a greater role in the selection process of volunteers. | IESC now provides the recommended 2 or 3 CVs to clients. |
| VEs should be given a briefing sheet on the Zimbabwe business climate to enhance preparation for assignments. | To be included in ZBD funded program. |
| IESC should establish a data base to improve program effectiveness. | To be included in ZBD funded program. |
| An audit should be completed to give IESC and AID a better picture of IESC's financial condition and actual costs. | Deloitte report completed in April 1991, with recommendations that accounting systems be improved. Recommendation to be implemented under proposed ZBDP grant agreement. |
| Encourage group projects with additional USAID funding to better utilize VE's time. | Bonus for group projects to be included in ZBD grant agreement. |
| Evaluations should be conducted every two years and evaluation impact forms should be utilized by IESC. | Evaluations and use of forms to be included in ZBD grant agreement. |

The above discussion illustrates that IESC has a long and successful record in providing managerial and technical expertise in Zimbabwe, and has established a valuable working relationship and trust within the business community through its over 80 interventions to date. No other organization, U.S. or otherwise, has this amount of experience or demonstrated competence in Zimbabwe. Further, IESC has been evaluated by USAID and has been found to provide a valuable and cost effective service. IESC has also been responsive to AID programmatic guidance; IESC has either implemented recommendations from USAID assessments or will carry out the remainder in the program to be funded under ZBD.

Under ZBDP, it is envisaged that a grant with IESC will be funded at a level not to exceed the budgeted amount of \$1,752,000, which has been based on a level of effort, and mix of tested and innovative interventions desired by the Mission. In view of this mix of interventions, IESC will prepare a proposal without knowledge of the level of ZDB budgeted funding and submit the document to USAID for review. If negotiations are successfully completed under the guidance of REDSO/ESA/RCO, a grant agreement will be prepared for signature by the Director, USAID/Zimbabwe.

Authority:

Handbook 13, Chapter 2.B.3 states that "Competition is not required for assistance awards for which one recipient is considered to have exclusive or predominant capability, based on experience, specialized facilities or technical competence, or based on an existing relationship with the cooperating country or beneficiaries."

Handbook 13. Chapter 2.B.4 states that "Noncompetitive awards must be justified in writing by the technical office. Justifications shall be based on one of the exceptions in para 2.B.3 above and shall provide sufficient evidence to clearly show that the exception is proper. The justification shall be submitted to the Cognizant Grant officer for review."

This is that justificaton.

Clearance:

Don Greemberg, TIA (draft)
Donald Keene, RLA (Keene/Spielman fax of 6/19/91)
Richard Womack, RCO (Womack/Harmon fax of 6/20/91)
Mary Lewellen, CONT (draft)
Patricia Buckles, CPDIS (draft)
Steve Spielman, DD (draft)

Project Design Response to A.I.D./W and Mission Guidance

- The PID did not indicate that the PP would contain a sufficient knowledge base, analysis and planning for the magnitude of specific project outputs expected to be achieved.

Response: All project components are thoroughly analyzed, utilizing the whole of the Mission's and specialist contractor's knowledge on Export Processing Zones, Business Linkages, Volunteer Advisory Services and areas covered by the analytical studies. However, the ZBD is a pilot project with a focus on testing interventions and learning in each of the project components, so the analytical and knowledge base is not the same as that of an operational activity designed to deliver specific outputs and impact. Project management, implementation monitoring and financing have been sufficiently planned for each project component, with specific selection criteria, an illustrative list of interventions, and an adequate budget developed for Response Fund activities.

- The PID did not consider the required regulatory changes or infrastructure financing that would produce an operating EPZ.

Response: In accordance with ECPR guidance, the project is now designed as a pilot activity that will determine which interventions have the greatest impact in improving the enabling environment for private sector investment in Zimbabwe. None of the project components is dependent on infrastructure financing. Furthermore, the pilot EPZ component, the only activity that deals with regulatory changes, is not dependent on regulatory changes. Instead, the EPZ intervention will assist the GOZ in the establishment of the desired EPZ regulations.

- The PP must lay out the kinds of questions that it seeks to answer as a pilot activity and develop systems for monitoring and evaluation to answer these questions.

Response: Section 6.4, Monitoring and Evaluation, provides a comprehensive set of questions that the project will attempt to answer. A detailed methodology to provide the answers is contained in Annex 5, Monitoring and Evaluation Plan.

- The project purpose should be refocused under a pilot project along the lines of testing the feasibility of or identifying the optimal means of fostering private enterprise growth through facilitating investment and expanded indigenous enterprise.

Response: The project purpose has been redefined to provide for a test implementation mode to identify efficient and effective interventions for improving the environment for private sector investment in Zimbabwe.

155-

- Project activities should focus on exploring modalities, with project outputs defined in terms of replicable results and/or determination of whether interventions are feasible, rather than in terms of achieving specific impacts.

Response: All project components are structured as either: (a) operational testing mechanisms to determine the feasibility and effectiveness of project interventions in improving the enabling environment for investment or (b) analytical studies designed to increase understanding of various aspects of the private sector and their relationship to enhanced investment and economic growth in Zimbabwe. It is envisaged that the analytical studies will provide major inputs for the Mission's Private Sector Development Strategy.

- Technical Analysis of Proposed Interventions. The ECPR, with concurrence of the Mission representative, provided guidance on the following points.
- a. Pilot Project. ZBD should be a pilot project, with an appropriate analytical basis, and should include the full extent of the Mission's knowledge of a particular subsector.

Response: The project has been designed as a pilot activity that incorporates the whole of the Mission's knowledge of Export Processing Zones, Business Linkages and the transfer of technical expertise to the local business community through Business Advisory Services. The need to expand this knowledge and identify/test effective project interventions is the rationale behind the operational testing mode of the project. The analytical studies component will enhance the Mission's knowledge of various aspects of the private sector, with a view toward the establishment of a Private Sector. In addition to AID, the GOZ private sector and other donors will benefit from the increased knowledge of the Zimbabwe private sector. The project will provide for appropriate dissemination of results of analytical studies to targeted beneficiaries

The analytical foundation of the PP has been strengthened and expanded in several areas. First the macroeconomic environment in which the project interventions will operate, and the basic problem of slow economic growth and a lack of investment is described and analyzed in Section 3, Project strategy and Rationale and the Economic Analysis. Project interventions that will enhance the enabling environment for increased investment are described in Section 4.0, Summary Project Description and are assessed in detail in Annex III.A, Technical Analysis. The linkage between insufficient investment and inadequate growth is discussed in Section 2.1.1 cause of the problem. Criteria for selection and rejection of project interventions is detailed in Section 3.4.1.

- b. Phased Activities. The project paper should consider the various stages of each pilot activity and discuss the phasing of these activities.

156

Response: The rationale for the phasing of each operational testing project component is discussed in Section 5, Summary Project Description and Annex III (A), Technical Analysis. The mechanism of implementing the operational tests in phases, with "go" or "no go" decisions made before moving on to a subsequent phase, was carefully considered by the design team and found to be very practicable. For instance, if phase 1 of a component testing phase indicates the activity is not a viable means to enhance the enabling environment for investment, the component will not be continued. Careful consideration was also given to A.I.D. management workload that would be required to implement and monitor the project in the event that all activities satisfied project criteria at each "go no-go" decision point and were carried out to completion. To ensure adequate AID project management, a full time PSC project manager for ZBD will be employed. The PID concern that the project contained too many components was addressed by dropping certain activities such as Entrepreneurial and Motivation and co-rporate Social Responsibility.

- c. 611(A)(1) Issues. If the project consists of a series of to-be-determined sub-activities, the PP could meet 611(A)(1) requirements for adequate planning by establishing criteria for sub-activity selection, procedures for sub-activity selection and review, and listing illustrative activities, costed out to total the budget element amount.

Response: The Quick Response Fund will finance activities to be determined in support of Operational Testing and Analytical studies project components. 611(A)(1) requirements have been met because a clearly defined set of selection criteria for these activities, described in Section 4.2.3. will be used to screen all Quick Response Fund activities for project funding. An illustrative listing of these activities is included in Annex 4, Detailed Project Description.

- d. 611(A)(2) Issues. If any legislative changes are required for the orderly accomplishment of the project purpose, A.I.D. must have a reasonable basis (with supporting facts) for concluding, prior to obligation, that the legislative changes will be accomplished in a timely manner. Structuring the project as a pilot would substantially reduce the likelihood of 611(A)(2) problems.

Response: In accordance with ECPR guidance, the project has been restructured as a pilot activity. Requirements of 611(A)(2) are no longer an issue since none of the ZBD components is dependent on changes in legislation. The Export Processing Zone component, the only ZBD intervention related to legislation, will develop new changes in EPZ enabling legislation. Since the purpose of the EPZ component is to establish the legislation, implementation of the activity is not dependent on the legislative change.

- e. Technical Analysis of Rejected Interventions. In setting the economic framework for the project, the PP should present a full rationale for the focus. The PID did not discuss explicitly what other investments were considered and rejected.

Response: The rationale for the project interventions which were considered and rejected is discussed in detail below. In conjunction with the analysis for components included in the project (see Annex 3.A, Technical Analysis) this section provides a complete rationale the focus of the project.

(1) Entrepreneurial Motivation

Responding to requests from the GOZ as well as from CZI, the design team carefully considered an entrepreneurial motivation component for secondary school students. In brief, the concept was to work through a contract with Junior Achievement, a U.S. based NGO. In selected pilot schools, students aged 14-18 would form mini-corporations, usually after school, under the guidance of Volunteer Advisers from business. The students would sell stock, elect officers, produce and market products or services, and liquidate all in about 15 weeks. Through this experience, the students would learn first hand what it meant to be a businessperson, and consider it as a possible career choice.

The Entrepreneurial Motivation component was rejected for several reasons:

- o The Mission does not have a sufficient understanding of the influence of the ordinary school curricula, social norms, and other countervailing phenomena on the impact of a "one-off" Entrepreneurial Motivation intervention. To gain this understanding would entail a major analytical effort, for which the mission has neither time nor skills.
- o The intervention was believed to be unable to achieve measurable results on employment, foreign exchange earnings, or broader distribution of productive assets within the life of project.

(2) Technical Assistance to Evaluate Investment Proposals

This component was initiated by a request from the Zimbabwe Investment Centre (ZIC), an autonomous government organization with the authority to expedite and promote investment in Zimbabwe. At ZIC's request, this component was withdrawn from consideration under the ZBD project. If ZIC requests assistance in this or any area in the future, consideration can be given for assistance to be delivered either through the ZBDP Quick Response Fund, ZIMMAN, or other appropriate vehicle.

(3) Corporate Social Responsibility

The Corporate Social Responsibility component was initiated, to a large extent, by a request from CZI. In brief, the Corporate Social Responsibility combined elements of the Business Linkage component, with activities meant to raise corporate consciousness about charitable contributions of funds, expertise, and equipment for "social investment" projects. To quote the report prepared by the consultant for the project paper,

"The main underlying principle of Corporate Social Responsibility is that a company acknowledges its symbiotic relationship with the wider society in which it trades. It then develops policies, backed by a variety of resources to achieve impacts on selected socio-economic problems. These problems usually have some relationship to the interests of the business because CSR programs are more likely to be motivated by a principal of 'enlightened self-interest' than pure philanthropy."

The Corporate Social Responsibility component was rejected, primarily because of the inability to translate the general notion of CSR charitable contributions into concrete project activities that would further the goals and purpose of ZBDP. However, an important element of CSR, Business Linkage, was refined and developed, and is now a key component of ZBDP.

(d) Business Incubator

The idea for a business incubator, that is, a physical facility combined with hands-on technical assistance to nurture emergent entrepreneurs until they could operate on their own, was explored in some detail at the concept paper and PID stage of ZBD project development. There are numerous examples of operating business incubator projects in the United States, and regionally, in South Africa.

Incubators, of course, are but one means to the end of facilitating SME enterprise development. The capital costs of such facilities are high relative to the number of SMEs they are able to help. This has two implications. First, it makes incubators a less attractive option in a project with limited funds. Second, even if incubators are "successful", the high capital costs makes replicability of the project option less clear.

In ZBDP, incubator initiative has been included as one of the possible options under the Business Linkage component. Specifically, if our needs assessment indicates that an incubator is an essential ingredient to our pilot activity, then we will explore if the other independent initiatives to create incubators are appropriate (e.g., the Anglo-American Msasa facility, the UNDP/SEDCO project). If the other incubator facilities are appropriate, but need additional assistance, Business Linkage funds could be used for this assistance. Alternatively, ZBDP funds be used for creation of the incubator.

- f. Future Activities. The Mission was encouraged to undertake the initial MAPS and Gemini surveys as soon as possible.

Response: The preliminary phase of the Gemini study will be carried out prior to authorization of project funding to ensure expeditious implementation. The MAPS study, included under the analytical project component, Description of the Productive Sector, will be implemented expeditiously.

- g. Participation of Host Country Entities. The ECPR encouraged the Mission to facilitate to the extent possible, the participation and leadership of grantees and beneficiaries in the conceptualization, design and implementation of project activities. The Mission was specifically requested to include in the PP an analysis of the administrative and outreach capability of each organization responsible for implementing each activity.

Response: The project envisages the leadership of a number of business associations (local and U.S.) and other local institutions in the implementation of the project. However, except for IESC which has been the subject of an AID evaluation and financial assessment, all other potential entities for project implementation responsibilities will be assessed for administrative and outreach capabilities during the initial part of the operational testing components.

- h. Lautenberg. The Lautenberg Amendment prohibits the use of project funds to "to directly procure feasibility or prefeasibility studies for, or project profiles of potential investment in, the manufacture" of certain commodities for export to the U.S. or to third world countries in competition with U.S. exports. It also prohibits use of these funds "to assist directly in the establishment of facilities specifically designed for the manufacture" of such commodities.

Response: The design team, including RLA, believes that no Lautenberg prohibitions exist under ZBD. First, although the project will support the establishment of laws and regulations to allow for the establishment of an Export Processing Zone, no specific support of identifiable export commodities will be provided. Second, other project components are not envisaged to have any impact on exports from Zimbabwe that affect US exports. Since the project does not support any specific exports, it is not appropriate or possible to apply the Lautenberg testing with respect to the following criteria identified by the ECPR: 1) direct or indirect assistance, 2) type of commodities and 3) export impact. Third, the project will not fund any manufacturing facilities.

- i. Fundraising Activities. The PP should ensure that proposed assistance to CZI for fundraising stay within the exception, set forth in OMB's November 18, 1988 letter, to the Circular 122 disallowance of fundraising costs.

Response: While the project does not envisage any assistance to organizations to develop their fundraising capabilities, special care will be given to ensure that any project financing will be provided in strict compliance with HB 13 guidance.

- j. Gender Issues. The Mission submitted a SOW for a gender specialist to perform a Social Soundness Analysis as part of the project design. In addition the Mission and PPC/WID have agreed that a gender specialist will assist in the proposed Small Scale Enterprise Survey.

Response: A gender specialist prepared the Monitoring and Evaluation Plan and Social Soundness Analysis of the project paper and other specialists will participate in the preparation of Small and Micro-Enterprise analytical work and an EPZ feasibility study.

- k. **IEE.** The PID contained two contradictions regarding approval of the IEE - one reference to approval at the PID stage and another to approval at the PP stage.

Response: The Mission submitted the completed IEE to the Bureau's Environmental Officer for approval. A categorical exclusion, approved by the Bureau's Environmental Officer and signed by the Director of USAID/Zimbabwe, is included in the project paper as Annex 1.D.

- l. **Gray Amendment Considerations.** The project affords the Mission with the opportunity to improve its performance on Gray Amendment contracting. In addition, AID is required to include in any contracts in excess of \$500,000 a provision requiring that 10% of the dollar value of the contract be subcontracted to disadvantaged enterprises.

Response: The project will be implemented using direct contracts as well as grants. It is envisaged that AID direct contracts with U.S. firms will be under buy-ins or IQCs, therefore removing Gray Amendment contracting considerations from the Mission to AID/W or REDSO/ESA where the contracts were let. All other contracts will either be with non-U.S. firms and /or will be well under the \$500,000 Gray Amendment threshold. Nonetheless, the Mission will give every consideration to contracting or subcontracting with Gray Amendment firms (see Gray Amendment discussion and certification in Annex I.E).

- m. **OYB Funding Levels.** Care should be taken that the project not be dependent on an increased OYB or a large NPA follow-on effort.

Response: The project design considers only currently approved funding levels in financing the implementation of the activity and the achievement of the project purpose. No follow-on NPA effort is anticipated or required to achieve project objectives.

- n. **Host Country Contribution.** The PP should contain a detailed budget for the host country contribution that details what the host country will contribute.

Response: The budget details a host country contribution in excess of 25% of total project costs.

- o. **Project Management.** The ECPR supported the Mission's proposal that a SARP-funded business advisor PSC manage project activities, provided that the advisor spend more than half his/her time on the "SARP Programme of Action."

Response: After further analysis of AID project management requirements, the design team believes that a full-time local PSC is necessary to adequately coordinate, monitor and manage the complex set of operational tests and analytical studies included under the project. Therefore, the PSC will be funded entirely under the project.

- p. MAPS Scope of Work. The SOW should be framed to make it more appropriate for project funding, not for PD&S as contained in the PID.

Response: MAPS is now clearly appropriate for project (not PD&S) funding as it has been designed to provide substantial benefits to the GOZ and other host country organizations, as well as AID and other donors.

• 162,

Annex 3.A - TECHNICAL ANALYSIS

This analysis provides a technical assessment and justification for project components, organized by project component:

- A. Export Processing Zones
- B. Business Linkages
- C. Volunteer Business Advisory Services
- D. Small Micro-Enterprise Survey
- E. Productive Sector Description

A. Export Processing Zones and Their Relevance to ZBDP

A1. Basic Concepts of Export Processing Zones

A free trade zone (FTZ) can be defined as a designated area, physically or administratively located outside the national Customs territory, wherein unrestricted trade is permitted with the rest of the world. Merchandise may be moved in and out of these zones free of Customs duty, stored in warehouses for varying periods, and repacked for re-export and transshipments.

Export Processing Zones (EPZs) are a relatively recent free trade zone innovation. Like FTZs, EPZs are outside the customs territory, but they are different in that they are explicitly designed to facilitate the processing, manufacture, and assembly of goods and services destined for export markets. As such, sponsoring countries have found EPZs to be a greater source than FTZs of job creation, foreign exchange earnings, and transfer of technology.

E2. The Basic Incentive Package for EPZs

To create an effective EPZ program, a government must be willing to offer an attractive legislative and regulatory environment to both foreign and domestic investors. The following incentives are typical of EPZ programs worldwide:

- o Full exemption from Customs duties, import and export taxes, and other levies on imported capital equipment, raw materials, intermediate goods, and supplies used in EPZ manufacturing, as well as the exportation of zone products. In addition, zone purchases and sales are not subject to sales taxes, transaction taxes, value-added taxes, or the like.
- o Income Tax relief, including corporate tax holidays for a defined period. Some locations such as Uruguay, Egypt, Jamaica and Honduras offer tax holidays in perpetuity. Premium locations such as Mauritius and Ireland impose a 10- 15 percent flat rate on corporate profits.
- o Unrestricted repatriation of capital, dividends, and profits. Many foreign investors will not even consider locating in countries without such guarantees.

- o Freedom from exchange controls. The type of foreign investors that invest in EPZ are unwilling to operate unless they are guaranteed immediate access to hard currency. This is vital, as investors are hesitant to risk exposure to devaluation, and Central Bank whims. Costa Rica's EPZ program stagnated for a number of years in part due to Central Bank control of EPZ firms' foreign exchange accounts. Many countries allow EPZ firms to hold foreign exchange accounts.
- o Regulatory Relief. Because the majority of EPZ firms are small or medium sized (by developed country standards), they cannot readily afford to be drawn into long and expensive bureaucratic review periods. A crucial aspect of successful EPZ programs is the simplification and streamlining of various approvals, permits, licenses, etc. that are required. This includes expedited investment approval, issuance of expatriate work permits, on-site custom inspection. Usually, no import or export licenses are required for zone firms.
- o Permission to utilize expatriate managers. In countries with shortages of skilled management personnel, this clause is particularly important. Most EPZ host countries allow for 10-20 percent of a firm's labor force to be expatriate.
- o Exemption from import restrictions and price controls. EPZ firms have proven most successful where they have right to obtain raw materials, equipment, and supplies from the suppliers they prefer, even if a given government considers a locally made product to be of similar quality and price. Similarly, EPZ firms expect market prices, rather than government-set prices, to prevail in the sale and purchase of goods and supplies.
- o Permission to establish firms with 100 percent foreign ownership. While some investors may prefer a joint venture arrangement to take advantage of a local partner's superior in-country knowledge and contacts, many foreign investors require the close control inherent in a fully-owned venture.

E3. Recent Innovations in EPZ Programs

Beyond the core incentives discussed above, a number of innovations have been made recently, some of particular relevance to Zimbabwe. These include:

- o Private sector development and management of EPZs. Private sector owned and managed zones have exhibited a much higher success rate than their public sector counterparts due to the better facilities and services offered. In addition, private capital can lead to a faster start-up and a reduction in government expenditures for the development of zone facilities and infrastructure. Zone developers are often granted the same incentive package as EPZ firms.

- o Private provision of utilities. In the Dominican Republic and elsewhere, zones are allowed to offer private electricity and telecommunications services. This has clearly improved the level of service, reduced operating costs for the EPZ tenants, and allowed for quicker connections. In Zimbabwe, the availability of private telecommunications service could reduce international telecommunications costs to as little as one tenth of current rates.
- o Flexibility in choosing locations. While EPZ industries traditionally have been found in industrial-estate style zones, a number of EPZ countries are allowing firms with zone status the alternative of operating as a single-factory zone. This flexibility is viewed positively by potential investors who may wish to locate close to the source of domestic raw materials, or inexpensive labor pools. The single-factory status EPZ has worked very successfully in Mauritius and Costa Rica.
- o Ability to sell a percentage of production locally. Although EPZs are targeted for exports, a number of countries allow firms to sell a limited percentage to the local market, paying full duty as imports to prevent unfair competition to local producers. This gives firms flexibility; e.g., a rejected order can be sold locally instead of destroyed. It also increases the potential for developing forward linkages to the local economy. Mauritius has taken this one step further; EPZ firms can sell freely on the local economy in selected sectors.
- o Indirect exporter incentives. Many countries offer partial incentive packages to firms selling to the EPZ firms. These benefits can take the form of reduced duties, income taxes, etc. These kinds of incentives increase backward linkages to the economy, and generate additional foreign exchange for the country. They also increase the flexibility of sourcing for the EPZ firms.

E4. Establishing EPZs in Zimbabwe

Given the present investment incentives in Zimbabwe, the granting of just a few of the typical EPZ incentives would be a substantial improvement. However, for Zimbabwe to reach its full economic potential, the incentives offered would need to match the extremely attractive EPZ incentive packages available in a number of countries -- including the new African EPZ programs in Togo and Cameroon -- to attract significant amounts of private investment. Otherwise, if a diluted incentive package is offered, Zimbabwe can expect to see a smaller, less dynamic program, which is largely confined to local investment.

As with any country, Zimbabwe faces constraints as well as advantages in efforts to create a successful EPZ regime. Zimbabwe's obstacles include the following:

- o Zimbabwe is a landlocked country and thus suffers from relatively expensive surface/sea freight transportation to Europe. The cost of shipping a 20 foot container of apparel goods to Western Europe is 20 percent more expensive than from Mauritius and nearly three times the cost from Togo to Western Europe.
- o Transportation infrastructure leaves much room for improvement. Of the railroad's 250 diesel locomotives, only 126 are reportedly operational; the system requires 198 locomotives to function properly. The lack of locomotives, and the ensuing inability to transport sufficient amounts of coal, led to frequent power outages last year. Similarly, road transportation is hindered by the fact that 62 percent of all trucks are over 10 years of age. The lack of foreign currency makes it difficult to obtain both spare parts and tires. Due to the upsurge in horticulture exports, the national air freight carrier is finding it increasingly difficult to meet demand. Finally, Zimbabwe's natural ports -- in Mozambique -- are plagued by a series of constraints.
- o Telecommunications, though adequate for international phone calls is unreliable for local communications. In addition, there is a huge backlog for telephone service; in Harare, it is reported that 24,300 await phone installation.
- o An onerous labor code makes it difficult to terminate the employment of unproductive workers. This inflexibility decreases productivity and reportedly discourages 70-80 percent of all employers from expanding staff. As such, the labor code can be seen as a mechanism constraining long-term employment generation.
- o Skill shortages are increasingly being felt by local manufacturers for mid-level positions. Shortages are particularly acute for engineers, accountants, electrical fitters, and machine tool operators. The quality of vocational training is said to be low.
- o Wage and price controls have introduced a number of structural rigidities into the Zimbabwean economy.
- o Lack of foreign exchange. This factor is commonly referred to by Zimbabwean manufacturers as the greatest constraint to development. While the Export Revolving Fund has eased the availability of foreign exchange for raw materials and components, for companies currently exporting, it remains exceedingly difficult for manufacturers to obtain the necessary capital equipment to expand and update operations.
- o Despite the recent reduction of Zimbabwe's corporate tax rate to 45 percent, Zimbabwe's tax rate remains uncompetitive with global free zone programs. In addition, Zimbabwe's high personal tax rates prove as a disincentive to local entrepreneurs, and will be a deterrent to the attraction of foreign investment.

- o The private sector, though strong by African standards, has been weakened by long-term protection. More than 6,000 products are manufactured in Zimbabwe, and while this diversity allows the country to reduce imports, consumer costs are higher due to the relative absence of economies of scale.
- o Despite recent government moves to allow the private sector to play a more important role in the Zimbabwean economy, the government's attitude towards the private sector remains somewhat ambivalent. In addition, the GOZ appears somewhat wary of foreign investors and strongly encourages them to take minority equity positions.
- o Businessmen complain of unnecessary red tape and difficulties in dealing with government officials on a wide spectrum of matters. The 90-day approval process at the Zimbabwe Investment Centre, although a marked improvement over past procedures, can still be seen as uncompetitive and onerous when compared to the default mechanisms present in many EPZ programs.
- o Lack of overseas promotion activity and experience. The Investment Centre, formed in 1989, has a mandate to perform this function but has been unable to do so due to lack of human and financial resources.

The above obstacles are not insurmountable. The labor code, wage and price controls, distribution of foreign exchange, and tax rates will be modified, over time, by the SAP-mandated policy and legislative reforms. The quickening of the approval process and the strengthening of skilled labor and overseas promotion can be defused through institutional development. Transportation and telecommunications obstacles -- though costly -- can be improved.

These problems are balanced by Zimbabwe's many strengths:

- o The government is gradually changing its economic orientation to more market-oriented policies as evidenced by the signing of double-taxation treaties, agreements with MIGA and OPIC, the decontrolling of prices, the reduction of tax rates, the greater use of the OGIL import mechanism, and the creation of the Investment Centre.
- o Zimbabwe offers one of the most literate and skilled labor forces in Africa. Illiteracy is estimated at only 26 percent. With a minimum wage of less than US\$0.60/hour, labor costs can also be seen as relatively competitive.
- o The Zimbabwean banking system is one of the most highly developed on the African continent with 5 commercial banks, 4 merchant banks, 6 finance institutions, 3 building societies and a Post Office savings bank.
- o The country also possesses a relatively well-developed infrastructure by African standards. The quality of electricity and water provision is said to be excellent and the road system is extensive and in fairly good condition.

- o Air freight and telecommunications rates are more competitive than other African EPZ countries.
- o Labor-management relations are generally good and cooperative.
- o Zimbabwe boasts one of the strongest and most dynamic private sectors in Africa.
- o Zimbabwe has one of the most developed manufacturing sectors in Africa, accounting for 26 percent of GDP. In contrast, the manufacturing sectors of two-thirds of African nations contribute less than 10 percent of GDP.
- o An healthy export sector is emerging in Zimbabwe. From 1980-9, manufactured exports tripled despite the fact that investment levels fell from 15.5 percent of GDP to 10.7 percent. According to recent CZI statistics, 48 percent of all manufactured goods are exported. Since 1985, exports to the European Community in such typical EPZ industries as textiles, apparel, and leather goods have increased by more than 50 percent. If these firm's managers are able to export in such a constrained environment, this bodes well for the success of EPZs.
- o Zimbabwe has an extremely diverse base of natural resources, with a large number of minerals and the capacity to produce a wide range of agricultural products.

The Phase One of the EPZ component, the Feasibility Study, will more thoroughly examine the economic and social feasibility of establishing EPZs in Zimbabwe.

E4. Why the EPZ component was selected for ZBDP.

The design team weighed the EPZ component against the ZBD Project criteria. The results are summarized below:

- o Have potential for measurable impact towards achieving the ZBDP goal -- measured by job creation, foreign exchange earnings, and broadened control of the economy; or the ZBDP purpose -- an enhanced enabling environment for private sector investment; during the life of the ZBD Project.

EPZs have had dramatic impacts on attracting foreign and local investments in countries that have implemented them successfully. We are confident that the entire package of EPZ incentives will be in place, and that investors will have received approval to operate under EPZ regime.

Successful EPZ's create jobs and earn foreign exchange. In Ireland, the first modern EPZ, the Shannon Airport zone created 8000 jobs in ten years, and accounted for 20 percent of the country's manufactured exports. In Taiwan, five years after the zone regime was established, EPZ firms employed more than 70,000 and exported over USD 1.5 billion. Over the past decade, more than two-thirds of all new manufacturing and assembly jobs created in the Caribbean Basin -- more than 250,000 -- have been located in EPZs. Given our ZBD Project timetable, however, there may not be significant job creation or foreign exchange earnings in the life of project.

- o Have strong interest and ownership on the part of the GOZ or the private sector.

GOZ interest in EPZs seems to have been sparked by the 1988 visit of President Mugabe to the Freeport, Bahamas zone. The President declared in 1989 that Zimbabwe would consider establishment of an EPZ program. As part of the annual budget address of July, 1990 Senior Minister Chidzero took a step further by stating that "Government has accepted the concept of EPZs...The concept will be concretised during the course of the year and appropriate incentives introduced.

The SAP framework document further elaborated the GOZ's plans for EPZ development, to quote: "The Zimbabwe Investment Centre has also been given responsibility for an extensive promotional role, e.g., overseeing the establishment of free trade zones (FTZ), export processing zones (EPZ), and Bonded Warehouse Operations (BWO)"

Conversations with the Ministry of Finance and Economic Development Office of Policy Planning, with the deputy Governor of the Reserve Bank and acting head of the ZIC, and the Ministry of Industry and Commerce have confirmed these public statements of interest.

The private sector has been a vocal supporter of EPZs in Zimbabwe since early July 1990, when the CZI President announced the intention to form an EPZ working group. Individual CZI members have also expressed a strong support for EPZs, both as potential developers or as potential exporters. ZENA and IBDC have also indicated strong support for the EPZ, as long as the needs of the indigenous businesses are considered.

- o Complement and build on other donor, NGO, GOZ, and private sector components that are working to the same goal or purpose.

The GOZ has asked for support in development the EPZ concept; other donors, the NGOs, and the private sector have neither the expertise or the desire to support this request. The most important complementary activity, of course, is the SAP; the relationship between EPZs and the SAP have been analyzed above.

- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W components in Zimbabwe.

The mission has already played an important role in educating the public and private sectors about the potential of EPZs through consultancies arranged before and during project design. Also, USAID underwrote the costs of private and public sector attendance at the October 1990 Mauritius Conference on EPZ Development Strategies.

The EPZ component could serve as a replicable model for the planned regional Enhanced Export Competitiveness project. The AFR/MDI funded support for a proposed hard currency venture capital fund, and the APRE/I funded support for the Loan Portfolio Guaranty program, both would work towards insuring local investor access to the EPZ regime.

- o Complement and build on AID's and the mission's comparative advantage, and avoid areas of comparative disadvantage.

AFR/MDI and OPIC have collaborated for several years on the African Export Processing Zone initiative. The first two programs, in Cameroon and Togo, have just become operational. AFR/MDI, and its contractors (used in design of this component), have built an impressive base of experience and expertise.

Furthermore, the contract Trade and Investment Advisor, who will be available to the mission until October 1992, has had extensive experience in designing export promotion programs capitalizing on EPZ environments (Indonesia and Mauritius).

- o Be feasible given USAID/Zimbabwe's limited resources and management time.

Existing contractual mechanisms, whether the REDSO IQC for private sector services, or the APRE Private Enterprise Development Support project, or others, will allow USAID/Zimbabwe to tap into the experience base developed by AFR/MDI and others.

- o Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges.

EPZs in Zimbabwe are intended to quickly eliminate in part of the country, either in an industrial estate or bonded managed warehousing pilot setting, the many trade and economic growth inhibiting policies that have become institutionalized in the Zimbabwean economy.

While the GOZ is clearly committed to the five year timetable to implement the SAP, it is a difficult political and economic process fraught with many dangers and pitfalls. The SAP-mandated changes will have profound effects upon prices, incomes, and production, and will be threatening to some segments

of the GOZ, private sector, and the population at large. By jump-starting job creation, EPZs can enhance the political acceptability of the SAP. By jump-starting foreign exchange earnings, EPZs can assist the GOZ to finance the SAP.

Timing of the SAP will be critical, and sustained belief in the long-run benefits of the effort will be required for the program to be successful. It is in this context that a rapidly and successfully implemented EPZ program can demonstrate the efficiencies to be derived through the elimination of the various regulations that have come to stifle the Zimbabwean economy and threaten it with eventual declining growth rates. While the entire economy cannot be expected to move to such a high degree of deregulation as the ideal EPZ, especially on the capital account side, the example of the EPZ should provide encouragement as the country moves through the process of freeing-up its economy. And, while there are exceptions, the more rapid the structural adjustment process, the more likely its success.

Many of incentives in a typical EPZ package go far beyond what has been mandated in the SAP framework document, or intended for future reforms for the economy at large. EPZ incentives that go beyond what most countries are prepared to do under structural adjustment are:

- **Minimal corporate income tax schemes; ranging from tax holidays in perpetuity to levels of about 15 percent. The SAP reforms do not specify target tax rates, but implies corporate tax rates may be reduced to the low 30 percent level.**
- **Exemption from most local taxes**
- **Right to conduct transactions in foreign currency, including holding local foreign exchange bank accounts**
- **Streamlined customs procedures**

If the SAP reforms are implemented along with an EPZ regime, this would greatly increase the likelihood of backward and forward integration of EPZs into the local economy.

- o Measurable impact on ZBDP purpose or goal even if SAP is not implemented on schedule.

If the SAP reforms are not implemented on schedule, then establishing an EPZ regime could still be feasible. The impact would be lessened, particularly on the backward linkages to the local economy.

B. The Business Linkage Component's Relevance to ZBDP

The best way to justify the Business Linkage Component as part of ZBDP is to match it against the ZBDP operational testing component project criteria.

- o Have potential for measurable impact towards achieving the ZBDP goal of economic growth -- measured by job creation, foreign exchange earnings, and broadened control of the economy; or the ZBDP purpose -- an enhanced enabling environment for private sector investment; during the life of the ZBD project.

The Business Linkage component will have a clear and measurable impact on broadening control of the economy. This will flow directly from enhancing the enabling environment for investment, for both large and small businesses. Business Linkage may also create or save jobs, which will be easily measured.

- o Have strong interest and support on the part of the GOZ or the private sector.

The GOZ, especially the MCI, has strongly endorsed the business linkage concept. MCI, in fact, is working with UNDP on a business incubator concept as another strategy.

The private sector has strongly endorsed the business concept. CZI, in fact, has made it the center part of their SME development strategy. Some factions of the IBDC, however, have expressed concerns that institutionalized racialism may prevent business linkage efforts from having a real impact. In the opinion of the design team, institutionalized racialism has not prevented the success of business linkage projects in South Africa, the United States, or other countries with a long history of legal and de facto racial discrimination. Large businesses are concerned with the reliability of small business; this is true anywhere in the world, and is why donor intervention to bridge the gap is warranted.

- o Complement and build on other donor, NGO, GOZ, and private sector components that are working to the same goal or purpose.

SME projects have attracted an increasing amount of interest and funding from the GOZ and the donor community. USAID/Zimbabwe's strategy is focus on forging business linkages between small and large firms, and rely on other efforts to facilitate access to credit, training, and other necessary inputs.

- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W components in Zimbabwe.

Business Linkage participants will benefit from the ZIMMAN project training resources -- and if the SME construction sector training project is undertaken by ZIMMAN, it will benefit from the Business Linkage activities.

172'

- o Complement and build on AID's and the mission's comparative advantages, and avoid areas of comparative disadvantage.

AID has long experience in fostering business linkages, and USAID/Zimbabwe will benefit greatly from ongoing business linkage activities being undertaken by USAIDs in Botswana, South Africa, Swaziland, and Kenya.

- o Be feasible, given USAID/Zimbabwe's limited financial resources.

The business linkage component will be undertaken by a contractor, with only general oversight from USAID/Zimbabwe.

- o Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges.

Business Linkages will help large and small firms be more competitive, and take advantage of the SAP opportunities and challenges.

- o Contribute to ZBDP purpose or goal even if SAP is not implemented on schedule.

Although interest on the part of large firms, and capability on the part of small firms, will be diminished if the SAP reform timetable slips, the Business Linkage component will still contribute towards ZBDP purpose and goal.

C. Volunteer Business Advisory Services and their Relevance to ZBDP

Background

AID has supported the International Executive Service Corps (IESC) in Zimbabwe since 1985. IESC provides the expertise of retired American executives for assignments in Zimbabwe as well for research in the United States.

IESC Zimbabwe has offered three basic services, which are:

- o Regular Volunteer Executive (VE) projects, under which VE's come to Zimbabwe for a period averaging 60 days to work with a single client or group of clients on a hands-on basis to provide assistance in areas such as management, production, marketing, sales promotion, accounting, financial planning and a wide variety of technical matters.
- o American Business Linkage Exchange (ABLE) projects, which are in-depth low cost research reports conducted in the United States. ABLE reports give Zimbabwean businesses strategic business information on U.S. markets, technology, potential partners.

- o Joint Venture Service (JVS) projects, which involve an IESC volunteer working in the United States on behalf of an overseas client; locating equipment, technology, or searching for a joint venture client. JVS projects most often flow from a VE or ABLE project.

Even in the highly constrained, pre-SAP environment in Zimbabwe, the IESC program was found to have a significant impact, according to an outside evaluation conducted in August 1990. The IESC Zimbabwe program will continue to be funded as a separate project, or may be folded into the ZIMMAN project.

A major shortcoming of the IESC program in Zimbabwe, according to the 1990 evaluation, is that it did not meet USAID expectations with respect to assisting established small businesses. (Small is defined as those with less than 50 employees.) It should be pointed out that IESC was never intended to serve as a resource for informal sector or micro enterprises. Many factors have contributed to this shortcoming. First, the retired American IESC country director have skills and orientation that makes them more comfortable dealing with larger businesses. Second, and related, is the fact that the Country Director's generally find it difficult to cross racial, language, class, and cultural barriers to reach the local black business. Third, the average cost per assignment to an IESC client will soon reach USD 12,000. While this is payable in local currency, it still is far beyond the means of most local black businesses. Fourth, the needs of many local businesses cannot be solved in the short, intensive assignments undertaken so well by IESC. They often require less intensive assistance, but undertaken over a year or more. Fifth, there is often a mismatch between the kinds of skills and experience that IESC Ves can bring, and the needs of established local small businesses.

It is clear that the IESC program, as currently structured, is only marginally capable of assisting SMEs in Zimbabwe. Other models will have to be explored.

An underutilized resource -- retired Zimbabweans

Zimbabwe is unique in Africa in the number of retirees with appropriate skills. Many of these retirees are attempting to subsist on a small pension, and would be delighted to find ways to earn extra money. Their skills are often more appropriate to small business; and because they are resident in Zimbabwe, they can provide continual support over a long period of time.

Clearly, it would be folly to neglect this resource. CIDA, working through SEDCO, has already organized and financed Consulting Assistance to Small Enterprises (CASE), a program where retired Zimbabwean executives are paid a nominal fee, to provide services to small firms for free. There are a number of potential problems with CASE. First, the level of fees that retired Zimbabwean executives are paid by the CASE program may be insufficient to

attract retirees in certain critical skill areas (especially manufacturing). Second, the CASE program will be implemented through the parastatal Small Enterprise Development Corporation (SEDCO), which may not be the right organization to provide market driven technical assistance on a timely basis.

More interestingly, a local firm has started to provide local retired executives as consultants -- on a for profit basis. According to the proprietors, they are able to pay sufficiently to attract qualified retirees in any discipline. Furthermore, being a for profit organization, this local firm has the motivation and incentives to provide high quality, timely, technical assistance. Even full-time, at their highest fees, this local organization could supply expertise at less than half of the cost of an IESC volunteer. These fees, however, still may be out of the reach of the local SMEs.

ZBDP will analyze the best means of tapping the resource pool of retired Zimbabweans for providing technical assistance to local SMEs. One possible option is the establishment of a nonprofit Zimbabwe Executive Service Corps, either attached to the local IESC office, or established independently. Another possible option might be that AID establish a fund to share the costs of the for-profit service for small, black owned businesses. This option would strengthen market networks, not undercut or preempt them.

The best way to evaluate the VBAS component is to match it against our criteria for operational testing components. It comes out quite favorably, as the following review of the more important criteria indicates.

- o Have potential for measurable impact towards achieving the ZBDP goal of economic growth -- measured by job creation, foreign exchange earnings, and broadened control of the economy; or the ZBDP purpose -- an enhanced enabling environment for private sector investment; during the life of the ZBD project..

On the goal level, the VBAS component will have an impact on earnings of foreign exchange, creating jobs, and broadening control of the productive assets of the economy. Considering individual firms, it is possible that a successful assignment may accomplish none of the above -- but by increasing firm level competitiveness and productivity, this will be accomplished at the macroeconomic level.

On the purpose level, the VBAS component is expected to have a significant impact on improving the enabling environment for private sector investment. Not only will firms be helped to make investment decisions, but they will also be more competitive and profitable businesses, and therefore better able to attract financing, either from retained earnings, the entrepreneurs' savings, other shareholders, or financial institutions.

175

- o Have strong interest and support on the part of the GOZ or the private sector.

The IESC component of the VBAS has strong support from the private sector, and the direct participation of business on the Advisory Board. The ZESC concept was proposed in a general form in the August 1990 evaluation of the IESC. The GOZ, especially the Ministry of Industry and Commerce, strongly endorses the ZESC idea. The IESC Advisory Board, made up entirely of businesspeople, also strongly endorses the concept. Use of regional volunteer business advisory services, in particular, IESC South Africa, is a natural extension of the concept of using local retired executives.

- o Complement and build on other donor, NGO, GOZ, and private sector components that are working to the same goal or purpose.

At least five other donor agencies run services patterned after the IESC model. Demand for all the VBAS services greatly exceeds supply, however. Furthermore, IESC operates in a special niche -- more expensive services, but more specialized or experienced assistance. Analogous to the ZESC concept, CIDA has started its own local retired advisory service. The design team does not see a conflict with pursuing the ZESC option, for two main reasons: First, the demand for retiree business advisory services very likely will exceed the capacity of the CIDA operation. This is certainly true for the international executive services -- five donors operate these, and demand is not saturated. Second, the CIDA service will be implemented through SEDCO, who have not to date been an effective medium of providing responsive, market driven advisory services.

A for-profit agency offering retirees as consultants has been operation in the Harare area for over a year. The mission is not interested in setting up ZESC to act as unfair competition to this service. In fact, one potential option would be to establish ZESC as a cost sharing fund, that would underwrite the costs of the commercially provided service for the target SMEs.

It should be noted that if the Phase One assessment does in fact not recommend that USAID/Zimbabwe proceed with the pilot operational stage, then the ZESC concept will be dropped.

- o Complement and build on other USAID/Zimbabwe, SARP regional, and AID/W components in Zimbabwe.

One of the more exciting aspects of VBAS would be the support that it could lend to facilitating the Business Linkage subcontracting and spin-off operations. In South Africa, the local IESC program, using only local retirees, has been modified to do just that. An IESC volunteer is acting as an honest broker in negotiations between a Cape Town firm and the employees of the firm that wish to buy out a local installation. Another IESC volunteer is

undertaking the feasibility study to ensure that the spun-off operation will be viable. A third party financial institution has agreed to finance 80 percent of the shares sold to the employees.

VBAS VEs could also complement the training support businesses are receiving under ZIMMAN II, or rural based groups seeking to develop natural resource based businesses receiving assistance under the Zimbabwe portion of the NRMS project.

- o Complement and build on AID's and the mission's comparative advantages, and avoid areas of comparative disadvantage.

The mission has six years of experience with IESC in managing an executive service corps type of project. It is one of the few areas where the mission has demonstrated ability with a private sector project. The ZESC component would be a fairly straightforward project to manage, easily within the capabilities of the contract project manager.

Help the GOZ implement the SAP reforms, or assist the private sector to take advantage of the SAP opportunities and challenges.

VBAS could well be utilized to assist the GOZ to implement the SAP reforms. For example, IESC may be used to undertake scoping or feasibility studies in preparation for the commercialization or privatization of parastatals -- IESC has, in fact, received requests of this nature.

VBAS will definitely assist the private sector to take advantage of the SAP opportunities and challenges, by increasing their competitive edge.

- o Contribute to ZBDP purpose or goal even if SAP is not implemented on schedule.

Depending what reforms slip, and to what degree, the expected opportunities available to the more established SMEs will not be realized. Nonetheless, the ZESC component will help the SMEs with the projects that are feasible in the current environment.

D. SME Survey and Analyses and their Relevance to ZBDP

Background

The GOZ as well as donor agencies are placing increased attention on the role of SMEs in generating income and employment in Zimbabwe. This heightened interest stems from the desire to generate jobs outside the existing formal

sector to help accommodate the anticipated wave of unemployed school-leavers -- up to 300 thousand a year by the end of the century -- school leavers that will not find employment in existing formal sector businesses.

The GOZ and donors are continuing to develop programs of support for SMEs. The World Bank and EEC, for example, are planning new project activities targeting credit to SMEs. Financial institutions are also interested in small business; today's marginal small customer is tomorrow's profitable large customer.

Assistance efforts are handicapped by the lack of up-to-date information on informal and small-scale enterprises. Most such firms elude the standard governmental statistical nets and are typically unobserved. A few special studies have provided some limited, initial glimpses of these activities in Zimbabwe.

We do have a fairly good handle on the constraints facing SMEs in Zimbabwe. In general, they are not terribly different than those facing SMEs anywhere else in the world:

- 1 excessively complex and restrictive legal and regulatory framework which discourages expansion of informal activities and their formalization.
- 2 inadequate access to credit
- 3 inadequate technical expertise and market contacts
- 4 inadequate infrastructural support, particularly transport, worksites, and storage
- 5 problems in obtaining suitable and affordable tools, machinery, and raw materials.

Item 1 is a policy reform issue; items 2-5 are either caused or exacerbated by a poor policy regime.

What is unusual in Zimbabwe is the importance of item 1; the degree to which the very tight degree of regulation and control has stifled the SME sector, to the point where it appears to play a relatively minor role in the economy. This realization alone, however, is an insufficient base on which to build project activities.

In brief, what is missing are data on: the number of firms, the sectors in which they operate, location, ownership and employment characteristics, income, linkages with each other and the formal sector, assistance received, perceived constraints, entrepreneurial character, business history, and firm dynamics.

This kind of data, and expert analysis of the data, would allow:

- o The development of a baseline, against which the effectiveness of proposed projects or policies can be evaluated.
- o Determination of needs and constraints
- o Target subsectors or geographic areas for assistance
- o Design of project components and subcomponents

The data would also help address resolve certain conceptions of the small sector in Zimbabwe; e.g., is the perceived limited number of small enterprises in Zimbabwe is due to the undercounting of such enterprises - a phenomenon that is found in much of the world - or whether there are indeed relatively few small enterprises in the country - a situation that has been found to exist, for example, in Lesotho.

Although the baseline survey has been funded out of PD&S funds, the results will play an integral role in the development and implementation of the SME Analysis component, as well as the Productive Sector Description component.

E. The Productive Sector Description and its Relevance to Zimbabwe

The specific objectives of the Productive Sector Description are as follows:

1. To provide USAID/Zimbabwe and others with current, reliable data on the structure of formal and informal business, by sector and subsector (e.g., leather goods manufacture as a subsector of industry) on GDP, employment, tax revenue generation, regional growth, productivity, linkages, and industrial concentration that will guide decisions by the Mission regarding targeted assistance to the Zimbabwean private sector.
2. To inform USAID/Zimbabwe and others on the perceptions of a wide spectrum of business owners and managers regarding constraints and opportunities for private sector growth and development that will suggest areas of priority for Mission strategy.
3. To provide USAID/Zimbabwe and other interested parties with the raw material to evaluate a range of program and project options in such areas as: (a) support for direct service delivery programs to small and micro enterprise and to the informal sector; (b) encouragement of deregulation and policy reform; (c) stimulation of cooperation and policy dialogue between the private sector and the GOZ; and (d) the promotion of linkages such as supplier contracts between large and small manufacturing firms.

4. To identify for USAID/Zimbabwe and others, an array of local institutions that have the commitment and potential capacity to support private sector development efforts over the longer term, and to suggest how these institutions might be strengthened to become more effective.

This description and analysis of the structure and role of the various industrial, primary, and service sectors of the Zimbabwean economy will be undertaken after the GEMINI comprehensive SME survey. This will ensure a broader data base and more in-depth knowledge on the part of the GOZ, the Mission and others, of structural factors such as concentration or fragmentation of certain sectors which will in turn permit a more informed dialogue as plans for a longer-term private sector program begin to materialize.

In undertaking the Productive Sector Description, USAID/Zimbabwe will utilize some of the techniques that have been developed by the Africa Bureau in the course of refining the Manual for Action in the Private Sector (MAPS). MAPS taken as a whole is a methodology for gathering and analyzing data on the private sector, as well as a means of generating and evaluating strategies that may be pursued by USAID missions for private sector development.

In its full expression, the MAPS process includes five phases: (I) an "Articulation" phase designed to make explicit the current USAID private sector strategy in relation to: overall Mission strategy, GOZ policy, and the roles played by other donor organizations; (II) a "Description" or mapping phase intended to identify the role and performance of the private sector in relation to the national economy; (III) a "Diagnostic" phase in which survey data on perceived opportunities and constraints to private sector growth are collected and analyzed; (IV) a "Dialogue" phase in which the findings of the previous phases are presented and discussed among groups of business persons as well as among USAID staff; and (V) a "Strategy" phase in which options are generated and evaluated against criteria developed in discussions with Mission personnel.

Under ZBDF, only the Description and Diagnostic phases will be funded, because they have a relevance and an audience beyond USAID/Zimbabwe. The mission may decide to undertake the Articulation and Strategy phases of MAPS using PD&S or other sources of funding.

Annex 3.B Social Soundness Analysis

The Social Soundness analyses undertaken during project paper development informed and guided project design. Together with other analyses, the social soundness analyses led the design team to drop certain components included in the PID, and modify other components. Due to the pilot nature of the project, the social soundness analysis presented below provides only a limited assessment of social impact and feasibility of the present ZBDP components. Additional analyses are to be incorporated into Phase I assessment activities under each operational testing component of the project. This analysis will provide the interested reader detailed background on some of the design team's decisions in the context of the Zimbabwe socio-economic and socio-cultural environment.

1.0 The Socio-Economic Context

1.1 Overview

Average economic growth of 3.2% over the past decade has failed to satisfy Government's needs given its heavy investments in social programs aimed at reducing pre-independence inequalities in distribution of services and income. As a result of Government's commitment at Independence to give priority to education, Zimbabwe's population has one of the highest education levels in Africa. Paradoxically, in making tremendous progress in educating the masses, the GOZ is now faced with a severe unemployment bottleneck. As early as 1983, a tracer survey of secondary school leavers found that of 72% who entered the labor market, 72% were still unemployed after eight months. (No other comprehensive tracer surveys of high school graduates has been undertaken since then). The Labor Force Survey (LSF) of 1986/87 estimated that one-third of the unemployed in that year were Form IV (secondary school) graduates, compared with only 11% in 1982.

By all accounts, high unemployment is one of Zimbabwe's most critical socio-economic problems. Approximately 7.2% of the total labor force were unemployed in 1986-87, 16% if communal farmers are excluded. Current unemployment estimates range as high as 30%. Nearly eight in ten of the unemployed are concentrated in urban areas.

Black Zimbabweans comprise 95% of formal sector employment. For some occupations, particularly among the professional and managerial groups, whites remain a significant minority.

1.2 The Private Sector and Structural Adjustment

Reactions that can be expected from the business community towards the policy changes mandated by the SAP will be as diverse as the business community itself. A number of firms function profitably under the currently protected and monopolistic economic production and distribution structures. They are,

in fact, reliant on the current protectionist policies for their very survival, and are strongly resistant (albeit not publicly) to the lifting of monetary and import controls. The main reason for this is fear of competition. If and when trade liberalization becomes a reality, many of Zimbabwe's industrial conglomerates would be ill-equipped to face competition from lean, efficient firms, whether local or international. The speed at which they can restructure themselves before losing market share will determine their success or failure in a freer market. Clearly, internal and regional forces are already pushing Zimbabwe's businesses to confront change: SADCC activities, eventual competition from a free South Africa, GOZ negotiations with the World Bank on structural adjustment, etc. However, as one entrepreneur, poised to compete, put it: "Doctors always advise patients to shed excess weight in the interest of their health; yet it often takes nothing less than a massive heart attack to force the patient into a changed lifestyle". Unfit corporations may need a shock before they will break old habits.

Zimbabwean business has been sheltered from internal competition as well. Government licensing and other regulations continue to be effective barriers to market entry for emerging businesses. For example, one entrepreneur recently applied for a license to manufacture a particular drug locally and needed an allocation of foreign exchange to import raw materials. Government sought advice from current drug manufacturers as to the prudence of allocating scarce forex to the new endeavor. Not surprisingly, established businesses advised against the allocation, citing the underutilization of their existing manufacturing facilities due to a shortage of raw materials. The application was denied. On the one hand, the argument of established business has some basis in truth -- many of their facilities are underutilized. However, no assessment is made during the application process of an emerging business as to its potential for making more effective use of scarce forex resources than the established firm. The latter firms may be producing inferior but over-priced products. The shortage of foreign exchange for imported raw materials and spare parts for their obsolete capital equipment exacerbates the problem but is not the sole cause of their operating inefficiencies. Again, the reluctance of established business to restructure for a competitive market is evident.

At the other end of the spectrum are businesses poised to take the utmost advantage of liberalized trade policies. Firms in the textile, clothing, and footwear industries, for example, are relatively efficient and competitive producers of current overseas fashions. Managed by younger, more progressive and dynamic managers, these firms are economically fit and adept at producing and selling their wares in a competitive market. Many don't expect employee retrenchments in a liberalized economy because they already maintain an optimal work force. On the contrary, as they import new equipment, some expect to hire more employees.

A politically charged issue in the current business environment is that of the distribution of wealth. The pre-independence concentration of economic and decision-making power persists today. By one estimate, a dozen men hold more than 70 percent of the directorships of all public companies in Zimbabwe.

The racial distribution of power and wealth among large and medium business owners is also an issue. While statistics conflict on the percentage of white- versus black-owned businesses, it is clear that whites still control a disproportionate number of these firms. AID recently commissioned a training needs assessment survey of the formal sector. Representatives from an illustrative sample of one hundred firms from the mining, horticultural, construction, agri-business, and textile industries were interviewed. Company ownership broke down as follows (ownership for four firms was not available):

| | |
|----------------------------|----|
| Public companies | 12 |
| Government owned | 2 |
| Subsidiary of foreign firm | 6 |
| White owned | 56 |
| Black owned | 9 |
| Other races owned | 11 |

Furthermore, company representatives interviewed for the survey were 62% white, 22% black and 12% other races. Consequently, in maintaining barriers to market entry, this inequitable distribution is perpetuated.

2.0 Socio-Cultural Feasibility

2.1 Business Linkages

The political and economic incentives for big business to create business linkages and sub-contract production activities to smaller, independent firms are quite powerful. Major corporations wish to be seen as supporters of Government's "growth with equity" policy by assisting smaller businesses in breaking into new markets. As long as Government retains tight control over foreign exchange allocation, it has considerable leverage over big business. A further incentive in a liberalized economy will be the economic necessity for businesses to streamline their own operations to face competition in the new market. Large businesses currently retain in-house capacity (through subsidiaries or internal divisions) to cover all production needs which, in a competitive market, could be procured outside the firm. In a deregulated trade environment, it might be in the economic self-interest of many firms to consolidate their expertise by shutting down unwanted divisions. The parent firm would then sub-contract with an independent firm for the service formerly provided by the in-house division. The project paper identifies two areas in which the large firms can support small businesses while acting in their own self-interest: through support and supplier contracts offered to entrepreneurs wishing to procure units of their businesses being spun off due to restructuring; and through sub-contracts offered to small and emerging businesses.

The approach any given firm will take towards contracting with or spinning off small businesses will depend upon the current financial profile of the firm and the sophistication and experience of its CEO and senior managers. The business community is extremely diverse along these lines. Some may be willing to attempt sub-contracting partnerships within the current economic environment; others will require incentives. Still others may have no

183

economic need to consider sub-contracting; their attention may focus on upgrading capital equipment and producing more efficiently for a competitive market. All will act in what they perceive to be their best interest; donors can play an informational and facilitative role.

Most likely, early business linkage (or sub-contracting) opportunities will be found in the manufacturing and mining sectors. Traditionally, these have been strongholds for white businessmen. Black-owned small enterprises tend to be concentrated in the commercial sectors, so the project may be an important tool to encourage indigenous businessmen to start up small scale manufacturing, assembly or service enterprises.

This historical stratification presents a dilemma not only for the project, but for GOZ as well. On the one hand is Government's stated policy of "growth with equity". On the other hand is the need to create sustainable jobs as quickly as possible. Smaller firms in the manufacturing and high technology sectors which are closest to having the capacity to execute a sub-contract are more likely than not to be white-owned. Without special programs such as ZBD to encourage disadvantaged black-owned firms to enter into business linkages, it is likely that the majority of successful sub-contracting agreements in Zimbabwe would be between white-owned firms.

By definition, a pilot project cannot have an equitable distribution of benefits. Those firms which will participate in business linkage agreements will be trail-blazers -- those willing to take the lead. Once AID assesses the experience gained through this project, it will be in a stronger position to reach a wider and more equitably distributed segment of the population.

As in much of Africa, school leavers tend to seek employment in bureaucratic structures rather than applying their education to generating revenue. This tendency away from enterprise has important implications for the project. Options for spin-off companies are a case in point. Where a large firm has taken the decision to spin off one of its divisions, it may wish to offer support to the division's line manager to take over the operation as a private enterprise. Careful assessment of the line manager's entrepreneurial skills would be critical to the success of the new enterprise. An excellent line manager may not necessarily make a successful entrepreneur. The respective skills are vastly different.

2.2 Export Processing Zones

2.2.1 Incorporating a Sociological Perspective

Detailed feasibility analyses and impact assessments should be conducted in Phase I of the project's EPZ component, incorporating relevant social concerns. A comparative analysis of EPZ experience worldwide should include an assessment of social impacts. Among the issues to be considered is the extent to which governments supporting EPZs have ensured that EPZ development and implementation costs did not become public costs. Similarly, an assessment of potential social impacts of an EPZ in Zimbabwe should be included. The study should identify key social and economic indicators which should be tracked through the program's monitoring and evaluation component.

In designing the policy regime, measures mitigating potentially negative social impacts should be incorporated and indicators through which their impact can be tracked should be specified. The introductory briefing for public and private sector representatives should address social concerns as an integral part of the deliberations. Finally, a social scientist should participate in the exposure tour to assess firsthand social issues affecting the success or failure of EPZs.

2.2.2 Ownership Distribution

A frequent criticism of EPZ programs is that the wealth they create is concentrated in the hands of a few. Experience shows that this is not necessarily true. Creative EPZ policy frameworks developed in other countries have in fact facilitated a broader ownership of industrial estates. In Barbados, for example, one firm owns the basic infrastructure and allows smaller firms to build single rent spaces, thereby distributing ownership. In Zimbabwe, two CZI-members are incorporating as a publicly traded firm. If the firm were to buy into an industrial estate, the ownership would be broadened.

Non-equity-sharing collaborative arrangements offer opportunities for distributing benefits beyond the direct owners of EPZ firms. Through such arrangement an EPZ firm issues a production license to a local firm and provides for guaranteed buy-back. For example, Levi Strauss might license a local firm to manufacture jeans under its label. The local firm would use inputs provided by Levi or inputs secured independently for which it would be granted duty draw-backs. Both firms profit and the licensed firm retains its independence.

Turkey has adopted a "build-operate-transfer" concept to transfer ownership to indigenous firms.

In short, examples of EPZ programs which have incorporated distribution concerns can be found. The investigative surveys of Phase I might contain case studies of worldwide EPZ program efforts to address the issue of ownership distribution. Both successes and failures should be documented.

2.3 Voluntary Business Advisory Services

This pilot project proposes to test the effectiveness of a new Zimbabwe Executive Service Corps as well as several innovations in a program such as the current AID-funded IESC program. However, the analysis herein discusses the IESC program, which will also provide insights into the pilot project business advisory services component.

The effectiveness of and demand for the IESC program is well documented in the 1986 and 1990 project evaluation reports. The program's success is reflected in the willingness of clients to pay fees of up to Z\$ 80,000 to support volunteer executives and in requests for repeat engagements. Many clients

185

reported higher sales, more efficient operations, and improved capability to export. The number of firms participating in the program is expected to rise in response to the implementation of GOZ's trade liberalization program. There has already been a five-fold increase in the number of inquiries to the IESC Country Director since GOZ released a broad outline of the trade liberalization program. Faced with increased competition, firms will require technical assistance on capital investment decisions, market analysis, advertising, etc, areas in which IESC can provide experienced volunteer executives. Hence, incentives for firms to seek IESC assistance are strong.

The 1986 and 1990 evaluations of IESC/Zimbabwe concluded that the program has not met original expectations for assisting small businesses. This conclusion holds for white-owned, well-established, financially secure small businesses as well as for black-owned businesses. Only two black-owned small businesses have participated in the program since its inception.

Based on experience, the Mission has determined that the IESC volunteer executive program should not be seen as a way of targeting small businesses. The facts supporting this conclusion are summarized as follows:

- IESC's roster of retired executives are most experienced in the manufacturing or specialized/high technology sectors where few small enterprises (black- or white-owned) are found;
- The fees IESC must charge clients to cover the volunteer executive's expenses are beyond the capacity of small enterprises to pay;
- Most IESC country directors and volunteers come from backgrounds in large, sophisticated, American companies, making it difficult for them to cross the racial, language, class, and cultural barriers to reach local, small, black- owned businesses.

ABLE activities, on the other hand, have tended to support much smaller businesses than those supported by volunteer executives. The majority of ABLE projects implemented to date have been feasibility studies for new ventures, while the remainder have supported existing small businesses interested in expanding their operations. Approximately twenty ABLE projects have been completed thus far, many of them for black entrepreneurs.

While the rationale for eliminating the small-business target for the IESC's volunteer executive program may well be justified, there is clearly room for expanding the number of small and emerging businesses reached through the ABLE program. This might be accomplished through referrals to IESC from the newly-created Small-Business Development Unit and/or through an expanded outreach program within IESC itself. Alternatively, the option (presented in the 1990 IESC evaluation) of finding support among local working or retired executives might be reconsidered. Support to small businesses should be facilitated through the experimental Zimbabwe Executive Service Corps

3.0 Gender Considerations

3.1 Historical Context

Women's current status in Zimbabwean society derives from the combined influences of traditional customs, colonial law, and post-independence legal reforms. Historical notes draw heavily on Batezat, Elinor and Margaret Mwalo. Women in Zimbabwe. SAPES Trust, 1989. The colonial state recognized two co-existing bodies of law. The general law, which was applicable to all citizens, and colonial customary law, applicable only to Africans. The latter system was an attempt to codify pre-colonial customs and traditions, but in fact it was a distortion of these customs. Under colonial customary law, women were reduced to the perpetual status of minors, entrenching their traditionally subordinate position in the family and society. The inability of the rigid colonial customary law to adapt to changing social circumstances led to further deterioration of women's status.

With independence, new legislative measures were passed aimed at removing "all customary, social, economic and legal constraints" that inhibited women's full participation in the country's development. The Legal Age of Majority Act of 1982, for example, put an end to the minority status of women. It enabled them to: (i) own property in their own right; (ii) contract a marriage without parental or family consent; (iii) become guardians to their children (whether born in or out of wedlock); and (iv) sue and be sued as individuals.

Despite these legal breakthroughs, pre-independence customs are still very strong. While women own land in urban areas, where legal property deeds are recognized, social norms rooted in rural traditions restrict their opportunities to do so. In patriarchal Shona and Ndebele societies, land was communally owned but controlled and distributed by the male heads of society. Men had primary rights to the land while women had only use rights. For example, it is not uncommon for a husband/father to hold the title to property purchased jointly with his wife/daughter. Consequently, the woman is left without the collateral required by banks to qualify for a loan. In reality, the great majority of women remain economically dependent on men. While there are no legal sanctions for such dependence, it remains deeply entrenched in the attitudes of men, and, unfortunately, women themselves. Moreover, many women are unaware of their post-independence legal rights.

3.2 Women in the Work Force and Private Sector

The 1986/87 Labor Force Survey estimated that less than 4% of those employed in the formal sector (i.e. in registered establishments) owned their own business; 87.5% were wage earners. Statistics disaggregated by gender on women's involvement in Zimbabwe's private sector are scanty at best. In the formal sector, women comprise roughly 25% of the labor force. Ninety percent of female employment in this sector is concentrated in seven occupational groups: medical technicians, teaching, clerical, sales/shop assistants,

161

domestic, agriculture, and textiles. The 1981 Equal Pay for Equal Work Regulations are rarely enforced and many women still earn lower wages than their male counterparts.

Women hold approximately 14% of administrative and managerial positions in the formal sector; no statistics concerning numbers of registered women-owned businesses are available, although the numbers are clearly small. Similarly, black Zimbabweans, both male and female, hold disproportionately few managerial and proprietary positions vis a vis the white minority.

Statistics on the informal sector are unreliable. However, like in most African countries, the majority of women involved in business are found in the informal sector.

Women's labor predominates in communal agriculture -- 61% of communal farmers are women. Of the remaining 39% (males), 75% are less than 25 or greater than 46 years of age.

A group of Zimbabwean business women have organized themselves into an advocacy group -- Women in Business. The group is very new and has yet to define its priorities or develop a working strategy. It also is having difficulty coping with the national mandate it gave itself. Several donor organizations, including CIDA, are working with the group. The effort is encouraging, but the group is a long way from serving as an advocate for emerging businesswomen.

In short, despite laws supporting equality for women, their participation in the modern sector and, more particularly, in business has evolved differently than that of their male counterparts.

3.3 Implementation Strategies for Incorporating Needs of Women

Because of the added cultural traditions of male dominance, constraints to reaching the target group and facilitating an equitable distribution of benefits are magnified when designing strategies for reaching women. Nevertheless, there are interventions which would address the particular needs of women. They are outlined below as they relate to the projects components; some have been discussed in the socio-cultural feasibility section.

3.3.1 IESC.

The number of female clients assisted through the IESC program is close to nil. The project might consider ways to encourage IESC Volunteers to focus on the technical and managerial needs of women. For example, the Country Director could establish links with women-in-business groups in the U.S., such as Women's World Banking. They have a wealth of experience in the particular problems women in business face. Since women-owned businesses tend to be smaller, they would best be targetted through the ABLE program.

105

3.3.2 Business Linkages

In reviewing business linkage or sub-contracting programs in Africa and around the world, particular emphasis should be placed on identifying partnerships involving women. Their similarities and differences to Zimbabwean opportunities should be assessed. A female representative of the business community should sit on the coordinating committee for the Small Business Development Unit.

3.3.3 Small/Micro- Enterprise Study. All data should be disaggregated by gender. A special follow-up study to track female respondents should be commissioned.

3.3.4 Export Processing Zones.

A literature review would be useful to identify the impacts on women of selected EPZ's around the world. To assess socio-economic impact of new jobs created by export promotion efforts, AID could develop a monitoring and evaluation system to determine impact on employee, household, expenditure patterns, and on socio-economic indicators such as fertility rates, children's health and nutrition.

4.0 Participants and Beneficiaries

4.1 Participants

For business linkages, a small group of corporate leaders and owners/operators of emerging enterprises from Zimbabwe's manufacturing and commercial sectors will be the short-term participants. As the concept becomes more widely accepted, more leaders will participate, as will smaller firms who will become the sub-contracting partners with big business, and local training institutions whose services will be required for skill training of emerging entrepreneurs.

Participants in the development of export processing zones will be leaders of GOZ Ministries representing the public sector and business leaders representing the private sector. As EPZ's become a reality, public sector employees assigned to the EPZ operation team will participate. They will include employees of the EPZ regulatory body and customs officials, to name but a few. Local and foreign training institutions will become involved when their services are needed to train the operation's staff. From the private sector, participants will include the corporations and their affiliates contracted by GOZ for the physical development of the EPZs. The EPZ firms themselves, their suppliers and employees will be the ultimate participants.

Volunteer executives and local client firms will participate in IESC and ZESC activities.

4.2 Beneficiaries

Initial beneficiaries of business linkage activities will most likely be established firms in the manufacturing or high technology sectors and their small enterprise partners. These have been the traditional domains of white businessmen. As the concept gains wider acceptance, a more diverse group of firms could benefit. Additional beneficiaries will be the unemployed who secure newly-created jobs when the financial position of participating firms improves and operations expand.

Early benefits from the EPZ program will go to consulting firms in the form of contracts to implement various components of the Phase I studies and later development of enabling legislation and regulations. The ultimate beneficiaries will be the EPZ firms and their employees. Corporations will benefit through the full range of EPZ incentives. The unemployed who secure much needed jobs in EPZ firms will be obvious beneficiaries. They can expect to earn higher wages than they would in the local economy. However, precisely who these employees will be (e.g. agricultural migrants, immigrants, etc.) will remain in question until worker profiles can be generated.

The IESC program benefits two types of firms: larger white-owned corporations through the volunteer executive program, and smaller business or emerging entrepreneurs through the ABLE program.

Users of the MAPS and Small-Scale Enterprise survey results will benefit through their enhanced capacity to more accurately target their programs.

Annex 3.C Economic Analysis

Since independence in 1980, Zimbabwe has made substantial achievements in the areas of education, health, population and small holder agriculture. The Government of Zimbabwe's equity successes, however, have not been matched by economic growth. Since 1980, the economy has grown at an average annual rate of 3.3 percent -- marginally above the estimated rate of population growth. Accordingly, there has been no material improvement in real living standards.

During the 1980s, the economic growth depended heavily on public sector spending. About 40 percent of growth in GDP between 1980 and 1989 emanated from education, public administration, health, and transport.

Net investment (gross fixed capital formation less depreciation) fell from 13.5 percent of GDP at the height of the "sanctions boom" in the early 1970's, to a low point of 1 percent during the 1987-1989 period. Since the depreciation calculation --3.5 percent of the estimated capital stock -- is extremely conservative, it is probable that the capital stock has been declining since 1987 and possibly even longer.

The private sector's share of investment has dropped from approximately 60 percent before independence to less than half of this share at present.

Net foreign investment since independence has been negligible until recently; about USD 50 million. Two U.S. multinationals, Heinz and Cummins Diesel, account for about half of this figure. Moreover, this has been substantial disinvestment from Zimbabwe on the part of the multinationals. Many firms, particularly a large number based in South Africa, sold their interests to local partners and the GOZ. According to CZI statistics, foreign shareholders controlled 52 percent of the productive assets of the country in 1985; nor they control about 25 percent. Much of the foreign (and to a lesser extent, local) disinvestment has come from allowing plant and equipment to depreciate without replacement, rather than the more dramatic incidents of selling assets.

A recent trickle of new foreign investment reflects an increased optimism in Zimbabwe's economic future, as does the far more significant increase in domestic private sector investment. Nonetheless, investment rates appear to be well below the 20 percent level considered necessary if the economy is to attain a sufficient growth rate.

The primary factors behind the inadequate rates of investment, and the resulting sluggish performance of the economy, are inappropriate government policies of the past (many of these policies, of course, have already been modified, and many more will be in the course of implementing the Structural Adjustment Program -- this will be discussed in detail later). These policy factors are summarized below:

1. Policy Factors that have accounted for inadequate investment

a) Fiscal Policies -- Budget Deficits and High Tax Rates

GOZ budget deficits have ballooned, in spite of a high nominal taxation regime, as a result of:

- An effort to redress the past imbalances in the provision of vital social services such as education, health and infrastructure.
- High level of defense expenditures necessitated by regional and internal security considerations.
- Massive losses from uncompetitive parastatal and other GOZ- owned enterprises.
- Large civil service payroll.

The financing of the deficit apparently has not crowded out investment directly -- possibly because interest rates have been negative in real terms and there has been a high degree of liquidity in the financial system. However, with investment demand expected to pick up substantially, the continued financing of a high budget deficit will impose a constraint on growth by limiting financial resources available for new productive investment.

Nominal corporate tax rates have been very high (50 percent); although for larger corporations with allowances and deductions the effective tax rate is closer to 30 percent, and the marginal tax rate is close to zero. The high nominal business tax rates, and the even higher personal tax rates (60 percent at the top bracket), however, are a severe barrier to entry into the formal sector by smaller businesses.

b) Price/Wage/Employment Controls

At independence, the Government maintained the rigid price and wage controls from the UDI government, and introduced equally rigid controls on labor hiring and firing.

The GOZ maintained price controls to insure the supply of basic and essential commodities at "reasonable" prices, to ameliorate restrictive trade practices, and to secure remunerative prices for farmers. The price controls have had the effect of eroding margins, especially for those dependent on imported inputs, with an adverse effect on returns on investment. Price controls have also been responsible for periodic shortages of goods, particularly when a price increase appears to be under consideration.

Minimum wages were introduced to improve the standard of living for the workforce, maximum wages were introduced to reduce "unfair" income

differentials. Market wages have normally exceeded minimum wages, and employers generally seem able to avoid the restrictions on maximum wages.

Stringent regulations on hiring and firing of regular employees, were introduced to protect the worker from arbitrary employer action. They have had a negative impact on business as well as the unemployment rate. Because of the difficulty of dismissing unnecessary or incompetent employees, many firms have excessively high payrolls, and an unmotivated, inefficient workforce. As a result, firms are reluctant to bring on new employees, resorting to the use of casual labor when needed.

Restrictions on the number of allowable expatriate employees has reduced the attraction of Zimbabwe for new foreign investment, and has reduced the competitiveness of existing domestic and foreign firms.

c) Foreign Exchange -- Access and Pricing

Access to foreign exchange, and the pricing of foreign exchange, are inseparable issues. Because of a consistently over-valued currency, exports have been discouraged and thus foreign exchange earnings have been low. (One indication of how overvalued the Zimbabwe dollar is to see how it is valued on the parallel market -- roughly Zim \$1 = US \$0.20, slightly more than half of the official rate, about Zim \$1 = USD \$0.33.) At the same time, the overvalued exchange rate means that the demand for foreign exchange greatly exceeds supply. Because of the supply/demand mismatch, foreign exchange -- whether for imports of raw and intermediate materials, capital equipment, or invisibles -- has been rationed by the GOZ since UDI through import licensing and administrative regulations.

Foreign exchange shortages have also meant restrictions on profit remittances. Firms that invested after independence are allowed to remit 50 percent of profits; firms that were already in Zimbabwe are only allowed to remit 25 percent.

Although both the pricing and the process of administering foreign exchange have been relatively transparent and free of corruption, the problems caused by the foreign exchange allocation systems are nonetheless severe:

- Private sector projects requiring foreign exchange, as most do, have been crowded out by GOZ and parastatal demands for foreign exchange.
- Investment and business decisions are made by administrative rationing of essential foreign exchange, and not by entrepreneurs responding to market forces.
- Exports are less lucrative in local currency terms and are thus discouraged; imports are under priced, which discourages market driven import substitution.

- Inability to replace, let alone modernize, outdated plant and equipment results in highly inefficient and uncompetitive production.
- Inability to source raw/intermediate materials, resulting in low capacity utilization, further reduces efficiency and employment.
- Dividend policy discriminates against existing investors; even new investors face restrictive policies.
- Managerial time is spent on "working the system" rather than attending to marketing, production, and other vital functions.
- A class of "briefcase businessmen" has developed, exploiting opportunities for economic rent, rather than productive activities.
- Investment and other business decisions are based on administered, not market, price signals.
- Rules and administration of allocation favor existing businesses, especially existing exporters, creating high barriers to entry for new businesses.

d) Monetary Policy - Negative Real Interest Rates, Interest Ceilings

Since the government has relied on direct controls to protect the balance of payments, relatively few monetary and credit policy instruments have been used. Interest rates have been kept low, and usually negative, in an attempt to stimulate business development and growth. Negative real interest rates have penalized savings, but because of tight controls over capital flight, savers have had few foreign investment options and the supply of funds has been adequate. The adverse investment climate has meant that demand for funds is low.

Interest rate ceilings, however, have meant the banks have had little motivation to take greater risks, and loan to startups or indigenous businesses.

e) Red Tape and Over Regulation

A host of administrative controls and procedures, and their increasingly inefficient implementation, has hampered the Zimbabwean economy. Investment approvals, distribution restrictions, zoning and licensing regulations, and transport rules have hurt everybody including the multinationals, the emerging black business, and especially the informal sector.

2. Other Factors that have lead to Inadequate Investment

There are a number of other factors that can, at most, only partially be associated with the inappropriate policy regime of the GOZ. These are summarized briefly below:

194

a) Technical Expertise and Market Contacts

Zimbabwe's hostile investment climate, especially its foreign exchange shortages, has meant that contact with external markets, and external sources of expertise, has been constrained. Funds to attend trade fairs, visit suppliers/customers, or subscribe to foreign publications are limited. Technological expertise embedded in new equipment is usually not available because new equipment is rarely purchased. Foreign consultants/advisors are not attracted to operate in Zimbabwe. Multinationals do not find it attractive (or at times possible) to transfer technology or invest in their workforce. Domestic education of the workforce is inadequate -- school leavers are literate and numerate, but with few practical skills and high expectations.

b) Country and Region Risk Factors -- Real and Perceived

Zimbabwe is a remote African country, with a de facto one party government that until recently did not focus its attention facilitating private sector investment. Based on a fear of exploitation, the government was, from time to time, also somewhat critical of the profit motive and free markets. In actual practice, however, many of the government's policies, and implementation of those policies, has been reasonable and pragmatic.

The surrounding region poses even more problems. Two of Zimbabwe's immediate neighbors, Zambia and Mozambique, are in severe economic distress. Mozambique is still in the grips of a vicious civil war.

The uncertainty over the future direction of South Africa's political and economic policy is a major factor in determining country risk. Although a democratic, free-market, nonracial South Africa would provide both a good market for Zimbabwe and a source of appropriate expertise; it also would provide stiff competition in regional markets, increasingly act as a magnet for Zimbabwe's skilled labor, and prove more attractive to foreign investors. Alternatively, should South Africa plunge into chaos and civil war, then the investment climate in the whole region would suffer.

The net effect of country and regional risk factors is to increase the discount rate (or decrease the net present value of expected cash flows) of projects sited in Zimbabwe, because of the high degree of uncertainty and perceived risk. A higher discount rate for Zimbabwe means that an investor might turn down a project in Zimbabwe that would be "bankable" if sited in Thailand.

c) Infrastructure

Much of Zimbabwe's infrastructure, while quite good by African standards, is deteriorating and is stretched beyond capacity. Internally, much of the problem is due to inappropriate government policy. Secondary roads serving the rural districts are in poor condition. The railway system has been

195

neglected. The telecommunications network is severely overloaded, new telephone connections are very difficult to obtain, and spot outages are frequent.

Externally, moreover, Zimbabwe has suffered significantly from the ravages of civil war in Mozambique. Renamo rebels fighting the Frelimo government of Mozambique have repeatedly sabotaged transport routes. The two closest links to the Indian Ocean, the Beira and Limpopo (Maputo) corridors, are only now coming back into operation. The Tete corridor, Zimbabwe's closest link with Malawi, is still extremely dangerous.

d) Social Norms

De facto discrimination on the basis of sex or race has hindered investment, especially in the SME sector. Local cultural norms, whether traditional, imbued in the public education system, or promoted from state-controlled media may also have had a role in discouraging entrepreneurship and hence investment.

e) AIDS Epidemic

In early 1991, the Ministry of Health estimated that by 1992, 28 percent of the workforce will have AIDS. Outside of the tremendous human tragedy that this statistic represents, it has dramatic implications for the economy -- and the attractiveness of Zimbabwe for investors. Lowered labor productivity, increased health costs for corporations and insurance companies, the loss of scarce skills, and the viability of training programs are a few examples of these impacts.

3. Zimbabwe's Evolving Economic and Policy Environment

The problem of a low economic growth rate in Zimbabwe needs to be analyzed in the context of an unusual economic and political environment. Zimbabwe is not a typical Sub-Saharan Africa (SSA) country in many respects. In most SSA countries, the agricultural sector contributes more than 30 percent of GDP; in Zimbabwe, agriculture only contributes about 15 percent. Conversely, the Zimbabwean manufacturing sector contributes an exceptional amount to GDP, 26 percent. (A strong case can be made that Zimbabwe is in fact over-industrialized; the cumulative impact of sanctions which forced widespread import substitution, and subsequent policies of control and protection that have continued to encourage inefficient import substituting industrialization.)

As for external trade, exports and imports now account for about one half of GDP. This combination of exports and imports makes Zimbabwe the fifth largest trader in SSA after Nigeria, Cote d'Ivoire, Zaire, and Cameroon. Zimbabwe rises to third place in Africa if oil exports are excluded. With ferrochrome and steel making up the bulk of the export category, some 40 percent of Zimbabwe's exports are classified as manufactured goods. Tobacco and gold

each contribute about 18 percent to exports while ferro-alloys contribute another 10 percent. The tight controls on imports have led to a concentration on investment and intermediate goods, with few consumer goods allowed. Consumer goods represent about 2-3 percent of imports, although if non-recorded trade were included, that percentage would likely be higher.

Zimbabwe's economic history is unique, relative to its African neighbors, and has resulted in a peculiar set of circumstances which impact on its present potential for growth. Beginning with Unilateral Declaration of Independence (UDI) in 1965, the productive sector in what was then Rhodesia was faced with a variety of problems. The UN reacted to UDI by imposing a set of comprehensive economic sanctions -- unmatched in their stringency until the recent economic sanctions imposed on Iraq in late 1990. The UN sanctions were implemented fairly rigorously by most of Rhodesia's traditional trading partners. Although goods did flow in and out of Rhodesia, some goods simply could not be imported or exported by "sanctions busting". Those imports that did come in cost far more; the return to Rhodesia for exports was far less, because of the necessity of working through middlemen. Technology transfer, financing, and other "invisible" services also dried up with sanctions.

As a result of the sanctions, the UDI Rhodesian Front government headed by Ian Smith saw the need to introduce wide-reaching and stringent controls, especially over access to foreign exchange, marketing, and prices. The main reasons for the controls were twofold; one, to allocate the scarce supply of hard currency to areas of priority to the UDI regime, and two, to keep capital in the country, and force companies to maintain business activity and reinvest profits, even though the business climate became increasingly unfavorable.

The combined effect of the externally imposed UN sanctions and internally imposed UDI controls was to create an isolated, inward-oriented autarkic economy. Initially, however, the economy boomed, as domestic organizations retooled to serve the local protected market. Import substitution became a matter of national survival; and, as a result, the country became over-industrialized. Between 1965 and 1982, the number of industrial products made in the country increased tenfold, from 600 to 6,000.

By the mid-seventies, the tide began to turn against both the UDI regime, and the Rhodesian economy. The two main factors were Mozambique's independence, and South African's reversal of policy of support of Rhodesia. The exodus of skilled white Rhodesians accelerated with the escalation of the civil war during the mid to late seventies. Many of the remaining whites were diverted from their jobs by military call-ups for nearly half of every year. (The few far-sighted Rhodesian firms that trained and developed black managers were far less affected by white emigration and the military call-ups.)

At independence, the wide-ranging system of state controls over business and the allocation of resources developed by the Smith regime were retained to serve the interests of black nationalism, the government's new policy of "Growth with Equity", and the development of a socialist regime. Few firms objected, however, to the continuation of the highly restrictive and protected business environment, which was conducive to firms that had become inefficient in the world market as a result of controls and sanctions of the UDI period.

The new Government of Zimbabwe (GOZ), however, added new layers of control of business. The GOZ introduced laws and regulations that greatly reduced flexibility in labor force management, and it became very difficult to lay off workers, even for cause. The GOZ greatly increased its consumption of resources in the economy, and therefore had to increase corporate and personal income taxes. The small corps of civil servants dramatically increased in size, while its effectiveness and efficiency dropped. Finally, the GOZ also vastly increased its role as a direct actor in the economy. Government purchased shares in agricultural, industrial, and financial enterprises -- although almost always on a willing buyer/willing seller basis.

The net effect of the accumulation of restrictive UDI and GOZ economic policies has been discussed above; it has choked off investment, and thereby limited growth, the ability to create jobs, earn foreign exchange, and enable emergent black entrepreneurs to enter the economy. Although the tightly managed economy has not faltered seriously, the policies have meant that much of the productive sector's equipment is at the end of its useful life. Deteriorating and depreciating capital stock is not being replaced. One very real cost to productive efficiency is the rent-seeking activity that occurs as a result of the policy to allocate the foreign exchange among many groups. As might be expected, the managed allocation system is imperfect. Numerous firms do not have sufficient foreign exchange to meet their legitimate daily needs for spare parts, etc. As a consequence, much time is spent locating those firms with unused allocations.

Although there were some attempts at trade liberalization after independence, the macroeconomic management of the economy has changed little until recently. (Since 1983 the GOZ has introduced certain export incentives, such as the Export Revolving Fund, that have had genuine, but limited successes. The consensus for change that appeared to emerge around 1988 recognized that the "band aid" approaches were not enough, and that fundamental reform was necessary.)

In 1988, a consensus began to develop within the GOZ that the controls introduced under UDI and expanded under the GOZ were slowly grinding the economy to a halt. Since that time, the GOZ has introduced a series of liberalization and reform measures that have culminated in the recent Structural Adjustment Program (SAP). A brief recap of the liberalization initiatives follow.

1989 Liberalization Initiatives

GOZ approved a new investment code in April, which introduced new incentives, especially for export oriented new investments. The major changes were:

- 100 percent foreign ownership of new investments can be approved on a case-by-case basis; in the past, joint ventures with local partners were a de facto requirement, even if not required by law.

- 100 percent repatriation of profits could be approved on a case-by-case basis; in the past, only 50 percent of profits from new investments could be repatriated.
- The definition of what is a domestic company was broadened; which means that certain onerous restrictions on foreign companies now would not apply to the formerly "foreign" firms that would now be classified as "domestic."
- The Zimbabwe Investment Centre (ZIC) was created, meant to act as a "one stop shop" for investment approval, and also promote investment.

GOZ reduced the value of the Zimbabwe dollar by 8 percent in real terms.

1990 Liberalization Initiatives

Collective bargaining was introduced in February, eliminating direct state intervention in labor agreements for all but agricultural and domestic workers.

The Budget and Economic Policy Statement and Finance Bill introduced in July gave the broad concepts of new export incentives introduced later in the year (EPZs were specifically addressed); and previewed the SAP, which was introduced in 1991. Corporate taxes were reduced slightly.

Export Incentives were introduced in September, the main points of which were:

- Open General Import License (OGIL) list was expanded.
- Exporters retained for their own use 5 to 7.5 percent of export earnings.
- Export Promotion Bonus was increased.
- Export oriented investments were given certain incentives, such as 100 percent dividend repatriation rights.
- The authority and mandate of the ZIC were increased.
- Prices were decontrolled, strict controls remained on only 10 essential goods and services.

The Zimbabwe dollar was devalued by 12 percent in real terms over the year.

1991 Liberalization Initiatives

The Structural Adjustment Program (SAP) was introduced with the release of the document "Zimbabwe -- A Framework for Economic Reform (1991-1995)." This document is unique in both the specificity of reforms to be undertaken, and their timing. The main points can be categorized in three areas (see Annex 7, the SAP Policy Matrix):

- a) Fiscal/Monetary Policy
 - GOZ deficit as a percentage of GDP was reduced from 10 percent to 5 percent by 1995, through cost savings (reduction in parastatal subsidies, GOZ workforce), despite revenue reductions from lower taxes.
 - Taxes were reduced from 35 to 33 percent of GDP by 1995.
 - Inflation rate was reduced from 20 to 10 percent by 1995.
 - Interest rates were decontrolled.

- b) Foreign Exchange Decontrol, Trade Liberalization, Export Incentives
 - OGIL for most, if not all, goods and services by 1995. Phased approach, in the following order of liberalization: Raw materials, intermediate goods, capital goods, and finally profit remittances and consumer goods.
 - Tariffs lowered to an average 14 percent by 1995.
 - Exchange rate maintained to favor exporters.

- c) Deregulation
 - (1) Investment
 - ZIC project approval authorities and abilities were strengthened, promotional authority was strengthened, and a mandate was given to establish Export Processing Zones.
 - Dividends and other invisible remittances decontrolled by 1995.
 - (2) Price/Marketing
 - Controls were eliminated by 1995.
 - Agricultural marketing restrictions were relaxed by 1995.
 - (3) Labor
 - Streamlined hiring and firing regulations were implemented.
 - (4) Local Authorities
 - Zoning, licensing, and other registration rules were relaxed.
 - (5) Transport
 - Deregulation permitting greater competition was accomplished.

200

4. Implementing the Structural Adjustment Program

The GOZ has recently initiated a Structural Adjustment Program (SAP) which has a primary objective of increasing the rate of economic growth in Zimbabwe. The SAP "Framework" is a detailed, internally coherent document, and if implemented according to schedule, will go most of the way towards changing the policy environment favoring private sector-led economic growth.

Many factors favor Zimbabwe's ability to implement the SAP, especially when compared with other African countries. The country's physical and human capital is one key factor. Also, Zimbabwe begins the structural adjustment process with a debt service ratio of about 24 percent -- quite unlike the experience of most LDCs which, when they finally are forced into structural adjustment, often find themselves faced with debt service ratios approaching 100 percent.

The "Framework for Economic Reform" has identified the key macro-economic constraints in Zimbabwe and made provisions for the necessary policy actions to address them over the five years of the program. Zimbabwe's economic reform program is exceptionally well designed and thought out. Many donors including ourselves, have referred to it as the best such program that they have seen from sub-Saharan Africa. Specifically, it deserves to be commended for the following reasons.

- It spells out a detailed timetable for reform against which performance can be evaluated.
- It recognizes that reform is a process, not an event.
- It recognizes that reform at the macro-economic level must be accompanied by specific sectoral initiatives to "operationalize the package" and produce an impact on the economy.
- It recognizes that the Government's role in the economy as a producer, a regulator and a claimant on resources must be reduced and that controls have been largely counter-productive.
- Through its commitment to the establishment of a fully operational Open General Import Licensing System by 1995, the Government has implicitly recognized the importance of a market determined exchange rate that provides a real incentive to exporters.

It remains to be seen how the program will be implemented in practice. Much, particularly in regard to the implementation of the OGIL, depends upon the support received from the donor community.

At the recent donors meeting in Paris the donors (bilateral and multi-lateral) pledged some U.S.\$700 million for the first year of the program's operation - with the U.S. pledge amounting to U.S.\$40 million of this. While this U.S.\$700 million is sufficient in total, its composition may be focused too much on projects with an insufficient amount being made available as

cash in support of the OGIL system. The OGIL system is the substantive centerpiece of the entire reform program and a slowing of its implementation could have unfortunate results. Donor support for this system is accordingly absolutely critical.

The SAP is not comprehensive. For example, there are no specific provisions to introduce antitrust measures to break up the monopoly situation that exists in so many subsectors, no plans to remove the stringent disinvestment policies, and a lack of specificity on corporate tax rate reductions. While these omissions are important, they will not prevent the SAP from having significant impact. Furthermore, the major players in the GOZ and the private sector are well aware of these gaps, and steps can easily be taken to incorporate them into the SAP.

At the time this project paper was written, however, the unresolved issue of land resettlement presents the potential for a major impact on the investment climate, as well as the financing and implementation of the SAP. Changes have been made in the constitution that greatly increase the powers of the GOZ to acquire agricultural land for resettlement. Previously, the GOZ was empowered to purchase land only at a "willing buyer, willing seller" basis, at a fair price, in hard currency, with the courts having the power of arbitration. The constitutional changes allow the GOZ to acquire land at an "adequate price", payment subject to the availability of funds, without impartial arbitration from the courts or any other independent body. The constitutional amendment does not limit its definition of property that can be acquired by the GOZ in the national interest to commercial farmland. In principal, all property, including intellectual property, is fair game for acquisition by the government according to the new law. The potential impact on the farming sector could be adverse; farmers fearing a buyout on unfavorable terms with no recourse may be inclined to run down their farms. This would lower export earnings, reduce the supply of raw materials to industry, reduce the tax base for government, reduce the food supply to the nation, and sap business confidence in all sectors.

Although the land resettlement provisions would probably not be applied to international firms, the proposed land resettlement measures nonetheless could send a chilling message to potential foreign investors. The impact of the land resettlement issue cannot be assessed now; the implementing legislation for land resettlement has not been adopted by Parliament. This implementing legislation, in fact, could address most of the concerns raised by the generality of the constitutional amendment.

The political will of the GOZ, at least at the highest levels, to implement the SAP is clear. The interest and ability of the civil service to carry out the reforms, especially the fiscal and deregulatory changes, will have to be strengthened. The support of the ruling party officials needs to be maintained through what will undoubtedly be a very difficult time of adjustment.

The private sector's understanding of the SAP, and its ability to respond to the challenges and opportunities also will have to be supported. Business confidence already seems to have turned a corner; domestic investment rates

202-

seem to be greatly increased in the past year. Nonetheless, special programs will need to be developed to facilitate the transition to a competitive economy. Firms will need to rationalize their operations and focus only on those product lines that are most competitive. This will provide opportunities for smaller businesses to take on the production of some of the discarded lines. Some of these small businesses, in fact, could be started by the redundant managers and laborers with the knowledge and experience needed to run the operations. With the right kind of guidance, Zimbabwean firms, large and small, could rapidly specialize and grow more efficient.

Annex 3.D Institutional/Administrative Analysis

Export Processing Zones

For the EPZ component, the three identifiable key players are the MFEPD's Policy Analysis Unit, the ZIC, and the Ministry of Commerce and Industry. On the private sector side, the CZI and the other business groups will play a key role, particularly in Phases Two through Four.

The MFEPD Policy Analysis Unit will take the lead in Phase I, the economic and social feasibility analysis. This Unit has proven its capability to undertake highly sophisticated policy analysis; it had the lead responsibility in producing the highly acclaimed SAP Policy Framework document. The Unit is more than capable of helping guide the work done in Phase One, absorbing the results, and making recommendations.

If Phase One is positive, and EPZs have been fully accepted as a policy instrument on the part of the GOZ, then the ZIC will take the lead in implementation, from the public sector viewpoint. The ZIC has begun to build its strength in investment analysis and promotional activities, and the EPZ component will provide specialized assistance where and when necessary. It should be noted that even now, the ZIC staff are recognized as a highly competent and efficient.

The Ministry of Commerce and Industry's role is less defined, but as the lead ministry for ZBDP, and one with a great interest in the success of the EPZs, their guidance and input will prove invaluable to this component. The Permanent Secretary and the Under Secretary (Planning and Policy) are expected to take a particularly strong role. Both individuals are experienced, dedicated civil servants with a long track record of successful collaboration with donors, including USAID.

Business Linkage

Because an analysis of the appropriate institution to house the Business Linkage component is part of Phase One of the implementation process, an institutional analysis of this component is premature.

Zimbabwe Executive Service Corps (ZESC)

Because an analysis of the appropriate institution to house the ZESC component is part of Phase One of the implementation process, an institutional analysis of this component is premature.

Analytical Research Components

The analyses and data bases of the analytical research components will be used and maintained by USAID/Zimbabwe. Other institutions, however, particularly government ministries and the private business associations, have expressed strong interest in "ownership" of the results. Although dissemination of the results is not a specific goal of ZBDP, USAID/Zimbabwe will make every effort to do so. Because the ZBDP purpose or goal is not dependent on the institutional capability of the recipient organizations, an institutional analysis is not required.

201

ANNEX 3.E - FINANCIAL TABLES
 ZIMBABWE BUSINESS DEVELOPMENT PROJECT
 CONSOLIDATED BUDGET
 FOR FY 1991-93

| ACTIVITY (SEE ENDNOTES) | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|--------------------------------------|-----------|-----------|-----------|-----------|
| PILOT OPERATIONAL COMPONENTS: | | | | |
| EXPORT PROCESSING ZONE | 226,400 | 334,220 | 550,095 | 1,110,715 |
| BUSINESS LINKAGE | 252,150 | 150,750 | 149,900 | 552,800 |
| VOLUNTARY BUSINESS ADVISORY | 815,793 | 571,981 | 546,980 | 1,934,753 |
| TOTAL-----> | 1,294,343 | 1,056,951 | 1,246,974 | 3,598,268 |
| ANALYTICAL COMPONENTS: | | | | |
| PRODUCTIVE SECTOR DESCRIPTION | 0 | 120,000 | 180,000 | 300,000 |
| SME ANALYTICAL WORK | 110,000 | 70,000 | 70,000 | 250,000 |
| IMPLEMENTATION SUPPORT RESEARCH | 0 | 169,800 | 169,800 | 339,600 |
| QUICK RESPONSE FUND (QRF) | 26,987 | 49,474 | 87,412 | 163,873 |
| TOTAL-----> | 136,987 | 409,274 | 507,212 | 1,053,473 |
| PROJECT MANAGEMENT (LOCAL HIRE PSC) | 41,250 | 55,000 | 55,000 | 151,250 |
| MONITORING AND EVALUATION (1) | 56,600 | 42,450 | 99,050 | 198,100 |
| AUDIT | 0 | 0 | 56,600 | 56,600 |
| INFLATION (2) | 42,075 | 78,184 | 98,242 | 218,501 |
| CONTINGENCY (3) | 78,562 | 82,092 | 103,154 | 263,808 |
| TOTAL-----> | 218,487 | 257,726 | 412,046 | 888,259 |
| ZBDP PROJECT TOTAL-----> | 1,649,817 | 1,723,951 | 2,166,232 | 5,540,000 |

205

ZIMBABWE BUSINESS DEVELOPMENT PROJECT

EXPORT PROCESSING ZONE
FOR 1991 - 1993

| | YEAR 1 | YEAR 2 | YEAR 3 | |
|---|---------|---------|---------|---------|
| PHASE 1 -- ENABLING ENVIRONMENT STUDY | | | | |
| COMPARATIVE ANALYSIS (4) | 14,150 | 0 | 0 | 14,150 |
| COMPREHENSIVE ASSESSMENT (5) | 56,600 | 0 | 0 | 56,600 |
| EVALUATION OF COMPETITIVENESS (6) | 70,750 | 0 | 0 | 70,750 |
| SCENARIO DEVELOPMENT (4) | 14,150 | 0 | 0 | 14,150 |
| ECONOMIC ANALYSIS (4) | 14,150 | 0 | 0 | 14,150 |
| SOCIAL ANALYSIS (4) | 14,150 | 0 | 0 | 14,150 |
| ACTION PLAN DEVELOPMENT (7) | 28,300 | 0 | 0 | 28,300 |
| FORMAL BRIEFING (4) | 14,150 | 0 | 0 | 14,150 |
| PHASE 1 SUBTOTAL | 226,400 | 0 | 0 | 226,400 |
| PHASE 2 -- DRAFT LEGISLATION & CONSCIOUSNESS RAISING | | | | |
| A. DRAFT LEGISLATION | | | | |
| DRAFT LEGISLATION | 0 | 28,300 | 0 | 28,300 |
| RECOMMENDED REGULATORY POLICIES | 0 | 28,300 | 0 | 28,300 |
| RECOMMENDED REGULATORY STRUCTURES | 0 | 28,300 | 0 | 28,300 |
| FORMAL BRIEFING | 0 | 14,150 | 0 | 14,150 |
| B. CONSCIOUSNESS RAISING | | | | |
| IN COUNTRY WORKSHOP (8) | 0 | 53,950 | 0 | 53,950 |
| EXPOSURE TOUR (9) | 0 | 181,220 | 0 | 181,220 |
| PHASE TWO SUBTOTAL: | 0 | 334,220 | 0 | 334,220 |
| PHASE THREE - REGULATORY DEVELOPMENT | | | | |
| SHORT-TERM TECHNICAL ASSISTANCE | | | | |
| IMPLEMENTING REGULATIONS (6) | 0 | 0 | 70,750 | 70,750 |
| OPERATING PROCEDURES -RESERVE BANK (5) | 0 | 0 | 56,600 | 56,600 |
| OPERATING PROCEDURES -- EPZA (10) | 0 | 0 | 141,500 | 141,500 |
| LONG-TERM ADVISOR | 0 | 0 | 281,245 | 281,245 |
| PHASE THREE SUBTOTAL | 0 | 0 | 550,095 | 550,095 |
| EPZ TOTAL | 226,400 | 334,220 | 550,095 | 1110715 |

206

ZIMBABWE BUSINESS DEVELOPMENT PROJECT

BUSINESS LINKAGE

FOR 1991 - 1993

| | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|---|---------|---------|---------|----------|
| PHASE ONE -- DIAGNOSTIC ASSESSMENT | | | | |
| BASELINE SURVEY (7) | 28,300 | 0 | 0 | 28,300 |
| CONSTRAINTS ANALYSIS (7) | 28,300 | 0 | 0 | 28,300 |
| EXPOSURE TOUR (5) | 141,600 | 0 | 0 | 141,600 |
| ACTION PLAN (4) | 14,150 | 0 | 0 | 14,150 |
| WORKSHOP (7) | 39,800 | 0 | 0 | 39,800 |
| | ----- | ----- | ----- | ----- |
| SUBTOTAL PHASE ONE | 252,150 | 0 | 0 | 252,150 |
| PHASE TWO -- PILOT OPERATION | | | | |
| FACILITATION SUPPORT -- INITIAL ASSESS, ONGOING (11) | 0 | 70,750 | 84,900 | 155,650 |
| CAR AND OFFICE EQUIPMENT | 0 | 25,000 | 10,000 | 35,000 |
| GRANT FOR PILOT OPERATIONAL SUPPORT | 0 | 55,000 | 55,000 | 110,000 |
| | ----- | ----- | ----- | ----- |
| SUBTOTAL PHASE TWO | 0 | 150,750 | 149,900 | 300,650 |
| TOTAL BUSINESS LINKAGE | 252,150 | 150,750 | 149,900 | 552800.0 |
| | ===== | ===== | ===== | ===== |

207

ZIMBABWE BUSINESS DEVELOPMENT PROJECT
 VOLUNTEER BUSINESS ADVISORY SERVICES
 FOR 1991 - 1993

| | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|----------------------------|---------|---------|---------|-----------|
| VOLUNTEER EXECUTIVES (12) | 327,225 | 250,873 | 250,873 | 828,970 |
| JOINT VENTURE SERVICE (13) | 34,358 | 34,358 | 34,357 | 103,073 |
| ABLE (14) | 43,750 | 43,750 | 43,750 | 131,250 |
| ZESC | 46,960 | 85,000 | 60,000 | 191,960 |
| COUNTRY DIRECTOR'S OFFICE | 165,500 | 150,000 | 150,000 | 465,500 |
| FY 1990 COSTS (15) | 190,000 | 0 | 0 | 190,000 |
| GROUP ACTIVITIES (16) | 8,000 | 8,000 | 8,000 | 24,000 |
| TOTAL VBAS | 815,793 | 571,981 | 546,980 | 1,934,753 |

ZIMBABWE BUSINESS DEVELOPMENT PROJECT
DESCRIPTION OF THE PRODUCTIVE SECTOR OF ZIMBABWE
FOR 1991 - 1993

| | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|---|--------|---------|---------|---------|
| PHASE 1 -- ANALYSIS OF SECONDARY SOURCES (17) | 0 | 120,000 | 0 | 120,000 |
| PHASE 2 -- SURVEY OF LARGE ENTERPRISES (18) | 0 | 0 | 180,000 | 180,000 |
| TOTAL COMPONENT | 0 | 120,000 | 180,000 | 300,000 |

ZIMBABWE BUSINESS DEVELOPMENT PROJECT

SME ANALYTICAL WORK
FOR 1991 - 1993

| | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|--|---------|--------|--------|---------|
| PHASE ONE -- SEMINAR, DISSEMINATION OF SURVEY RESULTS AND PLAN | 20,000 | 0 | 0 | 20,000 |
| PHASE TWO -- FURTHER SME ANALYTICAL WORK (19) | | | | |
| SUBSECTOR ANALYSIS | 90,000 | 0 | 0 | 90,000 |
| LONGITUDINAL SURVEYS | 0 | 70,000 | 70,000 | 140,000 |
| TOTAL COMPONENT | 110,000 | 70,000 | 70,000 | 250,000 |

IMPLEMENTATION SUPPORT RESEARCH
FOR 1991 - 1993

| | YEAR 1 | YEAR 2 | YEAR 3 | TOTAL |
|--|--------|---------|---------|---------|
| ANALYTICAL S-T TECHNICAL ASSISTANCE (20) | 0 | 169,800 | 169,800 | 339,600 |

209

VBAS -- SUPPORTING CALCULATIONS

COSTS PER VOLUNTEER

REGULAR VOLUNTEER EXECUTIVE

| | LOCAL COSTS | OVERSEAS COSTS | TOTAL |
|-----------------------------------|-------------|----------------|--------|
| RECRUITMENT (21) | 0 | 2,300 | 2,300 |
| TRAVEL TO INT'L GATEWAY (22) | 0 | 1,000 | 1,000 |
| INTERNATIONAL TRAVEL (22) | 11,000 | 0 | 11,000 |
| PER DIEM ENROUTE TO ZIMBABWE (23) | 0 | 500 | 500 |
| FIELD SUPPORT (21) | 0 | 750 | 750 |
| PER DIEM IN COUNTRY (24) | 5,265 | 0 | 5,265 |
| CONTINGENCY FOR IESC OH | 0 | 1,000 | 1,000 |
| TOTAL | 16,265 | 5,550 | 21,815 |
| CLIENT CONTRIBUTION (25) | 10,908 | | |
| USAID CONTRIBUTION (26) | | 10,908 | |

JOINT VENTURE SERVICE VOLUNTEER EXECUTIVE

| | LOCAL COSTS | OVERSEAS COSTS | TOTAL |
|-----------------------------------|-------------|----------------|--------|
| RECRUITMENT (21) | 0 | 2,500 | 2,500 |
| TRAVEL TO INT'L GATEWAY (22) | 0 | 1,000 | 1,000 |
| INTERNATIONAL TRAVEL (22) | 11,000 | 0 | 11,000 |
| PER DIEM ENROUTE TO ZIMBABWE (23) | 0 | 500 | 500 |
| FIELD SUPPORT (21) | 0 | 1,000 | 1,000 |
| PER DIEM IN COUNTRY (27) | 1,755 | 0 | 1,755 |
| IESC OVERHEAD | 0 | 1,000 | 1,000 |
| U.S. TRAVEL (22) | 0 | 1,750 | 1,750 |
| U.S. PER DIEM (28) | 0 | 2,400 | 2,400 |
| TOTAL | 12,755 | 10,150 | 22,905 |
| CLIENT CONTRIBUTION | 11,453 | | |
| USAID CONTRIBUTION | | 11,453 | |

ABLE PROJECTS

| | LOCAL | OVERSEAS | |
|----------------------------------|-------|----------|-------|
| U.S. RESEARCH AND OVERHEAD COSTS | | 3,500 | 3,500 |
| | | ===== | ===== |
| CLIENT CONTRIBUTION | 1,750 | 0 | 1,750 |
| USAID CONTRIBUTION | 0 | 1,750 | 1,750 |

210

| ZIMBABWE EXECUTIVE SERVICE CORPS | | | |
|----------------------------------|---------|---------|---------|
| | YEAR 1 | YEAR 2 | YEAR 3 |
| PHASE ONE - NEEDS ASSESSMENT | | | |
| CONSULTANT (29) | 42,450 | | |
| VBAS VE (30) | 4,510 | | |
| PHASE TWO -- PILOT OPERATION | | | |
| DIRECTOR | 0 | 50,000 | 50,000 |
| EQUIPMENT AND VEHICLE | 0 | 25,000 | 5,000 |
| TRAVEL | 0 | 10,000 | 5,000 |
| TOTAL ZESC | 46,960 | 85,000 | 60,000 |
| IESC COUNTRY DIRECTOR'S OFFICE | | | |
| | YEAR 1 | YEAR 2 | YEAR 3 |
| PROGRAM DEVELOPMENT OFFICER | 25,000 | 25,000 | 25,000 |
| PROGRAM/MARKETING/EVALUATION | 20,000 | 20,000 | 20,000 |
| OTHER EXPENSES | 105,000 | 105,000 | 105,000 |
| ONE TIME STARTUP COSTS | | | |
| BRIEFING SHEET | | 1,750 | |
| 5 DAYS @250 | 1,250 | | |
| PRINTING | 500 | | |
| CLIENT DATABASE DEVELOPMENT | | 12,500 | |
| CONSULTANT--SPECS | | | |
| 2 DAYS @250 | 500 | | |
| COMPUTER/SOFTWARE | 10,000 | | |
| DATABASE SET-UP | | | |
| 5 DAYS @200 | 1,000 | | |
| TRAINING | | | |
| 5 DAYS @200 | 1,000 | | |
| DEVELOPMENT IMPACT ASSESSMENT | | | |
| 5 DAYS @250 | 1,250 | 1,250 | |
| TOTAL COUNTRY DIRECTORS OFFICE | 165,500 | 150,000 | 150,000 |

GENERAL ASSUMPTIONS FOR FINANCIAL STATEMENTS

SHORT-TERM T.A. COST PER MONTH

| | |
|-----------------------------|--------|
| SALARY (\$300 * 22) | 6,600 |
| IQC MULTIPLIER--2.5 | |
| DAILY RATE | 16,500 |
| PER DIEM (31 * 117) | 3,627 |
| AIR FARE | 5,000 |
| COMMUNICATIONS | 200 |
| REPORT PREPARATION/PRINTING | 500 |
| SECRETARIAL ASSISTANCE | 2,000 |
| DBA INSURANCE | 200 |
| OTHER | 273 |
| TOTAL | 28,300 |

EXPOSURE TOUR

| | |
|------------------------------|--------|
| AIRFARE (20 PEOPLE @2000) | 40,000 |
| PER DIEM (20 @ 150 @ 15DAYS) | 45,000 |
| | ----- |
| | 85,000 |
| | ===== |

WORKSHOP

| | |
|-------------------------------------|--------|
| CONFERENCE FACILITIES | 1,000 |
| PER DIEM (25 PERSONS @100 @ 3 DAYS) | 7,500 |
| SECRETARIAL SUPPORT | 1,000 |
| REPORT PRINTING/BRIEFING MTLs | 2,000 |
| | ----- |
| | 11,500 |
| | ===== |

212

LONG-TERM TECHNICAL ASSISTANCE ADVISOR
 -- TWO YEARS, EXPATRIATE

| | YEAR 1 | YEAR 2 |
|----------------------------|---------|---------|
| SALARY | 80,400 | 80,400 |
| DIFFERENTIAL | 8,040 | 8,040 |
| BENEFITS (30% OF SALARY) | 24,120 | 24,120 |
| HOUSING | 18,000 | 18,000 |
| UTILITIES | 6,000 | 6,000 |
| FURNISHINGS | 15,000 | 0 |
| SECURITY | 6,000 | 4,800 |
| TRAVEL TO/FROM POST | 10,000 | 10,000 |
| PER DIEM TO/FROM POST | 800 | 800 |
| HHE | 14,400 | 14,400 |
| UAB | 3,900 | 3,900 |
| EXCESS BAGGAGE | 880 | 880 |
| EDUCATION ALLOWANCE | 12,000 | 12,000 |
| POV | 2,500 | 2,500 |
| MEDICALS/PASSPORTS/ETC | 1,000 | 1,000 |
| IN-COUNTRY TRAVEL/PER DIEM | 3,000 | 5,000 |
| OVERHEAD | 61,812 | 57,552 |
| FIXED FEE | 13,393 | 12,470 |
| TOTAL | 281,245 | 261,862 |

Endnotes:

- (1) Person-months of technical assistance for monitoring and evaluation are 2, 1.5 and 3.5 respectively during years 1-3.
- (2) Inflation is estimated at 2.8%, 5% and 5% respectively during years 1-3.
- (3) Contingency is approximately 5% of the total project budget each year.
- (4) 0.5 person months.
- (5) 2.0 person months.
- (6) 2.5 person months.
- (7) 1.0 person months.
- (8) 1.5 person months.
- (9) 3.4 person months plus travel costs.
- (10) 5.0 person months.
- (11) 2.5 and 3.0 person months respectively in years 2 and 3.
- (12) 30 VEs in year 1 and 23 in years 2 and 3.
- (13) 3 Joint Ventures in each of years 1-3.
- (14) 25 ABLEs in each of years 1-3.
- (15) 19 VEs at \$10,000 each.
- (16) 4 Group Activities per year at \$2,000 each.
- (17) Based on J.E. Austin fax of 2/91.
- (18) Based on J.E. Austin letter of 11/20/90, with appropriate modifications.
- (19) Level of effort based on discussions with Dr. Mead of Michigan State U.
- (20) 4 studies in each of years 2 and 3 at 1.5 person months per study.
- (21) Based on information from IESC HQ in Stamford, CT.
- (22) Based on historical, actual costs.
- (23) 2 days at \$250 per day.
- (24) 45 days at \$117 per day.
- (25) Based on historical, average client contribution.
- (26) Residual for AID funding.
- (27) 15 days at \$117 per day.
- (28) 24 days at \$100 per day.
- (29) Based on 1.5 person months.
- (30) Based on Ve of 30 days average length at \$117 per day plus plane fare at \$1000.

Annex 4 -- Detailed Description of Project Components

A. Development of a Competitive Export Processing Zone Regime

~~Phase One:~~ Feasibility Analysis of an EPZ regime in Zimbabwe

The initial phase of USAID assistance will consist of funding for a detailed feasibility analysis that will include the following elements. The feasibility analysis will be produced under the direction of the Ministry of Finance and Economic Planning, with input from an informal inter-ministerial working group including Reserve Bank, ZIC, and the Ministry of Commerce and Industry.

The feasibility analysis will include:

Comparative analysis of the historical development, policy evolution, economic impact and physical configuration of successful and unsuccessful EPZs in East Asia, Africa, Middle East and Latin America. Presentation of "lessons learned" in terms of the EPZ policy framework; ownership and management; administration of the EPZ package; and especially, a focus on the relationship of EPZs and broader economic policy liberalization programs.

Comprehensive assessment of the Zimbabwe investment environment. This will be done by an evaluation of the policy and institutional framework affecting export-oriented activities, with a special focus on the SAP, as well as by an assessment of the cost and competitiveness of the economic factors of production, infrastructure and basic services.

Evaluation of the competitiveness of an EPZ regime in Zimbabwe. This will entail an assessment of potential demand for EPZ facilities from interviews with foreign and local firms, and an analysis of the competitive threat posed by regional developments such as the opening up of South Africa, and new EPZ initiatives now underway in Kenya, Madagascar, Mozambique and elsewhere.

Development of recommended EPZ scenarios for further analyses and consideration. This will require the identification of likely initial sites for an EPZ industrial estate(s).

Economic analysis of the potential economic impact of the EPZ scenarios in Zimbabwe, including impact on local and foreign investment, foreign exchange earnings, and job creation. The analysis will also address indirect benefits; e.g., the estimated number of jobs created outside the EPZ for every job created in the EPZ. A cost/benefit analysis of the economic impacts of the various EPZ scenarios will be undertaken.

Social analysis of the various proposed EPZ scenarios, including but not limited to an examination of the impacts on women, the family, indigenous entrepreneurship.

215

Development of action plan for EPZ implementation, if in the consultants opinion at least one of the proposed EPZ scenarios is feasible; i.e., both makes economic sense and can be successfully undertaken in Zimbabwe. The action plan will include recommendations on the composition, mandate, and authorities of the EPZ Working Group. It will also include recommendations for the GOZ on alternative sources of financing for technical assistance and infrastructure development, such as OPIC, the World Bank, the African Development Bank.

Formal Briefing on the conclusions of the foregoing analysis and recommendations for USAID, GOZ, and private sector representatives. This will give a chance for input and final revisions of the feasibility analysis.

***** Decision Point One *****

USAID with the GOZ will jointly determine to proceed with other phases based on positive determination of two criteria. One, the feasibility analysis of Phase One work establishes the need for and competitiveness of a Zimbabwe EPZ regime. Two, the GOZ will designate a Zone Working Group with composition, mandate, and authorities based on the recommendations of Phase One.

Phase Two: Development of competitive EPZ enabling legislation, outline framework for regulations and streamlined administrative arrangements. Raise consciousness about EPZ possibilities.

Phase Two activities will be undertaken with the guidance and consultation of the EPZ Working Group. Phase Two activities can be divided into two categories, development of the enabling environment, and consciousness raising.

Phase Two Enabling Environment activities include:

Development of Draft EPZ legislation specifically designed to offset Zimbabwean competitive disadvantages and to meet the threat of international competition. Explicit attention will be paid to local entrepreneurs' access to the EPZ, whether as exporters to the zone firms, or as EPZ firms in their own right.

Outline of recommended regulatory policies to implement the legislation. Again, explicit attention will be paid to local entrepreneurs' access to EPZ benefits.

Outline of recommended administrative and institutional structures to implement the EPZ legislation and regulations. This will include the outlined structure and functions of the EPZ Promotional Authority, and the EPZ Regulatory Authority.

Seminar conducted on the results, allowing a broader range of input into the final draft legislation and recommendations.

Phase Two Consciousness Raising Activities will include:

In-country workshop on EPZ opportunities where private and public sector representatives will be exposed to the views of leading EPZ users, companies and investment promotion experts on their locational and other requirements for EPZs. The workshop will also provide a orientation to potential EPZ developers that will focus on providing a detailed checklist of activities entailed to develop an EPZ, and the development of a strategy to maximize participation of emerging Zimbabwean entrepreneurs.

The workshop will encompass both policy and practical issues for implementation of the EPZ regime. The private sector's participation is essential; at the earliest stages, prospective zone users and developers need to be provided with practical information about what EPZs can - and cannot - accomplish. A well-informed and motivated private sector has in other countries proven to be an essential force in ensuring Governmental commitments to world-class EPZ regimes.

The In-country workshop would emphasize such topics as the following:

- o core elements of the incentives package of successful EPZ locations;
- o examples of EPZ successes/failures;
- o status of EPZ initiatives in South Africa and other regional competitors;
- o various approaches taken to the development of EPZ infrastructure and support services, and their impact.
- o various approaches taken to include local entrepreneurs in participating in the EPZ, whether as EPZ firms, or exporters to the zone firms.

Exposure tour for key public and private sector individuals, especially the EPZ Working Group, to highly successful (and perhaps unsuccessful) EPZ locations in Asia, the Caribbean Basin and elsewhere. The Exposure Tour, following the in-country workshop, would visit three leading examples of EPZ success, and if warranted, a visit to an EPZ failure. The terms of private participation in such a tour will be determined by the EPZ Working Group in consultation with USAID. Prior to the exposure tour, an orientation briefing will be conducted in-country. The focus of the briefing will be to profile the zone destinations being visited and to provide other introductory materials.

The tour will have the following objectives: (a) introduce public and private sector counterparts to their counterparts in other countries; (b) allow the participants to hear first-hand from EPZ developers, operators of EPZ

217

factories and others, the reasons for the success of EPZs in their countries; and (c) glean first-hand the "lessons learned" through briefings by government representatives involved in regulating and promoting the EPZ regimes. For prospective EPZ users in Zimbabwe, an effort would also be made to arrange for meetings in other countries with zone tenants engaged in comparable activities (e.g. electronics assembly, data capture, and telecommunications services).

***** Decision Point Two *****

Before continuing with Phase Three activities, the draft legislative package developed in Phase Two must be incorporated as law. Until legislation is adapted, no further activities can be undertaken. When legislation is adopted, then USAID, with the input of the EPZ Working Group and an independent consultant team (if necessary), will determine:

- the extent to which the EPZ legislation is comprehensive, provides a liberal package of incentives required, and is private-sector oriented;
- the extent to which the EPZ program has the necessary support from the highest levels of the public and private sectors.

In evaluating the quality of the EPZ law, the following criteria will be used. These criteria are indicative of "ideal" legislation, and will not be interpreted rigidly.

1. Are the eligibility conditions for EPZ incentives liberal?

- Is EPZ status available to both existing and new single factories as well as industrial estates?
- Are there any restrictions on location of EPZ factories?
- Are existing firms eligible to convert into single-factory EPZs, or do they have to set up a separate subsidiary?
- Is the eligibility for EPZ status narrowly defined, and not open to all manufacturing and service enterprises with export value-added?
- How restrictive is the criteria for eligibility?
- Are there any difference in the treatment of local and foreign firms? Joint ventures? Large versus small investments?
- Are EPZ developers eligible for EPZ benefits?

2. Does the law favor private sector-led development?

- Are EPZ industrial estates developed by both local and foreign private sector encouraged?
- Do private developers receive EPZ benefits?
- Is the GOZ role in development of EPZ industrial estates discouraged (or prohibited), and/or limited to provision of land, external infrastructure?
- Is the private provision of on-zone telecommunications, electricity and other services (independent of GOZ monopolies) allowed?

2/8

- Are backwards linkages to domestic suppliers encouraged by incentives for indirect exports?
3. Is there a competitive package of "formal" incentives?
- Tax abatement?
 - Import and export duties, taxes exemptions?
Freely held foreign exchange earnings; freedom from foreign exchange controls?
 - Unrestricted repatriation of profits and capital?
 - No restrictions on expatriate employment?
 - Special labor clauses that guarantee worker rights (to organize into unions, collectively bargain, strike, etc), but allow for wages to be set freely through collective bargaining; freedom from mandatory wage increases); streamlining of hiring, firing and lay-off procedures.
4. Does the law mandate streamlined institutional arrangements and regulatory procedures for implementation?
- Automatic investment approvals (default clause; maximum review period; transparent criteria, etc)
 - One license requirement for EPZ benefits
 - Freedom from regulatory requirements such as import/export licensing; price controls, etc
 - Streamlined Customs inspection and control procedures
 - Independent, one-stop investment approvals center with private sector majority on Board.
5. Does the law positively encourage local and indigenous entrepreneur's access to EPZ benefits?
- Are there foreign exchange access facilities for local firms without external funds?
Are sales to the EPZ firms treated as exports for the purpose of export incentives?

Phase Three: Implementing the Policy Framework -- Development of regulations, procedures, and institutions necessary for a competitive EPZ regime.

Phase Three builds on the overall policy framework and strategic direction for EPZ development outlined in the previous phases. The activities focus on various implementation activities designed to operationalize the regime.

219

At the beginning of Phase Three, a long-term advisor will be engaged to provide continuous in-country support for the EPZ Working Group. The advisor will provide practical insights and guidance regarding the design and implementation of an EPZ incentives regime, and coordinate the short-term consultancies undertaken during this period.

Ideally, the long term advisor will have the following qualifications:

- experience in the drafting of EPZ regulations and operational procedures in countries with successful zone programs;
- experience with liberalization of foreign exchange controls and with streamlining of Customs procedures; and, if possible,
- working experience in a national EPZ administering authority or investment/export promotion organization.

The activities to be undertaken under the supervision of the long term advisor include:

Drafting and finalizing the implementing regulations of the EPZ law Upon passage of the EPZ law, among the most important initiatives is to draft and finalize a comprehensive set of implementing regulations that detail the operating regulations for all aspects of EPZ operations in Zimbabwe. The implementing regulations detail and extend the general provisions of the EPZ law, and contain the following:

- detailed procedures and requirements for application by potential EPZ users and developers to receive EPZ status;
- outlining of the criteria and procedures for evaluation of EPZ applications;
- standards and requirements for zone infrastructure development;
- physical, labor, health and other standards for EPZ enterprises;
- reporting and other compliance requirements for EPZ users and operators;
- customs procedures for imports and exports; and
- foreign exchange regulations and procedures.

Detailed design and development of operating procedures, and assistance in the establishment and operations of the EPZ Regulatory Authority. The establishment of the EPZ Regulatory Authority is among the most important activities of the project. This activity will encompass the design, development of internal procedures, institutional development, and assistance in operating the EPZ Regulatory Authority. Depending on the findings of the previous phases of the work effort, either a new entity to regulate the EPZ regime, ensure compliance with the EPZ law, evaluate EPZ user and developer applications and grant EPZ status will be established, or an existing entity - such as ZIC - will be re-configured to function in this role.

With the active assistance of the long-term advisor, short-term technical assistance will be provided in a number of areas:

- assistance in the formation of the Board of Directors of the organization;
- assistance in drafting and implementation of the articles of incorporation;
- prepare detailed design of organizational and management structure, and assignment of responsibilities and functions;
- identify sources of financing and prepare budget;
- identification of site and physical requirements;
- development of zone operating and compliance procedures;
- development of evaluation criteria for EPZ user and operator applications;
- formulation of relevant application forms and review procedures;
- determination of fees and other assessments on developers and users to supplement EPZA operating expenses;
- development of long-range planning and data collection capabilities;
- dissemination of information to local businesses; and
- provide assistance in hiring and training of local staff.

EPZ - What Lies in the Future?

The following activities are not included under this pilot project, but are included to illustrate possible future activities for which this EPZ intervention will lay the groundwork. When the regulations and procedures have been adopted, the EPZ Working Group will assess the extent to which the detailed implementing procedures and institutional development have proceeded according to the spirit and intent of the EPZ legislation. To that end, an evaluation process might use the following criteria:

- how restrictive are the implementing regulations in terms of the ease of applying and receiving EPZ designation? Do any elements of the regulations contradict the intent of the law?
- how restrictive are the Customs and Reserve Bank procedures? Do any elements of the procedures contradict the intent of the law?
- has implementation of the regulations been realized in a timely manner?
- to what extent does the EPZ Regulatory Authority design, organizational structure, and Board of Directors composition favor an impartial, non-discretionary system of approvals?

Operational Support for the EPZ Regime

If an operational support phase were to be carried out by the GOZ, a long term advisor might have primary responsibility for activities undertaken, coordinating short term specialized technical assistance as necessary. The long term advisor could be attached to the EPZ Regulatory Authority, although

he or she might also develop a defined, part-time working relationship with the EPZ Promotional Authority, Customs, Reserve Bank, and other agencies; supplementing his/her expertise with short term consultancies as needed.

Operational support would concentrate on the following objectives in support of the national EPZ program:

Assistance to the EPZ Regulatory Authority to review and monitor applications submitted by prospective EPZ developers, users, and individual firms. The following activities would be undertaken directly by the long term advisor:

- Support of EPZ Applications Review Process (including help in conducting routine background checks on foreign investors, and preparation of approval/disapproval recommendations to EPZ Regulatory Authority board);
- Implementation of Regulatory Reporting, Monitoring, and Enforcement Mechanisms (including data gathering surveys of EPZ user activity, monitoring of compliance with public health and safety issues, and recommendations on appropriate penalties in cases of noncompliance);
- Development of EPZ Regulatory Authority "Trouble-shooting" Capabilities On Behalf of EPZ Developers and Enterprises (in their dealings with other Governmental bodies);
- Support of EPZ Regulatory Authority Office Policies/Procedures Implementation;
- Preparation of EPZ Regulatory Authority Staff Training Courses (e.g. on conducting surveys of EPZ firms, and promoting technical training linkages and/or sourcing relationships on the part of EPZs with Zimbabwean institutions and entrepreneurs);
- Liaison with Private EPZ Developers and Users (including interaction with private sector associations of EPZ users and/or developers regarding priorities for simplification of EPZ-related policies and procedures).

In addition, a short technical assistance would be required to supplement the long term advisor, most likely in the following areas:

- Short courses and workshops in the areas of survey techniques and EPZ linkages development.
- Adaptation of packaged software to prepare EPZ Regulatory Authority-customized management, financial, and statistical information systems.

The length and scope of short-term consultancies would depend in large part upon the experience and qualifications of the individual engaged as Long-Term Advisor, and on the in-house experience and capabilities of the individuals holding permanent positions in the EPZ Regulatory Authority.

Training for Reserve Bank, and other public sector and parastatal organizations related to the EPZ program. The long term advisor could be responsible for:

- Arrangement of Training for Reserve Bank Staff; and
- Preparation of Training/Orientation Workshops as Requested by Other Ministries and Parastatals.

The long term advisor would use short term assistance for the actual training. The short term advisors engaged to provide training services must have prior operational experience in the implementation of Customs, central bank, and related EPZ regulations in other countries.

Support to the designated EPZ Promotional Authority responsible for national investment/export promotion to prepare EPZ-specific promotional materials, and to train staff on successful EPZ-related techniques used by counterparts in other countries.

The long term advisor could assist in:

- Fostering consultations between the EPZ Promotional Authority and private EPZs regarding promotional strategies (to encourage complementary rather than duplicative marketing efforts);
- Implementation of EPZ Investor Tracking System (to ensure timely followup of leads and monitoring of reasons why investor prospects ultimately decide to locate/not locate in Zimbabwe);
- Monitoring of EPZ Competitors in Region (maintaining an up to date data base on the successes/failures of other EPZ initiatives in the region);
- Development of Promotional Materials for High Potential EPZ Sectors;
- Identification of Priority Advertising Channels to Promote EPZ Opportunities;
- Development/Implementation of a Strategy for Generating Publicity on EPZ Activity;
- Identification of Priority EPZ-oriented Industry Shows and Trade Fairs for Investment Center Presence; and

222

- Liaison with Zimbabwean Commercial Attaches and Other Promotional Representatives Overseas (to keep them up to date on the status of the status of the Zimbabwe EPZ activity.)

Short-term technical expertise would be necessary for preparation of promotional materials (brochures, information kits, videos and an interactive computer-based presentation), and for customization of investor-lead tracking systems and data bases to allow monitoring of EPZ-oriented firms.

B. Business Linkage

ZBDP activities in the business linkage component have been broken down into three phases. An assessment will be made at the end of Phase Two on whether or not to proceed with support for operational support, phase three. The three phases are:

Phase One: Diagnostic Assessment: Baseline of Existing Linkage Arrangements, Constraints Analysis, Exposure Tour, Recommended Action Plan, Conference

The activities will be undertaken by a consultant team contracted by USAID/Zimbabwe:

1. Baseline Survey of Existing Linkage Arrangements

Starting with the data set generated by the GEMINI baseline survey undertaken as part of project preparation, the contractor will undertake a survey of existing linkage arrangements.

There are a number of corporations in Zimbabwe already initiating business linkage activities. Anglo-American has helped a beverage producer set up a business supplying their mines, and plans to establish an "incubator" for their suppliers. Hunyani Paper contracts out cleaning; Lyons Brooke Bond does the same for the sorting of confectionery groundnuts.

The baseline survey will investigate the following:

- o Institutions that have attempted to facilitate the linkage process, what they are doing, what can be learned from their successes and failures.
- o Larger firms (limited to the industrial sector) that have attempted to reach out to smaller firms to form business linkages by subcontracting/local purchase programs, what specific activities they are doing, what can be learned from their successes and failures.
- o Larger firms (limited to the industrial sector) that have attempted to spin off marginal operations, what can be learned from their successes and failures

223

- o Impact of existing business linkage activities identified above on firm and job creation, and foreign exchange savings/earnings.
- o The experiences of women-owned business as sub-contracting partners.
- o The conclusions that can be drawn as to the effect business linkage arrangements have had on improving the competitiveness of participating firms, directly stimulating investment, job creation within the firms, and on reducing foreign exchange expenditures or increasing exports by participating firms.
- o Identification of high potential large and small firms to go on the exposure tour, attend the workshop, and act as the first pilot participants.

2. Constraints Analysis - Policy and other Factors

The consultant will identify, analyze, and prioritize the policy and external constraints that impede the development of business linkages. Examples of these include:

Labor Legislation Employers are required to apply to the Ministry of Labour, Manpower, and Social Welfare to retrench workforce; this may apply even to spin-offs which could in fact increase net employment.

Trade Union resistance Trade Unions may resist spin-off operations which will reduce membership, and may appear to be a back door means of retrenchment.

Trade Association rules Trade Associations can enforce restrictive trade practices on their members. For example, CIFOZ rules prohibit members from subcontracting to nonmembers work in excess of Zim \$ 100 thousand.

Finance Implementing subcontracting/local purchase and spinoff arrangements may challenge the financial community's capability or interest.

The consultant will analyze the policy and external constraints currently affecting the viability of business linkages now, and what can be expected with the implementation of the SAP.

3. Exposure Tour to Business Linkage Programs in the region

The consultants will organize interested members of the targeted group of firms on an exposure tour to business linkage programs in the region. Key visits will be to the Small Business Development Corporation subcontracting program in Johannesburg, and the IESC South Africa spin-off project in the Capetown area.

4. Action Plan Development: Detailed set of Recommendations for Business Linkage Implementation

The consultant will recommend, in detail, the kinds of inputs (technical assistance, commodities) that are required to successfully undertake a linkage program between the targeted small and large businesses. These recommendations should specify:

- o Technical Assistance -- Firm Specific. What are the priority areas of assistance to small and large firms? What is the mix of long/short term technical assistance, and skills, that will be required? How should data bases/publications of suppliers/purchasers be developed? Should individual firm Meet the Buyer events be supported?
- o Institutional Structures appropriate to Zimbabwe.1/ Should assistance be focused in one organization, or diffused across several? Can we work with existing institutions, do new ones need creating, or should a short term contract office be established? How can the "pioneer" firms identified be supported to leverage their resources to assist other firms. Should Purchasing Clubs, made up of purchasing professionals (such as the Zimbabwe Institute of Purchasing Agents) be established? Should a Sourcing Service be established, providing an interface between smaller suppliers and larger purchasers -- or should a more intensive Business Link organization be established that will act as a sourcing service, but also provide direct assistance to smaller firms. Should such a Business Link service negotiate and manage contracts on behalf of smaller businesses? How can IESC volunteers or ZESC retirees -- if available -- be utilized?
- o Policy and External Constraints. What are the key policy and external constraints to business linkages, and how should they be resolved?
- o Financing Who should finance what services -- USAID/Zimbabwe, business associations, individual firms, other donors? How should the financing be structured?

5. Workshop to discuss results, recommendations, and validate workplan

The consultant will design, organize, and run a workshop for the targeted small and large firms; USAID and other donors; CZI, ZNCC, IBDC, ZENA, and other interested business organizations; financial institutions; and appropriate government institutions such as SEDCO and the Ministry of Industry and Commerce.

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1. The need for institutional structures in Zimbabwe appropriate for the unique Zimbabwean context cannot be overemphasized. Models appropriate to Indonesia, Ireland, or even South Africa -- no matter how successful in their own country -- need to be carefully adapted to local conditions.

225

The workshop will provide a forum for input from the public and private sector. The consultant will modify analysis, conclusions, and recommendations based on this input from the conference, and develop as well a draft technical request for proposal for the technical assistance and commodity inputs recommended for USAID/Zimbabwe.

In addition, the participants at the workshop are likely to form the core group for implementation.

**** Decision Point One ****

USAID/Zimbabwe will need to evaluate the recommended workplan to make a decision on whether to fund operational support, Phase Two. First, the mission will decide if implementing the workplan will continue to meet the ZBD project criteria for operational testing components. Second, the mission will determine whether USAID/Zimbabwe support is necessary for this to occur.

Phase Two: Implementation: Pilot Operational Support of Business Linkage

1. Needs Assessment of Larger Firms

A group of 10-15 industrial firms will be targeted for an in-depth needs assessment by an expert consultant. The firms will be selected jointly by USAID and CZI, according to their interest in participation, potential for creation or expansion of business linkage activities, and potential to act as a "leader" for the rest of the corporate community. CZI, in a recent survey of its membership, found that 70 out of 240 firms interviewed were very interested in the business linkage concept. Based on a preliminary review of industrial corporations during project paper design, it is envisioned that at least 3 of these larger firms would be candidates for spin-offs, as well as for subcontracting/local purchase activities.

First, the consultant will identify what goods and services could be supplied or contracted out to smaller firms. From our interviews during project paper design, examples cited included services such as catering or cleaning; products such as uniforms, overalls, signage, squeegees. The consultant will identify and analyze the purchasing procedures -- codified or de facto -- in these larger firms that help or hinder the business linkage process. The include the use of prequalified lists, post tender negotiations, inflexible tender documentation requirements, or delaying payments to all but "essential" suppliers. The consultant will analyze information flow -- e.g., how these firms find out about suppliers; how purchasing, development, and production divisions are coordinated; how specifications are given to suppliers.

Second, the consultant will identify operations that could be successfully spun off as independent enterprises, possibly with current management as owners. The analysis will require the development of mini business cases,

with projected capital needs and pro forma cash flow statements -- as well as projected net impacts on jobs and foreign exchange earnings/savings. For potential spinoffs, the consultant will need to explore how spinoffs might be structured (e.g., ESOPs or management buyouts) and means of financing.

Finally, the consultant will analyze potential management retraining needs -- the production specialist that is heading an in-house operation may not have the requisite managerial skills to run an independent operation.

2. Needs Assessment of Smaller Firms

A group of 10 - 20 smaller firms will be selected for an intensive needs assessment. Selection will be made by the consultant using the results of Phase One of the SME Survey (GEMINI baseline survey), and with input from CZI, USAID/Zimbabwe, the targeted larger firms, other business associations (such as the ZNCC, IBDC, ZENA), and small business development organizations such as SEDCO. The firms will be chosen based on their interest in business linkages, their potential to be a competitive supplier, and their fit with the needs of the targeted larger firms. Women owned firms that meet the above criteria will receive preference.

First, the consultant will assess the capability of the smaller firms to produce the types of goods and services required by the targeted larger firms.

Second, the consultant will identify the constraints faced by the smaller firms to supply these goods and services on a competitive basis. Some of these constraints will likely be deficiencies in:

- o The order chain -- costing, pricing, quoting, follow through, delivery
- o Quality control
- o Management systems and procedures
- o Marketing and promotion
- o Startup and working capital

3.- Facilitating Business Linkages

After the pilot group needs are fully established, a combination of technical and limited commodity assistance to facilitate business linkages and spinoffs will be financed by USAID/Zimbabwe.

The final output of the Phase One assessment is a detailed action plan, based on an exhaustive analysis of the Zimbabwean environment informed by international experience. This action plan will be refined by the firm level analyses of the needs and interests of the large and small firms that will participate in our initial pilot groups. The grantee will use the action plan and needs assessments to shape the necessary types of assistance and organizational structures required to facilitate subcontracting relationships and spinoffs.

227

For the sake of planning and budgeting, it is envisioned that ZBDP will underwrite the costs of a long term expatriate advisor, most likely provided through a grant to a local NGO, with short term specialists as required from IESC and otherwise, and costs of a vehicle and office equipment. Office space and secretarial support will be provided by the host institution.

C. Volunteer Business Advisory Services (VBAS)

A.I.D. has supported Volunteer Business Advisory Service (VBAS) in Zimbabwe since 1985. The VBAS was implemented through the International Executive Service Corps (IESC), who provides the expertise of retired American executives for assignments in Zimbabwe as well for research in the United States.

1. IESC Background

IESC in General

IESC is a non-profit organization which was founded in 1965 and to date has completed over 11,500 projects in more than 80 countries. IESC recruits retired Volunteer Executives (VEs) to work directly with the client firms for an average length of service of 10 weeks.

Organized and directed by U.S. business executives, IESC is funded by grants from the U.S. Agency for International Development, by client contributions and by contributions from sponsors in the U.S.A. and abroad. It is headquartered in Stamford, Connecticut. The organization has a resource bank of about 10,000 retired executives, and in each country a council of local business leaders who help to direct the activities of their particular branch.

IESC's mission is to help businesses in developing countries upgrade management skills, improve basic business technologies and promote better trade relations around the world. IESC volunteers have worked in all economic areas including agriculture, agribusiness, industry sub-sectors, banking and finance, education and health care, mining, construction and transport. The volunteers have brought expertise in management, administration, planning, engineering, quality control and sales.

IESC in Zimbabwe

The IESC operation in Zimbabwe, operating since 1985, is headed by a full-time volunteer Country Director (CD). The incumbent CD is a retired American executive with long experience as a VE in other countries before assuming his position in Zimbabwe in 1988. The CD operates out of his house, and is supported by a part-time receptionist/secretary.

The CD's responsibilities are:

- o Promote and explain the IESC program to potential clients
- o Work with clients to clarify and refine the assignment requested, and negotiate fees.
- o Work with IESC headquarters to ensure the client receives a VE with the appropriate experience.
- o Work with the VE and client in country to ensure that the client receives services requested.
- o Report to USAID/Zimbabwe

The CD is assisted in this by a high-powered IESC Advisory Council, consisting of prominent white and black executives in large and small businesses.

IESC Zimbabwe has offered three basic services, which are:

- o Regular Volunteer Executive (VE) projects, under which VE's come to Zimbabwe for a period averaging 60 days to work with a single client or group of clients on a hands-on basis to provide assistance in areas such as management, production, marketing, sales promotion, accounting, financial planning and a wide variety of technical matters.
- o American Business Linkage Exchange (ABLE) projects, which are in-depth low cost research reports conducted in the United States. ABLE reports give Zimbabwean businesses strategic business information on U.S. markets, technology, potential partners.
- o Joint Venture Service (JVS) projects, which involve an IESC volunteer working in the United States on behalf of an overseas client; locating equipment, technology, or searching for a joint venture client. JVS projects most often flow from a VE or ABLE project.

Even in the highly constrained, pre-SAP environment in Zimbabwe, the IESC program was found to have a significant impact, according to an outside evaluation conducted in August 1990. In brief, the evaluation team found:

- The program from the clients' perspective has been highly successful, reflected in the willingness to pay fees of up to Z\$ 80 thousand, requests for repeat engagements, and expressions of satisfaction made to the evaluation team. Many firms reported higher sales, increased investment, more efficient operations, and an improved capability to export.
- The program from USAID's perspective was also successful, resulting in increased employment, the potential for higher export revenues, and a more

competitive private sector. Unfortunately, there was insufficient hard data to quantify impact, let alone to a meaningful cost-benefit or cost-effectiveness analysis.

Another shortcoming of the IESC program is the failure to promote U.S. - Zimbabwe business links through the ABLE and JVS; this is primarily due to the poor investment climate in Zimbabwe -- JVS has proved highly successful in countries with more liberal policies such as Turkey, Dominican Republic, and Thailand.

VBAS under ZBDP -- continuation of IESC services, but testing new innovations

Under ZBDP, most components of VBAS will continue to be implemented through a sub-Grant Agreement with the International Executive Service Corps (IESC).

We will be testing six new innovations to the IESC program, which are:

Innovation One: Small, Black-owned Business Outreach

A major shortcoming of the IESC program in Zimbabwe, according to the 1990 evaluation, is that it did not meet USAID expectations with respect to assisting small business (those with less than 50 employees). Many factors have contributed to this shortcoming, including the skills and orientation of the country director, the lack of an outreach program, the difficulty of selling a project to a smaller business, and the skills of the IESC retired volunteers.

Under the current IESC program, AID set a small business (defined as less than 50 employees) target -- 25 percent of all VE and ABLE projects. This target will be dropped, for several reasons. First, the real problem is not reaching small business in general, but reaching small black-owned business. Second, the target was unrealistic, because of the nature and costs of the traditional services IESC can offer at present are often not appropriate for small, black-owned business. Third, the local IESC office was not adequately compensated for the extra time required to reach the smaller, black-owned business.

Under ZBDP, instead of artificial targets, IESC will be given the proper incentives and tools for the job of reaching black owned small business.

Although small businesses taken individually may be difficult for IESC to reach, group projects, where a number of small firms split the cost of a specialist VE, can be highly cost-effective. Group projects, however, are far more difficult to put together. Under the current program, IESC receives the same lump payment for all assignments -- without any compensation for the considerable expenses of organizing group projects.

Under ZBD, USAID will make an additional USD 2 thousand cost reimbursement for projects involving three or more clients. These supplemental payments funds will be used by IESC to provide services to smaller clients unable to pay the full fees, or to provide additional VE's beyond what has been budgeted in ZBD.

Innovation Two: Promote Joint Ventures between U.S. and Zimbabwe firms

The IESC Joint Venture Service, described above, has been on offer to Zimbabwean firms since 1988 -- but with no takers to date. As the SAP reforms are implemented and the economy opens up, Zimbabwe will become an increasingly attractive location for American investment. Local entrepreneurs will be increasingly interested in joint ventures -- and increasingly able to attract joint venture partners. We expect that the IESC Joint Venture Services (JVS) will become increasingly relevant and demanded by Zimbabwean firms -- but if not, funds budgeted for JVS assignments will be allocable to ordinary VE and ABLE projects.

Improve Management, Monitoring, and Evaluation Systems. The IESC Country Director's office will be strengthened, to allow it to undertake the expanded volume and breadth of activities, and to introduce proper monitoring and evaluation systems.

- o Expand Volume of Services. As the SAP reforms unfold, firms will be unleashed to invest, expand, and export. Demand for IESC services, especially in the area of marketing, cost reduction, organizational development, and technology sourcing is expected to increase dramatically.

Innovation Three: Improved Client Tracking, Monitoring, and Evaluation System and Data Base.

The 1990 evaluation of IESC's impact on individual businesses and the Zimbabwean economy was constrained by inadequate baseline and post-VE data. Also, the ability of IESC to track progress, follow-up on clients, issue reports, and develop usable market intelligence is handicapped by the lack of an adequate database.

ZBDP will provide funding for IESC/Zimbabwe to hire a full-time local hire program development officer, who will be tasked with the development of an adequate monitoring and evaluation system and data base, that will include the development of:

Client assessment forms. Baseline, 6 month, 12 month, and 18 month assessment forms will be developed to gather information on clients and the impact of the VE assignment. This will enable IESC and USAID to track the development impacts, which is not currently possible with the quantity and quality of information gathered by IESC for recruitment and reporting purposes. Short term technical assistance for a local consultant under contract to IESC is budgeted for setup, and training of the Program Development Officer.

Client Interviews. The client assessment forms will be used at the time the VE agreement is negotiated with the client(s), and in followup interviews, 6, 12, and 18 months after the VE's assignment. These follow-up interviews will be conducted by an IESC staff program specialist.

Computerized Client Database. A database will be created to enable IESC to maintain the client assessment data, as well as to facilitate their own budgeting, client follow-up, and marketing efforts. Short term technical assistance has been budgeted for a local consultant under contract to IESC for specification of the hardware and software, procurement, development of this system, and training of the IESC staff in its use.

Innovation Four: Zimbabwe Briefing Sheet

The August 1990 evaluation of IESC noted that many of the VE's had a difficult time adapting to the Zimbabwean environment, and could have been better prepared had they known more about the country in advance. The project will, therefore, fund short term technical assistance for preparation of a Zimbabwe briefing sheet.

In addition to the standard information on modes of behavior, business climate and practices, etc., the Briefing Sheet should include notes on the business behavior that results from extreme foreign exchange rationing and tight regulations, such as:

- Old machinery stock that often resembles what a VE saw as an apprentice, often 30 years out of date;
- Raw material and parts overstocking/shortages because of the lack of flexibility in reordering;
- Emphasis on repair, rather than replacement;
- The production orientation, rather than market orientation, of many businesses, because of shortages and the sellers market.

The briefing notes should outline in basic terms the trade liberalization and other SAP measures, and their likely impact on the business environment. The notes should include a discussion of the rapidly changing Southern African environment, and its likely impact on Zimbabwean businesses. Finally, ZBDP will also budget funds for up to updates of the Briefing Sheets by a consultant, as and when needed.

Innovation Five: Expansion of VBAS services under ZBDP

Under the current, highly constrained environment in Zimbabwe, industrial expansion and new investment has been limited. Regulations encouraging monopolistic/oligopolistic structures, price controls, and chronic shortages

232

of inputs have created a sellers market, where consumers will buy what is available, despite high prices and low quality.

Even in these constrained circumstances, the IESC program has proven to be a highly valued tool for certain private sector firms. The impact of the program on employment and corporate efficiency has been significant. At the current level of USAID/Zimbabwe funding, demand for IESC services exceeds supply, based on the willingness to pay of client firms; these factors alone justify continuing and expanding the program.

The Zimbabwean economic policy environment, however, is not static. Changes sweeping Zimbabwe and Southern Africa will mean that demand for IESC services, and their contribution to the attainment of USAID development objectives, will increase dramatically.

Foremost amongst these changes is the advent of the Structural Adjustment Program, especially the trade liberalization component. Trade liberalization will mean that companies have much greater access to foreign exchange for foreign investment and inputs, enabling them to serve export and domestic markets more competitively. It also means that Zimbabwean firms will be newly exposed to competition from imports, and from foreign firms operating in Zimbabwe, the likes of which they have not seen since the advent of the Unilateral Declaration of Independence (UDI) in 1965.

In fact, merely the announcement of the broad outlines of the trade liberalization program by Senior Minister Chidzero resulted in a five fold increase in inquiries to the IESC country office.

Given the urgent imperative of Zimbabwean industries to adopt modern technology and manufacturing techniques and to develop marketing skills heretofore unnecessary in the Zimbabwean domestic marketplace, focused technical assistance is particularly appropriate at this time.

The Zimbabwean private sector also recognizes that the competitive onslaught anticipated from a post-sanctions South Africa will not be confined to the home market. Some of the regional markets for Zimbabwean exports heretofore closed to South Africa, such as Kenya or Tanzania, will shortly become fair game for South African exporters. Overseas, in niches where Zimbabwe is still competitive, such as horticulture, South African competition will also threaten Zimbabwean export market shares.

Faced with increased competition and opportunity, Zimbabwean firms will require access to world class technical assistance in analyzing new markets, in making capital investment decisions, revamping operations, preparing advertising campaigns, etc. IESC can provide this type of assistance, highly cost-effectively.

As Zimbabwe moves into the SAP, there is likely to be a shift in demand for specific types of VE's, with increases expected in the following areas:

- o Marketing. Research, analysis, pricing, promotion, advertising.
- o Cost Reduction. Cost controls, organizational efficiency.
- o Technology Choice. Equipment specification, process/production techniques, sourcing, training.
- o Organizational development. Management techniques, worker motivation, quality assurance.
- o Joint Venture Services Partner search and selection (see Innovation Three)

Finally, with an increasingly open economy, Zimbabwe will become a more attractive location for American investment, and local entrepreneurs will be increasingly interested in joint ventures -- and increasingly able to attract joint venture partners. We expect that the IESC Joint Venture Services (JVS) will become increasingly relevant and demanded by Zimbabwean firms -- but if not, funds budgeted for JVS assignments will be allocable to ordinary VE and ABLE projects.

Innovation Six -- Use of Regional VBAS Projects

In South Africa, IESC is run as an entirely autonomous program from IESC headquarters in Stamford, CT (USA), or other IESC offices in the region. The country director, and the approximately 80 VEs, are all South African citizens.

The IESC project in South Africa offers great potential to Zimbabwe entrepreneurs. First, the mix of skills in the VE talent bank complement the U.S. VEs, and may be especially appropriate for the smaller and black owned enterprises IESC is attempting to reach. Second, their proximity means that response time is quicker, and return visits are scheduled more easily. Third, their proximity means expenses will be far lower, resulting in savings to the client, as well as to USAID/Zimbabwe. Preliminary estimates are that a six week assignment for a South African VE would cost far less than US \$10 thousand, offering a significant savings when compared with the over US \$20 thousand cost of an American VE.

The South African IESC country director is enthusiastic about the use of his VEs for Zimbabwe, and the region. He believes that offering a retiree the chance of an international assignment will prove helpful in the process of recruiting new local VEs.

Under the grant agreement negotiated with IESC, the Zimbabwe IESC country director will be instructed to enter into an agreement with the IESC South Africa office that will formalize an arrangement to obtain South African VEs for use in Zimbabwe. Of course, if South African VEs are used, then

USAID/Zimbabwe would make a payment to the IESC South Africa office, not IESC headquarters; this concept has been endorsed by the head of IESC African programs.

Immediately before the ZBDP project paper was authorized, IESC headquarters announced their interest in opening a regional office in Southern Africa; preferably in Johannesburg. One of the goals of this office would be to coordinate the use of South African volunteers for the whole region. Because this regional office is still very much in the planning stage, the IESC Zimbabwe program under ZBDP will make separate arrangements with IESC South Africa. These arrangements, if necessary, could be modified if and when a regional office is opened in Johannesburg. This strategy was discussed with the head of IESC African programs, and he concurred.

Administrative Changes to IESC

To respond to the increased workload, the IESC Zimbabwe country program will be strengthened by bringing on a full time local hire Program Development Officer, and by access to short term technical assistance under contract. The Program Development Officer will assist the Country Director, but focus especially on the development of Monitoring, Tracking, and Evaluating Systems; and the assessment of a local retired executive program.

Finally, IESC clients interviewed in the 1990 (and 1986) evaluation complained that they were not given an adequate input into the VE selection process; nor were they given a chance to initiate contact with the VEs before they left the United States. IESC will be required to document that the client had input into the selection process, and was able to contact the VE before departure from the U.S., by a memo to the file. |

In addition to the six innovations to IESC described above, ZBDP will also fund the assessment and pilot operation of a Zimbabwe Executive Corps, described below.

Zimbabwe Executive Service Corps

ZBDP will fund a needs assessment of the Zimbabwe Executive Service Corps (ZESC), in Phase One of this component. This will be undertaken by an independent consultant(s) in conjunction with the a representative of IESC South Africa. IESC South Africa, as a purely local organization, uses only retired South Africans as volunteers, and also works only with black owned businesses.

If deemed necessary by USAID/Zimbabwe, ZBDP will fund the implementation of the ZESC in Phase Two. The modalities of this will be determined as part of the needs assessment. The Two Phases are described below.

Phase One: Needs Assessment of ZESC

The needs assessment is broken down into four parts; demand analysis, supply analysis, institutional options, and action plan for implementation.

235

Part One: Demand Analysis

- a) The contractor will review what is known about the needs of larger or more established SMEs for technical assistance. This review will rely heavily on work financed by donors, most importantly the PSTNA commissioned by USAID/Zimbabwe, but also assessments undertaken by CIDA, EEC, the Fredrich Naumann foundation and others. SEDCO could provide important input as well.
- b) The contractor will characterize the timing requirements for assistance, broken down by type of assistance. For example, firms that need marketing assistance may require a retiree for one or two days a month for a year or more. On the other hand, firms that have a production problem may need a retiree for an intensive three week period for diagnosis, another two week period for installation of new equipment.
- c) The contractor will determine the ability and willingness of the larger or more established SMEs to pay for retiree services. This kind of determination is not easy, and we expect that any fee structure based on this determination will be modified with market experience.

Part Two: Supply Analysis

- a) The contractor will determine the number of retirees in Zimbabwe, their skills and experience, broken down by skill categories relevant to our target group's needs. CIDA and SEDCO should have information on this that should be reviewed before undertaking any field work -- so will commercial agencies, but they may be less willing to share information to a potential competitor.
- b) The contractor will determine the interest of the retirees to participate in a ZESC program, and gauge what the fees will be necessary to attract qualified retirees, by sector of expertise. Specialized manufacturing skills, for example, are likely to be far more expensive than simple bookkeeping skills.
- c) The contractor will assess the strengths and weaknesses of the competition in supplying demanded services to our target group of larger, more established SMEs. In the mission's knowledge, this competition appears to be limited to the CIDA funded SEDCO program, and to a Harare-based for profit agency.

Part Three: Analysis of Implementation Options

If the supply and demand analysis undertaken in the first two parts of Phase One indicate an unmet need for a ZESC program, the consultants then need to analyze implementation options. Examples of the options are:

- Private, nonprofit service such as IESC. Within this option, there are several sub-options. ZESC could be placed under the umbrella of the local IESC office, and would benefit from the experience and infrastructure already developed. ZESC could also be placed with other existing nonprofit groups, or an entirely new organization could be established.

- Cost sharing Fund. Instead of setting up a new service, a fund could be established that would share the costs, for qualified for cost sharing of commercially provided services. An advantage of the cost sharing fund is allowing market forces to proceed unhindered.
- Public sector implementation. CIDA has chosen to implement its CASE program through the parastatal SEDCO. This option seems unlikely to be the most effective at this point.

Part Four: Action Plan Recommendations

The contractor will develop an action plan, with budgets (breaking down local and forex costs) and timetable, for implementing the ZESC. The action plan will specify the institutional home, recommended fee structures (for client as well as retiree), sectors of focus, and other relevant issues.

***** Decision Point One *****

At this point, USAID/Zimbabwe must evaluate the action plan recommended by the contractor team, and make three decisions. First, the mission must decide whether the implementation of the action plan (with modifications as necessary) would advance the purpose and goals of the ZBD project -- particularly on the purpose, and on the goal of broadening the distribution of productive assets of the economy. Next, the mission would evaluate the extent that USAID funding is necessary for implementation. Finally, the mission will evaluate progress to date and determine whether project funding of Phase II is justified.

Phase Two: Operational Testing of ZESC

Phase II will be implemented under a grant or cooperative agreement with a local commercial institution or association classified as an NGO. An analysis of the capability of potential organizations will be provided under Phase I of this component so no further description organization that will implement this activity is possible at this time. Implementation of ZESC may require a mix of local and external technical assistance, support for establishment of a local office, and other commodities such as a car. These requirements will be specified in the approved implementation action plan.

D. Comprehensive SME Sector Survey

A preliminary survey phase of this component was completed prior to authorization of this project, but a summary of this activity is included here as background information.

237

The SME Preliminary Survey

Using PD&S funding as a preliminary activity to this project, a comprehensive, country-wide as well as more focused surveys and analyses of SMEs (both informal and formal enterprises) will be funded. It will be implemented through a buy-in to GEMINI, a centrally funded project operating out of the Bureau for Asia and Private Enterprise.

The GEMINI project has developed a standard survey methodology for establishing a baseline of SMEs, tested in over 10 other countries in Africa. This standard survey methodology has been adapted to the purpose and goal of the ZBD project, and the Zimbabwean context. Under the standard GEMINI baseline, and in the SME preliminary surveys, two types of survey instruments are used. For all enterprises in the chosen geographic areas, a limited amount of basic information will be generated with the first survey instrument; data collected will include employment and type of activity in which the firm is engaged. Such information will permit global estimates of the types, size and location of small enterprises in Zimbabwe to be made. Concurrently, a second survey instrument will be administered to a sample of these firms to generate more detailed information on such items as entrepreneurial characteristics, perceived constraints to profitability or expansion, growth performance and other characteristics to be determined by USAID/Zimbabwe.

Under the SME preliminary survey, GEMINI coverage will include the two major urban centers, Harare and Bulawayo, along with a stratified sample of smaller urban centers and rural towns, as well as a sample of rural enumeration areas. The types of enterprises to be included in the survey will be those with 50 employees or less that operate from a fixed location. Manufacturing, trade and services will be covered, but not on-farm activities.

During the GEMINI pre-project mission in late April, the mission and MSU researchers, together with local researcher input, will finalize survey instrument design.

GEMINI's standard baseline survey methodology will be modified in the following ways:

- o **Design and ownership of analyses.** GEMINI researchers will be directed to select the appropriate GOZ, private sector organizations and other donors to assist in the design of the survey instruments; and to explore options for developing local ownership of the data sets and even continued survey work. USAID/Zimbabwe is one, but by no means the principle audience for data generated by the GEMINI survey. Furthermore, if USAID/Zimbabwe decides not to stay involved in the SME sector, we may decide not to continue with the GEMINI work -- but we would want to facilitate transfer of ownership to those institutions who do need the data and analysis. Consultants will collaborate closely with each of the principle users of the survey data to ensure that, wherever possible, questionnaire elements are tailored to meet the specific data requirements of the broader audience.

- o **Research Coordination.** The GEMINI work will be scheduled to ensure close coordination with survey and other analytical work done on the SME sector being undertaken concurrently by CIDA and the World Bank. CIDA has commissioned a review of the literature on the SME sector, and a workshop for local researchers and donor, that will provide invaluable input for design of the GEMINI baseline survey instrument and downstream analyses. The GEMINI baseline survey, in turn, will provide essential input for the development of a sample frame for the World Bank's RPED survey work. (RPED -- Regional Program for Enterprise Development is a major Africa-wide analytical effort funded by the World Bank. In Zimbabwe (along with Cameroon one of the first two countries selected for work), RPED will examine the relationship between policy and SME dynamics.) The RPED subsector analyses, and focused regulatory impact survey work, may allow GEMINI to focus more deeply on issues of specific interest to ZBDP.
- o **Careful Review of SME Literature.** The design of the survey instruments, and the analysis of results, will emphasize on pre-survey analysis of existing data and literature. Unlike many of its neighbors, Zimbabwe has a long history of social and statistical research. A review and analysis of secondary source material will serve to inform the design of GEMINI survey instruments, in some cases may be tested by the survey instrument, and finally will serve as comparative indicators to evaluate the reliability of GEMINI survey data. The GEMINI review of literature will build on the CIDA commissioned work mentioned above.

Based on the results of this preliminary survey, project analytical interventions on the Small/Micro-Enterprise Sector have been developed. It is envisaged that the Preliminary SME Survey might cultivate an interest in developing an existing component of the project; e.g., longitudinal surveys in selected industrial subsectors to feed into implementation of business linkage project. Alternatively, the interest might be to initiate a new component; e.g., subsector analysis of horticulture producers to explore expand the business linkage component to the horticultural/agribusiness area. Finally, the research might work for the development of new project initiatives; for example, nonproject assistance in support of SME deregulation.

Phase One: Workshop to disseminate results of GEMINI SME survey, and to determine next steps for SME research.

Phase One of the Analysis of SME Sector will consist of a workshop to disseminate and analyze the results of the SME baseline survey undertaken before project implementation. The workshop participants will include researchers, the GOZ, business associations, and other interested parties.

In the fall of 1991, a regional conference will present the results of GEMINI SME survey work that has been undertaken in east and southern Africa over the past several years. If possible, the Phase One workshop will be an integral part of that conference. The exposure of the interested Zimbabwean participants to the lessons learned, unanswered questions, and next steps will be invaluable.

In addition to disseminating results, the workshop will help USAID/Zimbabwe to determine the need for funding further SME research components, discussed below. Again, the possibility of linking the workshop with the regional conference offers exciting possibilities.

Phase Two: Focused SME research

Before GEMINI Preliminary SME Survey results are available, and analysis of its data in conjunction with outside input is completed, it is not possible to specify the nature of Phase One Focused SME Research. We expect that the focused SME Research will follow one or more of the following paths.

Longitudinal surveys, tracking a selected sub-sample of firms into the second and third year, to track firm level SME change, the impact of the evolution of the SAP and the economy, and assistance efforts.

The longitudinal surveys will serve to document change that has occurred at the level of the enterprise. A secondary objective will be to provide insights into the forces that have led to these changes. Building on the information collected in the baseline survey, the longitudinal survey will collect the following types of information from the stratified random sample of enterprises: levels of activity of the enterprise (employment, output, inputs, wages); entrepreneurs perceptions and significance of major changes that have taken place in the environment in which they operate or hope to expand.

Subsector Analyses, analyzing one or more subsectors in depth to elucidate the relevance of the baseline GEMINI survey results. This is done by a combination of survey, focus group, and desk analyses.

The detailed survey instrument design for the Longitudinal Surveys, or the methodology for the Subsector Analyses, will be finalized after the Workshop of the Preliminary SME Survey, with the input of the GOZ, private sector, and the donor and research communities.

**** Decision Point One ****

At this point, USAID/Zimbabwe will decide on whether to continue with the SME Analytical work in a follow-on project by continuing with the focused SME research of Phase One, or commissioning a Resurvey -- Phase Two to be funded under a separate activity. The final evaluation of Preliminary SME Survey will provide the means for this decision.

The criteria for continuing with Phase One or entering Phase Two (neither component included under this project) are as follows. First, is there a compelling need for the survey to further our understanding of the sector, and more importantly, is it necessary for further testing or full implementation of project components? Second, can we work with other donors to leverage our ZBDP resources (the World Bank may be a potential source at this point)?

240

Although there is no funding under this project, a Baseline Resurvey would be redone four to five years following project authorization. The Resurvey would allow us to capture on a more complete basis the changes due to the evolution of the SAP, the economy, and assistance efforts. The Resurvey might not look at all the localities covered in the first survey; if, for example, there is considerable homogeneity found the first time in a certain stratum and there is no reason to believe these areas have developed in different ways, then the Resurvey could look at only some of the locations surveyed the first time around. In any event, this would involve nearly the same level of effort as the original baseline survey.

E. Description of the Productive Sector

Background

Unlike the SME sector, the job of collecting the data on the large formal sector is far easier, because:

- o Publicly held companies file annual reports with valuable information
- o The local press, particularly the Financial Gazette, provides excellent business and financial coverage of larger firms
- o The sheer number of firms is less, enabling more complete sampling of the universe of the formal sector
- o Larger firms are registered with the GOZ, and the GOZ maintains statistical series on income, employment, etc.
- o Larger firms are far more likely to be members of trade associations, that also collect a wealth of information on their members and the economy at large.
- o A burgeoning private sector information services firms, such as Grey Matter Pvt, are beginning to provide proprietary business and economic information.

A firm survey, therefore, of the formal productive sector is not necessary. Instead, the Description of the Productive Sector will be developed from secondary sources and interviews with knowledgeable informants. Relevant pre-existing survey data, such as that from GEMINI and the PSTNA, will be used, of course.

Methodology of the Description of the Productive Sector - the MAPS process

The Description of the Productive Sector will be undertaken by a buy-in to an AID/W Central Project -- likely to be PEDS -- that can access firms and individuals that have had experience conducting the Manual for Action in the Private Sector, or "MAPS".

241

MAPS is really two things; first, a methodology for gathering, analyzing, and compiling data on the private sector; and second, a process of generating and evaluating strategies that may be pursued by USAID missions for private sector development. The MAPS process typically has five stages:

I. Articulation

A review of USAID mission private sector strategy, implementation, and relation to overall mission strategy, government policy, and other donor organizations. Done in close collaboration with the USAID mission staff.

II. Description

A description or "mapping" of the productive sector -- e.g., contribution to the economy, constraints and opportunities. This is obtained from secondary sources.

III. Diagnosis

A survey of the productive sector firms, supplementing data obtained in the Description phase, and exploring managerial/entrepreneurial perceptions.

IV. Dialogue

Focus group sessions, testing the results of description and diagnosis phases. Participants are representatives from the formal sector, government, and USAID staff.

V. Strategy

The USAID mission private sector strategy is developed and refined, informed by the results of previous phases. USAID mission staff participate intensively.

The MAPS process has been tested and refined in over 20 African and Latin American countries; including South Africa, Lesotho, Swaziland, Botswana in the Southern African region.

For USAID/Zimbabwe, however, the MAPS process will be modified in two important ways.

- o ZBDP will not fund the strategy articulation and development stages of MAPS (stage I. Articulation and stage V. Strategy); because these are in-house exercises, whose primary beneficiary is USAID/Zimbabwe, and whose primary purpose is strategy and project development. The mission may, however, undertake these stages using Project Development and Support funds.
- o Because of the wealth of data on the formal sector in the economy, ZBDP will first develop a Description of the Formal Sector using secondary data sources -- that is, we will adapt MAPS stage II, "Description". Only if

deemed necessary will ZBDP funds be used to undertake a Phase Two -- which will be adaptations of MAPS stage III. Diagnosis and stage IV. Dialogue.

ZBDP Phase One -- Description of the Productive Sector Desk Study (MAPS stage II. Description)

The Phase One Description team will consist of an expatriate business economist and a policy analyst, who will work together with a local subcontractor that will provide local expertise, contacts, and cost-effective logistical support.

The MAPS team will develop a report that will provide a description and analysis of the formal sector, disaggregated by subsector, ownership, and geographical location. The MAPS team will undertake to:

Estimate the quantitative contribution made by the formal and informal private sector and parastatal contributions to the national economy in the areas of employment, share of GDP, trade, foreign exchange, taxes, and investment.

Specify the importance of each sector and subsector to the national economy (e.g., job creation per dollar of investment), by geographic region and by type of ownership including indigenous ownership (where these data are available from secondary sources).

Analyze the structure of key sectors of the economy, including an analysis of the number of firms by size and of the relative concentration of fragmentation of each key industrial sector;

Analyze backward, forward, and cross-sectoral linkages within and without the formal sector.

Identify the major trends in growth of output, employment and foreign trade in the key business sectors over a twenty-year period to determine those industries that appear to have the greatest potential for job generation and exports.

Review the role of public policy and finance, particularly with respect to the current regulatory environment and the prospects for de-regulation under the policy of trade and economic liberalization.

Analyze the data on industry structure and public policy for implications on present and future barriers to industry and on industrial linkages, particularly among large and small firms.

Assess quality of data used -- identify major data gaps and contradictions, reliability, specify mechanisms or approaches for filling these gaps (or resolving the contradictions).

Create a computerized data base, accessible to the nonspecialist, which will be retained at USAID, and distributed to interested parties as well.

Recommend updating and maintenance procedures, develop terms of reference.

***** Decision Point One *****

As part of the Description Phase, the MAPS team will recommend adaptations of the Diagnosis and Dialogue stages of the MAPS methodology (if deemed necessary) to complete understanding of the formal sector: USAID/Zimbabwe must decide, at this point, whether or not to continue with phase Two.

Phase Two -- Description of the Productive Sector -- Survey and Focus Group work

Survey -- (MAPS Diagnosis)

The Survey will fill gaps in the data gathered and analyzed in Phase One, and analyze opportunities and constraints facing various types of firms in the formal and informal sectors, as perceived by the business owners and managers.

The Survey will be carried out using the MAPS team leader, survey specialist, and local subcontractor, using survey instruments and sampling techniques that would be agreed upon with the Mission prior to drafting the detailed terms of reference. The survey instrument and sampling techniques design would build on the results of the PSTNA, the GEMINI survey, and the World Bank Regulatory Impact surveys.

The tasks to be performed by the MAPS Team, consisting of a Team Leader and a Survey Specialist, are as follows:

Identify the data gaps from the Description phase, and how a survey will fill those gaps -- will involve a review the questionnaires, sampling methodologies, and results of the previous relevant surveys.

With input from the Mission, design a questionnaire and determine a sampling universe and methodology that will yield the required data with statistically significant results. Some of the more important gaps are likely to be entrepreneurial/managerial perceptions regarding the policy and enabling environment, including areas such as the following:

Labor issues: effect of labor laws on firm hiring/firing practices, labor skills mix, gender mix, use of part time/full time labor; labor skill shortages; general labor productivity;

Legal environment: regulations on business registration, subcontracting practices, marketing and distribution channels, other restrictions;

244

Credit and banking: formal and informal sources and uses of credit; effect of monetary restrictions on investment decisions;

Fiscal/monetary policies: general distribution of the tax burden; effect of tax policies on business operations;

Support structures: sources of information on markets, capital sources, linkage mechanism; availability of support services such as T.A. and training.

Undertake the survey with local subcontractor support.

Draft report which describes and analyzes results of the survey data, making sure that results are placed on PC compatible computer data base developed in Phase One.

Focus Groups -- (MAPS Dialogue)

The results of the Survey, taken together with the earlier analysis of the structure and role of business in the Zimbabwean economy, will be presented to business owners and managers in focus groups, the composition of which will be determined in strategy session with the Mission. These focus group discussions will enrich and validate (or raise questions about) the interpretation of the results from the studies. The groups will also act as sounding boards to assess private and public sector commitment to particular program or project options, and to help generate a wider menu of options for addressing the constraints and taking advantage of the opportunities identified.

Specific tasks to be performed by the MAPS Team Leader and Policy specialist in this phase are:

Identify with the Mission the key sectors, actors, etc. to be included in the focus groups or dialogue seminars as well as the general format (for example, in RSA it was decided to concentrate on only three sectors of black business: transport, construction, and small manufacture);
Prepare synthesized presentations of the data collected in previous phases that are targeted to specific focus groups;
Organize and conduct feedback sessions;

Document and disseminate the discussion themes and major conclusions of each session.

E. Implementation Support Research (ISR)

Focused studies will be undertaken to assist in effective implementation, maximize the utility of lessons learned, and assist in the design of future private enterprise assistance activities. In accomplishing these objectives,

245

of course, the ISR focused studies will advance the project purpose and goal. Although the general nature of the studies can be identified now, detailed design will be undertaken in collaboration with the GOZ and other implementing partners. The topics of the studies are likely to include:

- o **Feasibility of adopting an agribusiness focus, or agribusiness subsectoral focus (e.g., horticulture) for current and future ZBDP Operational Testing components.** Potential to sharpen the focus to better achieve the goal and purpose of ZBDP, and be synergistic with other USAID/Zimbabwe activities.
- o **The role of women in productive enterprises in Zimbabwe; the perceived and actual constraints to women's enterprise and proposals to redress such constraints.** Potential to enhance our achievement of broader distribution of productive assets and indigenous participation in the economy.
- o **Competition and competitiveness: an assessment of firm and industry competition in Zimbabwe and its impact on competitiveness.** Supports research into an identified gap in the SAP, which may effect the degree to which we achieve the project goal and purpose.
- o **Social norms in Zimbabwe, their impact on achieving the ZBDP project purpose and goals, and recommendations for change.** Improves our understanding of an identified constraint to achieving the project purpose and goal.
- o **The potential for deregulatory components that allow the formalization of the informal sector.** Potential to develop component concepts to enhance the achievement of wider distribution of productive assets of the economy.
- o **The impact of the AIDS epidemic on economic growth, investment, and ZBDP components.** Increase our understanding of an identified constraint to achieving project goal and purpose.
- o **Analyze the investment cost per direct and indirect job created, by sub-sector.**
- o **Track implementation of SAP measures relevant to ZBDP achieving the project purpose and goal.**

The Implementation Support Research component will be contracted out to a local consulting firm that will provide short-term consultancies at the request of USAID. It will be managed by the contract ZBDP project manager, with guidance from the direct hire ZBDP Project Officer and the contract regional Trade and Investment Advisor.

244

F. Quick Response Fund

Approximately three percent of the ZBD project budget has been allocated for the Quick Response Fund (QRF). In addition, the QRF will be funded by any surplus resulting from nonimplementation of phases of other components, or due to overestimation of the budget. The QRF will have two objectives. First, it will modify or strengthen ZBD operational testing or analytical components so that they better work towards achieving project purpose and goal. Second, it will assist in developing new private sector project components, operational testing or otherwise, to implement during the full course of project.

The Quick Response Fund will permit a flexible and rapid response to opportunities that are consistent with the purpose and goals of the overall project.

A potential Quick Response Fund activity will be proposed by the Project Officer, with technical assistance from the contract ZBD project manager and the regional Trade and Investment Advisor. Each proposed activity must pass muster when weighed against the Operational Testing or Analytical component criteria outlined earlier.

In addition, to be eligible for financing from the Quick Response Fund, a proposed activity must satisfy all of the following criteria:

1. The proposed activity must fit within the stated project purpose and goal, and otherwise be consistent with the ZBD Project Grant Agreement between AID and the Government of Zimbabwe.
2. The Quick Response Fund may be used only to finance technical assistance, training, authorized travel or the procurement of commodities.
3. The Mission Environmental Officer must certify and the RLA must concur that the activity will be within the scope of the IEE Categorical Exclusion approved for the entire project.
4. The proposed activity shall not violate any U.S. law or AID regulations, particularly the Lautenberg Amendment or any other U.S. legislation concerned with protection of U.S. industry, exporters or exports.
5. The Mission Director, USAID/Zimbabwe must concur with the inclusion of the activity, and in particular determine that the proposed activity has adequate financial and technical planning.

An illustrative listing of Quick Response Fund activities follows:

Possible Quick Response Fund Activities

Existing Components:

247

EPZ

Support of promotional activities by the EPZ Promotional Authority

Training and Technical Assistance

Support of regulatory activities by the EPZ Authority

Training and Technical Assistance, perhaps some commodities

Business Linkage

Phase III; amplified pilot operational phase that will expand the services available beyond the limited test group to the general public.

Training and Technical Assistance, perhaps some commodities.

VBAS

Expand availability of IESC services to third year.

Increase volume of IESC services..

Implementation Support Research

Add additional studies that may arise out of GOZ or private sector requests; e.g., privatization, the impact of RSA on the economy.

Possible New Components:

Conference and Seminars Fund

Support for the sponsorship of conferences and seminars of private sector organizations.

Deregulation and the Informal/SME Sector

Focused action research to identify the costs and benefits of small business regulation on the books, and draft possible solutions.

In addition to providing the project with a mechanism to quickly pursue opportunities consistent with the project purpose, the Fund will also facilitate reprogramming of funds that may become available under one of the "phased" project components. Given that ZBD is a pilot project, it is possible that at least one of the project components will not prove to be a

viable means of achieving project objectives at a "Go - No Go" decision point and, therefore, will not be funded through all phases. If this occurs, project funds will be reprogrammed from the discontinued component to the Quick Response Fund where they will be used to further finance, according to established selection criteria, activities to respond to targets of opportunity in support of Operational Testing or Analytical project components.

Annex 5

MONITORING AND EVALUATION OF OPERATIONAL TEST COMPONENTS: PROJECT MANAGEMENT INFORMATION OUTLINE

I. Content and Users

The overall plan for project monitoring and evaluation is laid out in Section 5.4 of the Project Paper. This annex details the questions project management will need to answer for informed decision-making and the mechanisms for generating this information during project implementation.

The key users of the information generated through the ZBDP monitoring system are identified below.

All ZBDP Components:

- ZBD Project Officer/ZBD Project Implementation Committee: Management must ensure that project activities are moving towards achieving project goal, purpose, and outputs; it also needs information to feed into its decision-point evaluations. The sub-contractor for project monitoring will need to track information availability to conduct its project data reviews, scheduled before each decision-point evaluation.
- ZBD Project implementation contractors: The contractors need information to guide implementation progress; the contractors also must track non-routine information of which the Project Officer must be made aware to facilitate decision-making.

EPZ:

- EPZ Working Group: Will require technical information as input into the development of draft EPZ legislation, regulations, and procedures.
- GOZ: Will need periodic reports from the Working Group to inform GOZ policies towards EPZs; and to clarify from the onset the criteria USAID/Zimbabwe will use in deciding on continued support to EPZs.

Business Linkage and ZESC:

- Business support groups and other groups through which ZBDP might seek to institutionalize the Business Linkage and ZESC pilot programs: These groups will need information to assess the demand and feasibility of the pilot programs and, as such, their interest in taking ownership of the programs.

The information plan format for each project component is as follows:

- management's key questions at the project goal, purpose and output levels to be addressed through component activities;
- indicators to answer the management questions;
- objectives and expected outputs for each component activity;
- detailed decision point evaluation criteria;
- where necessary, suggested data collection methodology and data sources.

II. Project Components

A. Development of a Competitive Export Processing Zone Regime

Goal-level Management Question: To what extent can a competitive EPZ regime in Zimbabwe contribute to increased economic growth of the type which will:

- create jobs
- increase foreign exchange earnings
- broaden participation of indigenous entrepreneurs in the economy (either as EPZ firms or as suppliers/subcontractors to EPZ firms)?

Purpose-level Management Question: To what extent can a competitive EPZ regime in Zimbabwe improve the enabling environment for private sector investment in Zimbabwe?

Output-level Management Questions:

Phase 1. Is there a need for and demand for EPZs in Zimbabwe? Would EPZs in Zimbabwe be internationally competitive? What actions would be required to develop a competitive EPZ regime? What would be the composition, mandate, and authorities of an EPZ Working Group? By Decision Point 1, is the Working Group operational?

Phase 2. Once the need for and competitiveness of an EPZ regime in Zimbabwe has been established, what form will competitive EPZ enabling legislation take? What will be the framework for EPZ regulatory policies and administrative/institutional principals? By Decision Point 2, has legislation been enacted (or will be enacted within an acceptable timeframe) by Parliament?

Phase 3. Once the EPZ legislation and a preliminary policy framework are developed, what will be the detailed regulations and operating procedures for implementing a competitive EPZ regime? What form will the implementing regulatory and promotional institutions take?

Component Activities

The activities under ZBDP's Export Processing Zone component are divided into three distinct phases:

- Phase 1. Feasibility analyses
- Phase 2. Developing the EPZ Enabling Legislation and
Consciousness-Raising
- Phase 3. Implementing the Policy Framework

In this section, global objectives and outputs are defined for each phase of the EPZ component; these are followed by the objective for each activity within the phase. Questions to be addressed at the activity-level are specified in sufficient detail within the detailed project description (Annex 1).

Each phase is followed by an evaluation Decision Point (explained in Section 5.4, Monitoring and Evaluation Plan). At these points in the implementation process, project management will decide whether or not to proceed with the subsequent phase. Decision Point criteria are defined in this annex after the information needs for each phase.

Phase 1 -- Feasibility Analysis

Objectives:

1. To establish the need for and competitiveness of an EPZ regime in Zimbabwe;
2. To provide a comprehensive analytical basis for the design of a competitive EPZ legislative framework and streamlined administrative arrangements;
3. To define viable EPZ development scenarios and determine their economic and social feasibility;
4. To develop a feasible action plan for EPZ implementation;
5. To form an EPZ working group with the necessary mandate to develop and implement an EPZ regime.

Output: Synthesis report addressing the Phase 1 objectives in general and the activity objectives in particular, and which answers the Phase 1 output-level management questions defined above.

Activity 1 -- Comparative Analysis of EPZ Experiences Worldwide

Objective: To compare and contrast the experience and "lessons learned" of successful and unsuccessful EPZs worldwide, and to analyze the relevance of these experiences to the Zimbabwe context.

Activity 2 -- Comprehensive Assessment of the Zimbabwe Investment Environment

Objectives: To evaluate the policy and institutional framework affecting export-oriented activities; to assess the cost and competitiveness of the economic factors of production, infrastructure and basic services.

Activity 3 -- Competitiveness Evaluation

252

Objectives: To assess the potential demand for EPZs in Zimbabwe; to assess the competitive threats posed by regional developments.

Activity 4 -- Development of Recommended EPZ Scenarios

Objective: To define a number of EPZ scenarios which: (i) could potentially meet Zimbabwe's objectives for EPZ development; (ii) would be internationally competitive; and (iii) would provide the basis for the economic and social analyses (Activities 5 and 6).

Activity 5 -- Economic Analysis

Objective: To prepare cost/benefit analyses assessing the potential direct and indirect economic impacts of the EPZ scenarios developed in Activity 4.

Activity 6 -- Social Analysis

Objective: To assess the potential direct and indirect social impacts of the EPZ scenarios developed in Activity 4.

Activity 7 -- Action Plan

Objective: Develop an action plan based on the EPZ scenario(s) selected as viable after completing Activities 4, 5, and 6.

Activity 8 -- Formal Briefing

Objective: To discuss and finalize the conclusions of the EPZ feasibility analysis, with input from USAID, GOZ, and private sector representatives.

Decision Point 1 Evaluation Criteria

The decision on whether to proceed with Phase 2 will be based on the following criteria:

1. The feasibility analysis establishes the need for and competitiveness of a Zimbabwe EPZ regime.
2. At least one EPZ scenario has been developed which is economically sound, socially acceptable, and can be successfully undertaken in Zimbabwe.
3. A feasible action plan for EPZ implementation has been defined which is acceptable to GOZ and which is compatible with the ZBDP purpose and goal.
4. GOZ has established an EPZ Working Group with the composition, mandate, and authorities necessary to proceed productively with Phase 2.

253

**Phase 2 -- Development of Competitive EPZ Enabling Legislation and
Consciousness-Raising**

Objectives: To develop and formally enact competitive EPZ enabling legislation; to develop the framework for regulations and streamlined administrative arrangements; to sensitize the EPZ Working Group and a supporting core of key public and private sector individuals on policy and practical issues related to the development of a competitive EPZ regime in Zimbabwe.

Outputs:

1. Competitive EPZ legislation enacted (or scheduled to be enacted within an acceptable timeframe) by Parliament.
2. Recommended framework of key regulatory policies to implement the EPZ legislation.
3. Recommended framework of administrative and institutional principals necessary to implement the EPZ legislation.
4. A well-informed EPZ Working Group and supporting core of key public and private sector individuals with a practical understanding of EPZs, and who are committed to developing a world-class EPZ regime in Zimbabwe.

Activity 1 -- Development of Draft EPZ Legislation

Objective: To draft EPZ legislation which: (i) contains liberal eligibility conditions for EPZ incentives; (ii) favors private sector-led development; (iii) contains a competitive package of "formal" incentives; (iv) mandates streamlined institutional arrangements and regulatory procedures for implementation; and (v) positively encourages local an indigenous entrepreneurs' access to EPZ benefits.

Activity 2 -- Recommendations on framework of key regulatory and promotional policies, and institutional structures

Objectives: To develop a framework of key regulatory and promotional policies to implement the EPZ legislation; to develop recommendations on the institutional locus for administering, regulating, and promoting the EPZ regime.

Activity 3 -- Seminar

Objective: To discuss and finalize the draft EPZ legislation, recommended regulatory and promotional policies framework, and recommended institutional and administrative framework.

294

Activity 4 -- In-Country Workshop on EPZ Opportunities

Objective: To expose and sensitize the EPZ Working Group and other public and private sector representatives, including potential EPZ developers and zone users, on policy and practical issues for implementation of the EPZ regime.

Activity 5 -- Exposure Tour

Objective: To deepen the exposure and sensitization process of the in-country workshop (Activity 5) for key public and private sector individuals through visits to successful (and perhaps unsuccessful) EPZ locations worldwide.

Decision Point 2 Evaluation Criteria

The decision on whether to proceed with Phase 3 will be based on the following criteria:

1. An EPZ law which is comprehensive, provides a liberal package of incentives, is private-sector driven, and has been enacted (or will be enacted within an acceptable timeframe) by parliament.
2. The EPZ program has the necessary support from the highest levels of the public and private sectors.
3. The EPZ working group continues to operate with sufficient mandate and authorities to proceed productively with Phase 3.

Phase 3 -- Implementing the Policy Framework

Activity 1 -- Developing the Implementing Regulations

Activity 2 -- Drafting of Operating Procedures

Objectives: To further develop, formalize and operationalize the EPZ framework: the implementing regulations of the EPZ law; the operating procedures for the Reserve Bank and other authorities.

Outputs:

1. Comprehensive set of implementing regulations which details and extends the general provisions of the EPZ law, detailing the operating regulations for all aspects of EPZ operations in Zimbabwe.
2. A Reserve Bank Regulations Handbook detailing: (i) regulations for monitoring foreign currency domiciliary accounts; (ii) reporting procedures for repatriation of dividends and capital; (iii) other issues as necessary.

25

Year 2.5 Evaluation Criteria

The decision on whether to recommend operational support for pilot implementation of the EPZ regime, not funded under ZBD's current budget, will be based on the following criteria:

1. The EPZ Working Group has drafted EPZ implementing regulations and Reserve Bank procedures which are: (i) consistent with the spirit of the EPZ law; (ii) sufficiently unrestrictive in terms of the ease of applying and receiving EPZ designation.
2. GOZ has adopted EPZ operating regulations and procedures consistent with those drafted by the EPZ Working Group.
3. The EPZ Regulatory Authority has been established which: (i) has the necessary GOZ mandate to implement the EPZ operating regulations and procedures; (ii) has an organizational structure and Board of Directors favoring an impartial, non-discretionary system of approvals.

B. Business Linkage

Goal-level Management Question: To what extent can business linkages -- sub-contracting and spin-off arrangements -- between large and small businesses in Zimbabwe:

- broaden control of productive assets by increasing the strength of indigenous black-owned businesses;
- create jobs as smaller firms are formed or grow in size;
- save jobs through spin-off arrangements;
- increase foreign exchange earnings by enhancing firm export competitiveness; and
- save foreign exchange through efficient, market-driven import substitution.

Purpose-level Management Question: To what extent are business linkages -- sub-contracting and spin-off arrangements -- between large and small businesses in Zimbabwe's industrial sector a viable means to increase private sector investment by enhancing the competitiveness of both business linkage partners:

- increased number and strength of indigenous small, black-owned businesses
- Indicators for competitiveness

Output-level Management Questions: If business linkages can increase private sector investment in the current environment, what form should a program of operational support take which would facilitate the establishment of productive business linkage arrangements in Zimbabwe's industrial sector? What project inputs would be required?

Component Activities

Phase 1 -- Diagnostic Assessment

Activity 1 -- Feasibility and Baseline Survey

Objective: To assess experience to date with business linkage arrangements in Zimbabwe's industrial sector, including an analysis of the lessons learned from both successful and unsuccessful linkages.

Outputs:

1. Draft report addressing the objective and management/study questions and containing the following (the final report will be a synthesis of the findings of Activity 1 and Activity 2 (constraints analysis)):

- description of survey methodology;
- survey results;
- analyses responding to the study questions, and including --
baseline status for goal-level and purpose-level indicators
- assessment of demand and feasibility of a business linkage program

2. Computerized database of firms surveyed, in the format of the project's firm-level database.

Project Management/Study Questions:

1. What are the nature and history of sub-contracting arrangements in the industrial sector in Zimbabwe?
 - What are the characteristics (as defined by the project's firm-level database) of the partner firms for current and dissolved partnerships?
 - What have been the changes over time of these characteristics? Can the changes be causally or indirectly linked to the sub-contracting arrangements?
 - Who initiated the sub-contracting arrangements, and why?
 - What are/were the terms of the sub-contracts?
 - What was the process/time frame for operationalizing the sub-contract?
 - Which product/service do/did the sub-contracts involve?
2. How extensive is the practice of sub-contracting in the industrial sector in Zimbabwe?
3. What has been the experience with women-owned business as sub-contracting partners?
4. What constraints have firms faced in developing business linkages?
(Note that constraints to business linkage is addressed further in the constraints analysis (Phase 1, Activity 2) the needs assessments (Phase 2, Activities 1-2).

257-

- Where sub-contracting arrangements have been terminated, what were the reasons?
- Where large or small firms explored options for sub-contracting and abandoned the effort, why did they do so?
- What are the purchasing procedures -- codified or de facto -- which help or hinder the business linkage process (e.g. the use of prequalified lists, post-tender negotiations, inflexible tender documentation requirements, delaying payments to all but "essential suppliers")?
- What are/have been the social and economic constraints to sub-contracting (e.g. labor legislation, trade union resistance, trade association rules, financial constraints) at the firm level?

5. What conclusions can be drawn as to the effect sub-contracting arrangements have had on improving the competitiveness of participating firms, on job creation within the firms, and on foreign exchange expenditures by participating firms?

6. What conclusions can be drawn concerning sub-contracting's contribution to wider ownership of productive assets?

7. What is the history, nature and extent of spin-off businesses within the industrial sector in Zimbabwe? Information similar to that collected in relation to sub-contracting firms -- Questions 1-6 above -- is required.

- What are the advantages and constraints -- financial, managerial, cultural -- to shifting ownership of independent enterprise to the current managers; how might the constraints be alleviated (e.g. management training)

Data Collection Methodology: Secondary analysis of the GEMINI data set as a starting point to identify existing and dead small enterprises which have been sub-contracted by larger firms. Case studies to provide in-depth descriptions of indicative types of current and dissolved linkage arrangements; intermediate survey methods to determine the extent to which case studies are representative the universe of sub-contracting and spin-off arrangements; secondary data analysis and rapid survey techniques to quantify the extent of sub-contracting and spin-offs in Zimbabwe.

Activity 2 -- Constraints Analysis

Objective: To identify, analyze, and prioritize the policy and external constraints that impede the development of business linkages.

Output: Final report responsive to Activity 2 objective and study questions, with particular reference to goal- and purpose- level management questions. This report should synthesize Activity 1 and 2 findings.

258

Project Management/Study Questions:

1. What are the binding policy, social, economic, and external constraints hindering business linkages? Are there particular constraints to participation of women-owned businesses in business linkage arrangements?
2. How do the policy and external constraints currently affecting the viability of business linkages relate to the implementation of the Structural Adjustment Programme?

Data Collection Methodology: Secondary data analyses and key informant interviews to establish the backdrop of constraints faced by firms; use of firm-level data collected as part of the baseline survey and needs assessment to assess the implications of these constraints in the firm-level operating environment.

Activity 3 -- Exposure tour

Objective: To determine the extent to which the experiences in the region with business linkage are relevant to Zimbabwe and to draw upon these experiences in developing a pilot business linkage program for Zimbabwe.

Output: Final report addressing the objective and project management/study questions for Activity 3.

Project Management/Study Questions:

1. What are the similarities and differences between the Zimbabwe target firms and business linkage partners observed in the region; e.g. firm history and characteristics?
2. What are the similarities and differences between the policy, economic, and social environments of Zimbabwe and those observed during the tour? What are the implications of these similarities and differences on adapting elements of regional business linkage strategies to Zimbabwe?
3. Through what types of institutional structures do the business linkage programs operate? What characteristics of the institutions would make them adaptable or inappropriate to the Zimbabwean context?

Data Collection Methodology: Comparative analysis of the characteristics of the target business linkage firms in Zimbabwe and firms currently engaged in business linkages in the region; comparative analysis of the respective policy, economic, and social environments within which business linkage will/does function. Data from Activities 1-4 will define the Zimbabwe context. Comparable data relative to existing business linkage programs in the region could be obtained as follows: (i) exploratory phone interviews/faxes/letters before the tour to identify a small sample of

business linkage partners in the region; (ii) questionnaire to these firms requesting data comparable to that in the project's firm-level data base; (iii) during tour, open-ended interviews addressing the project management/study questions.

Activity 4 -- Detailed recommendations and workplans for Phases 2 and 3

Objective: To formulate detailed strategies for implementing the synthesis workshop and pilot business linkage program.

Outputs:

1. Draft report containing: (i) synthesis of findings and analyses of Activities 1-5, with particular attention to goal- and purpose-level project management questions; (ii) revised set of goal- and purpose-level indicators, including current values/status and recommended benchmark values; (iii) implementation plan for the synthesis workshop (Business Linkage, Phase 2); and (iv) recommended strategy for implementing a pilot business linkage program (Business Linkage, Phase 3).
2. Draft technical request for proposal for the technical assistance and commodity inputs recommended for USAID/Zimbabwe.

Project Management/Study Questions:

1. Through what new or existing institutional structures will the Business Linkage program be implemented? How will information to monitor the impacts of business linkages be managed?
2. What assistance will be required to implement the pilot business linkage program, e.g. short- and long-term technical assistance, management training, data collection and management?
3. What information will be required to track the contribution of the pilot Business Linkage program to the project goal and purpose? How can the key indicators be modified and refined to provide answers to goal- and purpose-level management questions? What benchmarks can be established for the key indicators?
4. Who should finance what services; e.g. USAID/Zimbabwe, business associations, individual firms, other donors? How should the financing be structured, disbursed, and monitored?

Data Collection Methodology: Synthesis of the findings of Activities 1-5; focus groups to obtain input on draft workplans.

Decision Point Evaluation Criteria

The decision on whether to proceed with Phase 2 will be based on the following criteria.

262

- The project's purpose and goal relative to business linkage still hold; results show sufficient potential for achieving the project purpose and goal; results show sufficient demand for project activities.
- The binding constraints to business linkage identified in the constraints analysis are within the scope of the project to alleviate.
- Assumptions about the project operating environment still hold; if not, any negative implications for project implementation are acceptable.

Phase 2 -- Implementation

Activity 1 -- Needs Assessment for Larger Firms

Objective: To assess the needs of large firms as business linkage partners, and to select up to 15 industrial firms to participate in a pilot business linkage program.

Output: Final report addressing the objective and management questions for Activity 3 and containing the following:

- description of needs assessment methodology;
- criteria for selecting target firms, among which should be: (i) capability; (ii) level of commitment to participate; (iii) leadership role within the corporate community;
- needs assessment results;
- comparative analysis of the characteristics of target firms, including baseline data collected for the project's firm-level database.

Project Management/Study Questions:

1. What goods and services could be supplied or contracted out to smaller firms?
 - What is the information flow pertaining to purchasing (e.g. how the firms find out about suppliers; how purchasing, development, and production divisions are coordinated; how specifications are given to suppliers)?
 - What are the purchasing procedures which help or hinder the business linkage process (see questions posed for Activity 1, Baseline Survey)?
 - How might new workable sub-contracts be structured?
2. What operations could be spun off successfully as independent enterprises?
 - What are the advantages and constraints -- financial, managerial, cultural -- to shifting ownership of independent enterprise to the current managers; how might the constraints be alleviated (e.g. management training)?

261 -

- How might spin-offs be structured (e.g. employee stock option plans, management buy-outs) and financed?

Data Collection Methodology: Secondary analysis of Feasibility and Baseline Survey data sets. Case studies for each firm, including the following: (i) projected capital needs and pro forma cash flow statements; (ii) projected net impacts on jobs and foreign exchange earnings/savings; data comparable to those collected for case study firms in the feasibility and baseline survey (Business Linkage -- Activity 1) and compatible to the firm-level database.

Activity 2 -- Needs Assessment for Smaller Firms

Objective: To assess the needs of small firms as business linkage partners, and to select up to 20 smaller firms to participate in a pilot business linkage program.

Output: Final report addressing the objective and management questions for Activity 3, and containing the following:

- description of assessment methodology;
- criteria for selecting participating firms, among which should be: (i) potential to be a competitive supplier; (ii) level of commitment to participate; (iii) fit with the needs of participating larger firms;
- needs assessment results;
- comparative analysis of the characteristics of target firms, including baseline data collected for the project's firm-level database.

Project Management/Study Questions:

1. What is the capability of smaller firms to produce the types of goods and services required by the targeted larger firms?
2. What are the constraints faced by smaller firms to supply goods and services on a competitive basis to larger firms (e.g. deficiencies in: the order chain -- costing, pricing, quoting, follow-through, delivery; quality control; management systems and procedures; marketing and promotion; start-up and working capital)?

Data Collection Methodology: Case studies for each target firm including data comparable to that collected for case study firms in the baseline survey (Business Linkage -- Activity 1).

C. Volunteer Business Advisory Services (VBAS)

1. IESC

Goal-level Management Question: To what extent do IESC basic services -- Volunteer Executive, ABLE, and JVS projects -- contribute to:
-- job creation resulting from improved efficiency and increase

262

- profitability of participating firms, and
- increased foreign exchange earnings by expanding competitiveness.

Purpose-level Management Questions: To what extent to IESC basic services contribute to increased private sector investment by developing the competitive advantage of participating firms?

Output-level Management Question: Which of the IESC program innovations enhance the contribution of the Volunteer Executive, ABLE, and JVS projects to the ZBDP purpose and goal?

Component Activities

Unlike the other ZBDP empirical components, the basic VBAS program successfully passed through its pilot implementation phase prior to ZBDP. New to the program are six pilot innovations to the original implementation strategy, the effectiveness of which will be tested through ZBDP.

This section defines the IESC component objectives and outputs, followed by the project management questions and the decision point evaluation criteria associated with each innovation.

There are two types of innovations, defined in Component Objectives 1 and 2, respectively: substantive (development-oriented) innovations, and organizational innovations. Project management questions and decision point evaluation criteria are relevant only for the former. The latter are required to facilitate the execution of the development-oriented innovations, but will not make direct contributions per se to the project purpose and goal.

Component Objectives:

1. To determine the extent to which the following innovations to the original IESC implementation strategy enhance the program's impact on the ZBDP purpose and goal:

- Increase cost-sharing from the private sector
- Promote joint ventures between U.S. and Zimbabwe firms
- Expand IESC services

2. To maximize service delivery efficiency by effecting in-house adjustments to the program implementation strategy as follows:

- Improve client tracking, monitoring, and evaluation systems and data bases

263 -

-- Refine the volunteer selection process to involve more fully both the client and the volunteer

Outputs:

1. Periodic discussion/working papers for each innovation which address the respective management questions (where relevant) and the component objective.
2. Computerized database of participating firms, in the format of the project's firm-level database.
3. Operational system for tracking clients and for monitoring and evaluating the impact of IESC interventions.
4. Operational system whereby clients and prospective volunteer executives, facilitated by the IESC Country Director, match themselves to their mutual benefit.

Project Management Questions:

Innovation 2 -- Increase cost-sharing from the private sector

1. From past and current data records, what is the demand elasticity for volunteer executive services across the range of firm sizes? What standardized fee scale can be developed given these findings?
2. If more funds are generated from larger firms, how should they be used to reach more firms of all sizes? How should ZESC and IESC activities be coordinated?

Decision point Evaluation Criterion: The demand for VE services among large firms is sufficiently inelastic that the fees to these firms can be increased.

Innovation 3 -- Promote joint ventures between U.S. and Zimbabwe firms

1. What groundwork can be laid in anticipation of SARP reforms to prepare for potential joint venture opportunities?
2. Are there any prospects for joint ventures within the current economic climate?

264

Decision Point Evaluation Criteria: The economic environment has become sufficiently liberalized to make local entrepreneurs interested in joint ventures and able to attract joint venture partners, at least one joint venture possibility has been identified and seriously explored.

Innovation 6 -- Expand IESC services

1. What background work might be done in anticipation of SARP reforms to identify firms which might make the best use of volunteer inputs in marketing, cost reduction, technology choice, and organizational development? Where necessary, how can clients be educated as to the importance of these skills in a competitive market?
2. What opportunities can be cultivated to organize group projects around one or more of these themes?

Decision Point Evaluation Criteria: There is sufficient demand for the new services to warrant the necessary input from the local IESC office.

2. Zimbabwe Executive Service Corps

Goal-level Management Question: To what extent can a Zimbabwe Executive Service Corps contribute to:

- broadened control of productive assets by increasing the strength of indigenous black-owned businesses;
- create jobs as smaller firms grow in size.

Purpose-level Management Question: To what extent would activities of the ZESC contribute to increased investment by enhancing the competitiveness of small black-owned businesses?

Output-level Management Questions: If the activities of the ZESC would contribute to increased investment in the current environment, what form should a program of operational support take which would facilitate the implementation of a pilot ZESC program? What project inputs would be required?

Component Activities

Phase 1 -- Needs Assessment of ZESC

- Activity 1 -- Demand Analysis
- Activity 2 -- Supply Analysis
- Activity 3 -- Analysis of Implementation Options
- Activity 4 -- Action Plan Recommendations

265

Objectives: To explore the possibilities for matching small indigenous businesses' needs for specialized technical expertise with the talents of local executives; to develop a pilot ZESC program compatible with the small business demand and the supply of local executives.

Outputs:

1. Synthesis report containing:
 - a description of survey methodology;
 - the results of the demand and supply analyses;
 - an analysis of implementation options and a recommended plan of action for pilot implementation of a ZESC program.
2. Tentative list of potential participating executives, including a description of their employment history and specialized skills.
3. Tentative list of small businesses interested in employing the services of a local executive, including an indication of the type of service required.
4. Computerized database of small businesses surveyed, in the format of the ZBDP firm-level database.

Decision Point Evaluation Criteria

The decision on whether to proceed with Phase 2, Implementation, will be based on the following criteria:

- Results of the needs assessment show sufficient demand for project activities among small businesses, and sufficient supply of Zimbabwean executives willing to participate in the program.
- Results show sufficient potential for contributing to the project purpose and goal.
- A workable action plan has been developed which is acceptable to USAID/Zimbabwe.

266

UNCLASSIFIED
AGENCY FOR INT'L DEV.
TELECOMMUNICATIONS CENTER

OUTGOING
TELEGRAM

PAGE 01 STATE 246829 262350Z 3569 075957 AID5726
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INFO AFSA-03 AFCD-02 OL-01 PPSB-01 GC-01 AMAD-01 FMFC-01
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INFO LOG-00 AF-00 /002R

DRAFTED BY: AID/AFR/DP/PAB: GMCCOY; CM: ZIMBABA. CAB
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TO AMEMBASSY HARARE PRIORITY

POSTED
AKC 8/5/91

UNCLAS STATE 246829

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E.O. 12356: N/A
TAGS:
SUBJECT: SS1 ALLOWANCE

REF: HARARE 5695

1. APPROPRIATION 72-111/21014, BUDGET PLAN CODE GSS1-91-21613-KG13 (ALLOWANCE 181-50-613-00-69-11) INCREASED BY DOLLARS 2,000,000 FOR PROJECT 613-0232, ZIMBABWE BUSINESS DEVELOPMENT II.

2. FUNDS FOR THE ABOVE-MENTIONED PROJECT CANNOT BE OBLIGATED UNTIL MISSION NOTIFIED CN WAITING PERIOD HAS EXPIRED. EAGLEBURGER

267-