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African Private Enterprise Assessment

Report on a Four-Country Trip

October-November 1985

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THE PRAGMA CORPORATION

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1.0 Introduction

This study was undertaken at the request of the Private Sector Office of AID's Africa Bureau (AA/AFR/PRE). A contract was signed in August 1985 with the Pragma Corporation covering two tasks: 1) the preparation of brief inventories (one or two paged descriptions of approximately 50 private enterprise activities which had been undertaken by African Missions and offices during the past four years) and, 2) preparation of brief evaluations of some of these initiatives in 6 to 8 African countries. It was understood that the project evaluations were not to substitute for the normal in-depth evaluation built into and funded within virtually all AID activities. Rather the purpose was to draw certain conclusions from this project experience which would be helpful in future project and program design. It was agreed that in addition to reviewing experience under the specific project listed, overall program observations should be included that bear directly on private sector activities. The present report covers a visit to four countries (Liberia, Kenya, Zimbabwe, and Botswana) over a four-week period from October 21 to November 20, 1985.

The Executive Summary presents the program conclusions and recommendations resulting from this evaluative effort. This is followed by a more detailed discussion of these program recommendations within each country context. A brief evaluative statement is made on each of the 10 projects reviewed.

2.0 Executive Summary

2.1 General

Economic "assistance" to Africa which does not require and support either: a) an improved policy environment to stimulate African productivity or, b) the development of those elements of the resource base most directly and immediately related to productivity, is at best charity to the unfortunate and at worst destructive of African incentive and hope for self-reliance.

2.1.1 A non-hostile policy environment (at a minimum) remains the key. The U.S. encourages or discourages the emergence of that environment through both the conditionality and nature of its program interventions, but equally importantly, <u>its willingness or lack thereof to withhold assistance</u>.

2.1.2 In supporting an improved policy environment USAIDs must have the tools and capability to analyze and prioritize policy elements which are on the one hand most directly related to productivity, export, and employment and, on the other hand, offer some practical hope of changing. Consideration should be given to requiring most missions to write a private sector development strategy (as is being attempted by the Kenya Mission). They should also be given a flexible project instrument (like the $1 or $2 million retained ESF grant in Somalia, Kenya, Sudan, etc.) so as to call on short-term expertise to analyze policy elements and prepare negotiating positions on the complex elements of the policy environment.

2.1.3 Private sector development in Africa for the forseeable future will mean essentially expansion and creation of small business. In designing more viable aid projects for small business it is important to separate the lending function from the business advisory function, at least conceptually, and to limit subsidy over a given period to the latter, which is really a form of vocational training. It is also important to resist saddling small business development agencies with a variety of social objectives which makes then impossible their achievement of the small business objective.

2.1.4 In non-private sector fields, e.g. agricultural extension and research, health and family planning, there are many avenues for increasing effectiveness by increasing the role of private and voluntary groups. AID/W should take a more active role in cross-fertilization of experiences among missions of experience in these areas.

2.1.5 The role of AFR/PRE can best be performed by a) continuing to refuse to get bogged down in managing its own projects, b) recognizing the critical nature of the policy environment and monitoring actively the policy and institutional conditions of ESF and other similar assistance, c) developing mechanisms for quickly and efficiently procuring the services of short-term consultants required by the Missions, d) provide cross-fertilizing information to missions on useful project initiatives and experience in other countries and regions, and e) selectively sponsoring country program private sector reviews in which both an expert with private sector experience and one with experience in development review with the Missions their entire portfolio and proposed projects, identifying interventions which might maximize private sector contribution to the development process.

2.1.6 An important factor in more effective AID programming for private sector growth may involve a conceptual shift in CDSS's and other program documents away from "constraints analysis" and toward "optimal investment opportunities." AID/W programming instructions have usually encouraged missions to review all of the constraints to objective X and then to develop projects or programs to remove one or more of those constraints. But constraints in Africa are virtually limitless, removals tend to be governmental, and projects thus developed likely to be public sector. To look rather for the most <u>promising investment opportunities</u> to achieve selected export, production or employment goals, <u>given present constraints</u>, may more likely result in private sector initiatives. This is discussed more fully later in the paper.

2.2 <u>Liberia</u>

2.2.1 Overshadowing all else in the minds of Liberian business leaders is the political and economic chaos existing in the absence of any government perceived as legitimate. The present situation is characterized by unprecedented corruption, disastrous deficit financing, harassment by the military and others of private business people, and collapse of basic institutions and procedures to enforce contracts. The most important issue for the U.S., then, in the view of business leaders is to withhold ESF support for at least those minimal political conditions without which a private sector cannot exist, much less expand.

2.2.2 Assuming, however, that at a future date it would be appropriate to resume ESF financing, the Missions would more actively pursue specific conditions which bear directly on the survival of the private sector. These involve aspects of the banking system, enforcement of contracts, and the government's payment of its bills. The Mission should retain $1 or $2 million of the ESF for a Policy Reform and Privatization Support Fund similar to that in other ESF recipient countries to hire short-term consultants to improve the quality of its policy dialogue.

2.2.3 The PfP Liberia activity (initially poorly designed) assisting micro-business in rural areas and the Business Advisory Service in Monrovia are now, after drastic project design, institutions worth building on in expanding small business services in other parts of the country. This might best be done in a financially viable way through cross-subsidization, by combining in the same project assistance to rural-based medium business using preferably a commercial bank, with lending and advise to small and micro business using PVO's or other private institutions.

2.2.4 In non-private sector programs there is a great opportunity for the Mission to pursue actively a vigorous dialogue in divesting some public services and making others more efficient: private participation in agricultural research and extension; user fees for health services; training opportunities for private entities (but still preserving a multiplier effect); and improvement in government procurement and contracting procedures.

2.2.5 The private sector activities should be handled by a single office in USAID with a qualified Liberian economist familiar with the private sector added to the staff.

2.3 Kenya

2.3.1 The following conclusions may be drawn from our assessment of private sector activities in Kenya:

- Kenya's high population growth rate, combined with its relative scarcity of productive agricultural land, provides a pressure and urgency not shared by other African countries to rapidly expand off-farm employment. Therefore, the policy environment in Kenya, when viewed in comparison with that of other African countries, appears quite favorable to productivity and employment. But when viewed in relationship to the investment necessary to employ the population, it is more discouraging.

- Probably no USAID in Africa is now pursuing more actively a broad private sector development strategy than the one in Kenya. This is being done through study of policy reforms and negotiation of change using ESF, through financing specific projects like the proposed comprehensive Private Enterprise program, and through the increased use of private sector institutions in pursuing the program objectives in agriculture, family planning, health, education and housing.

- A private sector strategy statement being prepared by USAID/Kenya is an excellent basis for the stimulation of such analysis in other Missions. AID should consider requiring all missions to prepare such a statement and the Kenya first draft might usefully be circulated with appropriate AID/W commentary. The paper is more useful as a checklist than as a statement of strategy since there is inadequate selection of priorities for donor intervention.

- The Kenya Mission has made excellent use of the $3-5 million ESF grant to perform the kinds of study of economic policy and administrative practices which bear most directly on the private sector. At a minimum, all USAIDs in ESF-recipient countries should be required to prepare an annual statement of economic and administrative issues it plans to dialogue with the government about and should be equipped with a flexible tool such as the ESF grant to procure the services of short-term consultants. The location of such help for the Missions should be a principal task of AFR/PRE.

- The Mission is exploring creatively use of private mechanisms in non-private sector fields such as agricultural research and family planning. These efforts too warrant communication to other Missions which are not yet considering them.

- A principal opportunity exists in a proposed Kenya Management Assistance Program in supporting efforts by the well-established Kenyan private sector to support new and small enterprises. The Mission should involve itself with that effort in a supportive way.

2.4 Zimbabwe

2.4.1 The following conclusions are drawn from our assessment of private sector activities in Zimbabwe.

- The Commodity Import Program (CIP) and sectoral programs in Agriculture and Education may have largely served their purpose. They were instrumental in the post-independence period in preventing the collapse of an important share of the inherited private sector and therefore in retaining jobs and essential management skills in the country. They also provided an initial impetus for greatly expanded services in education, health, and agricultural production in the previously neglected communal areas. The program, administered effectively by both the GOZ and the small USAID staff, made an extremely important psychological as well as economic contribution to Zimbabwe's post-independence success. There are perhaps few, if any, more successful programs of this type undertaken by AID anywhere in the world.

- However, the GOZ continues to vilify the private sector politically and to over regulate and constrain it economically, thus discouraging new investment, both domestic and foreign. At the same time, government services, programs, and employment expand without corresponding increases in revenue and the resulting public debt becomes an important additional deterrent to future development. Therefore, the continued expansion of public sector education and agriculture programs through use of large-scale AID local currency generations may no longer be appropriate. Likewise, the declining level of the program in general suggests that the CIP may not be the most effective mechanism for supporting a more competitive private sector.

- Consideration should be given to a transition to project assistance directed almost exclusively to small and medium productive enterprise (including agriculture) and to export-related investment. A project approach would: 1) be more selective in financing programs of research, extension, manpower training and credit to small farmers; 2) experiment with greater use of private institutions in these and other fields; 3) attempt to provide incentive for mobilizing existing capital and managerial skills in the commercial sector to support new African-owned small and medium enterprise; and 4) allocate more selectively the limited foreign exchange available, directing it to those investments with greatest export potential. At a very minimum the present plan to program most local currency of the CIP through the GOZ budget should be reviewed.

• The USAID has laudably administered a large program with a minimal staff. There is great need, however, for continued expertise in basic economic and private sector issues. The Mission should consider hiring a well-qualified Zimbabwean economist fully knowledgeable in the private sector.

At the request of Mr. Roy Stacy, Mission Director in Zimbabwe, AFR/PRE has included Mr. Stacy's comments on some of the conclusions contained in this report concerning Zimbabwe.

2.5 Botswana

2.5.1 Botswana presents a unique development dilemma in Africa - a relatively healthy well-managed nation. The economy based on mining and with an economic policy environment supportive of private investment and production. However, it appears to be uneconomic to employ the vast majority of the growing population, even in agriculture,because of the lack of arable land. Therefore, to support essential employment creation for the population as a whole it is necessary to explore aggressively new investment opportunities in the services as well as manufacturing and agriculture. It also means continuing effective services for voluntary family planning.

2.5.2 Training of government personnel, expansion of health and public education, financing of low-income housing, and even providing credit to existing small and medium enterprise, are all useful components of donor programs. But they do not grapple with the central development problem of Botswana: How do you economically employ people living on a quasi-desert to produce something of sufficient value to provide them an income which permits a minimally acceptable standard of living?

2.5.3 Therefore, feasibility studies of possible new technologies and new investment possibilities should be more prominently included in donor programs. Such studies as irrigation possibilities in parts of the country to expand arable land for intensive commercial agriculture, studies of potential service industries - especially tourism - based on wildlife, and studies of new investments and technologies practical to small and medium business are important.

2.5.4 Likewise in a small economy like Botswana's (150,000 people in the cash economy), the pressure for AID to concentrate its assistance into a few large basket projects in fact encourages the Mission to develop all programs with the government, since it alone is of sufficient size to absorb large chunks of funds. The Mission should explore the use of Botswana private sector "wholesalers" - financial institutions, PVO's, business groups - and/or American private groups working with Botswana, to administer programs requiring small grants to a range of private entities - e.g. for feasibility studies and for PVO activities.etc.

2.5.5 Related to this is the need to develop financial mechanisms to channel the considerable savings in the commercial sector into potentially promising investment in the rural areas. Capital market development should be considered by the Mission as a possible activity worthy of its support.

3.0 **General Observations**

3.1 Analytical Framework

3.1.1 There is a wide range of agreement on the nature of Africa's economic dilemma. In its unvarnished form, the problem is essentially that the value of production on a per capita basis is far less than the value - again on a per capita basis - of consumption. And while the present level of consumption is unacceptably low by moral and social standards, even that is only possible through large scale subsidization from outside the region. Even assuming the continuation of present aid flows in real terms for the indefinite future, population growth makes already unacceptable living standards impossible to sustain without increasing the quantity and value of per capita productivity in Africa.

3.1.2 Therefore, any type of foreign "assistance" which does not support: a) an improved policy environment to stimulate African productivity, or b) those elements of the resource base most directly related to increased productivity, is at best charity to the unfortunate and at worst destructive of African incentive and self-reliance. The principal responsibility for the policy environment has rested with governments which on an almost universal African basis have acted in some ways to impede productivity and which have failed to encourage it.

3.1.3 Examples of the first are commonly known: overvalued exchange rates reducing the demand for labor, grossly excessive domestic borrowing by government, price controls and marketing restrictions of all kinds, protected and subsidized production by para statals. Equally important examples of governments' failures to act in areas where they have a legitimate function are not so widely discussed: operating an efficient judiciary where contractual disputes can be decided and resolved;

maintaining basic infrastructure; providing essential security; maintaining a realistic value to the currency; confronting rampant corruption; providing useful basic education; etc. Instead of concentrating on these latter roles and doing them well, governments have involved themselves across the economic board and in so doing have stifled the limited productive resources which do exist.

3.1.4 In the African context today, economic development means private sector expansion and increased productivity. Since AID's role in the private sector is a broad one each USAID should be able to articulate why its chosen set of interventions is the most effective practicable set of activities for increasing production, value-added, employment and export.

3.1.5 This may mean less emphasis on so-called "constraints analysis" in AID program documentation and more emphasis on "optimal investment opportunities." If, for example, the goal is to increase local production of certain basic grains, and small-farmer technical know-how is a key constraint, a resulting project may be a multi-year contract with a U.S. land-grant university to improve the extension service - with very indirect and unquantifiable results. However, an analysis of the best investment opportunities given present constraints may suggest a contract with commercial seed and marketing firms to enter into subcontracting relationships with selected, motivated small farmer groups. The critical question in project approval then becomes not so much "does it remove a key constraint" (these are usually an unlimited number of others to take its place) but is it the optimal practical investment opportunity for achieving the goal.

3.1.6 Conclusion. Missions should be required to prepare a private sector development strategy (as is being attempted in Kenya) as part of their overall CDSS. In proposing project interventions, less emphasis should be placed on the argument that this project removes an important constraint (an analysis which leads to government solutions). Rather the justification should be that this intervention is the most effective and practical investment possible for promoting production, employment, export or value-added.

3.2 Policy Dialogue and Conditionality

3.2.1 Removing policy impediments remains the most important aspect of private sector growth in Africa. In comparison, project interventions are of minor effect. Therefore, both USAIDs and AFR/PRE must give highest priority to this. There is no need to repeat here the familiar array of policy disincentives to private sector growth and productivity such as imprudent fiscal and monetary policies and price and marketing controls. These policies are well known. African governments have intruded in all areas of economic life with unfortunate results while refusing to act adequately in precisely those areas where only governments can act: confronting private sector corruption, providing legal and judicial system within which private sector relationships can be established, and maintaining basic infrastructure. If African governments did each of these latter jobs well and divested themselves from the myriad other economic interventions, African living standards would gradually improve.

3.2.2 Therefore, every aspect of donor intervention should be sensitive to the possibility of promoting policy dialogue. A radical shift is still required in USAID and other donor thinking which still is unequipped to review and discuss policy and administrative changes with adequate expertise. Furthermore, an unfortunate pattern of interventions tends to be repeated and inadequately questioned in project reviews. For example, expanding already over-extended Ministry of Agriculture research and extension services may be harmful, not helpful. Expanding education in Zimbabwe or health services in Cameroon without any sources of additional revenue likewise may be harmful. ESF assistance to Liberia to pay off debt in the absence of any serious fiscal discipline is almost certainly destructive.

Conclusions

- In all ESF countries, a policy dialogue strategy should be prepared justifying the priority of the principal policy issues to be addressed. They should be reviewed to determine which issues are of most direct impact on private sector expansion.

- To do this with the necessary sophistication, USAIDs need an ESF-grant type mechanism (as exists in Somalia, Sudan, Kenya, etc.) to call on short-term expertise to analyze policy impact and help Missions in preparing practical, effective negotiating strategies.

- Project interventions must be reviewed with greater rigor to determine, not that they simply remove one of an infinite number of constraints, but that they are the most effective practical interventions presently available for achieving the stated output.

- Most importantly, AID/Washington must have the courage to withhold assistance as appropriate. Negotiations are a fiction if country levels are unchangeable.

3.3 Small and Medium Business

3.3.1 Private sector growth in Africa over the forseeable future means small business. Foreign investment geared to export of higher value products is, of course, essential but is unlikely under any imaginable set of circumstances to take place in Africa over the next decade in sufficient magnitude to employ underemployed people and resources. Therefore, maintenance (not to mention improvement) of African living standards requires: 1) more productive, market-based agriculture and, 2) a whole range of rural and urban based off-farm small private enterprise which is both profitable and adds value to local resources. The growth of the small scale private sector is essential politically as well as economically. Without broadening the entre- preneurial base of African society, there is little pressure against and alternative to statist approaches to economic problems which result in increased misery. In societies with strong chambers of commerce, trade associations, community groups, and trade unions, many of the restrictive measures taken by African governments to limit private initiatives would have been politically far more difficult.

3.3.2 Yet the limitations are discouraging. Aside from the hostile policy environment already referred to, there is little tradition of private production (as opposed to trading) in many countries except for subsistence agriculture. Therefore, basic small-scale investment, management, and production practices and techniques must be developed. They must be regarded in basically the same status as primary education or vocational training.

3.3.3 Because of these high costs - business training and loan administration for small scale entrepreneurs - most of the projects undertaken by donors seem to be uneconomical. Attracting commercial financial institutions to this small scale sector has been difficult. However, several factors seem to be evident from our experience in this area.

• There is no alternative to developing small-scale entrepreneurial production both on-farm and off-farm.

• Certain basic skills training in small scale business management must be viewed as vocational training or primary education. In an of itself, it can never be self-financing, and should be viewed separately from lending to small business.

• Lending can and must be self-sustaining through a variety of measures:

• using locally based NGO's to mobilize small savings and provide credit.

• permitting lenders to grow with their clients, reducing loan administration through combining help to medium-sized and smaller scale business in the same project. This does not mean combining such lending in the same institution, but looking for opportunities to design projects under which part of the donor funds (preferably on a grant basis) would go to institutions serving medium sized business and the spread (between 0 and market rates of interest) would temporarily help cross-subsidize the establishment of a revolving fund for small-scale business. For example, a grant of $10 million for a project may involve two components: a grant to a private financial institution serving medium-sized rural based firms and a grant to an institution or series of institution (e.g., PVO's) serving small and micro-business. Since all lending must be on market rates the earnings from the lending of the first institution may be programmed to create not only a revolving fund for its medium-sized clientele, but part could also be redirected by the project into a fund to subsidize the business advisory and training functions of the other institutions serving small-scale enterprise. Grant funding by AID would thus be totally compatible with market-based on lending, and the cross-subsidization feature of the project would help improve the financial viability of the small business components.

• permitting selective equity investments on the part of financial institutions for small business, especially in those involving new technologies.

• if possible, projects should include in their design active exploration and marketing of new technologies and production appropriate for small scale firms. A principal problem now is follow-the-leader redundant investment in a given locality and often no identification of new products, services, or techniques which are potentially profitable.

- creating lowest-cost business advising services: using existing entrepreneurs to help others; using private community groups to provide some basic instruction, e.g. basic accounting, contracting short-term personnel for extension service; charging fees (symbolic at first) for advisory services; and developing multi-year schedules of internal subsidy under which lending to medium-scale business directly subsidizes advisory and extension services to small-scale business.

Conclusion. Experience thus far in small-scale business projects is discouraging. However, measures can be taken in the design of projects to increase their viability, principally by cross-subsidization within the same project not within the same institution, of small enterprise lending from medium enterprise activity. Stimulating and expanding of small enterprises remains a central, if not the central, component of African economic development.

3.4 Role of AFR/PRE

3.4.1 The role of AFR/PRE is viewed as essential by the Missions in support of their initiatives in this field. Some suggestions may serve as guidelines for future priority of the activities of the office:

- AFR/PRE is applauded for avoiding the course of the PRE Bureau by not getting so involved in managing its own project portfolio that it cannot provide services to the Mission.

- A major role should continue to be developing means and mechanisms to provide quickly suggested short-term consultant assistance particularly to help analyze aspects of the policy environment which bear most directly on private sector.

- The office should regard the ESF policy negotiations and the policy changes involved in projects as a central concern. This may mean aggressive coordination with the economic staff, and the use of business consultants to determine that in fact the areas of negotiation chosen by the mission are those of most direct bearing on the private sector.

- Periodic review of overall Mission programs to determine the degree to which they are identifying and fostering potential for private sector growth. This may involve joint private sector/AID team review of an entire Mission strategy to suggest alternatives to the present Ministry of Agriculture/Ministry of Education/Ministry of Health profile of most USAID programs in Africa.

- Forcefully arguing when appropriate for the withholding of assistance when that is essential.

- Serving as a clearinghouse and information center informing Missions of highly successful or promising approaches to private sector growth in other country programs, including other geographic regions.

Conclusion. The essential role of the AFR/PRE office is no less than forcing the re-orientation of overall country programs throughout the region. To do this it must be aggressive in ESF policy dialogue issues. It must selectively review overall country strategy and program with outside consultants, support Missions through identifying useful consultant services, and be a force for discipline in the Bureau in arguing for the judicious withholding of assistance.

4.0 County Program Observations

4.1 Liberia

4.1.1 General Program Observations

Overshadowing all other concerns of the business community in Liberia at the time of the review was the political and economic chaos of the country in the absence of a government perceived as being legitimate. Most importantly for the United States, the business community sees continued U.S. economic assistance - especially ESF - as a basic deterrent to Liberia's development in the absence of minimal political and economic reforms.

The present situation is characterized by the following conditions: unprecedented corruption; the collapse of public institutions, (e.g., inability to enforce contracts through the judiciary, or to receive necessary administrative authorizations); failure of the government to pay its bills; harassment of private business leaders by the military and others; increased minting of unbacked Liberian coins; and an extreme shortage of liquidity. In short, it is useless to talk of the niceties of policy change in the absence of minimal conditions of security and public order.

Conclusion. Financing of ESF for debt relief or budget support in the absence of far-reaching movement toward political legitimacy in Liberia would be a deterrent to private sector growth and to economic development generally.

- ESF. Assuming that ESF financing is worth considering at all at some time in the future (whether in 1986 or some future year), the Mission should be encouraged to retain $1 or $2 million for a Policy Reform and Privatization Support Fund as presently used in other ESF recipient countries. The fund should be used by the USAID and Embassy to bring in short-term expertise to help study and present reform proposals for discussion with the GOL.

Examples for study may include aspects of the banking system, enforcement of contracts within the judicial system, application of the investment code, laws and practices governing the formation of private companies, and privatization of some government activities. Each of these is of great concern to the private sector and merits Mission study to formulate actionable proposals for dialogue with the GOL. The ESF fund suggested is an ideally flexible tool for getting expertise to help in these areas as well, of course, as in other economic policy fields. In negotiating ESF conditions, the key to compliance in any of the measures chosen must be observable practice, not simply government decree or law. As private business leaders note, it is not the laws and stated policies which are so bad, but rather practices of the government which rarely conform to the stated laws.

- Small Business. The PfP/Liberia project as originally designed was not financially viable. The cost of providing loans to micro-business far exceeded any realistic estimate of additional income from the projects assisted. A drastic redesign reducing the scope of the project and the incorporation of the village savings program (SAVEWAY) has greatly improved prospects for the longer term viability of that project. More importantly, the experience gained should be used to eventually expand the small-scale enterprise effort using non-governmental organizations to other counties in Liberia. To do this feasibly and applying some of the ideas discussed earlier, the Mission in future years may wish to consider a new global Small and Medium Enterprise activity. This might combine several aspects of private sector revitalization, developing a degree of cross-subsidization from servicing large firms to assist the higher cost lending and technical assistance to small-scale enterprises. One possibility discussed with Liberian business leaders was to combine development lending to the Development Bank (LBDI) or to SEFO, or preferably to a commercial bank with lending to a local PVO type institution, but designing the program in such a way that lending to the larger borrowers subsidizes start-up costs of the small PVO type programs.

Likewise, the Business Advisory Service related to SEFO now has some first-rate talent and should certainly not be allowed to die. Its expertise can be used in setting up the business extension services attached to other PVO type local financing institutions.

The whole area of Mission involvement in the private sector should be managed by the Project Office or a private sector specialist, rather than divided with the Agriculture Office as at present.

- Other Areas. This simply endorses several of the efforts the Mission is already making.

1. Health. Any further assistance should support the expansion and upgrading of the private health system, especially that of the religious missions which is preferred by a majority of the population. Fees for services is also essential in the state system as well as putting the pharmaceutical supply system on a sound and self-paying basis at both the central and village levels.

2. Agriculture. Donors have contributed to saddling the government with an overblown research and extension effort which it cannot afford. Extension efforts should be prioritized and related to viable marketing opportunities through private channels.

3. Education. Look for opportunities to redirect support to some private sector training programs such as existing private vocational training institutions and apprenticeship programs with Liberian business. Private participation is possible in the participant training program while still having a multiplier effect by sponsoring training to such entities as the Business Advisory Services and Chamber of Commerce.

4. Government reform. There is universal agreement on the absolute necessity of reducing the pervasive role of the GOL in the economy. USAID should be very wary of financing construction programs in trans-

portation, health, and education without at the same time pressing for use of private Liberian contracts and conditioning such assistance on improvement of the contracting process. Likewise, when financing commodities on a large scale, USAID should use maximum leverage on rationalizing the government procurement process.

USAID cannot tackle every reform at once but can choose a few of the most promising each year, use the ESF grant mentioned above to staff them out, and then remain firm with the GOL in negotiating.

Over generosity to Liberia by the United States is seen by many in the business sector as a major impediment to the country's development.

4.1.2 Nimba County Rural Technology Program

AID Funding: $3.514 million
Private Sector Component: $3.514 million
Began FY 1980 Ends FY 1987
Implementing Agent: Partnership for Productivity (PfP)

- Nature of Project. The purpose of the project was to bring about development and expansion of rural non-farm enterprises in Upper Nimba County through credit for small scale business and technical assistance extended to small scale enterprises. The implementing agent for U.S. assistance through an OPG was Partnership for Productivity/ Libera. When initiated in 1980, the program intended also to stimulate commercial agricultural production of non-traditional crops and of improved varieties of existing crops, such as improved swamp rice, expanded paddy rice production, improved varieties of coffee and cocoa, livestock production, and new production of vegetables and tree crops. It thus included an agricultural and credit element as well as off-farm business advisory and financing components.

- Results to Date. The project was initiated shortly after the April 1980 coup d'etat in Liberia. It suffered from local governmental interference, violence and insecurity in the area, sharply rising inflation, and the failure of both the GOL and the local LAMCO mine to make their forseen contributions. Covering extension and credit for both agricultural and off-farm enterprises, project funds were used to finance a large and diverse PfP staff, a wide variety of equipment and machinery (including earth-moving equipment), and a large extension service.

During the course of the project it was seen to be totally unwieldy, and as a result of a mid-term evaluation the agricultural element was dropped, leaving a single focus on off-farm small business. The results of the agricultural efforts through early 1984 had been extremely disappointing. For example, 63 acres of swamp rice had been developed, as compared with a target of 5,000 acres. The percentage of farmers using improved varieties was only 8.8%, as compared with a target of 50 percent. There was a total of 63 tons of paddy rice produced per year, compared with a target of 2,000 tons. There were no new farmers in tree crop production, whereas the target had been 500.

Within the small manufacturing area, however, targets had been slightly surpassed by 1984. There were 68 new small manufacturers, compared with a target of 20. And there were 250 jobs created, compared to the target of 200.

- Evaluative comments and possible lessons. In retrospect, this project as originally designed was totally unwieldy and doomed to failure. It is perhaps a classic case of AID's trying to accomplish too many objectives with limited resources. The project originally included credit and extention to both agricultural and non-agricultural enterprises in both rural and semi-urban areas cooperative development, women's programs, appropriate technology, and village self-help activities. It attempted to create an alternative agricultural extension service, providing land clearing and preparation, and basic adaptive research in Upper Nimba country, as well as to serve a variety of small business clients through extension and credit. When the output in jobs and new investment is measured against input cost and continuing overhead, it is an almost unmitigated failure.

As a result of project experience during the first three years as well as recent evaluations, the project has been sensibly reduced in size to concentrate on small-scale off-farm enterprise. It now devotes full attention to managing 213 existing loans totalling $119,000 with 93 percent repayment rate, processing new loans, and providing advice to small business. It has also initiated a successful and growing village-based SAVEWAY program which mobilizes small savings, utilizes services of the commercial banks in the area, and provides an income to PfP/Liberia, which manages the program. A small, competent, and seemingly effective business advisory staff has been put in place. Experience has been gained in the use of the traditional and modern judicial system to enforce credit payment, and general administrative practices have been considerably improved. The recent evaluation strongly recommended that the project be continued.

- Important lessons learned from this project which are of general application are:

  - Avoid the tendency of trying to accomplish too many unrelated objectives with a single project. A significant increase in small business formation, productivity, profit, and employment is a difficult enough objective to achieve without saddling the program with a wide variety of other worthy but difficult social objectives. Furthermore, stimulating off farm small and medium rural enterprise is a distinctive enough task to suggest separating it completely in a program sense from direct agricultural extension, research, and basic crop production.

  - In rural areas without adequate financial institutions, private voluntary organizations can perform a useful role in stimulating small business. To do this they should conceptually (if not institutionally) separate the financial operations (which can and should be self-sustaining after a brief start-up subsidy) from the technical assistance function (which must be viewed as vocational training and subject to longer but declining subsidization). To assure the short-term viability of the former, institutions should be permitted to change competitive interest rates, undertake equity investment, operate small savings programs, to grow with their clients in making large loans, contracting services rather than hiring staff, and other measures to raise revenue and reduce operating costs. These issues are discussed more fully elsewhere in this paper.

Conclusion. The PfP/Liberia should not be allowed to die as an institution. Replication of other small-business efforts in other countries profiting from the Nimba County experience should be explored.

4.1.3 Small and Medium Enterprise Development and Support Program:

AID Funding: $2.515 million
Began: 1984 Ends: 1989
Implementing Agent: Partnership for Productivity

• Nature of Project. The objectives are a) to develop the Small Enterprise Financing Organization (SEFO) as a self-sustaining institution through financial advice on analysis and procedures for improving loan portfolio quality and b) to develop a Business Advisory Service (BAS) separate from but related to SEFO to provide advisory services to local businesses and to assist present and potential SEFO loan clients in preparing projects for financing and in increasing production/profitability after financing has been approved. Quantified objectives were to increase loan clients from 49 in 1984 to 150 by the end of 1985, increase loans granted from 74 to 110, expand SEFO's equity capital base from 125,000 to $750,000 over 3 years and increase collections on outstanding loans from less than 30% in 1984 to 70% by the end of 1985.

• Structure of Inputs and Results to Date. Through Partnership for Productivity, AID finances the services of three expatriate advisers, two of whom work with BAS and one as financial adviser to SEFO. The BAS has been established with a core staff of six qualified agents and its clientele now number 240 businesses, of which 150 are also SEFO clients.

Loan collections which had increased from less than 30 percent to about 60 percent have in the last months of 1985 dropped back again to 30 percent. This was principally because of arrearages of four to six months of the Government of Liberia in meeting its payroll and paying its bills, causing a multiplier effect throughout the Monrovia area. Projects have been initiated in woodworking, pork production, poultry production, rattan furniture, small-scale metal fabrication, restaurants, and auto parts. Principal demand for loans is for trading and retail sales rather than manufacturing, although SEFO gives lower priority to the former applications.

• Evaluative Comments. Both SEFO and BAS are now established, functioning institutions relatively free from GOL direct interference and performing an increasingly valuable role for the small business community in the Monrovia area. There can be no real viability, however, in the present environment of political instability, economic mismanagement, and increasing corruption. All of these are having a sharp and rapid destructive effect throughout the private sector, including SEFO clients. Inability to enforce contracts or to obtain licenses and necessary authorizations, as well as the multiplier effect of the government's failure to pay its bills and salaries, are leading to increasing defaults and bankruptcies.

The role of both SEFO and BAS could usefully be expanded over time to include other areas of the country as part of a larger small and medium enterprise initiative. This was discussed above. No assistance, however, is likely to be effective in the present unsettled political and economic environment. U.S. technical assistance should be continued as presently planned in order that the BAS not die. Some measures should be considered for improving SEFO and BAS viability and cost-effectiveness:

- Consideration should be given to permitting SEFO to make selective equity investments as well as loans to improve its income position. These would preferably be limited to new product development for which market potential has been determine; e.g., coconut oil for soap processing, paper pulp products for packing trays, and plant pots.

- While loans to new SEFO customers are limited to $25,000, SEFO should be permitted over time to grow, with its successful clients making follow-on loans in excess of $25,000 when warranted on sound investment and banking analyses.

- BAS should be permitted and encouraged to charge fees for services (symbolic at first), both to its clients and to SEFO for services related to project analyses.

- When political and economic conditions in Liberia permit, both SEFO and BAS should be considered for expansion to other regions of the country.

- Maximum U.S. encouragement and leverage through ESF and other mechanisms should be provided for improving the basic administrative and financial environment on which small business is dependent, especially the banking system which is now totally inadequate.

4.2 Kenya

4.2.1 Overall Program Observations. As one of the few countries in Africa which has consistently and officially emphasized the importance of a strong private sector to economic growth and employment, Kenya has retained one of the more vibrant private sectors on the continent.

Nevertheless, an attitude of ambivalence exists; there is recognition of the need for a growing private sector, mixed with fear that too much of the economy will be controlled by resident Asians and to a lesser extent other foreigners. Such fear, combined with other special interests, has prompted a series of policy measures which have seriously distorted market prices, resulting in fewer jobs for the rapidly growing population. These factors have been:

- Macro-economic policies. These policies include an overvalued exchange rate, negative interest rates, and excessive government borrowing. However, recent changes have improved this environment, with resulting increases in savings and investment,

- Price and marketing controls. While pricing changes have recently brought controlled prices more in line with market prices, inevitable delays and excessive government administration continue to be a disincentive.

- Excessive import duties and licensing procedures reduce competition and hurt those who are not protected.

- Excessive government involvement in production. Parastatals, financed by government development banks and otherwise subsidized, reduce incentive for investment and competition and thus have a negative long term effect on job creation.

Still, the overall investment climate has been far more favorable than in other African countries. The country's decision-makers seem as receptive now as at any time in the recent past to recommendations to open the economy still further. Kenya has a special problem which calls for even more vigorous reform than present efforts, however. Kenya has a population growth rate approaching 4 percent, and 60 percent of the population is under 20 years of age. This, combined with a poor agricultural resource base, suggests the absolute necessity of rapidly increasing off-farm employment.

The absorptive capacity of agriculture which most African countries still have is now rapidly disappearing in Kenya, as virtually all arable land is brought under production. Therefore, while the Kenya policy environment would be a dramatic positive change for a Tanzania or even a Zambia, it is inadequate to encourage the kind of job creation necessary in Kenya.

The Mission has clearly recognized this for some time and has some of the most vigorous private sector program initiatives in the region through a far-reaching policy dialogue, through specific private enterprise projects, and through using increasingly private sector mechanisms for project implementation.

- Private Sector Strategy Paper. The private sector strategy paper prepared by the USAID although more a checklist than a strategy at the present time, is an excellent beginning for analysis of opportunities for stimulating private sector growth, and AID should consider sending it when completed, with appropriate commentary to other Missions in the region requesting that they prepare similar strategies.

The paper starts with a clear and concise statement of the effects on productivity and employment of some of the market distortions mentioned above. It follows with a clear summary of resource deficiencies and endowments. While the great deficiency of the paper is the lack of discussion of how the priority of a very few interventions is to be chosen, it does go on to give a range of possible actions by the Mission. The point is that while the paper is insufficiently selective it does provide a kind of check-list of possible interventions which many USAID's in Africa have not really begun to explore.

Conclusion. AID should consider requiring virtually all Missions in Africa to develop a Private Sector Strategy Paper. The Kenya effort with appropriate commentary from AID/w would be a helpful example.

- Importance of ESF Grant. The use to which USAID/Kenya has put the $1 million ESF grant make it perhaps the most valuable AId intervention in the economy. Used to study effects and means of policy change essential to the private sector, it has been an important adjunct to the ESF program. Changes in fertilizer distribution, interest rates, exchange rates, and a variety of lesser measures have been influenced by the outcome of the ESF grant-financial studies.

Conclusion. Every ESF recipient mission should be required to present periodically a statement of priorities for policy dialogue. They should also be provided with a flexible grant instrument to conduct the necessary studies of issues related to the dialogue. A similar flexible grant instrument should be provided to other non-ESF Missions.

- Use of private sector mechanisms in agriculture, health, and education. In the agricultural management and research proposals being developed by the Mission, imaginative alternatives to the traditional ministry programs are being explored. For example, agricultural research money may in part be distributed by a national commission of science and technology on the basis of research proposals submitted by both public and private sectors. This would be an interesting alternative to continuous build-up of Ministry agricultural research superstructure existing in so many countries. Furthermore, experience under the new private distribution program for fertilizer is instructive; results of those and other experiments should be circulated to other Missions for their consideration.

- Use of large businesses to help small ones. In countries like Kenya and Zimbabwe, with relatively developed private sectors, means should constantly be explored for promoting linkage between the large-scale or well established enterprises and the emergent often rural-based smaller scale firms. Under the leadership of a Kenyan entrepreneur, some 80 firms have agreed to support the establishment of a Kenya Management Assistance Program through contributions of technical expertise and some financial help. This would essentially be a business advisory service developed by the private sector and available to small business clients in Kenya. Fees, modest at first, would be charged for services, and training could be in the form of individual consultant services to the small firm, training of personnel in small classes, or apprenticeship and observation programs with large, well established firms. Future development of the program could include a network similar to the SCORE program in the United States, as well as programs for young people such as the Junior Achievement. The efforts of the private sector in African countries to broaden the entrepreneurial base warrant careful study for possible AID assistance. Furthermore, AID can serve a very important function in transmitting information not only within a region but between regions; e.g., information on the efforts and effects of private business in Latin America to form National Development Foundations for possible use by private sector groups in Africa.

Conclusion. The effort of Kenyan business people to form a Kenya Management Assistance warrants

Mission support for project design in the form of observation visits, short-term consultant services, and training materials.

- Private Enterprise Project. The USAID is now preparing a new comprehensive project in private enterprise development which includes several possible components: export promotion, investment promotion, capital markets, feasibility studies, and skills training. Care must be taken that the project does not try to accomplish so many objectives that it prejudices its own effectiveness.

4.2.2 Kenya Rural Private Enterprise Program

AID Funding: $36 million
Private sector Component: $36 million
Began FY 83 Ends FY 89
Implementing Agencies: World Education, Inc.; Deloitte, Haskins and Sells.

- Nature of Project. This program has essentially two separate aspects: 1) the provision of $24 million to the GOK on a loan basis for on-lending to commercial banks, which in turn match the fund, to provide term loans, principally to private agribusiness and other commercial activities in rural areas and secondary towns; and 2) the provision of a grant to a U.S. PVO (World Education) to provide grant funding to local PVO's, which in turn will provide small businesses with credit and technical assistance. Provision is also made to finance business advisors and training for the commercial banks as well as the extensive technical assistance to the local PVO's, many of which do not yet qualify for grant financing.

- Project design and results to date. This project was very attractively designed to fulfill a variety of AID's private sector objectives and in fact is fulfilling those objectives.

  - To help address the credit and management skills needs of newly established or expanding rural commercial enterprise.

  - To provide incentive and training to harness commercial bank resources to the term lending needs of rural enterprises.

• To establish a wholesaler to deal with large numbers of PVO grants related to small-scale enterprise.

- To operate at market rates (except for the technical assistance and the PVO element which involves subsidy), with the GOK receiving a soft loan and using the reflows to establish a discount facility to continue the program with the commercial banks.

As of November 1985, no loans had yet been made by prospective participating banks. The PVO grant element had been used thus far to provide managerial and technical advice and project preparations assistance to ten non-governmental organizations. No grants had yet been made for specific sub-project financing.

• <u>Evaluative comments and possible lessons</u>

• In retrospect, the incentives to the commercial banks were not adequate, and no bank loan agreements had been secured as of September, 1985. This is in part due to excessive AID requirements (since modified) to incorporate penalties and require matching funds on a 1:1 basis. The modifications since made have resulted in belated enthusiasm in the program by commercial banks and non-bank financing institutions (NBFI).

<u>Possible Lesson</u>. It would perhaps be possible to attract commercial banks and especially NBFI's to expand their clientele and play a more active developmental role is possible but this would requires careful assessment of the incentives necessary during the project design stage through thorough discussion with the banks. The AID temptation to put too many straws on the camel's back must be resisted or the program will not move.

• The $24 million lent to the GOK for on-lending to the banks required the GOK to take the foreign exchange risk in repayment. Although not specified clearly in the project paper, AID is now asking the GOK to use reflows from the loan fund to establish a discount facility for continuation of the program with the commercial banks. The GOK thus far has refused, saying in effect that without use of the reflows within the budget, the entire program is a budget drain on the government's already overextended budget and runs counter to precisely the kind of budgetary discipline AID has been preaching in the past.

Possible Lesson. Although it may appear that AID financing of these programs on a loan in the first instance is more business-like, in fact the result is often the opposite. It is absolutely essential that all lending within the AID-created activity be at market rates, but the initial input by AID in an African context should generally be in a grant form to facilitate the revolving aspect of the reflows. Requiring repayments to AID reduces the internal economic viability of the very system the project is intended to create.

- World Education provides advice and grants to local PVO's, which in turn either promote small enterprises or establish their own.

Possible Lesson. Financial assistance to very small enterprises (in contrast to the technical assistance provided) should be lent, not granted. Clear distinction should be made in every project design between the advisory/extension function and lending function. The first, in rural Africa, is a kind of vocational training requiring initial subsidy. The second should be structured on a sound market basis from the very beginning.

- A U.S. PVO was selected to make grants to local PVO's for small business development. No allowance was made for working with non-PVO small business, and no process was spelled out for the evolution of the U.S. PVO's role into a Kenyan financing/advisory institution.

Possible Lesson. U.S. PVO's can provide and are providing an essential service in rural small business development. However, if the principal purpose of the activity is small-scale rural enterprise development, they should not be restricted to working with local PVO's. Likewise, the role of the U.S. PVO should evolve into one performed by a new or existing African institution.

- The U.S. PVO grantee has thus far provided only technical and managerial assistance to local NGO groups, some of which may or may not lead to specific sub-project financing. World Education would prefer to lend rather than grant to some specific sub-activities and is requesting revision of its grant agreement with AID to permit that.

Possible Lesson. This is only further argument for the conclusion stated above, that the financing element of small business activities be on a sound market basis (in this case loans), and that the subsidy element be totally separate and related only to the technical assistance or "vocational training" for the borrowers.

4.2.3 Kenya Commercial Bank

AID Funding: $2.75 million loan
Private Sector: $ 2.5 million loan, 25 m. grant
Matching Bank Funds: $2.5 million
Began FY 83 Ends FY 85
Implementing Agents: Kenya Commercial Finance Co.
Kenya Commercial Bank

- Nature of project. AID lends directly to a commercial bank to make term loans to small and medium agribusiness or other productive enterprises in rural areas. The AID-financed loans require equivalent matching funds from the bank, limit lending to those enterprises with total fixed assets not exceeding $ 1.5 million, and require that 25% of the loans be extended to small enterprises with less than $750,000 in fixed assets. All loans must be at least four years, with no loan to exceed $250,000 in AID funds. A Business Advisory Service was to be developed with AID grant assistance to provide essential management advice to borrowers. The overall purpose of the project is to expand rural private enterprise, to create jobs through harnessing the resources of commercial financing institutions to help meet the credit and technical assistance needs of longer term developmental investment projects.

- Project design and results to date. The initial PRE team sent to Kenya determined that several attractive agribusiness opportunities existed and that potential investors were available if medium-term credit could be obtained. Furthermore, they determined the interest of the Kenya Commercial Bank in considering new rural-based clients on the basis of a spread represented by AID financing at one percent below U.S. Treasury rate and relending at market rates in Kenya.

As of mid-1985, a total of 61 loans had been made, averaging about $50,000. Most of the loans (71%) involved food processing (e.g., bakeries, coffee pulping, sunflower processing, corn mills) with the remainder divided among distribution of inputs and outputs of agribusiness and agricultural service (e.g., plowing, weeding) and light manufacturers. About 76 percent of the enterprises assisted are small scale (i.e., total assets of less than $750,000). Likewise, about 75 percent were for new businesses rather than the expansion of existing businesses. As of the end of

1984, 431 jobs had been created at a loan cost per job of $4600.

The effect on foreign exchange generation has been minimal with only one borrower involved in exporting. There has been no movement on the formation of a Business Advisory Service as called for in the project design.

• Evaluative Comments and Possible Lessons Learned. The project has clearly been successful in some limited respects:

• It has shown that under the right circumstances commercial lending institutions can be motivated to serve developmental purposes.

• It has increased business activity in certain rural areas particularly the central and western regions.

However, targets achieved were limited:

• Draw-down was delayed because of limited marketing efforts by KCFC, cumbersome AID procurement regulations, and relatively high U.S. interest rates. The KCB has stated that on the basis of their experience with the program they would not be interested in entering into another similar agreement with AID.

• The KCB continued to rely heavily on collateral. There was no significant shift in criteria from their normal lending, raising the question as to what extent AID funds simply substituted for other available funds.

• There was little monitoring of the use of loan proceeds, and even some indication that part of the funding was diverted to real estate speculation.

• There was no technology transfer, with all borrowers using existing technology. No Business Advisory Service was created, and only two loan officers of KCB administered 100 loans with only superficial monitoring.

Possible Lesson. In order to have a significant developmental impact including the creation of effective Business Advisory Services AID should consider initial grant financing of revolving funds for small and medium firms. Of course, the sub-loans to the borrowers must always be made at market rates, but a wider spread than provided here is necessary to interest commercial banks in aggressively pursuing new investors. Likewise, if excessive, cost raising social restrictions (e.g., a certain percentage of borrowers must be women) will result in the commercial banks simply refusing to participate.

The Business Advisory Service must be integrated from the very beginning into the lending institution's process of loan approval and monitoring. It should also be grant financed for a specified number of years, reducing progressively the grant component and increasing the use of reflows and charges for service over time. From the very beginning, business advisory services should be charged to the borrower, even if symbolically at first.

4.2.4 Leather Industries of Kenya, Ltd.

AID Funding: $2 million loan
Private Sector: $2 million
Total Project Cost: $9.81 million
Implementing Agent: Leather Industries of Kenya Ltd.
Began: FY 1983 Ends: FY 1986

- Nature of the Project

The project assists the financing of a finished leather export firm and tannery. The purpose is to provide an export market for Kenyan animal hides utilizing by-products of Kenya's livestock industry. The plant is located in Thika, 36 miles north of Nairobi, and is projected to have a capacity of processing 1000 hides per day into finished leather. Project activities include constructing and equipping of a new tanning facility and technical assistance for operations and marketing. Operations at the plant are scheduled to start early in 1986. Other financial participants include the IFC, German, Swiss, Belgian, and Kenyan financial institutions, as well as UTAMMAD, a European marketing firm. The Aid input was provided by the Private Enterprise Bureau and is at 12 percent repayable in 12 years.

- Project design and results to date. The project was projected to generate over a 12 year period some $45 million in net foreign exchange through the export of finished leather products. Furthermore, it was to provide direct employment initially for 400 persons and a valuable market for local livestock producers, many of whom are small scale operators. The factory as of November 1985, was still under construction, with operations scheduled to begin early in 1986.

• Evaluative comments. Since the plant is not yet completed, no comment can be made with respect to its likelihood of meeting its export and employment targets as well as the assumed stimulation of new small-scale production. However, the process of initial development of the project bears consideration for replication for the following reasons:

- the project was assembled with a combination of public and private financing and equity, providing for a sell-off of equity to Kenyan private investors;

- the European firm responsible for marketing and providing technical assistance in management has also an equity stake in the success of the enterprise;

- AID has leveraged its input of $2 million by making it conditional upon securing majority investment from private sector sources;

- perhaps most significantly, careful study was made of a new industry with important export potential and seemingly strong forward and backward linkages to the livestock-producing sector of the economy, most of which is in the hands of the small holders.

Possible lessons learned. AID financing for a single private firm usually does not have the multiplier effect to warrant the use of scarce development funds. However, when one or more of the following conditions exist to a high degree, AID participation should be considered: 1) the project has strong backward or forward linkages to large numbers of small or medium sized local producers, 2) it results in a significant new export with a potential for generating considerable foreign exchange, or 3) it serves as a mechanism for mobilizing private capital for productive purposes which may prove useful in the stimulation of other important new investment.

4.3 Zimbabwe

4.3.1 Overall Program Strategy

Conclusion. The Zimbabwe program of CIP and sectoral components in Agriculture and Education has been perhaps one of AID's most effective, not only in Africa but world-wide, in supporting private sector survival (in the commercial sector) and expansion (in the small-farm sector). It has also been one of AID's most efficiently administered and implemented programs by both the GOZ and the USAID. Nevertheless, the CIP in particular, and to a lesser extent the Agriculture and Education Sector Grants, may have largely served their purpose. Serious consideration should be given to shifting the Zimbabwe program to project assistance, carried out to the extent practicable by non-governmental institutions. Consideration should be given to possible projects directly related:

- Expanding output and employment in the medium and small scale enterprise sector (including on-farm production) and

- Encouraging investment in export-related enterprises.

Continued help should be provided in family planning, housing, and manpower training, exploring greater use of private sector entities if possible. At a very minimum, local currency from the 1986 CIP should not be automatically programmed through the GOZ budget. The Mission should also employ a highly qualified Zimbabwean economist and private sector specialist.

Discussion. Despite, or perhaps because of having, one of the most developed commercial private sectors in Africa, Zimbabwe has one of the more inhospitable policy environments for private sector growth. The elements of this inhospitable environment include:

- Repeated and consistent political rhetoric which vilifies private entrepreneurship, relegating it to a necessary evil on the road to a morally superior socialist society.

- Far-reaching price controls on most production, even non-essential products and services provided by small-scale enterprises.

- Arbitrary and excessive minimum wage legislation which results in loss of jobs and difficult labor relations. (e.g., it was reported that the worker who cuts trees for the lumber industry must receive $74 as an agricultural worker, while the one who loads the tree onto a truck must receive $140 as an "agribusiness worker." Layoffs, even by the smallest one or two employee firm theoretically requires Ministry of Labour approval.

• Inability to remit profits and dividends. The government blocks dividend payment requiring purchase of bonds, and to remit up to 30 percent of after-tax profits, firms must contribute the remaining 70 percent to Zimbabwean "charities" acceptable to government.

• Lengthy "screening" process by a Foreign Investment Committee to reduce "exploitative" elements of foreign investment. Foreign capital cannot purchase domestically owned concerns, and firms with foreign ownership in excess of 15 percent are confronted with borrowing restrictions on the local capital market.

• Expanding and subsidized involvement of the government in broader areas of the economy. While claiming not to nationalize firms, the government is actively buying controlling interest in a large number of enterprises. Such enterprises are sometimes either partially abandoned or for sale at artificially low prices, precisely because government restrictions preclude moving the firm to a state of profitability.

• Perhaps most importantly (and most relevant to the future of the AID program), the government role in allocating resources and benefits continues to grow and thus reduces the sphere of discretion for private initiative.

In short, local entrepreneurs face high risk in a less than friendly environment in which profitability is largely dependent on changing government decrees in allocations. Why, one may ask, is there still an active, if not thriving, private sector?

First, on the positive side, agricultural pricing has continued to be extremely favorable to the producer, GOZ administration has been relatively efficient and free of corruption and application of government policy has been relatively pragmatic. There seem to be several other factors involved: the desire to protect assets, the inability to take out capital, the lack of opportunity elsewhere, and the general inertia encouraged by a pleasant life in a pleasant climate. While agricultural prices have been very favorable, earnings in commercial agriculture seem to be used principally to protect and maintain present assets and for consumption of high cost luxury goods. There seems to be little interest in channelling these profits into new long-term ventures because of lack of confidence in the future. The result is a relatively static private sector skewed to import substitution and requiring large-scale imports of equipment, raw materials, and intermediate products. There is little African-owned (or for that matter, any) new small or medium-sized business being formed and little incentive for existing businesses to expand or diversify to meet new domestic or export market opportunities.

The CIP has provided essential foreign exchange to keep the private sector functioning, maintaining jobs and investment. It also has generated $50 million equivalent in Zimbabwe dollars for the expansion of GOZ activities in the communal areas, especially in agriculture, education, and health. Among the many attractive features of the program, perhaps the most important was the demonstration effect in both Zimbabwe and elsewhere in Africa of the U.S. commitment and generous support to a democratic and multiracial society with great economic potential. The CIP was efficiently administered by a relatively competent and corruption-free Zimbabwe governme.t and a very small highly effective U.S. AID staff. It was the right program at the right place at the right time and is widely recognized as one of AID's most effective.

Now, however, as U.S. commitments under the ZIMCORD independence agreement are met and the magnitude of the CIP declines to less than $10 million, there are several reasons to argue against its continuation in exactly its presently form:

- At less than $10 million, the CIP has a more marginal effect in private sector import requirements.

- As presently distributed, the foreign exchange made available under the CIP may give undue priority to traditional importers and the maintenance of present employment patterns. This means less emphasis is needed on new export-related and employment - creating investments.

- Local currency programmed almost entirely through already overextended Ministry budgets tends to increase the stranglehold effect of government on the private sector. (Even though a good share of those budgeted funds eventually were allocated or directly benefitted private sector recipients, the allocation and decision-making process is almost totally governmental and thus increases bureaucratic control over the private investor).

- There is now little possibility for meaningful policy dialogue with the Zimbabwe government as it affects the private sector in a broad sense. On the other hand, private business groups and associations along with commercial banks or financing institutions may be interested in developing a project of greater developmental impact and most importantly which increase their discretionary role in investment decision-making beyond that which is involved in requesting GOZ allocation of AID counterpart programmed through the budget.

An Alternative. An alternative to the CIP is to develop a project or projects geared to expansion within the private sector and operated outside government ministry budgets. Mechanisms should be explored for mobilizing the savings and investment dollars already available in Zimbabwe and directing them to areas offering greater promise for employment and foreign exchange earnings.

The following is a hypothetical and illustrative example of a kind of project alternative. The important thing is not the illustration itself which may on examination be unrealistic, but rather the need to search for some way in which the discretion of the private investor can be expanded in an environment in which government wishes to control all major economic decisions. One possibility was discussed with the Zimbabwe Employers Association and other private groups. Recognizing the negative effect of government's attitude of private initiative and private profit, some business leaders are anxious to commit their talents and resources to broadening the entrepreneurial base by assisting small and medium rural based businesses. They mentioned FEBCO, a consortium of commercial banks and the Reserve Bank of Zimbabwe, as a possible vehicle for channelling donor funds and private capital for medium term lending for new export marketing opportunities, for efficient import substitution ventures, or for small and medium agribusiness. Under FEBCO, commercial banks are personally now considering loans for promising investment proposals which do not meet existing bank criteria by sharing the risk among themselves.

The Employers' Association and others expressed willingness to contribute management and technical talent to provide business advisory services to small and medium business and perhaps some capital as well. Such a service combined in some way with capital lending could have a more stimulative effect on the private sector than the existing CIP. (SEDCO, which is the government's small business promotion agency and to which AID contributes through the CIP, appears to the private sector to be overstaffed, relatively ineffective, and worst of all, seen by some small scale entrepreneurs as an enforcer of the government's self-defeating manpower and marketing regulations).

Therefore, AID may wish to consider as an alternative to the CIP a project combining capital from Zimbabwe private financing institutions with technical and management talent from private Zimbabwe firms for stimulating new enterprise development, both small-scale and export-related. The essential point is not that the particular mechanism mentioned above would be developed, but that a project alternative to a continuing $10 million CIP should be explored. Particularly, more effective uses of the local currency equivalent for benefit to small and medium private enterprise should be explored. A non-governmental channel for the programming of some of the local currency equivalent to U.S. dollars should be explored so as to more effectively benefit the small and medium entrepreneur and arrest if possible the increasing dependence of the investor on government control. Counterpart funds programmed through the GOZ budget, even though eventually allocated to or benefitting private entities as under the present CIP, increases government control and reduces the discretion of the private sector decision-maker. The search for private sector channels for the programming of AID funds should be one of the highest USAID priorities in Zimbabwe, and projects rather than sectoral programs may be more appropriate for this.

Zimbabwe Agricultural Sector Assistance (ZASA). Some of the same objections and suggestions may be made with respect to the Zimbabwe Agricultural Sector Assistance program. The benefits thus far have been very substantial: greatly expanded extension, research, credit, and training benefiting small farmers; and rapid and efficient implementation and disbursement. However, with the growing GOZ budget defecit, it is essential to more selectively choose investments in such areas as research, training, and credit, which are most directly related to increased productivity and export. Private sector mechanisms should be explored for performing some of these services and experimentation with user fees for some services undertaken.

While the 800,000 small Zimbabwe farmers represent the largest group of private enterprises in the country, their expansion and increased profitability cannot be totally dependent on ever-expanding Ministry budgets. Project assistance would permit a more selective exploration of interventions including those outside of government.

Staffing. The Mission has most laudably implemented a very large program with an absolute minimum of staff. It is recognized that transition from program/sector to project assistance may require some additional staff.

Even if no change in program occurs, the Mission should be encouraged to hire on contract the full-time services of a highly qualified Zimbabwean economist who is familiar with the private sector.

4.3.2 Commodity Import Program

AID Funding $50 million Private Sector: $50 million
Began FY 1982 Ends Continuing
Implementing Agent: Treasury of Government of Zimbabwe

- Nature of project. This program, growing out of the ZIMCORD agreements shortly after Zimbabwe independence, provides foreign exchange for imports from the United States of equipment, raw materials, and spare parts. Eighty percent of the foreign exchange was and continues to be made available to the Zimbabwe private sector with priority given to production for export. Eligibility includes all items on the AID Commodity Eligibility list. Twenty percent could be drawn upon by public sector entities for approved development activities. Counterpart in the form of Zimbabwe dollars are deposited in a Special Account and used for developmental programs mutually agreed upon by the Zimbabwe Government and the USAID.

- Project design and results to date. This program was initiated in the aftermath of a bitter independence war, when the country's very considerable modern productive sector had to be kept going if meaningful development of the neglected rural areas was to take place. Attractive features included: possibility of effective and rapid use by Zimbabwe's efficient private sector; effective and timely administration by the country's relatively capable civil service; generation of counterpart for essential programs in the rural sector; and easy administration by USAID of the program with a small staff.

- Evaluative Comments and Possible Lessons Learned. There is virtual universal agreement among the Zimbabwe private sector, the relevant government officials, and AID evaluators that the CIP has played a critical role in keeping an important part of this country's private sector functioning over the past several years by providing essential imports. There is some disagreement on the degree to which these imports have been additive and to what extent they permitted the GOZ to divert other foreign exchange to lower priority uses. Nevertheless, evaluators have observed correctly that this was the right kind of program at the right time administered with a high degree of efficiency on the part of the GOZ and the USAID.

The critical issue is whether the continuation of a CIP program is now appropriate from the point of view of both private sector growth and overall Zimbabwean development. The conclusions discussed above are:

- The CIP is no longer the most effective mechanism to support overall economic development, or private sector growth in Zimbabwe.

- A more precisely targeted private sector (including small business) project intervention could possibly be more effective.

- At the very minimum, during a transition period to project assistance the local currency of the upcoming CIP should be channeled to the extent possible through non-governmental mechanisms.

4.3.3 Zimbabwe Agricultural Sector Assistance (ZASA)

AID Funding $45 million Private Sector $45 million
Began 1983 Ends 1988
Implementing Agency: Government of Zimbabwe (Ministry of Agriculture)

- Nature of Project. This is a broad sectoral program composed of two parts: a commodity import element to provide foreign exchange for essential imports of agricultural-related commodities ($30 million) and the remainder for technical assistance, equipment, and training in specific sub-activities of the program. The overall objective is to expand services and increase production rapidly in the communal areas or smallholders sector. To do that, local currency support through counterpart and U.S. dollar allocations are made to expand: a) agricultural research specifically relevant to the smallholder, b) extension services directed at the smallholder, c) agricultural training institutions, d) input supply and marketing to smallholders, e) capital and institutional development to the Agricultural Finance Corporation for medium-term credit to smallholders, f) support for small-scale irrigation and other basic infrastructure in the communal areas, and g) agricultural policy and planning.

- Project design and results to date. The evaluation report of June, 1985 summarizes the positive results of the program to date: increased GOZ resources for low income smallholders, slight reduction in food subsidies (and continuing high producer prices), a more realistic land resettlement policy, more nearly commercial rates of interest for smallholder lending, and significant improvement in research and extension efforts geared to the small farmer. The result has been the incorporation of 800,000 smallholders into subsistence agricultural production with significant increases in maize and cotton production by the communal sector.

- Evaluative Comments and Possible Lessons Learned. The Agricultural Sector Program has had considerable success in promoting small scale commercial agriculture through a variety of Ministry program interventions. Government budgets have been greatly expanded without adequate prospects for revenue generation to maintain these programs. The key question now is whether continued expansion of Ministry budgets (research, extension, credit, university training, etc.) through the sector grant approach is the most cost effective mechanism for increasing agricultural productivity. The conclusion, discussed in a context of the overall Zimbabwe strategy above is: develop over time a ZASA II which is more selective in its support of research, extension, and education, which utilizes private mechanisms to supplement the efforts of public ministries and departments.

4.3.4 AID Mission/Zimbabwe Views

The preceeding observations by the consultant on the Zimbabwe AID program were reviewed in draft by the AID Mission. The Mission registered different views on a number of aspects in the report; AFR/PRE has included below the views of the Mission in the interest of accuracy and a fuller understanding of the issues.

Mr. H. Munson
Associate Assistant Administrator for Private Enterprise
Bureau for Africa
Agency for International Development
Washington, D.C.

Dear Bud:

I am writing concerning the comments made by Glenn Patterson on the AID program in Zimbabwe in a draft report based on his brief visit here last November. Glenn's draft report has apparently gotten some circulation in Washington, although we have not been asked for our comments or reaction except for the one telephone call. We recently received a copy of the report and will take exception with some of its conclusions, as well as with several specific statements. We would have welcomed an opportunity to discuss the draft prior to any informal distribution or quotation in meetings.

We agree that expanding employment and productivity should be priority areas of program focus in Zimbabwe. This is the focus of our CDSS, and since its approval we have identified further ways to improve the impact of our program in this regard. We would disagree with Glenn, however, that this could be done by moving from program assistance to project funding. Narrower, stricter project designs would not afford the same ability we must have to respond quickly and efficiently to opportunities to maintain jobs and output in enterprises already under-producing because of exchange shortages. The two evaluations of the CIP Program would seem to validate the continued relevancy of this kind of quick-disbursing assistance. Tying foreign exchange to new investments would mean slow expenditures. If Zimbabwe's export performance continues, then the time to focus on new investment projects is after 1989 when their debt service ratio peaks.

The private sector in Zimbabwe has recovered rapidly during the past year, contrary to the results that would be expected of an "inhospitable policy environment."

Projections of planned investment in 1986 indicate a substantial increase in new private investment over recent years. Private firms have also successfully remitted profits and dividends. In order to remit these funds, several have provided substantial contributions to U.S. private voluntary organizations to undertake important development projects in Zimbabwe. It is simply not true that the GOZ is buying controlling interest in a large number of enterprises, as Glenn writes. We agree that there are uncertainties created by restrictive and control-oriented government policies, and of course the rhetoric. We and the Embassy are actively involved on an almost daily basis in dialogue with government, academic and private sector representatives on these issues...

The GOZ policies and rhetoric, however, must be viewed in their historical context. Many of these controls existed prior to independence and are not the creation of the Mugabe government. Changing the investment environment or the rolling back of the public sector will be a long time in coming...Moreover, moving to project assistance would result not only in a slowdown of disbursement but also an increase in units of management, both of which are undesirable and unacceptable.

With respect to the specific project recommended in the draft report, we believe Glenn's visit was too short, and his range of contacts too narrow, to inform him completely on the situation here. FEBCO is virtually moribund at the moment, and its origins in the late 1970's make it an unlikely candidate to implement a major program. Furthermore...SEDCO is a young (i.e., only about one year old) organization which, in our view, has done an adequate job of avoiding the pitfalls of its cousins in other African countries. Although we have not performed an evaluation of SEDCO or its use of CIP local currencies, the World Bank has recently made a $10 million loan to the organization and, according to reports we receive, is quite pleased with SEDCO's performance to date. Within the Bank loan, both management and financial technical assistance are to be provided. While SEDCO, as would any financial institution, requests that small enterprise clients divulge financial information about their business as a condition of assistance, this is quite different than acting as an "enforcer" of government policies. The question here appears to be the universal one of the difference between formal and informal businesses, not the performance of SEDCO.

With regard to the CIP, there are several inaccuracies in the draft. While the planned $10 million CIP can be considered a small amount in relative terms, it can hardly be said that it would have "a marginal effect on the private sector." Since there is still a critical need for foreign exchange by the private sector, it is expected that the funds will have a considerable impact. It should be noted that in reviewing the program, we have received indictions from several profitable firms that, had they not received an allocation of funds under the CIP, they would have had to close down, resulting in a number of persons being laid off, as well as shortages of goods critical to the overall economy i.e. tires...

...All allocations under the CIP are processed through the long-established procedure for allocating foreign exchange, using a well-defined set of criteria based on different levels of priorities. This procedure is designed to maximize the development or growth impact of these resources in the face of enormous demand for foreign exchange which greatly exceeeds present availabilities. A Joint Allocations Committee reviews applications and approves each allocation. Also there is a special projects committee in the Ministry of Industry and Technology that reviews proposals and allocates funds for equipment to be used for a new production facility, plant expansion, or modernization.

...The funds generated under the CIP have been programmed in line with the Mission's CDSS, for both private and public sector projects. On the latter we have tried for instance to select projects that will provide better human capital to the private sector, and this is quite consistent with AID's interest in institution building. Examples are the expansion of the Faculty of Agriculture at the University of Zimbabwe, the construction of the Belvedere Teacher Training College in Harare, the construction of the Technical Colleges in Mutare and Masvingo, as well as the National Vocational Technical Development Center. As for the private sector, funds have been allocated to the Cotton Trading Center, a privately owned and operated facility that trains farmers in the more efficient production of cotton; to SEDCO for the support of small, emerging businesses; and to several other public sector projects which are in direct support of the private sector, such as the grain storage facilities at Norton and Chegutu...

...As is reflected in our CDSS, a major part of our policy dialogue agenda is to improve the investment climate. In that regard, we are adding this year major private sector elements to our ZASA, ZIMMAN, and Family Planning projects.

A new HIG, working through the private building societies, is also planned. Beyond that we will be happy to take Glenn's comments into consideration when we redo our CDSS next year.

I hope these reactions are helpful to you and others in finalizing Glenn's report and in considering its utilization. We would very much appreciate these views being reflected in the final version.

Signed,

Ray Stacy
Director, USAID/Zimbabwe

4.4 Botswana

4.4.1 Country Program Observations

Botswana presents a development dilemma unlike that of any other African country: a relatively healthy national economy and a policy environment supportive of private investment and production, but with a resource base so limited, including lack of arable land, that economically sensible employment of the vast majority of the growing population seems impossible over the medium term, even in agriculture.

Most private business people familiar with Africa point to Botswana as one of the countries on the continent with the most favorable institutional and policy environment for private enterprise. These factors include:

- Well-established democratic institutions, political stability, and freedom from widespread corruption.

- An economy and economic policy fully based on private initiative and free trade.

- A realistic exchange rate, a convertible currency, and no restrictions on repatriation of capital or remittance of profits.

- No import quotas or excessive tariffs and no export constraints in the form of licenses, taxes, or quotas.

- Realistic wage and labor legislation and a generally favorable labor relations climate.

- No price, production, or profit controls.

- Freedom to compete in virtually any area. While parastatals exist, they are generally perceived to operate in a fairly business-like way without special treatment from the government.

Thus, most of the factors over which Botswana has some control are favorable to investment, productivity, and employment. However, other factors constrain tremendously the ability of the economy to employ its rapidly growing population, at least over the short term:

- Lack of arable land. Most of the country is semi-arid, suffering the effects of constant drought.

- Very limited internal market with a population of about one million, but with only about 150,000 in the formal economy.

- Lack of infrastructure except in the few towns, and even there, the lack of marketing centers for entrepreneurial activity.

- Lack of skilled labor and managerial talent.

- The mixed blessing of South Africa as a neighbor, i.e., an easy source of imports and a large nearby market, but also an unchallengeable competitor in most products and a source of political unrest and turmoil.

- An economy based largely on the production of diamonds (2/3 of the value of all exports) and other mining which cannot profitably employ growing numbers of workers.

- A population growth rate in excess of 3 percent. Thus over the next several years some 20,000 people are estimated to be entering the labor force each year, with only about 7,600 new jobs likely to be created annually.

Botswana then represents the challenge of a well-managed, successful mineral-based economy with sound monetary and fiscal policy, and growing at an impressive rate. But it is a country in which labor as a factor of production may be so lacking in value (because of the absence of other factors) that no economically sensible set of commercial investments over the next years will be justified in employing it. And the residual absorption of labor in subsistance agriculture, which is available in most of the rest of Africa, is limited because of the desert-like quality of much of the land.

Therefore, to be seriously involved in development in Botswana means exploring aggressively alternative investment possibilities in the services as well as manufacturing and agriculture which over time offer some hope of employing the population. It also means providing effective services for voluntary family planning.

Conclusion. An important long-term feature of the AID and other donor programs should be financing of feasibility studies of new technologies and new investment possibilities.

- Study of irrigation possibilities in the Maun and Chobwe areas and elsewhere to determine potential for expansion of commercial agriculture

- Study of potential service industries especially tourism based on wildlife.

- Funds for study, training and equity investment in new ventures appropriate to small and medium business. The provision of credit for small and medium business, as well as business advisory services, has had very marginal effect. One of the reasons is that the few areas perceived by small entrepreneurs to be practical for investment (bakeries, shoe repair shops, etc.) are already saturated. Other areas such as glass, food processing, blacksmithing, sorghum mills, and brick making, may offer some potential. But simply providing credit will not lead entrepreneurs to these new areas. The Mission should allocate a portion of its assistance to feasibility studies at both the large-scale enterprise and small-scale enterprise levels to search constantly for new investment opportunities to employ the population.

Another major inhibitor is the lack of financial markets and institutions to channel the earnings and savings in the commercial and public sectors of the economy into promising investment particularly in the rural areas.

Conclusion. The Mission should consider supporting a comprehensive study of the capital market in Botswana.

Botswana is an extremely small market - about 150,000 people in the cash economy. Private sector institutions outside of mining tend to be extremely small and weak. Government now undertakes to perform certain essential functions where no private entity exists although presumably it would be willing to contract such functions out if private entities existed to perform them. The Mission, under pressure to "concentrate" its program into large management units while still transferring $10 million per year, is pressured to develop projects and programs only with the government, since it alone is large enough to absorb a large AID unit of management.

Conclusion. In a small economy like Botswana the pressure to finance only a few large basket projects of several million dollars each forces the Mission to develop virtually all programs with government and to lack the flexibility of small-scale assistance to fledgling private sector institutions such as the Chamber of Commerce and a few PVO's. The Mission should find or help create private sector wholesale institutions which can administer small grants and activities to private sector entities for such things as feasibility studies, training programs, etc.

If no Botswana institution exists, a U.S. PVO with Peace Corps participation can serve to help develop one. The central point is that Botswana is making a major self-help effort which warrants continued and generous donor support. However, the critical problem - one of employment - is only likely to be met by a large variety of small-scale private efforts. To encourage those, donor funds have to be prudently directed to promising small-scale efforts, and this means employing private wholesale entities such as commercial banks, financing institutions, PVO's and professional and trade groups.

The Mission has wisely extended its housing guaranty program to experiment with tenant purchase schemes and to finance middle income housing through private Building Societies. As mentioned earlier there is a considerable amount of purchasing power in a small segment of the population as a result of mining and government salaries. To help direct this purchasing power to labor intensive use, e.g., construction of middle income housing, will likely be far more effective in benefitting low-income people through employment opportunity than programs directed exclusively to the "poorest of the poor."

4.4.2 Botswana: Small Enterprise Development

AID Funding: $452,000   Private Sector: $452,000
Began FY1982   Ends FY1986
Implementing Agents: Partnership for Productivity
Botswana Development Corporation

• Nature of Project. Growing out of a previous effort of Partnership for Productivity (PfP), this project finances the services of PfP to provide advisory services to small business in the Southern District and in the Old Naledi section of Gabarone. The project was to develop a local Botswana staff to facilitate business start-ups and to link viable projects with existing capital and managerial resources. The institutional goal of the program was to incorporate PFP/Botswana into the Botswanan Development Corporation (BOC) as a subsidiary charged with needs of small productive enterprises. AID was to finance one American PFP/Botswana general manager, provide administrative support for eleven Botswana staff, and finance local training activities.

• Results to date. PfP recruited staff, established an office, conducted baseline surveys, and designed a micro credit scheme. It arranged a small interest-free loan with Barclays Bank for its micro-credit program. However, as of May, 1984, only 29 clients were registered, of whom only three were classified as new enterprises. This contrasted with a project target of 200-300 clients.

• Evaluative Comments and Possible Lessons Learned
The Project area was originally limited to the Old Naledi area of Garabone, a high density slum community. The purpose was to reach the poorest and most needy, but these are not necessarily the groups with entrepreneurial skills and potential for creating employment. As a result, almost no new businesses have been formed as a result of the project.

Possible Lesson Learned. 1. Small business activities, if they are to have any effect, must be directed to those groups which have some basic entrepreneurial aptitudes or skills. To attempt to limit the project scope and range of beneficiaries to the poorest of the poor is to condemn it to failure.

2. From the beginning the business advisory service working with small business should be associated with a viable financing mechanism. It is difficult enough to organize and develop an effective extension staff without at the same time having to develop an independent financing mechanism from scratch. PfP/Botswana should have had a closer programmatic relationship with the Development Company or other financial institution from the beginning.

3. In spite of the obvious lack of cost-effectiveness of this project ($452,000 spent and only 34 clients 3 years later), the non-governmental PfP-type small-scale business services should not be abandoned. Costs must be reduced by: a) initial association with a viable financing institution; b) charging of fees for services, at first symbolic; c) contracting rather than hiring for many staff services; d) flexibility to deal with a broader range of entrepreneurs and to grow with clients; and e) some allowance for limited equity investment in the region in which they work.

4. In societies like Botswana, with very limited skills and natural resources there is a strong tendency to redundant investment; i.e., a multiplication of similar micro-enterprises, rather than exploration of new goods or services needed. PVO advisory services must at the beginning establish a relationship with an institution having the expertise to identify new opportunities for small investors, and then rely on the PVO institution to market them with existing entrepreneurs.

4.4.3 Botswana: Rural Sector Grant

AID Funding: $9.349 Million
Began FY1980 Ends FY1988
Implementing Agent: Botswana Ministries.

• Nature of Project. This is a comprehensive project covering a variety of sub-project areas: 1) establishment of experimental cooperative horticultural estates to diversify arable agriculture and generate rural employment; 2) financing of an Agricultural Small Projects fund to assist farmers in diversifying production and improving infrastructure; 3) training of a Rural Industrial Officer Corps to advise rural small business and credit through the National Development Bank for small and medium enterprises;

4) training of district administrative personnel and studies in land use planning; 5) assistance in afforestation and conservation and development of wildlife areas. All activities are carried out through Botswana Government institutions. AID is providing consultant services, training, and project operating funds to match GOB contributions.

● Results to Date. The targets for on-farm agricultural activities related to the Agricultural Small Projects Component are being met with about 15,000 farmers directly or indirectly benefiting from small irrigation, drift fences, and storage facilities. The other components had no quantifiable targets and the impression is not one of marked success. The Rural Industrial Officer Corps is organized and functioning but unrelated to the provision of credit. The horticultural estates have not been successful because of lack of interest of the Ministry of Agriculture. Afforestation has been negatively affected by the drought and the wildlife component has had little success because of disorganization within the Department of Wildlife.

● Evaluative comments and lessons learned. This catch-all project is the result of AID/Washington pressure to concentrate the program by having fewer units of management. In fact, the same number exist but in a basket form, and when components are combined with others in a $9 million program they are sometimes more difficult to drop than when they exist alone.

The principal private sector component of the program relates to the establishment of a Rural Industrial Officer group, a kind of small business extension service in the rural areas. These agents are employed by the Ministry of Commerce and thus far have not been coordinated with any financing institution such as the Botswana Development Bank. Thus, the demand for their services is limited. Furthermore, by attempting to serve the range of small business - bakeries, shoe repair, sewing, blacksmiths - they have developed a costly administrative superstructure which forever depends on the government budget.

Possible Lessons Learned

● Business advisory services for rural business, even in small economies, are most viable if they are related to financing institutions lending to small and medium enterprises. Totally divorced from the financing function, their services are in less demand by entrepreneurs and taken less seriously. There should also always be at least a symbolic charge for their services.

- There is little likelihood that government-run business advisory services can be successful. This is due to lack of incentive in client success, tendency toward overstaffing, and excessive costs. Even in a small economy such as Botswana's, non-governmental institutions should be the first choice for providing extension services to small business.

- AID/W's pressure to reduce the units of management sometimes results in global basket projects carried out entirely by governments because of simplicity and uniformity. Often independent smaller units would: a) be more likely to be designed using private entities for this implementation, and b) often be expanded or eliminated more easily depending on their success or failure.

Annex I

Discussions Held With

A. Washington

Bud Munson	AFR/PRE
Charles Buchanan	AFR/PRE
Francis Johnson	AFR/PRE
Leonard Pompa	Malawi Desk, AID
Carole Steele	Liberia Desk, AID
Howard Sternberger	Zimbabwe Desk, AID
Sidney Chernenkoff	Kenya Desk, AID
Steven Mintz	East Africa Office, AID
Larry Saiers	DAA/AFR
Lewis Reade	DAA/PRE
N. Zank	PPC, AID
Michael Farbman	S&T, AID
A. Keyserling	IFC
Keith Marsken	World Bank
Robert Otto	Private Sector, LAC, AID
Richard Williams	Private Sector ASIA/NE, AID

B. Liberia

Douglas Kline	USAID, Project Office
Michael Rugh	USAID, Deputy Director
Gary Cohen	USAID, Rural Development
Mary Kilgour	USAID, Director
Ely Gabise	USAID, Program Office
Alfred Kulah	General Manager, PfP, Liberia, Yekepa
Mohammed Worty	Regional Coordinator, PfP Liberia, Yekepa
4 Regional Directors	Nimba County, PfP, Liberia
10 PfP Loan Clients	Yekepa, Sanniquellie, & Ganta
Frank Manly	Advisor, Business Advisory Services, Monrovia
Alan Major	Advisor, Business Advisory Services, Monrovia
7 SEFD Loan and Business Advisory Clients	Monrovia
James Keddie	Advisor, Small Enterprise Financing Organization
Peter Parr	Advisor, PfP Yekepa
Eufemia Yaidoo	Load & Investment Manager,SEFD
Thakkor Desai	Project Analysis Advisor, SEFD
Ambassador Perkins	U.S. Ambassador
Luesette Howell	Secretary General, Chamber of Commerce

Harry Greaves, Jr.	Liberian Business Caucus
John Richardson	Liberian Business Caucus
Richard Morris	Director SEFD
John Hall	Economic Counsellor-US Embassy
David Vereton	Director, Liberian Bank for Development and Investment
Jerry Neptune	USAID-Rural Development Office

C. Kenya

Ray Rifenburg	USAID, Projects Office
Justus Omolo	USAID, Projects Office
Gordon Bertolin	USAID, Projects Office
Charles Gladson	USAID, Mission Director
Beth Fhyne	USAID, Projects Office
Joseph Stepanek	USAID, Program Office
Richard Greene	USAID, Economist
Fred O'Regan	World Education, Inc.
Joseph Burke	World Education, Inc.
Miverda Thiribi	Deloitte, Haskins and Sells
Peter Ginnings	Deloitte, Haskins and Sells
John Koehring	Director REDSO/ESA
Arthur Fess	Deputy DIrector, REDSO/ESA
Frank Zarad	IESC
Arthur LaBreque	Canadian High Commission
William Wood	REDSO Economist
Samuel Hole	REDSO Economist
Hadley Smith	REDSO Economist
Stuart Callison	REDSO Economist
David Lundberg	USAID Agriculture Office
Kurt Savosnick	Price Waterhouse
Victor Pratt	Kenya Industrialist
Gary Merrit	USAID Health & Family Planning
Ndungu Gethinji	Cook, Sutton, and Githingi
Silas Ita	Kenya Association of Manufacturers
Luftali Kassam	Leather Industries of Kenya

D. Zimbabwe

Dale Pfeiffer	USAID Regional Program
Richard Shortlidge	USAID Human Resources Officer
Prescott Wurlitzer	U.S. Embassy Economic Officer
Dr. Chinyoka	Project Director, SEDCO
Robert Konrath	US Embassy, Commercial Attache
Charles Makuto	Manpower Employment Consultant
Michael Brittain	National Employers Confederation
Norman Reynolds	Zimbabwe Promotion Council
Tony Hawkins	Dept of Business Studies, University of Zimbabwe
R. Melliar	Old Mutual Insurance
T. Dibbs	Olivine Industry (Heinz)

E. Botswana

Edward Butler	USAID Deputy Director
Ray Dinkin	TDP Representative
Dane Smith	DCM, Embassy
Ambassador Bellocchi	U.S. Ambassador
Paul Guedet	USAID Director
Laurie Mailloux	USAID, Project Manager
WIll Elliott	USAID Project Manager
Anita Mackie	USAID, Agriculture Office

Chamber of Commerce Delegation

Mr. Satava	Tswelo, Botswana Development Corporation