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**STRATEGIC PLAN  
INITIATIVE FOR SOUTHERN AFRICA (ISA)**

**USAID REVIEW AND DISCUSSION DOCUMENT**

**September 30, 1994**

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## EXECUTIVE SUMMARY

### INTRODUCTION

The southern Africa region is undergoing major political, economic and social transitions. The U.S. believes that the substantial progress made by the southern African states in implementing national political and economic reforms demonstrates the strong potential for achieving equitable and sustainable development in the region. In addition, we believe the successful transformation of South Africa to a democratic participatory society offers tremendous opportunities for stimulating economic growth and democracy in the greater southern Africa region.

In response to the positive changes taking place in the region, USAID is undertaking a special Initiative for Southern Africa. The purpose of the initiative is to encourage the region to continue with growth-oriented reforms, to assist efforts already underway in the region to expand economic and political cooperation among the nations there, and to support the re-integration of South Africa's industrial, financial and technical resources into the regional economy in a manner which stimulates mutually beneficial development.

Under the initiative USAID will provide \$300 million over the next five years to support regional programs designed to assist the countries of the region in their efforts to open their markets, attract increased investment, increase the participation of disadvantaged groups in all segments of the regional economy, expand food production, and better utilize their natural resources in an environmentally sensitive manner.

### PROGRAM FOCUS

USAID's assistance will support new or expanded programs and strategies in the following areas:

**Democracy and Governance** -- USAID will assist the transition to democracy in the region through a range of activities, including the establishment of a democracy fund. These activities will focus on the promotion of democracy, human rights and democratic values across the region. The program will support a wide range of programs to promote capacity building, regional networking, and the increased participation of civil society-- including the media, judiciary, legislature, labor, church, women and other civic organizations-- in the economic and political decision-making processes that effect their lives.

**Small and Medium-Sized Business Development** -- USAID will support the development of indigenous small and medium-sized business activities to respond to the growing need across the region for jobs. Among other activities, USAID will provide \$100 million to support the establishment of a Southern Africa Enterprise Fund.

The fund will seek to accelerate indigenous ownership of productive assets and the development of small and medium-sized businesses among segments of the population that have been denied access to capital and necessary technical assistance and technology. By placing emphasis in these areas the fund aims to provide resources to those segments of the regional economy most likely to create jobs and generate incomes for the poorer population groups.

**Transport and Telecommunications** -- Sustainable economic growth in southern Africa is dependent upon the development of efficient transport and telecommunications to facilitate increased trade and investment within the region and with the rest of the world. Therefore, under the initiative USAID will continue assisting regional efforts to expand cooperation and improve the commercial and operational performance of the region's rail, road and telecommunications enterprises. Special support will be offered to countries committed to moving forward with reforms to de-regulate and privatize operations in these sectors.

**Agricultural and Natural Resource Management** -- Agricultural production is the single largest component of the gross domestic product of most of the countries of the region, and the region has rich wildlife, water resources, and agro-ecosystems. These sectors offer solid opportunities for promoting increased trade and investment, and for generating substantial cost savings to the countries of the region from coordinated investments, shared use and coordinated management. Under the initiative USAID will provide support to expand regional agricultural research, agricultural trade promotion and community -based natural resource management projects.

The areas of assistance under the Initiative for Southern Africa have been developed from the results of extensive stakeholders analyses in the region. As USAID proceeds to refine stakeholders analyses and define and develop additional program activities under the ISA, the process of consultation with southern Africans as an equal partner in this important regional endeavor will be intensified. Equally important USAID will look for opportunities to coordinate and cooperate in the southern Africa region with other bilateral and multilateral donors, and with other US governmental agencies with complimentary interests in promoting economic growth and increase cooperation in southern Africa.

The first new programs to be approved under the Initiative will be the Southern Africa Enterprise Development Funds, which will be authorized in FY 1994.

## ISA Program Framework

Outlined below are the goals, strategic objectives and program outcomes which will be pursued under the ISA.

**Goal: Equitable Sustainable Economic Growth in a democratic Southern Africa.**

**Sub-goals:** 1) Help create a cluster of well-functioning democracies in the region 2) Increased incomes and employment for rural and disadvantaged groups, 3) Sustainable increases in food security, and 4) strengthened regional cooperation and increased trade and investment regionally and internationally.

**Objective 1: Strengthen Democratic Processes and Institutions.**

- Outcome 1.1 Broader Acceptance of Culture of Democracy
- Outcome 1.2 Strengthened NGO Capacity to Promote Civil Society
- Outcome 1.3 Strengthened Separation of Powers
- Outcome 1.4 More Effective Civilian Control of the Military
- Outcome 1.5 Greater Press Independence

**Objective 2: Increased Indigenous Business Development and Ownership.**

- Outcome 2.1 Improved Access to Capital Among Indigenous SME
- Outcome 2.2 Improved Technical and Managerial Capacity of Indigenous SME Owners
- Outcome 2.3 Self-sustaining Regional Enterprise Fund
- Outcome 2.4 Regional Policy Forum for SME's created

**Objective 3: Increased Agricultural Productivity and Sustained Management of the Natural Resource Base (NRM)**

- Outcome 3.1 Southern Africans are empowered to strengthen the institutional and policy environment for agriculture and natural resource management.
- Outcome 3.2 Increased use of sustainable and profitable technology and greater stakeholder control of resources.
- Outcome 3.3 Sustainable regional ecosystem management.

**Objective 4: Increased Efficiency, Reliability and Competitiveness of Regional Transport and Telecommunications Infrastructure.**

- Outcome 4.1 Improved Managerial and Operational Capacity
- Outcome 4.2 Privatized and Re-structured State-owned Enterprises
- Outcome 4.3 Increased Private Investment in Infrastructure
- Outcome 4.4 Increased Access To and Enhanced Quality of Telecommunications
- Outcome 4.5 Improved Regulatory Structures

**Target of opportunity: Expanded Regional Dialogues**

## I. SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT

### A. Background

For the past 14 years, USAID's Southern Africa Regional Development Program (SARP) has been the centerpiece of the U.S. government's southern Africa's regional policy framework. Driven by the U.S. identification with the international anti-apartheid movement, the principal thrust of U.S. policy over this period has been promoting the peaceful transition to nonracial democracies in Namibia and South Africa. Ending the conflicts in Mozambique and Angola, which were linked both to the Cold War struggle and to South Africa's attempts to exercise hegemony over the region, was also a priority. Lastly, during this period U.S. assistance for southern African regional development was primarily designed to support the Program of Action of the Southern Africa Development Coordinating Council (SADCC) which focussed on lessening its members' dependence on South Africa's infrastructure, and the region's dependence on food imports.

The SARP program was started in 1981, and in 1987 Congress began annual earmark of \$50 million to support SADCC's programs to redress the most fundamental impediments to economic growth arising out of South Africa economic and military dominance. Over this period, more than \$410 million has been made available to SADC, with approximately 74% of SARP funds having been dedicated to transport projects and 22% to projects in the food, agriculture and natural resources sector. Considerable progress has been made in these areas, particularly in improving the physical transport infrastructure and in helping countries of the region address regional security through agriculture research.

Since 1990, however, the region has experienced radical transformations in its national, regional and international relations. The major transformations have included the end of the Cold War, the successful transition to a nonracial democracy in South Africa, Namibia's recent independence, the improved prospects for peace in Mozambique and Angola, and the new wave of democratization and economic reform being undertaken by most countries in the region. These changes offer significant promise for stimulating equitable and sustainable broad-based economic growth and creating a stable democratic environment throughout the region.

The transitions in southern Africa and the end of the Cold War have mandated that the U.S. define new strategies, programs and policies to assist the southern Africa region in meeting the new development challenges it faces.

## **B. Macro-Economic and Socio-Political Development Challenges**

### **1. Economic Growth Prospects for the Region**

The southern African region (excluding Angola, for which no figures were available) is estimated to have had an aggregate GDP of U.S. \$121 billion in 1991. South Africa, with an estimated 1991 GDP of U.S. \$91 billion, accounted for more than three quarters of the regional GDP. During the 11-year period from 1980 to 1990, the regional economy grew at an estimated 3 percent per year. In aggregate terms this represented an increase in GDP of U.S. \$34 billion of which South Africa accounted for U.S. \$27.5 billion. In terms of real annual growth rates in national economies, only Botswana and Swaziland experienced strong economic growth, averaging 9.3 percent and 6.8 percent respectively during this period. South Africa, Malawi and Zimbabwe all ranged between 3.3 percent and 3.6 percent per year in real growth during the period. Lesotho averaged 2.7 percent, Tanzania 2.0 percent, Namibia 1.6 percent, Zambia 0.7 percent and Mozambique -1.1 percent in annual growth for the 11-year period.

South Africa's economic revitalization is expected to be the largest factor influencing economic growth in the region. Most economic forecasts project that South Africa's economy will not grow much faster than 3.5 percent during the remainder of the 1990s. If the rest of the region grows at 5 percent, the region could achieve an overall growth rate of 4 percent during this period.

However, most economists caution that economic growth in the region will be affected by several exogenous factors. The first is the extent to which commodity prices will rise during the 1990s: South Africa, Zimbabwe, Botswana and Zambia are heavily reliant on minerals. The World Bank forecasts that mineral prices will decline through 1995 and thereafter rise at only 1.5 percent per year. Second, there is concern that official development assistance to the region, which averaged U.S. \$3.8 billion annually from 1987 to 1991, will be reduced as a result of slow growth in the OECD countries and new assistance being channeled to Eastern Europe.

There is a strong consensus that realizing the economic growth prospects in the region will require governments to:

- Generate increased external financing in the form of grants and concessional long-term loans;
- Pursue increased private investment (both domestic and international) and expansion of exports;
- Emphasize job creation in small and medium-sized businesses and in agriculture;

- Continue restructuring government expenditure by promoting increased private investment in infrastructure;
  - Encourage more rapid development of skilled labor; and
- ii .
- Maintain and broaden the prudent fiscal and monetary policies initiated under their structural adjustment programs.

## **2. Multi-Party Democracy and More Accountable Government**

Since 1990 southern Africa has witnessed a marked shift from one party states, military dictatorships and executive monarchies to democratic pluralism and more accountable government. The most dramatic transformation has been the political empowerment of South Africa's black population, which had been denied fundamental rights for centuries and subjected for over 40 years to the humiliations of apartheid. South African blacks assumed their rightful place in a government elected by universal suffrage in May, enjoying a form of government that Botswana and Namibia have maintained since achieving independence and to which Zambia returned in 1991 and Lesotho in 1993. Malawi held its first free elections in May; Mozambique will follow with multiparty elections in October. Elsewhere in the region, general elections are scheduled for 1995 in Zimbabwe and in Tanzania, where multiparty by-elections have already begun.

Domestic constituent groups and international donors have pressured governments across the region to create more open, tolerant political environments. Nongovernmental organizations and civil institutions are aggressively promoting and defending democratic processes, participating more fully in the economic and political decisions affecting their lives, and through regional networking, sharing experiences and creating a culture of democracy across the region.

These trends are encouraging. Donors, private investors and nationals of the subregion now seem ready to take greater risks in supporting development efforts in southern Africa. Moreover, they suggest the region will make major efforts to increase respect for human rights and adherence to the rule of law, and to minimize corruption and inefficiency in government.

## **3. Peaceful Resolution of Subregional Conflicts**

There is also a widespread consensus that the end of the Cold War and the emergence of a nonracial, democratic South Africa provide an unprecedented opportunity to end destabilization and civil strife that have plagued the region over the past 20 years. Building on the unity and cooperation established under SADCC, countries in the

region are now looking for new, nonmilitary interventions to resolve disputes. Namibia's and South Africa's successful transitions to nonracial democracies have removed the blight of apartheid from the region and provided a positive example to the region and the world on ways of bridging ethnic and political cleavages. Botswana's, Zimbabwe's and South Africa's recent diplomatic interventions to resolve a potentially major conflict in Lesotho also provide a good example of a new political cooperation that may become more prevalent in the future. The successful effort to bring about a peace agreement in Mozambique provides additional hope that similar progress can be made in Angola through coordinated regional and international mediation efforts. Continued progress in this area will eliminate a major hindrance to economic development efforts in the subregion.

#### **4. National Economic Reforms**

Virtually all of the SADC countries are being severely tested by the economic structural adjustment programs that they have embarked upon to one degree or another under the aegis of the World Bank and the IMF. Botswana and Swaziland are notable exceptions in that they have managed to achieve respectable rates of growth, and thus did not need to undertake formal adjustment programs. Zambia, Tanzania, Mozambique, Malawi and Zimbabwe have committed themselves to major economic adjustment programs aimed at opening their markets, improving their international competitiveness and reversing the declines in their economic growth rates. South Africa and Angola are expected to undertake structural reforms as soon as their political transitions permit.

Macro-economic policy reforms include reducing deficits, making exchange rates more realistic and market determined through devaluations, ending price controls, tightening money supplies to dampen inflation, selling off state-owned businesses and reducing subsidies on consumer goods. The reforms have been painful but they have improved overall economic performance and are slowly fostering positive private sector-led growth in each nation of the region.

But a recent World Bank study concludes that reforms are incomplete and that adjustment programs may falter in the next few years. To sustain improvements in economic growth, most countries need to implement additional measures to reduce and rationalize governmental expenditures to bring fiscal deficits down to sustainable levels. Governments must also undertake further deregulation, make investment policy reforms and accelerate their efforts to promote and diversify exports.

## **5. Poverty Reduction**

National economic reform programs have inflicted considerable pain on middle and lower classes across the region. The new policies have resulted in higher food prices (due to removal of price controls), fees being charged for secondary schools and primary health care services, large retrenchments of employees in government agencies and parastatals, and significant declines in real wages. To avert domestic instability, governments and donors are being compelled to incorporate into their structural adjustment programs new components, called SDAs (Social Dimensions of Adjustment), designed to dampen the impact on the lower classes. The SDAs vary from country to country but have included cash grants to offset the removal of food subsidies, waivers of newly instituted fees for schooling and health care, and job retraining for retrenched workers.

But concerns are being expressed that the SDAs are very inadequate. First, the SDAs are designed to reach only the most destitute or those made destitute by the reform programs. Yet in most cases, such as Mozambique, Tanzania, Malawi, Zambia and Zimbabwe, the large majority (60 to 70 percent) of the people are poor and vulnerable to the adverse effects of adjustment programs. Second, the experience across the region seems to suggest that the implementation of SDAs is complex and that most programs have inadequate training and too few government staff to be effective. Third, funding for SDAs is too small to respond to those who genuinely need assistance.

Much more needs to be done to assure that adjustment policies attempt to reduce poverty or at least mitigate negative impacts on the most vulnerable groups. Governments and donors are increasingly acknowledging the need for programs designed to: i) increase investments in human capital, particularly in primary health and education, to improve the ability of the poor to increase their income; ii) increase earning opportunities of the poor by supporting informal small and medium-sized business development; and iii) increase indigenous people's access to and ownership of productive assets.

## **6. Other Social and Productive Sector Challenges**

Significant challenges in the social sectors remain. Some of the more pronounced challenges include: high population growth rates; the growing HIV/AIDS pandemic; a static health situation; difficulty in maintaining the quantity and quality of overall education; and the scarcity of skilled labor leading to high levels of labor migration to the more advanced nations of the region resulting in a "brain drain" for the other countries.

In the productive sectors, the worst drought to hit the region in over a century highlighted food insecurity; and the biodiversity challenges in the region. In particular dwindling wildlife resources, continue to be threatened by the encroachment of the population on wildlife habitats.

☛. The countries of the region should be encouraged to: 1) adopt appropriate population policies, 2) expand HIV/AIDS education and information, 3) widen access to education at all levels, 4) harmonize NRM policies, 5) give more emphasis to building linkages and networks among agriculture research institutions in the region to build capacity and facilitate cross-border technology transfer, and 6) perhaps most important, empower women and girls through enhancing their access to education.

## **7. Push for Greater Regional Cooperation**

Despite the dismal failure of integration schemes in Africa and elsewhere, all governments of the region have expressed themselves as being in favor of regional cooperation and integration to help enhance the growth of their national economies.

The resurgence of interest in regional cooperation and integration has been mainly stimulated by the successful transition of democracy in South Africa. However, it has also been fueled by the emergence of regional trading blocs in other parts of the world.

SADC has maintained a long-term commitment to cooperation and integration in a region that includes a South Africa free of apartheid. SADC believes the entry of a democratic, nonracial South Africa into SADC could give a major boost to efforts already under way to promote regional market, and create new opportunities for cooperation in many sectors. It is now anticipated that South Africa will join SADC at the upcoming August SADC Ministerial Meeting.

The debates in the region no longer focus on whether regional cooperation and integration should be pursued, but on when, in what sectors and under what institutional arrangements. Listed below are some important areas identified by SADC and the PTA where donor support and involvement would assist the efforts of southern Africans to advance regional cooperation and integration.

They include the need to:

- Deregulate trade by supporting measures to facilitate the free movement of people and goods across borders;
- Coordinate and encourage project investments and policy harmonization in areas such as power, transport and communications, environmental management, sharing of agricultural technology and research, and financial intermediation;

- Create flexible approaches that allow countries to pursue trade liberalization and project-oriented cooperation schemes with partner countries having common sectoral interests;
- Integrate markets through reducing tariff barriers, the elimination of nontariff barriers, and achieving a greater convergence of fiscal and monetary policy and performance;
- Create an enabling environment for the private sector to attract both domestic and foreign investment and technology transfer; and involve the private sector in formulating regional cooperation efforts;
- Create an enabling environment for education and research institutions in disseminating the information and technological know-how necessary for regional cooperation;
- Rationalize the objectives of existing regional institutions such as SADC, PTA and SACU; and
- Place new emphasis on increasing NGO participation in national and regional level discussions that effect the lives of their constituent ..

## II. ISA Rationale and Strategy Formulation

### A. Rationale for U.S. Assistance to Southern Africa

Since 1993, new foreign assistance legislation has been drafted establishing priority objectives for U.S. foreign assistance.

The new Peace, Prosperity and Partnership Act of 1994 (currently pending approval by the U.S. Congress) states that U.S. prosperity and security in the 21st century depends directly on the successful pursuit of sustainable development policies built on an abiding commitment to democracy and free market principles. In pursuit of its sustainable development policies, the U.S. has determined that its assistance will be targeted on four interrelated objectives: 1) encouraging broad-based economic growth; 2) protecting the global environment; 3) supporting democratic participation; and 4) stabilizing world population growth. The act further states that the U.S. will dedicate its efforts only where common development objectives are shared, and where governments are willing to make the hard choices that sustainable development demands.

The progress made by the southern Africa states in implementing economic and political reforms demonstrates the strong potential for achieving equitable and sustainable development in the region. In response to this demonstrated potential, the ISA strategy is designed to provide special support to southern Africa to encourage the countries of the region to make major new efforts to move growth-oriented reforms ahead and improve regional cooperation.

### B. ISA Strategy Formulation

When announcing the initiative, USAID's Administrator and Assistant Administrator for Africa established that the ISA will first and foremost seek to put into practice certain principles that are essential for sustainable development:

- **First, viable development has to be African-led.** Southern Africans have to develop their own plans and strategies for pursuing sustainable and equitable economic growth, and donors should give priority to assuring that their assistance supports initiatives developed by Africans rather than displacing these efforts;
- **Second, economic and political reforms must be broadened and deepened.** To be effective, reforms should be negotiated with affected groups in society, supported by national political commitment and complemented by policy reform, coordination and harmonization at the regional level; and

- **Third, sustainable development in southern Africa has to be based on private investment and trade.** A major function of assistance to the region will be to help countries create conditions that will allow them to interact competitively in the regional and international markets.

In pursuit of these principles, USAID committed itself to undertaking an intensive process of consultations and analyses to identify strategies and programs which the ISA would support. First, consultations were carried out by USAID field mission representatives with SADC, SADC member states and a number of regional institutions to ascertain the new directions and regional development priorities being established in the region. Subsequent consultations involving USAID's Africa bureau were undertaken with a wide range of bilateral and multilateral donors interested in regional cooperation in southern Africa, including CIDA, EEC, JICA, ODA, the World Bank, ADB and the OECD Development Assistance Committee. Additional inter-agency consultations were held to invite the support of U.S. agencies with program interests in southern Africa.

Between February and April 1994 an USAID/Washington task force, assisted by USAID's Southern Africa Regional Program (SARP), Regional Economic Development Service Office/East Africa (REDSO/EA) and USAID/South Africa program staff, carried out extensive consultations and analyses in the southern Africa region. In addition, two separate consultant teams were engaged during this period to pursue consultations and analyses to support the design of the ISA's indigenous private sector development component. In June a draft strategy was presented for review by USAID's southern Africa mission directors at a meeting held in Harare Zimbabwe. After considerable discussion a consensus was reached regarding the strategic objectives and operational approaches which should be emphasized in ISA's program framework. Subsequent to the meeting the task force revised the goals, strategic objectives and targets to reflect the consensus reached with the directors. The task force also identified preliminary indicators for measuring their achievement. These are presented in the next section.

Stakeholder analyses and consultations with southern Africans on agriculture and natural resources are being concluded. The proposed outcomes for Strategic Objective Three will be validated at the conclusion of these analyses and consultations in October, 1994.

### III. Summary Discussion of ISA GOALS, STRATEGIC OBJECTIVES AND OPERATIONAL APPROACHES

For years USAID's Southern African Regional Program has been focussed on assisting SADC states to lessen their ties and reduce their dependence on south Africa. Now that the prospects for peace and mutually beneficial cooperation which includes South Africa are so imminent it is imperative that the U.S. demonstrate an increased commitment to supporting the transformations now underway in the region. USAID can make significant measurable contributions to this by adopting the following framework of goals and strategic objectives for the ISA.

#### A. ISA Goals and Sub-Goals

The main goal of the ISA is to stimulate equitable sustainable economic growth in a democratic Southern Africa. Sub-goals are to help: 1) create a cluster of well-functioning democracies in the region, 2) generate increased income and employment for rural and disadvantaged groups, 3) secure sustainable increases in food security, and 4) strengthen regional cooperation and increase trade and investment within the region and with the rest of the world.

#### B. Strategic Objectives

In pursuit of these goals the ISA will concentrate on developing and implementing activities in support of the following strategic objectives:

1. *Strengthening democratic processes and institutions in the Region.* The U.S. Government has strongly applauded the movement towards greater democracy in southern Africa, and reaffirmed its commitment to providing support for strengthening democratic processes in the region. Under the ISA, a regional democracy support program will be established to assist efforts to evolve common political values and approaches to the issue of democracy within a regional context. The program will focus on building popular support for democracy, strengthening the capacity of NGO's involved in demonstration activities, strengthening the separation of powers between the branches of government and promoting increased freedom of the press.
2. *Increasing indigenous business development and ownership.* A key thrust of the ISA will be promoting the development and increased participation of the indigenous private sector in all areas of the regional economy, with a particular focus on stimulating growth and increased productivity of small and medium-sized enterprises. USAID believes that it is critically important to respond to the

growing need across the region for jobs, and to assure that people at the lower and middle levels of societies in the region secure a stake in and share the benefits of economic growth. Under the initiative, USAID will establish a regional enterprise development program to provide loans, grants, equity investments, technical assistance and training to encourage the creation and expansion of commercially and developmentally viable enterprises. The program will also identify and promote the adoption of specific market-oriented macro-economic policies needed to stimulate and facilitate the development of the indigenous private sector.

3. ***Increasing the efficiency, reliability, and competitiveness of regional infrastructure.*** SADC and the National Governments of the region have demonstrated a new interest in improving operational efficiency and eliminating the abnormal distortions in the development and use of the region's infrastructure. In response to these, under this initiative, USAID will focus on identifying and supporting programs that will generate substantial cost savings from coordinated investments, shared use, policy harmonization, restructuring and privatization in priority sectors such as power, transport, telecommunications, and water basin management. USAID will pay particular attention to identifying and supporting processes and programs which facilitate the smooth integration of southern Africa's infrastructure, in a manner that produces mutually beneficial returns in the region.
4. ***Increasing agricultural productivity and sustained management of the region's natural resource base.*** Agricultural production is the single largest component of the gross domestic product of most of the countries of the region, and the region has rich wildlife, water resources, and agro-ecosystems. These sectors offer solid opportunities for promoting increased trade and investment, and for generating substantial cost savings to the countries of the region from coordinated investments, shared use and coordinated management. Under the initiative USAID will provide support to expand regional agricultural research, increase the use of profitable and sustainable agricultural and natural resource management technologies, liberalize and harmonize agricultural trade policies and regulations, rationalize and strengthen regional and national agriculture and NRM institutions, promote community -based natural resource management projects, and improve regional environmental planning and policy coordination.

**C. Target of Opportunity--Expanded Regional Dialogues**

In the interest of concentrating its resources to achieve maximum impact, the ISA will need to limit its initial operational program involvement to activities stipulated under the preceding

strategic objectives. However, under the ISA USAID wants to be flexible and responsible when opportunities to support or promote

other important region wide issues are identified by southern African governments, regional institutions, NGO networks, or by USAID missions.

In Phase One of the design of the strategy for the ISA, USAID established a regional development dialogue grant program. Under the program, USAID awarded more than 20 grants to regional organizations, regional research institutions, NGOs and industry associations. The purpose of the grants was to assist these entities in convening conferences and seminars, and conducting research to develop a common vision and establish priorities for advancing regional cooperation. Grants were provided to promote regional dialogues in areas such as human rights, conflict resolution, economic integration, transport, telecommunications, water, trade and investment. The grants have demonstrated the importance of focused dialogues in reaching consensus on policy and program priorities for advancing cooperation.

Under the ISA, USAID will continue to provide such support (through a regional development dialogue grant program) with a view to fostering the involvement of a wider range of peoples and institutions in regional and national decision-making processes. The criteria that the ISA would apply in selecting activities to be supported are listed in item #1 of the discussion of ISA's operational approaches in the next paragraphs.

During the review with USAID's southern Africa mission directors, it was agreed that the ISA would give priority consideration to providing funding for studies and analyses to determine the feasibility of USAID supporting regional activities in the areas of water, power, HIV/AIDS and human resource development. Like any other USAID program, the ISA has limited human and financial resources to bring to bear on such opportunities. Therefore, it is unlikely that any additional funding or program activity beyond the feasibility analysis would be available unless one or more of the currently envisioned strategic objectives are replaced.

#### **D. Operational Approach**

A principal motivation for undertaking the ISA is USAID's desire and need to find new ways of doing business, so that southern Africa can be more effectively supported in pursuing its development aspirations. Thus, the ISA should be distinguished and appraised by the extent to which it utilizes more effective and efficient ways of doing business, and the extent to which these new ways of doing business are producing positive measurable results.

Southern Africa is a dynamically changing environment in which there is a compelling need to involve all relevant stakeholders in

the process of promoting increased regional cooperation. This, coupled with USAID's internal commitments to "right sizing" and to being responsive to key U.S. and international constituent groups require that the ISA utilize a mutualist operational approach in pursuing the critical objectives noted above. The aim of such is to increase the participation and promote mutually beneficial cooperation amongst all relevant stakeholders.

As such, the ISA strategy will focus on: a) getting key regional stakeholders to search for new ways of promoting regional cooperation; b) creating new ways to identify and respond to important unmet needs of underserved stakeholders c) mobilizing financial and technical resources from many sources; d) developing innovative program management and implementation arrangements; and e) enticing increased collaboration amongst regional stakeholders, between regional stakeholders and USAID constituent groups, as well as increased collaboration between USAID and other donors.

Outlined below, in prioritized sequence, are the operational principles which USAID will employ under the ISA. To the maximum extent possible these operational principles will be integrated in each of the areas of focus/critical objectives that USAID pursues under the ISA.

### **Prioritized Operational Approaches in Support of ISA's Objectives**

1. ***Under the ISA Will: Support Local Stakeholder-driven Initiatives That Advance Regional Cooperation.*** Under SARP, USAID support was directly linked to SADC's program of action. Under the ISA, USAID support will be extended to a wider range of regional institutions and networks. The bulk of U.S. support under the initiative will be directed towards activities that are designed to promote regional cooperation and are regional in scope. The criteria for distinguishing such activities will be whether they involve two or more regional partners undertaking joint projects or cooperating under a common program of action in order to: a) advance regional economic cooperation; b) address common institutional problems; c) address regional or sectoral problems amenable to a regional solution; and d) capitalize on economies of scale to exploit economic opportunities and develop regional perspectives or consensus.
2. ***Seek Enhanced Donor Collaboration and Cooperation.*** There are a large number of multilateral and bilateral donor initiatives which have a regional focus and which are targeted on enhancing regional economic growth, cooperation and integration in southern Africa. Many of these donors have joined USAID in expressing the need for increased

coordination and collaboration to maximize the effectiveness of all the various regional initiatives. In implementing the ISA, USAID will place strong emphasis on 1) working with donors and regional partners to develop and implement strategies in priority sectors; 2) organizing and participating in joint or co-funding arrangements; and 2) creating opportunities for donors and regional partners to share information and coordinate efforts.

3. ***Utilize Innovative Regionally-based Financing and Implementation Mechanisms.*** Under its new strategies for sustainable development, USAID has reiterated its commitments to enhancing the participation of local stakeholders in all phases of the development process to building indigenous capacity, encouraging accountability and transparency, and to making empowerment an integral part of the development process. Furthermore, under the ISA, USAID is committed to maximizing the use of indigenous expertise in all activities of the ISA, expediting USAID design and approval processes, and assuring an appropriate mix of private U.S. and southern African participation in the governance and management structures of programs established under the initiative.

In pursuing the strategic objectives of the initiative, priority attention will be given to putting these principles into practice. Special consideration will be given to identifying, adapting and replicating successful models of local trusts, endowments, program advisory councils and innovative grant-making processes utilized within and outside of USAID.

4. ***Promote Increased Private Sector Participation.*** Since southern African countries began implementing economic reforms, the role of the private sector in both national and intraregional economic initiatives has become more prominent. There is an increased recognition of the need to mobilize the corporate business sector and stimulate the development of the indigenous private sector as the engine of economic growth, the primary vehicle for attracting foreign investment, and as promoters of technological innovations.

The ISA will seek to increase the participation of the corporate and indigenous private sectors in pursuing the strategic objectives of the initiative. The aim will be to: a) capitalize on their capacity to identify and implement practical responses and solutions to constraints impeding increased regional cooperation as well as productivity and efficiency at the sectoral and organization level; b) secure their ongoing participation

in policy formulation and program development related to regional cooperation; and c) provide greater access to local debt and equity capital for priority projects under the ISA.

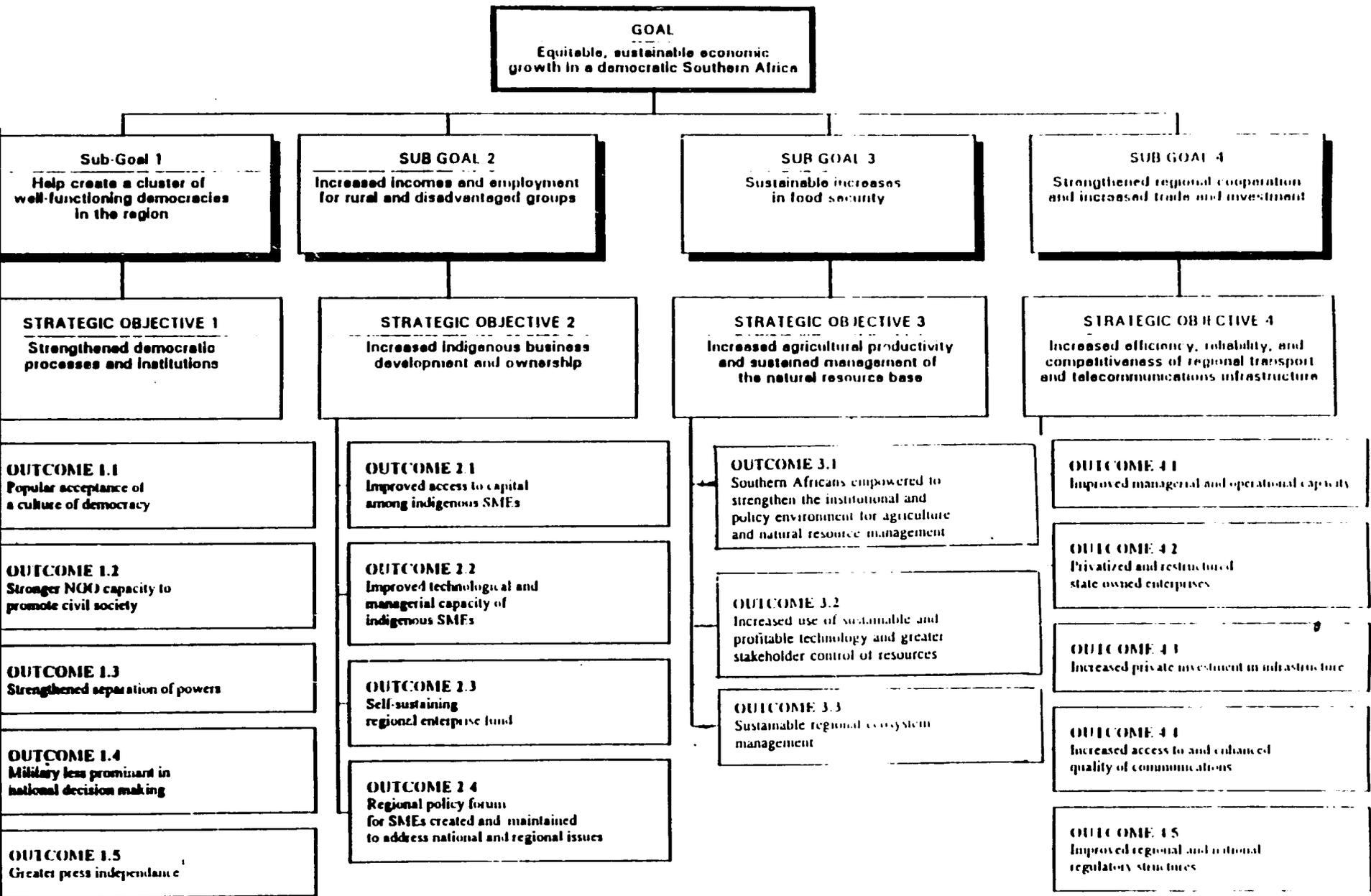
- 47 . 5. **Support Continued Policy Reform, Coordination and Harmonization.** In recent years USAID and other donors have made sectoral policy reform a major priority in their assistance to southern Africa. In their efforts to advance regional cooperation and integration, SADC, SACU, PTA and other regional networks are giving priority to further coordination, formulation, refinement and application of policies to improve the functioning of markets, improve operational efficiencies and stimulate development in priority sectors such as trade and investment, power, transport, telecommunications, water and natural resource management. Current efforts and plans to promote closer integration of South Africa's institutions and infrastructure into the regional economy make the need for coherent regional policies even more imperative.

Under the ISA, USAID will continue to provide support at the regional and national levels to assist the restructuring, streamlining and coordination of policies and services in the ISA's areas of focus. This will entail assistance in policy development and assistance to support the restructuring, strengthening and expansion of regional institutions and networks recognized as important in promoting mutually beneficial cooperation in southern Africa.

6. **Encourage Professional, Technical and Managerial Skills Enhancement.** There is an acute shortage of skilled technical, professional and management personnel. This was highlighted as a key constraint to developing sustainable institutional capacity, improving operational efficiency and increasing productivity in each of the ISA's areas of focus. Skill enhancement for senior personnel is a priority requirement for strengthening and expanding regional cooperation and integration. Under the initiative, USAID will seek to identify and support the development of programs to promote networking and the sharing of institutional capability in order to meet the shortage of critical skills in the ISA's areas of focus.
7. **Assure That ISA's Objectives and Strategies are Mutually Reinforcing and Complimentary to USAID Bilateral Programs.** Strengthening national institutional capacities is essential to expanding regional cooperation, as are continued national macroeconomic reforms in the policy,

institutional and regulatory environments. On the other hand, there is broad agreement that expanded regional cooperation is also essential for national economies to achieve optimal economic growth, generate economies of scale in production, rationalize infrastructure investments and exploit comparative advantages in production and trade. USAID's southern Africa missions are actively involved on a national level in many areas that the ISA will pursue at the regional level. Priority attention will be placed on assuring that the ISA's programs are designed and implemented in a manner to assure optimal synergy and integration with USAID mission strategies.

# INITIATIVE FOR SOUTHERN AFRICA PROGRAM OBJECTIVE TREE



#### **IV. PROGRAM OUTCOMES, ACTIVITIES AND PERFORMANCES INDICATORS**

One of the basic principles guiding the development of the ISA is that efforts to promote regional cooperation should be driven by southern Africans. To this end, USAID committed that the continuation or redesign of its southern Africa regional strategy would be based primarily on the advice and counsel of southern African experts, regional organizations and networks, governments, the private sector and civil institutions.

The analysis in this section is based on various USAID-funded regional dialogues held in 1993 and 1994, on face-to-face field interviews (undertaken by the task force) with more than 300 key stakeholders in countries during February-March 1994 and on the task force's review of major studies and documents prepared by southern Africans and international donors. Reference to "southern Africans" in this section means those who were engaged in the regional dialogues or the face-to-face interviews.

This section provides a summary of the ISA's proposed program strategies and outcomes for each strategic objective. Brief discussion of the rationale, strategy formulation process, strategic program priorities and proposed implementation parameters are presented.

## **Strategic Objective 1: Strengthen Democratic Processes and Institutions**

### **A. Rationale**

The reasons the U.S. government supports democratization throughout the world are nowhere more evident than in southern Africa. As the history of South Africa illustrates, democracy brings to an end the exploitation of the majority by a minority. Elected governments are less likely than other governments to engage in massive human rights violations, to make war on their neighbors, or to follow economic policies that make their citizens dependent on the international community for relief. They are more likely to cooperate in international action to stop aggression and to counter transnational threats to world peace and prosperity. Open societies usually maintain markets open to U.S. exporters and investors. The United States, through the Initiative, can capitalize on recent political changes in southern Africa to foster democracy in the region at modest cost.

Democracy is not thoroughly rooted in southern Africa. Botswana and recently independent Namibia have sustained democratic governments since the end of colonial rule, but democracy has just germinated in South Africa and is still reaching for the surface in Malawi, Mozambique, Angola and Tanzania. Southern African nations do not have an indigenous culture of democracy, unlike, for example, the colonial United States, some of which had governed themselves for almost 200 years before independence. Throughout southern Africa expectations are unrealistic and there is little appreciation of the labor required to sustain democracy. Ethnic divisions, the reluctance of local elites to forego their privileges, population and environmental pressures, the AIDS epidemic and frequently adverse terms of trade jeopardize democracy. USAID has bilateral democracy/governance projects in five of the region's eleven countries and expects to initiate such projects in another two area states within the next twelve months. The Africa Bureau also operates two democracy support projects for all of sub-Saharan Africa. However, unless vigorous action is taken, the region is likely to slip back into authoritarian rule. The Initiative's support for democracy is unquestionably needed.

The Initiative's regional approach to democratization is justified by common need, among area states, which can learn from each other's experiences. In South Africa, the long struggle against apartheid included the creation of many NGOs now willing to assist their counterparts elsewhere in the region. Other southern African states may be able to offer South Africa's majority government advice on preserving democracy. Finally, regional support alliances can provide at least moral and diplomatic support against antidemocratic forces in each state.

## **B. Strategy Formulation Process**

To ascertain demand for democratization aid, members of the ISA task force interviewed over 100 southern Africans in 8 countries. Almost all respondents favored further regional investment in democratization, with many of them making specific proposals, including offers of assistance.

*Comparative Advantage.* USAID's comparative advantage in democratization support stems from the United States' position as the world's oldest existing democracy, and from the United States' continuous advocacy of democratic forms of governance since the administration of Woodrow Wilson. Recent U.S. involvement with successful democratic transformations in the Philippines and in Poland also enhances USAID's credibility.

USAID also has the advantage of unrivaled experience. Well before assistance in democratization became the fashion among European donors, the United States was heavily engaged in Latin America programs focused on the administration of justice and on support for human rights in Africa. The United States more recently pioneered democracy support activities in eastern Europe and in the New Independent States.

USAID enjoys a comparative advantage in dealing with southern Africa as a region. It has a presence in each country and for over a decade has run a program of regional assistance currently funded at \$50 million per annum. Moreover, USAID has cooperative working relationships with the U.S. NGOs that are engaged in democratization support activities in the region.

*Other Donors.* It proved difficult to get comprehensive information about the democratization assistance activities of other donors. Aid from other countries flows through a number of unconnected channels, e.g., official development assistance, parliamentary groups, international organizations, quasi-NGOs, truly independent NGOs, churches and academic institutions. There is some duplication of effort but this does not appear to be a serious problem.

Efforts to coordinate donor assistance at the national level have met with varying degrees of success. The Initiative places primary responsibility for coordination in the field and envisions a late 1994/early 1995 conference in which donors, NGOs, and southern African governments will indicate their desires and their plans.

## **C. Strategic Program Priorities**

*Relationship to ISA Goal and Sub-Goals.* There is no firm guaranty that democratization will improve the quality of economic

decision making at national levels in southern Africa. But deepening the process to draw in those directly involved in basic economic activity may produce results more consistent with production and market possibilities. Holding democratically selected officials accountable to their constituents for the officials' economic decisions may improve the quality of economic policies. Making these officials answerable to the press, to legislative scrutiny and to the penalties imposed by impartial court systems should help curb the theft and export of capital needed for domestic investment. Stabilization of South Africa's nascent democracy will allow that country's non-white races to make a greater contribution to national development. Empowerment of women will tap another source of creativity long marginalized throughout the area.

Social equity and civic participation is now considered by the Congress to be tied to long term economic development. Therefore, the ISA's focus on democratic processes and institutions squarely meets the requirement that DFA-funded projects contribute to long-term and sustainable economic development and growth.

#### *Outcome 1: Broader Acceptance of a Culture of Democracy*

**Rationale.** A culture of democracy is a *sine qua non* for successful democratization, and must be inculcated by educational programs, some with mass impact. The activities undertaken by the Initiative in pursuit of this objective cannot of course establish a culture of democracy, for that is the work of decades. But with indigenous efforts and assistance from other donors, the Initiative should accelerate or even jump start the democratization process.

**Anticipated Program Interventions.** The Initiative will facilitate internalization of a culture of democracy by programs in civic education, voter education, increased awareness of legal rights, political party development and promotion of conflict resolution techniques. ISA will sponsor regional workshops for southern African groups already involved in these activities or interested in undertaking them, facilitating internships and exchanges among such groups so that those with more experience can assist those with less, helping to establish regional networks among groups engaged in such activities, and providing technical assistance for conferences and for consultation with national groups with common needs. Media representatives will be invited to observe many of these activities, to make them more aware of what needs to be done to foster better understanding of democracy and to disseminate news on the process.

#### *Outcome 2: Stronger NGO Capacity to Promote Civil Society*

**Rationale.** Under the single-party regimes that marked most southern African states after independence, PVOs were discouraged or folded into the party structure. Now, with the democratic awakening

of the region, citizens are entering public life and establishing hundreds of NGOs. These new young NGOs are weak, and must be strengthened to establish the vibrant civil societies that harbor strong democracies. The Initiative will therefore strengthen NGO capability in cooperation with other donors.

*Anticipated Program Interventions.* Activities to be undertaken to achieve this objective include those related to capacity building for individual NGOs, creation or reinforcing of regional networks for NGOs of similar purpose, and establishment of supportive legislative environments.

NGOs eligible for assistance will include those with a central purpose directly related to democratization, e.g. women's advocacy groups, as well as those whose contributions to democratization will be limited to their participation in the creation of civil societies. However, the main focus will be on NGOs in the first category. Those in the second group will be eligible for assistance only for activities directly related to establishment of civil societies, e.g. technical assistance in lobbying techniques.

Activities to expand the capabilities of individual NGOs will include technical and administrative training, instruction in advocacy skills, fund raising and the use of the media. Financial assistance occasionally may be provided to help cover startup and overhead expenses for key NGOs which cannot be adequately assisted by other U.S. government programs, i.e. existing USAID bilateral and regional democracy support projects.

Activities to establish or strengthen regional networks of NGOs will include support for organizational meetings as well as for startup and operational budgets, purchase of communications equipment, e.g. fax machines, technical assistance and other forms of training for network personnel.

### *Outcome 3: Strengthened Separation of Powers*

*Rationale.* Constraining the power of the executive branch of government is essential in southern Africa as elsewhere in the world to prevent backsliding to authoritarian government. In southern African states, which have at best a nascent culture of democracy and in which elites are reluctant to surrender established privileges, some senior officials will be tempted to override constitutional safeguards and reimpose undemocratic government. Maintaining the independence of the judiciary is essential to the preservation of democracy. Even in states with a parliamentary structure, preservation of legislative privilege can help protect democracy. Power sharing with regional and local authorities is another effective check against the imposition of authoritarian government.

*Anticipated Program Interventions.* The Initiative will

reinforce government checks and balances by facilitating training to upgrade the skills of judges, lawyers, magistrates, paralegals, legislators and their staffs, as well as local officials. In addition to basic tradecraft, training will focus on the association between the separation of powers and the preservation of democracy. Equipment and technical assistance will help legislators and judges acquire research capabilities to further enhance their effectiveness. Assistance in establishing regional networks of judges, lawyers and legislators will also strengthen courts and parliaments against the executive branch. ISA will sponsor seminars to identify training needs and opportunities; fund scholarships, exchanges, study tours, internships, and technical assistance in training and research capacity building; support workshops to organize regional networks; and contribute money to selected network activities.

#### *Outcome 4: Military Less Prominent In National Decision Making*

*Rationale.* The ISA taskforce spoke with citizens in several southern African countries who were concerned that their militaries were not under effective civilian control. Interviewees were especially concerned by military immunity from punishment for crimes against civilians and excessive state spending on military forces larger than justified by defense requirements. The brief history of independent Africa documents the physical threat that the continent's militaries have posed to democratic government. Excessive military spending is a less blatant menace, but often diverts resources from programs favored by majorities. No donor can completely eliminate these threats, but helping southern Africans engage the military in discussion of its appropriate role and explore possibilities of downsizing military establishments are appropriate elements of a democracy support program.

*Anticipated Program Interventions.* The Initiative will foster more effective civilian control of the military in the nations of southern Africa by helping organize workshops on this topic and on associated subjects, e.g., outplacement of redundant soldiers. Forms of assistance will include funds, leveraging of funds from U.S. sources that can pay the expenses of foreign military officers, and provision of technical assistance, e.g., conference organizers and speakers.

#### *Outcome 5: Greater Press Independence*

*Rationale.* The synergy of the targeted outcomes selected to pursue the ISA's objective of strengthening democratic processes and institutions in southern Africa is most evident with respect to the media. A free press nurtures a culture of democracy through civic education, voter education, legal rights awareness and dissemination of conflict resolution techniques. It can publicize the NGOs necessary to a strong civil society. It checks abuse of power by the executive branch by focusing attention on corrupt or inappropriate

behavior by administration officials. Aside from maintenance of the rule of law, nothing is more essential to democracy than a free press.

*Anticipated Program Interventions.* The Initiative will support a more independent press by increasing opportunities for training in existing regional institutions, in workshops conducted in collaboration with USIA, and in overseas study tours. Training will focus on the important role of the press in a free society. Regional networks will be encouraged by funding activities of the Media Institute for Southern Africa and the recently established Southern African Broadcasters' Association. Some assistance, e.g., fax

machines, also could be given to help local press associations take advantage of regional networking possibilities. The Initiative will also contribute to legal defense funds for journalists.

#### D. Implementation Parameters

*Program Management and Mission Coordination.* The ISA will establish a Southern Africa Democracy Fund as the primary vehicle for pursuing the outcomes anticipated under this strategic objective. Within the office established to manage the Initiative for Southern Africa one USAID official will be designated as the SADF project officer. S/he will oversee implementation of the project by the contractor(s) and the monitoring project activities. To give substance and visibility to African participation in the operations of the SADF, contractor(s) will be required to staff the secretariat with one American professional and one African professional. The contractor also will be obliged to use qualified southern Africans to provide technical assistance and to help staff assessment missions and the final evaluation.

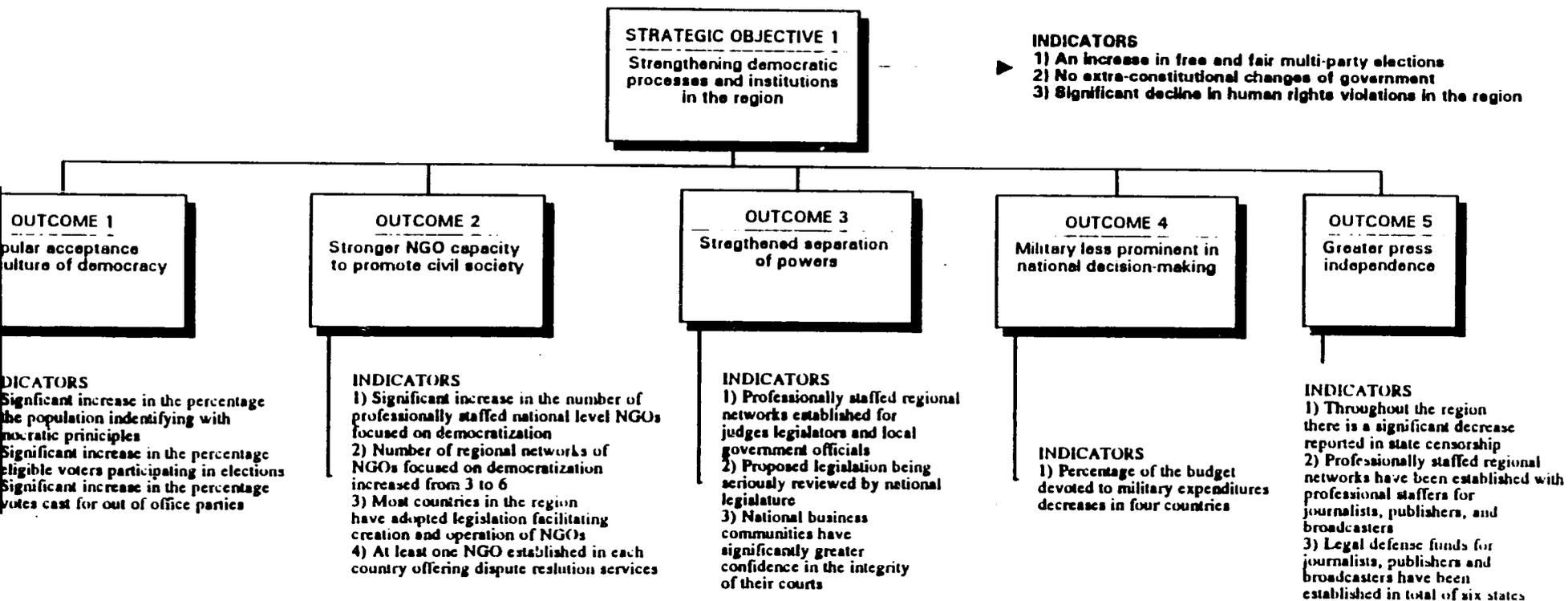
To facilitate African participation and to encourage collaboration between this regional project and other USAID democracy support activities in the region, the contractor(s) will be required to work with a consultative committee. The committee will be composed of four distinguished African democracy advocates and four U.S. government officials assigned in southern Africa. Committee members will meet periodically with the contractor(s) and secretariat professionals to review the SADF's portfolio and the contractor(s)' plans for future grant activities. The committee members will be appointed by the USAID Administrator. U.S. committee members will not receive compensation other than for travel and per diem expenses. African committee members will receive honoraria for time spent on committee business as well as compensation for travel and per diem expenses.

The secretariat also will work directly with bilateral missions. The missions will be the secretariat's points of contact with embassy inter-agency democracy committees, except in countries without bilateral missions, where the secretariat will establish contact directly with the inter-agency democracy committee. Following the Southern Africa Regional Program (SARP) model, the secretariat will use the region's excellent communications facilities to engage in continuous dialogue with USAID bilateral missions to coordinate regional and bilateral interventions, including the democratization component of the post-election aid package for South Africa.

The secretariat also will serve as an information clearing house and coordination center. In collaboration with bilateral missions it will organize workshops, exchanges, scholarships and internships among institutions in southern Africa. Utilizing an expanding data base reflecting acquired experience, the secretariat will identify and encourage replication of successful approaches to democratization in the region.

*Impact Monitoring and Evaluation.* The SADF contractor(s) will be required to submit quarterly progress reports to the SADF project officer in the ISA management unit. The reports will describe the activities undertaken by the contractor(s) during the period covered. The report also will include all of the financial data required by USAID's comptrollers. At least once each year the project officer will visit each country in which the SADF has made grants for the purpose of monitoring ongoing activity. Missions in such countries will be encouraged to inform the project officer of any problems encountered or anticipated with SADF activity. Eighteen months after the initial disbursement a formal project assessment will be undertaken by outside consultants. A subsequent assessment will be undertaken forty-two months after initial disbursement and a formal evaluation will be undertaken following completion of the project. The attached objective tree provides an outline of the indicators to be used to monitor and measure the results of the program.

# STRATEGIC OBJECTIVE 1: STRENGTHENING DEMOCRATIC PROCESSES AND INSTITUTIONS



## **Strategic Objective 2: Increased Indigenous Business Development and Ownership**

### **A. Rationale**

The Southern Africa region has recently undergone a series of significant political and economic transformations. These changes have increased the amount of indigenous entrepreneurial activities contributed to economic progress. Clearly, continued private sector development is crucial for Southern Africa's ability to sustain growth and mobilize resources, and create jobs and opportunities to economically empower Africa's indigenous populations. The logical sector where USAID has an ability to promote growth is within the Small to Medium sized Enterprises (SMEs) in the region. With donor support, SMEs represent a portion of the financial sector that is clearly capable of accelerating sustainable economic development.

While specific constraints encountered by SMEs vary, small to medium enterprises in the region generally face a lack of financial and technical services and/or severely underdeveloped services, as well as other financial problems, such as insufficient working capital, bad debt, or cash flow problems. Other constraints identified by entrepreneurs range from limited domestic markets in Lesotho and Botswana to lack of inputs in Malawi. Entrepreneurs in some countries face cultural constraints, such as in Swaziland where there is some hostility toward private sector activity since cultural values discourage competition and conspicuous displays of wealth. Other general constraints are the economic dominance of South Africa, lack of management and business skills, lack of access to marketing information and technology, and ineffective business associations.

One of the programs to be implemented by the initiative will promote the development and increased participation of the indigenous private sector in all areas of the regional economy, with a particular focus on stimulating growth and increased productivity of small to medium sized enterprises. USAID believes that it is critically important to respond to the growing need across the region for jobs, and to assure that people at the lower and middle levels of societies in the region secure a stake in and share the benefits of economic growth. The cornerstone of the initiative's economic program is the establishment of the Southern Africa Enterprise Development Fund (SAEDF). This fund will provide loans and other equity investments to encourage the creation and expansion of commercially and developmentally viable enterprises. As a supplement to the SAEDF, USAID will also utilize other program vehicles to provide technical assistance and training, and to promote the adoption of specific market-oriented macro-economic policies needed to stimulate and facilitate the development of the indigenous private sector.

## **B. Strategy Formulation Process**

During the months of October to January 1994, USAID consultants made a preliminary study of the feasibility of the American Enterprise Fund structure for the southern African region. The consultants reviewed the experience of enterprise funds in Eastern Europe and NIS, African venture capital funds, as well as the Specialized Small Business Investment Companies (SSBICs) in the United States. Afterwards, a two-week consultation was undertaken, during which the team visited South Africa, Zimbabwe, Zambia, Botswana, Mozambique and Swaziland to discuss the appropriateness of the Fund structure.

In March, a second team of consultants was contracted to make recommendations on the design of a regional enterprise program that would provide a range of financial services necessary to promote increased ownership of productive assets and the development and expansion of small and medium-sized enterprises (SMEs) among historically disadvantaged peoples in southern Africa. The ISA proposed program strategy for this sector evolves from the USAID evaluations of the findings and recommendations of those consultations.

## **C. Progress and Potential of Key Stakeholders in Addressing Constraints**

*International Donors.* Some of the constraints noted above are being addressed by USAID and other donors at a country level, although very little exists at a regional level that attempts to address these obstacles to SME development. Although some debt and equity financing is available through various donor initiatives, a financing "shortage" still exists for both types of capital. In a few countries this takes the form of limited available capital. In others, it is the inaccessibility of available capital that creates a shortage for indigenous SMEs. In either instance, the opportunity exists for the creative use of limited but long-term investment capital to leverage additional capital from other sources within and outside a country for use by SMEs. However, the successful use of long-term investment capital will by its very nature require the provision of long-term human capital as well.

There are many donor initiatives that seek to provide training and technical assistance to the SME sector. Such assistance, however, is typically short term, e.g., workshops, seminars, consultancies and is often general in content. Even in the case of consultancies provided by well-intentioned, competent specialists, the consultants have little ability to follow up with their clients.

**Local Financial Institutions.** As noted, indigenous Africans entrepreneurs have had restricted access to capital within the formal sector because most existing financial institutions are risk-averse. Fortunately, as government policies become more business-friendly and the education and experience of indigenous African entrepreneurs increase, financial institutions are slowly adjusting their principles and their perceptions of risk. For example, Nedbank in South Africa is structuring loans to suit the needs of indigenous entrepreneurs. Meridien Bank in Tanzania offers internships to indigenous Africans from throughout southern Africa. Most of these interns have direct contacts in the indigenous-owned business sector and inform bank management about investment opportunities there.

**Indigenous Business Associations.** There is currently no regional network for indigenous-owned, formal sector SMEs in southern Africa. On a national level, steps are being taken towards this end in some countries, including South Africa and Tanzania. In South Africa, the National African Federated Chamber of Commerce and Industry (NAFCOC), and its 2,000 members, could introduce potential joint venturers, though it currently lacks the means to do so. In Zimbabwe, the Indigenous Business Development Council has some 1,700 members. In Tanzania, the Chamber of Commerce in Dar es Salaam maintains a data base with 2,200 annotated business listings. It hopes to expand this service to include 25,000 SMEs throughout the country.

The development of these and other local support institutions is an important first step in developing a regional network that will boost growth. Such regional linkages between SMEs could contribute significantly to the creation of jobs and wealth while beginning to align quality and productivity in the formal and informal sectors across the region. In addition, real investments resulting from these linkages should increase as many countries in the region promulgate structural reforms that make their countries and the region more inviting to foreign, investors, including cross-border, investors.

#### **D. Summary Discussion of Program Outcomes (#1,2 and 3)**

The constraints and opportunities outlined in the preceding sections helped frame the outcomes and activities that ISA will pursue in support of indigenous private sector development.

- Outcome 1: Improved Access to Capital Among Indigenous SMEs**
- Outcome 2: Improved Technological and Managerial Capacity of Indigenous SMEs**
- Outcome 3: Establishing a Self-Sustaining Regional Enterprise Fund**
  - Under the Initiative for Southern Africa, USAID will establish the Southern Africa Enterprise Development

Fund (SAEDF) as the primary vehicle for carrying out activities in support of this strategic objective. The Fund is designed to contribute to the process of generating sustainable economic development of the region and the consequent improvement in the economic and social well-being of its citizens, by accomplishing measurable outcomes in three target areas (#1, 2, 3) noted above. The discussion that follows highlights the major strategic elements of the fund.

**Improved Access to Capital for Indigenous SMEs.** The SAEDF will help accelerate sustainable private sector development in the region by increasing business development, ownership and management skills among indigenous African entrepreneurs. It will accomplish this by providing long-term risk capital and business management assistance and by leveraging existing long-term debt and equity capital from indigenous and foreign sources. Further details regarding the approach for improving access to capital among this group are discussed under implementation parameters (Page 33)

**Improved Technological and Managerial Capacity of Indigenous SME Owners.** The ISA will reach this target in two ways. First, the Southern Africa Enterprise Development Fund (the Fund) will contribute to improved technical and managerial capacity in the enterprises in which it invests -- either directly or indirectly through intermediaries. This assistance to firms will be focused on individual investments by the Fund or intermediaries and will result in expanded capacity of these firms as they take on new challenges in new products and services. However, the lack of adequate intermediary financial institutions serving SMEs in some countries in the region and the limited USAID presence in others argue for a broader technical assistance investment by the ISA aimed at SMEs and institutions serving them.

Therefore, as a second thrust under this target, the Southern Africa Regional Missions will design a regional technical assistance (TA) project aimed at serving the broader TA needs of small and medium (SME) enterprises and institutions serving SMEs. It will provide TA and training to strengthen financial institutions serving SMEs (1) in countries where there is no USAID Mission or only a limited USAID presence, (i.e., Botswana, Lesotho, Namibia, Swaziland) and (2) where institutions require substantial strengthening in order to become qualified partners of the Fund (intermediaries) (as in Zambia, Malawi, Mozambique, Angola, and Tanzania). While enough intermediaries exist in the region for the Fund to be feasible, the intermediaries exist in the region for the Fund to be feasible, the intermediaries that serve the more disadvantaged and smaller end of the Fund's target group are generally the ones that need the most help before they can be commercially viable partners.

Without a separate TA project to strengthen financial

institutions that serve SMEs, the Fund's effective outreach to smaller enterprises and to countries without fully developed SME intermediaries could be limited. The TA to intermediaries will allow the Fund to expand beyond the most developed countries in the region (i.e. South Africa, Zimbabwe, and Botswana), and will therefore enable countries with little or no USAID presence or with weaker intermediary institutions to benefit from the Fund earlier in the Fund's life than would otherwise occur. This assistance will also enable a greater emphasis on small-scale, as opposed to medium-scale, enterprises than would otherwise be the case.

**Financial Sustainability.** Self sustainability is one of the goals of the Fund. As an investment fund, the objective is to invest in profitable enterprises, and do so on a basis which nets positive returns for the fund. There are a number of possible definitions of self-sufficiency. First of all, the objective is not necessarily, to earn profits on the amount of money USAID will place in the Fund; rather it is to ensure that the fund is not eroded over time. Secondly, the Fund has developmental objectives which take precedence over financial performance, by targeting disadvantaged SME's and emphasizing the economic impact of Fund investments. Therefore, self-sufficiency has been defined in a minimum manner to mean that the value of the Fund, over a certain period of time, is not eroded in nominal terms.

Recognizing the nature of the investments to be made by the Fund, which will be longer terms and may not generate current income, there will by definition be a period of operating losses to be sustained in the early years as investments are made, before sufficient income is earned. The following milestones or guidelines are illustrative of what is meant by self-sufficiency:

- At the end of the fifth year, returns on investment have begun to be realized, and are sufficient to cover 20 percent of operating costs;
- At the end of the tenth year, returns on investment are sufficient to cover operating costs and investment losses;
- By the end of the 20th year, the value of the Fund is in excess of \$100 million, the original USAID funding, and the Fund continues to make investments earning a positive net income and cash flow.

Based on the number of additional assumptions concerning the nature of the Fund's investments and operating costs, this can be achieved with a 20 percent write off of investments made (i.e. zero return), and a 10 percent average annual rate of return on the balance. There will, however, be operating losses in the initial years which will have to be sustained by drawing down fund assets. Prior to final any commitments to capitalize the fund. Specific guidelines for financial sustainability will be developed and approved by USAID.

**Economic Development Impact.** The Fund should establish

development impact indicators consistent with the strategic objectives outlined earlier. These indicators would be used to measure the Fund's development impact and to measure expected impact

in initially deciding whether to make a particular investment. Every investment will not be expected to impact on each indicator. Indicators might include favorable changes in/to:

- Ethnic and gender composition of labor force, management and ownership.
- Socio-economic composition of labor force, management and ownership.
- Employment generation, direct and indirect, over time.
- Employee productivity.
- Financial leverage attained on each investment.
- Distribution and increase in business management and vocational skills.
- Compensation and income levels for employees.
- Transfer of technology.
- Tax revenues for local government.
- Regional trade and investment linkages.
- Development of capital markets.
- Establishment, strengthening, and expansion of a wide array of enterprises across a variety of sectors.

## E. Implementation Parameters

For the fund to be successful under the ISA's principles it should adhere to defined guidelines regarding investment philosophy, target group, country eligibility and types of investments.

4. *Capitalization Requirements.* USAID plans to capitalize the Fund in the total amount of \$101.5 million according to the following schedule:

FY 1994	\$21.5 million	(August 1994)
FY 1995	\$20.0 million	(March 1995)
FY 1996	\$20.0 million	(March 1996)
FY 1997	\$20.0 million	(March 1997)
FY 1998	\$20.0 million	(March 1998)

To provide Fund management with confidence, financial continuity and credibility in the marketplace, funding up to the \$100 million level will be provided with no contingencies, except that it could be cancelled for "cause" acts of corruption or crime by principal members of the Fund's management or Board.

*Investment Philosophy.* A clear investment philosophy is necessary if the Fund is to achieve financial self-sustainability with development impact. The philosophy will be largely dictated by the mission statement, the Fund's charter and by-laws, and the Fund's Board. Recommended guidelines include:

- The Fund should make sound investments under market driven principles, without any subsidies and seeking a reasonable return on its investments.
- Each investment made by the Fund should have a definable development impact. That is, for a specified target group, to enhance business development through improved skills, management, access to capital; promote regional economic integration; support diversified ownership; etc.
- The Fund should invest in those enterprises with competent, committed management that have above-average growth and profitability potential because of increasing management skills or promising markets and products or services.
- The Fund should avoid investments that would be profitable only because of the existence of serious economic policy distortions, such as artificial monopolies or other preferential treatment.

## *Investment Parameters*

*Target Groups.* A development objective of the Fund is to increase the level of business ownership and skills to those segments of the indigenous population that lack those advantages. Each investment, therefore, should help to distribute ownership and skills among those groups. Investment opportunities that can be used to reach this target group are described under Types of Investments, below.

*Investment by Country.* For the Fund to make an investment, the country in which the enterprise operates must have undertaken economic and political liberalization, and must be Southern African countries politically acceptable to the U.S. Government. As of now, all but Angola are eligible. The need for stricter country eligibility criteria must be balanced against the need for Fund sustainability. It is recommended that no more than 50 percent of the Fund's Capital should be invested in any one country. Allocating more than this to any one country jeopardizes the regional cooperation objective and could bring negative political fall-out from the other ten countries.

*Types of Investments.* The Fund should not be limited to particular types of investments, as long as all investments address the Fund's basic development and financial objectives. Given this, investment opportunities fall into two general categories:

(1) Indirect Investments. Investments in financial intermediaries or other enterprises that invest in or service smaller enterprises. These include small enterprise banks, mortgage banks, leasing companies, franchise operations and subsidiary venture capital companies.

(2) Direct Investments. Investments made directly into operating companies by the Fund. These may be expansions of existing companies or start-ups. Direct investments may also include buy-outs, privatization and spin-offs where a transfer of ownership and management to previously disenfranchised people may take place.

*Board of Directors and Management.* The Board and management will be important to the Fund's success. They will determine the Fund's ultimate structure, set its investment parameters and establish its operating procedures. Therefore, the selection process and the criteria for selection are critical components of the Fund design.

There would ultimately be nine members with four members being appointed by other donors or investors who might participate in the capitalization of the fund

The Board should represent a set of diverse and relevant skills and experience. The Board should be characterized by ethnic and gender diversity and include among its voting members the following attributes:

- At least two U.S. citizens who exhibit significant skills and expertise as risk capital investors with demonstrated knowledge of the political and economic realities of "doing business" in southern Africa.
- At least two southern African citizens who exhibit a deep understanding and commitment to private enterprise development throughout the region and demonstrate experience and expertise in the legal, financial and banking practices of the region.
- At least two members who have demonstrated understanding of and experience with development of disadvantaged communities in southern Africa.

#### *Legal Structure*

The Fund will be established as a not-for-profit, corporation. It would not have shareholders and would not distribute dividends. This legal structure avoids the need to create a trust and a separate management entity (an oft-used arrangement on other USAID-funded venture capital initiatives e.g., Kenya Investment Trust). In addition, it facilitates the use and management of an endowment and/or grant funds and provides for certain tax advantages.

*Location.* The Fund's location should be determined by the Board, but that location should be within the region. In making the site selection it is recommended that the Board use objective criteria including: infrastructure, telecommunications, ease of regional travel, freedom from exchange controls, security & livability for management, type of operating structures legally permissible, tax and other investment promotion incentives, and perception of promoting regional integration.

This last criterion is deemed important enough to exclude South Africa from consideration as the Fund headquarters. However, the Fund at the discretion of the Board could open satellite offices as justified by demand and the Fund's exposure in any given country. A suggested short-list for the Fund's location, in alphabetical order includes: Botswana, Swaziland, Zambia, Zimbabwe.

**Outcome 4: Regional Policy Forum for SMEs Created and Maintained to Address National and Regional Issues**

Creating and maintaining an "enabling environment"--a legal, policy, and regulatory environment that is conducive to private sector development, (SME) development--is critical to achieving this ISA Strategic Objective. However, policies and regulations in many Southern African countries often hinder business development, and are often made without input from key stakeholders. It follows, then, that stakeholder participation in the policy dialogue and implementation process could improve the enabling environment. SME owners can best voice their constraints themselves, but have been excluded from participating in policy dialogue at nearly all levels, including the regional level. It is therefore proposed that a regional forum for SMEs be created and maintained to address national and regional constraints to business development, and to serve as a channel to voice the concerns of SMEs to key decision makers in the region. Funding to establish the forum could possibly come from the Africa Bureau's Private Sector Support Project (PSSP), which has policy, legal, and regulatory reform and institutional development as two of its three areas of concentration.

USAID's Africa Bureau does have experience in establishing regional private sector networks for promoting policy change to draw on. PSSP funding has been used to help establish the West African Enterprise Network, which may be able to serve as a model for a regional policy forum for SMEs in Southern Africa. The West African Enterprise Network is an informal association of 250 West African business people who have joined together to examine policy reform issues and to advocate needed changes in their individual countries, as well as to promote cross-border trade and investment in the region. The Network has examined issues such as financial restructuring, increasing competitiveness, fostering entrepreneurship, and improving dialogue with the state in both the national and regional forums.

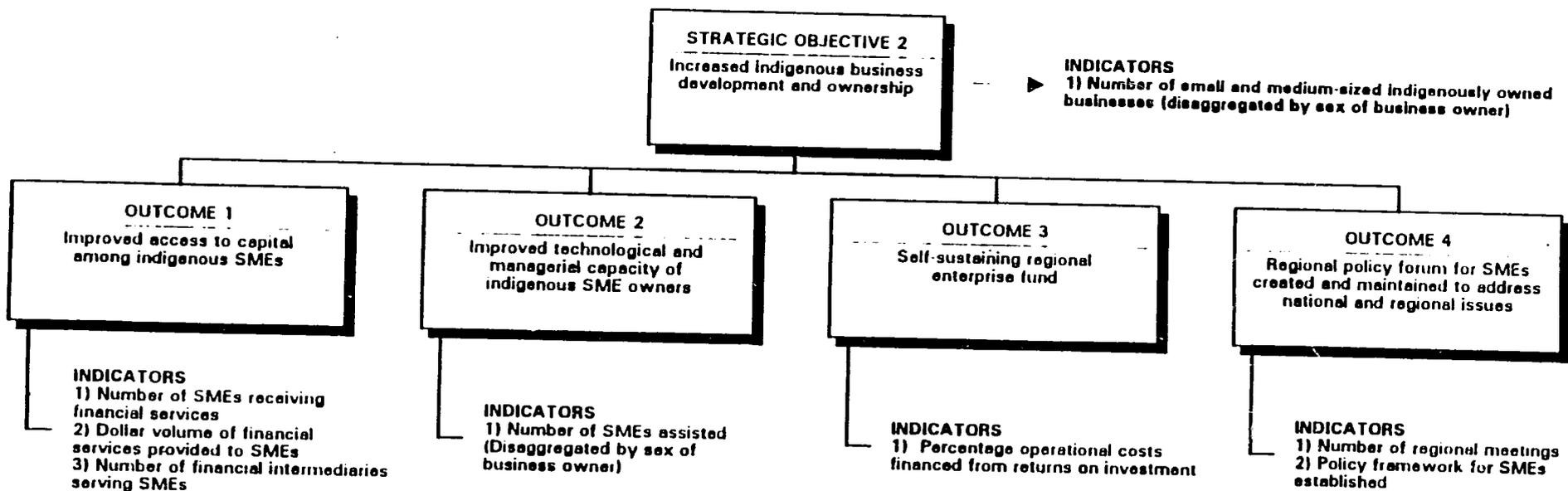
Some important results have already been achieved in less than two years of the Network's operation. In Ghana, the national network lobbied for modification of the Exchange Control Law to allow foreign participation. In Mali, the national network was able to block proposed tax legislation imposing certain automatic penalties on the private sector. As a regional entity, it has the strength and visibility to bring business, government, and donor leaders at all levels to the bargaining table. An important by-product of this type of activity is a regional network of business contacts for SMEs; a number of joint ventures, many cross-border, have already resulted from Network activities.

USAID has provided technical assistance to the regional and national networks initially to create and consolidate the networks, and more

recently in areas such as strategic planning, leadership development, strengthening advocacy skills, and assisting the networks to establish information linkages throughout the region. It is envisioned that similar assistance will be provided under the ISA (through the PSSP) to create a regional policy forum of small and medium entrepreneurs in Southern Africa.

(Attached is the program objective tree delineating the indicators that will be used in monitoring the impact of ISA activities in this area.)

## STRATEGIC OBJECTIVE 2: INCREASED INDIGENOUS BUSINESS DEVELOPMENT AND OWNERSHIP



### **Strategic Objective 3: Increased Agricultural Productivity and Sustained Management of the Natural Resource Base**

#### **A. BACKGROUND AND RATIONALE**

Equitable and sustainable economic growth in a democratic southern Africa is dependent on the active participation of rural populations in increasing agricultural productivity and in sustainable use of the natural resource base. Agriculture and natural resource-related production is and will be the major force driving economic development in most countries in the region and is, therefore, an essential element of any developmental strategy for the region. At the same time, evolving socio-economic conditions make regional approaches to some aspects of agriculture and natural resource management more cost effective than separate and parallel national approaches.

Except for the Republic of South Africa, agriculture remains the single largest component of regional and national Gross Domestic Product (GDP) and most southern African families still depend upon agriculture for subsistence and jobs. Recognizing the regional importance of agriculture at their Harare meeting in June, 1994, the Heads of State in East and Southern Africa resolved to put agriculture on the top of the political agenda.

With the recent dramatic political and economic changes in southern Africa, and the emergence of South Africa as a major partner and economic force in the region, significant shifts can be expected in agricultural production and trade, as well as in the management and use of the regions' natural resource base. This will require regional action to coordinate and guide these changes.

Already, there is a strong commitment by the countries of southern Africa to act regionally to increase regional agricultural trade opportunities and to coordinate agriculture and natural resources (ANR) support services. The acceptance of South Africa as a full member of the Southern African Development Community (SADC) on August 29, 1994 is an indication of this commitment. Exceptional opportunities now exist for improved regional programs in support of sustainable agricultural research, environmental management, technology development and transfer. The possibility exists to develop and implement regional policies governing agricultural trade and anticipated cross-border shifts in land use and cropping patterns for the benefit of all states in the region. Regional approaches may now be applied, for example, to the future of the Zambezi River basin, the Okavango Delta, the shared wildlife resources of Zimbabwe and Botswana, other cross-border protected areas and the common inland fisheries of Malawi and Mozambique.

Equally important, efficiencies can be expected to flow from developing regional rather than national programs in areas as diverse as environmental assessment and planning, agricultural research, information exchange, harmonization of regional policies (including

trade policy), efforts to preserve biodiversity, non-formal education in sustainable agriculture, or social marketing to promote long-term sustainable management of the regional resource base.

For southern Africa, sustainable agriculture and natural resources management are inseparable. There is a truism in the region: without agriculture, growth is not sustainable; without effective management of the natural resources, agriculture is not sustainable; without strategies for sustainable use of the environment, the natural resource base is not sustainable.

While recognizing that there are differences between agriculture and natural resource management, through this Strategic Objective, USAID hopes to give increased attention to these linkages between them. The integration of agriculture and natural resource management in southern Africa is a viable option in part because of USAID's past investments in these areas. More fundamentally, it is possible because it is what the southern Africans want.

Within Strategic Objective 3 of the Initiative for Southern Africa (ISA), USAID proposes to follow a non-traditional approach, supporting the interest which southern Africans have already demonstrated, and reinforcing the efforts in which they are now engaged. The approach described herein is intended to be stakeholder-driven, to build upon activities and organizations in place and lessons learned to date, and to be responsive to evolving circumstances in the region.

## **B. STRATEGY FORMULATION PROCESS**

In formulating the ISA strategy for agriculture and natural resources, USAID has endeavored to build upon its experience and comparative advantage in the sector and to listen carefully to what the southern Africans have to say about their own concerns, aspirations, plans and priorities. USAID expects the strategy to be dynamic and flexible and the consultation process to be an integral and ongoing component of the strategy.

### **1. USAID'S Relevant Programs and Comparative Advantage**

Great Britain, Germany, Canada, Japan and the Nordic countries have all been active bilateral donors to the agriculture and natural resources sector in southern Africa over the last ten years. Significant multilateral donors have included the World Bank, the African Development Bank and the European Community. Private voluntary organizations and private and corporate foundations have also been active in the region. These donors have supported information and communications programs, food security policy, human resources development and training centers, fisheries and forestry activities, community-based resource management, and agricultural research on a variety of commodities.

USAID, has been the single largest bilateral donor to the ANR sector in the region during this time and has played a leadership role in supporting regional programs in food security, agricultural research, community-based natural resources management, human resources development, and institutional capacity building. Through its support to regional institutions managing agricultural research and to regional and national environmental planning activities, USAID has also contributed significantly to donor collaboration and to improving the accountability and development impact of research.

USAID's previous investments as well as lessons learned from these investments have been substantial. In the case of regional agricultural research networks, USAID has been the lead bilateral donor in the region over the last decade. USAID has provided support for regional agriculture research coordination (690-0225), regional sorghum and millet research (690-0224), roots and tubers research (690-0268), livestock diseases research (690-0207) and agriculture research management training (690-0269).

USAID has also funded research and analysis in regional trade and comparative advantage, food security and supported the SADC Food Security Unit. During the century's worst drought in 1992, USAID leadership was instrumental in developing a regional response which prevented the drought from becoming a famine.

Through the southern African natural resources management project (690-0251), USAID has also promoted approaches for empowering local peoples to manage their natural resources. USAID has been the primary donor of the successful CAMPFIRE program in Zimbabwe, and the lead bilateral donor in Namibia, Botswana and Lesotho. The ongoing regional program supports bilateral efforts in these countries (except Lesotho) as well as those in Zambia and Malawi.

USAID has played a leadership role in supporting regional networking, and addressing natural resources management issues through regional mechanisms. This leadership role has been possible because USAID has dedicated field staff in the region who have extensive planning and implementation experience in these subject areas, especially in promoting regional perspectives, primarily through the implementation of Southern Africa Regional Program (SARP) activities. U.S. leadership has also led to a strong focus on institutional development and donor collaboration.

An evaluation of the NRM Project was completed in late 1993 and detailed impact assessments of two of the SARP projects are currently underway. Early results from those assessments will be available to instruct the Project Paper, while the results of the longer-term assessments will inform later ISA project activities. It is too early to anticipate the results of those assessments. Nevertheless, among the lessons which USAID has learned from project implementation to date, those relevant to this Strategic Objective of the ISA are likely to include:

- The value and viability of regional approaches (and the important role that South Africa can play therein) has been demonstrated repeatedly. Examples include the coordinated regional response to the drought; regional agricultural research networks strengthening national capacity; and the cost-effective sharing of specialized technical expertise within the region.
- The appraisals of agriculture research which have been done in the region suggest very favorable economic and financial rates of return.
- Community-based management of resources holds tremendous potential for economic growth in rural areas as well as for more sustainable management of the resources. Effective community-based programs, however, require several years to secure sustainable results.
- A favorable policy environment is critical to the extension and impact of technical advances.
- The region possesses a strong human resources base upon which to build.
- Many ANR-related institutions and organizations in the region must improve their capabilities in a number of areas including: strategic planning, financial management, information dissemination and communications with stakeholders, and managing for results.

USAID's ongoing relationships with SADC, interactions with the regional and national research networks and the active involvement of non-governmental organizations (NGOs) in technology transfer and in community-based natural resources management have all led to high visibility and recognition of USAID's contribution to achievements in the agricultural and natural resource areas. USAID's field staff and regional and bilateral programs in the sector have substantial credibility regionally, at a time when the continuation of other donor support for the agricultural sector at a regional level is uncertain.

Building on its strength in agriculture and natural resource management, USAID is well positioned to play a catalytic role in future developments in this area. Under the ISA, USAID will fulfill the contractual commitments currently in place through the SARP. At the same time modification and/or redesign of some projects is expected based on the results of the evaluations now underway and the agreed-upon objectives and parameters of the ISA.

## 2. Stakeholder Analysis

USAID Missions and AFR/SD/PSGE have been engaged in consultations with a wide variety of stakeholders in southern Africa for some time. USAID

expects to continue and refine stakeholder analyses as an integral and ongoing element of the evolving ISA strategy. In addition, due to the fundamental changes occurring in the political and economic fabric of the region, the southern Africans themselves have been conducting a series of self-examinations and programmatic reviews encompassing almost all groups with potential interest in the ISA.

Building on those ongoing analyses, AFR/SD/PSGE, in consultation with Missions and regional organizations, convened a series of ad hoc meetings to inform the design of ISA Strategic Objective Three. The meetings, all held in southern Africa, have focussed on: a) Regional Food, Agriculture and Natural Resources Management Research; b) Regional Trade; c) Bilateral and Regional Field Missions; and d) an ad hoc meeting of ANR stakeholders. To date the meetings have involved policy analysts, national and regional research program leaders, field Mission agricultural development officers, national research system directors, SADC sector coordinators, Southern African Centre for Cooperation in Agricultural Research and Training (SACCAR) management and members of its governing board, NGOs, university researchers and national government policy makers. Individuals from all SADC countries except Angola have been involved in the meetings.

Over the next few months, additional formal meetings and an extensive series of interviews will be held with stakeholder groups in the region including: farmers groups, agro-industry and producers groups, environmental and sustainable agriculture NGOs, government agencies and donors. Throughout the program design and implementation, the process will continue to engage a broad cross-section of groups and individuals involved in agriculture and natural resource management.

The consultations have already served a multiple set of purposes. They have helped complete a comprehensive inventory of ongoing regional programs, reviewed lessons learned, assessed southern African interest in regional programs, identified issues needing further attention during program design, discussed conditions limiting impact from regional programs, and provide an ad hoc forum to discuss priorities for regional program support.

Emerging from the meetings was a remarkably broad consensus for both process and cross-cutting technical issues which will be confirmed over the coming months through further dialogue. The southern Africans consistently identified political will as the single greatest constraint limiting impact from investment in and development of ANR. The other areas of consensus include:

- The need for agriculture and natural resources management to be a strategic focus for the ISA.
- The need to and viability of acting regionally.
- The need to improve the "enabling environment" and the way business is done by both the public and private sector agents.

- Assuring that limited regional and donor resources are not used to build new institutions. Rather the priority should be to work with institutions that have a positive track record and which demonstrate the prospects for being responsive and effective. The sustainability of institutions was a major item of concern to the southern Africans and USAIDs.
- The need for the ISA, donors and national organizations to more effectively integrate agriculture and natural resource management.
- The need to get the "prime movers" in the ANR sector to work together. The five basic prime movers identified by the Ministers of Agriculture and Heads of State include: technology, human capital, sustained growth in the physical and biological infrastructure, effective institutions, and enabling political and economic environment.
- The need to make ANR programs more accountable for increasing productivity and sustainability.

As important as identifying potential the areas for attention, a principal conclusion reached in each of the meetings to date has been the need for USAID and other donors to respect and support the southern African issue identification and priority setting processes already underway. For instance, in the past year and a half, significant regional planning has been done to create a basis for southern African development in agriculture. In the past four months substantive political action has been taken with broad-based support, suggesting southern Africans are serious about change and a new future for ANR. As examples: in July, the South African legislature voted to join SADC; on August 29th, South Africa became a full member of SADC; in April, the Ministers of Agriculture finalized a strategy to get agriculture moving; in June, the heads of state approved that strategy; in November, an ANR community-building session convened by SADC and involving all public and private agents will be held to better define needs and roles; in addition a detailed priority setting exercise has been underway at SACCAR for the past year to focus regional research resources on high priority programs.

There is near-uniformity of opinion as to the importance of the areas of consensus identified in the stakeholder analysis so far, and the significant steps already made by the southern Africans in developing an agenda for action that has region-wide and stakeholder-wide legitimacy. However, the issues being discussed are neither simple nor purely technocratic. At their heart they are very much driven by the evolution of a new politico-economic dynamic within southern Africa, and in particular between South Africa and its neighbors.

This then leads to the most important finding of the Stakeholder Analysis so far: the southern Africans welcome our involvement as peers and partners, in support of the dialogue already begun regionally. USAID is not breaking new ground with the ISA in any of its focus areas; instead it can provide the nutrients and supportive environment

needed for the southern Africans to meet their own objectives, in areas already identified by the southern Africans as being keys to regional viability. As a result, the ISA can have a major impact on donor coordination and collaboration.

The ISA, at least for Strategic Objective 3, therefore, cannot be simply our view of programs that "they" need, no matter how much we can argue that these programs meet a felt need. But rather the ISA must support the efforts of the southern Africans to develop their own agenda, their own programs and their own solutions. The region has remarkable talent, tremendous opportunities, and an impressive level of political will.

### C. STRATEGIC PROGRAM PRIORITIES

#### 1. Strategic Objective and Relationship to ISA Goals and Sub-Goals

The Strategic Objective for the ANR sector is:

**Sustained increases in productivity from agriculture and the natural resources base.**

The Strategy will focus its attention on harnessing the aspirations and potential of southern Africans in addressing one of the region's fundamental challenges: how to promote (through regional activities) the growth of productivity in rural southern Africa, in a manner which takes advantage of regional strengths and supports the sustainable use of the region's rich but fragile natural resources base.

Due to the importance of ANR in southern Africa, there are significant linkages between ANR and each of the ISA sub-goals: increased food security, increased incomes and employment of rural and disadvantaged groups, better functioning democracies, increased regional trade and strengthened regional collaboration. Increased productivity of agricultural resources directly contributes to improving food availability, expansion of agriculturally based enterprises, increased rural household incomes and, in turn, food security. Sustained use of natural resources increases incomes and ensures future generations will have access to resources. Increased productivity also leads to lower consumer prices and increased food security for low income, disadvantaged groups, in both urban and rural areas. Increases in regional trade, for inputs, commodities and agriculturally based manufactured goods can be achieved through policy changes in the agricultural and trade areas as well as availability of technologies generated through strengthened regional research institutions. Empowerment of stakeholders and community based management of natural resources not only devolves authority, but improves productivity which leads to increased incomes for rural and disadvantaged groups.

#### 2. Outcomes

The strategy of achieving sustained increases in productivity from agriculture and the natural resource base will be undertaken by focussing on three interrelated target outcomes.

**OUTCOME ONE: Southern Africans empowered to strengthen the institutional and policy environment for agriculture and natural resource management.**

**Rationale** - Southern Africa is rapidly changing and those living in the region are in the vanguard of promoting that change. On all issues identified in the Strategic Objective 3, the southern Africans have initiated wide ranging dialogue and reform efforts. Their efforts deserve to be supported and strengthened. Regional institutions such as SADC need to be reformed to reflect new political realities. Informal links between NGOs need to be strengthened and formalized, bringing end-users into the development process and agricultural research organizations need to be energized. The impetus, and the idea, for change has already come from within the region. USAID's role will be to advance the empowerment of southern Africans by supporting their efforts towards institutional strengthening, human resource development, communications and underlying institutional reform, enabling the governing groups of these institutions to be truly representative of stakeholder interests, and advocating their interests before policy makers.

The Ministers of Agriculture and Heads of State have confirmed the importance of effective institutions and an enabling political and economic environment as two of the five prime ingredients necessary to get agriculture moving.

Previous investments by donors and national governments have contributed key building blocks for future development; for example, a significantly enlarged cadre of well trained technical officers. However, much remains to be done to improve the institutional framework for sustainable development. Southern Africans have identified "doing business in a new way" as one of their highest priorities. This would enable their institutions to be responsive to stakeholder interests, set investment priorities more confidently, improve financial sustainability, strengthen accountability and improve communications and linkages. USAID will support the southern African efforts to improve the efficiency and sustainability of regional institutions that have a positive track record and which demonstrate the prospects for being responsive and effective.

In addition to improving institutional performance, harmonizing policies will play a major role in creating new trade opportunities and supporting sustainable development. Economic integration could lead to open markets and increased incomes for the region as a whole as well as enable the region to compete with the rest of the world.

The effect of the changing political and economic circumstances could

produce major changes in the region's agricultural production patterns and hence trade and food security. This will affect trade in inputs, outputs, and agriculturally based manufactured goods. Policy makers in the region need to be informed about the importance of these changes not only on a bilateral basis but also on a regional level, especially as the region will have to also be functioning under new world economic General Agreement on Tariffs and Trade (GATT) rules.

Illustrative indicators of progress towards southern Africans being empowered to strengthen the enabling environment for ANR developments will include: regional and national institutions "doing business in a new way;" harmonization of regional programs and plans for ANR development; harmonization of economic, trade and pricing policies; prioritization of regional and national programs; allocation of resources to those programs deemed high priority; improved communications among the southern African ANR community; stability in organizational financing; and improved linkages between research and development efforts at the national and regional levels.

#### Illustrative interventions -

- Support institutions and stakeholders to identify, analyze and monitor key institutional and policy conditions needed to be put in place regionally;
- Assist SADC in efforts to rationalize and improve the technical quality, governance and regional cooperation of SADC sectoral programs involved with agriculture, agricultural research, natural resources management and the environment. Also assist other key regional NGO and private entities, such as the International Union for the Conservation of Nature (IUCN), and private sector associations as appropriate;
- Support the development of regional planning efforts in agriculture and the environment (such as National Environmental Action Plans <NEAPs>, National Conservation Strategies, a policy network and high priority regional research programs), through partnerships with the World Bank, and support to the Special Program for African Agricultural Research (SPAAR), the MultiDonor Secretariat, and cooperation among NEAP country coordinators, via the Network for the Environment and Sustainable Development in Africa (NESDA);
- Support communications/e-mail networks, and other approaches designed to link stakeholder groups;
- Support human resource development, including technical and advanced training and support to specialized centers of excellence in the region;
- Support to environmental education, social marketing, training for

subject matter specialists to transfer technology, and other strategies; and

- Identification, surveying and development of innovative funding mechanisms designed to promote the sustainability of key stakeholder programs and institutions.

Existing SARP activities proposed to be incorporated within this Outcome of the ISA are Regional Agriculture Research Coordination (690-0225) and Southern Africa Agriculture Research Management Training II (690-0269).

**OUTCOME TWO: Increased use of sustainable and profitable technology and greater stakeholder control of resources.**

**Rationale** - Food insecurity faces many households in southern Africa. Sufficient food is not being produced at the household level nor is sufficient income being earned (through farm or non-farm employment) to purchase food. The low productivity (including production, processing and marketing elements) limits profitability of numerous rural agricultural enterprises. For economic growth to occur, rural agriculturally-based households need to generate and market surplus production. At the same time, efforts to increase production and income must not lead to environmental degradation.

Southern African rural communities are concerned about jobs, income, trade and maintenance of the environment. Availability and use of profitable, sustainable technology for on and off farm enterprises can help. In Zimbabwe and elsewhere, promising programs have increased small-holder rural incomes through increased use of improved technology and by devolving control over natural resources (land, agricultural resources, wildlife, forest products, fisheries) to the local level. Regionally supported information exchange, harmonization of regional policies, development of profitable technology to support rural enterprises (on and off farm) combined with community based natural resource management and sustainable agriculture interventions could help rural populations become more productive.

The outlook for increased availability of profitable and sustainable agriculture and natural resource management technology has greatly improved due to USAID assistance provided to collaborative regional research programs over the past decade. These regional programs have proven to be more cost effective than bilateral efforts at developing a national technology base and research system to support key commodities. Continued support for ongoing activities will enable the introduction of drought-resistant varieties for sorghum, millet and cassava. These crops could improve food security in low rainfall areas. Support for ongoing activities will also enable research activities and resources to be effectively coordinated with other donors and monitored at the regional and national levels to ensure accountability for development impact.

Extension and evolution of these technologies and resource management approaches are effective vehicle to achieve local and global biodiversity conservation goals while contributing to broad-based economic growth. The historical evidence from regional programs has demonstrated that you must have local involvement and ownership to those programs if you are to see real impact. This Outcome will support these critical linkages between regional programs and the end users of resources and technologies.

Illustrative indicators of southern African progress in achieving this outcome might include: hectares under improved practices; hectares under community managed conservation agreements; number of adopters; diversity of practices adopted.

#### **Illustrative Interventions -**

- Support to technical networks, especially in agricultural/NRM research and the involvement of NGOs in technology transfer;
- Support to pilot community-based NRM activities, including those related to sustainable agriculture, wildlife, range management and grazing, forest products, tourism, and resource-based micro-enterprises;
- Technical review of lessons learned of regional interest, and sharing of such technical information within the region.

Existing SARP activities proposed to be incorporated within this Outcome of the ISA are Southern Africa Root Crops Research Network - SARNET (690-0268); Regional Sorghum/Millet Research (690-0224); and most of the bilateral and regional components of Natural Resources Management (690-0251). This Outcome may also continue to assist bilaterally funded NRM activities in Lesotho and Malawi.

#### **OUTCOME THREE: Sustainable regional ecosystem management.**

**Rationale** - Southern Africa is blessed with a rich, but also fragile, resource base. The region's water resources are its strength but also a source of vulnerability; witness the dislocation and impact of the 1992 drought. As South Africa becomes more integrated into the region and as the region expands economically, the need and potential for rational planning and use of regional resources (most particularly water and wildlife) will increase. For many of the region's indispensable resources, "sustainable" ecosystem management can only be done on a collaborative regional basis.

Regional planning is essential to the future of such regional water resources as the Zambezi River basin, the Cubango River and Okavango Delta system, and Lake Malawi.

Similarly, wildlife resources are also regional; a substantial proportion of all elephant, cheetah and rhinoceros in Africa are found in the region. The elephant and other species tend to be highly migratory, many of them ranging between Namibia, South Africa, Zambia, Botswana, and Zimbabwe. Tourism and other wildlife use are major sources of foreign exchange and an increasingly important source of community and household income. However, decisions in one country can dramatically affect wildlife resources and potential for utilization across borders. Long term sustainability of this extremely valuable resource requires regional interventions and strategies.

Illustrative indicators of southern African progress in achieving this outcome might include: number of specific ANR regional resource management plans in use; legal instruments for management of common resources; regional consultations regarding resource use within countries; and sharing of research tasks and results.

#### **Illustrative Interventions -**

- Support to regional resource inventories and analyses, including watershed management, wildlife populations and climatic change issues. Provision of imagery and geographic information system (GIS) documentation supportive of other donor and stakeholder programs. Support of standardization of imagery and protocols for the transfer of data and analysis among stakeholders;
- Agro-ecological inventories and analyses linked to agricultural technology development and transfer and to food security;
- Support to regional programs on climatic change, being initiated through stakeholders and NASA/EPA/Forest Service activities. (USAID has been asked by these Agencies to assist in field coordination regionally). This would also be linked to the bilateral U.S. Government Country Studies programs now funded in Zimbabwe, Zambia and Botswana, and being considered for Mozambique.
- Inventories and joint technical programs on wildlife migrations and biodiversity;
- Regional environmental planning in conjunction with the World Bank, SADC and other partners. Program similar to the Regional Environmental Action Plan being developed with Eastern Europe will be reviewed in October on the return to Washington of a high level World Bank team.

#### **D. IMPLEMENTATION PARAMETERS**

As noted above, in the detailed design and implementation of this Strategic Objective 3 of the ISA, USAID proposes to follow an

innovative approach, supporting the initiative which southern Africans have already demonstrated, and reinforcing the regional efforts in which they are now engaged. The approach proposed is intended to be stakeholder-driven, build upon activities and organizations in place and lessons learned to date, and be responsive to evolving circumstances in the region.

ISA is an ideal program to try the type of partnership strategies advocated by the Administrator and the AA/AFR. This though requires a level of vision, flexibility and willingness to experiment that often are not compatible with conventional USAID programming and operational mechanisms. Successful implementation of the Strategic Objective will require:

- Flexibility to quickly respond to changing circumstances and new opportunities;
- A willingness and ability to focus on partnerships and programs which are driven by the southern Africans themselves;
- A sincere and consistent emphasis on empowering southern Africans to define and resolve their own problems in the sector, using USAID resources to leverage the southern Africans own resources and talent, as well as other donor resources;
- An ability to identify the intermediate institutional and policy conditions needed to create long term and sustainable change.

As proposed, the stakeholder analysis and selection of activities for the program would not be finalized prior to project implementation, but rather continue over the life of the program. The ongoing definition, review and validation of activities by USAID's partners in southern Africa would be one of the primary aspects of the program itself, not just something to be done in the design phase. This approach would still need a clearly defined Strategic Objective and indicators, as well as well defined initial interventions at the Outcome level.

The above approach is absolutely appropriate in southern Africa, given the rapidity of change, the uncertainty of events, the extraordinary quality of the human resource base, and the existing commitment of the southern Africans to programs of the type described in this strategy.

Implementation of the strategy will necessitate substantial delegations of authority to the ISA regional office, will require that office to establish and maintain close linkages with the full range of stakeholders, will require that clear and specific objectives and measures of success be developed for each specific program approved for funding under this ISA, and will require a strong program monitoring and evaluation system. Each of these issues will be further explored as program design continues.

**CHART**

**TO BE PROVIDED LATER**

## **Strategic Objective 4: Increased Efficiency, Reliability and Competitiveness of Regional Transport and Telecommunications**

### **A. Rationale**

The continuation of SARP's existing programs in transport and telecommunications seems critical if USAID is to be a key supporter of expanded regional cooperation and increased trade and investment in the region. Consultations with key regional stakeholders provided strong endorsement for the need to proceed further with reforms designed to improve operational efficiency in these sectors. USAID/W's approval of SARP's telecommunications project was conveyed to the mission while the task force was undertaking its regional consultations. Program activities in the transport sector have been the centerpiece of SARP's FY '91 to FY '95 strategic plan. Extensive documentation and analyses were reviewed and approved by USAID/W in endorsing SARP's strategy in this area. Currently approved program activities in these sectors will be continued under the ISA.

### **B. Transport—Strategic Program Priorities**

USAID has had a long-standing and continuing interests in the transport sector since the 1980. Investments in transport infrastructure since 1980 have exceeded \$289 million. Of this amount, about 72 percent has been invested in SADC railways from 1981 to 1991. The main beneficiaries have been the national railways of Malawi, Mozambique, Zambia, Swaziland and Zimbabwe. About 18 percent was invested in road transport projects in Zambia and Mozambique. Another 8 percent was invested in internodal transport and about 1 percent for transport efficiency related interventions. USAID assistance in transport now focuses on improving operational efficiency and promoting regional cooperation.

The southern Africa region has installed an adequate regional infrastructure system over the past decade to facilitate its international trade. Very few new investments in transport infrastructure are required since most of the corridors have been rehabilitated and are operational. However, having an adequate physical infrastructure capacity will not be sufficient to increase international trade and investment in the region.

**Proposed Target.** In view of this, there are two very important target objectives which USAID will pursue in the transport sector.

- Assist SADC member governments to create a transport environment that's free from restrictive policies and overly intrusive economic regulations such that efficient transport services are available at a reasonable price; and to

- Assist SADC member governments to improve the operational and financial performance of their transport enterprises through restructuring and privatization programs.

4. **SADC Transport Efficiency Project (STEP).** In 1991, USAID launched the SADC Transport Efficiency Project (STEP). This is a policy-based project that provides technical assistance to the Southern African Transport and Communications Commission (SATCC). STEP is designed to undertake policy analysis and formulate and disseminate policy information to key decision makers of SADC member governments. The project goal is to enhance the enabling environment for increased trade and investment in the SADC region. The purpose is to increase the efficiency, reliability, and competitiveness of the surface transportation system.

The key outcomes expected to result from the interventions proposed under the STEP project are:

- The formulation of a surface transport sector policy agenda for the SADC region;
- Detailed analysis, design, and promotion of specific surface transport policies affecting, *inter alia*, pricing and investment policies, road taxation policies, vehicle axle weight policies, transport regulation, labor redundancy and retrenchment policies; and railway restructuring and privatization policies;
- Establishment of a regional transport data base;
- Enhanced institutional capacity of SATCC to undertake regional policy research, policy formulation; and information dissemination through staff skill development, training and the application of computer-based transport policy models; and
- The establishment of a regional institutional framework and mechanism for regional policy coordination and adoption, that leads to transport system integration.

Another transport efficiency intervention by USAID is the development of a region-wide computer-based rolling stock information system in collaboration with SATCC and the railways of southern Africa. Once the project is fully implemented, it will provide the region's railways with the ability to:

- Better manage their locomotives and wagons and achieve higher utilization rates;

- Improve their financial performance by substantially reducing the wagon hire payments to SPOORNET, the South African railways, of about \$43 million dollars a year; and
- Provide real-time and accurate customer information on the status of goods' shipments throughout the region.

**Regional Railway Restructuring.** This is a new FY94 project designed to assist in the restructuring of publicly-owned railway enterprises. The activity is being undertaken in collaboration with the World Bank as a multi-donor effort to improve the efficiency and operational performance of SADC railways.

SADC railways, as well as the entire transport sector, should be able to operate as commercial enterprises. Moreover, SADC transport enterprises should be able to finance their operations without subsidies from their national governments. Subsidies should only be necessary if national governments insist on the railways or other transport enterprises carrying uneconomical traffic.

Six of the region's railways are either undergoing or have proposed restructuring programs. These include the National Railways of Zimbabwe, Swaziland Railways, CFM/South in Mozambique, Zambia Railways, Malawi Railways, as well as the Benguela Railways should lasting peace returns to Angola.

The main focus of the railway restructuring efforts will be to:

- Rationalize the railways' staff, rolling stock, and facilities in order to equalize their service levels with projected traffic demand;
- Promote private sector participation in all aspects of railway operations and ancillary services;
- Introduce efficient operations procedures and practices; and
- Organize the railways such that they are commercially oriented and financially sustainable.

Joint USAID-World Bank efforts are now underway in the restructuring of the Mozambican Railways (CFM/South), Malawi Railways and Zambia Railways. USAID will also be conducting analytical studies to determine how it might assist the National Railways of Zimbabwe to further its restructuring efforts. The main thrust of these restructuring exercises is to bring the railways more in with line projected traffic demands and to permit private participation in all aspects of railway operations and activities.

**Regionalization of Transport Services and Institutions.** USAID studies indicate that substantial benefits can be derived from the

establishment of regional transport institutions and associations to formulate and coordinate policies. USAID has been active in encouraging regional dialogue on transport sector policy issues and regulations in order to create an enabling environment for private sector development.

4. In this regard, USAID has provided support to the Road Transport Operators' Associations to organize regional forums to discuss and coordinate transport policy issues at the regional level. USAID has also encouraged the railway administrations of southern Africa to establish a formal institution that includes South Africa's railways as a full member. Such an organization would be better equipped to address inter-railway policy and operational issues than what is presently done through informal technical groupings.

### **C. Telecommunications - Strategic Approach**

The lack of adequate infrastructure is both a cause and result of insufficient investment. SADC governments have long acknowledged that transport is an infrastructure element that can make or break a product's price competitiveness with respect to both intraregional and extra regional trade. Similarly, it has become evident that investors are very much concerned about the timeliness of information transfer, as it can directly affect the profitability of an investment. In sum, analyses indicate that the region's infrastructure and related investment policies must be improved if the investment climate is to be attractive.

Under the ISA USAID will continue funding for SARP's new FY '94 Regional Telecommunications Restructuring Program (RTR). Outlined below is the strategy for the approved program.

#### **Program Rationale**

The development problem to be addressed under the proposed program is inadequate telecommunication services in the SADC region and its impact on expanded investment and long term sustainable economic growth. Access to dependable, efficient telecommunications services is increasingly recognized as a critical element and most often a binding constraint to attracting new investment in SADC countries currently engaged in comprehensive economic restructuring programs designed to encourage expanded investment and employment. Moreover, worldwide evidence suggests that all aspects of a business increase in productivity with improved telecommunications, but the greatest gains are shown in marketing, finance, and production control -- the areas most frequently identified as urgently needing improvement if businesses in the SADC region are to become competitive in external as well as intra-regional markets.

Telecommunications services in the SADC region are wholly inade-

quate to support increased investment and economic growth. Expanding current production or investing in new business operations is impossible until significant measures are taken to address the problem. As of 1991, the entire SADC region (this excludes South Africa) had only 511,000 phone lines, less than the country of Fairfax, Virginia.

Officially, unmet registered demand is 330,000 lines in the region, but unregistered demand has been estimated at closer to one million lines.

The sub-Saharan region has internal disparities in the distribution of existing lines; South Africa, with five percent of the region's population, has 40 percent of its phones. Potential Zimbabwe to have telephones installed. Even those with phones often find that their lines may be effectively out of order for up to 50 percent of the time due to equipment malfunction. In sum, the impact of this major infrastructural weakness on business operations has been devastating, severely limiting possibilities of expansion and the development of new employment opportunities.

An extensive analysis of the SADC region's telecommunications systems identified two key constraints to addressing the poor services problem: (a) inadequate and inappropriate investment in the sector, and (b) unsustainable management practices, within an ineffective policy and regulatory framework. Although many Post, Telephone, and Telegraph (PTTT) entities have been established as public corporations with a mandate to operate on commercial terms, the lack of flexibility to operate as a private sector firm and the lack of accountability to investors serve to undermine all incentives to produce dependable services at reasonable cost.

While poor management practices reduce the range and coverage of telecommunications services, inadequate investment in infrastructure has played the major role in inhibiting the expansion and improvement of services. Factors currently affecting sector investment include inadequate resources, insufficient knowledge of investment opportunities, and policies which restrict or impede private investment.

The RTR Program envisions a regional core project addressing region wide issues and up to three national telecommunications restructuring activities to be implemented as sector or nonproject assistance programs. The RTR core project will:

- Strengthen the capacity of southern Africans to develop and manage national and regional telecommunications networks through the timely provision of information, analysis, and technical consultation;
- Assist in solving problems being encountered by participants in the regional telecommunications network, particularly those of a legal or regulatory nature, by providing timely, expert technical assistance;

- Lay the groundwork for well-defined, appropriately-sequenced, national restructuring programs; and
- Link private U.S. telecommunications services and equipment suppliers into the regional network in an effort to bring increased levels of investment and efficiency to regional and national telecommunications systems.

The RTR Program anticipates that the country specific telecommunications restructuring programs will have two general objectives:

- increasing and broadening the access of national users to more cost-effective systems of information transfer; and
- contributing to increased investments in expanding business opportunities in that country.

#### **Expected Achievements in Transport and Telecommunications**

The impact of USAID program strategy will be determined by monitoring a number of indicators for participating SADC countries.

(The attached program objective tree delineates indicators which will be used to monitor results.)

## STRATEGIC OBJECTIVE 4: INCREASED EFFICIENCY, RELIABILITY, AND COMPETITIVENESS OF REGIONAL TRANSPORT AND TELECOMMUNICATIONS

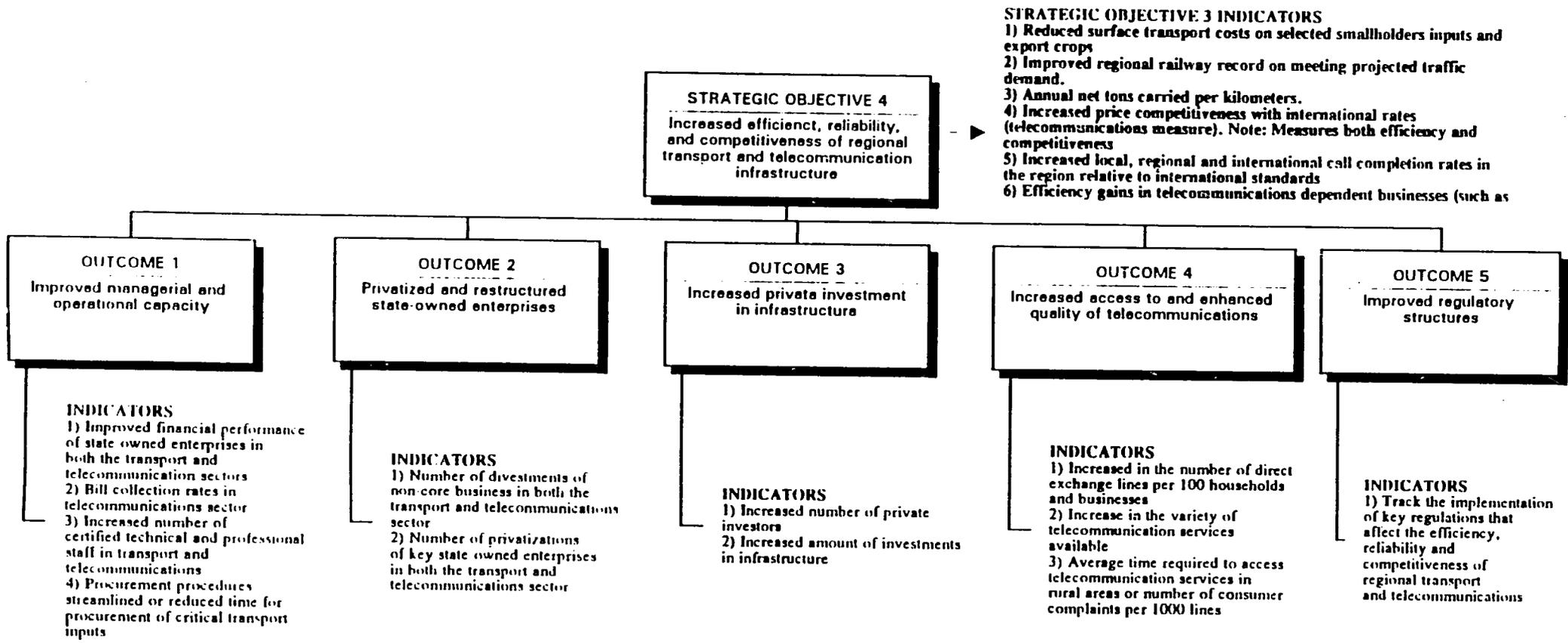


Figure 5