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STRATEGIC

AND

TECHNICAL ANALYSES

INITIATIVE

FOR

SOUTHERN AFRICA

(ISA)

ANNEXES A - E

ANNEX A

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STRATEGIC AND TECHNICAL ANALYSES

INITIATIVE FOR SOUTHERN AFRICA (ISA)

BASED ON REGIONAL CONSULTATION AND
ANALYSES CARRIED OUT
FEBRUARY 4 - MARCH 5, 1994

TASK FORCE REPORT TO THE
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

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SUMMARY STATEMENT OF ISA STRATEGIC DIRECTIONS

The Principal Focus of USAID's Southern Africa Program

Under SARP (FY '91-94) Has Been:	**Under ISA (FY '94-96) Should/Will Be:**
To support SADC's Program of Action to lessen dependence on RSA's infrastructure and the region's dependence on food imports.	To assist a broad range of regional efforts to: (a) re-engage RSA into the region on a mutually beneficial basis; and (b) promote increased regional cooperation in key sectors on key development issues to stimulate economic growth and a stable democratic environment.
PROGRAM PURPOSE	PROGRAM PURPOSE

By Investing In Projects To:	By:
1. Install physical capacity in the region's road, rail and telecommunication infrastructure for access to regional and external markets. 2. Strengthen sustainable regional food security via increased agricultural productivity and increased incomes— including pilot community-based NRM efforts. 3. Develop strategies for deepening future involvement in stimulating regional trade and promoting entrepreneurship.	1. Establishing a regional enterprise fund to *promote disadvantaged indigenous private sector development*, and their increased productivity and participation in all areas of the regional economy. 2. Establishing a regional democracy fund to *promote and defend democratic processes and institutions*, and strengthen the capacity of NGO's to contribute to creating a regional culture of democracy. 3. Supporting efforts to *stimulate increased trade and investment* within the region and with the rest of the world. 4. Supporting the *restructuring deregulation, privatization and commercialization of the region's transport and telecommunications infrastructure* to increase operational efficiency and stimulate trade and investment. 5. Developing strategies to *assist regional efforts in environment and natural resource management*—particularly water and eco-tourism.
CRITICAL OBJECTIVES	CRITICAL OBJECTIVES

Through:	Through:
1. SADC Program of Action; mostly donor-driven. 2. Mostly USAID mission management and implementation of projects. 3. Very little involvement of private sector. 4. Coordinating investments in infrastructure. 5. Promoting cooperation between agricultural research network. 6. SADC Annual Summit of member states and donors. 7. Donor coordination primarily to avoid duplication; through SADC Pledging Conferences. OPERATIONAL APPROACHES	1. "Regional" stakeholder-driven initiatives. 2. Innovative regionally-based implementation mechanisms. 3. Increased private sector participation. 4. Regional level policy reform, coordination and harmonization. 5. Increased cooperation between regional training institutions. 6. Expanded regional dialogues. 7. Enhanced donor collaboration and cooperation to leverage resources; through co-funding, DAC and G-7 consultations. OPERATIONAL APPROACHES

SECTION III

FINDINGS OF THE REGIONAL CONSULTATION AND ANALYSIS PROCESS

The mission/purpose of the ISA should be to assist regional efforts to promote increased regional cooperation in key sectors and on key development issues which show near-term promise for stimulating economic growth and contributing to the creation of a stable democratic environment throughout the region.

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 re-design 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 institutions of civil society. The analysis in this section is derived from the conclusions reached in SARP-funded regional dialogues in 1993 and 1994, and from consultation interviews with more than 200 key stakeholders in the region.

This section summarizes, according to the sectors/areas of focus recommended for USAID's continued or new involvement, the major findings of the regional consultation and analyses carried out by the task force. Special emphasis was placed on identifying: a) the key stakeholder institutions or networks considered important for promoting increased cooperation in the sectors/areas of focus, b) the most pressing constraints and factors impeding increased cooperation, c) the most promising programs for addressing the constraints and promoting increased cooperation, and d) recommendation for USAID involvement in the sector area of focus.

I. TRADE AND INVESTMENT

A. Rational and Opportunities

The Initiative for Southern Africa (ISA) task force held discussions and meetings during February and early March 1994 throughout the Southern African region. It was pointed out to the task force by many that today "regionalization" is an idea whose time has come. A new impetus for regionalization results from the impending political changes in South Africa, and world wide hopes and expectations that those changes may help turn the regional economy around. The task force was advised that regionalization needs a new focus towards productive investment and capacity-building.

There are other signs that a window of opportunity to promote economic growth in the region may exist today because—

- The countries in the Southern African region are in the process of reforming their economic policies. The reform measures include liberalization of domestic trade and investment regimes using common guidelines provided by the IMF and World Bank. Exchange rates are now more responsive to market conditions. Tariff and nontariff barriers to trade are being reduced to levels that should not unduly restrict trade. Macro policies reforms supportive of private sector activity should boost investor confidence in the region;

- South Africa's impending open participation in regional trade and investment may serve to further expand the regional market. Harmonization of trade policies within the region could enhance opportunities for more efficient industrialization, growth and employment creation. It is hoped that intra-regional trade would increase its share of total trade and help alleviate adverse short-term fluctuations on the international market for primary commodities;

- Stability and democracy in South Africa and harmonization of trade and investment policies cold further attract foreign investor interest in the region in such areas as tourism, the production of industrial raw materials, infrastructure development and export-oriented activities; and

- Regional trading blocks are emerging worldwide and their role in furthering the prospects of the longer-term movement toward open global trade is generally accepted.

It is within this "window of opportunity" context that the ISA task force sought to develop a regional perspective on trade and investment during its field trip to the Southern African region.

B. Key Stakeholders

i. Regional Institutions

Each Southern African country has evidenced its belief in the benefits of regional cooperation in trade and investment by joining one or all of the existing regional institutions with responsibility for promoting regional cooperation and integration in this area. Botswana, Lesotho, Swaziland, Namibia and South Africa belong to the Southern Africa Customs Union (SACU). It was formed in 1909 and promotes trade by eliminating intra-SACU tariffs while imposing a common tariff on goods from third countries.

Lesotho, Swaziland, Botswana and Namibia also belong to the SADC, along with Angola, Malawi, Mozambique, Zambia, Zimbabwe and Tanzania. The major function of SADC has been to foster development of regional infrastructure with a view to lessening dependence on South Africa for trade routes.

All the SADC countries (except Botswana) also joined the Preferential Trade Area for Eastern and Southern Africa (PTA). Formed in 1981, the PTA promotes cooperation especially in trade and customs.

The regional organizations (SACU, PTA, SADC) are therefore agents of the countries themselves, and their programs are designed to implement the collective wishes of the member governments. While organizations sometimes assume an identity of their own, it is fair to say that their continued existence reflects the commitment of the member governments to regional cooperation. More detailed descriptions of each organization follow.

The SADC (Southern Africa Development Community): The SADCC or Southern Africa Development Coordinating Council (now SADC) was formed in 1980. The goals of the SADCC were: a) to promote and coordinate economic cooperation by means of a project and sector-led approach and b) to reduce the economic dependence of the region on the outside world and on South Africa.

The project-led and sectoral approach has resulted in an emphasis on infrastructure creation for which SADCC was widely regarded as having achieved considerable success. When the treaty establishing its successor, the Southern African Development Community (SADC), was signed in Windhoek in August 1992, the objectives were also broadened to include harmonization of fiscal and monetary policies, of exchange rates and trade regimes, and of cross-border movements of labor and capital. The treaty provides for the member states to conclude a series of protocols which "spell out the objectives and scope, and institutional mechanisms for the cooperation and integration." The protocols are to be negotiated over the next 12 months or so.

The treaty specified the following areas for which integration was deemed suitable:

- Food security, land and agriculture infrastructure and services;
- Industry, trade, investment and finance;
- Human development, science and finance;
- Natural resources and environment;
- Social welfare, information and culture; and
- Politics, diplomacy, international relations, peace and security.

SADCC's plans also call for the creation of a unified Southern Africa regional market involving its 10 member states plus South Africa.

The PTA (Preferential Trade Area for Eastern and Southern African States): The PTA is comprised of Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. It, too, along with SADC, is calling for the creation of a unified regional market which would include South Africa.

The treaty establishing the PTA was signed on December 21, 1981, and came into effect in September 1982. The objectives of the PTA are to promote cooperation in the fields of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs. This treaty called for the PTA members to:

- Gradually reduce and eventually eliminate between themselves customs duties for imports of selected commodities produced within the PTA;
- Establish common rules of origin to be applicable to products which will be eligible for preferential treatment. (This was in order to stimulate domestic value added in exports and to protect such goods against imports from outside the region);
- Establish appropriate payment and clearing arrangements among themselves that will facilitate trade in goods and services;
- Foster cooperation in transport and communications to facilitate trade; and
- Promulgate regulation for facilitating transit traffic within the PTA as well as simplify and harmonize trade documents and procedures.

In 1993, the member countries signed a new treaty designed to transform the PTA into a common market for Eastern and Southern Africa (COMESA). If implemented fully COMESA would eliminate customs duties among member states by the year 2000. All nontariff barriers to trade among member countries would also be eliminated, except for the protection of infant industries. Member countries would also have to take measures to promote intraregional trade, including the dissemination of product information, buyer-seller meetings, etc.

This treaty was signed by the majority of PTA members during the PTA meeting held in Kampala in November 1993. The treaty covers integration in a wide variety of areas, including, as it states:

> Establishment of a customs union and subsequent common market for free movement of goods, services, capital and labor. Monetary and financial cooperation; transport and communications; industry, standardization and quality assurance, investment promotion and protection; energy; health; natural resources and environment; agriculture; tourism and wildlife; information; social and cultural affairs; private sector; human resource development; women in business.

Many of COMESA's objectives for integration are the same as SADC's. The COMESA treaty differs, however, from the SADC treaty in that it includes the protocols for most areas of cooperation and integration.

The SACU (Southern Africa Customs Union): The SACU was initially formed in 1909. The Act which formed the Union of South Africa also tied Basutoland (Lesotho), Bechuanaland (Botswana) and Swaziland with South Africa in a common market. Goods imported into any member state from outside the union would bear the same tariff level. Revenues from such tariffs would be shared among the members using a formula based on their relative shares in trade. When Botswana, Lesotho and Swaziland became independent, the treaty was revised. In 1969, excise and sales duties were harmonized and the revenues also made subject to the sharing formula. Namibia joined the SACU at independence in 1990.

Member countries cannot negotiate preferential arrangements with third countries without the agreement of the other parties in SACU if such an agreement confers benefits better than those given to SACU members. The Common Monetary Area (CMA) covers the same countries and allows for currency convertibility within SACU. The activities of the CMA, however, are controlled by the Reserve Bank of South Africa and this also restricts flexibility in monetary policy for the four smaller countries. The revenue-sharing formula attempts to compensate the smaller countries for this loss of industrial opportunities and fiscal autonomy through an "enhancement factor." South African officials, however, are of the opinion that

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the formula imposes an undue burden on it as the most developed country and the largest market. Talks are currently underway to try to revise the formula.

It is difficult to separate the opinions of SACU as an institution from those of South Africa, since there is no separate SACU bureaucracy and the organization is effectively run by the South African Department of Trade and Industry and the Reserve Bank. The ISA team was told the current South African administration would like to see the SACU organization revamped and then Zimbabwe initially asked to join SACU. We were also told this would not preclude South Africa joining SADC or PTA, or both.

ii. The Private Sector

As already mentioned, the PTA and SADC have operated on the basis of government-led initiatives and public sector economic activities. Since individual countries began implementing economic reforms, however, the role of the private sector in both national and intraregional economic initiatives has become more prominent. In 1986, the PTA organized the first of its trade fairs, in recognition of the need for private sectors in member countries to interact and exchange business information. The PTA Bank has also financed private sector projects. The PTA Federation of Chambers of Commerce and Industry was established in 1984 to enhance the role of the private sector in trade and investment promotion. However, the aim seems to be to focus on the private sector as a mechanism for promoting PTA targets, rather than the reverse. The focus is likely to change with reorientation of national strategies brought about by economic reform programs. The private sector is therefore a very important stake holder and its views are more likely to be expressed through such national organizations as the Confederation of Zimbabwe Industries and the Zimbabwe National Chamber of Commerce, the Zimbabwe Trade Promotion organization (ZIMTRADE), the Indigenous Business Development Council (all of Zimbabwe) and the National Association of Manufacturers in Zambia, among others.

iii. Indigenous Business Organizations

The interests of the emerging indigenous business community are distinct in some areas from those of the established private sector, as a result of the region's political past and the dynamics of today's race and business relations. This divergence of interests is evident from the fact that the indigenous business communities in Zimbabwe, Botswana and South Africa have formed independent pressure groups distinct from the traditional chambers of industry. They seek a more favorable treatment in areas such as access to credit at lower rates of interest, assistance in export market penetration, human resource development and a guaranteed access to government contracts and asset acquisition in the privatization process. The various programs are viewed as part of the process of empowering the indigenous sector to participate more fully in areas of the economy previously closed to them.

iv. International Aid Donors

Bilateral and multilateral aid agencies have been involved in intraregional trade and investment activities. The SADC infrastructure investment program has been funded almost entirely by donors. National economic reform programs have inevitably worsened balance of payments because liberalization of exchange rates quickly raised the value of imports while only slowly affecting exports. Balance of payments support and import financing credits from donors have thus been critical to the reform efforts.

Of particular interest to the ISA is the initiative launched by the International Monetary Fund (IMF), Commission of the European Community (EC), the African Development Bank (ADB) and the World Bank in Brussels in June 1993 (the Brussels Initiative). The initiative had its origins at a meeting in Mauritius in 1992, which was followed by a series of technical working group meetings in the respective countries. A series of working papers were synthesized into a policy document. The document was discussed in Brussels and subsequently recommended to a meeting of ministers from the member countries in Uganda in December 1993.

The initiative is based on the premise that increasing regional trade requires a more open economic environment, as envisaged under the economic reform programs. The donors would therefore support trade and investment initiatives by only those countries that had implemented the "core conditions" of a structural adjustment program. In summary, the countries would:

- Simplify and liberalize their investment approval procedures;
- Reduce the period needed to process investment approval to a maximum of only 45 days. Equity conditions which defined whether a corporation was domestic for tariff concession purposes would be eliminated among member countries; and
- Authorize stock exchanges to list and trade in equities from other stock exchanges in the region. This would help develop capital markets and facilitate cross-border movement of portfolio investments.

C. Constraints of Most Serious Concern

During the period 1986–1991 the share of total SADC exports that went to other SADC countries remained constant at about 4.4 percent. During the same period the share of total imports that originated from other SADC countries improved very slightly from 3.9 percent to 4.5 percent. This means intra-SADC trade grew at the same pace as total trade, i.e., at about 11.0 percent per year at current prices. The PTA, the World Bank, the ADB and

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country governments feel there is room for improvement. The World Bank estimates that a more efficient allocation of the region's resources alone could increase intraregional trade by about 2.5 percent. The PTA estimates that, if all barriers were eliminated, intraregional trade could grow by another U.S. $1.5 billion. This potential expansion has not been realized because of several barriers to trade. Some are results of natural characteristics such as the land-locked nature of most SADC countries, the small size of the population relative to the land mass, and so forth. Other reasons have to do with policies implemented by national governments which act to inhibit regional trade and market failures where market incentives are insufficient to produce the desired result.

There are three studies which deal with constraints to regional trade.[1] The PTA study concentrates on tariff and nontariff barriers, including the shortage of foreign exchange. The perception of the PTA is slightly different from that of the World Bank in that it does not address the issue of overvalued exchange rates. The World Bank stresses this aspect and thus classifies the foreign exchange constraint as a policy failure. Otherwise, there is a general agreement among the three documents as to the main factors that inhibit the growth of intraregional trade and investment.

i. Policy Constraints

The World Bank study identifies policy constraints as *political* constraints since their removal requires a political commitment to what are essentially macro reform measures. The most relevant of these constraints are normally addressed in any structural adjustment program:

- *Inappropriate Macroeconomic Policies*: The most serious obstacles to intraregional trade and investment growth have been the unintended side-effects of inappropriate macroeconomic policies. Chief among these is the overvaluation of the exchange rates and the inefficient foreign exchange allocation mechanisms that are then used in the rationing process. The overvaluation was the result of inward-looking policies which favored industrial diversification under a tariff wall and subsidized imports of capital and intermediate goods at the expense of exports. The result has been a shortage of foreign exchange, which is then rationed. The rationing process has an implicit bias against imports of manufactured consumer goods produced in the region because they were not considered "essential."

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[1] PTA, *Study on Why Intra-PTA Trade Has Not Been Growing at a Faster Rate*, Fifteenth Meeting of the Customs and Trade Committee, October 1993. The World Bank, *Intra-Regional Trade in Sub-Sahara Africa*, December 1991. The African Development Bank, *Economic Integration in Southern Africa*, 1993.

The World Bank sees liberalization of the exchange rate as the logical solution because a more realistic regional foreign exchange regime would encourage recorded exports at the expense of parallel market activities. It would facilitate the pricing of regional output and remove a great deal of the uncertainty associated with such transactions.

The PTA on the other hand attributes the foreign exchange shortage more to declining terms of trade for commodity exports on the world market and the resultant balance of payments difficulties faced by the PTA countries.

All of the SAC countries are in the process of liberalizing their foreign exchange regimes. Zambia and Malawi have effectively floated their currencies, although the full impact is yet to be felt. Zimbabwe has abolished most of its import controls. Botswana has a very strong currency and the issue of convertibility has not arisen. As a result, most of the key stakeholders interviewed by the ISA team did not stress the foreign currency issue.

Overseas investors have criticized the restrictions placed on dividend remittances by some of the SADC member countries. These restrictions are mentioned as an inhibiting factor in attracting new investors. The restrictions of course are designed to stem the foreign exchange outflow, and they no doubt have the same inhibiting effect on cross-border investment. As a result, there was no enthusiasm among the private sector groups we talked to for cross-border investments. Part of the explanation lies in their own inward- looking policies: For a long time they have enjoyed a protected domestic market and high margins, and as yet do not see any reason for taking such risks as investing elsewhere.

Central government budget deficits have had an impact on the competitiveness and efficiency of financial institutions. Not only do the burgeoning deficits crowd out the private sector from the capital markets and raise interest rates, they also induce a complacent attitude in banks.

The high interest rates accompanying such deficits are also detrimental to regional trade. Producers usually can recover their costs, including interest payments, in the domestic market. The regional and world markets, however, are more competitive, particularly since inflation rates in the region are much higher than elsewhere in the world and margins on export orders were very narrow in the face of the world recession. Financing for regional trade at world market interest rates becomes essential.

For intraregional trade to grow it is necessary that economic reform proceed at the same pace within the region. Establishing a forum for regular dialogue between the different countries to exchange information on the speed and extent of reform would

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aid the process. Establishing official lines of communication with the private sectors of other countries to keep them informed timeously of policy changes that affect their activities would also help.

- *Differentials in Levels of Development*: Gains from specialization are one of the most important outcomes of regional integration, especially if the countries permit the free movement of factor inputs. The fear, however, is that Zimbabwe and South Africa (to an even greater extent) would have a lop-sided advantage in most sectors and would dominate all the other countries. The private sectors in Zambia and Botswana told the ISA team that the regional trade playing field was not "even."

  The concern was over their relative cost disadvantage when compared to Zimbabwe and Kenya in producing such items as plastic bottles and chemicals. The private sector in Zambia felt they needed time to refurbish its capital stock after years of excessive central government control. After that they would need tariff protection for a period of about five years before being exposed to the rigors of international competition. This was in spite of acknowledging that Zambia had the highest cost structure and one of the smallest domestic markets. The private sector in Botswana did not see advantages from regional integration because "they did not having anything to trade," i.e., they viewed regional trade as beneficial only if the country can export to the region.

  This fear of domination has resulted in considerable concern about the issue of compensating the losers in intraregional trade. The problem of compensating losers in the SADC is not as severe since projects have largely been donor funded. The SADC has tried to correct for the imbalances in the investment on infrastructure by allocating each member country with responsibility for a sector in which it apparently has a comparative advantage (e.g., Zimbabwe in food production, Mozambique for transport infrastructure, and so forth). However, the PTA has no mechanism for distributing gains from trade, and this may explain why implementation of its resolutions is less than satisfactory. SACU has a revenue-sharing scheme and movement of labor, together with the resultant wage remittances, has helped to offset the differentials in gains from the union. The mechanism works, although it lacks transparency, largely because there is no independent administrative machinery.

  The issue of differentials in gains needs to be addressed collectively. Initiatives to promote intraregional trade should be based on sound analysis where the advantages are clearly spelled out, the relative gainers are identified and alternative ways to compensate the others discussed. This can only be done on the basis of a common policy platform with convertible currencies, with no hidden subsidies and where industrial location is based on efficiency considerations.

ii. Tariff Barriers

The PTA singled out the inability of most member states to reduce tariffs at the agreed pace as one of the major factors constraining intraregional trade growth. As of the end of 1993 only three of the nine SADC countries who belong to the PTA had published PTA tariff levels for the 43 commodities on the recommended list. High tariff rates should not unduly restrain intraregional trade since all imports face the same rates. However, they eliminate the relative advantage afforded by lower tariffs to regional trade.

Governments fear losing revenues should they reduce tariff rates and may not believe that a coordinated reduction would stimulate all trade such that total revenue receipts would actually increase. Higher tariffs of course protect domestic industry against foreign competition. Almost all the representatives of the private sector told the ISA team they required a reduction in import duties on imported raw materials to a level lower than those on finished goods. Industries such as textiles sought even higher tariffs for finished goods. Such measures would encourage even further parallel markets. In Zambia, the ISA team heard that up to 75 percent of consumer goods on the market were smuggled, and this of course reduced revenue receipts.

Thus far the World Bank and others have called for general tariff reductions without really putting forward a positive case for the measure. Tariffs need not play the role of reducing effective import demand as currencies become more convertible. They are sources of revenue and the impact of lower tariffs on revenue receipts should be estimated for target industries.

iii. Non-Tariff Barriers

Table 1 summarizes the relevant nontariff barriers to trade and what the various countries have done to remove them. There has been a relaxation of those barriers associated with overvalued exchange rates, e.g., liberalizing of import licensing or open general import licenses (OGIL), allocations for PTA imports and expansion of foreign exchange provided for business travel. This liberalization is relatively recent and the impact on intraregional trade is yet to be fully felt. Taxes on foreign exchange purchases are likely to fall away with the implementation in all countries of foreign currency denominated accounts (FCDA). So will the requirement that an advance deposit be paid on all imports.

Other barters remain. Most important of these is the lack of harmonization of road customs transit declaration documents (RCTD), the requirement that transit traffic pay (relatively high) deposits in convertible currencies and the prohibition of imports of goods most likely to be from other SADC countries.

In discussions with the private sector the ISA team did not find the RCTD issue to be significant within SADC countries, with the possible exception of Mozambique. There were,

however, instances of licenses being denied for certain imports. South Africa, Botswana, Zimbabwe and Zambia were mentioned in this regard. We were told of denial of licenses for canned goods from Zimbabwe into South Africa, fresh pork in sealed containers going by road from Zimbabwe into Zambia and Botswana, vegetables from Zambia into Zimbabwe, and other examples. The list of prohibited imports (the negative list) should be as short as possible and be limited to goods which might endanger health and national security.

iv. Capacity Constraints

Both the World Bank and the African Development Bank reports mentioned production capacity limitations which hinder regional trade expansion:

- *A Limited, Undiversified Production Base*: The SADC countries have a comparative advantage in the production and export of primary commodities. Only Zimbabwe has a relatively diversified industrial base. As a result, only a few manufactured products and services can be produced competitively enough to be traded across national borders. The limitations on scale economies due to the relatively small national markets can only be alleviated if the region becomes an effective single market. The official entry of South Africa into the regional market should change the picture significantly.

- *Lack of a Unified System of Standards*: Regional importers prefer to trade with developed countries because they can easily verify product specifications and quality. There are some regional standards and quality control organizations (the Standards Association of Zimbabwe and a similar organization in South Africa), but the systems are not uniform. The PTA countries ratified a protocol on standardization and quality control, but it has not yet been implemented. The ISA team was told that product quality was a problem for most SADC producers. Their industries had been oriented toward supplying a domestic market in which they were protected by currency rationing from imports. Product quality became a casualty. We were also told that some of the investments made since 1985 with the aim of supplying the domestic markets now need to be reoriented towards exports. This requires technical expertise and management training. The sectors where investment occurred as well as the actual companies can be identified.

v. Lack of Market Information

There is a market failure in that regional business people do not have detailed, accurate, up-to-date information on opportunities within the region. Because of the dependence on raw material exports and equipment imports, regional market information systems are geared to serve overseas rather than regional markets. This is the case even with South Africa, whose regional exports comprise over 25 percent of total exports of manufactured goods. The World Bank attributes this bias to the existence of monopolies in the region. They have no

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incentive to diversify sources of imports and prefer to maintain traditional ties with sources in the developed world.

In Zimbabwe, the export promotion organization (ZIMTRADE) relied on the national statistical offices for market information. Not only would such sources be out of date, but their information is not necessarily appropriate for business decisions. In Zambia, the private sector had lost touch with regional and overseas markets due to the state monopoly over most business activities. Privatization needs to be coupled with programs to re-establish communications with private enterprise in the region.

The PTA has established a trade information network (TINET). We were told that technically it operates well but is not fully utilized, partly because it was initially located in government-controlled facilities and no one took the responsibility for publicizing it. As a result the private sector was not inclined to use it. The PTA is now establishing a parallel program in the private sector. Separately, the South African Foreign Trade Organization (SAFTO) has its own program based on a franchise from an overseas data collection agency. It is now marketing this product within the region and has established links with ZIMTRADE.

As indicated, most of these initiatives are oriented toward overseas markets. A regional parallel program requires a significant amount of data gathering. For this reason it would have to based in the private sector because of the proprietary nature of such information. Specialization in this area is also important because we were told it engenders confidence in the service and generates efficiency. Donors could provide technical assistance with regards to initial investment needs and contacts.

vi. Monopolies

This inefficiency associated with monopolies extended to regional trade and investment. Monopolies had no incentive to lower costs by looking at alternative sources of supply which could be regional. Instead, they preferred dealing with traditional sources which are usually based in the former colonial country. State monopolies have an added constraint in that their budgets are subject to government approval and travel by buyers in search of alternative suppliers is considered an unnecessary expenditure of foreign exchange. Privatization therefore affords an opportunity for introducing new entrants into regional trade, particularly if it is linked with the development of a regional information network.

State monopolies have also inhibited private investment, but in cross-border or joint ventures. In Zambia, we were told the state agency ZIMCO controlled over 70 percent of the nation's economic activity. The feeling in the private sector was that privatization offered an opportunity for attracting all foreign investment, including regional sources. It would indicate governments' seriousness about welcoming the private sector. Some investors from South Africa and Zimbabwe were coming into the agricultural sector, but what was needed

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was a "large dollop": a single large privatization to stimulate interest. The second tranche of parastatals now earmarked for privatization would offer such an opportunity. For the process to be efficient, however, the Zambian Privatization Agency needs to disseminate the offers widely throughout the region. The feeling was the privatization process was now biased against Zambian participation because of the capital requirements and the high costs of borrowing in Zambia. Offshore loans were available, but Zambian business people had no track record. Joint ventures with some regional partners are thus a possibility.

In both Zambia and Zimbabwe, the private sector was viewed with suspicion in some government circles. Officials in ZIMCO (Zambia) were not fully cooperating in the privatization process, accusing the Zambian Privatization Agency of selling state assets at less than "market" value. This was stirring up political opposition. In Zimbabwe, the Posts and Telecommunications Corporation (PTC) had refused to issue a license to a private sector joint venture to install a cellular telephone system that could eventually cover the region. The feeling was the PTC itself could install such a system and thus perpetuate its monopoly. In both countries it was suggested that maybe privatization was viewed as just another precondition by the IMF for balance of payments support and that long term gains of the policy need to be clearly and publicly debated. A regional conference on these issues would be one way of doing it, with a focus on specific sectors and private sector investors talking directly to policy-makers.

D. Most Promising Programs and Initiatives

Summarized below are the key initiatives currently underway in the region to promote intraregional trade and investment.

i. World Bank/IMF/ADB/EC Initiative

This initiative was developed over a period of two years. The idea of promoting regional integration in Africa originated at the Maarsticht meeting of 1992, and it led to the above organizations agreeing to cooperate on an initiative. They then made an offer of assistance to those countries willing to work at a faster pace at a PTA meeting of ministers in the same year. Fifteen countries responded to this offer. The follow-up was a meeting of those countries in Mauritius in June 1992 which discussed a report on trade constraints. The meeting decided to move ahead in identifying and removing these constraints at the national level by appointing technical working groups (TWG) in each country. The TWG would work with consultants appointed by the sponsors. The aim was to build some sort of consensus, while at the same time draft proposals for a common program of action. A meeting was held in Zimbabwe in December 1992 at which the various TWG reports were discussed and a program of action drafted. This program of action was recommended for submission to governments at a senior officials meeting in Brussels in June 1993. Subsequently, a ministerial meeting took place in Kampala, Uganda, on August 23, 1993,

and the program of action was approved in principle. It was then left to the individual countries to approach donors on the basis of having satisfied the preconditions.

This initiative is based on national action and self-selection. It builds on the premise that all participating countries have committed themselves to removing barriers to trade through implementation of structural adjustment programs. In addition, it then takes cognisance of specific measures under the PTA and SADC agendas and suggests accelerating implementation. Should the participating countries experience added balance of payments pressures because of this accelerated pace then they can approach the participating donors for additional assistance as nations and not as a regional group.

The "core conditions" which have to be fulfilled before a country qualifies for assistance under this program are—

- *Trade Liberalization*: The participating countries will take steps to dismantle import licensing and other nontariff barriers at an accelerated pace. The negative list of imports should be for reasons of health or security only.

  Tariffs on intraregional trade should be eliminated on a reciprocal basis by 1996, and they should move to a common, low external tariff in order to avoid trade diversion. Quantitative restrictions on exports to participating countries would be removed.

  The countries will also facilitate intraregional trade by implementing other PTA measures such as harmonized transit charges, a common RGTD in place of any other national documents, a single goods declaration document covering all trade and a regional bond guarantee scheme.

- *Investment*: In addition to the measures already summarized, the countries would agree to liberalize investment approval procedures. Processing of applications should not take more than 45 days and should be centralized at an investment approving agency (Investment Centre). Investment codes should be simplified and widely disseminated. Stock exchanges should be allowed to list and trade inequities from other stock exchanges in the region.

There were some reservations expressed at the Kampala meeting, which was attended by four SADC countries (Malawi, Namibia, Zambia and Zimbabwe). Reservations were expressed as to the level of compensation envisaged by the sponsors, given what were considered the potential financial losses of revenue from tariff reductions. The role of the regional institutions in what essentially was a national-oriented initiative also was unclear.

Access to the funding was not clarified, leaving the countries to assume that the conditionality applicable to structural adjustment programs would apply here as well, i.e.,

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they would never see the assistance since the donors themselves did not appear to have a collective machinery of assessing progress.

The ISA team were told by the consultant to the sponsors that it is now up to the governments to step up and request the assistance on the basis of having satisfied the core conditions. Thus far eight countries, including Kenya, Uganda, Rwanda, Malawi, Zambia, Zimbabwe, Mauritius and Tanzania have responded positively to the principles of the initiative. The consultant said the co-sponsors were "beginning" to negotiate projects in these countries. The ISA team could not confirm this in interviews with officials of the countries visited.

The donor approach is not coordinated in the sense of a single source of funds for the whole initiative. Instead, donors are to be approached separately. The IMF is willing to give technical support and help in changing the tax system in order to generate revenues lost from tariff reform. The EC has indicated it would provide $100 million. The World Bank and the African Development Bank have not committed themselves to specific figures. The ISA team was told that the types of projects which can be considered include balance of payments support, a facility for financing cross-border investment, compensation for revenues lost from tariff changes and financing of export incentives.

ii. The African Development Bank Initiative

The African Development Bank does not have an initiative of its own but is part of the World Bank/EC/IMF program. The ADB did, however, carry out a very comprehensive study on regional integration in Southern Africa, the summary of which was provided earlier.

The ADB envisions a strategy in which everyone is a gainer from regional cooperation. This requires a detailed series of studies on the benefits/costs of regional cooperation so as to identify the losers and gainers and the adjustment mechanisms. Without this, the programs would encounter problems. In particular, the ADB calls for studies to determine the *sectoral* impact of tariff reductions and removal of barriers on industrial location on investment patterns. Thus far most of the work has concentrated on the type of institutions and mode of operation, not on the technical aspects.

E. Recommendations for What USAID Should Be Doing Under a Proposed Regional Strategy

Proposed Goals, Objectives and Operational Approaches

ISA Trade and Investment Goal:

The goal of the trade and investment component of the initiative is to support regional level efforts to promote increased trade and investment within the region and with the rest of the world. All other significant stakeholders in Southern Africa want to see this goal attained.

Critical Objectives:

- To assist in the development of appropriate policy and regulatory environments that will improve the prospects for increased trade and investment within the region and with the global economy;
- To strengthen regional efforts to promote investment and capacity utilization;
- To reinforce efforts at the regional level to increase the participation of small and medium-sized firms in trade and investment, and to facilitate the informal sector's cross-border trade of locally made or homegrown products; and
- To support the harmonization and coordination of policies to promote increased, efficient trade and investment at both the regional and international levels.

Major Strategies:

To help develop appropriate policy and regulatory environments that will improve the prospects for increased trade and investment within the region and with the global economy, the ISA proposes to—

- Support regional dialogues on the harmonization of structural reform programs;
- Provide technical assistance for the harmonization of trade liberalization measures and programs;
- Provide technical assistance to support negotiations on regional trade and investment issues; and

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- Provide technical assistance in identifying trade and investment opportunities provided under the GATT.

To support regional efforts to promote investment and capacity utilization, ISA proposes to—

- Facilitate non-academic training and management programs at the firm level for critical regional industries;
- Assist on a regional basis trade and investment promotion efforts;
- Improve market information; and
- Strengthen national and regional trade and investment promotion associations.

In order to support, at the regional level, efforts to increase the participation of small and medium-sized businesses in trade and investment, and to facilitate cross-border trade of locally made or homegrown products by the informal sector, ISA proposes to—

- Assist bilateral and regional efforts at deregulating the trade environment;
- Facilitate dialogue at the regional level to exchange information on the technical requirements for deregulating the trade environment, particularly as it relates to the cross-border trading activities of the informal sector;
- Facilitate dialogues at the regional level for countries to agree on practical measures that enable people and goods to move freely across borders;
- Provide export-oriented technical expertise for nontraditional exporters;
- support the provision of financial services to small and medium-sized firms engaged in trade and investment; and
- Provide support to facilitate the removal of legal barriers that inhibit trade with and investment in the informal sector thereby constraining its productivity.

To support the harmonization and coordination of policies to promote increased, efficient trade and investment at both the regional and international levels, ISA proposes to—

- Support efforts at lowering trade barriers;
- Provide technical assistance to governments committed to implementing a common program of action; and

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- Provide support for technical analysis of sectoral opportunities for trade and investment.

Program Recommendations

Summarized below are the task force's recommendations of activities which USAID should consider supporting in its efforts to promote increased trade and investment in Southern Africa. The recommendations in prioritized sequence include—

i. World Bank/IFC/ADB/EC Initiative

Stakeholders recommended that AID focus on activities to improve regional economic cooperation (REC). Should AID choose to support efforts at regional integration, stakeholders recommended taking a focused approach rather than providing a blanket endorsement for any particular initiative.

AID has been asked by the sponsors of this initiative to support sectoral technical analyses; to assist participating governments in devising a system of compensation (such as exists in SACU and the EU) to provide some compensation for revenues lost from lowering or eliminating tariff and nontariff barriers to trade; and to provide technical assistance to governments committed to implementing a common program of action. In light of the stakeholders' advice, the first request that AID support sectoral technical analyses may have the most merit. More specifically, AID may choose to focus on providing technical assistance for the following analyses related to regional integration—

- The anticipated loss of revenue is used to explain why countries don't liberalize their trade and investment regimes. Stakeholders agree that there is a need to put this issue in context by evaluating the impacts of trade liberalization on revenue in countries that have completed the adjustment process.

- The ADB study identifies the need for sectoral studies to identify regionally efficient investment opportunities. Stakeholders told the ISA that sectoral analyses are needed to identify areas of comparative advantage. This was referred to as a particularly practical step that could lead to improved capacity utilization in the region.

ii. Renegotiation of SACU

Stakeholders consider the Southern African Customs Union (SACU) as the organization most relevant to trade and investment in the region. After the April 1994 elections in South Africa, SACU may change its membership, the way it is administered and the way gains from trade are calculated for distribution among member states. These issues currently are under review.

It was suggested that AID consider: a) assisting SACU in establishing an independent supranational secretariat; b) supporting the renegotiation of the SACU agreement and compensation scheme; and c) providing financial and/or technical assistance to facilitate SACU member countries' adoption of necessary policy reforms.

iii. Cross-Border Trade and the Informal Sector

It was suggested that AID consider supporting, at the regional level, efforts to facilitate cross-border trade of locally made or homegrown products by small businesses with particular emphasis on the informal sector. Although no reliable estimates of informal cross-border trade exist, it is considered throughout the region to be vast.

Stakeholders from the small emerging business sector complained of their inability to engage in a meaningful dialogue with public sector policy-makers on the practical steps required to improve cross-border trade. They recognized the need for an organization or network that would represent their interests as opposed to the interests of the formal business community. AID could consider providing financial and technical assistance as follows:

- Support a Southern African Enterprise Network modeled after the enterprise network AID is supporting in West Africa;

- Support a forum at the regional level to exchange information on the technical requirements for deregulating the trade environment, particularly as it relates to the cross-border trading activities of the informal sector; and

- Provide export-oriented technical assistance for nontraditional exporters modeled after AID's ongoing programs in Ghana and Uganda; and

- Facilitate the removal of legal barriers that inhibit trade with and investment in the informal sector, thereby constraining its productivity.

iv. Business Association Development

It was suggested that AID support the development of private associations to promote trade and investment within the region and globally. For example, the South African Foreign Trade Organization (SAFTO) has a world-class reputation and has worked within other Southern African countries providing technical assistance to promote expanded trade and investment. They are interested in providing a forum to encourage cooperation and interaction among the different national business associations already active in the region. They are interested also in developing a mechanism to facilitate the provision of practical on-the-job training conducted by successful businesses for emerging ones.

v. Trade and Investment Promotion

The task force was told that there is a need for a specific initiative to promote trade and investment in the region. The stakeholders said that past efforts and the current studies put too much emphasis on trade regime liberalization and not enough on trade and investment promotion, on improving market information and on supporting national trade and investment promotion organizations. Such an initiative also could include efforts to strengthen private national trade and investment promotion associations.

vi. Dialogues to Popularize Regional Cooperation

AID has been asked for financial assistance by the ADB to popularize its recent study on regional integration. According to some stakeholders, AID support for that study would be interpreted within Southern Africa as a *de facto* endorsement of the report and its recommendations. A more promising option may be to support critical analyses by Africans of the ADB study for discussion at the national and regional levels.

It was suggested that AID consider promoting cooperation between and among the SADC countries by funding regional and national programs to bring government and business together to agree on implementing practical steps identified by them to improve the environment for trade and investment.

vii. Structural Adjustment Dialogues

AID could support an African-led regional conference on the lessons learned from the implementation of structural reform programs. Stakeholders throughout the region asked about the progress made in other countries with structural adjustment and whether there were lessons to be learned from the experience of others. Most of the SADC countries are carrying out structural reform programs at the national level. To date, there has been no dialogue at the regional level to exchange information and harmonize programs.

viii. Training and Skills

Throughout the region all of the African stakeholders identified the lack of job specific skills as a major constraint to trade and investment. The task force was asked specifically to include technical training with a practical orientation as part of the new ISA strategy. Stakeholders expressed concern that human skills development was paid little attention in all the studies carried out to date, despite the fact that access to skilled people is central to effective national policy formulation and implementation, and economic growth in the 1990s. More specifically, it was recommended that AID facilitate nonacademic training and management programs at the firm level for critical regional industries, and for governmental policy analysts and technical specialists.

It was further suggested that AID consider providing financial and technical assistance to establish a network of technical training institutes throughout the region that would build upon already existing institutes at the national level. Individual country institutes could specialize as a "center of excellence" for a particular skill, drawing trainees from other countries in the region. A scholarship fund could be established to provide partial support for attendance.

ix. GATT

The Uruguay Round of the GATT has just been negotiated and the ISA task force was told that the countries in the region may not be familiar with its provisions. If requested, AID may choose to provide technical assistance: to explore export opportunities under the GATT at the regional level; and to identify trade and investment opportunities provided under the GATT.

x. The U.S. Generalized System of Preferences (GSP)

Stakeholders support the granting of beneficiary status to a Southern Africa regional organization under the U.S. Generalized System of Preferences (GSP). Assuming that all member states represented by the organization have beneficiary status, this regional designation grants a cumulative rule of origin (CRO). Under a CRO, a product can move from country to country so long as it is "substantially transformed," in that 35 percent of its value is added within the region. The product can then be exported duty free to the United States. GSP beneficiary status is granted by the President's Special Trade Representative.

xi. Rationalization of PTA and SADC

The overlap between PTA and SADC was not considered by the stakeholders as an important or major constraint to trade and investment in the region. Rationalization was considered something the organizations would have to work out themselves. PTA and SADC performance in trade and investment was considered poor, and it was suggested that this poor record may be due to the absence of any serious private sector involvement with the two organizations. If requested, AID should consider providing support to ensure that the broad private sector has a seat at the negotiating table; but this should wait until after the elections in South Africa and until the release of SADC's report on this topic.

xii. Non-governmental African "Think-Tanks"

It was recommended that AID expand its support for the trade and investment policy work of independent, nongovernmental African "think-tanks" to conduct practical, results-oriented analytical work.

II. TRANSPORT

A. Rationale and Opportunities

Recent developments in the Southern African region, and in particular South Africa, offer favorable prospects for expanding regional cooperation in the transport sector. Additionally, the region-wide cooperation of all Southern African states including South Africa during the 1991-1992 drought ushered in a new era of cooperation at a time when the region was most vulnerable.

SADC transport corridors, once disrupted or closed because of war-related destruction and civil strife, are now fully reopened. Two exceptions are the Nacala Corridor that links Malawi to the Indian Ocean at the Port of Nacala. And the Lobito Corridor in Angola that links Angola, Zambia and Zaire to the Atlantic Ocean at the Port of Lobito. Although additional capital investments are required, such as completing the last 77 kilometer section of the Nacala Line and rehabilitating the Benguela Railway, adequate transport capacity exists in the SADC region. Regarding the road system, a new bridge across the Limpopo River maybe required to improve the flow of traffic between South Africa and the rest of the region. Additionally, some ferry and bridge improvements across the Zambezi River may be necessary. Beyond these capital needs and in view of existing excess capacity and the projected traffic demand, no other major capital investments are required.

As a result of the cooperation among all of the region's publicly and privately-owed transport operating entities including those of South Africa, the transport sector performed remarkably well during the 1991-1992 drought. However, the long-term outlook for the sector, particularly the railways and the airlines, is less promising unless dramatic changes take place.

The main development challenges in the transport sector now are in the area of assisting the region's governments to improve the managerial and operational efficiencies of the transport system. Continued rationing of transport services by national governments through economic regulation, pricing and investment policy (e.g., tariffs, user fees, cumbersome transit documentation and procedures and other barriers) is no longer justifiable or sustainable. Burdensome regulations and poor fiscal policies have the potential to adversely affect the region's trade and investment prospects. One of the many lessons learned during the 1991-92 drought was the inadequacy of cross-border facilitation of commodity movement. This is an area that SADC, the PTA and SATCC must increasingly emphasize.

i. Movement Away From State Subsidies to Parastatals

Publicly-owned transport enterprises no longer have the political and economic clout they once enjoyed from national governments. Because of fiscal constraints, many of the costal

governments of Southern Africa are no longer able or prepared to finance the operating losses of their transport enterprises. Government subsidies, subvention, guaranteed credit, and bank overdrafts, etc., used mainly to funds operating deficits of transport enterprises are a thing of the past. In many countries of the region, what was once national pride has given way to fiscal reality. This message is being repeated throughout the Southern African region.

ii. Opportunity to Redeploy Savings Achieved From Increased Efficiency

Studies conducted by USAID in 1991 on SADC railways indicate payments to the South African railway (SPOORNET) for daily wagon hire charges amounts to U.S. $44 million (in 1991 constant dollars) per year. This is against U.S. $3.8 million in wagon hire revenues. Thus, producing an annual net balance of U.S. $40.2 million per year that's paid to SPOORNET. These payments are mainly attributed to inefficient rail operations that result in excessive wagon detention times on SADC railways. USAID studies indicate the introduction of a region-wide wagon management and control system such as the proposed USAID-funded rolling stock information system will substantially reduce these payments. The combination of an RSIS system and other train operations improvements will produce savings ranging from U.S. $15.8 to $16.4 million by the year 2000. This estimate assumes the railways are only able to capture a mere 5 percent reduction in their operating costs and improve their revenue position.

In order to take full advantage of these opportunities, the region's policy and regulatory environment must be dramatically transformed. The region's governments must allow market-based decisions to determine the type and level of transport services to offer. This means, first and foremost, a lessening of governmental interference in the economic regulation of transport services. Privately-owned or state-owned enterprises must be free to set prices for services, free to enter and exit markets, and free to make and retain profits.

B. Key Stakeholders—Goals, Ideals and Key Developments

i. SADC Member States—Technical Ministries

SADC member states are the main players and key stakeholders in the development of the region's transport system. The Southern African Transport and Communications Commission (SATCC) and the Preferential Trade Area (PTA) represents the regional interests of the SADC states. These are regional institutions with competing transport agenda particularly as related to policy and regulatory reform of the transport sector. Change in regional transport policies and the type of transport sector investments require agreement by all member states before being adopted.

The technical ministries of the transport and communications sector have the broad mandate to ensure that adequate transport capacity is available to meet the individual country's requirements. Technical ministries also ensure that the management of the transport system operates it efficiently. The technical ministries are also important within SADC institutional framework. SATCC reports directly to the technical ministries for transport and communications (formally the Committee of Ministers in the SADC lexicon) on matters affecting policy and the performance of the sector. The technical ministries through the Committee of Ministers make recommendations on matters affecting regional policies and cooperation to the SADC Council of Ministers.

ii. Regional Institutions (SADC, the PTA and SACU)

SATCC: Regional institutions, such as the SATCC, PTA and SACU, are critically important to the development of the transport sector in Southern Africa and, in particular the shape and direction of regional policies and cooperation. Several reasons account for this. Most importantly, these institutions were given the mandate for the transport sector by the region's governments. SATCC, for example, was given the specific mandate to lessen the dependency on south African transport routes. SATCC's mandate, as set forth in July of 1981 by the Heads of State, provides for the following responsibilities:

- To provide coordination in overcoming transport and communications problems in the region;
- To provide economic and efficient means of transport and communications in the region;
- To achieve self-sufficiency in technical manpower, training and development; and
- To encourage the efficient utilization of available resources for the improvement of transport and communications with in the region.

SATCC is only one of two sectoral bodies established by SADCC (now SADC) as a commission. Mozambique hosts the commission, as the sector coordinating country, and is therefore the host of the Technical Unit of the Commission. The body that supervises SATCC is SADC's Committee of Ministers. The Committee of Ministers consists of one minister from each SADC member state. This member is normally the Minister of Transport and Communications. The Chairperson the Committee of Ministers is the minister from Mozambique responsible for Transport and Communications.

SATCC has a vested interest in the transport sector facilities and operations because of the mandate from SADC. Over the past decade SATCC has been very successful in mobilizing international assistance for infrastructure development. According to SATCC's

Program of Action, more than U.S. $6.5 billion in transport investments were required at the end of 1991. Of this amount, SATCC managed to secure some U.S. $2.8 billion.

PTA: The Preferential Trade Area (PTA) was given an overlapping transport sector mandate with that of SATCC by its member governments. The PTA has had less of a role in the transport sector than SATCC. The PTA's strategy for transport rest on:

- The need to have an investment program to rehabilitate and upgrade critical components of the integrated regional network and provide inter-modal exchange points where these are insufficient or missing altogether;

- The need to develop an adequate transport and communications facilities to support increased intra-PTA trade that will arise from the full implementation of the overall PTA strategy;

- The need to promote and develop technological and manufacturing capabilities for transport and communications equipment and spare parts; and

- The need for institutional and policy reforms and human resources development.

Against these background needs, the PTA strategy in the transport sector is to:

- Upgrade, maintain, and repair roads, railways, airports and harbors to enable them cope with anticipated increases in intra-PTA trade;

- Redesign PTA's intermodal transport systems and develop new intra-PTA routes to link and cater for the type of goods and services produced in this sub-region; and

- Increase telecommunications and postal facilitate contact among the business community to enable fuller exploitation of new market and investment opportunities.

The PTA has made some important contributions in the policy and regulatory reform area. The PTA formulated the regulations on axle-weight limitations for trucks and the regulation on transit charges for the region. The PTA also devised a coupon system for transit vehicles to facilitate cross-border trade. The PTA remains an important player in the transport sector and will continue to be so in the future. However, the institutional rivalry between SADC, more specifically SATCC, and the PTA is likely adversely affect their ability to formulate and adopt effective regional cooperation strategies. The downside of this rivalry will most likely produce overlapping strategies and intense competition for international donor resources rather than clear strategies and programs for regional cooperation.

SACU: The South African Customs Union (SACU) is particularly important to its member governments. Long held practices in common trade facilitation regimes, harmonization of transport regulations, custom documentation procedures, etc. offer a basic framework for other regional institutions to consider.

iii. Other Donors and International Organizations

Since the formation of SADCC, the donor community and international development organizations have actively financed SADCC's Program of Action (POA). Such donor's as the EEC, CIDA, NORAD, SIDA, ODA, KfW, Caisse Francais de Development, Belgium, Australia, Italy, USAID and the World Bank among others supported infrastructure projects identified in the POA. The main thrust of the POA was to install transport infrastructure and lessen the dependency on South African transport routes. Many of these donors, because of past investments in transport and communications, have a continuing interest in regional cooperation. They also have an interest in ensuring that the rehabilitated capacity is managed and operated efficiently and that the lack of maintenance should not degrade this capacity. Most of the donors' investments are now targeted to improving the management and operational efficiency of the sector. Now that adequate transport capacity is available in the region, policy and regulatory reform, institutional coordination, regional coordination and human resources development are the main focus of donor assistance.

iv. Operating Entities

Transport operating entities such as the railways are represented by the SADC Railway Administrations. The road haulers are represented by the Road Freight Associations. While the Port Authorities are represented by the Port Authority Management of Eastern and Southern Africa. Each of these operating associations have particular national-level and regional interests in ensuring that their transport systems operate competitively and that their views are reflected in public polices. These operating entities also have a common interest in ensuring enhanced coordination at the operational level. The lack of adequate skilled management personnel will adversely operational coordination.

v. Users and User Groups

Users of the transport system, such as major producers and consumers and their representative organizations of user groups are key stakeholders in the transport sector. They are, first and foremost, the customers for the system. To the extent the regional transport system operates efficiently and competitive markets exist, producers and consumers are the main beneficiaries of any savings that result. Thus, they have an economic interest in any operational or regulatory policy changes that affect the system. On the other hand, users are adversely affected, if the transport system does not provide timely and dependable service at a reasonable price. This then adds to the cost of final demand and thus to the cost of production and consumption goods. Transport users exert their influence on the region's

political institutions and process mainly through their user groups, such as the Beira Corridor Group and the Nacala Port User Group, etc.

vi. Employees in the Sector

Many employees in the transport sector, as key stakeholders, are likely to be adversely affectedly by the various employee retrenchment programs contemplated for most transport enterprises in the region. Except perhaps for TransNamib Railways, there is an urgent need to restructure or privatize almost all of the transport enterprises in the Southern Africa region. This is due, primarily, to the costly financial subsidies they require to cover operating losses resulting from inefficient operations. Operating subsidies from national government also fund bloated employee payrolls. Significant retrenchment will be required to bring the transport enterprises in line with the project traffic demand for the region. Another constraining factor is the lack of resources to upgrade employee skills across the transport sector.

C. Key Constraints to a More Rational and Efficient Use of Regional Infrastructure

With the assistance of USAID and other international donor organizations, the region's transport system of corridors consisting of railway lines, roads and ports has almost been fully rehabilitated. However, the economic and financial performance of the transport sector in the Southern Africa region, particularly the rail and airlines sub-sectors, are unsatisfactory. This is, in part, attributed to the uncompetitive nature of the region's transport sector due to an overly restrictive political, regulatory, and system management environment. The transport sector is constrained by:

- Overly regulated publicly-owned transport enterprises;
- Highly-subsidized loss-making enterprises;
- Poor financial performance with a negative impact on overall fiscal balance;
- Inefficient operations resulting in a decline in demand for service; and
- Low productivity as measured by annual net tons kilometer, net ton kilometers per employee; passenger kilometers; load factors and operating ratios.

Presented below are other key constraints, such as political, management, physical facilities and human resources and personnel, that affect the performance of the region's transport sector.

i. Policy/Political

Non-commercial Business Attitude by National Governments and Management: The general lack of a commercial business attitude on the part of national governments and the management of state-owned enterprises remains a constraint to improving the operational and financial performance of the transport sector. This also affects national government's ability to attract new investments. Such attitudes are reflected, not only in national policies, but also at the operational level of the transport enterprise. Many mangers continue to cling to outdated management practices and often are hostile to any mention of increasing opportunities for private sector participation. Such attitudes are beginning to change in the region. However, such non-commercial business attitudes are far from being reformed.

Restrictive Regulatory Environment: Although SADC member governments have made noticeable progress in deregulating the transport sector in the region, a great deal remains to be done to create an enabling environment where open competition exists across all modes of transport. This policy requires SADC member governments to reform and harmonize transport regulations. Regulations affecting road user charges, transit permits, transit fees, axle weight limitations, vehicle inspection and licensing, as well as transit, customs documentation and procedures need harmonizing.

Inadequate National-level Policy Formulation and Implementation Capabilities: At the national level, many of the governments of Southern Africa lack sufficient national-level capacity to interpret and implement regionally adopted policies. This problem derives mainly from a lack of skilled personnel. Additionally, the inability to retain trained personnel once trained is also a problem. As the region moves to formulate, adopt, and implement the transport sector protocols such as those proposed by SADC, some member states may not be in a position to effectively implement the treaty protocols. The PTA sector strategy calls for human resources development in the transport sector, although it unclear how the PTA intends to implement its strategy. SATCC has secured donor assistance for training from GTZ, CIDA and other donor's but this not likely to be adequate the meet the region's requirement.

Surplus Labor Forces and Bloated Public Payrolls: Over staffing of state-owned transport enterprises is one of the main problems affecting their operational and financial performance and, as a result, their commercial viability. This negative impact of redundant labor and resulting effect on public finances can longer be overlooked by capital scare economies. Unfortunately, SADC governments are only beginning to address this problem and with a great deal of reluctance at that. It appears that many of the state-owned transport enterprises are viewed as social service agencies. The railways, for example, offered employees life time employment, medical clinics and health services, housing, recreational and sporting facilities, restaurants, hotels, etc. To indicate the magnitude of the labor problem, the nine SADC railways together employ 80,000 people.

Restrictive Labor Laws and Political Influence on Transport Enterprises: The ability of enlighten transport management to address the labor surplus problem is constrained by restrictive labor laws and often political interference on the part of the national governments. Restrictive labor laws on hiring and firing of workers as well as arcane work rules adversely the long-term viability of the public transport enterprises. For example, although wages are at best a pittance, stevedores at the Port of Beira in Mozambique work four-hour shifts yet are paid for a full eight-hour day. Moreover, government interference has not served to improve labor-management relations and has quite often been counter-productive in the case of the National Railways of Zimbabwe. Albeit reluctantly, the evidence from developing countries indicates organized labor has generally cooperated with labor retrenchment schemes in return for the assurance of compensation for redundant employees.

Inconsistent Adherence and Enforcement of Regional Policies by SADC Member States: Adherence to and enforcement of agreed regional policy changes by SADC member governments continues to call into question the ability of certain states to submit their national interest to that of the region. This produces a tension between the national interest and the regional interest that often give way to a lack of implementation and enforcement of regional policies at the national. Harmonization of road taxation and trade facilitation policies, such as axle weight limitation and transit fees and permits, are key areas where such tensions are likely to develop and require interventions. The PTA's rate for transit fees of U.S. $8 per 100 kilometers was agreed to by all SADC member governments. However, during the 1991-92 drought a price war broke out where one country would raise its rates and another would retaliate, thereby undermining an agreed regional policy. The issue of axle weight limitations, as proposed by the PTA of 8 tons per axle, has also been a rather contentious issue and remains to be settled. Promising signs in this regard are beginning to emerge from the expected participants to upcoming road transport meeting in Arusha, Tanzania in May of this year.

Tensions Between National Interests and Regional Interests: As indicated above, the national interests of some SADC member states often conflict with their regional interests. Under such conditions, policy and program implementation may need to include mitigating measures to relieve any short-term dislocations or adverse consequences of agreed regional polices. Harmonization of regional transport regulations and trade facilitation procedures are key areas where tensions between national and regional interests exists. This situation obtains despite the fact that the region has two regional institutions responsible for harmonizing regional policies, although these two institutions lack sufficient resources to mitigate adverse policy impacts.

ii. Managerial and Operational Inefficiencies

Financial Performance of State-Owned Transport Enterprises: The transport system in each of the SADC member states imposes substantial financial burdens on their national treasuries. The national railways, the national airlines and the road sub-sector account for

most of the financial losses incurred by the national governments in the transport sector. In the road sub-sector, these financial woes are, more often than not, the results of inadequate and ineffective road financing and taxation policies.

A 1992 World Bank study indicates combined net operating losses from Zambia Railways and Zambia Airlines in fiscal year 1991 were nearly U.S. $100 million or 12 percent of Zambia's total current revenues. Additionally, decapitalization in the road sector due to inadequate road maintenance imposed an additional U.S. $26 million burden on the Zambian economy. Total losses or deficits to be financed that can be attributed to roads, rail, and the airlines amounted to U.S. $126 million or 15 percent of the government current revenues in FY '91 alone. Similar situations are obtained in other SADC member states, whereby it is not uncommon for the losses in the transport sector to represent nearly 25 percent of national budgets.

Some countries such as Zimbabwe, Tanzania and Zambia have begun to address their fiscal problems through structural adjustment programs undertaken in concert with the International Monetary Fund. However, the financial situation in the transport sector, particularly rail and road, continues to be a major cause of concern.

Procurement Procedures: Procurement policies and procedures in the transport sector are often archaic and cumbersome. In many cases the right spare parts are not available for often routine service jobs. This unduly detains locomotives and trucks when they should actually be in service. Many of the publicly-owned transport enterprises lack control over the procurement of spare parts and have to rely on a central tender board. This process delays the procurement of needed inputs. In order for the transport sector to become efficient, a complete overhaul of their procurement policies and procedures must be undertaken.

Inadequate Attention to Certification and Testing: The lack of certification and testing of locomotive drivers represents a major constraint to improving operational efficiency in the SADC railways. This is, in part, attributed the resistance by labor unions to have locomotive drivers tested and certified for fear of losing members. Locomotive derailments mainly caused by human error, result in substantial economic losses to the railways and indeed, the national economies. USAID and the World Bank have advocated the need for a central facility in the SADC region for locomotive driver training, testing and certification. Such a facility is long overdo and should no longer be prevented because of the pride of individual railways. The economic costs of derailments are simply too high for railways and their national government not to address in a decisive manner. This would be also true for North American railways as well. This problem requires urgent action by the PTA and SATCC.

Lack of Focus on Core Business Operations: Many of Southern Africa's transport enterprises, particularly the railways, continue to provide services in which they have no

natural economic advantage. They neither have the organizational capacity, the marketing strategy, the skills, sufficient scale economies, the technological edge; nor competitive products and services in what they offer. Providing hotel accommodations, health facilities, food services, housing, maintenance of vehicle fleets, natural resources development, construction, etc., are not essential or natural business activities for railways. World-wide railway practice is to divest of non-core railway services and assets. The trend is to concentrate on providing efficient transport services with a decided customer orientation. The region's railways are only beginning to focus on their core business activities and much remains to be done.

iii. Physical Facilities

Over capitalization, non-standardized equipment, and surplus capacity characterize the physical transport system in the Southern African region. It has been stated repeatedly that adequate capacity exists in the region. However, what is often not stated is the condition and state of the region's physical infrastructure.

Over Capitalization: One of the major problems affecting the performance of the Southern African railways, including South Africa's SPOORNET railways, is over-capitalization. With a declining traffic base due to competition from road haulers, the railways have excess capacity in rolling stock, locomotives, workshops and other plant and equipment. The market share lost to road transporters is unlikely to be regained. Therefore, the surplus capacity is likely to remain a problem well into the future unless a clear strategy is formulated to either redeploy or divest of surplus assets.

Non-standard Equipment: The lack of standardized equipment, particularly in the railways of the region, remains a constraint to efficient cross-border operations. Despite the fact that SADC railways are dependent upon each other to interchange international traffic, different equipment standards exist. Harmonization of standards, such as those of rolling stock airbrakes, wheels couplers, wagon design, and brake valves will improve the railway's ability to provide through service. This will also increase the opportunity to offer unit train service without the need to change locomotives and crews at border crossings.

iv. Personnel and Human Resources

The lack of adequate professional skills necessary to manage and operate an efficient transport system remains a constraint for the Southern African region. The two main areas where inadequate personnel and human resource capacity exist are described below.

Inadequate Management Capacity and Skills: Despite massive investments in the transport sector over the past thirteen years, most SADC railways face an acute shortage of skilled personnel in both supervisory and management positions. And when skill personnel have been educated and have returned to the railways, the remuneration packages and

bureaucratic red tape serve as a disincentive for them to remain. Skilled personnel often leave for better paying jobs in the private sector. This situation is repeated throughout the region.

D. Most Promising Programs and Initiatives

i. Merger of SADC and Inter-Railway Administrations

Regional and bi-lateral cooperation exists between the South African railways (SPOORNET) and the SADC railways both individually and collectively. There are bilateral agreements between SPOORNET and almost all of the SADC railways. There are also two regional railway organizations in which SPOORNET is active. One of the regional organizations is the SADC General Managers Conference in which SPOORNET has observer status. The other is the Inter-Railway Administrations consisting of all of the SADC railways and in which both SPOORNET and the Zairian railways SNCZ are full members. In April of last year, the General Managers of SADC railways met in Windhoek and decided to merge the Inter-Railway Administration and the SADC Railways Administration into one group. These two regional organizations duplicated the functions of each other. This change was an important development for the regional cooperation because it lays the basis for full membership by SPOORNET. Previously, SPOORNET provided the institutional and technical support to the Inter-Railway Administrations. Although, this leadership role is nominally being passed to SATCC, SPOORNET will continue to be an important player in regional cooperation at the level of the technical working groups.

ii. Changes in Direction of SATCC under Its New Leadership

At the 1993 annual SADC Consultative Group meeting held in Harare, SATCC presented a paper outlining its new direction and new priorities. This was a clear departure from those of previous years. In previous years, SATCC focused on presenting capital project's investment requirements and appeals for donor assistance. The new SATCC addressed the broad policy, regulatory, operational and management efficiency issues that impede the transport system from operating efficiently. This truly was a welcomed development. SATCC's new policies became more consistent with those of USAID and other donors, particularly, USAID's SADC Transport Efficiency Project (STEP). And, under the new leadership of SATCC and its able staff, USAID's proposed interventions in policy reform and improving operational efficiency areas are both timely and desirable.

Also at the 1993 Consultative Group meeting SATCC discussed rationalizing its own staff to meet the new emphasis on promoting policy and regulatory reform, restructuring and operational and management efficiency in the transport sector. SATCC also recognizes that its current organizational structure was based on the need to coordinate donor assistance for

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capital project development and project planning. And that the current structure is ill-suited for its new emphasis and it will have to be changed.

iii. Adoption of New SATCC Policies by SADC Committee of Ministers

At the 1994 Consultative Group meeting in Gabarone, the review of SATCC's Program of Action produced important discussions on the proposed EEC Regional Integration Study. The proposed two-year two hundred fifty person-month study duplicates much of the policy work already analyzed by USAID, AFDB and other donor's in both telecommunications and transport.

SATCC also reported that the Committee of Ministers would be convening a policy meeting in mid-1994 to discuss restructuring of all state-owned transport and communication enterprises. The purpose of this meeting would to be consider restructuring policies.

SATCC's new policy focus emphasizes restructuring government-owned transport enterprises. These represents a major departure from previous years. Restructuring of state-owned transport enterprises was seen previously by SATCC as an issue for individual SADC member states to address and not a regional issue. SATCC has indicated it can not prescribe to the member states the type of ownership transport enterprises they should have because of the sovereign nature of these states. However, SATCC intends to advocate the full range of options available to relieve the financial burden transport enterprises imposes on their governments. SATCC has further made it clear that SADC governments are no longer able or willing to continue subsidizing transport enterprises and that such enterprises should be restructured to permit self-financing and commercialization.

iv. CIDA's Corridor Strategy

The Canadian International Development Agency (CIDA) is considering a strategy that focuses on improving the operational performance of entire corridors. This strategy builds upon the experience gained during the 1991-2 drought and what has been learned in the Beira Corridor and, more specifically from, the Beira Corridor Group. The strategy would provide, *inter alia*, training for railway officials and road transport operators; provide institutional support for corridor groups such as port user's group operators, and would make investments for office equipment such as computers and photocopying machines, etc.

v. Human Resources Development and Training Strategy

The German Technical Cooperation (GTZ) is concentrating its sector resources primarily in the area of human resources development. This approach recognizes the need for national-level capacity building in the region. GTZ's assistance is being provided to SATCC to support regional training programs in the transport sector. Such assistance will be targeted

to improving the skills' levels of supervisory, middle and senior management of transport enterprises.

vi. Training Initiatives Within Transport Organizations

There is a continuing need to upgrade the skills of middle and senior management of almost all public and private transport enterprises, if the systems are to operate efficiently. There is currently a proposal to establish a Regional Training Center for SADC member states, even though substantial training capacity exists in the region. The main issue appears to be the type of training to meet enterprise's requirement. USAID is supporting the Road Transport Operator's Association in Zimbabwe to upgrade the business management and skills of owner-operators of small truck companies. We are also providing short-term study tours in the U.S. for railway middle to senior management.

E. Recommendations for What USAID Should Be Doing Under a Proposed Regional Strategy

USAID has had a long-standing and continuing interests in the transport sector since the 1980. Investments in transport infrastructure sector since 1980 have exceeded $289 million. Of this amount, about 72 percent has been invested in SADC railways from 1981 to 1991. These investments were made to purchase U.S. supplied locomotives, spare parts, and technical services. 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 intermodal 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 little 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. Total transport costs, particularly on rail remain high relative to other regions of the world.

Proposed Critical Objectives

In view of this, there are two very important critical objectives which USAID should 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.

Program Recommendations

i. 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.

USAID's policy is to promote and encourage reform of transport regulations and legislation that inhibit efficient transport operations and impose barriers on cross-border trade and investment. USAID is providing technical assistance to the Southern African Transport and Communication Commission (SATCC) under the STEP project. STEP will undertake policy analysis, policy formulation and information dissemination. This will allow SATCC to enhance its ability to undertake cross-country empirical investigations of surface transport policies across modes and within corridors. This policy research will be made available to key decision-makers in the region.

USAID is also collaborating with the World Bank and SATCC to prepare transport sector policy and policy agenda as discussion documents for the Committee of Ministers' meeting.

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.

ii. Regional Railway Restructuring

Restructuring of publicly-owned railway enterprises is another important activity being pursued by USAID/Southern African Regional Program. This activity is being undertaking in collaboration with the World Bank as a multi-donor effort to improve the efficiency and operational performance of SADC railways.

SADC railways, as should 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.

iii. 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 encourages regional dialogue on transport sector policy issues and regulations in order create an enabling environment for private sector development. USAID further encourages the formation of a regional association of Southern African railways and a regional association of road transport providers.

USAID is supporting the Road Transport Operators' Associations to organize regional forums to discuss and coordinate transport policy issues at the regional level. USAID also encourages 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.

iv. Development of SADC Transport and Communications Treaty Protocols

USAID will also be providing assistance to SATCC and SADC to develop the treaty protocols for the transport and communications sector. This will involve *inter alia* funding to conduct a series of regional workshops and preparation of discussion papers for each sub-sector i.e., railways, ports, telecommunications, air transport, etc. Additionally, USAID will fund consultants to assist SATCC to prepare draft protocols based on the results of the sub-sector workshops. The draft protocol document will be prepared and submitted to the SADC Committee of Ministers for review as the first phase plenipotentiaries responsible for formal

negotiation of the protocols. The second phase will be the SADC Council of Ministers who will consider the recommendations made by the Committee of Ministers. The final phase involves submitting the draft protocol document to the Summit or SADC Heads of Governments for final approval in August of 1995.

Strategic Issues Which USAID Address

Indicated below are a number of strategic issues that may have a significant affect on the formulation, adoption and implementation of transport regulatory and operational policies at the regional and national level. These will require USAID's careful consideration to devise effective response.

- *Social Dislocations From Restructuring and Privatization*: Labor Retrenchment Programs: The question inevitably arises as to what to do with redundant labor pools? USAID is cognizant of the social and economic implications resulting from a right-sizing exercise and takes this into consideration as we encourage restructuring across the transport sector. As we seek to identify discrete opportunities to assist government to restructure their transport enterprises, our policy should seek to mitigate the resulting social and economic dislocations to the extent practicable. This means formulating innovative programs in the areas of employee compensation, training and retraining employees, retraining surplus laborers, establishing and funding financial intermediation facilities for small scale-enterprise development, establishing and funding employee stock ownership programs (ESOPS) and unit trusts where appropriate opportunities and interests exist. In sum, our policy should seek to to assist retrenched employees to become long-term productive members of the society in which they live.

- *National-level Capacity Building and Policy Implementation*: The ability of national governments in the region to adopt and effectively implement needed policy and regulatory reform is likely to be hampered by the lack of skilled personnel and poor or inadequate institutional structures. While other donors, to some degree, are addressing this problem, considerably more resources are needed than those presently committed. Despite the fact the USAID funded STEP project provides some support at the national level for implementing regional policies, a serious challenge remains. The region's ministries require concerted efforts to support long-term and short-term training for their staffs in a variety of professional skills.

- *Commercialization Versus Privatization of State-owned Transport Enterprises*: USAID's policy in the transport sector is to promote restructuring and rationalization of state-owned transport enterprises and to allow for the participation of the private sector in such enterprises where realistic, transparent and competitive private interests exist.

Commercializing state-owned enterprises, particularly non-core operations and services are intended to improve operational efficiencies and lessen the burden on the national treasuries. In the case of railway enterprises, this may involve divesting of transport companies, surplus assets such as workshop equipment tools, and real estate properties. Commercialization may also include contracting out or out-sourcing services such as catering, security, medical services, and maintenance of buildings, track and rolling stock, etc. Contract management of port and rail operations are also suitable areas for private sector involvement. As an interim policy measure leading to privatization, USAID should continue to encourage national governments to pursue a policy of reforming or commercializing state-owned transport enterprises where there is insufficient private sector interest.

- *Restructuring Versus Privatization*: Because the worsening financial conditions of the transport sector cannot continue unabated indefinitely, policy actions are necessary to address the fiscal impact of these loss-making transport enterprises. USAID's assistance to SADC member states seeks to overcome financial mismanagement, operational and management inefficiency in addition to reforming the policy and regulatory environment that impede the efficient operation of the transport system.

  Two broad policy options offer promise to alleviate the financial burden transport enterprises imposes on the national economies of SADC member countries. Government-owned transport enterprises can either restructure or privatize to improve the their operational performance and worsening financial position. *Restructuring involves*: improving management and organizational structures; divesting of non-core transport services and assets; bringing tariffs in line with the long-run marginal cost for transport services; retrenching redundant labor pools, rationalizing their capital structures; and providing better access to foreign exchange for asset replacement and procurement of spare parts and equipment. Establishing appropriate legislative and statutory mechanisms to sustain a viable institutional and policy framework for financial profitability is also required. While these are all workable policy options, they unfortunately maintain public intervention and equity ownership in markets more suitable for private ownership. Privatizing government-owned enterprises means that SADC governments should ultimately divest of their interests in such enterprises.

  U.S. policy for the transport sector in the SADC region should be stated in clear and unambiguous terms. Privatization of government-owned transport enterprises is the guiding policy principal of U.S. assistance in the transport sector. However, the objective conditions, i.e., political and institutional realities may in certain circumstances limit the ability of governments in the short-run to privatize.

  Additionally, sufficient private sector interest may not exist due to arcane investment policies, overly restrictive labor laws and an unfavorable market environment, such

as demand for the service. Under these conditions deliberate and short-term policy actions such as those indicated under restructuring may be pursued. Outright privatization in such an environment may not achieve the intended results. This may mean adopting an approach, such as restructuring or working on getting the policy and regulatory right, or a combination of both. USAID believes that creating a policy and regulatory environment favorable to private investment is likely to be more effective and successful in the long run than an approach aimed at restructuring. Therefore, additional preparation and policy dialogue are required to enhance the enabling environment and establish an appropriate institutional and policy framework to attract private investment interests.

III. TELECOMMUNICATIONS

A. Rationale and Opportunities *for expanding regional availability of telecommunications services through increased cooperation, more investment, and better management.*

i. The Problem

Telecommunications is increasingly recognized as a binding constraint to trade and investment, within and without the region In fact, telecommunications within the region is often worse than communications outside the region. The situation is so bad—the worst in the world—that countries are desperate for a change for the better. Some statistics:

- *An inadequate number of phone lines*: As of 1991, the 10 nations of the SADC region (with a combined population of about 70 million people) had 511,000 phone lines, *fewer than the county of Fairfax, Virginia.* South Africa, with about half the population (33.5 million) had 3.3 million phone connections. The SADC region has 0.62 phone lines for every 100 inhabitants, slightly below the Africa average of 0.7 per 100 inhabitants, and far below the 50-80 per 100 in developed countries. As might be expected from the figures cited above, South Africa, with 5 percent of Africa's population, has 40 percent of its phones, and a penetration of 16 phone lines for every 100 inhabitants.

- *Long waits for phone installation*: The situation is not improving very rapidly. In Zimbabwe, for example, phone density has actually dropped from 3.1 per 100 in 1980 to about 1.3 per 100 inhabitants today. Potential telephone subscribers must now wait an estimated 5.3 years to have telephones installed. The wait in Tanzania is even longer: up to 10 years for a residential phone and five years for a business phone.

  The official waiting list for phone installation—the "expressed demand"—exceeds 350,000 in the ten countries of the SADC region.

- *Waiting for a dial tone, unreliable service*: 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 Zimbabwe, each phone line has on average 3.0 faults per year, each of which could take up to a week to fix. In addition, congestion at the local, national, or international exchanges makes it difficult to complete or receive a call.

Call completion ratios for long distance calls in the region are estimated to average about 30 percent[2], but dip far lower at peak calling periods. This contrasts with a 70 percent ratio for the United States. The use of outdated manual or semi-automatic equipment at these exchanges is one factor contributing to the congestion.

- *Trying to hear, another mark of unreliability*: Those with a working phone still face significant problems. Static, crossed lines, and crossed numbers are a frequent occurrence, although difficult to measure quantitatively. In many areas, the infrastructure is so degraded that telex messages are the only reliable means of telecommunication. The enhanced services that many businesses take for granted in other countries, such as reliable medium- and high-speed data communications, are not possible over much of the antiquated regional and local networks.

- *Too costly . . .*: International calls are very expensive. Rates from each country to South Africa, however, demonstrate the international rate differential. Zambian calls cost U.S. $8.40 per minute and those from Malawi and Mozambique to South Africa run around $5.00 per minute. As might be expected, such high rates lead to high rates of fraud as international calls are billed to lines which are out of service when the call is made or on lines not collected to the billing system at all.

- *. . . or too cheap*: Local rates range from one U.S. cent per call within a 100 km radius (Zambia), with four to five cents being the mode, to 30 cents per call in Swaziland. Local calls, therefore, are too cheap, creating artificially high demand and congesting the network, while depriving the PTC of the funds to extend and maintain the network.[3]

ii. Economic Impact of Poor Telecommunications

In industries of importance to developing countries, good telecommunications are essential. Time sensitive businesses such as off-season export horticulture depend on it. Offshore manufacturing operations require real time links with design and marketing functions in the region or overseas. The tourist industry cannot grow without links to clients in the U.S. or Europe, and to remote sites in the African bush.

Even smaller businesses need telecommunications. Itinerant craftsmen could expand business if there were inexpensive voice mail boxes that they could check in regularly from

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SATCC Agenda Item No. 4, *SATCC Telecommunication Development Programme*, Maputo, June 1992. Annex 6.

BMI-TechKnowledge, *Telecommunications in Southern Africa* (1990), p. 30.

pay phones.[4] A survey of SMEs in Zimbabwe showed that small businesses with phones grew four times as fast as small businesses without access to a telephone![5]

This impact has been quantified in research undertaken by the International Telecommunications Union (ITU), and was adapted for the Southern African region by Teleconsult.

The results are astonishing. According to this analysis, the addition of one phone will provide a net contribution of between U.S. $1,000-12,000 in GNP *per year* in the SADC region.

In the countries in the region most vigorously undertaking economic reforms (Zambia, Tanzania, Malawi, and Mozambique), *the gap between what is planned to be spent on telecommunications systems improvements and what should be spent to meet consumer demands* is greatest. Further, the projected density of service in these countries (except Zambia) will continue to be the lowest in the region.

These same four countries are also the lowest income countries in the region, with per capita incomes in 1990 of approximately $274, $160, $170, and $105 compared to a region-wide average of $336 (not including South Africa). The projected unmet demand of consumers in these four countries alone in the year 2000 will be some 980,000 individuals or businesses. Using the above estimates of GNP contributions generated by an additional telephone in these four countries, this implies *a "loss" of potential GNP of over $5 billion per year to these countries*, nearly 50 percent of their projected annual GNP.

ii. The General Macro-environment

The General Macro-environment is right for the necessary changes in the sector—all countries in the region are undergoing structural adjustment and/or have stabilized economic systems.

Worldwide trends are for greatly increased private sector participation in management and ownership, usually privatization. This is true now both in the developed and developing world. Ten years ago, the U.S. was practically alone in having a privately owned telecommunications system.

Technological breakthroughs in the past five years, by shattering the argument that telecommunications is a "natural monopoly" and making rural service increasingly profitable,

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[4] Inexpensive voice-mail box systems have been tested with great success in Brazil and Mexico.

[5] Gemini Survey, August 1993.

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have reduced the rationale for state domination. Technology has lowered the barriers to entry and increased the viability of competition in three principal ways: first, by lowering the costs of infrastructure and operation; second, by introducing new ways of service delivery such as cellular radio to the traditional cable network in the urban centers; and third, by making costs less distance-sensitive. For example, due to advances in satellite and radio technology, many rural areas no longer need to be subsidized by the state.

The "de-monopolization" of telecomms caused by technological and policy breakthroughs has created a myriad of opportunities for black indigenous SMEs—as well as for larger black owned businesses in partnership with foreign technology, capital, and expertise.

The major international/multilateral organizations—the International Telecommunications Union and the World Bank—are solidly behind sector reform and private sector participation.

The continent itself has spoken strongly—starting with the communique from the Harare 1990 African Telecommunications Development Conference to the just-completed *Green Paper for African Telecommunications Development.*

A few countries in the region have taken steps that soon will set powerful examples for region-wide reform. South Africa and Tanzania have awarded licenses to private cellular telephone operators. Mozambique telephone company has entered into a series of joint ventures with private operators. Even in countries that have gone slower, influential private sector business organizations have strongly voiced the need for private sector participation.

Perhaps the strongest regionally-based institutions in the telecommunications sector in Africa are in Southern Africa. SATCC serves the public sector, and to a lesser extent SATA for the operators (see below). Potentially, the Johannesburg-based Centre for Development of Information and Telecommunications Policy (CDITP) and the Preferential Trade Area Transport and Telecommunications Unit (PTA TTU) could also play significant roles.

USAID's initial, tentative interventions in telecommunications have been very well received—the 1993 Windhoek conference, and development of the policy statement for the GRZ.

The U.S. private sector has world class expertise to bring to bear to solve the problems of the region. U.S. telecommunications products and services are highly competitive, especially in privately sector dominated telecommunications markets where tied aid is minimal.

The U.S. public sector also has strong leadership capabilities. Both the FCC and NTIA have undertaken well received, specialized technical assistance assignments all over the world.

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B. Key Stakeholders

The successful structuring and implementation of the ISA initiative in telecommunications will depend on an astute and ongoing analysis of the key stakeholders in the telecommunications sector. *Who* are the key stakeholders? *What* are their concerns and interest? *How* can these interests and concerns be met so that sector development can proceed?

In this Stakeholder's Analysis, the interests and potential involvement of each of these groups of stakeholders is reviewed.

i. Regional and International Telecommunications Organizations Active in Southern Africa

SATCC (Southern African Transport and Communications Commission): SATCC has been involved in three main activities: (i) mobilizing funds from donors for transport and communications projects of a "regional" nature; (ii) operational coordination; and (iii) collecting statistics, data, and documents on the transport and communications systems of the SADC region.

SATCC is strongly oriented towards the transport side of its dual portfolio. Until early 1994, SATCC did not have a full-time staff member working on telecommunications, although two capable regional full time consultants had been available through CIDA funding for the past several years. In the past, one of these consultants, Mr. Gerard Mutti, provided through ITU (on leave from the Zambian PTC) provided much of SATCC's leadership in the policy aspects of telecommunications. Funding for this position was exhausted in February 1993. Mr. Mutti has since returned to Zambia to take the position of head of the telecomms division of the ZPTC.[6]

Three important aspects about SATCC: First, it does not have any executive powers *vis-à-vis* member states; it coordinates, but cannot execute or implement. Second, SATCC is a political structure. Everyone involved in SATCC activities is ultimately answerable to the Committee of Ministers of SATCC or the Council of Ministers of SADC. Third, SATCC activities involve public sector bodies and institutions. The private sector has little input, except as advisors or consultants.

SATCC's Future: SATCC's major role in the transition to a Southern African Development Community is the development of the transport and te[illegible]mmunication protocols for development of SADC. The Director believes that se[illegible] protocols should be

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[6] SATCC requested AFDB funding for replacing Mutti in this position of Telecommunications Operations Specialist late in 1992, but it is still not clear whether AFDB will have funds to support the position. This position will focus on operational as opposed to policy issues.

developed for transport and communications, given the different technological and regulatory issues. But SATCC is still strongly oriented towards transport concerns.

The Director of SATCC envisions that SATCC could implement a new telecommunications mandate in two areas:

- First, providing *leadership* to the member countries in operational and regulatory areas. This could be done by carefully crafted position papers and disseminated through publications and workshops.

- Second, *identifying the areas where regional cooperation is necessary for development of the members' telecommunications sectors* and for the development of SADC. The director wants to insure that all regional cooperation activities are appropriate for the region's level of development, recognizing that integration of Southern Africa to the extent of the European Community may require decades to accomplish.

The director believes that to undertake this mandate will require two external or regional telecommunications specialists beyond the capacity of SATCC or the SADC member countries to support at present. The *Operations/Technology* specialist, which could very likely be recruited from the region, or elsewhere in Africa. The *Policy/Regulatory* specialist to be funded by the RTR project for the next few years, would most likely be recruited from outside the continent. SATCC currently projects that a *Policy/Regulatory* specialist could be recruited from the region, and from SATCC's own funds, by the 1997-78 time frame.

Beyond additions to SATCC core staff, for telecommunication in the region to develop, the SATCC director believes that SATA must be revitalized and restructured. The SATA working groups undertake much of the decision making and dissemination work of SATCC (SATA is discussed below).

Outside of donor financing, SATCC is supported by member country subscriptions of approximately U.S. $90,000 annually, regardless of country size or ability to pay. The member countries have made it clear that they will not be able to increase their yearly contributions much above current levels.

The sustainability of SATCC beyond the life-cycle of donor support projects, therefore, is not yet clear. The director has indicated a desire to transform SATCC into a more commercially oriented entity, charging for services provided when possible. Although an expressed concern of SATCC—and of other donors—little in the way of concrete planning has been undertaken.

During the course of project development, it has been suggested that because SADC's traditional animosity to the Republic of South Africa, SATCC may not be an appropriate

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entity to bring the region together. In fact, SATCC has welcomed South African observers to technical meetings for some time, and this has accelerated since the formation of the Transitional Executive Committee. Given the momentum of change, some knowledgeable observers have predicted that South Africa will apply for and receive full membership in SADC by the end of August.

SATA (Southern African Telecommunications Administration): SATA was created in 1981 as a forum for discussion of key technical issues, but has developed into a project and directive referral body to SATCC, parallel in a sense to the council of ministers. SATA actually predates SADC and SATCC. It is not a working group in the sense of those in the other sectors within SATCC, it in fact has working groups under its aegis.

Although SATCC staff and the PTT members express the belief that SATA was effective in its original function, most now believe its effectiveness has atrophied. The PTT heads or their senior representatives no longer attend. The national specialized committees (i.e., Zimbabwe for frequency management) have not done much beyond ensure that statistics for their specialty are reported to SATCC. And in that task, even, they are lacking.

SATA has no secretariat or staff. The primary expenses are the costs of the semi-annual conferences; the local costs are born by the host PTT, and travel per diem expenses are covered by conference participants.

SATCC would like to see SATA evolve as SATCC intends to evolve; to move from a purely project approval mode to a policy/restructuring/build the SADC community mode, but representing the non-official side of the telecommunications sector—operators, user groups, and other key stakeholders. To do this, SATCC believes, requires a restructuring of SATA.

At its last conference, SATA passed a resolution to look at ways to restructure itself. Terms of Reference have been approved for a regional consultant to lay out a framework for the necessary changes. SATCC is looking for finance to do this, and USAID/Zimbabwe will cover part of the costs of this undertaking through Project Development and Support funds. Work should be underway before the next SATA conference in March 1994 in Maseru.

PTA-TTU (Telecommunications and Transport Unit of the Preferential Trade Area): The PTA-TTU aims at restoring fast, reliable, and efficient intra-PTA direct communications links, in the context of PANAFTEL and RASCOM (the two Africa-specific satellite-based regional systems). The PTA-TTU recognizes the importance of national sector restructuring for the region; "[National] Institutional reforms should be introduced in order to rationalize intra-PTA telecommunications."[7]

"Transport and Communications Sector Policies in the PTA," July 1992.

Aside from producing some policy position papers, however, the PTA-TTU has accomplished little. They have agreed to undertake, however, a well-conceived interconnectivity and tariff analysis which will include all PTA member states, plus Botswana, Madagascar, Zaire, and South Africa. The results of this research, expected in mid-1994, should provide a firm basis for better intraregional connectivity within the SADC region, as well as wealth of statistical material for the SATCC database.

There is little interaction between SATCC and the PTA-TTU in telecommunications. PTA does send representatives to the SATA meetings; in fact, theoretically, PTA has equal footing with SADC at SATA. The two telecommunications specialists at the respective organizations keep in touch, and advise each other on projects. SATCC is aware that PTA has been searching for funds for a frequency management study.

The PTA-TTU, in fact, has extended several SATA actions to other countries in the PTA which are not in SADC. They have circulated, for example, the SADC recommendations on Sender Keeps All (SKA) mechanism for settling intraregional telecomms traffic. Many PTA administrations have as a consequence adopted SKA, which reduces the foreign exchange outflows from direct intraregional links, and acting as a positive stimulus to intraregional communication and the use of regional infrastructure.

ARTC (Africa Regional Telecommunications Conference): Originally, ARTC was the Commonwealth Telephone Organization's East and Southern Africa branch, active well before independence swept through most of the region in the sixties. Languishing as a Commonwealth institution, the ITU has helped revived ARTC, and brought in non-Commonwealth countries like Ethiopia.

ARTC meets in conference once a year, and various PTTs exchange experiences where special ad hoc committees make reports on diverse topics. Like SATA, ARTC has no executive capacity. Unlike SATA, ARTC has no resources to implement conference recommendations. SATCC staff (and PTT participants) believe that the ARTC conferences are declining in terms of the number of countries and the level of their participants.

The question of the merger of ARTC and SATA has been discussed, at least informally. The situation is analogous to the ongoing debate about the merger or harmonization of PTA and SADC. First, there is essentially the same geographical differences and overlaps; ARTC roughly covers the PTA region. Second, there is the perception that the two organizations have a different mandate, at least presently. ARTC discusses policy and technical issues and makes recommendations, while SATA has been more focused on the traditional SADC project approval process. Third, there is a similar tension due to origins; SATA is the organization favored by donors (indirectly through SATCC). ARTC is the organization favored by the United Nations (through ITU).

ITU (International Telecommunications Union): ITU has been interested in telecommunications development in Africa for at least 30 years. They supplied technical expertise to support the development of the PANAFTEL network. They have sponsored training courses in telecommunications around the region, using their own Geneva staff as well as expert consultants. A recent example is the ITU sponsored bi-annual PTC Training Center workshop held in October 1993 in Maputo.

ITU's major contribution on the policy front has been the development of the African Green Paper, whose main objective is to provide guidance to African countries on restructuring their telecommunications sectors. The African Green Paper, produced by four regional experts seconded from their administrations, guided by one external consultant, has been three years in the making. It was modeled on the European Community's "Green Paper on Telecommunications," issued in 1985.

The African Green Paper recommends that basic services remain a monopoly, and for the near term stay under state ownership. Competition and private investment in enhanced and value added services are recommended, and fair and open access to the backbone network is strongly encouraged.

While it stops short of recommending privatization of basic services, the Green Paper on the whole should help advance the cause of telecommunications sector restructuring by providing a thoroughly documented case for reform. Because regional advisors had considerable input into the document, it may have more legitimacy in political circles than, say, a new World Bank position paper.

The final draft of the Green Paper prepared in November, incorporating comments from all member countries, was submitted in November to the OAU and the various sub-regional bodies (PTA, SADC, ECOWAS, etc.) for their approval.

SATCC has not had extensive contact with the ITU's newly reorganized and decentralized Telecommunications Development Bureau. The African regional headquarters of BDT are located in Addis Ababa. The head of BDT in Addis, Mr. Cisse, attended the Windhoek workshop, and informal discussions were held then about continued ITU provision of a telecommunications specialist to SATCC, but there has been no subsequent discussions. ITU has a field office in Harare to support the Southern African region, with liaison responsibility to SATCC. This office has not been very active or supportive.

SATCC believes there are potential advantages with having expert advisors provided by ITU; most notably, the back stopping and support provided by Harare, Addis, and Geneva. The Director recognizes that in the past, practically speaking, ITU did not provide adequate support for their field staff.

ITU staff in Harare and Addis Ababa have expressed a strong if still unstructured desire to participate in a formal sense with USAID's program. Only two concrete suggestions have been made to date: using ITU as an implementing agency for the long term advisors in SATCC; and for technical assistance and training for project management as part of the Tanzania Restructuring Project. The first proposal was considered as an implementation option, but was rejected in favor of a direct SATCC or USAID institutional contract. The second proposal, while superbly documented by an ITU staffer based in Addis, does not fit with the purpose and goal of USAID/Tanzania's current vision for program assistance.

ITU retains the respect of most government leaders, and perhaps more surprisingly, of many in the international telecommunications industry.

AFRALTI (African Advanced Level Telecommunications Training Institute): AFRALTI was formed with UNDP funds in the late eighties to serve governments of East and Southern Africa (including all of SADC except Angola), providing advanced level training for middle and top level telecommunication managers.

AFRALTI has not achieved its goals for several reasons: First, UNDP funding was halted abruptly in 1991; second, less than half of the ESA countries actually have signed on to the AFRALTI project; and third, the signatory countries have not been willing to provide the right students or, especially, to second qualified instructors.

The future of AFRALTI may be brighter. The Kenyan government has broken ground for a new permanent home for AFRALTI, with more than adequate classroom and equipment space. The AFRALTI management and governing council are increasingly cognizant of the need to become more self-sustaining and less donor-dependent, and are beginning to develop and market high level telecommunications courses to the private sector.

PATU (Pan African Telecommunications Union): Based permanently in Kinshasa, but now in Brazzaville temporarily, PATU is an organization with little in the way of resources or vision. While often mentioned, and invited to meetings, PATU is not a serious player in the region.

ii. Donors

USAID: USAID has to date made intermittent interventions in the sector in the region, almost exclusively through the USAID/Zimbabwe mission. The February 1993 SADC Telecommunications Policy Workshop was designed and funded through USAID/Zimbabwe PD&S account. In July-December 1993, USAID/Zimbabwe supported development of a comprehensive telecommunications sector policy for the Ministry of Communications and Transport of Zambia, also funded through the PD&S account. USAID/Zimbabwe and USAID/Tanzania staff have worked closely with the World Bank in development of their telecommunications sector programs.

Nearby, REDSO/ESA is undertaking a Scoping Study of telecommunications needs in East Africa, analogous to the Southern African scoping study completed by USAID/Zimbabwe. USAID/Madagascar has taken a leadership role in brokering relationships between U.S. telecommunications industry and the Madagascar.

Other Bilateral Donors: The overseas development programs of many bilateral donors intermingle development interests and the interests of national suppliers of equipment. For a particular country, it is often unclear to assess which interests predominate, and leads to a contradiction between domestic and international policy.

Japan and many European countries, for example, are in advanced stages of restructuring and privatization of their telecommunications sectors, but they have little hesitation in supporting unrestructured public sector telecommunications companies. One would conclude that the development interests of the recipient country are secondary to supporting their home industries.

An important assumption of success is that the disciplines being imposed on donors through the Development Assistance Committee of the DAC will be successfully enforced and hopefully strengthened, so that donor funding does not act as a disincentive to private sector led growth by "crowding out" private capital.

- *Australia*: The Australians created a trust fund for SATCC to undertake studies and conferences, to be designed and implemented by Australian consultants, ended in June 1993. The Australians have said *if* there is follow-on funding, which is still not clear, only half the levels previously will be provided (about $150,000 a year at current exchange rates). The reason for the cutback, according to the Australian High Commission staff in Harare, is solely due to budgetary problems.

  The Australian-funded conferences and studies were of high quality, and the continued presence of Australian funding would leverage USAID's intervention considerably.

- *Canada (CIDA)*: CIDA's support for telecommunications in Southern Africa will end early in 1993, although they continue to support telecommunications activities elsewhere in the world. CIDA has given two reasons for the cutback in Southern Africa; first, budgetary problems back home; second, a decision to focus on the transport sector, an area where they believed they had a greater comparative advantage in Southern Africa.

- *United Kingdom (Commonwealth Development Corporation)*: CDC is actively interested in commercial or private telecommunications investments. They will invest in partnership with a parastatal, but they are not afraid to link this assistance

with policy reform measures, although they do not take a leadership role in this area. They are actively exploring telecommunications projects in Tanzania and Zimbabwe.

Multilateral Donors--

- *The World Bank Group*: By far the most important donor in the telecommunications sector worldwide is the World Bank group. IBRD and IDA provide governments with loan finance, which is mostly on-lent to parastatal telephone entities for infrastructure and management development. But more important even than the loans themselves, is the leaders role the Bank plays in policy reform and donor coordination.

  Increasingly, IBRD/IDA are insisting on fundamental sector reforms as part of the loan package. These involve separation of posts and telecommunications, separation of operating and regulating functions, and introduction of limited private sector participation. They usually fall well short of significant private sector investment or privatization. The Bank attempts to convince other bilateral and multilateral donors to link their assistance to these policy reforms, but this has had limited success; either the Bank is ignored, or the policy reforms are substantially watered down.

  The Bank group also plays an instrumental role in the preparation of reform programs, and more broad research efforts. The telecommunications division, for example, is undertaking case studies of six African countries (three are in the SADC region) and comparing to worldwide experience in an attempt to find an solutions to telecommunications sector reform appropriate in the African context.

  The IFC has expressed a deep interest in financing private sector telecommunications projects. They have a minority interest in a cellular telephone system in Ghana, for example, and are actively exploring possibilities in Uganda and Tanzania. The IFC rarely takes a policy leadership role.

- *European Union (EU)*: The EU provides loan resources to the sector through the European Investment Bank.

  A major EU-funded "Integration" Study (formally known as the Regional Transport and Communications Integration Study for Southern Africa) will attempt to set policy and operational direction for SATCC in both telecommunications and transport. On the positive side, the Integration Study

should break new ground, by:

a) Exploring the relationships between telecommunications and transport sub-sectors,

b) Examining the sub-sectors in South Africa; and

c) Proposing a comprehensive strategy for SADC and South Africa.

The terms of reference of the Integration Study are so comprehensive and ambitious that most topics may only be covered superficially, even though over U.S. $8 million will be expended on 250 person months of consultants have been budgeted to undertake the study over a period of 25 months. The study, moreover, is flawed by a bias towards technocratic rather than political approaches, and a bias towards transport rather than telecommunications problems and issues.

SATCC and the EU are reviewing short-lists of potential consulting teams. The current plans are for the study to begin in April 1994, and holding to a 25-month schedule would be ready by mid 1996. There have been numerous delays in the past, however, and these may continue to plague this initiative.

SATCC believes that the EU Integration Study will adequately cover the *specifications* for the telecommunications *database*; although the terms of reference for the database that USAID staff have reviewed are far less specific than what would normally be drafted for a needs assessment/specifications study. SATCC has expressed the view that the EU should continue to take the lead for *specifications* of the database, even though there is no line item for implementation in the Integration Study budget. This may lead to a difficult situation—it is dangerous to have one donor/contractor team make specifications for another donor/contractor team.

- *African Development Bank (AFDB)*: The AFDB is perhaps the largest donor in the telecommunications sector in Africa, in terms of sheer loan resources provided. They tend to take a fairly passive role in sector restructuring, preferring the World Bank to take the lead, and in fact will go ahead even without a World Bank program if the country requests.

  AFDB has begun to entertain requests for technical assistance as well. SATCC has requested that AFDB fund a Training Officer (as specified in the NORAD Human Resources Assessment, see below) as well as a Telecomms specialist. SATCC did

not aggressively follow through on this request, and it appears unlikely to be granted.

AFDB is financing a well conceived "Telecommunications Network Interconnectivity and Tariff Study" for the PTA, which will include all PTA member states, plus Botswana, Madagascar, Zaire, and South Africa. The results of this research, expected in mid-1994, should provide a firm basis for better intraregional connectivity within the SADC region, as well as wealth of statistical material for the SATCC database.

iii. Private Provision of Telecommunications Services/Equipment

Telecommunications Service Providers: South Africa is the only country that currently allows private provision of services *and* competition (albeit limited) with the state monopoly. South Africa is the area of the most interest by private service providers, because of the size of the economy, the favorable regulatory environment, and because the telecommunications network in South Africa is the 22nd largest in the world.

In the past two years, value added services have been offered by international companies in South Africa. MCI of the USA is about to launch and international E-mail service in South Africa, providing full messaging facilities in 27 countries. The international SITA network has announced its plans to provide value added services to its clients, the airlines and travel business.

Most importantly, a consortium of mostly private sector partners is providing mobile cellular telephone service in competition with a Telkoms South Africa/private joint venture. Actually, these two groups are the top of a three-tier structure of service provision. A duopoly will provide the nationwide infrastructure—masts, receivers, and switching centers. The next two tiers are the service providers, who in turn will appoint dealers and agents as their retail outlets. The service providers will fill the role of the traditional phone company—with the responsibility of marketing, billing and collection, after-sales service, and technical support. Hundreds of small and medium sized private businesses will be formed in the bottom two tiers of service provision. One consortium that did not receive a license, Cellstar, has pursued opportunities aggressively in Bophutatswana and Zambia.

The local private sector in South Africa also provides certain categories of value added services, known as VANS (Value Added Network Services), and operates retail telephone services. Other countries in the region are entering the picture as well.

Tanzania has awarded a license to a private cellular telecommunications operator (who incidentally will use Motorola equipment).

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In Mozambique, the parastatal TDM has joint ventures with foreign companies in data communications and paging services. Neither have been very successful, apparently because of poor marketing. Other TDM joint ventures in directory publishing, consulting, and other non-core areas have been more successful.

Botswana has had a long term contract with Cable and Wireless to operate the telecommunications network, which has worked to the satisfaction of the GOB, although the cost of service provision is high compared with other countries.

Zambia is expected to allow completely private sector service provision in certain value added services in 1994, although the legislative and regulatory apparatus is not completely in place in either country.

For the entire region, international service is increasingly being provided by private carriers in partnership with the state monopolies. PANAMSAT, a private U.S.-based carrier, has signed a contract with the South African Broadcasting Corporation to deliver television programming, and may sign another contract in early 1994 with Telkoms South Africa to provide bulk telecommunications transmission service.

At least two private consortia (one led by AT&T and the other with a U.S. firm NYNEX as partner) are seriously considering building a fiber optic Link to parts of the region, to compete with satellite service providers. The "seamless global roaming" LEO service offered by IRIDIUM (and possibly other competitors) is yet another possibility of private sector participation in international service that may be realized in the region later in the decade. One interesting retail service that has slipped through the regulator's net in most countries in the region is the "call back" service, which exploits the large disparity between the costs of an outgoing call from the region to the U.S. or Europe versus the cost of an incoming call. Savings of 20–200 percent are possible for calls to the United States, depending on the country.

C. Constraints of Most Serious Concern

The inferior state of the telecommunications sector in the SADC region is the result of inadequate and inappropriate investment and poor management, within an unsuitable regulatory framework and structure.

Limited access to modern and appropriate technology and inefficient management practices reduce the range, coverage, and competitiveness of telecommunications services. However, inadequate investment is the key constraint to improving telecommunication services in the SADC region. In rapidly developing regions such as Latin America, countries invest 0.93 percent of their GDP in telecommunications, while Asian countries invest 0.61 percent of GDP in the sector. However, sub-Saharan Africa invests less on

average less than 0.25 percent of GDP in the sector. The SADC region is only slightly better than the African average, with 0.27 percent of GDP going to telecommunications. More mature economies such as Japan or the United States invest 0.5 percent of GDP in telecommunications.

Without increased investment the sector will continue to stagnate and act as a brake rather than an accelerator on economic development. Factors which affect investment in the sector can be classified in three primary areas: the high level of resources required for improved efficiency; insufficient knowledge on the part of both potential investors and host governments regarding telecommunications investment opportunities in the SADC region; and existing policies which restrict or impede private sector investment in the sector. Each investment constraint is addressed below.

i. Resource Constraints

Obsolete equipment, increasing demand, and the need to diversify operations together create staggering investment needs in the region. With the exception of Botswana, Mozambique, and—to a certain extent—Namibia, Lesotho, and Malawi, most networks in the region consist of old analogue equipment that frequently breaks down and provides a poor quality of service. The World Bank has recently estimated that for the SADC region to approximate a level of telephone service sufficient to support business operations on a scale similar to South Africa would require approximately U.S. $14 billion in investment. This is roughly equivalent to half of the entire annual GDP of the SADC region. This level of investment is not possible to achieve through the current cash flows of the telecommunications business nor through government-guaranteed public sector borrowing. At present rates of efficiency, it would be the middle of the next century before the SADC region will be in a position to generate sufficient capital through normal operations to reach South African levels of telephone penetration.

Investable funds for public sector operations, particularly foreign exchange, perennially fall short of the investment requirements of the sector due to other public sector needs which are more pressing. Immediate problems such as war, drought, disease, and human resources development assume a higher priority in the national budget. In the face of these competing demands, decision makers find it difficult to devote adequate public sector resources to the telecommunications sector, even though the longer term returns from such investment would be significant, as it would help to attract the business investment required for national development, economic growth and job generation.

While donor financing has traditionally been used as an alternative form of investment financing, it is insufficient to meet demand for needed investment. Not only is donor finance insufficient for growth or improvements in the network, it also has had an inadvertent deleterious effect; by preventing the total collapse of the telecommunications system it has

allowed the status quo to continue. The analysis for the PP and PAAD will review donor involvement in detail.

ii. Information Constraints

The SADC region is not well known to most potential investors. Information on the region specifically relevant to the telecommunications sector is spotty, of very poor quality, and is usually out of date. This type of information is expensive and difficult to collect, particularly for a foreign-based firm. Such a lack of information means that the private investor cannot accurately assess the risks and rewards of investments or knowledgeably propose or negotiate transactions with governments. The information gaps serve to heighten the perceived risk/return profile of a project in the SADC region, making it unattractive. Few firms are willing to invest substantial resources to gather adequate information for any single investment transaction.

Lack of country specific, accurate information is reflected in the perceptions that potential investors, particularly U.S. investors, have about the region. Africa is often perceived as a risky monolith which is unstable, distant, ridden with AIDS, and with no commercial potential. The limited information that is known about Africa and its changing environment for investment is poorly disseminated through the U.S. or other foreign investment communities.

iii. Host Country Understanding

Host governments often have a myriad of objections to private sector investment in the telecommunications sector. Concerns range from national security and secure communications, to loss of revenue, to fears of inadequate service for rural areas. In addition, governments are concerned about ensuring adequate indigenous participation in any private sector investment and of the dangers of creating a private sector monopoly. In response to the latter apprehension, USAID Zimbabwe has included a Strategic Objective directly related to increased indigenous ownership of the economy in its Country Program Strategic Plan.

The majority of these apprehensions stem from inadequate information on the potential benefits of private sector participation in the sector. An insufficient understanding of the benefits and linkages to economic development of efficient telecommunications operations helps to set the stage for opposition to change. At present, information is not readily available at either the regional or bilateral level to assist government leaders in evaluating the potential costs and benefits of private sector investment in telecommunications.

Currently, key decision makers outside the operating companies have little opportunity to meet, discuss current issues, and share concerns and experiences. Because policy level personnel, particularly those from planning or finance ministries, may not be versed in

telecommunications technology, they are often unaware of the rapid technological changes which undermine historical views of telecommunications as a strategic industry or a natural monopoly. Without sufficient information regarding the various iterations that are possible with private sector ownership and without benefit of knowledge of the experience of other countries which have invited private sector participation, policy makers are not prepared to make decisions which change the fundamental structure of the sector.

iv. Policy Constraints

Investment in the telecommunications sector in the SADC region is curtailed by restrictive policies that prohibit or impede private sector participation. Effective regulatory frameworks require a telecommunications sector policy which starts with the setting of objectives. A review of the policies and practices currently in effect in the SADC region indicates that governments currently do not have the technical capacity to define the optimum policy and regulatory framework required for the sector.

For example, in many countries telecommunications and postal services operate under the same umbrella corporation or ministry. This joint operation fails to recognize the dynamic nature of the telecommunications sector and the substantial differences that have evolved over time which have eliminated the original economies of scale and scope realized by combining the two operations. In the SADC region, the joint operation of telecommunications with the postal service has been the norm in all countries except Namibia, Botswana, and Lesotho. Most PTTs operate as public companies with some degree of autonomy, but in at least one country, Malawi, post and telecommunications services are treated as a line function of the relevant government ministry. While initially providing benefits, in later years this joint operation has been detrimental to the development of the telecommunications sector. Over the past 20 years the world wide trend has been to separate the two services and create separate postal and telecommunication operating entities, regulated separately.

In addition to the separation of postal and telecommunication operations, SADC governments must ensure that independent and transparent regulatory systems are in place to monitor sector operations in order to attract investment and to implement sector policy. At present, most of the PTTs in the SADC region have effective control of entry into the telecommunications sector. PTTs are often self-regulated and seek to ensure that they maintain competitive advantages through their pricing, licensing, and direct supply operations.

Regulation and operations need to be separated to ensure transparency. Currently, the SADC structures tend to reflect the political priorities of each government rather than the economic realities of the market. The key regulatory frameworks for a modern private competitive telecommunications sector have not been established in the SADC region. For

example, depending on the country, there are no legal or regulatory structures that would allow—

- Incorporation of the PTT as a commercial company;
- Sale of some or all of the equity of the PTT to the private sector;
- Granting of licenses for private sector competition;
- Tariff setting mechanisms to ensure that market power is not abused, and that the regulated or monopoly sub-sectors do not cross-subsidize the competitive sectors;
- Frequency allocation for private sector competitors, or new services such as mobile cellular telephony, or to monitor unauthorized transmissions; and
- Interconnection standards that would allow competing operators providing services through a network owned by a different entity.

SADC member state policies further restrict private sector participation in the sector through legislation which grants the monopoly on telecommunications services to the parastatal PTT. This trend is slowly changing as, increasingly, SADC countries are looking at options which include private sector participation in sub-sectors in which the PTT does not currently operate, such as cellular or data communications. However, progress toward increased private sector participation requires a broad-based review which looks at the commercial code, banking/investment law, labor law, corporate law, real property law, courts/arbitration procedures, and international agreements, as well as specific telecommunications policies.

v. Management Practices

Although telecommunications is inherently a very profitable business, PTTs in the SADC region have often been managed so inefficiently that many lose money. Many PTTs have been established as public corporations and with a mandate to operate on commercial terms; however, the lack of flexibility to operate as a private sector firm and the lack of accountability to investors undermine all incentives to produce dependable services at reasonable cost. Without a "bottom-line" perspective, for example, bills are not sent out, nor are vigorous attempts made at collection. Political interference means that charges for telephone are set below cost recovery, investment decisions are made outside the operating company, and often government ministries do not feel obligated to pay their bills. Even when profitable, the PTTs are not allowed to retain their earnings or foreign exchange for investment, further limiting their ability to provide services efficiently. Only Botswana currently has private sector management of the core network, and even this is limited. In other SADC countries legislation, policy and regulation restrict management to the public sector.

In general in the SADC region, current PTT management practices and government ownership tend to:

- Dilute autonomy necessary for efficient and customer oriented operation of the system;
- Place investment authority with civil servants unfamiliar with and disinterested in the needs of the system;
- Change senior management for political purpose;
- Limit salary levels which cause a drain of badly needed skills from the organization;
- Set tariff (service fees) levels based on political rather than economic or financial considerations; and
- Use the PTTs as an employment creating strategy and/or patronage reward system.

State control and management has not ensured wide-spread, affordable services. The state owned PTTs in the region have failed to improve access and services, and in some countries have failed to even maintain existing levels of services. Despite the advantages of allowing mixed ownership (by which the government still shares the benefits of a profitable operations, but can ensure business-like management), in the SADC region private sector participation is usually limited to being a contractor to the state owned PTT, primarily for equipment sales and installation.

D. Most Promising Programs and Initiatives

There are many promising programs and initiatives, especially those of the private sector, which could profoundly affect telecommunications in the Southern African region. Because of limitations on resources, staff, and mandate; many of these programs and initiatives cannot be directly assisted by SARP resources.

i. International Entities

PANAMSAT is a dynamic private sector alternative to public sector oligopolist INTELSAT and INMARSAT. PANAMSAT has satellites in position that can offer voice, data, and video transmission to the Southern African region.

IRIDIUM (a consortium of Motorola and other U.S. investors) will offer a specialized personal communications services worldwide. Because traffic in the African region will be developed relatively slowly, there is a possibility that IRIDIUM may offer very low marginal cost pricing for intra-African traffic, at least for a temporary period. This could mean a very cost-effective means to reach remote locations.

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FLAG is a private sector consortium (with U.S. RBOC NYNEX as one major shareholder) that is seriously considering the provision of fiber optic links that could offer additional, healthy competition to satellite and public sector cable links now serving the region.

RASCOMM is a public sector consortium of African governments with the goal of pooling international traffic together, and negotiating as a bloc for capacity on INTELSAT (or any other carrier's carrier). RASCOMM management have shown increasing interest in working with private sector alternative carriers such as FLAG or PANAMSAT.

ii. South African Institutions

CDITP, although oriented at present to South African concerns, has ambitions to become a regional center of expertise for telecommunications policy issues. Given the degree of industry support it has attracted to date, it could well achieve this goal and serve as a regional think tank.

Telkoms South Africa has initiated a program, "African Horizons."

E. Recommendations for What USAID Should be Doing Under a Regional Program Strategy

The task force recommends that USAID continue funding for the new FY '94 SARP telecommunications project. Outlined below is the program strategy for the approved project.

i. Approach

The program will address the telecommunications constraint to broader investment in the SADC region by directly assisting SADC countries to design and implement policy and regulatory reforms that will allow private sector participation—management, investment, and competition—in the telecommunications services sector. The impact of these reforms will be enhanced and quickened by providing vital information to potential private sector investors, particularly to U.S. firms, and assisting SADC member countries to structure and promote private sector investment in the telecommunications services sector.

The program strategy is to combine Project and Non-Project resources in a flexible design that will accommodate the different pace of reform in SADC countries, while allowing participating countries to benefit from the experience gained by others at different stages of the reform process. The management strategy is to use a "hub-and-spoke" approach which provides broad technical assistance coverage that is customized to individual

country needs but minimizes the administrative management burden for AID missions in the participating countries.

The program design is derived from: the commonality among countries of the problem of insufficient investment retarding economic growth; the benefits related to economies of scale to be derived from a regional approach to the problem; and the requirement for a flexible approach that allows countries to move at their own pace in developing the required broad political consensus for policy reform in the sector prior to entering into a Non-Project Assistance agreement that makes disbursement contingent on policy changes.

With respect to insufficient investment, SADC member states are demonstrating stronger commitment to implementing structural adjustment programs to bring inflated economies and public sectors in to equilibrium; All countries are taking steps (some faster than others) to shift their economies from a public sector, social equity approach to greater receptivity to private sector-led growth through market efficiencies. In carrying out the structural adjustment process, policy makers have come to realize that private investors (with the much needed capital that the structural adjustment programs are developed to attract) seek out the most advantageous investment climate that offers substantial market access as well as cost effective factors of production.

The small size of the region's national economies is a constraint to increased foreign investment which may be addressed in part with the new region a] initiative in economic integration. Under the terms of the new treaty for the SADC countries there is a shift from a timid or fearful approach of delay to active recommendations for the favorable treatment of investors and companies across national borders. The ultimate goal of this process will be the free flow of regional goods and capital across borders within the region leading to increased national competitiveness within member countries as well as increased trade and economic growth throughout the region.

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 arid 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.

With respect to economies of scale, the program takes advantage of the reduced cost and administrative burden of coordinating and managing region-wide technical assistance from a single location in the region. The program also recognizes, as was evident from the AID-funded Telecommunications Workshop held in February in Namibia, that there is considerable synergy from countries participating as a group in seminars, workshops, and as beneficiaries of technical assistance when issues of region-wide interest such as policy

regarding to privatization and restructuring of state-owned and managed enterprises are the topic of discussion.

Finally, in certain important policy matters, such as frequency management, satellite positioning or cellular telephone standards, regional coordination is essential. SATCC has taken a leadership role in all of these areas and is now particularly concerned with the standardization and harmonization needs as part of an amended regional economic integration strategy.

To allow for the different pace of telecommunications sector reform in the SADC countries, the program design is flexible and will permit for countries to benefit from the technical assistance and training and to participate as they are ready in the policy based Non-Project Assistance component of the program. The program design recognizes that the pace of reform will vary, depending on competing priorities. However, it also recognizes that due to unpredictable results of such factors as highly effective technical assistance and the synergy phenomenon cited above, a government's historical attitude may not be a good predictor of future interest in reforming the sector. Moreover, there is a need to be responsive on a timely basis if the reform process is to move aggressively and at an accelerated pace throughout the region. The region's dynamics and emphasis on economic integration to achieve improved trade and economic growth objectives is a highly favorable environment in which to introduce this new intervention.

The program's management flexibility will allow AID missions to participate in program management and administration in line with bilateral strategies and management capacity. In essence, the program allows missions to address a critical investment inhibiting constraint in their national economies without using scarce bilateral management, financial resources, and staff that, in most cases, would not be sufficient to address the problem.

ii. Program Objectives

- *Goal*: As shown in the objective tree, the goal to which a successful program will contribute is, "broad-based sustainable growth in SADC countries, as measured by more jobs and higher real incomes." Achieving this goal will require increased investment for expanding business operations, a sub-goal of the program. A key assumption linking the sub-goal and goal is that the increased investment in the region will be accompanied by other factors which are necessary and sufficient to achieve sustainable growth, e.g., political stability, continued movement toward market oriented policies under structural adjustment programs, and the avoidance of man-made and natural disasters such as civil disturbance and drought

- *Purpose*: The program purpose is "increased and broadened access within the SADC to a more cost effective system for information transfer." A program assumption linking the purpose with the sub-goal of increased investment is that

telecommunications infrastructure improvement will be accompanied by other factors influencing investment, e.g., a favorable investment climate for all investment (not just for telecommunications investment), the existence of profitable business opportunities, availability of financing at rates that allow for profitability of a business venture, and adequate transport infrastructure.

- *Sub-Purposes*: The analysis indicates that there are two key achievements which are necessary to achieve the project purpose of increased and broadened access to a more cost effective telecommunications system: 1) establishment of a regulatory structure that functions in a professional and transparent manner to govern entities and ensures competition in the telecommunications sector, and 2) higher levels of private investment and Management in the telecommunications sector. The program hypothesis is that achievement of these two sub-purposes will result in the necessary and sufficient conditions to achieve the project purpose. A key assumption is that the private sector is a superior source of new, appropriate technology; superior management; and cost-effective capital.

iii. U.S. Interests

It is anticipated that NPA funds will be disbursed using a cash transfer mechanism; however, participating host governments will be required to present evidence of private sector importation of U.S. goods and services in amounts equivalent to the proposed disbursement. The project technical assistance and training services valued at U.S. $15 million will be sourced from U.S. firms.

The significance of the short term impacts notwithstanding, the proposed program offers even more long term opportunities for U.S. businesses as equity or management partners in telecommunication services in the SADC region. The combined Project and Non-Project Assistance provided under the proposed program will give U.S. firms a "foot in the door" in SADC markets. More importantly, businesses will have better information about the SADC region market; regulatory changes will create new opportunities in those markets and will make investments in these markets more profitable and less risky. The program will encourage and support parallel efforts, such as through the Development Assistance Committee (DAC) at OECD, to level the playing field for U.S. businesses in the sector.

The impact on U.S. jobs is highly favorable. U.S. telecommunications service providers invest overseas for new markets for their services, not for sources of cheap labor to displace American workers. Lusaka-based workers, for example, cannot run a phone company in Atlanta. When U.S. firms invest overseas, they hire additional U.S. workers to work overseas, and to manage the investments from the home office, as was the case when Bell Atlantic bought into Venezuela and when ATN bought into Guyana.

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IV. ENVIRONMENT AND NATURAL RESOURCES

Critical Objective 3: *More Rational Development and Utilization of the Region's Natural Resource-Based Infrastructure.*

Rationale for New/Expanded Focus on Environment and Natural Resources

This ISA critical objective builds on lessons learned from SARP's existing focus on community management of wildlife and natural resources. ISA aims to link community-based natural resources management with private sector investment. ISA's rationalization objective represents an additional emphasis on the promotion of active investments and institution building to maintain natural capital. ISA will focus on water, hydropower, and ecotourism and will support activities that: a) formulate regional resource use and allocation strategy; b) reduce inefficient use of resources; c) integrate ecological and economic information; and d) provide or respond to opportunities for alleviating resources constraints.

The vegetation of the southern part of the continent is shaped by the warm stream of the Indian Ocean water running down its eastern flank, the Mozambique current, and by the cold Benguela current to the west in the Atlantic Ocean. These make the eastern parts moist and the western parts dry. On the southern tip is the unique rainfall region with its Cape floral kingdom, the fynbos. The variety of landforms and vegetation zones, or biomes, has resulted in a remarkably high biodiversity of species in southern Africa. This biodiversity is considered to be the third highest in the world, after Brazil and Indonesia.

Water is a very important resource in southern Africa, with rivers forming natural bonds. The Limpopo catchment binds together Botswana, South Africa, Zimbabwe, and Mozambique. The Zambezi does the same for Zambia, Botswana, Zimbabwe, and Mozambique. The Okavango Delta in Botswana, depends entirely on the rain that falls in the highlands of Angola, with which Botswana does not even have a common border.

Actions on parts of the ecosystems have consequences on the subcontinent. Pollution of the Olifants River in the Transvaal can have an impact on the Mozambique's tourist attractions down at the coast. Dams on the Zambezi have a negative impact on the Marromeu Delta. Air pollution from industry crosses political boundaries on the wind.

Existing bilateral programs have kept to narrower national objectives. The USAID/South Africa's bilateral program areas of concentration does not include environment and natural resources although there are several major environmental challenges in South Africa that affect the entire southern Africa region and have implications for the global environmental objectives. South Africa, extremely rich in biodiversity, is home to one biome—the fynbos—which represents one of the six accepted floral kingdoms of the world, covers only .04 percent of the world's surface, and is the only floral kingdom found entirely within the boundaries of one country. The air pollution problem is particularly severe in the

Eastern Transvaal Highland region where deposition of acid precipitation and sulfur is three to four times greater than in Germany and Great Britain.

Achievement of this ISA critical objective will bring together elements of the environment, wildlife, ecotourism and business. There are some good reasons to be optimistic about. Nowhere else in the continent are there as many citizen organizations or NGOs as in the southern part. The 1993 edition of the Green Pages (environmental and development networking directory for southern Africa) identifies about 1000 green groups. Nowhere else is the continent is there the level of industrial development, nor the level of environmental concern among business people. As a result of the 1990 Earth Summit Conference, a worldwide Business Development Council for Sustainable Development was formed. In searching for a link between the two ideals of business and environmental excellence, the Council coined the term "eco-efficiency" to describe business that produce ever more useful goods and services while continuously reducing resource consumption and pollution. This "eco-efficiency" theme underlies the formation of the Industrial Environmental Forum (IEF) of Southern Africa, led by Dr. Jon Maree, Chairman of the Electricity Council and now also chairman of the IEF and Dr. Ian McRae, Chief Executive of Eskom.

This ISA critical objective is based on the following considerations—

- ***Stakeholders***: Key stakeholder interest in a more rational development and use of the region's natural resources is evident from national environmental action plans which are developed using broad based participatory approaches and the State of the Regional Environment Report drafted by the Southern Africa Research and Documentation Center (SARDC), in cooperation with SADC/ELMS, IUCN in Harare and the Panos Institute. Key stakeholder interest in ISA focus areas—water, hydropower, and ecotourism are highlighted below.

- ***Water***: The drought has highlighted the importance of finding more effective ways of managing water resources throughout the region. The 10 SADC countries plus South Africa met in 1993 to discuss Water Resources Management in Southern Africa. The workshop was sponsored by the Economic Development Institute of the World Bank (EDI), the UNDESP and the UNDP-WB in cooperation with the regional Training Center for Water and Sanitation of the University of Zimbabwe and the Department of Water, Ministry of Lands, Agriculture and Water Development, Government of Zimbabwe. The SADC countries are developing a "Protocol on Shared Watercourse Systems in the Southern African Development Community (SADC) Region" that will govern the intra country relationships and activities in the water sector. The Protocol incorporates provisions from the Helsinki Rules, the International Law Commission on the non-navigational uses of international watercourses, and AGENDA 21 of the United Nations Conference on Environment and Development. SADC has adopted a series of projects in the water sector named

ZACPLAN to encourage integrated river basin planning and management to cover all uses of water, including environmental problems and their impacts.

- ***Hydropower***: In South Africa, environmentalists are concerned about the air pollution associated with ESKOM's thermal power stations in Eastern Transvaal. Partially driven by these environmental concerns, South Africa has been looking north at potential imports of clean, relatively cheap hydro-power.

- ***Ecotourism***: Key stakeholders recognize that tourism in Southern Africa is dependent entirely on the environmental resource base. Steps are being initiated to highlight the linkages between tourism, the environment, and economic success. As discussed above, SADC is developing a regional water protocol to cover all uses of water. The entire wildlife sector is already driven by a regional agreement. A wide range of local and U.S. NGOs are testing community-based natural resources management. A private sector collective recently announced an "Open Africa Initiative" which will develop a trans border "peace park" covering parts of South Africa, Mozambique, and Zimbabwe. The "Open Africa Initiative" envisions a chain of viewing game parks from Kenya to Cape Town.

- ***Opportunities/Potential Benefits***: There are existing opportunities that will generate mutual technical and economic benefits. Cooperation in water and energy resources could create major new income earning opportunities for current SADC member states and make a significant contribution to creating a more balanced relationship with South Africa. Greater access to regional hydropower resources has also been identified as of potential benefit to South Africa. Regional hydropower projects could both supply cheaper power and reduce the environmental pollution and acid rain associated with South Africa's coal fired stations. Tourism is the world's biggest and fastest growing industry, employing the largest number of people and generating the greatest amount of economic activity. One in fourteen jobs worldwide is in the tourism industry. One in six of the world's population go on holiday every year. With the possibility of the Olympic Games in 2004 in South Africa, tourism and in particular, eco-tourism is poised to expand in southern Africa region. Ecotourism rests on three principles: the promotion and enhancement of the natural and cultural environment as a tourism unique selling feature; the effective planning and management of the environment to ensure sustainability; and ensuring that the local population share in the benefits. In addition to economic benefits, integration of South Africa to reach this ISA critical objective will provide opportunities for professional and technical exchanges between natural resource managers in the region.

- ***Tractability***: This ISA critical objective is manageable because of several factors. The region has a strong cultural foundation based on consensus-building and stakeholder involvement in natural resources. The region has the necessary

institutional building blocks for building, maintaining, and using regional communication networks. SADC has a Unit on Forestry, Inland Fisheries and Wildlife and a Unit on Environmental and Land Management Sector (ELMS) to coordinate activities and information related to this ISA critical objective. SADC/ELMS has just completed a feasibility study for establishing a regional environmental information system for SADC member states. IUCN—the World Conservation Union Regional Office for Southern Africa is based in Harare with offices in Zambia, Botswana, and Mozambique, and has a membership base in all of the states in the region.

- ***Consistency with U.S. Policy***: President Clinton has issued new policy directives on global climate change, biodiversity, decertification, forest conservation, and fresh water security, committing the U.S. to strengthened environmental assistance. USAID remains the primary conduit for U.S. bilateral environmental assistance. This ISA critical objective is consistent with USAID's environmental strategic goals: reducing long-term threats to the global environment, particularly loss of biodiversity and climate change and promoting sustainable economic growth locally, nationally, and regionally by addressing environmental, economic, and developmental practices that are not sustainable and impede development.

- ***Consistency with Other Donor Objectives***: Several donors are supporting programs for rational use of the region's natural capital. The German Government—through GTZ—has commissioned a study on a project feasibility for a regional program on "integrated management of indigenous forest resources." NORAD is supporting SADC/ELMS ZACPLAN and ZACPRO-6. The African Development Bank has shown a strong interest in hydropower development and regional power interconnections in the region and is financing a feasibility study of the Batoka gorge hydro project and co-financing of the Cahora Bassa link. USAID support for this ISA critical objective will be a necessary complement.

SPECIAL FOCUS ON WATER

A. Rationale and Opportunities

Probably the one most significant event in this regard was the Region's very successful experience in responding to the 1991/92 drought which affected nearly all SADC Countries plus RSA. Using mainly local resources, organizations, personnel, infrastructure and institutions, the region was able to provide— through cooperation—a timely, adequate and successful response that provided the necessary food, water and support to avert famine and avoid a looming disaster. The region's ability to marshall and use their existing infrastructure has provided a "boost of confidence" in that ability that has carried longer term benefits.

The drought also brought out the deficiencies manifest within the in looking, country specific management of water resources. Consequently, during and after the drought, every SADC Country U.S. Ambassador (including the U.S. Ambassador to South Africa) was inundated by requests from Presidents, Ministers, Water Agencies, NGO's and Cities to "do something to help us develop our water resources so that we can better meet the challenge of future droughts."

Accordingly, at a spring 1993 meeting of Southern African U.S. Ambassadors and USAID Mission Directors, unanimous agreement was reached for USAID to "see what the U.S. can do to help in the Water Sector of Southern Africa." In response to that, USAID/SARP/Harare prepared—with input from each country USAID, Embassy, NGO's, etc.—to contract for a 12-country (10 SADC countries plus Zaire and South Africa), *Assessment of the Water Sector*. The procurement process for this assessment is nearing completion and the assessment will be completed by the end of 1994. The assessment will look at the existing physical resources, existing plans/projects, the existing institutions and the existing legal environment presently obtaining in the water sector. It is expected that the assessment will point the direction for USAID so that, if USAID funding can be effective, it is used to provide the greatest impact for the funds allocated.

Even as this assessment is getting underway, the SADC countries have been meeting to develop a Water Sector Protocol that will govern the intra country relationships and activities in the water sector. This is being done in consideration of the Helsinki Rules, the International Law Commission on the non-navigational uses of international watercourses and recognizing the relevant provisions of Agenda 21 of the United Nations Conference on Environment and Development. The protocol preamble states that the countries are "Desirous of developing close cooperation for judicious and coordinated utilization of the resources of the shared watercourse systems in the SADC region." This proposed "*Protocol on Shared Watercourse Systems in the Southern African Development Community (SADC) Region*" is a first and very important step towards obtaining the needed cooperation. It is important to note that provisions have been made for the Republic of South Africa to join the Protocol when they become a SADC member country.

Another impetus to more efficient use of the area's water sector infrastructure is the adoption by SADC of a series of projects in the water sector named ZACPLAN. The main objectives of ZACPLAN are to encourage integrated river basin planning and management, including environmental problems and their impacts. Under this program, the ZACPRO-6 project proposed to develop a master plan to cover the whole of the Zambezi River basin. Toward this end, several donors financed a Workshop on Water Resources Management in Southern Africa in Victoria Falls Zimbabwe on July 5-9, 1993. The workshop was organized by the Economic Development Institute of the World Bank (EDI), the UNDESP and the UNDP-WB in cooperation with the regional Training Center for Water and Sanitation of the University of Zimbabwe and the Department of Water, Ministry of Lands,

Agriculture and Water Development, Government of Zimbabwe. All of the 10 SADC countries plus South Africa were represented at this meeting.

The original objective of the workshop was to develop strategies for each country to prepare country specific Water Resources Management Plans. During day one of the workshop, representatives of the stakeholders present, after much active, lively discussion of the workshop objectives, decided to shift the emphasis to identification of major water sector issues and subsequent discussion of these issues and development of alternative strategies/plans to resolve the identified KEY issues. The workshop produced a list of Key Water Resource Management Issues and provided a forum to discuss alternatives/options for resolution of these issues. (An in depth discussion of the issues follows under: C. Key Constraints.)

Also, during the July 1993 Water Sector Conference in Victoria Falls, the area's regional water representatives were unanimous in endorsing increased cooperation and shared use of the regions water resources. They reached consensus that regional institutions—like the Zambezi River Authority—should be developed to cover each of the major river basins and expanded to include all uses of water. (Note: The ZRA governs only the hydropower use of the Zambezi River between only the two countries of Zambia and Zimbabwe).

B. Key Stakeholders

i. Regional Stakeholders

Other than the Water Development Ministries in each of the Southern African countries, the Key Regional Stakeholders are the following:

SADC-ELMS (Environment and Land Management Sector), Coordination Unit: The SADC-ELMS Coordination Unit (CU) is headed by the Sector Coordinator and staffed by technical and support personnel. Its role is a catalytic one, its main duties being to:

- Promote the sharing of information and experiences;
- Enhance competence and proficiency;
- Create a mutual understanding of the problems and potential in the SADC Region; and
- Assist the member countries in developing new concepts and policies.

In addition to its Coordination (Core) Program, the CU is responsible for coordinating activities within Regional Projects.

Sector Contact Persons: ELMS carries out its work in the SADC member States through Sector contact persons, whose main duties are to:

- Lead in the implementation of the Sector's program of action in their respective countries;
- Help transmit and disseminate information within the Sector;
- Help in negotiations for project funding; and
- Initiate project ideas.

Water Resources Sub-Committee: Initially established for the purpose of leading in the implementation of SADC Regional Project AAA.7.3 (Zambezi River System Action Plan-ZACPLAN), this body's scope of responsibilities has been extended to include all programs and projects related to the management of water resources.

Zambezi River Authority (ZRA): The ZRA was established by bi-lateral agreement between Zambia and Zimbabwe to manage the hydro power production at Kariba Dam. Stakeholders suggested, at the July 1993 Water Resource Management workshop, that one alternative for encouraging increased regional water resource coordination could be to expand the ZRA into the other Zambezi riparian countries and to expand its authority over other areas of water resources management; e.g., water supplies, irrigation, water trade, etc.

Some of the impetus for this feeling of urgency to set up an expanded ZRA (or other Regional Water Resource Management Center) comes from imminent projects proposed for additional use of the Zambezi River water. Three known projects are: 1) The Batoka Gorge Power Project; 2) Expansion of the Cahora Bassa Power Plant; and 3) The Zambezi—Bulawayo—Botswana Water Supply Pipeline.

Lesotho Highlands Development Authority: This entity is the result of a bi-lateral agreement between Lesotho and South Africa for development and operation of a project to produce both a reliable water supply and additional hydro power generating capacity. At present, the water supply project, which was 100 percent funded by South Africa, has been completed and is operational. The hydro power generation project is designed and ready for construction but has been stalled due to lack of financing. The authority's interest and objectives are in the commercial development and sale of both water and power. The AFDB considers this a good model for trans-basin water transfer type projects.

Komati Basin Water Authority: A bi-lateral entity formed by South Africa and Swaziland with limited responsibility for developing joint planning for use of the Lomati and Komati rivers.

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Angola-Namibia Kuene River Agreement: Only a written agreement between the two governments that allocates water volumes.

Training Center for Water and Sanitation University of Zimbabwe—Harare: This entity was established with financial assistance from the UNDP-World Bank Water and Sanitation Program. Its main objective is to provide comprehensive training for water and wastewater technicians in order to upgrade the skills of regional water sector practitioners. It does exhibit the first concrete results of SADC's ability to encourage regional cooperation in the sector.

ii. Regionally Developed Projects

- Molatedi Dam on Marico River—South Africa, Botswana, Bophuthatswana; and
- Revue River Scheme—Mozambique and Zimbabwe.

These are single purpose, jointly developed single projects providing water supply.

C. Constraints of Most Serious Concern

The ISA infrastructure team has categorized constraints to efficient development and use of infrastructure into:

- Policy/Political
- Management
- Physical Facility
- Personnel/Human Resources

After discussions with many of the stakeholders in the region, the following constraints have repeatedly surfaced. By category they are:

i. Policy/Political

1. Inconsistent adherence and enforcement of regional policies by member states;
2. Tensions between national interests vs. regional interests;
3. Poor commitment to maintenance;

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4. Water Pricing/Affordability; and

5. Legislation - Water Rights

The recent completion of the Proposed Protocol on Shared Watercourse Systems in the Southern African Development Community (SADC) Region offers hope that the region will soon address constraints 1, 2 and 5 above. The commitment to maintenance problems are mainly a manifestation of governments' priorities in the allocation of scarce resources. With the pressure of today's needs (both regionally and locally for capital investments and social needs), maintenance of existing infrastructure, including infrastructure in the water sector, has taken a back seat in the priorities for government spending.

The water pricing issue has been recognized by area stakeholders who are working together through regional fora to develop consistent pricing policies. All countries in the region are aware that they subsidize water due to pressure from interest groups; the most active and vocal being agricultural groups. Consequently, water in Southern Africa is grossly underpriced. Attempts to reach equanimity on this issue continue but without overall regional coordination or prodding. This could be a major thrust of SADC's ELM's new Water Sector Committee.

ii. Management

There is one overriding constraint to the efficient use of infrastructure and that is an obvious lack of management capability. This is manifested in:

- Operational inefficiencies;
- Lack of customer orientation;
- Inefficient use of infrastructure;
- Lack of optimal use of scare resources; and
- Lack of long term planning.

However, based on observations from various meetings, discussions and workshops, it appears that the Water Sector, on balance, has adequate management capabilities to move forward. What has been lacking is the motivation to manage for regional interests.

iii. Physical Facility

Other than country specific individual projects that are needed, there have been no indications, in all the reference documents and discussions held, that regional physical plant

has been a deterrent to more efficient use and better cooperation. Perhaps one might speculate that the establishment of a Water Resources Management Center somewhere in the SADC region would provide the focal point for managing the movement to Regional Cooperation. This facility would need the necessary physical plant—computers, data gathering instruments, vehicles, buildings, etc. to facilitate coordination of the planning, development and management of the region's water resources.

iv. Personnel/Human Resources

As stated earlier, the water resources sector seems better endowed with capable personnel than many of the region's other sectors. At present, there are no glaring human resource constraints. The addition of South Africa will increase the supply of technical and management capability in the Sector.

v. Major Reports Indicating Strategic Directions

The most relevant studies and documents and their conclusion and recommendations are: (in order of priority)—

Economic Integration in Southern Africa—AFDB 1993: This report concludes that, "The management of water resources in Southern Africa is a regional issue of highest importance." It also states, "Water scarcity will become an increasingly important factor in determining policies and programs for rural, urban and industrial development. Competition for shared water resources will intensify."

Recommendations are:

1) In view of the regional nature of water distribution, it is *essential* for the management of river basins to be conducted by authorities representing *all* countries affected by the outcome.

2) Another area with scope for greater regional cooperation is the transfer of water from relatively water—abundant regions to those of relative water scarcity. The mechanical feasibility of large-scale water transfers, with clear benefits for all parties—increased water supply in exchange for revenue—means that there is a significant potential for trade.

3) The crucial importance of water supplies to Southern Africa suggests the need for establishment of a Regional Water Resource Management Center. Its function would be to provide advice on hydrological, environmental and legal issues; to assist with harmonization of legislation and standards; and to act as a focal point in establishing, servicing and advising on individual river basin agreements.

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Southern Africa Foundation for Economic Research (SAFER): Report on Regional Economics Integration Conference, December 1992, Development and Distribution of Water supplies in Southern Africa. This report concludes:

> Opportunities offered for collaboration between the states of Southern African so as to mutually benefit from development of the water and energy resources of the region have been known for a long time. International projects, mostly with the object of supplying energy across national borders, have been undertaken in the region but have been beset with difficulties arising from political unrest.

Recently a number of important joint projects, with South Africa as a participant, have been initiated where the focus is on water supply. The political climate, and relationships between states in Southern Africa, has changed dramatically over the last two years leading to the realization that many of the imaginative water resource development proposals made in the past could now become significantly more attractive. *The new ingredient is the much greater possibility of inter-state cooperation which could not be contemplated in the past.* Smaller scale projects to meet local needs across international boundaries should be given careful consideration.

While the political environment has changed substantially the water resources remain forever renewable, given sound management and technological advances open up new possibilities for increasing the benefits from resource utilization. Most importantly, the need for water and energy in the region is escalating as the population grows. Improving the quality of life of millions of people by improving access to clean, reliable water supplies and electricity is seen as the surest way to stem the tide of population growth and to ease the pressure on the fragile Southern African environment.

Zambezi River System Action Plan (ZACPLAN), Appraisal Report, 10 March 1992: The main objectives of ZACPLAN are to:

- Encourage integrated river basin planning and management:

- Define specific environmental problems and their impacts, and to help the countries of the Zambezi river basin and other states that do not fall within the basin to provide ongoing programs for the incorporation of environmental concerns into the management of water resources, including drinking water supply and sanitation;

- Strengthen the awareness of the various governmental institutions involved in socio-economic development activities as to the potential impact of these activities on the water environment within the river basin, and the importance of their active participation in the adoption and implementation of the Zambezi River Action Plan.

The Action Plan has the following components:

- *Environmental Assessment*: which provides for the continuing and systematic assessment of the main factors influencing water management and water related environmental quality.

- *Environmental Management*: a wide range of activities are envisaged in order to ensure sustainable, environmentally sound development of the resource base.

- *Environmental Legislation*: efforts will be made to review and where necessary, expand, update or strengthen national legislation to support the objectives of the plan, and to strengthen compatibility among the participating states.

The collection and, as necessary, development of comparable data and information on the region's basins of importance. This will include information related to:

- Water resources assessment;

- Socio-economic development that may adversely affect the environment;

- Institutions, experts and facilities available in the region for the implementation of the Action Plan; and

- The identification of human activities and eco-systems that could be affected by environmental degradation.

SADC—Food, Agriculture & Natural Resources Sector Report, January 1994: This SADC sector report for 1993 includes the water sector summary as part of the Environment and Land Management Sector (ELMS) sub-section. ELMS is now in Phase III of their Program of Work. Phase III concentrates on institution building for sustainability. In addition, as an aftermath of the 1991-92 drought that ravaged the SADC region, ELMS has been under pressure (from member states) to develop water resource development strategies. Accordingly, the need for Water Resource development has become a ELMS priority. As a result, the sector has been holding discussions with many cooperating partners to try and forge strategies for development.

In general, all sources referenced or contacted maintain that there is an urgent and powerful need for the SADC region to immediately proceed with regional development of water resources for the mutual benefit of all countries. Consensus is emerging that Basin Wide Planning and Development must be the "managerial technology" of the future; that optimal use of existing physical resources must be superimposed on basin planning; that resource sharing and cross basin transfer should be the wave of the future; and that there is definite need for a focal point for all water resources issues such as a Regional Water Resource Management Center.

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D. Most Promising Programs and Initiatives

i. Southern African Institutions

ELMS's ZACPLAN: a plan to develop basin wide planning for the Zambezi River Basin is a prototype that, if successful, could be replicated over other river basins. ELMS is just beginning to make progress with its assessment of this basin. Implementation of the results of this assessment will follow.

The Zambezi River Authority (ZRA): is presently operating as a coordinating agency in the Zambezi Basin; but only for shared power between Zambia and Zimbabwe. Several Southern Africa institutions have advanced the idea of expanding the ZRA mandate to cover other activities—e.g., planning, water supply, irrigation, etc.

After experience is gained on ZRA's efforts to coordinate over the whole basin and range of uses, other River Basin Authorities could be established using ZRA as a model. An in depth study to determine the feasibility of expanding ZRA has been suggested.

Lesotho Highlands Water Authority: this is an example of successful development of a cross basin transfer scheme. Due to the imbalance between supply and demand, cross basin transfer may become inevitable for optimal use of the region's water resources. An in depth study to look at this and other cross basin possibilities could be useful.

Regional Water Resource Management Center: establishment of a Regional Water Resource Management Center has been recommended by both SADC-ELMS and AFDB. The upcoming ratification of the "Protocol on Shared Watercourse Systems in the SADC Region" should open the way for this activity.

ii. Other Donors

- Norad and Danida are presently funding Technical Assistance to SADC-ELMS. Additional funding would be needed to move SADC-ELMS into a pro-active Regional Coordinating body.

- Norad and SIDA are also funding parts of ELMs's ZACPLAN, with emphasis on development of a master plan for the Zambezi River Basin.

- The World Bank (IBRD), African Development Bank (AFDB), EEC, and country donors are at present, only involved in bi-lateral projects with no one emphasizing Regional funding.

E. Recommendations For What USAID Should be Doing Under a Regional Program Strategy

This section discusses the Southern Africa Regional Program's (SARP) current direction and capabilities in the Water Sector.

i. Current Strategy

Historically, SARP has not been active in the Water Sector. There have been a few bi-lateral activities in some of the SARP country programs, such as Zimbabwe, where assistance through the Ambassador's Self Help Fund, the Natural Resource Management Project and centrally funded NGO Africare has totalled about $2M since 1986. Other bi-lateral Missions have had water-related activities under Health programs.

ii. Current USAID Program

In 1993, in response to Southern African Governments' pressure triggered by the drought, Southern Africa Ambassadors and Mission Directors requested SARP to "see what USAID can do in the Water Sector." SARP, after consultation with the areas' water ministries, agencies, SARP missions, regional institutions and other donors decided to commission a 12-country Water Sector Assessment that would:

- Determine the existing level of development of the region's water resources;
- Assess the existing legal environment in the water sector;
- Assess the institutional capability existing within the area's water sector; and
- Determine levels and areas' of existing donor assistance.

The ultimate outcome is expected to determine if USAID has a role to play in assisting with development in the Water Sector and if so, what role and in what targeted areas could USAID be effective.

iii. Recommendation for ISA

The USAID Water Sector Assessment, funded from PD&S funds, is expected to begin in early 1994 and be completed in late 1994. This assessment will establish exactly where the region's water sector stands at present; in general, what will be needed in the future; which donors are active in which areas; and what and to what degree USAID funding can make a major impact.

ISA should include support and funding for specific interventions or programs as identified and prioritized in the Water Sector Assessment. The most promising areas for funding are summarized below—

- Support establishment of Regional Water Sector Management Center;
- Support for establishment of River Basin Authorities;
- Support implementation of ZACPLAN;
- Support for study of feasibility to expand the Zambezi River Authority; and
- Support feasibility study of Cross Basin Transfer possibilities.

V. SUPPORTING DEMOCRACY

A. Rationale and Opportunities

i. A Region in Transition

During February-March ISA task force representatives conducted face to face interviews with 103 Southern Africans from nine countries of the region to obtain their views on what more needs to be done to assist the process of democratization. Their responses are woven through this report and are the basis for its recommendations.

The third wave of democratization has reached Southern Africa. Under popular pressure authoritarian regimes are giving way to democratically elected governments. But the region's nascent democracies have shallow foundations and Southern Africans fear that they may topple as the wave recedes. Ethnic and economic pressures could abort democratization in those countries where transformations are incomplete. There is widespread belief in the region that urgent action is necessary to strengthen democratic forces so that recent gains can be consolidated, further advances reinforced and Africa's best endowed region given the opportunity to achieve sustained economic development. To check reversion to authoritarian government Southern Africans agree that civil societies must be established in which there are broad-based commitments to democratic institutions and procedures. Most of those interviewed believe that a regional approach which fosters cooperative interaction with counterparts elsewhere in the area is a necessary complement to bilateral assistance in democratization.

While democratic fervor has swept throughout Africa, prospects for the establishment of viable democracies are best in the southern region. It has the most generous natural resource endowment, the most sophisticated infrastructure, the best educated population and considerable capital. The threats to democratization posed by poverty and economic crises elsewhere on the continent are marginally more manageable in Southern Africa because the area is relatively better off.

ii. Learning from Each Other

The resistance of South African blacks to apartheid and the support they received at home and abroad led to the establishment of institutions such as legal aid societies and conflict mitigation groups which can serve as models in the development of civil societies elsewhere in the region. Some of the countries to the north have coped successfully with problems likely to trouble South Africa and other fledgling democracies, e.g., preserving the independence of the judiciary. Human rights groups in some countries have dealt successfully with issues just now confronting those behind them in the evolutionary time line, e.g., the press in Botswana, Namibia and South Africa have the support of legal defense

funds and watch groups which do not exist in Malawi, Zambia or Zimbabwe. Longer established groups also have acquired skills, e.g., recruiting and lobbying techniques, financial management, project proposal preparation, press relations, etc. which more recently organized NGOs must master to become effective. If a regional project ties them together more closely, their varied experiences will enable Southern Africans to teach each other how to become more influential members of civil society, thereby strengthening their democracies.

iii. Common Problems

Another motive for a regional approach is that there are many problems which no Southern African country has yet fully solved and several or all of the nations of the region share a common interest in addressing. While these problems can be confronted within a national context with the assistance of the U.S. and other donors, Southern Africans are generally agreed that a regional approach also is required. An illustrative issue is the role of the military in a democratic state. Interviewers found this to be a widespread concern prompted by common belief that military establishments are not under effective civilian control and that they consume excessive shares of national resources. Respondents felt that regional conferences and research projects would not only offer possibilities for shared insights but perhaps more importantly would legitimize discussion of a topic many politicians hesitate to raise in a national context.

Other broadly based concerns which could be addressed regionally include the failure of police and security officials to understand the rights of citizens and their impunity when they abuse those rights. The inability of untrained magistrates to provide uniform standards of justice at the local level is another problem common throughout the area which Southern Africans thought might respond well to a regional approach. Another is the difficulty educating citizens of most Southern African countries about their basic human rights and government's obligation to protect them.

iv. Willing Partners

In their interviews with ISA task force members Southern African human rights advocates, trade unionists, legislators, journalists, women's rights leaders, students, academics, churchmen and others described the present as a critical period during which the current positive momentum should be reinforced through regional cooperation among those who want to see democracy succeed in Southern Africa. There was widespread belief that creation of regional networks among organizations of similar purpose will afford local activists moral and political support as well as a measure of protection when they find themselves in conflict with their own governments.

Mojnku Gumbi and Pensy Tlakula of South Africa's Black Lawyers Association were among those respondents who made the related point that in addition to its other advantages

the regional approach would respond positively to a local preference for help from within the region rather than from outside Southern Africa. Swazi human rights activist, Vika Khumalo, said much the same thing in commenting that interaction with people of the region would be better than with Americans or Europeans because the former "know us better." Zimbabwean women's rights advocate Sarah Myududu noted that her government would find pressure from within the region far more acceptable than pressure from western sources. There was a broad consensus that regional networking will provide opportunities for local organizations to learn from each other's successes and failures, thus building strength at national levels. Respondents were generally agreed that a regional approach also should permit achievement of economies of scale in training and that the creation or strengthening of regional institutions will foster cooperation and peace among Southern Africans.

B. Key Stakeholders

The key stakeholders are the people of Southern Africa. Like people everywhere they want to live in dignity and security. Often they have a clearer idea of what they do not want, e.g., colonialism and despotic behavior by local tyrants, than of the democratic institutions and procedures which can protect them from arbitrary rule. They have earned the respect, compassion and support of many donors by the persistence of their struggle against oppression despite cruel mistreatment. While the bona fides of some democracy advocates are dubious, there are many Southern Africans who share Nelson Mandela's democratic vision. The appeal of democracy, albeit imperfectly understood, has great resonance among the people of the region.

i. SADC

Institutionally the most significant political organization of a supranational character in the area is the Southern Africa Development Community (SADC). It includes all of the countries covered by the ISA except South Africa, which is expected to become a member after the post election government is formed. SADC's objectives include the evolution of common political values, systems and institutions. To an increasing extent SADC members and the secretariat have come to a nominal consensus that this commonality will be democratic.

The secretariat has a proprietary attitude toward all regional initiatives including democratization. As SADC has focused only recently on democratization its track record is short. It has sponsored, with USAID and other donor financial support, the two conferences described elsewhere. The secretariat would like to have ISA and other donor funds for democratization funneled to Southern African governments and NGOs through SADC. However, this proposal already has been opposed by regional NGOs and is unlikely to enjoy much support from SADC member governments.

However, at a SADC sponsored conference at Windhoek in February, Southern African NGOs objected strongly to the SADC secretariat's proposal that it play the lead role in coordinating NGO democratization activities. For their part, member governments are not wedded to the notion that the secretariat needs to be involved in initiatives such as the ISA, and donors and NGOs have worked regionally on democratization without SADC's involvement.

ii. Regional NGOs

There are other well established regional economic institutions (SADC's mandate is both economic and political) but the Southern African Trade Union Coordination Council (SATUCC) is the only other organization with a quasi-political charter and comparable reach. SATUCC members and the AFL-CIO organ responsible for assisting the trade union movement in Africa, the African-American Labor Center (AALC), expressed enthusiasm for the ISA when contacted by the task force. The Harare-based Southern African Research and Documentation Center (SAPES) undertakes extensive research and publication in the region. Ibbo Mandaza, its Executive Director, proved quite interested in working with USAID on the ISA when the proposal was outlined to him by task force members.

While not as broadly networked, journalists, representatives of women's organizations, human rights activists, legislators, academics, etc. almost universally voiced support for the Initiative in interviews with task force representatives. Among the more prominent networks in this category are those of the Women in Law in Southern Africa (WLSA) and the Women in Law and Development (WILDAF). Other organizations with regional networks include several of the Christian churches which have played advocacy and even leadership roles in democratization in the area. The churchmen contacted also welcomed the ISA.

iii. National Governments

Southern African governments are stakeholders. Not all are led by disciples of Jefferson. Some democratic values are not universally appreciated, e.g., the role of a loyal opposition. There may be occasional disagreements as the ISA's democracy component is implemented. But no government is likely to formally oppose the Initiative. The soundings made by the ISA task force elicited evidence that at least some of the political parties expected to be running governments in Southern Africa the next few years will welcome U.S. support for democratization. Moses Garoeb, Secretary General of SWAPO, expressed a concern heard in other states where one party is dominant when he told task force members that he feared that without such assistance his organization will find itself running a one party state and become liable to all of the excesses and resentments characteristic of one party states elsewhere in Africa.

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iv. Other Donor Approaches

The Western European, Canadian and Japanese governments provide financial support, training and technical assistance to Southern African governments and NGOs to encourage democratization. The modalities differ from donor to donor. The Germans funnel assistance through their very well regarded political party foundations while some British aid is channeled through the Parliament's Westminster Foundation. The European Parliament also is a donor. The Nordics and the Dutch have demonstrated particular interest in the region and in democratization. One criticism of other donor programs heard from Southern Africans in countries where democratization is more advanced is that the donors distract the attention of practitioners by offering all too many prepaid tickets to conferences of marginal benefit.

v. American NGOs

American NGOs are stakeholders too. Using USAID and National Endowment for Democracy (NED) funding, both the National Democratic Institute for International Affairs (NDI) and the International Republican Institute (IRI) have developed substantial democratization project portfolios in the region. NED also finances such projects directly. The African-American Institute (AAI) has a more modest portfolio of democratization projects and the Joint Center for Political and Economic Studies and several other American NGOs are operational only in South Africa. NDI and IRI run both bilateral and regional programs. Washington and field representatives of each organization welcomed news of the Initiative. NDI would almost certainly present democratization project proposals for ISA funding, and IRI might do so as well.

C. Constraints of Most Serious Concern

i. Inexperience

The most serious inhibition to successful democratization of Southern Africa is unfamiliarity with democratic institutions and procedures. Even in Zambia, which attracted worldwide attention when an authoritarian regime was ousted in an election three years ago, Civic Education Chairperson Lucy Banda Sichone told task force interviewers that the absence of a "culture of democracy" is primarily responsible for the low turnout in subsequent elections as Zambians have "opted out of politics" and persist in following a top down model of political interaction. Similar views were expressed throughout the region. Esnah Kalyati, Chairperson of Malawi's Commission on Women and Development, underlined that the low participation of women in the democratic process "starts from the grass roots" where women are excluded from political life by custom. A Swazi dissident spoke of the trappings of democracy being put in place but not its substance. An even more fundamental problem cited by many of those interviewed is that large numbers of Southern

Africans are not even aware that they have internationally defined and recognized human rights.

A persistent view of politics as a zero sum process discourages the development of viable opposition parties which in turn contributes to the type of voter apathy which in the case of Zimbabwe saw less than 4 percent of the eligible voters turn out for the most recent by-election. The problem is even more severe in Swaziland which remains a traditional monarchy and in Mozambique, where 500 years of colonial rule blocked news of the Enlightenment and 16 subsequent years of terrible civil war uprooted much of the rural population.

Inexperience also was evident at the institutional level. In nations without a heritage of nongovernmental organization participation, social activists are acutely interested in meeting with counterparts elsewhere in the region who could help them analyze and resolve the issues confronting them. News that counterpart organizations are willing to hold workshops, receive interns, exchange publications and engage in other forms of cooperation brought appreciative smiles to Southern African faces.

ii. Institutional Weakness

Another related serious constraint to democratization in some Southern African countries is the rudimentary nature of the government institutions and NGOs which must form the skeleton of a democratic society. In Namibia the upper house of the legislature is composed of directly elected officials who for the most part assumed office totally unschooled in modern political process. In Mozambique it is not clear that the principal political parties are indeed political parties rather than members of rival military forces dressed in civilian garb.

A serious impediment to the international aspects of a regional project like the ISA is the weakness of the national structures of the organizations which are expected to work in collaboration with their counterparts elsewhere in the region. Human rights organizations, women's advocacy groups and student representatives frequently have no professional staff or offices and sometimes no budget beyond the personal resources of the founder and his or her close associates. In more than a dozen interviews Southern African NGO representatives said that their ability to network regionally will not exist unless they receive help strengthening their own organizations prior to or simultaneously with efforts to create regional links.

iii. South Africa's Image Problem

The troubled relationship between South Africa and the other nations of the region is a constraint in at least the near term. South Africans have the experience, institutional bases, willingness and funds to provide some assistance in important aspects of democratization,

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particularly in the elaboration of civil societies and in formal training for journalists, judges, trade union officials, etc. However, South Africa and South Africans are regarded by some other Southern Africans with suspicion and resentment and the South Africans know it.

Some other Southern Africans are concerned that South Africans, white or black, will treat them arrogantly, will exploit them commercially and economically, and will attract via higher salaries the skilled personnel poorer states need to manage themselves and develop. Consequently there is some reluctance to work with South Africans and to send students and trainees off to South Africa. For their part some of the more sensitive South Africans are reluctant to offer assistance they feel may be rejected.

D. Most Promising Programs and Initiatives

i. Training Journalists

The Institute for the Advancement of Journalism in Johannesburg, which is run by the widely respected journalist Alister Sparks, currently insists that at least 25 percent of its students be from elsewhere in Southern Africa. Independent newspapers are among the boldest advocates of democracy in the region. However, Southern African journalists and publishers sometimes are weak in basic tradecraft, are inadequately trained in business management, and are exposed to legal assault by governments and private parties which take offense at their reportage. The Institute is prepared to accept additional trainees from the region if a donor will cover costs.

The Media Institute of Southern Africa (MISA) in Windhoek is interested in creating a regional legal defense fund for journalists and publishers hauled into court by those whose conduct they have criticized. A functioning model exists in Botswana. Seed money is needed.

Several South African newspapers currently offer internships to trainees from elsewhere in the region. If funds were available to subsidize additional internships the newspapers might create them.

ii. Legal and Paralegal Training

The Centre for Applied Legal Studies at the University of Witswatersrand in Johannesburg in conjunction with other South African universities is interested in establishing programs to upgrade the skills of lawyers and judges in the region. Both are declining as the result of the departure of more experienced practitioners and law school professors. Respect for the courts is essential to maintenance of their independence. The Centre's Director also indicated an interest in training local magistrates although their educational levels and the differences in the codes they must enforce could make regional training impractical. The

need to train more paralegals came up frequently. Funds are needed for scholarships and other costs.

The Black Lawyers Association in South Africa has suggested regional moot court competitions as a device for training students and building bridges between the legal establishments in the area. External funding would be required.

iii. Women's Rights Training

Women's organizations are at very different levels of development throughout the region. Some linkages exist among the more sophisticated ones. But those groups most in need of assistance from more experienced organizations frequently are not in contact with them. Assistance to the existing networks could enable them to expand their reach to the groups which need their help.

iv. Conflict Resolution

Southern Africans identified conflict resolution as a skill needed to curb the frequent recourse to violence evident in some regional cultures, not only in inter-group relations but within the family. South Africans have extensive experience in the area. Several organizations could take the lead in a regional approach including the Centre for Intergroup Studies.

v. Human Rights Training

Human rights groups in the region often have little research capability and by merely repeating sometimes inaccurate press accounts or reports which have not been cross-checked leave themselves vulnerable to charges of unprofessionalism and anti-regime bias. The highly regarded South African Institute of Race Relations in Johannesburg is willing to train human rights monitors from the region in data collection and analysis. It would need outside financial assistance.

vi. Regional Watch Groups

Support for existing watch groups, MISA for the press and SATUCC for the trade unions, and encouraging formation of additional regional watch groups in neglected but mature areas, e.g., women's rights, would be logical steps. Human rights activists in several countries indicated that local authorities would take more notice of abuses reported by an international watch group than by national groups.

vii. Regional or National Institutional Support

Within some sectors those interviewed voiced broad support for assistance via regional institutions which with additional funding might become democratic strongholds in Southern Africa. Journalists, NGO representatives and U.S. officials across the region spoke highly of the Media Institute of Southern Africa in Namibia and of the Institute for Advanced Journalism in South Africa. However, a proposal by the Vice Chancellor of the University of Namibia, supported by the regional NDI representative, for the creation in Namibia of a regional center for democracy proved controversial. Not surprisingly it was warmly embraced by the Namibian government. But interlocutors elsewhere in the region were more interested in having democracy support centers established in their own countries than in relating to one well off the beaten path in Windhoek. On the basis of exchanges with academics elsewhere in the region some controversy can be expected over proposals which include long term training in South Africa, with fear of brain drain being given as the basis for opposition.

E. Recommendations for What USAID Should be Doing Under a Regional Program Strategy

i. U.S. Government's Current Strategy

The core concept of the Clinton administration's foreign policy, as identified by National Security Advisor Tony Lake in his September 1993 Johns Hopkins address, is support for democracy and market economics. In Southern Africa, as in other parts of the world, the administration is promoting democratization in countries where democracy remains the goal of democracy advocates and assisting in the consolidation of democratic institutions and procedures where they have taken hold. In addition to foreign assistance allocations U.S. democracy support activities in the region include advocacy of democracy in private and public diplomacy and significant participation in the diplomatic negotiations intended to lead to democracy in Mozambique and Angola.

The SADC countries have more than a decade's experience working with each other and with USAID in a regional mode. During this time Frame USAID's Southern African Regional Program (SARP) provided $411 million to the SADC states as a regional activity. SARP also sponsored a series of conferences on the future of the region, including sessions on human rights and on the role of NGOs, both key components of the democratization process. This prior experience and the high comfort level it has created vis a vis regional interaction and working with USAID multilaterally should facilitate implementation of a USAID regional democratization project.

ii. Current USAID Regional and Bilateral Programs in Democracy

The Africa Bureau has two regional programs specifically focussed on supporting democratization and five bilateral democracy/governance programs in Angola, Malawi, Mozambique, South Africa and Zambia.

iii. Regional Programs

Democracy and Human Rights Fund: Drawing on Section 116(e) of the Foreign Assistance Act, the Africa Bureau created the Democracy and Human Rights Fund (DHRF) in 1979. The DHRF has enabled AID, in conjunction with the State Department, to finance small scale projects designed to foster democracy and human rights. These projects are approved and implemented without many of the procedures involved in larger AID grants. A field evaluation in 1993 concluded that although larger democracy projects are being planned and are starting to be implemented, the DHRF program will continue to be the major strategic and flexible tool for promoting democracy and human rights through direct relatively low-cost investments in African institutions, particularly in countries without an AID mission. A list of DHRF projects approved in 1993 is at Tab B.

Africa Regional Electoral Assistance Fund (AREAF) Project: AREAF is a second generation project designed specifically to provide financial and technical assistance for African elections. AREAF, which began in 1992, is a partnership of the African-American Institute, the National Democratic Institute for International Affairs and the International Republican Institute, in collaboration with the Carter Center of Emory University. The project's primary objective is to support improved electoral processes and increased civic participation through innovative programs capable of providing a rapid response to the dynamic environment of African democratic transitions. As the agency came to appreciate that elections are only one part of a longer process funding was made available for upstream and downstream activities which include voter education and consolidation of the democratic process in countries which have recently held elections. Funding level is $12.5 million for a three year period. Within Southern Africa, AREAF and its predecessor have been used to support elections in Zambia, Malawi, Lesotho, Namibia, and Tanzania and to provide partial support in Angola and Mozambique.

Bilateral Programs: Angola, Malawi, Mozambique, South Africa, and Zambia have bilateral programs in democracy/governance. Project summaries and funding levels are contained in the table below. All have election support and civic education components. Funding levels for FY '95 range from $350,000 in Zambia to $20,440,000 in South Africa.

iv. Summary of Lessons Learned From Changes in Strategic Directions and Past Evaluations

An informal evaluation of the DHRF was conducted in 1993. AREAF and the bilateral democracy/governance projects are of too recent origin to have been subject to formal evaluation. There are USAID financed evaluations as well as GAO audits of USG democracy support programs in eastern Europe and the NIS.

On the basis of "USAID's Experience with Democratic Initiatives: A Review of Regional Programs in Legal Institution Building" (1990) and the draft "Democracy Implementation Guidelines" (1994), USAID's best practices can be summarized as follows:

- *Focussing on Substance*: The most important aspect of democratic institution building is that it is the substance and processes of democratic development, not just the forms or outward appearance which must be transmitted.

- *Local Ownership*: The host country or some group within the society should almost invariably be the initiator of democratic initiatives. Sustainable democracy cannot be imposed; USAID can only encourage and support local demand for open, transparent and accountable governments.

- *Developing Institutions*: AID has found that it is generally more effective to support ongoing institutions than to attempt the arduous task of creating new ones.

- *Establishing Partnerships*: Strong, stable partnerships anchored in sustained and coherent programs, rather than short-term activities, provide the basis for USAID's most significant contributions.

- *Building Flexibility*: Political reform is complex and successful democracy building efforts must be carefully tailored to the country and regional political, economic, and social settings and sensitivities. Democracy promotion programs must remain sufficiently flexible to allow for appropriate, and in some cases, rapid responses for immediate short-term needs or "fixes," given a variable and dynamic political landscape.

- *Integrating Approaches*: AID should be designing and funding programs that are mutually supporting and that facilitate networking rather than several unconnected projects. Most important, USAID experience compels recognition of the mutual dependencies between economic growth and political development. The former requires popular participation, a supportive legal structure and accountable governance, while the latter depends on broadened involvement in economic affairs and resource distribution, assuring a social safety net and creating equality of opportunities.

v. Proposed Goals, Objectives and Strategies

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ISA Democratization Goal: The goal of the democratization component of the Initiative is to take advantage of opportunities for regional cooperation in democracy support activities which will supplement what donors are doing bilaterally to help create in Southern Africa a cluster of firmly established democracies living at peace with each other and enjoying the benefits of sustainable development. All other significant stakeholders in Southern Africa want to see this goal attained.

N.B. All of the critical objectives and strategies arrayed below were suggested by Southern Africans in interviews with task force representatives. They also are consistent with the guidelines on U.S. promotion of democratization spelled out in Presidential Review Document 26 (PRD-26). The Interagency Working Group on Democracy had not become operational when work began on the ISA. However, an early step in consideration of the democratization component was consultation with the State Department officer now chairing the IWG and that consultation continues.

Critical Objectives:

- Reinforce the allegiance of the area's inhabitants to democratic government by helping to create a culture of democracy in which the population understands and subscribes to democratic values.

- Foster development of civil society by assisting local NGOs, including trade unions, to establish themselves in the political space which they will occupy as truly democratic governments share governance with the people and with their nongovernmental organizations.

- Strengthen the branches of government which can check the arbitrary exercise of power by the executive and thereby block backsliding to authoritarian rule.

- Focus attention on the proper role of the military in a democratic society.

- Encourage the development of an independent and responsible press which can expose abuse of authority by the government and corruption within it.

Major Strategies:

- To help create a culture of democracy the ISA will exploit opportunities for regional cooperation in:

  a) Civic education, including opportunities within schools;

  b) Voter education on an intense basis preceding elections;

c) Broadening knowledge of and access to legal rights;

d) Development of political parties;

e) Sharing successful conflict resolution techniques; and

f) Providing human rights training to police, security and military officials.

- To help strengthen NGOs the ISA will exploit opportunities for regional cooperation in providing them with:

  a) Training and technical assistance;

  b) Funds for startup costs and programs;

  c) Help in conducting operational activities; and

  d) Assistance in establishing regional networks and watch groups.

- To enable other branches of government to act as a check on the executive branch the ISA will exploit opportunities for regional cooperation in:

  a) Training judges, magistrates, lawyers and paralegals;

  b) Training legislators and their staff members and providing them with research capabilities; and

  c) Training government officials at the regional and local levels.

- To focus attention on the proper role of the military in a democratic society the ISA will exploit opportunities for regional cooperation in:

  a) Assisting think tanks to engage regional military officers in discussion of their responsibilities in democratic states;

  b) Assisting think tanks and legislatures in discussing appropriate military force and expenditure levels; and

  c) Assisting regional governments in finding alternative employment for redundant military personnel;

- To encourage development of an independent and responsible press the Initiative will exploit opportunities for regional cooperation in:

a) Training journalists and publishers in tradecraft, management, business law and journalistic ethics;

b) Formation of national and regional associations; and

c) Establishment of legal defense funds for journalists and publishers.

vi. Consistency With Other Strategic Approaches

The strategies proposed in this paper are consistent with the directions of the strategic approaches underway in the region, although not every donor is engaged on as many fronts as these strategies propose and some have not been as bold. They are most consistent with the activities of those stakeholders which have been engaged for some time on democratization, e.g., the American NGOs and furthest in advance of stakeholders new to this field, e.g., SADC.

vii. Responses to Strategic Issues

Definitions: The ISA definition of regional activity would permit assistance to national structures from the Democracy Fund (see below) where a means of providing such help is not incorporated in a bilateral democracy/governance project or no democracy/governance project is operational in the country in question. The definition would permit funding not only for members of national structures to take advantage of training programs, conferences and other opportunities abroad and for foreign trainers, interns etc. to come to work in the country in question. The definition also would permit funding of national structure startup and operating costs.

In accordance with PRD-26, democracy would be defined broadly as requiring not just periodic elections but maintenance of the rule of law and general respect for the basic civil and political rights proclaimed in the Universal Declaration of Human Rights.

NGOs eligible for ISA assistance would be defined to include both those with a central purpose directly related to democratization and those without such a central purpose. However, the ISA focus would be on NGOs in the first category and those in the second group would be eligible for assistance only for activities directly related to establishment of a civil society, e.g., technical assistance in lobbying procedures.

Regional Or National Institutional Support: Given the uneven levels of institutional development evident in the region and the ISA's commitment to respect for African preferences, the Initiative is going to have to employ variable geometry in designing its programs. Thus it will be appropriate in some circumstances to designate one or more regional institutions as those which will be the primary delivery vehicles for ISA assistance throughout Southern Africa in a particular sector, e.g., training journalists, while in other

activities most ISA assistance will be provided at the national level, e.g., training magistrates. In addition to using U.S. NGOs and for profit firms to undertake research and to furnish training and technical assistance, the Initiative might transfer funds to other elements of the U.S. Government, e.g., USIA, for these purposes.

viii. Management Policy Issues

African Involvement and General Management: To give visibility and substance to African participation in the Initiative, a Regional Democratization Advisory Board would be established, provided legal and congressional obstacles were overcome. It would set ISA democratization policy and priorities. It also would approve major grants from an ISA Democracy Fund. Composed of a few distinguished African democrats and an equal number of U.S. officials assigned in Southern Africa, the Board would be supported by a small secretariat staffed by USAID and African contract personnel. The secretariat, working closely with bilateral missions, would provide technical assistance, including that needed by local NGOs to prepare project proposals. It would make decisions on minor grants.

The secretariat also would serve as an information clearing house and coordination point. In collaboration with bilateral missions it would organize internships, exchanges, and workshops among institutions in Southern Africa using its growing data base to identify and encourage replication of successful approaches to democratization. It would be a point of contact with other donors and would help avoid duplication of effort among members of the donor community. The secretariat could continue to fund the regional dialogues on democratization related themes now supported by the SARP. If requested, the secretariat could provide technical assistance to bilateral missions in designing and problem solving bilateral democracy/governance projects. Following the SARP model the Secretariat would 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 supplemental post-election aid package for South Africa.

The ISA Democracy Fund would be the name given to the money allocated by the Congress and USAID to support democratization in Southern Africa within the context of the Initiative. It would supplement but not replace funds available to Southern African posts from the regional DHRF and AREAF programs as well as from bilateral projects.

Sustainability: The regional networks which the ISA would reinforce or help establish eventually will assume responsibility for the coordination and technical assistance initially provided by the Regional Democratic Advisory Board and its secretariat. The issue of what entity will decide how Democracy Fund money is allocated will become moot when the project and its external financing end.

If it appears that regional networks in some sectors will not be sufficiently well established to provide coordination and technical assistance after the ISA terminates, the

SADC secretariat might meet this residual need. Naming an appropriate SADC official to the Regional Democratic Advisory Board could both attenuate SADC dissatisfaction at being by-passed as the management unit (due largely to African NGO objections) and lead to creation within the SADC secretariat of a real capacity to assist in regional democratization activities.

Country Team Involvement: By retaining their responsibilities for management of bilateral democracy/governance projects as well as local participation in the DHRF and AREAF programs, country teams and ambassadors would have powerful tools for assisting democratization in their countries of assignment. While it would not be practical to have every country team represented on the Regional Democratic Advisory Board, the U.S. officials on the Board and the USAID officials working in the secretariat should serve as points of contact which would make it possible for country teams to influence decisions regarding ISA democratization activities in their host countries.

ix. Democracy Versus Economic Reform

Democratization cannot play second fiddle to economic reform. To attenuate the political costs of economic reform USAID will continue to work with other donors in Southern Africa, as elsewhere in the world, to make the face of economic reform more human. This will be accomplished primarily by constructing social service safety nets which prevent politically unacceptable free-fall in living standards as a consequence of structural adjustment. This will not be an ISA responsibility.

x. U.S. Leadership

U.S. leadership in the promotion of democratization in Southern Africa will have better prospects for success if it is exercised discreetly. Southern Africans interviewed by task force representatives responded positively both to de facto U.S. initiative and to assurances that the U.S. envisions an international effort in which Africans will have leadership roles. Similarly other donors have responded well within the OECD/DAC setting to U.S. initiative but in a context in which U.S. representatives stressed partnership rather than American leadership. Efforts to reap domestic political benefit by emphasizing U.S. leadership could provoke African and donor backlash, undercutting prospects for success of the ISA.

xi. Measuring Success

Democratization is a long term process and one in which the succession of advance and setback is so typical that scholars use the metaphor of the flow and ebb of the ocean's waves to describe its progress. Only careful observation will make clear over time whether the tide of democratization is rising or falling. The most important indicator of the Initiative's progress will be the willingness of Southern Africans to continue the process. If they are sufficiently encouraged to continue to run the inevitable personal risks they should not be

abandoned. If they quit the struggle further investments can only be wasted. To set other benchmarks, e.g., rising voter participation in elections, would be to gamble with chance and perhaps find ourselves compelled by a preoccupation with achievement of short term goals to disengage prematurely, rendering a disservice not only to Southern African democrats but to democracy as well.

Attachments:

Tab A - List of Those Interviewed

Tab B - List of DHRF Projects in FY 1993

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VI. INDIGENOUS PRIVATE SECTOR DEVELOPMENT

The analysis for this section is being completed by the AID/AFR/ONI and Cooper's & Lybrand feasibility team. The team is scheduled to complete its analysis the week of May 8. However, attached are the terms of reference for the feasibility analysis.

Also attached is a draft synopsis describing the key elements of the Southern Africa Enterprise Development Fund.

A. Rationale and Opportunities

B. Key Stakeholders

C. Constraints of Most Serious Concern

D. Most Promising Programs and Initiatives

E. Recommendations for What USAID Should be Doing Under a Regional Program Strategy

SOUTHERN AFRICAN-AMERICAN ENTERPRISE FUND

The project envisions establishing a nonprofit corporation titled the Southern African-American Enterprise Fund (SAAEF). The SAAEF will be funded at an estimated $100 million with annual funding at approximately $20 million per year during FY '94 through FY '98. The rate of funding will be contingent upon the ability of the Fund to invest such monies in programs and projects that meet the criteria established for the Fund.

The SAAEF will be closely coordinated with USAID's field missions and will not be solely a capital fund. It is proposed that the fund be an integrated program with the ability to provide technical assistance as well as debt and equity financing as appropriate to each country's situation. The SAAEF will provide this assistance through the establishment of a region-wide umbrella program established as an independent trust or nonprofit entity in Southern Africa. The regional umbrella program would in turn allow for the development of tailored country programs responsive to the unique constraints, needs and opportunities in each country.

The SAAEF is to be designed in two phases. Phase I, the regional umbrella structure, will be developed over the next few months on the basis of the recommendations from the feasibility team. Phase I will result in the authorization and initial obligation of the SAAEF in FY '94. Phase II will consist of the formulation of the country specific components which will be developed in the field after the regional umbrella is authorized.

The issues to be addressed by the feasibility study team are to take into account the regional umbrella and country-specific issues unique to each of the relevant countries. At the regional level this includes such issues as project sustainability; criteria for country participation and resource allocation across participating countries; structure, including the board of directors, operational management and functions of the umbrella; services to be provided by the umbrella; location of the umbrella; legal questions related to the establishment of the umbrella; flow of funds from the umbrella to the country level programs; lessons learned from other capital intermediation activities and lessons learned from prior attempts at orchestrating the provision of capital, TA/training and policy reform issues relevant to successful enterprise development; market information requirements of the stakeholders; relationship between regional and country level management structures; and the play of market forces in determining specific investments.

At the country level, issues to be addressed should include: country eligibility criteria, definition of target groups and strategies for accessing such groups; approaches for identifying and serving the training and technical assistance needs of the participants, identification of intermediaries with special attention being given to the relationship between the intermediaries and the end-line participants; threshold criteria concerning individual country enabling environments and political situation; social cultural constraints to target

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group, with particular attention to the participation of women, and relationship of the SAAEF to country/mission strategy and management capacity.

There are a wide range of constraints, varying by country, hindering indigenous ownership of productive assets and the development of disadvantaged small and medium-sized enterprises in the region. In some countries the most pressing constrain is not the lack of capital, per se. The target group is more constrained by the lack of general management skills, lack of specific technical skills and access to technology required in specific enterprises/industries, very conservative banking and financial systems skewed against their getting fair access to locally available financing, as well as policy and regulatory environments which mitigate against the creation and/or expansion of small and medium-sized enterprise. Therefore, the regional umbrella program should provide for an appropriate mix of technical assistance, training, policy reform interventions, and financial leveraging mechanisms to facilitate access to local sources of private and governmental capital.

The program should be designed to maximize the sustainability of the major components, and where feasible to maximize the self-financing potential of any elements that involve leveraging debt or equity financing.

Maximizing African participation, leadership and ownership—most of the enterprise funds and venture capital models referenced in the pre-feasibility study are organized as 502(c)3 organizations based in the U.S. Given the goals and objectives noted in the preceding paragraphs, it is highly unlikely that an organization based in the U.S. could maintain the necessary interaction with the key regional stakeholder and provide services in the most cost effective manner. Moreover, maximizing African participation and leadership is a major thrust of all segments of the Initiative for Southern Africa, under which this regional enterprise program is included. Therefore, the objective is to establish the umbrella program as an independent trust or nonprofit entity based in Southern Africa with an appropriate mix of Southern African and American participation in the governing body and the management of the trust.

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ANNEX B

AFRICA PRIVATE ENTERPRISE FUND
AFRICA VENTURE CAPITAL PROJECT (AVCP)

PROJECT NUMBER 698-0438
CONTRACT NO. AFR-0438-Z-00-0006-00
TASK ORDER 71

REPORT ON PROPOSAL FOR SOUTHERN AFRICA-AMERICAN ENTERPRISE FUND (SAAEF)

Prepared For:

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GLOSSARY

AEFs	American Enterprise Funds established in Eastern Europe pursuant to Public Law 101-179,the SEED Act of 1989.
AGF	Africa Growth Fund
CDC	Commonwealth Development Corporation
CEO	Chief Executive Officer
CMA	Common Monetary Area
DBSA	Development Bank of South Africa
DEG	Deutsche Investitions-und Entwicklungsgesellschaft
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
EDESA	Economic Development for Equatorial and Southern Africa
EF	Enterprise Fund
EIM	Equity Investment Management, the management company for the TVCF
EUR	Eastern Europe, including the countries of Poland, Hungary, Bulgaria, and the Czeck and Slovak republics
FRP	Federal Procurement Regulations
GVCF	Ghana Venture Capital Fund
IFC	International Finance Corporation
IFIs	Intermediate Financial Institutions
ISA	Initiative for southern Africa
KECC	Kenya Equity Capital Corporation

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LAAD	Latin America Agribusiness Development Corporation SA.
MESBIC	Minority Enterprise Small Business Investment Corporation
NAIC	National Association of Investment Corporations
NGO	Non-Governmental Organization
NIS	Newly Independent States of the former Soviet Union
NSA	New South Africa, a group supporting the development of black-owned enterprises in South Africa
OPIC	Overseas Private Investment Corporation
PTA	Preferential Trade Area for Eastern and Southern Africa
PVO	Private Voluntary Organization
RFP	Request for Proposal
SAAEF	Southern Africa-American Enterprise Fund
SADC	South African Development Community
"SAR" or the "Region"	Southern African Region consisting of eleven countries: Tanzania, South Africa, Swaziland, Angola, Namibia, Zambia, Zimbabwe, Botswana, Mozambique, Lesotho and Malawi
SBICs	Small Business Investment Companies
SEED	Support for East European Development Act of 1989
SIDI	Societe d' Investissement et de Developpement International
SMEs	Small and Medium Business Enterprises
TA	Technical Assistance
TDFL	Tanzania Development Finance Company, Ltd.
TVCF	Tanzania Venture Capital Fund

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USAID	United States Agency for International Development
USG	United States Government

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EXECUTIVE SUMMARY

Background

USAID is developing an Initiative for Southern Africa (ISA) project which addresses a broad range of development concerns. The objectives of the ISA include building and sustaining a regional economy and strengthening individual economies while working to enhance regional cooperation and integration. Under the broader heading of strengthening the regional economy are such supplemental goals as increasing the amount of investment in the region from both indigenous and outside sources, assisting the growth of small and medium sized enterprises (SMEs), creating jobs, empowering local black entrepreneurs, and building a private sector capable of serving as the engine of growth.

With this as a context, and following testimony in October 1993, the House Foreign Affairs sub-committee on Africa requested USAID to examine the American Enterprise Fund structure as a model for addressing these needs in the southern Africa region (SAR or Region). This model, as developed in Eastern Europe (EUR) and the New Independent States (NIS), creates a venture capital fund which works in conjunction with local financial institutions to make available long-term capital to indigenous SMEs on a profit-driven basis.

USAID consultants carried out a prefeasibility study during the months of October-January 1994. The study reviewed the experience with the design and early implementation of the EUR, NIS and African venture capital funds, as well as the experience of the Minority Enterprise Small Business Investment Company (MESBIC) in the United States (See Annex A); assessed the appropriateness of the EUR model for the SAR; and, in November 1993, conducted a brief, two-week field assessment in six selected countries in the Region (South Africa, Zimbabwe, Zambia, Botswana, Mozambique and Swaziland).

SAR Development Impact

The study confirmed that -- while the experience with the EUR enterprise funds is still limited -- the funds are having an important developmental impact in the countries where they have been established. A venture capital fund in the SAR would have similar developmental potential, and by filling the need for long-term capital, could meet many of the goals of the ISA:

- helping existing SMEs to grow and expand, as well as establishing new SMEs in the Region, with attendant positive effects on employment generation;
- providing investment capital for SME start-ups and expansions;
- mobilizing additional investment capital from other local as well as overseas sources;
- strengthening the financial sectors in the SAR; and
- providing an impetus for an improved enabling environment in SAR countries. (see Section II,B).

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Field Assessment

The field visit assessed the political, economic and security environment in the six countries. While constraints exist in several of the countries visited as well as elsewhere in the Region -- e.g. weak financial sectors and lack of experience with equity financing -- the study concluded that the conditions exist in most of the region for successful venture capital investment. The single most important constraint appeared to be the need for long term capital. Most disadvantaged in this respect are the small-and medium sized, African-owned enterprises, which lack access to long term financing.

More specifically, the need is for long term equity financing. Typically, SMEs are familiar with debt financing. Many have, in fact, succeeded in overcoming the historical obstacles (e.g. collateral requirements) and obtained short term loans. In fact, SMEs are frequently overextended in terms of prudent debt/equity ratios. The next logical step for these SMEs to grow and expand is to seek long term equity financing from investors willing to share the risks in return for potential downstream rewards. A venture capital fund would precisely meet this need, as well as the requirements of businesses in the start-up stage.

Based on a limited market review in these countries, the study concluded that a Southern African/American Enterprise Fund (SAAEF) could be viable and implemented successfully, assuming a strict management approach that clearly delineates and balances development and fund profitability objectives. Accordingly, we recommend that USAID undertake a full feasibility study of a venture capital fund for the SAR.

Proposed Fund Purpose and Structure

The purpose of the fund would be to provide long term equity and debt capital for African-owned small and medium-sized enterprises in the Region, both existing and new or expanding companies. The fund should have the option of investing its resources directly in southern African companies -- including privatized companies, joint ventures, etc.-- or indirectly through existing intermediary institutions which service SMEs (e.g. banks and other financial institutions, existing or newly formed venture capital or other private development corporations, leasing or franchising companies, or private voluntary organizations). The advantages and disadvantages of the direct and indirect approach to Fund resource investments are described in Section IV, E. The balance of direct or "retail" investments and indirect or "wholesale" investments in the fund's portfolio will vary from country to country and should be left to fund management discretion.

A major objective of the proposed Fund is to mobilize additional investment capital for investment in the Region, specifically investments in new and expanding SMEs. As in the case of the EUR and NIS funds, therefore, the SAAEF will be encouraged to leverage the initial USAID-provided capital in several ways. First, the Fund's direct investments in

operating small and medium firms will, in time, demonstrate the feasibility and profitability of venture capital financing for SMEs in the SAR, and thereby attract additional investments to the Region. Secondly, the fund will look for attractive co-investment opportunities with existing institutional and individual investors. Thirdly, the Fund will offer to manage investment capital resources of other local institutions (e.g. pension and insurance funds) as well as foreign investors (e.g. DFIs) who may be looking for professional venture capital management.

Fund Capitalization

The optimal size of the Fund depends on the capital needs of the target business community in the SAR, as well as the leverage the fund will have on other capital contributions, and USAID's available resources. Each of these questions deserve further study. At the pre-feasibility study level, however, our estimates are that the unmet requirements for long term capital in the eleven countries of the region are between $800 million and $1 billion over five years. Assuming a leverage factor of 4-to-1, a fund initially capitalized at $200 million or $4 million for ten countries per year, would be minimally necessary to make a significant developmental impact. A life-of-project of fifteen years is recommended.

The initial capitalization of the fund should make provisions for start-up costs, including the incorporation of the Fund, the establishment of headquarters and regional office(s), and initial operating costs, including management and staff salaries. Provision should also be made for deal-specific assistance (which should eventually be reimbursed by investees), and for a research program to provide information on industry, financial markets, pricing and other related data. These start-up, TA and research expenses should be accounted for separately from the funds provided for venture capital financing.

USAID Role

The need for a reasonable USG oversight role is apparent both in the experience with the EUR and NIS funds and with prior USAID venture capital experience in Africa. Other issues such as setting fund objectives, executive compensation and incentives, conflict resolution, monitoring and evaluation will arise due to the juxtaposition of a private sector-type investment fund with more traditional economic and social development objectives. Therefore, it is suggested that a small senior USAID board, possibly with inter-agency representation, meet semi-annually to review and resolve these and other policy issues.

Recommendations

The basic Enterprise Fund model currently in place in EUR and the NIS is an excellent starting point for structuring a similar fund in the SAR. Its design, negotiation and implementation have been discussed extensively by USAID, the host countries and

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Congressional staff and, as a result, the model has become a known vehicle for direct USG investing in the private sector of emerging market economies.

Nevertheless, the needs and economic conditions of the countries in the SAR are sufficiently different from those existing in EUR and the NIS, that several important modifications should be considered to adapt the basic model to the SAR. Specifically:

- The SAAEF, like the EUR and NIS funds, should be incorporated in the United States as a non-profit corporation. A regional fund, as distinguished from the country-specific funds in EUR and the NIS, is recommended, to serve the eleven countries of the Region.

  The U.S. headquarters office can perform important liaison functions with the venture capital investor community in the United States. The proper management of venture investments, however, requires a close proximity to the markets. We therefore recommend that the management and day-to-day operations of the fund be situated in the Region. Three countries -- South Africa, Zimbabwe and Botswana -- have the necessary environmental and logistical conditions to provide regional offices for the fund. At this (pre-feasibility) stage, the study recommend USAID consider two regional offices for the fund, one to cover the northern tier of the SAR countries and one for the southern tier, each with slightly different sectoral foci.

- In the case of the EUR and NIS funds, the Board of Directors is appointed by the President, and the Board in turn selects the fund's management. As with these funds, the management of the proposed SAAEF fund management should have a combination of contacts with the U.S. venture capital community, and familiarity with the Region. Given the prevailing conditions in the SAR, however, the study considers venture capital experience with SMEs and familiarity with the Region to be paramount requirements for fund management to have. We therefore feel that a Request-for-Proposal approach provides the best assurance of identifying competent, experienced management for the proposed fund for southern Africa. (See Section III, E, 4).

- A serious effort should be made to have maximum African participation on both the Board of Directors and in the management of the fund. Though scarce, our preliminary assessment is that the requisite experience and talent is available in the Region as a whole.

- Experience with the EUR funds indicates that the needs for technical assistance (TA) to the target beneficiaries of the funds, i.e. SMEs, were seriously underestimated in the case of the EUR funds. Our assessment suggests that an "*a fortiori*" situation exists in the SAR, *viz.* that there is a widespread need for technical assistance and training for African-owned SMEs.

The study proposes two types of TA: deal-specific TA to be provided by the SAAEF under the project; and TA and training for the African SME community at large, focusing on business management, financial management and such skills as marketing, in order to "empower" African businessmen and to increase their role in the economies of the region. The latter type of TA and training should be provided separately from the SAAEF and funded under existing or future USAID mission programs. Such TA is not a *sine qua non* for the feasibility of this project, but to the extent it is provided, it will help USAID, through the fund, to reach more of the target firms and to increase the fund's developmental impact.

Lessons Learned

The study devoted considerable attention to the experience of existing venture capital funds in EUR, NIS and Africa. That experience is discussed and summarized elsewhere in the Report, but it may be useful to state two "lessons learned" here which have important implications for USAID:

- Venture capital has the potential of making significant contributions to economic development. It is very much needed and wanted by SMEs in the Region. However, venture capital is a specialized form of financing, very different from more traditional approaches, such as debt financing. It requires a longer term commitment of capital, a different mix of technical and management skills, and carries significantly greater risks for the investor. Most importantly, as a development tool, venture capital financing implies a greater reliance on the private sector than USAID is currently used to. One of the most critical requirements for success in this project, therefore, is the need to carefully define, agree and stipulate in advance precisely what will be the respective objectives, expectations and roles of USAID and the proposed private venture capital fund management.

- Once the Fund's objectives are defined and an investment policy is formulated , the success of the SAAEF will depend on many factors, including: the size of the Fund and its ability to attract additional capital; the location, structure and local participation in the Fund's activities; the enabling environment in the countries where it operates; the need to provide technical assistance and training for the target beneficiaries; etc. But the single most critical ingredient of success is management.

  Experience with venture capital financing in the United States, EUR, NIS, Africa and elsewhere teaches that fund management must be:1) experienced specifically in venture capital financing; 2) familiar with SME financing; and 3) intimately familiar with the region where the fund operates. Once fund management with the requisite experience and qualifications is identified, it must be given maximum autonomy, flexibility and incentives to pursue the fund's objectives.

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Conclusions

The study concludes that a full feasibility study should be undertaken as a basis for the detailed design of a fund for the SAR. Such a study should, in particular:

- define USAID's (developmental) and the Fund's (financial return) objectives;
- perform economic and financial analyses for the proposed Fund, as well as an analysis of its expected social and developmental impact;
- verify the demand for venture capital for SMEs, and the existing sources of such capital in the Region; review structural alternatives, including the location of the Fund's headquarters and regional office(s);
- examine the relative merits and opportunities for direct and indirect investment of the Fund's resources;
- assess the availability of competent management, especially within the SAR; and
- evaluate the need for technical assistance and training, both deal-specific TA, and TA and training for potential SME investees at large.

I. PROJECT BACKGROUND

A. The Enterprise Fund Model

1. The Seed Act of 1989

The SEED Act of 1989 provides for the creation of American Enterprise Funds (EF) to promote private sector development in designated countries through loans, grants, equity investments, feasibility studies, training, insurance, guarantees and other measures. The EF design, negotiation and implementation has been reviewed and discussed extensively by USAID, the host countries and several Congressional subcommittees and, as a result has become a known vehicle for direct USG investing in the private sector of emerging market economies.

Seven ongoing and proposed European Funds have total planned grant obligations of $580 million, over a four to five year period, while five ongoing and proposed Newly Independent States (NIS) Funds have planned obligation levels of $720 - $770 million over the next four years. This amounts to an average of $113 million per country. These funds are country-specific, as distinguished from regional funds.

2. Purpose of an Enterprise Fund

The purpose of the EFs is to help in the development of indigenous emerging market economies by providing a wide range of debt and equity investments, supported by appropriate technical assistance, targeted at small and medium enterprises. The funds are not intended to compete with the local private sector for- profit financial institutions. Rather, they are designed to address a market imperfection, providing investment capital to commercially viable and developmentally beneficial enterprises that would otherwise be unable to secure adequate financing from the existing market. As such, they may take higher calculated risks than available market sources of capital, as long as the client enterprises are projected to be commercially sound.

The EFs are established as not-for-profit corporations in that they do not have shareholders and do not distribute dividends. The revenues generated by the funds pay the funds' expenses and are used for reinvestment in new projects and activities in the designated countries. Each EF is managed by a Board of Directors, set by Presidential appointment, and is comprised of top U.S. business persons and experts on the designated countries, as well as indigenous citizens of recognized stature. As a matter of operating philosophy, the EFs are run as investment corporations and seek to make a reasonable return on EF investments. The Board of Directors and executive management of the funds have maximum flexibility in the manner in which the funds are structured and in strategic and operating decisions, subject to the AID grant agreements.

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In actual practice, the EFs have been used for equity and loan capital and, in more limited circumstances, for technical assistance. In many respects, they resemble true venture capital funds, in that they are able to provide long term equity or quasi equity (subordinated debt) financing to growth oriented companies, taking higher risks with the expectation of obtaining higher returns over a longer period than is involved in more traditional debt financing. They also differ from bankers or lenders in that venture capital funds must provide a higher level of business, financial, management, and other technical assistance in order to realize a higher return, while protecting the funds against the risks involved.

B. Role of Venture Capital in Development

Nurturing new techniques for the mobilization of investment capital is a central issue many development agencies have been focusing on. No one professes to having found the best model; however, a variety of initiatives are being tried. What we do know is that a number of conditions must exist to make the mobilization of capital for investment in high risk local entrepreneurial enterprises likely to happen. We identify six such conditions.

- The enabling environment of government regulation, tax law, private ownership, corporate law, trade tariffs, foreign exchange controls, and policy advocacy for private entrepreneurship must be firmly in place. Venture investing looks to a long term payback which, in turn, requires a reasonably stable and supportive basis for planning.

- Knowledgeable, experienced fund managers must be recruited. Typically, these people will possess practical business experience and will have developed extensive financial and technical skills. They must be objective in making investment decisions and be able to act independently from external influences. Ultimately, they must be at risk personally in exercising their business judgement. If successful, they must be rewarded appropriately. If the fund fails, they will also forego their reward.

- The ability to develop a list of interesting and appropriate investee candidates, known collectively as the "deal flow", must be evident. We believe that start-up new ventures are not generally appropriate for formal sector venture investing during the early stages of a venture capital fund in the developing world of Africa. The deal flow is more likely to be from existing, proven entrepreneurs with established businesses ready to expand significantly or to take on an important new product or partner.

- The venture fund management must be able to identify specific areas in the investee company's operations for which they have the expertise to add value and assist materially in the investee's rapid growth. This may be in improving the overall quality of management, accounting procedures, planning and control, establishing inventory procedures, technical operations or creating markets.

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- The venture capital fund managers will either have to raise investment funds locally or attract foreign sources. Pension funds, banks, insurance companies and private individuals are usual local sources. Also, Development Finance Institutions (DFIs) may be willing to take an equity share. Since a key developmental goal is to strengthen local financial capacity while building replicable institutions, we believe significant local involvement in the fund is essential.

- Finally, disinvestment strategies, or exit options, must be identified and negotiated up front, when the investment is made. The usual exit route for the venture fund is an initial public offering on a stock exchange. This route is not possible at present in most African countries. Other strategies, such as management buy-outs, possibly through redeemable/repayable investments known as "earn-outs", bank refinancing, corporate acquisitions or private placements must be thought through.

C. Applicability of Enterprise Fund Experience to Southern Africa

A review of the experience of the EFs in EUR, and a field survey of conditions in the southern Africa region suggest that a Southern Africa-American Enterprise Fund could have a significant and highly beneficial effect on the region. The impact would also be unique, in the sense that few other projects could have so positive, widespread and timely an effect. Indeed, increasingly, investors, managers and entrepreneurs, as well as development officials are exploring how to include development objectives as a compatible component of venture capital projects.

1. Sustainable Economic Growth

The experience in EUR indicates that such a fund would lead to the establishment, or strengthening of, a wide array of SMEs in all sectors of the countries in the region. The southern Africa fund would have the same emphasis on SMEs and therefore could be expected to create a number of loan and other programs aimed at SMEs. The small business lending programs established by the EUR funds in several countries are generally regarded as the most successful aspects of those funds. The number of loans made by or through the funds, to SMEs in those countries, has been very large and the default rate relatively low. Given an equally urgent need, and equal credit worthiness of the SMEs in southern Africa, there is every reason to believe that an emphasis on servicing the needs of SMEs would be equally successful in the Region.

The experience in EUR also suggests a potentially beneficial effect on employment generation: the EUR funds used employment generation as one criterion for the selection of sectors in which to search for investments, keeping statistics on the number of jobs created in the companies they invested in.

2. Mobilizing Investment Capital

A second major development impact is the provision of long term capital in an environment where such capital -- needed for business start-ups and expansion -- has traditionally been scarce. The need for such capital is described in Section II,B,5. The Fund's resources would, by themselves, do much to alleviate that need. More important, however, is the multiplier effect a capital fund would have, in terms of leveraging additional capital to meet this demand. This leverage occurs at two levels:

- By investing in projects and institutions which traditional investors might consider too risky, and demonstrating the feasibility of doing so successfully, the Fund's example will, over time, reduce the perceived risk of such ventures, and attract other investors to the equity and risk capital arena. This has been the case with the small business lending programs in EUR, where the fund-initiated programs have been copied and/or matched by state-owned or private, local banks in Poland, Hungary, and the Czech and Slovak republics. Also, the U.S. MESBIC industry demonstrates the impact of a government approved program.

Newly interested investors would probably include joint ventures, in part with U.S. investors.

- The EF mechanism has the potential of attracting additional capital from other donors, development finance institutions and other institutional investors. Such additional capital may be managed as separate funds by the same management, e.g. the Polish Equity Fund was capitalized approximately one third by the Polish AEF and two thirds by other investors, including the EBRD.

3. Strengthening the Financial Sector

A third important development effect lies in the potential of a southern Africa fund to strengthen the financial sectors in the Region. As explained in Section II,B,7,d. on the enabling environment, the financial sector was found to be relatively sophisticated in only two or three countries in the Region. Elsewhere, major improvements are needed to facilitate business transactions and particularly to attract investors.

The operation of an EF in these countries could do much to promote the introduction of new financial instruments and generally to accelerate the formation or development of money and capital markets. The need for a capital fund to develop appropriate exit strategies could, for example, lead the fund to invest in the nascent stock exchange in Swaziland, to help strengthen the exchange in that country.

The EUR funds have also succeeded in creating new financial institutions; for example, the Polish fund has invested in commercial banks and in a mortgage bank to promote residential

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construction and home ownership. The Hungarian Fund has invested in a merchant bank, which was intended to support privatization, and develop the capital markets in that country. In southern Africa, a fund could provide capital to, and thus help establish, venture capital companies, leasing companies, franchising companies, as well as strengthen existing Development Finance Institutions (DFIs) and non-government organizations(NGOs).

For example, in Swaziland, a Fund could support the Small Business Growth Trust (SBGT), an organization created by USAID which has been providing financial support to SMEs successfully for some time and has gained a strong positive reputation throughout the government and private sector. SBGT has applied to become a financial institution and is considering providing equity financing for leasing, franchising, etc. to its target clientele.

4. Impetus for Policy Reform

Lastly, a capital fund in southern Africa could have an important developmental effect on the enabling environment which -- although improving in all countries visited by the assessment team -- still needs to be improved in most countries of the Region. Specifically, the Fund's initial entry into a country, and subsequently specific investment transactions will help to identify the policies, regulations and practices that constitute obstacles to investments and other business activities in that country. For example:

- a small business lending program might lead to a review of collateral requirements and more modern lending approaches for SMEs generally;
- the Fund's interest in privatizing or privatized companies could help to focus on asset evaluation and other policies; and
- the Fund's interest in developing the capital markets in a given country may help the authorities there to focus on the need for appropriate disclosure regulations.

D. Lessons Learned

USAID has accumulated a large body of experience in using venture capital as a development tool, through the creation or financing of public venture capital institutions. In EUR and the NIS, Enterprise Funds have been established in six countries: Poland and Hungary in 1989, the Czech and Slovak Republics in 1990, Bulgaria in 1991, and Russia in 1993. In Africa, USAID has reviewed twenty venture capital initiatives over the last seven years and has given start-up grants and/or invested operating capital in four operating funds in the region.

The successes and constraints which have become apparent in the process of establishing

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institutions which attempt to unite private sector profit-driven discipline with public sector development goals suggest a number of lessons which should be taken into account in the formation of a new fund. The first of these is the central importance of uniting private and public sector objectives, to use the discipline of profitability to maintain the fund's financial viability while incorporating USAID input to achieve development ends. To this end, it is necessary to establish clearly and up-front the respective roles, expectations and objectives of the private fund and USAID.

A second point is that the success of previous attempts at venture capital institutions has been conditioned to a large degree by the quality of the management. While other factors, including size, structure and location of the fund, the degree and quality of local participation, the availability of viable exit strategies, the enabling environment, and the demand for TA also have had a considerable effect, it has been the ability of the management teams to deal with these factors that has determined whether goals of profitability and developmental impact have been met. To achieve this, it is necessary to put in place management which meets the criteria of experience in venture capital, experience working with SMEs, and familiarity with the region in which the fund operates. Once this management is identified, it must be given the widest possible autonomy and flexibility to meet fund objectives.

Third, the fund structure must take into account the high need for TA, both to allow the deals to go smoothly, and to improve the quality of the overall environment in which the fund operates. Investments by the fund must be undertaken in accordance with profit-driven motives, and the long-term profitability of the fund depends on the ability of investees to bring financial rigor to their accounts, which in turn requires a high degree of business skill.

USAID's experience with venture capital funds, and the "lessons learned" from this experience, are discussed in detail in Annex A.

II. FIELD ASSESSMENT

A. Introduction

In the context of this study, a three person team independently visited two countries each, for a total of six countries in the Region (Botswana, Mozambique, Swaziland, South Africa, Zambia and Zimbabwe). This section contains the rationale for establishing an EF in the SAR. It describes the political and economic conditions in the Region; the need for long-term capital financing; the special case of SMEs; and the enabling environment for business growth in the countries visited. Annex C provides key macroeconomic statistics for the eleven countries in the Region.

B. Rationale for an Enterprise Fund in Southern Africa

1. Political Conditions

Most of the countries in southern Africa are in transition from single party, centrally managed, socialist economies to pluralistic democracies with market driven, private enterprise economies. Democratization is proceeding in southern Africa more quickly than in the rest of sub-Saharan Africa. A fundamental political transformation from decades of instability and one-party systems is taking place as the rights of the people to choose their leaders is being affirmed. On December 1, 1993, the South African government signed a "one-man one-vote" bill effectively ending decades of apartheid; Namibia, Mozambique, Tanzania, and Zambia have had free, generally fair and accepted elections recently, and have popularly chosen leaders. These fragile democratic experiments, the embattled dos Santos regime in Angola, and even the more established democracies of Botswana and Zimbabwe, are all dependent on achieving real economic improvement in the daily lives of their citizens in order to maintain their legitimacy.

2. Economic Environment

As the USAID "Initiative for Southern Africa" policy document points out, southern Africa offers the greatest potential for economic growth in all of Africa. The predominance of English as a common language and English law as the basis of the legal systems provides the foundation for an attractive private sector enabling environment. The relatively strong and sophisticated economies in Namibia, Zimbabwe, Botswana, and especially South Africa, can provide financial and business services to the other countries in the region. The concentration of essential minerals, fertile agriculture and a regional population of over 120 million provides abundant opportunities for entrepreneurial business activities requiring financing. It is expected that economic growth in the region will have spill over effects on the rest of Africa in terms of increased trade, positive externalities such as the growth of service industries, and the force of successful examples.

Although some of the countries in southern Africa do have relatively well developed financial systems and reasonably attractive enabling environments for private sector development (Botswana, South Africa and Zimbabwe for example), most do not. It will take some years for all the financial institutions and market structures to be put in place. In the meantime, there are African entrepreneurs with proven skills and ideas for viable businesses and many believe there is a reasonable amount of indigenous capital to fund at least some of these investments. The problem is that the two do not currently come together to make and build profitable businesses which create wealth, higher per capita incomes and a better quality of life.

3. Regional Collaboration

A recent shift in thinking has taken place regarding the importance of private sector

development to overall growth. Success of private enterprise is dependent on a stable, level, less protectionist playing field to stimulate investment, increase exports and promote further integration into the world economy. Structural reforms being undertaken in many countries could make the region more inviting for investors. Malawi, Tanzania, Zimbabwe, Zambia, Lesotho and Mozambique have all put together investment promotion policy packages which offer a range of incentives ranging from tax holidays to foreign exchange preference to investor assistance centers. Tanzania, Zambia and Mozambique are also engaged in ambitious privatization programs in order to bring entrepreneurial drive to their economies. However, to the extent that inefficient or unfriendly regulatory environments and market-distorting policies still exist, they lower the attractiveness of the region for investors.

The last few years have seen poor overall economic performances for the region, due to the worldwide recession and worsened terms of trade for raw materials and agricultural products. The region has experienced domestic distortions caused by inappropriate policies, low worker skill levels and productivity, narrow productive bases, capital flight, regional conflicts, corruption, and high population growth rates. Sovereign debt has remained at relatively constant levels, and swallows a large share of scarce foreign exchange reserves in the form of interest to service such debt. A consensus has emerged that the way to reverse these trends is through increased regional integration to take advantage of relative comparative advantages and promote balanced growth. A number of regional organizations exist to promote partnerships for economic growth, including the Preferential Trade Area (PTA), the Southern African Development Community (SADC) and the Common Monetary Area (CMA).

4. Poverty Alleviation and Political Stability

The pressures for jump starting sustainable economic development in the Region are becoming unavoidable. Political stability, poverty alleviation and human lives are at risk. Assertive action is required to reduce the obstacles to private sector growth.

The obstacles are many and they affect mainly microenterprises and especially formal sector SMEs, the very segment of the business community which holds the greatest promise of contributing to the creation of additional jobs which lead to improved standards of living. Within this group of SMEs, those owned by black African entrepreneurs are at an even greater disadvantage, mainly because of their lack of access to capital which has stifled business formation and growth as well as the acquisition of business experience. Wealth creation in the formal sector supports a larger multiple of people in the informal or traditional sector. Over time, greater economic opportunity leads to empowerment which promotes political stability and access to education, improved health care and social well being.

5. Need for Capital for Private Sector Development

The field team visited six countries and held interviews with over 150 government officials,

businessperson and representatives of business associations and financial as well as non-financial institutions. Based on these interviews the Team concluded that the entrepreneurial opportunities for viable business investment in the region are enormous and still largely under-served by existing sources of capital. While it would take a full feasibility study to more fully quantify the investment potential, the overall impression obtained from persons knowledgeable about the countries visited was that of a region waiting for investors with capital and know how to take advantage of the opportunities.

In some countries, such as Botswana, South Africa, Tanzania, Zambia and Zimbabwe, the investment potential is already being explored, by donor agencies (IFC, OPIC), development finance institutions (CDC, DEG, FMO, PROPARCO, SWEDEFUND), private banks (Equator, Meridien, Standard Chartered, Barclays) and private investors, both corporate and individual. But these existing initiatives seemed dwarfed by the still remaining potential. Even in countries like Mozambique, which is just recovering from years of civil war and socialism, the opportunities are significant in such sectors as fisheries, light manufacturing, forestry, tourism, not to mention the rehabilitation of the physical infrastructure.

While the investment climate, specific sector opportunities and entrepreneurial acumen varied among the countries visited, the lack of access to equity capital continues to be the major impediment to business growth, according to merchant bankers and banking executives in Botswana, South Africa, Swaziland, Zambia and Zimbabwe. In some countries, e.g. Mozambique, lack of equity capital is also a major factor, but at this time political and regulatory issues loom larger as obstacles to economic growth.

Some steps are being taken to increase the access to equity capital and long term debt finance.

- In Botswana, there are investment opportunities for joint ventures and for expansion of the financial sector. There is strong government interest in creating a regional financial center along the lines of Luxembourg for the European market. The capital requirements would be substantial, as would the development potential for business growth.

- In Mozambique, in spite of the political uncertainties and regulatory obstacles, the business opportunities are thought to be significant, ranking only after South Africa and Zimbabwe.

- In South Africa, the Development Bank of South Africa (DBSA) estimates that 40% of South Africa's GDP originates from SMEs. Equity financing needs have been estimated at $300 million and loan financing requirements have been estimated at $1 billion. Other business organizations, such as the New South Africa (NSA), a group supporting the formation and encouragement of black owned businesses, reported a

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critical shortage of equity financing for new business formation. NSA provided one of the Field Team with a large portfolio of new projects in need of equity financing.

- Development Bank of South Africa (DBSA), which targets SMEs, pointed out that entrepreneurs are more common in the informal sector than in the formal sector. The dynamism of these micro and small informal enterprises, in terms of turnover, profitability and employment growth is, in fact, constrained by the lack of access to adequate financing. DBSA noted that black-owned enterprises operating in the formal sector suffer from a lack of access to financing.

- In South Africa, Theta Securities (Pty) Ltd. organized an investment fund targeted at financing disadvantaged African construction companies. The fund was capitalized at $10 million, fully subscribed, and experienced an excellent repayment record and yield to the investors. Daan Wandrag, Theta Managing Director, welcomes additional capital participants in the marketplace and noted that access by disadvantaged Africans has been severely hampered by a non- proactive approach by the financial community. The mobilization of public and private resources are a critical requirement to extend the market economy to an increasing share of the population.

- In Swaziland, the Managing Director of Meridien Bank said that his bank had turned down four or five projects over the last 12 months for lack of equity financing; two of those required $400,000-450,000 in equity financing. The Director of the Public Enterprise Unit feels that with better access to capital, Swazi entrepreneurs could compete much more effectively with, and even replace, South African investors who are attracted by the positive investment climate in Swaziland.

- In Zambia, potential equity providers would reap returns by financing small scale farmers who require working capital to purchase crops. External financing is also required for expansion of the enterprises to create export revenues, without the formality of land ownership as a collateral base. Creative financing strategies are required to develop the investment potential in the agricultural sector.

- In Zimbabwe, the overwhelming consensus of experienced business leaders and development finance officials is that a large demand exists for equity financing, as well as for medium-term debt finance for small and medium black owned enterprises. To help address this shortage, two years ago the Central Bank took the leadership, along with other local and Development Finance Institution (DFI) investors, to establish the Venture Capital Company of Zimbabwe (VCCZ). While VCCZ's investment focus is primarily on small enterprises, its resources are limited and a critical shortage of equity finance remains for small and medium sized firms.

- During the field research, the Zimbabwe Development Bank indicated that it currently

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has at least fifteen "commercially viable" projects that are not moving forward due to the lack of equity finance. Additional evidence of the need for equity capital in Zimbabwe comes from the experience of Hawk Ventures which made some 27 equity investments in just over four years, with no publicity other than word of mouth. Hawk Venture management indicated that the need far outstrips the availability of such financing.

6. The Special Case of SMEs

If the African continent is to awake from its several decades-long drift toward centrally managed economies, and the resultant economic decline, the best hope is to revitalize its private sector. The best engine for economic growth in any country is small business. Whether in the third-world or in the U.S., dollar for dollar it is the small enterprise sector that provides for most innovation, the highest incidence of job creation, and the lowest cost per job created.

Expansion of equity capital for such firms is essential to finance the risk aspects of business opportunities. Sound financial structures will be required for these enterprises to grow, which in turn requires stronger financial markets with access based on the merit of the business proposal is required.

Owner equity capital is commonly created through long term savings, earnings and capital gains from other successful investments, and most frequently from the gain in the value of real estate. The necessary policies, regulations and land registry systems have not existed in most African countries to encourage the creation of private capital. These conditions are gradually improving. However, creation of adequate entrepreneurial equity capital from existing sources will take decades. In the interim, traditional financial institutions will not lend or invest funds if the entrepreneur can not provide an appropriate level of owner equity capital as a means of sharing the highest business risks.

While the financing shortage exists for all types of capital, both debt and equity finance, including short term loans and working capital, it is most acute for long term financing, such as is normally provided by owner equity or venture capital. In fact, the Field Team found that many businesses utilized excessive short term debt because of the lack of equity capital, which would allow a safer financial structure. The burden of short-term debt stops business growth or slows it down significantly.

While SMEs can and should be the engine of economic expansion, job development, savings and capital creation, they have been the least successful in accessing the capital they need to start and expand their businesses for several reasons:

- limited personal "wealth"(i.e. funds from family, friends and business associates), which is the principal source of start up capital;

- marginal access to banks and other financial institutions in the countries visited, since banks prefer not to lend to SMEs, as other attractive investment alternatives are available at a higher return and with less risk. In general, the size, investment criteria and flexibility of these financial institutions are not particularly well suited to foster the growth and development of indigenous African SMEs.

- lack of business "know how" to prepare proper business plans and present their ideas to existing financial institutions that have equity or term debt investment vehicles.

7. The Enabling Environment

Achieving sustainable economic growth in southern Africa, as elsewhere in the developing world, requires a vigorous private sector to innovate, take risks, allocate scarce resources, and in that process, create jobs and wealth. The better the enabling environment, the more active the contribution the private sector can make to sustainable economic growth.

The field trip, and secondary-level research in Washington, led to the conclusion that the business environment in the region is gradually but steadily improving, though much still needs to be done to improve conditions to a sustainable level. For example:

a. Commitment to Democracy

A positive enabling environment for business assumes, initially, a government committed to democracy and free markets. Preferably, that commitment should be evident from a track record of several years. In a region undergoing considerable political evolution, the absence of a clear and positive policy to support private sector development from all political parties in positions of leadership can severely limit economic growth, since investors seek to avoid uncertainty.

The political environment was judged to be sufficiently favorable and stable for the proposed fund to operate in all countries of the region, with the exception of Angola, where the political and security situation is considered too precarious.

Obviously, there are uncertainties in other countries such as Mozambique and South Africa, where elections are expected in 1994. In Mozambique, for example, the Team was told there are some $300 million in approved investments that are not being acted upon. In South Africa most prospective South African and foreign investors tended to view the investment climate as favorable and only a few seemed to be in a withdrawal or wait-and-see mode.

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b. Favorable Macro-economic Environment

For investment capital mobilization to become an engine for sustainable private sector economic growth, the macro-economic environment and government economic policies should be favorable, at least in critical respects, such as:

- a positive economic growth rate, or the prospect for same;
- controllable inflation;
- liberalization of exchange rates, price controls and other restrictions on the flow of capital;
- monetary and fiscal policies to provide positive real interest rates and to encourage savings and investment.

The macro-economic environment in the region has been improving.

Several countries showed impressive growth in 1991 (though this was followed by slower growth and even declines in 1992, due to the world-wide recession and drought in the region). Although inflation continues to be a problem, liberalized policies on trade, exchange rates, and price controls, and sound monetary policies are in effect in most of the region, again with exceptions: in Mozambique, for example, custom duties are fairly high on a narrow base of products while contraband is rampant and uncontrolled, discouraging would-be investors from producing certain goods locally.

c. Supportive Climate for Business

A government attitude should prevail which relies on the private sector to generate economic growth while focusing government efforts to support the creation and maintenance of a positive business climate. A private sector-oriented public policy can be reflected in an enlightened investment code, an active privatization program, a one-stop location to interact with investors, an efficient process for issuing the necessary approvals, generally minimal bureaucracy and delays in decision making, and clear legislation and regulations that are not subject to frequent unpredictable changes.

A favorable business climate also requires policies and incentives necessary for the country to compete effectively for domestic and foreign investments, such as: protection against expropriation; the ability to transfer capital and profits; unrestricted access to domestically produced or imported raw materials and spare parts; a reasonable tariff structure and the absence of uncontrolled contraband; enforceable property and contractual rights; reasonable corporate and individual income tax rates, etc.

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The legal and regulatory framework is improving steadily.

Most of the countries visited appear to be firmly committed to a private sector-driven approach to economic growth, Angola and Zambia being the exceptions. Swaziland, for example, has just adopted a new investment code and recently amended its constitution assigning a much greater role to the private sector.

Several countries have active privatization programs, though progress is variable. Elsewhere, the investment code and other laws and regulations in effect are still vague, and "grey areas" lead to ad-hoc interpretation, facilitating corruption on the part of government officials charged with their implementation.

Specific laws and policies in individual countries may act to discourage investors or particular investments. For example, in several countries investors cannot acquire title to land but only long term leases since the government owns all or most of the land. While these leases can and often are routinely renewed, the process of issuing them can be poorly coordinated among issuing agencies and the resulting uncertainty can be disconcerting to potential investors.

Infrastructure continues to be a problem in some countries.

In Mozambique, Zambia and other countries not visited, much of the transportation, road, electrical, water and telecommunications infrastructure has been destroyed during periods of civil war or non-investment.

d. Well-Developed Financial Sector

A formal financial sector comprising public and private, financial and non-financial institutions in sufficient numbers to provide diversity and competition, ably staffed and managed, is essential to an attractive business climate. Such a system should include a central bank to provide minimal supervision and regulation of financial institutions, commercial banks, and a basic money and capital market. The latter should include a basic stock exchange and related brokerage services, as well as a regulatory framework dealing with registration and disclosure.

The state of financial market development in the region is uneven.

Financial market development ranges from very rudimentary in Mozambique (no money or capital market, too few private banks, no stock exchange or securities exchange regulations, etc) to quite sophisticated, e.g. in Botswana, South Africa, Swaziland and Zimbabwe where there are private commercial and investment banks, insurance companies, pension funds,

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capital markets and the other financial institutions required to build sustainable economic growth.

8. Need for Technical Assistance and Training

In order to build bridges for investment capital flows and to increase the participation of indigenous Africans in the process, the field assessment concluded that substantial technical assistance (TA) and training is required. Specifically, TA and training will be needed at three different levels:

a. Deal-Specific Assistance to Client Companies of the Fund

Venture capital financing, by definition, requires investee companies to prepare detailed business plans, to negotiate the terms of the proposed investment, and to accept a high degree of external investor management involvement in the entrepreneur's business.

Such TA is normally provided by the venture capital fund, or other financial institution, which provides the financing, as part of the cost of doing business. However, the field assessment found that the black-owned SME target entrepreneurs frequently need assistance even with the preparation of loan applications for commercial banks. There is no question that these entrepreneurs will need assistance and training to apply for long term and risk capital financing, which is even more difficult to assess than loans.

A research program is also needed in order to provide information on industry, financial markets, pricing and other related data. This information is the basis for investment decision making and management. In developed economies, private sector firms develop and sell on demand such information.

b. Financial Management Training

The successful establishment of an Enterprise Fund in Southern Africa presumes a relatively sophisticated level of education, skills and experience for entrepreneurs and financial sector professionals who will administer the Fund.

The Fund's staff needs to have specialized training in evaluating business plans, evaluating business risks, finding co-investors, and structuring and negotiating investment terms. At the Fund management level, actual experience with venture capital transactions and the management of venture capital funds is essential. The team found few Africans fully qualified in these disciplines, although there is a nucleus of experienced financial professionals on a regional basis to build on. TA will be required to develop these skills.

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Broader training will be needed for entrepreneurs and employees of SMEs who are the prospective beneficiaries of an equity capital fund. Skills needed at this level may include: general organizational management; production and quality control; financial management; marketing and sales; and possibly importing and exporting.

In further illustration of the need for fund management training in South Africa, a number of banks are making a concerted effort to identify commercially viable black-owned projects in which to invest. The primary concern expressed by these institutions was that a critical need exists for some technical assistance and training, in the areas of business plan development, financial management and marketing.

c. General Business Education

To take fuller advantage of the business development potential in the countries visited, far more emphasis needs to be given to general business education and skills training. In most countries visited, courses offered at secondary and university level do not produce the skill level required by prospective entrepreneurs.

In most countries, there are business associations that provide some short-term training, but such training is often under-funded and is not on the scale needed to provide the requisite training required in the region.

Even where the requisite education and training is available, it is not always offering appropriate business management training and frequently is not producing graduates with such training in sufficient numbers to manage existing and would-be African businesses. Black Africans, in particular, do not have access to higher level education in all of the countries visited.

III. PROJECT DESCRIPTION

A. Project Goal

The Project goal is to increase the role and participation of indigenous small- and medium-sized enterprises in the sustainable development of the southern Africa region.

B. Project Purposes

The Project purposes are to:

- increase the SMEs' access to long-term debt and equity capital;

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- leverage USAID resources by mobilizing additional capital from domestic as well as foreign (including U.S.) institutional and individual investors;

- improve the policy and regulatory environment in the countries of the southern Africa region, so as to attract additional foreign and domestic investment;

- provide such technical assistance and training to SMEs as they may need to undertake new or expanded investments;

- solidify the U.S.-African business partnership to provide African entrepreneurs with access to U.S. goods, services, technology and management know-how.

C. Project Outputs

The Project outputs will be:

- a fully capitalized and staffed Southern Africa-American Enterprise Fund (SAAEF);

- additional existing and newly created institutions in the southern Africa region which provide long-term debt and equity financing to African-owned SMEs;

- increased numbers of SMEs using long-term debt and equity financing;

- increased numbers of jobs created by SMEs which obtain financing through the SAAEF;

- functioning US-African business linages, including joint ventures between Africa SMEs and U.S. businesses.

D. Project Inputs

The project inputs include:

- a USAID grant commitment in the range of $200 million to be made available to the SAAEF in even annual tranches over five years, for direct investments and co-investments in existing and new SMEs, and indirect investments through new or existing intermediary institutions servicing African-owned SMEs;

- included in the USAID grant, or in a separate development grant, should be funds to cover initial SAAEF start-up costs (e.g. incorporation, selection of Board of Directors and management), deal-specific technical assistance, and the costs of a Fund research program to provide information on industry, financial markets, pricing and other

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related data.;

- from separate USAID/W or USAID mission programs, technical assistance and training for the Africa SME community at large, focusing on business management, financial management and such business skills as accounting and marketing.

E. Detailed Description

The rationale for the detailed recommendations which follows is contained in the Project Analysis Section, immediately following this Project Description. Subject to a full feasibility study, the proposed SAAEF would have the following features.

1. Fund Location

One regional fund is proposed, as distinguished from a series of country-specific funds. It is anticipated that the SAAEF will be established in Washington, D.C. as a non-profit corporation. The corporation's headquarters in Washington will coordinate with the USG and U.S. industry to promote joint ventures, technology access, and other investment promotion activities. One or two investment offices, constituting the operating management of the SAAEF, will be located in the southern Africa region. One would cover the northern tier countries; the other the southern tier of the Region. The three locations where infrastructure, logistics, communications and international financial regulations are sufficiently favorable to support regional investment offices are Johannesburg, Harare and Gaborone.

2. Fund Size

An initial capitalization in the range of $200 million, to be paid in annual tranches of $40 million per year over five years, is recommended.

3. Life of the Project

The Fund would be fully liquidated after fifteen years. Upon liquidation, the USG would have the option of returning the original capital to the U.S. Treasury or reinvesting in projects that are a priority at that time. Capital gains would be returned to the USG subsequent to a profit split with SAAEF management as provided in the USAID grant agreement.

4. Fund Management

The overall structure of the Enterprise Fund model as set forth in the grant agreement between USAID and the Russia American Enterprise Fund provides an excellent basis for structuring the proposed fund for southern Africa.

The Request for Proposals (RFP) process is suggested to select the Fund's management and staff. Management should be selected to meet the following minimum criteria:

- experience in direct financing of small-and-medium sized businesses;
- demonstrated ability to develop a focused investment strategy;
- demonstrated creativity to develop exit strategies applicable to a developmental environment;
- demonstrated sensitivity to the social economic environment envisioned in a post-apartheid Southern African Region;
- demonstrated ability to develop a well-defined investment strategy to meet the key strategic private sector goals of the USG;
- inclusion of Black Africans as stakeholders in the management of the investment company in substantive roles;
- willingness to establish an operation and live in the region; and
- demonstrated knowledge of the marketplace with practical strategies for accessing opportunities and identifying entrepreneurs.

A majority of the Board of Directors members should be chosen on the basis of specific experience in venture capital/small business lending area. Others will be Presidential Appointees who provide access and linkage to U.S. financial, manufacturing and service industries based on larger value added.

An investment committee should be established to work in conjunction with the management team guiding it in the development of an investment policy and detailed portfolio strategy. It will also act as a quality-control function by reviewing transactions for the soundness of proposed deals and ensuring that they meet strict financial, economic and policy criteria.

Due to the need for a strong link to the local business environment, the investment committee and Board of Directors should include well educated black Africans who are experienced entrepreneurs, and financial policy executives in the public/private sectors as well as bankers and accountants to help guide policy and provide valuable input.

An incentive compensation plan should be established that provides for salary caps and bonuses tied to increases in net asset value or profits.

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Fund management should seek to implement a proactive investment monitoring style that emphasizes a "hands-on" approach to portfolio management, which may include specific technical assistance or representation on the Board of Directors of the investee company.

5. Investment Philosophy

In accordance with the Project's goals and objectives, the Fund's mandate and investment philosophy will be targeted at small- and medium-sized businesses. These firms represent the greatest potential for growth and employment generation and yet they are the most disadvantaged in accessing capital and technical assistance. Within the group of SMEs, the target beneficiaries are black African entrepreneurs, men and women.

Two basic approaches envisioned are:

- direct (or "retail") investment -- including co-investments with other financial institutions or individual investors -- into established or new operating companies at the $1-3 million level. Eligible direct investment will include corporate restructuring, such as buy-outs; venture capital financing for companies that do not have access to public equity or debt financing or institutional funding; and special situations, such as privatization, credit enhancements, corporate joint ventures, lease financing and secondary market vehicles.

- indirect (or "wholesale") investments in new or existing intermediary institutions, which provide financial services or resources to the target SMEs, e.g. commercial banks, venture capital and other investment companies qualified to on-lend to specific private sector businesses; leasing or franchising companies; PVO's, etc.

Fund management will have discretion in deciding on the portfolio allocation between the two categories of investments.

6. Operational Guidelines

The Fund should make equity and debt financing available. The types of investments would include common and preferred stock, term loans, subordinated debentures with equity features and other types of financial assistance, such as performance bonds and loan guarantees. In any case, the Fund's charter should make it clear that its primary purpose is to provide long term working capital financing.

The Fund should have the option of investing in start-up, expansions and established companies in the main commercial centers of the Southern African Region. In practice, the Fund will probably start by investing in existing businesses to establish a record of successes, and then proceed to include start-up companies in the future.

The portfolio strategy should be developed to include the allocation of a percentage of investments to larger transactions. An important pre-condition to such investments should be the presence of qualified and demonstrable development benefits to the target group, e.g. large-scale employment generation, and/or U.S. Trade promotion initiatives, e.g. the creation of African-US joint ventures.

A critical component to be integrated into the funding strategy is the provision of management technical assistance in a strategic partnership between the management of the Fund and the entrepreneur. Additionally, the Fund should have an investment research capability to provide the market place "value added" information for among other things, conducting due diligence on investment opportunities.

7. USAID Oversight

Control over all USAID funds granted to the SAAEF should be accomplished through:

- development of its corporate charter, bylaws and procedures at the outset;
- appointment by the A/USAID of its initial Board of Directors;
- participation of the A/USAID on the Board of Directors by appointing an observer;
- establishment of an SAAEF reporting system which emphasizes USAID development objectives; and
- plans for annual Project evaluations with a view toward assessing progress toward Goal and Purpose achievement.

8. Leveraging Investment Capital

A major objective of the proposed Fund is to mobilize additional investment capital for investment in the Region; specifically investments in new and expanding SMEs. As in the case of the EUR and NIS funds, therefore, the SAAEF will be encouraged to leverage the initial USAID-provided capital in several ways:

- direct investments in operating small and medium firms will, in time, demonstrate the feasibility and profitability of venture capital financing for SMEs in the SAR, and thereby attract additional investments to the Region;
- through ttractive co-investment opportunities with existing institutional and individual investors.

- by managing investment capital resources of other local institutions (e.g. pension and insurance funds) as well as foreign investors (e.g. DFIs) which may be looking for professional venture capital management.

To the extent that funding is generated from other sources for management through the SAAEF system, the source of such funds should negotiate its own conditions with SAAEF management for its use. The SAAEF, as an independent non-profit corporation, should enjoy complete latitude in such negotiations for alternative funding sources so long as agreements reached do not interfere with its ability to accomplish USAID objectives with USAID funds. Generally, it seems preferable for any funds raised from alternate sources to be segregated in "parallel" investment funds which may be focused on specific country, sector and industry niches, with the SAAEF being a co-sponsor and manager of such parallel funds.

9. Evaluation

There should be annual evaluations of the progress of the SAAEF toward meeting its goals, including both the Fund's and USAID's development objectives. A comprehensive, mid-term evaluation of the Fund's performance in meeting its objectives should take place five to seven years after its inception.

10. Technical Assistance and Training

As elaborated further in Section IV and in Annex A, past experience with the Enterprise Funds in EUR and in Africa indicates that technical assistance and training will be required to reach the target population (black African-owned SMEs), and for the target group to take full advantage of the facilities offered by the proposed Fund.

Some of the requisite assistance - i.e. "deal specific" assistance in the preparation of viable business proposals - can be provided and absorbed by the SAAEF itself as part of the cost of doing business.

Extensive needs were identified in several countries for TA, training, and education for the target business community at large. While TA and training are not considered a "*sine qua non*" for the viability of the proposed Fund, they are essential if the project is to achieve its fullest impact on the target beneficiaries. Therefore, such a TA and training program should be considered as a parallel USAID project, not integral to the Fund itself. Also, since the TA needs and requirements vary from country to country, and since USAID in several countries in the region already has such programs in place, no attempt has been made to quantify such a program.

IV. PROJECT ANALYSIS

As this project is still at an early stage of development, full-fledged project analysis has not been undertaken. This section provides the rationale for the recommendations contained in the Project Description (Section III) and outlines additional work to be done during a full feasibility study.

A. Overview

From a practitioner's point of view, venture capital is more a process than an activity. Venture capital involves the investment of funds in business ventures where higher than "traditional" degrees of risk are accepted because higher than standard rewards are expected. Venture capital must be "patient" capital. No return, or even debt service, is generally expected on investments for several (usually four to ten) years. Investment is often in the form of equity or shared ownership rather than straight debt. The providers and recipients of venture capital form a close, often intense relationship over a number of years during which the providers inject not only capital but also add value by way of management assistance and direction to the businesses in which they invest.

B. Fund Location

It is generally recognized in venture capital circles that, in order to successfully execute the venture capital process of deal origination, transaction monitoring, and evaluation and due diligence, a presence close to the market is preferable to remote locations. This provides the venture capital investment professional valuable insight into market trends and other factors that may negatively impact performance. Proximity to the market allows the investment professional to respond to entrepreneur concerns quickly, both to add value and to minimize the prospect of losses on the investment.

For these reasons, one or two investment offices in the southern Africa region are strongly recommended, in addition to the Fund's headquarters in Washington. While this structure implies additional costs - particularly in the early years - it is clearly preferable to a fund that would be managed entirely from a U.S. base. Based on the field team's assessment of the political and economic environment, the enabling environment for business activities, and the infrastructure (including inter-regional and international transportation and communication facilities) three country capitals were tentatively selected as possible sites for the Fund's regional investment offices: Johannesburg, Harare and Gaborone.

C. Target Capitalization

The optimal size of the Fund depends on the capital needs of the target business community in the SAR, as well as the leverage the fund will have on other capital contributions, and

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USAID's available resources. Each of these questions deserve further study. At the pre-feasibility study level, however, our estimates are that the unmet requirements for long term capital in the eleven countries of the region are between $800 million and $1 billion over five years. Assuming a leverage factor of 4:1, a fund initially capitalized at $200 million or $4 million per country per year, would be minimally necessary to make a significant developmental impact.

Another approach to establish appropriate fund size is to estimate the desired portfolio mix at the outset. For example, a sample mix might include investments in various intermediary financial institutions such as commercial and savings banks, merchant banks, leasing companies, venture capital companies as well as direct investments in privatizations and joint ventures with U.S. and European multinationals. The sample portfolio mix presented in the following table would result in a target Fund capitalization of between $250 and $300 million or $25 to $30 million per country. Even assuming a more conservative leverage factor of 3:1, a fund size of this range could mobilize more than $800 million in investment capital for the Region.

SAMPLE SOUTH AFRICA REGIONAL PORTFOLIO

Investment Class	Number of Investments	$ Millions Financing per Client*	Total Financing
Operating Companies	20	$ 1.5	$ 30
Financial Companies	30	5.0	150
Privatizations	10	5.0	50
Joint Ventures	10	5.0	50
Totals	70	$ 16.5	$ 280

*Total financing represents three rounds of financing for operating companies, one round of financing for financial companies and joint ventures, and two rounds for privatizations.

The number and size of investments an Enterprise Fund can make will be constrained by the size of the investment fund itself. Obviously, the larger the investment fund, the more investments it can make. Ideally, the fund manager should establish a target number and size range for those investments for a given capitalization level. These should take into account the need for a sufficient staff size to conduct due diligence and perform monitoring responsibilities for each investment. It is important to set target investment sizes and amount of follow-on capital anticipated per transaction.

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Sources of funding have not been explored in this report. However, several alternatives may be available, which could leverage USG resources. Options would include coordinating available USG Executive Department programs for more financial impact, partnership with other governments and multilateral agencies and inclusion of public and private institutions in the Region.

D. Management Selection

Experience with venture capital companies in the United States, and with the Enterprise Funds in EUR and Africa suggest that fund management is possibly the most important aspect of successful venture capital activities. The selection of Fund management is therefore critical.

In the case of the EUR and NIS funds, the Funds are established as non-profit corporations in the United States. The companies' Board of Directors is composed of U.S. and "host country" citizens appointed by the President of the U.S. The Board, in turn, selects the CEO and other corporate officers. The process has worked well: The Presidential appointments have ensured the selection of Directors with the necessary experience and reputation in the U.S. financial community to provide the Fund with a network of contacts in the U.S. that greatly facilitates marketing and networking , both in terms of locating potential U.S. investors or joint ventures, and in terms of generating interest on the part of potential investors in the Funds.

On the other hand, the EUR/NIS approach to management can be time-consuming, requiring many months when you include both the appointment of Directors and the selection of Fund management. The process also favors venture capital specialist with U.S. ("Wall Street") experience, which is not necessarily the most relevant to the SMEs in EUR or other regions. The Presidential appointments also can result in over-politicizing the fund, and correspondingly lessening USAID control.

This study of the conditions in southern Africa confirms that management selection is critical to the Funds' success. As already outlined, the management of the proposed SAAEF should have specific experience with venture capital transactions and with financing small- and medium-sized businesses. Moreover, the SAAEF's management should be intimately familiar with the Region. This includes sufficient knowledge of the marketplace to access investment opportunities and to identify entrepreneurs. It also implies a demonstrated sensitivity to the social/economic environment envisioned in a post-apartheid southern Africa region. These qualifications, in turn, suggest the maximum possible participation of Africans on the Board and management of the Fund, consistent with the attainment of USG objectives.

Perhaps the best way to ensure Fund management that will have an optimal combination of venture capital experience and contacts in the U.S., as well as familiarity with the market and conditions in the Region, is to advertise for contracted management, both the Board of

Directors and corporate officers, through the Request- for-Proposal (RFP) process. The RFP process offers USAID the best opportunity to articulate the projects goals and objectives, and to stipulate the degree of oversight to be retained by USAID. While the RFP process can also be time consuming (three to six months) its benefits outweigh its drawbacks. Therefore, it is recommended that USAID consider the RFP method of selecting Fund management as an alternative to the EUR/NIS approach.

E. Investment Philosophy

Past experience with Enterprise Funds, both in EUR and in Africa, suggests that such funds may pursue two different investment philosophies:

- investing in intermediary financial institutions (IFIs) which in turn target groups of companies and firms ("wholesale" or "indirect" investment); and

- investing and co-investing directly into operating companies that meet the Fund's objectives and criteria ("direct" or "retail" investment).

This section describes the pros and cons of each of these approaches and concludes that the proposed SAAEF should have the flexibility, at the discretion of Fund Management, to pursue both investment strategies, depending on the conditions prevailing in particular countries in the southern Africa region.

1. Indirect or Wholesale Investment

In the venture capital business, it is widely accepted that investors should stay within their own community where they have high market familiarity or focus on a technical specialty where they have dominant knowledge. These strategies are viewed as "critical success factors" for making accurate assessments of the value of a business interest being purchased and the honesty of the owners of investee companies during investment selection.

The failure to adhere to these success factors partially accounts for USAID's difficulty in earlier venture capital endeavors. Continent-wide, region-wide and even country-wide funds may have neither local knowledge or a technical specialty. USAID-supported investment funds that have done best have been those that had a specialty focus (such as LAAD, which has focused on agribusiness production for sale in U.S. markets).

One of the primary types of approaches which the Fund will use is to wholesale its capital resources to Intermediary Financial Insititutions (IFIs) that either have market intimacy or a special focus, and allow them to make the direct investments. To meet USAID policy objectives of reaching indigenously owned, small and medium-size businesses, the Fund will select IFIs for whom such SMEs are their "natural markets."

The range of firms, and their particular "natural markets" include the following:

- PVOs, of whatever nationality, which specialize in SMEs development in Africa (e.g. Technoserve, KREP and SIDI);

- African institutions and individuals already engaged successfully in SME development (e.g. banks and investors), which are interested in expanding their operations to include a venture capital affiliate to operate within their community and/or field of expertise; and

- international investment companies or businesses already engaged in Africa with the target business group which may wish to expand operations (e.g. SIFIDA, AGF, Land O'Lakes).

Implicit in this approach is the assumption that the SAAEF will be able to identify IFIs with the experience and qualifications to provide investment financing to target African businesses.

Alternatively, there are also a number of international PVOs engaged in micro and small-enterprise development throughout Africa (e.g. Technoserve, KREP, SIDI). For many of them, the limiting factor in their growth is available investment capital. With appropriate price and terms on its funds, they too might negotiate IFI status with the SAAEF.

Finally, there are also a substantial number of more sophisticated clients engaged, or willing to become engaged, in business development in Africa, for whom availability of investment capital is a constraint to growth. Established venture capital firms such as EDESA and SIFIDA, USAID-sponsored undertakings such as the Africa Growth Fund, and international cooperatives such as Land-O-Lakes, all offer possibilities as IFIs for the SAAEF.

Indeed, should the SAAEF prove successful in attracting capital from other sources, each such source is likely to have its own particular priorities for investment. In the marketplace for money, it is critical to the SAAEF's long-term survival that it have the flexibility to deal with the widest possible range of investment objectives.

Another critical element to the SAAEF's relationship with the IFIs is that there be no interference with investment placement, management or liquidation. IFIs should be free to be as agile in the marketplace as if they were dealing with their own capital within the sole constraint of their negotiated agreement with the SAAEF.

The *disadvantages* of limiting the Fund's investment strategy to indirect investments may include:

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- past experience indicates that while many IFIs may apply for financing, few will actually meet the criteria for funding;

- the better qualified, more experienced IFIs have become leery of applying for USG-sponsored financing, with its attendant conditions and reporting requirements;

- indirect/wholesale investing does not provide Fund management with the same "feel" for the conditions and obstacles to investing in a country, or suggested approaches to overcoming such constraints; and

- past experiences with the Development Banks is relevant, since many such institutions suffered from poor repayment of what was considered "easy" money, and a lack of close-up, on-the-ground management of their portfolios.

2. Direct Investment

There are several reasons why the proposed Fund should have the flexibility of making direct investments in operating companies in the southern Africa region.

- Such investments can have an important demonstration effect. A successful investment in a well-designed company invites imitation by other investors.

- Investments in co-financing with intermediate financial institutions can help strengthen the financial sector, thus contributing to a healthy private sector. An efficient competitive financial system becomes a model for the rest of the private sector to emulate and consequently sound investments in this area can have an influence well beyond the financial institution itself. Fund investments could be made in conjunction with a variety of financial institutions, such as commercial and savings banks, merchant banks, leasing companies, venture capital companies, etc.

- Direct investments by the Fund into operating companies will often require government assistance and approval. In the process, such investment proposals will help identify policy, institutional and regulatory obstacles which need to be addressed and overcome. In that sense, the Fund's "direct investment" approach can make a significant developmental contribution to improving the enabling environment.

- Direct investments imply somewhat larger investments in individual companies (e. g. from $1-3 million per investment). Because of their size, such companies often make a proportionately larger contribution to employment in the recipient country, investment stimulation, and economic development in general.

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Direct investment activities by the Fund will include the following:

- small-and medium-size businesses in targeted industries (specified portfolio strategy);
- Co-investments with IFIs to strengthen targeted capital market development. These IFIs include venture capital firms, leasing companies, franchising companies, business credit agencies, commercial banks, brokers/investment banks;
- Privatizations, i.e. recently privatized companies or companies to be privatized;
- Joint Ventures with foreign (including U.S.) investors.

The *disadvantages* of the direct investment approach include:

- relatively larger-size deals ($1-3 million) entailing higher risk in a Fund of limited size and resources;
- the relatively greater staff intensity which will be required by the Fund to identify, evaluate, negotiate, monitor and exit from individual deals.

3. Building Linkage with U.S. Industry

The Funds can and should be managed so as to assist in the development goals of the host country and at the same time lead to increased trade and investment, and closer ties between the U.S. and those countries. U.S. companies have much of the technology and expertise needed by companies within host countries. Joint ventures involving U.S. firms should be assisted and encouraged through all available means.

The NIS and EUR grant agreements take somewhat different approaches on this and should be reviewed carefully to see which approach is best for southern Africa. Assisting the expansion of U.S. franchising is a good example of an area where the development needs of host countries and the desire for growth in international markets for U.S. firms run exactly parallel.

G. Technical Assistance

Two types of technical assistance (TA) and training were considered. The first is generally for activities that will over time be provided by the private sector and thus should be oriented toward building a private delivery capacity from the outset. The second is essential to and supportive of private sector development, but is inherently a government and donor role, thus should be managed and controlled by USAID directly.

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- **"Transaction-specific" Technical Assistance**

Technical assistance will be required in most countries in the region to "prove-up" or develop specific potential investment opportunities provided by the Fund management. This TA is to help SME and individual entrepreneurs prepare applications and business plans for the Fund, as well as provide consulting advice on client operations. It will also support the Fund in conducting research activities needed to produce data essential for financial decision making and management. Such assistance will be provided as needed and paid from Fund capital. Within the Fund, such assistance could be administered by a separate TA Department, to be coordinated with the Investment Department at the CEO level.

- **Private Sector Development Technical Assistance**

Separately from the Fund TA, USAID should consider providing a range of technical assistance and training to the target segment of the business community (SMEs and individual black African entrepreneurs.) Although local institutions and donor-supported programs provide such training in several countries at the present time, the number of people trained does not come close to meeting the demand of the business and financial sectors. Therefore, USAID should, in the context of the Initiative for Southern Africa, consider supplementing existing programs with a program of technical assistance and training in entrepreneurship, business skills and financial management. Such a program should contain the following components:

- TA and financial support for the local business training institutes that are considered most effective and most relevant in reaching the target beneficiaries of the Fund, and for local financial and non-financial institutions which provide training in financial management and financial analysis skills and business management;

- TA in support of policy reform benefitting the private sector in countries of the region;

- USAID-funded exchange program to provide short-term training (up to one year) in the United States or third countries. Target recipients would include African SME owners who desire to rehabilitate or expand their businesses, university graduates, and the staff of public and private institutes who desire to enter the field of capital finance in their home country.

Although not part of the Fund, such a program should be closely coordinated with the Fund, so that fund staff and management can help identify the needs for TA and training in the financial markets in each country.

No attempt has been made to quantify the costs of the proposed technical assistance and training programs needed in the region, since the needs (demand) and availability (supply) of

such assistance and training varies from country to country and, even in countries visited by the field assessment Team, would have to be appraised in detail in a full feasibility study.

F. USAID Oversight

Although the SAAEF will have its own full-time staff handling day-to-day operations, there is a need for broader oversight to ensure compliance with USAID's objectives as well as general U.S. Government policies, laws, and regulations.

Because the SAAEF is proposed to be established as a non-profit corporation, the indicated form of its directory body is a corporate Board of Directors. This is the model followed in similar USAID undertakings as wide-ranging as OPIC (a parastatal corporation), all of the

Enterprise Funds for Eastern Europe (non-profit corporations), and likewise in the USAID-supported Venture Capital Funds in Kenya, Ghana and Tanzania (for-profit corporations).

Examples of USAID involvement from recent experience include the following:

- OPIC, a USAID spin-off of the 1960's, where the Administrator of USAID served, until recently, as Chairman of the Board of Directors;

- Ghana and Tanzania Venture Capital Funds, where USAID enjoys some modicum of influence over operations during the period that the operating cost subsidy is being disbursed;

- Africa Growth Fund and Kenya Equity Capital Fund, where the USAID subsidy is given without specific reporting requirements or opportunity to influence policies; and

- East Europe Enterprise Funds, where enabling legislation literally precluded USAID involvement in Fund operations and policies and where practice, until recently, was one of actively limiting USAID's knowledge of Fund activities.

Recent experience with the EUR funds indicates that the option of severely restricting USAID involvement in Fund operations and policies is inappropriate. The USG has a need to: 1) know what the Funds are doing; and 2) have a presence (not necessarily a vote) at critical stages in the Fund's development along with regular performance reporting as to progress and status of both financial and development goals.

Therefore, an arrangement is recommended which assures USAID of the following knowledge of and access to routine Fund operations:

- knowledge of all Directors meeting and invitations to observe or participate in these meetings;

- receipt in timely fashion of all annual reports, minutes of Director meetings, audits and studies; and

- right to audit per normal and usual RFP guidelines.

Further, with respect to its basic developmental objectives of investment in the Fund, USAID should be entitled to the following:

- periodic reports as to Fund progress toward meeting performance targets established in the Fund's original charter and bylaws; and

- right to perform periodic evaluations of Fund performance from any and all perspectives.

V. NEXT STEPS

While the Field Assessment Team is satisfied, on the basis of this study, that the need for a venture capital fund exists in southern Africa, and that the conditions exist for its successful operation, a number of aspects need to be studied and developed further to establish full economic, financial, social and administrative feasibility. Consequently, the Team recommends that USAID consider undertaking a full feasibility study and the detailed design of such a Fund. Specifically, the feasibility study should:

- define USAID's and the Fund's objectives, define appropriate USAID oversight, monitoring and evaluation criteria.

- examine alternative structures for the Fund, including location of headquarters and regional office(s) of the Fund, as well as the relative emphasis to be given on direct and indirect investing of the Fund's resources.

- "prove" the market, viz. assess the SMEs' demand for venture capital in the Region; existing sources of such capital; and the existence of financial and other institutions that can act as intermediary institutions for the Fund;

- assess the availability of competent, experienced management for the Fund, maximizing African participation, and devising appropriate compensation/incentive schemes for them;

- perform a financial analysis for the Fund, including an assessment of start-up, initial operating expenses, as well as likely financial returns for the Fund's venture capital investment activities;

- do a social and economic analysis for the Fund, to assess its probable developmental impact in the Region; and

- appraise the nature and probable costs of the TA and training that is needed to ensure that the Fund will have maximum impact on the target beneficiaries.

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USAID EXPERIENCE WITH VENTURE CAPITAL ACTIVITIES

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AFRICA BUREAU

OFFICE OF OPERATIONS AND NEW INITIATIVES

JANUARY 14, 1994

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ANNEX A
USAID EXPERIENCE
WITH
VENTURE CAPITAL ACTIVITIES

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The information contained in this section consists of data available through desk research. It is therefore "observational" in nature and does not provide a comprehensive analysis of the factors affecting the successes or failures of venture capital funds. In the next stage of preparation, actual field research could be undertaken to ascertain the current performance and remedies taken to solve performance problems. Many of the funds have not compiled information on several factors affecting economic impact. Two tables at the end of this report summarize the experience of several global venture capital funds and 18 venture capital proposals which USAID assessed in sub-Saharan Africa.

I. ENTERPRISE FUND EXPERIENCE IN EASTERN EUROPE

A. General Observations

The Enterprise Fund model, as it currently exists in Eastern Europe (EUR) and the New Independent States (NIS), is described in Section I.D. of the main report. The model is considered to be relatively successful, despite its short track record, in acting as a catalyst for bringing increased capital and technical assistance resources to the small and medium business sector in those countries. The USAID grant agreement developed and now in place for the Russian-American Enterprise Fund represents the current state of the art for structuring such a fund and could be considered as the model for Southern Africa, with possible modifications considered carefully to address differing economic, political and cultural realities in the Southern Africa region.

Independent exercise of investment decision making is critical to long term success and sustainability of a fund. Freedom to choose size, type and location of investments that make the best business sense must be maintained within the fund management, with general directions provided by USG in the initial grant agreement and through regular dialogue throughout the life of the project.

Balancing the right combination of business independence and freedom for a fund while recognizing the needs of the USG for financial and political accountability is a very delicate and difficult process. Both sides must be respectful and sensitive to the needs and internal pressures of the other.

Ability to act quickly without normal USG contracting requirements is important and necessary for a fund to react to changing business opportunities and conditions. Selection of appropriate members of the Board of Directors and their selection of the President/CEO is perhaps the single most important decision in the future success of a fund.

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B. Formation

1. Goals and Expectations

The goals and expectations of the Fund should be clear from the outset and stated explicitly in the Fund's corporate documents. For example, to be sustainable, the fund should be seen as a profit-oriented financial institution (notwithstanding its "non-profit" status for tax purposes) that will primarily make loans and/or equity investments, not grants, to new and growing businesses. USAID's development objectives and expectations should also be clear. Technical assistance is a separate matter and needs to be considered within the context of the Fund's primary role of providing investment capital for economic development.

2. Existing Grant Agreement for Russia

Much of the difficult start-up experience of the past three years in EUR is reflected and now built-into the Russia grant agreement. As such, that agreement provides an excellent starting point for a similar project in southern Africa. Even if significant changes are contemplated, the agreement also provides an excellent basis for focusing discussion, and a checklist of issues, along with indications of Congressional sensitivity to such issues as compensation and USG oversight.

3. USAID Coordinator

There is a need to have one person in USAID who is responsible for receiving questions and channeling information regarding the Fund and to coordinate with State and Hill counterparts, to ensure that direct lines of communication stay open and clear.

4. Sunset Provision

Venture capital is "patient" capital. Therefore, the establishment of a venture capital fund requires a long-term commitment (10 to 20 year timeframe) to complete the investment cycle. If successful the Fund could become a major factor in the economies of host countries. Therefore, the ground rules for the eventual wind-up of the Fund -- providing for graceful exit and disposition of fund assets -- should be considered at the beginning. This long-term issue was not focused on originally for the EUR funds.

5. Tax Status

Assurances should be obtained from the outset as to tax status, permits, etc. in the U.S. and host countries. Major delays and PR problems were met in EUR and some of these involved the U.S. Treasury as well as the host governments.

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6. Geographic Focus

Structuring a fund that can effectively cover a region as large and diverse as southern Africa will be difficult and costly. It is essential to understand that venture capital is a local activity. It is simply unrealistic to expect that Fund management sitting in any of the individual countries will utilize scarce staff travel, time and money to seek investments more than a few hours away. The need for frequent face-to-face meetings, due diligence and ongoing assistance and monitoring dictates that most investments be made close to home. The fact that there are eleven (11) separate political jurisdictions in the region makes it important that none are made to feel "unattended" -- even if the nature of delivered assistance (i.e.,TA versus capital) varies. Such inherent political decentralization requires a greater sensitivity to providing a corresponding operational structure that meets this need.

C. Successes

The Enterprise Funds have been successful in a number of respects:

- they have established small business lending programs in several countries, which are considered successful in terms of the number of loans made and their relatively low default rates;
- they have succeeded in attracting additional capital to investments they have made, for example, other organizations have copied the small business lending windows;
- in one or two instances, they have succeeded in attracting other investors to join the Funds, although such additional capital was organized into a separate fund;
- although it has not been quantified, some of the Funds have probably had a positive effect on job creation, by using employment generation as one criterion for the selection of their sectors of operation;
- the Funds have successfully created and supported new financial institutions in several countries, e.g. a mortgage bank, a merchant bank;
- the Funds have successfully created joint ventures between private businesses in their countries and the United States, though such ventures have not been many.

D. Regional Funds

An alternative to a large centralized Fund is the establishment of smaller, regionally-based funds in two or more locations utilizing a common Board. (The Czech and Slovak countries have separate funds but one board.) Locations should be selected based on their success in

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adopting policy reform and providing an atmosphere in which private business can flourish. Also, to the extent that there are existing USAID technical assistance projects for encouraging small business development, that is an important reason to consider co-locating. The regional structure would avoid concentrating resources in one area, and such a geographically diverse network if properly designed would:

- encourage regular communication, sharing of experience, data and ideas among the funds;

- provide a broader range of management expertise and permit specialization by each fund based on the competitive advantage of each region. While staffing costs would be somewhat higher, the desired development impact would be greater. The larger staff and closer proximity would allow significantly more actual assistance to be delivered to potential client enterprises;

- allow local management to be judged on their success in creating viable investment and development projects within their own region. Separate accounting and reporting for profit/loss and impact is important to this concept;

- allow initial capital to be allocated from the "central fund" with each regional fund competing for additional capital based on the success of their regional program; and

- leverage use of a core staff in the U.S. to provide linkage to USG and the U.S. business community. In this way, a relatively small local regional staff can capitalize on their local knowledge and contacts and their on-the-ground presence to identify and screen potential projects. Standardized input criteria can allow U.S. staff to provide investment analysis and review as well as ongoing technical support for the benefit of each regional fund.

E. Composition of Board and Operating Management

Experience in EUR has demonstrated that much of the Fund's investments will be with business enterprises considerably smaller and less sophisticated than those typically served by Wall Street firms. It is critical that the Board and Fund management have international experience working with these types of enterprises. The typical need is for capital infusions from $250,000 to $2.5 million. In Africa, the needs are probably for even smaller amounts per transaction, along with a relatively higher contribution of technical, financial and management assistance. It therefore seems desirable that Fund leadership have a venture capital background, preferably with experience in dealing with small and medium enterprises.

What is needed are experienced U.S. business people who are aware of the differences in

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dealing in the African markets, and are willing to go the extra mile to assist SMEs, while still demanding operational and financial discipline from their clients.

F. Survey/Interview of Management and Board - Existing Enterprise Fund

It would be very helpful to interview current Board members, as well as key management staff for each of the existing Funds, to hear their thoughts on their own experience. However, such work was considered to be outside the scope of work for this report.

G. Operational Issues - Development Impact and Economic Yield

It is critical that any investment fund have clear cut goals and objectives against which to measure its performance. The purpose of the EUR funds, generally, has been to assist in the development of an indigenous emerging market and to promote broad-based, grass roots private sector enterprises, particularly small and medium enterprises. They are not intended to compete with the private sector which is principally oriented to profits. Rather, they are designed to address a market imperfection, providing investment capital to commercially viable and developmentally beneficial enterprises that would otherwise be unable to secure adequate financing from the existing market. As such, they may take higher calculated risks than available market sources of capital, as long as the client enterprises are projected to be commercially sound.

To this end, developmental goals should be well-integrated into the Funds' overall objectives. The development impact of the Funds' portfolio should be periodically evaluated against the development objectives.

Goals for economic yield must be sufficient over the long run to allow the Funds to become sustainable, including coverage of operating costs and overhead. In the early stages, a greater emphasis toward loans versus equity may be helpful in providing higher reflows for re-investment. Also, it is considerably more difficult and inefficient to make "equity" investments in smaller companies and even more so in micro-enterprise situations. The Polish Fund worked through existing financial institutions to provide small loan programs and improved lending criteria, with good development results and notable success in reaching a broader range of entrepreneurs.

H. Building Linkage with U.S. Industry

The Funds can and should be managed so as to assist in the development goals of the host country and at the same time lead to increased trade, investment and closer ties between the U.S. and those countries. U.S. companies have much of the technology and expertise needed by companies within host countries. Joint ventures involving U.S. firms should be assisted and encouraged through all available means.

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The NIS and EUR grant agreements take somewhat different approaches on this and should be reviewed carefully to see which approach is best for southern Africa. Assisting the expansion of U.S. franchising is a good example of an area where the development needs of host countries and the desire for growth in international markets for U.S. firms run exactly parallel.

I. Coordination with other USG programs/Resources

Consideration should be given to establishing a special office to coordinate the efforts of the key USG trade groups (Eximbank, OPIC, TDP, etc.) to assist U.S. firms and local businesses to maximize the assistance given.

J. Broadening Impact: Creating SBIC-Like Affiliates

Funds can channel their capital on a wholesale basis through existing financial institutions. This approach may be more feasible in this region than in EUR/NIS and would allow a faster start. Also, where needed, the Fund could establish a program similar to the Small Business Investment Companies (SBICs) program in the U.S. whereby it would supply a portion of the capital necessary to assist local businessmen start a new venture fund. Risk sharing by the local investors should be required. TA should be provided as needed to acquire deeper experience in analysis of small firms potential for financial success. Capital to new SBICs should be loans or equity, not grants.

K. Technical Assistance

The experience of the existing Enterprise Funds in EUR is that a greater amount of TA has been necessary at all stages of completing transactions than much was anticipated. The funds in Poland and Hungary have received high marks for their TA work. Many would say that technical assistance is, perhaps, the most significant contribution made by such Funds.

Coordination with existing USAID TA projects is important. However, Fund managers are often the ones who identify a need for a certain area of TA. They need the discretion to use their funds for TA to assist client companies. However, separate accounting for TA disbursements is important so the Fund's true performance can be determined.

Training is an important need. For example, working with small business development groups is a good way to stimulate entrepreneurs to improve the quality of their business plan submissions and to increase the deal flow that ultimately comes to the Fund.

L. Policy Reform

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Often the Fund managers' work on specific investment transactions make them aware of areas of the existing law or regulatory framework that need to be changed. In such cases, a regular dialogue between the Funds and U.S. Embassy/USAID is helpful to call the attention of host country government to address needed changes. In so doing, the Funds provides a practical barometer to the USG as to which specific reforms are needed and the extent to which the host government is willing and able to effect such changes.

II. AFRICA VENTURE CAPITAL FUNDS

USAID has developed considerable experience with venture capital in Africa over the last seven years. We gathered available reports and conducted interviews covering four operating venture capital funds and summarized prior field work on 16 other venture capital initiatives which were evaluated under the AVCP. The summaries follow:

A. The Africa Growth Fund (AGF)

The Africa Growth Fund is a 15-year limited partnership, which is a privately owned, funded, and managed investment company that takes positions in highly profitable new and expanding business enterprises in sub-Saharan Africa. The AGF is owned by five major U.S. corporations, which invested $1 million each, and was developed and is managed by Equator Investment Services Limited, an affiliate of Equator Bank.

- **Management** - Although Equator did not have venture capital experience prior to the AGF, they did have African environment experience. None of their investments has been in trouble, indicative of their strong due diligence procedures, and "cherry-picking" philosophy of selecting only the best deals. They have put effort into creating the local partnerships and relationships needed for success, and have shown concern for USAID developmental objectives. They have been flexible and shrewd in structuring deals, and built synergies with other markets and firms. Every project chosen has involved local investors as part of an exit strategy.

- **Deal Flow** - The value of long due diligence periods can be seen in management's success in finding quality deals, weighing risks, and for structuring advantageous deals and terms.

- **Raising Capital** - The AGF's high debt-equity ratio has put serious constraints on cash flow. This creates a need for deals with cash flow in the short term. Being a relatively small fund, AGF must carry a high fixed cost burden from its debt capital over a small number of investments.

- **Exits** - Divestment may prove difficult. By way of comparison, less than 5% of U.S. Venture Capital funds have been able to fully divest over the past 15 years, and the

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African environment is far less conducive to secondary equity transactions. However, the commercial rather than developmental focus has brought financial and market-driven discipline to the investment process and increases the chance of successful divestment in the future.

- **Applicability** - The AGF model is limited in terms of broad applicability. The dominant structural issue for the AGF is the extent to which a high debt burden will compromise the Fund's mission.

B. Kenya Equity Capital Corporation (KECC)

- **Structure** - Kenya Equity Capital Corporation began in 1988-1989 under the sponsorship of USAID. KECC has had a mixed investment record and was refocused in 1993 for greater long term profitability. Fund management is provided by Equator Bank. The diverse shareholder structure and need for operating cash flow diverted management focus from deal generation.

- **Performance** - The uncertain and sometimes negative enabling government regulatory and tax environment have created difficulties in the area of identifying and structuring deals. While it seems that KECC has failed to maintain itself as a venture capital company, it appears to have identified a potentially viable niche for services within the Kenyan financial community as a facilitator of commercial projects relying largely on capital from other private and donor sources.

- **Investments** - KECC has made seven investments. An investment in a computer supply company was successfully exited in 1991. The largest single project, a resort development company of about $6 million of which USAID has 9%, has good prospects. A small restaurant investment, some $217,000 of which USAID provided 27%, is being written off. USAID has provided investment funds for all the investments, with KS27,900 being loan funds through KECC and KS60,400 as direct USAID loans to four projects. In addition, USAID provided a KS200,000 guarantee for one investment's bank loan.

- **Applicability** - There is no conclusive evidence that KECC has stimulated other private sector venture capital investment activities in Kenya nor that its investments will prove profitable over the long term. We have no information as to the size of the investee companies compared to the SME target other USAID projects have established.

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C. Ghana Venture Capital Fund (GVCF)

- **Structure** - Ghana Venture Capital Fund (GVCF) LTD was formed November 1992 as a Ghanaian private limited liability company with a minimum of $2 million and up to a maximum of $5 million of committed capital equivalent in cedis.

- **Start-up** - Activities began in January 1992, following the December 1991 signing of an USAID grant for start-up expenses, with Commonwealth Development Corporation (CDC). By June 1992, all government "in principle" approvals and exemptions from restrictive regulations had been obtained. Work continued on raising capital from five local investors, legal work to incorporate the Fund and the management company, and identifying potential staff. Efforts to generate deal flow were not commenced until early 1993, after the fund had been legally established. This timing was prudent as there were many uncertainties as to structure and capitalization which required resolution before opening the doors. However, this step by step start-up process, rather than recruiting staff and filling the deal pipeline has delayed getting investments done, which has resulted in lost momentum.

- **Management** - GVCF has its own Board of Directors, but delegates day-to-day management and the responsibility for making investments to Venture Fund Management Company (VFMC), for a fixed annual 3% fee and a share of the profits. VFMC is formed as an independent management company, incorporated in Ghana, to manage GVCF and potentially a series of other fund companies.

  The staff of VFMC consist of a manager seconded from Commonwealth Development Corporation (CDC), an investment manager, a controller, an administrative assistant, a receptionist and a driver. In general, the original assumption that competent local financial professionals are available has been supported. However, the number of qualified candidates at the desired top level is very limited and significant incentives will have to be provided to attract and retain senior managers. The firm intent remains to replace the CDC-seconded manager with local management in 1994.

- **Policy** - Investments will not exceed U.S. $500,000 in any one company, and will be spread so that no more than 25% of GVCF's committed capital is invested in any one group of companies nor more than 35% in any one sector. Investment will be balanced between expansions and new business start-ups.

- **Deal Flow** - The original assumption was that a well publicized supply of equity would reveal demand. In terms of deal flow, that has proven to be true. The potential for successful investment seems to exist and will be aided by a continuing reduction in the rate of inflation and a corresponding drop in short term interest rates, thus lowering the nominal IRR required on GVCF investments. Investment has been

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approved in three deals and several more are in the approval process. GVCF makes equity and quasi-equity investments in Ghanaian SME companies which have clear potential for achieving above average growth and profitability, as well as proven, successful management.

- **Exits** - GVCF aims to realize its investments and to distribute the proceeds to its investors within 10 years of starting business. GVCF aims to achieve returns for its investors commensurate with the risks involved in equity investments, i.e. 20% or more per annum. Options for disinvestment can not be evaluated at this time. Once several investments have been structured and accepted, it will be possible to evaluate the potential for achieving the attractive returns on investments necessary to attract additional investment funds from local investors.

D. Tanzania Venture Capital Fund (TVCF)

- **Structure** - USAID began prefeasibility work in February 1992. By October, CDC had agreed to provide initial management and up to $2.5 million in capital. CDC start-up management began at the same time. In December 1992, USAID signed a multi-year start-up grant to CDC. With concerted USAID and CDC effort, Tanzanian government "in principal" approvals were received in just four months.

  The management company, Tanzania Equity Investment Management (EIM) was operational in early June 1993. Office staff was hired and the new premises were occupied in October 1993. Legal incorporation of TVCF as a non-bank financial institution was completed and the fund was officially launched on October 18, 1993, at which time the first investment was announced. An investment manager and an accountant have been hired.

- **Target Market** - The TVCF is the first venture capital fund in Tanzania. Managed EIM, it will make equity and quasi-equity investments in local business as partners with Tanzanian entrepreneurs. The goal of the TVCF is to provide opportunities for Tanzanian business people by giving them access to the capital and management skills which they require if their businesses are to develop. More than five SME investment have received Board approved as of December 1993.

- **Investment Philosophy** - Most of TVCF investments will be to existing businesses seeking second-stage expansion capital, though it will also consider start-ups if they are attractive. The fund's minimum investment limit will be U.S.$ 50,000 and its maximum investment will be U.S.$500,000. TVCF may buy up to 50 % of the ordinary equity in each investment.

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- **Capital** - The current investors in TVCF are CDC, Deutsche Investitions-und Entwicklungsgesellschaft (DEG), Swedefund, PROPARCO, Tanzania Development Finance Ltd. (TDFL), and National Provident Fund. The fund is presently capitalized at $6,750,000. In order for the fund to be sustainable over the long term, capitalization of $15 million is required to support overhead and achieve self-sufficiency.

- **Key Issues** - The key strategic issues facing the fund are the need for a parallel mezzanine fund to supplement equity financing-due to the undeveloped nature of the banking sector and its inability to provide adequate working capital financing to the marketplace; and, for the management of EIM to be separate from the supporting donor agency and work directly for EIM. Selection of an operating approach that supports fund raising objectives must be established.

  Completion of an incentive compensation plan for the carried interest to be held by the investment manager is an important operating challenge. Additionally, establishing portfolio valuation guidelines, and timeliness for accounting review and determination of portfolio allocation between seed capital, expansion financing and buyout financing for privatization projects need to be formalized, along with follow on capital and exit strategies.

E. African Venture Capital Project (AVCP)

The experience as presented in the following table indicated the difficulty in starting up venture capital funds in Africa and the need for high quality management and technical support. The essence of venture capital investing is a patience long-term approach. Ten years or more may be needed to complete a round of investing and evaluate results.

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F. SIFIDA

SIFIDA is an international financial institution, established in 1970, to foster the growth of developing independent countries in Africa and to act as a catalyst by providing merchant banking services.

SIFIDA consist of 125 shareholders which are financial institutions and industrial or commercial groups from 23 industrialized countries worldwide. The authorized share capital is $50 million. Over the past 20 years, SIFIDA has provided and organized equity and loan finance for over 100 projects in more than 30 African countries. The sectors covered are principally mining, agri-food processing, manufacturing, tourism, and other productive industries or service, with a preference for export oriented projects.

The Board of Directors is composed of 26 members designated by the shareholders and reflecting the international structure of the share capital. These individuals have significant trade, industrial and financial experience and African expertise and form a valuable part of the overall capabilities.

In addition to investing directly from its own funds, SIFIDA raises equity through mechanisms such as debt conversion and private placements, and arranges loan finance through syndications, co-financing and export credits. SIFIDA also provides and arranges guarantees including cover for non-commercial risks.

The criteria for investment by SIFIDA is potential profitability with good growth prospects, technical and economical feasibility, commercial viability, sponsorship by reputable partners and investors of good standing. Management by experienced and competent technical partners that are able to contribute to the development of the perspective country's economy is also a critical criterion for investment by SIFIDA.

SIFIDA has developed considerable experience in setting up retention schemes that have enabled projects to attract foreign investors. Emphasis has been placed on consolidating the existing portfolio through measures that include the conversion of debt into equity. SIFIDA continues to show a positive operating profit and the net losses after allowing for provisions have been constantly reduced over the past three years, evidencing the steady progress being achieved in improving the investment portfolio, with particular reference to sovereign risks.

G. Economic Development for Equatorial and Southern Africa (EDESA)

- **Organization** - EDESA is a development financing institution based in Switzerland and operating primarily in sub-Saharan Africa. EDESA is financed by a small number of blue-chip investors, which has been able to remain consistently profitable for the 20 years of its existence.

- **Investments** - For the first 15 years, EDESA was primarily in the business of medium-term lending to governmental institutions for export promotion activities, with only a small amount of direct equity investment, but that has changed due to the debt crisis and changes in developmental economic theory, and now EDESA's management characterizes themselves as venture capitalists, with 47% of invested assets in equity holdings, and an additional 15.5% in project loans. $27.38 million of $44.24 million in total assets is taken up by either loans or equity investments.

  The management, which takes a pro-active role in locating and developing investment opportunities particularly in the financial sector, has also been effective at locating joint partners for deals. A new focus is being taken on consulting as a way to generate higher off-balance sheet income; revenues generated in this way were above $1.5 million.

- **Operations** - Cash flow generated by loans is used to maintain profitability and underwrite the riskier equity investments. Liabilities are maintained at 76% of stockholder equity, as the management prefers a low level of leverage due to the unstable environment EDESA operates in. A profit motive is maintained as an integral part of operations, but due to the tempering influence of EDESA's developmental functions, earnings at times have been nominal.

- **Management** - The management team has extensive experience in Africa, while the Board of Directors is composed of individuals with banking/corporate experience in major multinational institutions. The Managing Director has retained his post for the entire time of EDESA's existence.

- **Raising Capital** - EDESA has found a niche in venture capital and as a sponsor of financial institutions, which has the added benefit of multiplying the limited resources EDESA can provide. Over $200 million has been leveraged by African financial institutions from EDESA's $7 million investment in the form of loans and foreign exchange.

- **Investments** - The majority of EDESA's portfolio is in minority holdings of a wide range of manufacturing, financial and service companies, and majority ownership of a number of leasing companies. EDESA estimates that over 10,000 entrepreneurs, most at the micro-enterprise level, have been able to benefit from the increased availability of funds through EDESA's investments in financial institutions. However, the number of jobs created is unknown.

- **Exits** - EDESA has had problems in the exit phase due to the low demand for shares and the absence of sophisticated capital markets, and so has had to retain holdings rather than turning them over for new investments.

- **Operations** - EDESA has never shown a year-end loss, although at times earnings have been nominal, as in 1992, when net income after provision for future losses was less than $36,000.

  The main constraint EDESA operates under is low capitalization of $44.24 million in total liabilities and shareholder equity, compounded by the management philosophy of maintaining low debt-equity ratios. Coupled with the difficulty of exiting from investments, this has limited the developmental impact EDESA has had in the region.

III. OTHER EXPERIENCE WITH VENTURE CAPITAL

A. Latin America Agribusiness Development Corporation S.A. (LAAD)

- **Structure** - The LAAD is a private investment and development company. Its shareholders are thirteen leading agribusiness and financial corporations. LAAD finances and develops private agribusiness projects in Latin America and the Caribbean.

- **Raising Capital** - The original intent of LAAD was to establish a continent-wide fund and take minority equity positions in small and medium sized companies. However, this has not materialized. LAAD could not sell minority equity positions in small and medium size companies and the concentration has shifted to long term lending.

- **Investments** - To be profitable, LAAD could not concentrate on a large region, hence their concentration in Latin America and the Caribbean. Additionally, they must focus tightly in the agribusiness area on all phases of production, processing, storage, services, technology and marketing in the fields of agriculture, livestock, forestry and fishing; and specifically within these areas, on products for sale in the U.S. market.

- **Operations** - Net earnings improved by 30% in 1992 rising to $1.75 million, yielding a 9.4% return on average net worth. These were record high earnings in absolute terms, although the return on equity was lower than the average for the past ten years. Earnings per share rose to $3,381, which is 25% above the previous high two years ago. Gross revenue increased by 12% over the previous year to $6.6 million. Interest charges rose by 10% because of the higher cost of new medium term borrowing. Operating expenses rose by 8% but fell as a percentage of gross profits and total assets. The equity portfolio generated a loss of $154,000 related primarily to the Corporation's investment in Southern Sun Trading which was sold during the year.

  Operating income went up by 18% to $2.6 million, a record high. Total assets increased 11% to $62.9 million, mainly due to expanded lending operations and a higher cash position. Cash flow from operations improved substantially with total

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repayment of $13.8 million. The total holdings by the Corporation of sovereign debt is now down to about 1.5% of its assets.

B. The U. S. Experience with Small Business Investment Companies

1. Small Business Investment Companies (SBICs)

The SBICs are privately operated investment companies and may be owned by a) individuals, b) banks, with certain limitations, and c) corporations. SBICs are authorized to make equity investments in small business concerns which are owned or controlled by persons deemed to be socially or economically disadvantaged. A SBIC may not ordinarily assume control of a business. Ownership must be less than fifty percent (50%) of the business' outstanding voting securities, except under circumstances where temporary control is reasonably necessary for the protection of the SBICs' investment. SBICs may also make long-term loans for periods up to 20 years at interest rates not to exceed 15 percent or the maximum rates permitted by the laws of the States in which they operate, whichever is lower.

There are currently 275 licensed SBICs with private capital of $1.7 billion and almost $800 million in funds borrowed through the Federal system. SBICs have invested almost $8 billion in more than 66,000 small business during the past three decades. The SBIC program has a track record of outstanding investments in companies such as Federal Express, Apple Computer, Pandick Press, Cray Research, Intel and Rolm Corporation.

2. Minority Enterprise Small Business Investment Company (MESBIC)

The minority-focused venture capital industry has encouraged the development of a generation of successful minority venture capitalists and entrepreneurs. Over the past 10 years, close to $ 1 billion has been provided to over 12,000 minority-owned companies. The MESBIC industry is currently represented by 132 different companies, in all parts of the U.S. The National Association of Investment Companies (NAIC), the successor to the American Association of MESBICs, asserts that by the late 1970's, MESBICs were principals in the financing of a large portion of minority-owned radio, television, and other telecommunications properties. The trade association has been in the vanguard of minority investments in franchises, health care, environmental services, transportation, high technology ventures, wholesale and retail distribution and manufacturing enterprises.

In addition, because of the relative success of MESBICs, purely private venture firms have been capitalized in the $30 to $50 million range. The NAIC has undertaken an effort to raise $200 million from pension funds and other sources to be used to invest in venture capital limited partnerships or other venture capital investment vehicles which provide funds to minority firms.

The unique feature of the MESBIC model which gives it direct applicability to conditions in Southern Africa is that the Federal government, with the creative efforts of the private sector, developed this intermediary to overcome obstacles in the marketplace which hampered access to credit on the part of blacks and other minorities, throughout the United States. Some of the conditions of underdevelopment in Africa are similar to aspects of life one would have found in the U.S. in 1969. Through the use of lower than market rate money, and other government subsidies in the form of loans, the purchase of preferred stock, grants, etc., the innovative MESBIC was fashioned to act as a catalyst for business development in areas of the country that needed the stimulus.

IV. SUMMARY OF LESSONS LEARNED

Lessons learned from past experience with venture capital funds in Africa and other funds include the following:

1. venture capital (vc) investing is an innovative, creative process which requires maximum flexibility in management and structure; this requires a new way of doing business for USAID;

2. it takes a long and persistent effort to organize a fund and make investments and even longer to realize financial returns;

3. the long-term investment risks inherent in an emerging or transitional economy in Africa are manifold and go far beyond the business, technology and market risks in the West, i.e. the additional political, economic, legal, social and other risks;

4. a clear statement in a fund's mandate of its investment and development objectives is essential to the identification and assessment of investments.

5. significant local participation by investors, management and/or entrepreneurs is critical to success. Local investment managers, with a "feel" for the market are essential to "smelling out" attractive transactions; it is management, not structure, that does deals;

6. the pool of potential VC managers and investors is very small in Africa due to the unusual qualifications and requirements involved;

7. government or public agency involvement in VC fund management and economic subsidy dilutes and undermines the private sector discipline and commitment required for success;

8. a poor enabling environment, and a short term investment climate, was responsible for failure to attract investors in several cases;

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9. all other considerations being equal, country-specific funds tended to be more attractive to investors than regional funds;

10. the initial capitalization of VC funds deserves special attention. High debt-equity ratios can be problematic in the undue burden they can impose on cash flow;

11. exit strategies can be difficult to design and implement in the Southern Africa context. Minority positions in SMEs are especially hard to divest;

12. raising (leveraging) additional capital proved to be difficult in several instances;

13. the demonstration and catalytic effect that results from actually doing deals is crucial to the objective of generating sustainable investment activity; and

14. USAID grants can be difficult, time consuming and costly to structure and monitor. Care is also needed to avoid imposing too great a reporting burden on the funds.

KEY MACROECONOMIC INDICATORS: SOUTHERN AFRICA REGION

	population (1000s, 1991)	GDP (bil $, 1991)	area (1000s of km²)	external debt (mil $, 1991)	life expectancy	AID Enter- prise Funds
Angola	9,465	9.07 (est.)	1,247	...	46	...
Botswana	1,330	3.644	582	543	68	...
Lesotho	1,800	0.578	30	428	56	...
Malawi	8,800	1.986	118	1,676	45	...
Mozambique	16,100	1.3	802	4,700	47	...
Namibia	1,500	1.961	824	...	58	...
RSA	38,900	102.1	1,221	...	63	...
Swaziland	780	0.704	17	...	57	...
Tanzania	25,200	2.223	945	6,460	51	...
Zambia	8,300	3.831	753	7,279	49	...
Zimbabwe	10,100	5.543	391	3,429	60	...
Southern Africa Region	122,275	132.94	6,930	24,515	...	...
Sub-Saharan Africa	488,900	164.34	23,066	...	51	...
Africa (total)	643,072	349.384[1]	30,030	...	...	...
World	5,351,000	21,639.12	111,306	...	66	...

Source: World Bank, "World Development Report 1993"

[1]Does not include Djibouti, Equatorial Guinea, The Gambia, Liberia, Libya, Somalia, Sudan, and Zaire.

ANNEX C
SELECTED MACROECONOMIC INDICATORS FOR 11 COUNTRIES IN SOUTHERN AFRICA REGION

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Note on statistical tables

The statistical information presented has been gathered from a variety of sources. While every effort has been made to select the most reliable figures, there are a number of discrepancies and gaps in the tables due to the use of different sources (or in some cases the absence of sources) for certain countries. Preference has been given first to US government documents, and second to World Bank/IMF reports; where these have been unavailable or incomplete, data generated by other international organizations, or the nations being examined, or privately gathered data has bee presented. Information on GDP contributions by sector was not available for all economies.

STATISTICAL SUMMARY: ANGOLA

YEAR	1992	1991	1990	1989
population[1]	9,890,000	9,520,000	9,190,000	8,900,000
nominal GDP (bil $)	n/a	n/a	9.07	7.72
real GDP growth rate	n/a	n/a	2.8%	1.8%
inflation (CPI)	n/a	n/a	6.1%	n/a
official Kz/$ exchange rate	n/a	180	90	29.92
black market Kz/$ exchange rate	n/a	n/a	n/a	3,500
per capita GDP	n/a	n/a	907.3	796.3
merchandise trade balance (bil $)	(0.75)	(1.69)	(0.87)	0.36
exports (bil $)[1]	3.77	3.83	3.52	3.57
imports (bil $)[1]	4.52	5.52	4.39	3.21
foreign exchange reserves	n/a	n/a	137.6	174.5
total debt (bil $)[1]	n/a	8.78	8.19	6.77
debt service/ total exports	n/a	n/a	182.4%	207.8%
literacy rate[2]	n/a	n/a	42%	41% (1985)
life expectancy male/female[2]	n/a	46	46	46

Source: "Angola - Economic and Trade Policy", US Department of State, Washington, DC, 1992, except as noted

[1]African Development Bank, "African Development Report 1993"
[2]World Bank, "World Development Report", 1991, 1992, 1993

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STATISTICAL SUMMARY: BOTSWANA

YEAR	1992	1991	1990	1989
population	1,567,000 (est.)	1,325,000	1,281,000	1,237,000
population growth	3.4% (est.)	3.4%	3.6%	3.4%
GDP (bil $)	3.55 (est.)	3.15	3.21	2.88
real GDP growth rate	8.0% (est.)	8.7%	5.3%	13.3%
inflation (CPI)	15.0% (est)	11.8%	11.4%	11.6%
Average Pula/$ exchange rate	2.10	2.20	1.88	1.87
Per Capita GDP	$2300	$2400	$2500	$2300
investment/GDP[1]	36% (est.)	35% (est.)	37% (est)	32% (est.)
savings/GDP[1]	26% (est.)	34% (est.)	41% (est.)	47%
merchandise trade balance ($)	n/a	83.3	174.7	633.6
exports (bil $)	n/a	1.673	1.765	1.995
imports (bil $)	n/a	1.589	1.590	[illegible].361
foreign exchange reserves (bil $)	4.100 (est.)	3.510	3.317	2.803
total debt (mil $)	614 (est.)	358.9	400.1	394.8
debt service/total exports	n/a	2.3%	1.6%	1.4%
money supply growth[1]	12.5% (est)	18.1% (est.)	36.5%	(14.1%)
# of private banks[2]	9	6	n/a	n/a
capitalization of private banks[2] (mil $)	$81.5	n/a	n/a	n/a
assets of private banks (mil $)[2]	$872.6	n/a	n/a	n/a
total loans (bank, non-bank sources, mil $)[3]	n/a	789.5	637.8	432.1
number of firms traded on exchange[4]	11	9	8	5
volume traded (1000s of shares)[4]	9,893.9	5,207.5	2,240.9	650.6
literacy rate[5]	n/a	74%	n/a	71%
life expectancy[5]	n/a	68	67	67

Source: "Foreign Economic Trends", Sept. 1992, by the US Embassy, Gaborone, Botswana, except as noted

[1]Bank of Botswana
[2]KPMG Peat Marwick, "Banking Survey: South Africa including Southern and Central Africa, 1992"
[3]World Bank, "Opportunities for Industrial Development in Botswana", April 28, 1993
[4]Stockbrokers Botswana Ltd., "Stockbrokers Botswana Ltd. and the Botswana Share Market", 1992
[5]World Bank, "World Development Report", 1991, 1992, 1993

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STATISTICAL SUMMARY: BOTSWANA

GDP Contribution by Sector

Sector	1991 estimates
Agriculture	5.0%
Mining	41.4%
Manufacturing	4.0%
Water & Electricity	2.1%
Construction	5.5%
Trade, hotels, tourism	14.1%
Transport & Communications	2.3%
Financial Institutions	5.0%
Government & Services	20.7%

from Ministry of Finance and Development Planning, Government of Botswana

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STATISTICAL SUMMARY: LESOTHO

YEAR	1992	1991	1990	1989
population	1,880,000	1,800,000	1,750,000	1,700,000
population growth	n/a	2.8%	2.8%	2.8%
GDP (mil $)	n/a	605	583	496
real GDP growth rate	0% (est.)	1.9%	5.0%	11.9%
inflation	n/a	17.9%	11.6%	14.7%
average M/$ exchange rate	2.73	2.76	2.59	2.62
per capita GDP	n/a	336	333	289
investment/GDP[1]	n/a	93%	71%	66%
savings/GDP[1]	n/a	(13%)	(41%)	(55%)
merchandise trade balance (mil $)	n/a	(718.4)	(613.1)	(526.2)
exports (mil $)	n/a	57.3	59.5	66.4
imports (mil $)	n/a	887.6	769.8	672.9
foreign exchange reserves (mil $)	n/a	110.1	72.6	48.6
total debt	n/a	374	360	306
debt service/ total exports	n/a	4.2%	3.8%	4.7%
# of private banks[2]	4	n/a	n/a	n/a
capitalization of private banks (mil $)[2]	10.9	n/a	n/a	n/a
assets of private banks (mil $)[2]	283.9	n/a	n/a	n/a
literacy rate[1]	n/a	n/a	n/a	74% (1985)
life expectancy[1]	n/a	56	56	56

Source: "Foreign Economic Trends - Lesotho", 1993, US Embassy, Maseru, except as noted

[1]World Bank, "World Development Report", 1991, 1992, 1993
[2]KPMG Peat Marwick, "Banking Survey: South Africa including Southern and Central Africa, 1992"

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STATISTICAL SUMMARY: MALAWI

YEAR	1992	1991	1990	1989
population	9,090,000	8,800,000	8,550,000	8,200,000
population growth	n/a	3.3%	3.3%	3.4%
GDP (bil $)	n/a	1.99	1.66	1.41
real GDP growth rate[1]	n/a	7.8%	4.8%	n/a
inflation[1]	11.9%	11.6%	n/a	n/a
average K/$ exchange rate	2.62	2.72	2.70	2.75
per capita GNP ($)	n/a	230	200	170
investment/GDP[1]	19.8	20.2	19.1	20.2
national savings/GDP[1]	4.0	9.6	10.4	6.9
merchandise trade balance (mil $)	n/a	249	(164)	(238)
exports (mil $)	n/a	470	412	267
imports (mil $)	n/a	719	576	505
foreign exchange reserves[3]	n/a	157.7	142.1	105.5
total debt (bil $)	n/a	1.68	1.58	1.39
debt service/total exports[4]	27.3%	21.3%	27.3%	28.0%
money supply growth	n/a	21.6%	12.3%	n/a
# of private banks[5]	2	2	2	2
capitalization of private banks (mil $)[5]	n/a	53.8	21.1	18.1
assets of private banks (mil $)[5]	n/a	301.5	238.3	180.5
literacy rate	n/a	n/a	n/a	41% (1985)
life expectancy	n/a	45	45	47

Source: World Bank, "World Development Report", 1991, 1992, 1993, except as noted

[1]"Economic Report: 1992", Department of Economic Planning and Development, Malawi
[2]Southern Africa Development Coordination Conference Annual Report, 1992
[3]World Bank, "World Tables", 1993
[4]"Malawi - Commercial Activity Report 1993", US Embassy, Lilongwe
[5]KPMG Peat Marwick, "Banking Survey: South Africa including Southern and Central Africa, 1992"

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STATISTICAL SUMMARY: MALAWI

GDP Contribution by Sector

Sector	1992
Agriculture	30.9%
Manufacturing	13.9%
Electricity and Water	2.5%
Distribution	13.0%
Transport and Communications	5.9%
Financial/ Professional Services	7.3%
Government and other Services	24.1%
Construction	4.5%

derived from statistics in "Economic Report: 1992", Department of Economic Planning and Development, Malawi

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STATISTICAL SUMMARY: MOZAMBIQUE

YEAR	1992	1991	1990	1989
population	16,617,000	16,200,000	15,700,000	15,300,000
population growth	2.1%	2.1%	n/a	n/a
GDP (bil $)	n/a	1.9	1.32	1.1
real GDP growth rate	(2.7)	2.4	1.3	5.4
inflation (CPI)	45%	33%	49%	42%
average MT/US$ exchange rate	2000.0	1845.0	1038.0	747.1
per capita GDP ($)	n/a	80	80	90
investment/GDP[2]	47.1%	42.1%	38.1%	35.5%
savings/GDP[1]	n/a	n/a	(11.7)	(16.6%)
merchandise trade balance (mil $)[2]	n/a	n/a	(737.8)	(702.9)
exports (mil $)[2]	n/a	n/a	126.4	104.8
imports (mil $)[2]	n/a	n/a	864.2	807.7
total debt (bil $)	4.39	4.7	4.9	4.74
debt service/total exports	n/a	10.6	n/a	23.1%
money supply growth[3]	n/a	33.4%	31.9%	45.7%
# of private banks	3	1	1	1
literacy rate	32.9%	33%	33%	38%
life expectancy	n/a	47	47	48

Sources: "World Bank Development Reports" 1991, 1992, 1993 and World Bank, "Mozambique: Issues for the Transition from Emergency to Sustainable Growth" except as noted

[1]World Bank, "Mozambique: Financial Sector Study", 1992
[2]Plano Economico y Social 1993, provided by USAID Mission, Maputo
[3]Mozambique Office for Investment Promotion, "Investor's Guide: Investing in Mozambique", from Bank of Mozambique statistics

GNP Contribution by Sector

Sector	1990	1991
Agriculture & Cattle	40.2%	37.4%
Industry & Fishing	23.1%	22.9%
Construction	11.9%	13.2%
Transport & Communication	8.5%	9.4%
Commerce & other	16.2%	17.2%

from Mozambique Office for Foreign Investment Promotion statistics

STATISTICAL SUMMARY: NAMIBIA

YEAR	1992	1991	1990	1989
population	1,440,000	1,400,000	1,370,000	1,330,000
population growth	3.0%	3.0%	3.0%	3.0%
GDP (bil $)	1.54 (est.)	1.42	1.36	1.28
real GDP growth rate	2.0% (est.)	5.1%	3.0%	(1.5%)
inflation (CPI)	15.0% (est.)	16.8%	9.7%	13.9%
average R/$ exchange rate	2.73	2.76	2.59	2.62
per capita GDP	1,541 (est.)	1,423	1,359	1,275
merchandise trade balance (mil $)[1]	n/a	(53)	(152)	(135)
exports (bil $)[1]	n/a	1.182	1.069	1.121
imports (bil $)[1]	n/a	1.235	1.221	1.256
total debt (mil $)	n/a	295	299	281
# of private banks[2]	5	5	5	5
capitalization of private banks (mil $)[2]	47.2	n/a	n/a	n/a
assets of private banks (mil $)[2]	989.7	n/a	n/a	n/a
life expectancy[3]	n/a	58	57	57

Source: "Commercial Activity Report '93 - Namibia" and "Foreign Economic Trends - Namibia", 1992, by the US Embassy, Windhoek, except as noted

[1]World Bank, "World Tables", 1993
[2]KMPG Peat Marwick, "Banking Survey: South Africa including Southern and Central Africa", 1992
[3]World Bank, "World Development Report", 1991, 1992, 1993

N.B.: Namibia became independent from South Africa in 1990, so statistics prior to 1991 are derived from South African regional estimates

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STATISTICAL SUMMARY: REPUBLIC OF SOUTH AFRICA

YEAR	1992	1991	1990	1989
population	39,800,000	38,900,000	38,000,000	37,100,000
population growth	2.4%	2.4%	2.4%	2.3%
GDP (bil $)	114.8	107.9	102.1	88.9
real GDP growth rate	(2.1%)	(0.6%)	(0.5%)	2.3%
inflation (CPI)	13.9%	15.3%	14.4%	14.7%
average R/US$ exchange rate	2.86	2.78	2.56	2.63
per capita GDP ($)	2884	2774	2687	2396
investment/GDP[1]	n/a	16%	19%	21%
savings/GDP[1]	n/a	21%	25%	26%
merchandise trade balance (bil $)	6.5	6.3	5.2	5.3
exports (bil $)	23.5	23.7	23.4	22.2
imports (bil $)	17.0	17.4	18.2	16.9
foreign exchange reserves (bil $)	3.2	3.0	2.4	2.0
total debt	17.3	18.1	19.4	20.6
debt service/totaln exports	6.7%	7.5%	7.1%	n/a
# of private banks	47 (4 main)	n/a	n/a	n/a
assets of 4 main private banks (bil $)[2]	25.19	n/a	n/a	n/a
value of daily turnover on stock exchange (bil $)[2]	n/a	8.25	n/a	n/a
unemployment rate	43%	40%	37%	35%
life expectancy[1]	n/a	63	62	61.5

Source: "Foreign Economic Trends" from 1993 and 1992, US Embassy, Pretoria, except as noted.

[1]World Bank, "World Development Reports", 1991, 1992, 1993
[2]Arie Beenhakker, "South African Financial Sector Profile", November 1993

GDP Contribution by Sector

Sector	1991
Agriculture	6%
Mining and mining input industries	33%
Manufacturing	26%
Trade & Tourism	14%
Finance & Business Services	15%
Government & other services	6%

from "Investment Climate Statement - South Africa" by the US Embassy, Pretoria

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STATISTICAL SUMMARY: SWAZILAND

YEAR	1992	1991	1990	1989
Population	825,000	780,000	750,000	720,000
population growth	4.1%	3.4%	3.4%	3.4%
GDP (mil $)	722.9 (est.)[1]	736.9 (est.)[1]	703.9	600.8
real GDP growth rate	(1.9%)[1] (est.)	4.7% (est.)[1]	9.8%	2.5%
inflation	8.8% (through July 1992)	14.7%	13.5%	8.2%
average Em/US$ exchange rate	2.74	2.76	2.59	2.62
per capita GDP ($)	880 (est.)	940 (est.)	902	801
investment/GDP[2]	23.8%	26.5%	23.7%	n/a
merchandise trade balance (mil $)[1]	(93.1)	(61.6)	(12.1)	(21.7)
exports (mil $)[1]	628.4	575.2	563.7	494.3
imports (mil $)[1]	721.5	636.8	575.8	516.0
foreign exchange reserves (mil $)	n/a	221.5	205.2	176.4
total debt (mil $)	213.4	208.6	213.7	215.9
debt service/total exports	n/a	3.0%	8.5%	7.7%
# of private banks[3]	4	4	4	4
capitalization of private banks (mil $)[3]	18.6	n/a	n/a	n/a
assets of private banks (mil $)[3]	304.3	n/a	n/a	n/a
literacy rate[4]	n/a	n/a	n/a	68%
life expectancy[4]	n/a	57	56.5	56

Source: "Foreign Economic Trends, 1993 - Swaziland", by the US Embassy, Mbabane, except as noted

[1]Central Bank of Swaziland, "Annual Report, 1992-93"
[2]Union Bank of Swaziland, "Swaziland in Figures", 1993/94
[3]KMPG Peat Marwick, "Banking Survey: South Africa including Southern and Central Africa", 1992
[4]World Bank, "World Development Report", 1991, 1992, 1993

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STATISTICAL SUMMARY: SWAZILAND

GDP Contribution by Sector

Sector	1992 estimates
Agriculture & Forestry	20%
Manufacturing	41%
Mining	3%
Trade & Tourism	5.5%
Transport & Communications	4.5%
Finance	5%
Government	21%

from "Swaziland Business Yearbook: A Commercial Guide", 2nd ed., 1993

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STATISTICAL SUMMARY: TANZANIA

YEAR	1992	1991	1990	1989
population	27,200,000	26,400,000	25,600,00	24,800,000
population growth	3.1%	3.1%	3.2%	3.4%
GDP (bil $)	3.64	3.53	3.42	3.29
real GDP growth rate	2.9%	3.2%	4.2%	4.8%
inflation	20%	24%	26%	28.9%
average shilling/$ exchange rate	300	234	200	243.4
per capita GDP ($)	133.7	133.9	133.8	132.6
investment/GDP[1]	n/a	22%	25%	21%
savings/GDP[1]	n/a	(11%)	(6%)	(5%)
merchandise trade balance (mil $)	(980)	(968)	(964)	(897)
exports (mil $)	440	428	422	407
imports (mil $)	1420	1396	1386	1307
foreign exchange reserves (mil $)	220	106.4	90.6	54.2
total debt (bil $)	5.722	6.012	6.097	5.090
debt service/total exports	43.2%	44.8%	46.7%	48.9%
# of private banks[1]	2[7]	2	2	2
life expectancy[2]	n/a	51	51	49

Source: "Foreign Economic Trends - Tanzania", 1993, US Embassy, Dar es Salaam, except as noted

[1]World Bank, "World Development Report", 1991, 1992, 1993
[2]"Country Program Strategic Plan, USAID Tanzania, 1992-1997", August 1992
[7]Two other banks have applied for charters, which are expected to be granted in the near future.

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STATISTICAL SUMMARY: ZAMBIA

YEAR	1992	1991	1990	1989
population	8,640,000	8,390,000	8,140,000	7,880,000
population growth	3.4%	3.2%	3.2%	n/a
real GDP (bil $ in 1977 prices)	2.84	2.91	2.97	n/a
real GDP growth rate[1]	(2.8%)	(1.8%)	(0.5%)	n/a
inflation (CPI)[1]	207%	118.4%	105.3%	n/a
average ZK/$ exchange rate	175	64.9	31	n/a
per capita GDP ($)	348	364	381	n/a
investment/GDP[2]	15.5%	15.0%	13.9%	n/a
savings/GDP[2]	12.6%	12.0%	16.6%	n/a
merchandise trade balance (mil $)	(177)	314	137	470
exports (bil $)	1.10	1.13	1.25	1.34
imports (bil $)	1.28	0.81	1.11	0.87
foreign exchange reserves (mil $)	184	211	176	n/a
total debt (bil $)	6.99	7.20	6.65	n/a
money supply growth[1]	99%	98.2%	65%	n/a
debt service/total exports	70%	65%	65.8%	n/a
# of private banks	13	n/a	n/a	n/a
assets of private banks (mil $)[3]	645.6 (est.)	n/a	n/a	n/a
literacy rate[4]	n/a	80%	73%	77% (1985)
life expectancy[5]	n/a	49	50	51

Source: "Foreign Economic Trends - Zambia", August 1993 by the US Embassy, Lusaka, Zambia, except as noted

[1]Bank of Zambia
[2]Price Waterhouse, "Investor's Guide to Zambia", 1992
[3]KMPG Peat Marwick, "Banking Survey: Southern and Central African Banks", 1992
[4]USAID, "Country Program Strategic Plan, 1993-1997 - Zambia", June 1993.
[5]World Bank, "World Development Report" 1991, 1992, 1993

GDP Contribution by Sector

Sector	1991
Mining	7.3%
Agriculture	15.7%
Manufacturing	36.3%
Services	10.0%
Construction	3.1%
Government & other services	15.8%

from Price Waterhouse, "Investors Guide to Zambia", 1992

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STATISTICAL SUMMARY: ZIMBABWE

YEAR	1992	1991	1990	1989
population	10,390,000 (est.)	10,080,000	9,800,000	9,500,000
population growth	3.8% (est.)	3.1%	n/a	n/a
GDP (bil US$)	n/a	6.19	6.77	6.43
GDP growth rate	(9.0%) (est.)	3.6%	2.1%	4.7%
inflation	40.4% (est.)	23.7%	15.7%	11.6%
average Z$/US$ exchange rate	5.1	3.4	2.4	2.1
per capita GDP (US$)[1]	n/a	660	690	650
investment/GDP	12.0% (est.)	12.6%	17.3%	19.0%
savings/GDP	25.0% (est.)	22.0%	20.1%	19.0%
merchandise trade balance (mil US$)	n/a	(550)	(100)	150
exports (bil US$)	n/a	1.65	1.7	1.65
imports (bil US$)	n/a	2.2	1.8	1.5
foreign exchange reserves (mil US$)[2]	n/a	149.7	149.2	94.6
total debt (bil US$)[3]	n/a	3.43	3.25	2.79
debt service/total exports	25.1% (est.)	21.6%	22.0%	24.0%
money supply growth	25.1% (est.)	30.0%	22.4%	19.8%
# of private banks[4]	6	n/a	n/a	n/a
capitalization of private banks[4] (mil US$)	121.9 (est.)	n/a	n/a	n/a
assets of private banks (bil US$)[4]	1.615 (est.)	n/a	n/a	n/a
avg. daily volume traded on stock exchange[5]	450,000 shares	n/a	n/a	n/a
literacy rate[1]	67%	67%	67%	74% (1985)
life expectancy[1]	56	60	61	64

Source: USAID, "Country Program Strategic Plan, FY 1994-1998 - Zimbabwe", 1993, except as noted

[1]World Bank, "World Development Report", 1991, 1992, 1993
[2]African Development Bank, "African Development Report 1993"
[3]"Commercial Activity Report, 1993", US Embassy, Harare
[4]KMPG Peat Marwick, "Banking Survey: South Africa including Southern and Central Africa", 1992
[5]Equinox Investment Advisors, "Proposal for an Africa Equity Fund", 1993

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STATISTICAL SUMMARY: ZIMBABWE

GDP Contribution by Sector

Sector	1991
Agriculture	13%
Manufacturing	26.5%
Minerals	7.5%
Construction	1%
Finance & Insurance	6.5%
Transport & Hotels	18%
Government & Other Services	27.5%

from USAID Country Program Strategic Plan, FY 1994-1998 - Zimbabwe", 1992

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ANNEX D
INVESTMENT CLIMATE ANALYSIS FOR 10 COUNTRIES IN REGION

Note on country profiles

These are taken from US government reports (Foreign Economic Trends, etc.) on ten of the eleven countries in the southern Africa region (Angola has been excluded as our research indicates that there is no potential in the current state of turmoil there for venture capital to be a useful tool for development at present). They are intended to provide background information on the economic environments, sectoral strengths and weaknesses, policies, infrastructure and opportunities in the various countries, but not to be exhaustive studies.

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BOTSWANA

At independence in 1966, Botswana was one of the 20 poorest countries in the world with minimal infrastructural development and a predominately subsistence economy. Government revenues were critically dependent on foreign aid and the remittances of the Batawana males employed in South Africa. Moreover, there were no obvious prospects for economic development outside the beef sector. During the 1980's, however, Botswana's economic performance exceeded that of all other non-petroleum producing countries in Africa. Gross domestic product (GDP) rose, in real terms, by an annual average of 11.3% in 1980-89, giving Botswana one of the world's highest growth rates. This exceptional record was partly due to the rapid expansion of the beef industry, but the predominant cause was the discovery and development of valuable mineral resources, especially diamonds. Apart from transforming Botswana's export base, the development of the mining sector has also helped to stimulate and finance the development of the infrastructure, the manufacturing and the social services.

Faced with a high population growth rate and growing unemployment, Botswana is placing heavy emphasis on private sector growth and job creation, especially in manufacturing and agriculture. Areas of increased government expenditure include education, housing, primary health care, and commercial and trade development. The budget for educational, commercial, and local development programs has increased considerably over the last few years. School fees for secondary education were abolished in 1988, with the result that all education through university level is now free.

Import and Tariff Regulations: Botswana, Lesotho, Swaziland, Namibia, and South Africa form the Southern African Customs Union (SAC). Goods are freely traded between members of SAC, and imports into the union face a common external tariff. Botswana's membership in SAC effectively expands its market substantially.

Botswana, Lesotho, and Swaziland are members of the British Commonwealth and signatories to the Lome III Convention. As a result, their exports receive special tariff preferences with other Commonwealth members and with the European Economic Community. In addition, by virtue of Title V of the U.S. Trade Act of 1974, and the Trade Act of 1984, these nations participate in the U.S. Generalized System of Preferences (GSP), which grants beneficiary developing countries duty-free treatment into the United States on a wide range of manufactured and semi- manufactured goods.

Manufacturing: The country's economic development plans call for diversification, including expanded investment in manufacturing. Since 1987, Botswana's light industrial sector has grown at a rate of about 5 percent annually. Textile products represent an important segment of this sector and one which is expected to expand over the next few years and to exceed the rate of growth in other segments. Botswana's major textile markets are the countries of the European Economic Community, South Africa, and Zimbabwe.

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Botswana's small size, (1.3 million population), requires extensive development of export markets to produce lasting growth. Because of the competition it faces from South African products, (which enter duty free under the Southern African Customs Union agreement), the manufacturing sector in Botswana has developed slowly. Botswana's membership in the Customs Union, however, provides Botswana-based exporters duty-free access to a market of about 35 million people.

Tourism: Tourism earns the country some foreign exchange, but it has yet to make a major contribution to the country's total output. In 1988, about 61,000 holiday visitors came to Botswana and spent approximately $32 million. The development of the country's unique tourist areas -- the Kalahari desert, the Okavvango delta, and the Chobe game reserve -- could make tourism one of the country's foremost growth sectors. Botswana is presently formulating a national tourism policy, including policy guidelines on promotion and investment in tourism areas and preservation of the country's natural habitats.

Investment and Tax Incentives: In an effort to encourage new industrial/manufacturing firms to establish themselves in Botswana, the government has adopted several new programs, one of the more attractive being the Financial Assistance Policy which is available to foreign investors. Some of the major terms of the policy are: a) firms will be reimbursed 50 percent of cost of training Botswana employees; b) the government will give an outright grant for each unskilled laborer employed; c) in addition, new firms receive a tax holiday for five years, ranging from no taxes for years 1 and 2, and graduated taxes for the following three years.

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LESOTHO

The Kingdom of Lesotho is a small, independent nation totally surrounded by the Republic of South Africa. It is, economically, one of the world's least developed countries, with few natural resources apart from modest diamond deposits and the hydroelectric power potential of its swift-running rivers. Only about 13 percent of the land area is arable, and large areas suffer from soil erosion, population pressures and overgrazing. Of the economically active population, up to one-quarter are employed as migrant workers in South Africa, reflecting a continuing lack of opportunities in the domestic formal sector, despite government attempts to develop manufacturing and services. The country's GDP increased by an annual average of 6.8% in 1965-80. From 1981 the economy had to contend with the impact of the cessation of diamond exports, drought and the problems of the intimately linked South African economy, particularly in terms of the depreciation in the value of the South African rand, which is at par with the Lesotho currency unit, the loti (plural: maloti).

Agriculture: Agriculture is the largest component of GDP, accounting for about 21 percent in 1988. Although agricultural growth has been low for much of the decade of the 80s, the agricultural sector was estimated to have expanded by 9.3 percent in 1988. The sector is dominated by the production of livestock and livestock products, of which wool and mohair are the principal exports. Improvements to crop and livestock productivity, as well as improved resource management, are major elements of U.S. economic assistance to the Kingdom. Lesotho is currently involved in a gigantic Highlands Water Project. When completed, the water transfer scheme will reroute massive quantities of surplus water from Lesotho to South Africa's water- starved industrial Transvaal Province while generating enough power to make Lesotho self-sufficient in electricity. The Highland Water Project offers huge potential commercial opportunities.

Manufacturing: Lesotho's manufacturing activities are a small but increasingly important sector of the economy. Manufacturing grew by an average of 12.7 percent from 1968-88, and increased its share of GDP from 8 percent in 1984 to almost 11 percent in 1988. The production of clothing and textile products is the fastest growing area in the industrial sector. Manufactured export products include footwear, sportswear, and umbrellas. Many investors from the Far East and South Africa are taking advantage of Lesotho's investment incentives and nearly global preferential market access to set up manufacturing operations in the country. There is also a growing focus on handicraft production, particularly wool and mohair tapestries, rugs, hand knits, pottery and grass-woven products. Agro-industries continue to be an important component of the manufacturing sector. These include flour milling, fruit and vegetable processing, leather tanning, and brewing. Future enterprises are expected to produce disease free seeds for export to the continental African market.

Tourism: Although the number of tourists, mostly from South Africa, increased 43 percent from 1983 to 1987, Lesotho's tourist industry is small and largely underdeveloped. Maseur, the capital city, has several excellent hotels with both conference and casino facilities, but quality accommodations elsewhere in the country are presently limited. The Lesotho

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Government has placed high priority on expanding the tourist industry and hopes that the construction of lakes and access roads in connection with the Highlands Water Project will stimulate tourism and attract potential investors. Tourist attractions to be developed include water sports, lodge construction, mountain climbing, skiing and fishing.

Investment Climate: There is no discrimination between local and foreign investors nor is there a mandatory local shareholding requirement. Full foreign ownership in a locally established company is permitted. No investment disputes are under way, nor have any ever been known to have occurred. There have been no cases of nationalization or expropriation. Foreign investors are free to repatriate profits, capital, and royalties. The same tax laws apply to both foreign-owned and local firms, although foreign firms may receive various tax concessions, including a possible 15-year tax holiday. Any company starting a new manufacturing plant in Lesotho, or substantially expanding an existing one, may apply to the Lesotho National Development Company for a non-repayable cash grant to cover 75 percent of employee training costs.

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MALAWI

Malawi is a landlocked country in southeastern Africa of 37,000 square miles--about the size of Pennsylvania. With an estimated 1990 per capita GDP of $231 and a population of 8.9 million, Malawi ranks among the world's least developed countries. Approximately 85 percent of Malawi's work force is engaged in agriculture, which accounted for 36 percent of GDP and 90 percent of export earnings in 1989. Malawi has relied upon a successful agricultural sector as the primary engine for development since independence in 1964. Normally self-sufficient in staple food production given favorable climatic conditions, Malawi also produces tobacco, tea, sugar, groundnuts, coffee, and cotton. However, drought and mealy bug infestation in 1987, another long dry spell in 1989, and a burgeoning refugee population (900,000 by December 1990) combined to disrupt the performance of the economy.

Over the next several years, Malawi's ability to import will depend largely upon hard currency earnings from its major exports (tobacco, tea, sugar, and coffee), external aid flows, and success in maintaining reliable and cheaper transportation routes. Transport routes still face continuing security problems as a result of the civil war in Mozambique.

Investment opportunities have been emerging within the parastatal sector (governmental controlled, commercial enterprises) as the government seeks to privatize several holdings. Several industrial projects are under consideration, including a fertilizer plant, and a $150 million hydroelectric project. The expanding tourist industry offers potential for investment in hotels and recreational areas. The United States has an Overseas Private Investment Corporation agreement with Malawi, and several U.S. companies use OPIC coverage. In May 1990, a USAID-sponsored trade/investment mission visited Malawi to explore opportunities. The response by the Malawian Government and business community was enthusiastic and encouraging.

There were an estimated 1.9 million radio receivers in use in Malawi in 1988. There is no television service in Malawi.

MOZAMBIQUE

Mozambique remains the poorest country in the world, according to 1992 World Bank statistics, with GDP per capita at $80 per year. Severe drought and the displacement and destruction caused by the civil war slowed economic growth to only 1.2 Percent in 1992. However, a good rainy season and the end of hostilities, following the October 1992 signing of the general peace agreement between the government (GRM) and RENAMO, significantly improve Mozambique's prospects for economic growth for the rest of the decade. However, Mozambique's economy remains very vulnerable to another drought or a return to civil war.

The World Bank forecasts annual GDP growth rates of 5 percent for Mozambique over the next four years, provided the government adheres to its economic and social rehabilitation program (ESRP). The ESRP aims to foster economic growth and reduce poverty through reforms in exchange rate, tariff, pricing and public expenditure policies. Privatizations of state owned or operated enterprises, mostly through joint ventures, is a major component of the ESRP.

On April 1, 1992 all foreign exchange transactions were shifted to the secondary market, and the export retention scheme was eliminated. At that time the official exchange rate was also abolished. The metical devalued further in 1992 and is near its market clearing rate. Merchandise exports have responded positively to the weakening of the metical and the reform of the system of foreign exchange allocation. Imports have fallen slightly with the higher price of foreign exchange.

Foreign exchange imported into Mozambique may be fully repatriated. Dividends may be remitted according to the percentages negotiated at the time a company receives its operating permit from the ministry of finance.

Mozambique's economy remains aid driven. It currently depends on grant and concessional donor financing for almost all of its domestic investment, as well as a substantial amount of recurrent expenditures. Net disbursement of overseas aid from all sources was US$49 per capita in 1990, the most recent year available.

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NAMIBIA

Namibia, the world community's newest independent member, becoming independent on March 21, 1990, covers an area of 320,000 square miles, about twice the size of California. With a GDP officially estimated at US$1,022 per capita in 1989, and unofficially estimated to be higher, Namibia appears to be relatively prosperous in the African context. This reflects a large and relatively diversified mining sector, producing diamonds, uranium and base metals. Large ranches also provide significant exports of beef and sheepskins in normal years. Yet the economy is badly integrated. About 90% of the goods that Namibia produces are exported, and about 90% of the goods that are used in the territory, including about one-half of the food, are imported. Furthermore, the figure for GDP per capita disguises an extreme inequality in income distribution-the average income for the white minority is significantly higher than that for the mass of the black population.

Inflation averaged 14 percent during 1989. The South African economy greatly influences Namibia's inflation rate as Namibia continues to be a part of the Rand Monetary Area (South Africa, Lesotho, and Swaziland) using the South African Rand as currency. Monetary policy is therefore determined by Pretoria. In addition, foreign exchange transactions are subject to the controls of the South African Reserve Bank, which acts as the central bank of Namibia. The Namibian government is setting up a central bank and expects to leave the Rand Monetary Area soon. At independence Namibia became a member of the Southern African Development Co-ordination Conference (SADCC), which aims to reduce the region's economic dependence on South Africa. In September 1990 Namibia joined the International Monetary Fund.

Namibia is the world's leading producer of gem-quality diamonds, accounting for some 30% of total world output. In addition, Namibia has the world's largest uranium mine, and some of the world's largest known reserves of tin and lithium. Namibia is Africa's second largest producer of lead, its third largest producer of cadmium and fourth largest source of zinc and copper. Other important minerals include hydrocarbons, tungsten, vanadium, silver, gold, columbite/tantalite, germanium and beryl.

Agriculture and Fishing: War, drought (which affected some areas continuously from 1978 to 1985), overgrazing and unscientific farming methods have had an adverse effect on the agricultural sector. The contribution of agriculture and fisheries to GDP, however, increased from 7.3% in 1986 to 11.3% in 1989. Namibia has a fragile ecology, and most of the territory can support only livestock.

Colonial history bequeathed Namibia three different agricultural sectors: about 4,000 large commercial ranches, almost all white-owned; 20,000 African stock-raising households, compressed into central and southern reserves; and 120,000 black families practicing mixed farming on just 5% of the viable farmland in the far north. At the time of Namibia's independence about 50% of the country's commercial farms were owned by absentee landlords; the possible re-distribution of such land was an important political issue. In

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mid-1991 a national land reform conference resolved that abandoned and under-utilized land would be re-allocated and that ownership of several farms by one person would not be permitted. In 1990, following independence, Namibia signed the Lome Convention, agreeing to supply an EC quota of 10,500 tons of beef in 1991 and 1992, rising to 13,000 tons in 1993. Some 84% of commercial beef production had previously been exported to South Africa. The Lame Convention agreement gives Africa, Caribbean, and Pacific countries preferential access to European Community markets. Potentially, Namibia has one of the richest fisheries in the world and the fishing industry was formerly second in exporting to mining, which plays a dominant role in Namibia's economy.

Manufacturing: Manufacturing employs 5.1 percent of the formal sector work force and contributes 7 percent of Namibia's GDP. About 400 industrial enterprises operate in Namibia, more than half of which are located in Windhoek, the capital. Food processing businesses (primarily fish and meat) constitute the largest share of the sector. Other significant industries include textiles, wood working, furniture manufacturing, transportation equipment, metal products, chemical products, printing and publishing.

While the sector enjoys a well-developed infrastructure and financial institutions, the domestic market for manufactured goods is small, and the labor is largely unskilled. Potential for development exists in industries linked to Namibia's primary sector activities (mining, agriculture, and fishing). These may include processing of minerals, transportation of minerals, manufacture of mining and agricultural equipment, and processing of beef for export. The First National Development Corporation, run by the Namibian Government, will aid private investment in manufacturing activities.

Services: South African companies dominate Namibia's banking and real estate industries. The two biggest commercial banks are First National Bank (formerly Barclays Bank) and Standard Bank. The SWA Building Society (SWABS), established by seven South African building societies, finances upper and middle income housing projects. The National Building and Investment Corporation (NBIC) finances low-income housing. Both SWABS and NBIC operate predominantly in the main urban centers.

Namibia is home to some of Africa's most spectacular landscapes, yet its tourist sector is relatively underdeveloped. Conservation areas and recreation resorts cover 12 percent of the country's total surface area. The government is eager to develop the sector with private sector cooperation and investment. Preserving the fragile ecology will be an important component of tourism policy. Development of the sector will require creation of hotels and small safari camps, and investment in local air transport. High-cost, low-volume tours, with minimum disturbance, are likely to be favored.

Trade and Investment Climate: The government's development priorities are: expand smallholder farming with a view towards national self-sufficiency in food production; develop infrastructure and related services (electricity, water, and communications) throughout the country; and improve public services in health and education. The government expects to

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execute these programs through grant aid from bilateral and multilateral donors. The United Nations Development Program is coordinating most aid flows to Namibia.

Investment possibilities are in agriculture, mining and processing industries. The First National Development Corporation (FNDC) assists in the identification of investor projects and in the coordination of local and foreign investors, development agencies, and financing. The FNDC has compiled a significant list of projects seeking investor participation, most of which are in the area of processing industries for primary commodities.

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REPUBLIC OF SOUTH AFRICA

South Africa's diverse climate permits the cultivation of a wide range of crops but, largely because of inadequate and erratic rainfall, only about 15% of the land surface is suitable for arable farming. It is in mineral deposits that South Africa's greatest wealth lies. There are abundant deposits of nearly every mineral in the country. South Africa, in 1980, was the largest producer in the Western world of chromium, manganese and vanadium; the second largest producer of platinum, diamonds, vermiculite, antimony, asbestos and fluorspar; and the third largest producer of uranium. The country's reserves of manganese, platinum, vanadium, fluorspar and sillimanite are estimated to be the largest in the Western world. In addition, it is a major producer of copper, lead and zinc.

Only two major mineral products - petroleum and bauxite - have not been found in economic quantities. However, in February 1985 the Southern Oil Exploration Corp. (SOEKOR), a government-owned company which had been involved since 1965 in an intensive search for petroleum deposits, announced that a discovery offshore at Mossel Bay, off the south coast of Cape Province, had yielded a daily output of 2,600 barrels of light crude and 1 million cubic meters of natural gas.

The chief characteristic of South Africa's population, and the one that dominates its society, is the great racial, linguistic and cultural heterogeneity of its people. The four broad groups making up the population are: i) Africans, who are member of the Bantu-speaking group of African tribes; ii) whites who are of European descent; iii) Coloreds, who are of no distinct racial origin; and iv) Asians, mainly Indians.

The total population of the Republic of South Africa as of the March 1985 census was 23.4 million. The population of the region, including the independent homelands, is estimated to be growing at the rate of 2.5% per year, and the population of the region is estimated to be 38.9 million in 1991.

Economic Overview: The South African economy, once based almost entirely on agriculture, was transformed rapidly by the discovery of diamonds in 1867. For the next 60 years, mining was the greatest single source of national income. The Second World War, which had cut off traditional sources of supply, boosted local manufacturing to such an extent that secondary industry soon emerged as the major contributor to the gross GDP, a position it still holds. In spite of this transformation of the economy, mining exports are still 49 percent of exports of goods and services. In 1989 GDP amounted to R237 billion with the most important contributions made by manufacturing with 23 percent, mining 13 percent, commerce 11 percent, transportation and communications 9 percent, and agriculture 7 percent.

In recent years, government economic policy makers have conceded that past policies contributed to structural problems that have hampered South Africa's economic performance in the last decade. Chief among these are persistent inflation (estimated to be in the range of

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15 percent in 1990), low domestic savings rates, the use of scarce capital to replace labor, and stagnation of production, employment and productivity.

The overriding economic policy consideration remains the need to suppress domestic spending and hence the demand for imports in order to maintain a sufficient current account surplus to cover South Africa's debt obligations. Since 1985, South Africa has been denied access to foreign capital and has been unable to refinance any significant portions of its debt. The resulting balance of payments pressures have forced the government to constrain the economy below its historic growth potential.

Nevertheless, South Africa is the economic powerhouse of southern Africa and outproduces by far any other economy on the entire continent. With less than a third of the population of southern Africa, South Africa contributes about three-fourths of the region's GDP and two-thirds of its exports. South Africa's infrastructure is far more advanced than its neighbors. Its financial and transportation sectors, for example, are fully developed and can easily dominate the rest of the region.

The country's economy is best described by the term "partially free enterprise," a phrase used by a major bank to explain the extensive state involvement in the economy. The bulk of manufacturing, mining, agriculture, commerce and finance is privately held. However, state owned firms have near monopolies--telecommunications, postal services, water supply, television, railways and harbors -- and dominant market positions -- commercial radio broadcasting, pipelines, electricity generation, diesel engines, freight haulage, internal and external air services, phosphate production and armaments manufacture -- that permeate the economy. At present there is a national debate about reducing the state's control of and direct participation in the economy.

South Africa's economic future is uncertain as the country enters the transition from the apartheid era to majority rule. While South Africa faces an uncertain economic future, it does offer substantial inducements for foreign investors, among other things: a substantial market with significant growth potential, a free market tradition, little distinction between foreign and local firms, investment incentives, access to many of the other markets in Africa, good communication and transportation links with the rest of the world, liberal repatriation of profits and other earnings; lower labor costs than in Western industrialized countries (although productivity is also lower), and availability of cheap power and many raw materials.

The Financial **Rand Incentive**: South Africa place no restrictions on the reinvestment of profits and earnings of U.S. corporations and individuals. The only regulations affecting repatriation of earnings and capital are those contained in the foreign exchange control system. Equity investments from abroad usually enter via the financial rand which give a favorable rate in rand per dollar, at present about 37 percent, over the commercial rand. Dividends and profits are repatriated at the commercial rand rate. However, capital gains and proceeds from the sale of equity are repatriated at the financial rand rate. Loans usually enter

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through the commercial rand and proceeds as well as payment of loans are via the commercial rand.

Tax Treatment: The general principle is that taxes are levied only on income derived from a source within or deemed to be within the Republic of South Africa. This principle applies to resident and non-resident individuals and companies. Income taxpayers are divided into two basic categories: individuals, who are taxed at progressive rates, and companies, taxed at 50 percent of taxable income (mining companies excepted). Withholding taxes are imposed on interest and royalties remitted to non-residents. Capital gains are tax free. Undistributed profits are taxed at 33.3 percent, but companies owned 50 percent or more by non-residents are usually exempt from this tax. Companies make provisional tax payments at six months after the beginning of the financial year, at the end of the financial year, and six months after the end of the financial year.

Access to Credit Markets: Foreign owned firms do not have unlimited access to local credit. As a rule, domestic borrowing by South African subsidiaries is limited to about 50 percent of the effective foreign capital invested in the local concern. There is a measure of flexibility, however, and applications are considered in the light of the domestic situation and the national importance of the project. In instances where South African residents participate in the equity of the company, the limit of 50 percent is increased in the ratio of the local to foreign participation.

Foreign investors may freely transfer current earnings on any capital investments made in the country, subject to non- resident shareholders' tax and tax on interest payable to non-residents. However, where local borrowing by non-resident controlled locally incorporated subsidiary companies is out of all proportion to the amount of foreign funds invested therein, restrictions may be imposed on the transfer of dividends. Interest payments are also freely transferable provided the rate is reasonable for the type of loan involved. Royalty payments and technical service fees are permissible transfers, but the underlying agreements require the prior approval of the Department of Trade and Industry and Exchange Control.

Investment Incentives and Performance Requirements: To develop industry in outlying areas, the government in 1960 launched a program aimed at the decentralization of economic activity and, in 1982, revamped the regional industrial development incentives, which were aimed, first, at decentralization and, second, at employment creation. The main objective of this regional development program was to encourage new and existing labor-intensive industries to establish themselves in the less developed areas of the country where there normally is a surplus of labor, without any undue disruption on industry in the developed areas.

These incentives are divided into two-categories, namely, long-term incentives which are intended for existing industries and short-term incentives which are intended to assist short-term financing problems experienced by industries relating to new projects or the relocation of industries.

The long-term incentives include: transportation rebates, electricity concessions, housing subsidies for key personnel, training allowances or grants, and price preferences in connection with purchases by the public sector.

The short-term incentives include: wage subsidies for periods of up to 7 years, interest subsidies on investments in land and buildings for periods up to 10 years, rental subsidies, and cash grants for relocations of on-going business concerns.

Labor: South African labor is characterized by the anomaly of massive unemployment coupled with a critical shortage of skilled labor. The government released figures in January 1990 showing Black unemployment in September 1989 was 13 percent, continuing a steady decline since 1986. Most observers, however, consider that statistic to be unreliable. It excludes, for example, unemployment in the homelands. More generally accepted estimates put Black unemployment at more than 20 percent overall, and as high as 35 percent in urban areas.

The forecast for unemployment in the future looks even grimmer. A South African Chamber of Business spokesperson recently predicted that increased urbanization, capital intensification in industry and a slack economy will all contribute to continuing growth in unemployment. The economy, which averaged annual growth of only 1.5 percent during the 1980's, seems unlikely to expand fast enough to absorb a significant percentage of new job seekers with a population growth rate of 2.5 percent.

The Chairman of South Africa's Parliamentary Standing Committee on Manpower has estimated that by the year 2000 there will be almost four times the number of unskilled workers as job opportunities, but twice as many skilled job openings as skilled workers. Apartheid can account for most of that incongruity, with the country's Bantu education system the most often cited villain. School boycotts have only exacerbated the problem. Decrying an inferior education system that robs them of skills while good jobs go begging, Black workers have demonstrated against and struck firms that have brought in foreign workers to fill skilled positions.

Black consumer markets are growing faster than those of the white population. Black consumers have historically preferred American design, style and quality. Clothing, toiletries, hair care products, children's toys and accessories plus other products targeted to Black consumers offer business opportunities to U.S. companies. In addition, franchising of Black entrepreneurs is an excellent opportunity for U.S. franchisors. Franchising opportunities exist in printing, hair dressing and beauty treatment, office and industrial cleaning, home carpet cleaning, industrial catering, auto parts and servicing and plant maintenance.

Doing Business with Black South Africans: According to South African marketing organizations, Black South Africans accounted for $7.6 billion or close to 50 percent of all consumer spending in that country during 1985. This consumption ranges from the highs of 66 and 64 percent respectively for food and clothing to 30 and 22 percent for transportation

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and insurance. By the year 2000, Black South African consumer spending for food and clothing should grow to 75 percent. The value of the consumer market in Black urban areas is especially seen in Soweto, a sprawling urban area south of Johannesburg with a population approaching 2 million. Average household income was up to $4,812 in 1985. The percentage of households in the higher income groups of $6,000 plus rose from 15 percent to 25 percent in real terms between 1975 and 1985.

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SWAZILAND

Although it is the second smallest sovereign state in mainland Africa, Swaziland has one of the continent's highest per capita income levels. In 1988, according to estimates by the World Bank, the kingdom's gross national product (GNP), measured at average 1986-88 prices, represented US$810 per capita, the sixth highest of any country in sub-Saharan Africa and enough to rank Swaziland as a "middle income" economy.

Given the small size of the Swazi market, (approximately 800,000 people), export-led growth is the key to the country's economic development. Swaziland has a fairly diversified export sector, led by sugar, wood pulp, soft drink concentrate, citrus, and minerals. Although agriculture continues to dominate the economy, the country's industrial base has expanded steadily over the last five years thanks to new investments in textiles, paper production, and food processing.

Agriculture and Forestry: Sugar is the most important crop, with three large estates in the eastern lowveld supplying most of the cane. Most of Swaziland's sugar is exported to Western Europe and North America. Swaziland's forests (pine and eucalyptus) are among the world's largest planted forests, and its pulp mill produces roughly 10 percent of the world's unbleached kraft pulp. Pineapples are grown and canned, as are grapefruits and oranges. Fresh fruit is also shipped overseas by air cargo. Cotton is one of the main cash crops in the country. A majority of the population of Swaziland still practices subsistence agriculture, however, with maize as the standard crop for the small plot farmer. The beef industry, which targets the European Community, was revived in 1989 with rehabilitation of Swaziland's principal slaughterhouse.

Manufacturing: Swaziland has experienced major advances in manufacturing in recent years, and a number of new industries have been launched. Manufacturing, at roughly 20 percent of GDP in 1990, constituted the largest sector of the formal economy, and at 8.2 percent average annual growth since 1984, it is by far the fastest growing sector. The year 1990 saw a number of important new manufacturing ventures in home appliances, knitwear, auto parts, and textiles, all of which point towards a continued diversification of the manufacturing sector away from export-based industries processing agricultural or forestry products.

Tourism: Tourism is an important source of revenue. South Africans constitute the majority of the visitors to Swaziland. The country's main attractions are its natural beauty and game parks, its casinos, and golf. The total number of arrivals has been raised by growth in the number of business visitors as well as renewed tourist interest in the kingdom. The former trend reflects increased investment interest in the kingdom. The latter is the result of economic and political factors; South African arrivals rose in response to political unrest in the republic.

Facilities in the central Ezulwini valley (the heart of the Swazi tourism industry) are dominated by the South African Sun International chain. A new hotel complex, owned by the

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government but managed by Protea of South Africa, was opened in Piggs Peak in 1986, and in 1990 plans were announced for the development of two Sheraton managed hotel complexes. By mid- 1991, however, the developers had still had failed to secure the necessary backing to execute the project.

Labor: In general, labor in Swaziland, Botswana, and Lesotho has several factors in common: a) lack of sufficient local employment opportunities for rapidly expanding labor forces; b) shortage of trained manpower and heavy reliance on skilled expatriate technicians; c) high levels of subsistence farming and domestic underemployment; and, dependence upon remittances from migrant worker, primarily employed in South Africa.

Investment and Tax Incentives: The Government of Swaziland believes in a free market economy and therefore actively encourages foreign private investment. Tax allowances and investment incentives are detailed in the Income Tax Order of 1975, amended and considerably expanded in the Income Tax Amendment Act of 1985, which provides for the following: a) a 5- year tax holiday for new firms engaged in manufacturing under certain conditions; b) generous tax deductions for expenditures on fixed assets; and, c) indefinite carry forwards or accumulated losses to set off against income.

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TANZANIA

Tanzania is improving as a potential customer for U.S. goods and investment, but it remains a difficult environment for the unwary. In recent years progress has been made in rehabilitating the country's infrastructure, in providing a more conducive market-based policy environment and in dismantling bureaucratic delays. Despite this progress, trained personnel are scarce, infrastructure is inadequate, and frustrating bureaucratic delays persist, all adding to the cost of doing business. Nonetheless, the persevering investor or trader can reap substantial rewards.

As in previous years, accurate economic growth figures are not available for 1992 and projected figures do not take into account the robust growth in the informal sector. Growth rates in this sector have likely outstripped the rate in the formal sector and have been a major force in Tanzania's sustained growth. That said, Tanzania has enjoyed seven years of positive growth in GDP since 1986 as a result of various factors, including favorable weather conditions and steady donor assistance. Economic growth has been further encouraged by a series of successful reform measures which have included trade liberalization, exchange rate adjustment, relaxation of government economic controls, restructuring of financial institutions, moves to privatize and commercialize parastatals and the introduction of market-driven foreign exchange bureaus.

However, continued attention to reform must be emphasized if the country is to strengthen and consolidate its gains. Despite an improvement in tax collection methods and an increasing revenue base since fiscal year 1989-90, government deficits persist. In 1991-92 the budget deficit stood at 8.6 Percent of the GDP, and is projected to fall slightly to 8.3 Percent of GDP during 1992-93. Better government control of expenditure is needed.

The business climate in Tanzania has improved considerably since the institution of the economic recovery programs in 1986. These recovery programs have emphasized infrastructure rehabilitation, large-scale irrigation farming, export diversification (particularly of non-traditional products) and investment promotion. Definite opportunities exist for U.S. firms in the mining, tourism, financial and construction industries, as well as in agricultural machinery and equipment, chemicals, pharmaceuticals, consumer goods and used clothing.

The Tanzania investment code, increased tax incentives, the legalization of market-driven foreign exchange bureaus and export earnings retention schemes have made the country much more attractive and accommodating for foreign investment.

The economic growth rate in 1992 has been affected significantly by a shortage of electricity leading to widespread and extensive power rationing since August 1992. The power shortage is due to low water levels in the dams utilized by Tanzania's turbine generators, poor maintenance of generation equipment and the power grid and a significant increase in demand with no additional generating capacity. Embassy sources estimate the cuts will reduce GDP by about 15-20%. The GOT has requested donor assistance in developing short-term

solutions, but the power shortage will continue to be a major economic brake in the near term.

Economic Reform: Economic Reform programs instituted on the recommendations of the IMF and World Bank have had a major impact on economic growth and the general structure of the Tanzanian economy. The government has continued to address the external trade balance by encouraging exports, discouraging unwarranted imports, devaluing the shilling, expanding the Open General License (OGL) and abolishing duty and tax on the import of raw materials for industry. However, the trade deficit remains a serious hurdle, although ameliorated by bilateral and multilateral donor support and debt relief. In 1991 targeted debt relief was US$ 220 million. The amount for 1992 is expected to be US$ 290 million.

Agriculture: Exchange rate adjustments since 1986, expansion of OGL, targeted reform of cooperative unions, crop marketing boards and the general availability of consumer goods have created a conducive climate for agricultural extension and crop husbandry. Economic reform programs have had major impact on production of maize, wheat, rice, beans, cotton, cloves and tea. Purchase of crops, particularly coffee, cotton, sisal, tea and pyrethrum, has been opened to private traders.

Minerals and energy: Tanzania is endowed with an assortment of mineral deposits including gold, coal, uranium, nickel, cobalt, phosphates, natural gas, diamonds and a variety of other gemstones. Lack of capital, managerial skills and a poor regulating environment have hampered effective exploitation of these resources. Nickel and gold mining within Tanzania show particular promise. Tanzania enjoys immense deposits of nickel ore, currently being explored by a multinational mining consortium. There are numerous alluvial gold deposits, readily exploited by artisanal miners, as well as substantial gold-bearing formations. Foreign investors are actively developing kaolin, gem mining, and other mineral resources.

Industry: The Tanzanian industrial base is primarily directed towards import substitution and largely dependent on imported raw materials. This sector has been plagued by mismanagement, political interference, bad planning and chronic shortages of foreign exchange which have resulted in poor performance. Industrial production has run at about 20-30 percent of installed capacity. With the introduction of donor import support, commercial operating criteria, and the advent of legal foreign exchange bureaus, industrial production is expected to rebound strongly and should increase to about 75 percent of capacity by 1993. The economic recovery programs have placed greater emphasis on industries which will utilize local raw materials, which produce for export, or which produce essential items decreasing dependence on imports.

Transportation: Major efforts have been underway to rehabilitate the country's road and rail networks as well as the port at Dar es Salaam. These efforts are on-going. Tanzania Railways Corporation (TRC) is being restructured and rehabilitated, while Tanzania-Zambia railway authority (Tazara) is implementing a 10 year US$ 360 million development plan with significant Chinese aid and technical assistance. Once completed, these rehabilitation efforts

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will ease transportation bottlenecks considerably and greatly increase the accessibility of various agricultural and industrial areas and aiding the growth of all sectors of the economy.

Telecommunications: Tanzania Posts and Telecommunication Corporation (T.P.T.C.) has instituted a five year development program (1991-1995) which aims to convert T.P.T.C. To customer oriented enterprises. In achieving these goals T.P.T.C. will undertake telephone rehabilitation and expansion programs in Dar es Salaam and other areas. The program calls for an investment of US$ 231.5 Million. The World Bank and donor agencies have already pledged US$ 186.7 Million.

Financial sectors: In August 1991, the Banking Reform Act was enacted which restructured the financial sector and allowed for the creation of private foreign exchange bureaus and private banking for the first time since 1967. To date, over 30 bureaus have been opened countrywide. Banks are restructuring and transferring their non-performing portfolios to a government institution, the loans and advances realization trust (LART), leaving the banks free to operate commercially. Standard Charter Bank and Meridian-Boia have been licensed and are expected to begin banking operations in early 1993.

Tanzania offers a potentially attractive investment climate supported by a new investment code (1990), and greatly improved macro-economic framework. Much of this improvement occurred in the past five years following major trade and foreign exchange liberalization. Producers are now able to import necessary inputs and machinery and to remit profits overseas. Devaluation of the shilling has increased the price competitiveness of Tanzanian products manufactured for the export market. Exporters laud this policy. The government as well as newly formed political parties appear to support the changes. Certainly the government's commitment has remained strong. Major investor incentives included in the new code are: (a) a five year tax holiday; (b) exemption from import duties and sales tax on all machinery, equipment, spare parts, materials and supplies that would be used for the enterprise; (c) access to foreign exchange (through forex shops) and the repatriation of up to 50 percent of retained foreign exchange receipts; and (d) no limitations are set for the amount of capital gains to be repatriated but a withholding tax of 10-20 percent is applied for dividends, royalties and interest payments abroad.

Additionally, the government now provides a central office for approval of new investment proposals, and improved commercial banking will be soon available due to licensing of new private foreign and domestic banks. The improved business environment also includes an on-going policy of the government to promote privatization of the parastatals, removal of directed banking credit, introduction of private banks, infrastructure rehabilitation (roads, railroads, telecommunications, energy, etc), and completion of domestic trade liberalization, including price decontrols. These should improve investment returns.

Political risk: Tanzania has, compared to other African countries, enjoyed an unusual degree of internal stability and social harmony. U.S. Mission officials envision the transition to multiparty democracy, begun in mid-1992, to culminate in peaceful national elections

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scheduled for 1995. Tanzania is not known to have involved itself in politically motivated damage to foreign property. An issue worth mentioning is the on-going controversy over indigenization in the process of privatization. GOT plans to divest over 300 commercial public enterprises and a commission has been established to direct this process. U.S. Firms may be interested in the privatization program. One risky issue concerns ownership. African Tanzanians fear that outright sale to the highest private bidders would put all the privatized enterprises into non-indigenous (a term focused largely on Tanzanians of Asian ancestry but also extending to foreign investors) ownership on account of the former's lack of capital to invest. To address this issue, proposals are underway to establish a privatization fund which would enable some African Tanzanians to own shares in privatized enterprises.

Issues of concern in business enterprise development

In the future, Tanzanian commercial and industrial development is expected to be based more on private sector initiative and less on government intervention. One area of continuing concern, being examined by government and the donors, is land ownership. Land in Tanzania belongs to the government. Despite the availability of long-term leases (up to 99 years and renewable), the inability to own or sell land, or to have it accepted by banks as collateral, discourages investment. The government has established a land commission which should recommend appropriate procedures to ameliorate this land problem. Other areas which head the list of government and donor priorities for the next few years include complete elimination of existing controls on internal trade, particularly for export crops such as coffee and cotton, rewriting of corporate laws and business regulations to reflect the private-sector orientation of the economy, licensing procedures and industrial land zoning

Tanzania's formal private sector comprises over 3000 establishments, each employing more than 10 persons and contributes over 65 percent of the monetary GDP. Formal businesses are concentrated in a few urban commercial centers: Dar es Salaam, Arusha, Mwanza and Tanga. At least 55 percent of the businesses are in agricultural- related activities, 10 percent in industry and 35 percent in services.

Perhaps Tanzania's main attraction to investors is its 25 million people, many of whom are literate, healthy and hard working. Current average wages are extremely low (less than US$30 per month for most workers). The natural resources of land, minerals and energy remain under-explored and largely untapped. Private foreign investors currently operating in Tanzania rank the country as a low cost production area in both labor and domestic resource terms. Concerns related to serious instability in the supply of power and water are both being addressed by government, with assistance from the donor community. The domestic market size of 25 million people offers some opportunity, but investors also have an eye to the larger east and south African market with well over 80 million consumers. The geographical advantage of Tanzania within SADC and the PTA regions provides the country with additional potential for access to the markets of Zambia, eastern Zaire, Malawi, Rwanda, and Burundi, which depend to a great extent on Tanzanian ports.

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ZAMBIA

Summary: Zambia is in the second year of an ambitious structural adjustment program. Despite impressive and rapid liberalization on most frons, the program has ben hampered by continued high inflation and slow implementation of social sector programs, legal reform, civil service reform, and privatization. In 1992, suffering from severe drought, GDP fell by 2.5% and per capita GDP fell by over 5% --initial predictions of a 9% drop in GDP were not realized because of better than expected performance in the mineral sector. In 1993 the agricultural sector has rebounded with record or near record harvests of most crops, but the liberalized marketing system is plagued by start-up bugs. Copper output continues to be above target but sharp drops in world copper prices have hurt industry revenues. The transport sector was upgraded last year to help ferry drought relief but the poor conditions of roads hampers the sector. In manufacturing, export oriented firms are doing well but the greater number of firms are import dependent and suffering from devaluation, foreign competition and high interest rates. There has been some increase in investment but most inquirers are waiting to see if inflation is controlled and new legislation is implemented. The international donor community continues to offer very high levels of assistance to Zambia.

Current Economic Situation and Trends: The Zambian economy remains in a precarious state. In 1992, GDP fell by 2.5% and per capita GDP fell by 6.1%. The drought caused a sharp downturn in agricultural output and early estimates calculated GDP would fall by 9%. Higher than expected production and prices in the copper/cobalt sector helped to make up some of the difference. Agriculture made a strong recovery in production this year and Zambia is expected to export at least two million bags of maize. The copper sector is maintaining good production levels but copper prices have dropped sharply, lowering revenues.

Inflation was very high at 207% in 1992 when money supply increased by 100%. Although the overall budget deficit for the year was only 2% of GDP, at certain points the deficit was much higher due to three factors. The drought budget was in deficit for much of 1992 and the matching revenue did not come in until 1993. The government in april of 1992 took over the debt and the operational expenses of Zambia Airways, and those costs amounted to over half of the government deficit. Very large civil service wage increases also fuelled inflation.

Determined to tame inflation in 1993, the government committed to a cash-based budget and to avoid borrowing from the Central Bank. They have managed to stick to that commitment for government operations but did borrow to cover debt service in the first quarter. Though inflation began to moderate in March it increased again in April. It was discovered that ZimOil, a petroleum importing parastatal, had been allowed to borrow large sums from the Central Bank. Since then the government has moved to put the energy sector on a cost recovery basis, by decontrolling petroleum prices and raising electricity tariffs. In June the government succeeded in reducing the money supply and there are early signs that inflation may come down; July inflation was 11% for the month compared to 15% in June. However, ongoing wage negotiations with the civil service continue to prompt fears the

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government may be forced to give budget busting wage increases or be faced with widespread strikes.

Economic reform: The government has moved boldly in many reform areas, particularly in the financial sector. Insurance has been decontrolled and opened to competition. Price controls and subsidies have been removed. The government is withdrawing from agricultural marketing. Import and export licenses have been abolished, and tariffs have been lowered and simplified. Interest rates have been decontrolled. Bureaux de change were introduced in October 1992 and are allowed to buy and sell foreign currency at their own rates. This market quickly combined with the retention (retained export earnings) market. In December 1992 the government unified the official rate with the bureau rate, and now exchange rates are determined by the market. Most restrictions and limits on buying hard currency have been removed. Tax reforms announced in 1993 widened the tax base, lowered tax rates, and raised levels of exemption to provide relief to low wage earners. Reforms have been most successful where the government stops interventions. Reforms that require active government administration have fared less well.

The government has sound policy in most areas, but has had trouble implementing many of its policies. The social action program, which is supposed to improve schools, health facilities, roads and other public services is the most urgent case. Though donors have provided large sums of cash to support the social sector the government has lacked administrative capacity to carry out improvements. Civil service reform, which aims to transform the civil service into a leaner, better paid, and more efficient bureaucracy, has failed to take off, partly because the government does not have the cash for the large legally mandated redundancy payments. Poor management structure and lack of qualified personnel have also hindered privatization and legal reform. Legislation still awaiting presentation to Parliament includes a new company law, a new banking law, a revised investment code, new mining laws, new land laws, and a stock exchange act. Some of this legislation is expected to be in place by the end of the year.

Privatization: Privatization has moved very slowly--one year after the passage of the Privatization Act only two companies have been sold. It was expected that most of the 19 first tranche companies would be sold or liquidated by the end of September, but bidders, who made their offers last October, have complained that the sales have taken far too long to finalize, and so far, only two have changed hands. Progress on the second tranche is also well behind schedule. Negotiations with minority shareholders of four large companies in the second tranche have begun. In each case the government is asking that some of the shares be reserved for sale to the general public. A securities and exchange law goes before parliament this year to ease the way for the establishment of a stock exchange. The stock exchange organizing committee hopes to get it started this fall. The previously published schedule of privatization is being revised. The third tranche is currently being reorganized to focus on retail establishments and hotels.

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Mining: Mining was a strong point for the Zambian economy in 1992. ZCCM mined 432,000 tons of copper in 1992/1993 (ending March 31), nearly 2,000 tons above target. Both the higher production and higher than expected prices for copper and cobalt contributed to good results for the mining sector. In april 1993, however, copper prices took a dramatic fall and look to stay low for the year, but ZCCM will probably do better than its conservative 390,000 ton production target for the 93/94 mining year. Attempts by ZCCM to significantly boost cobalt production have been unsuccessful.

The government continues to move forward with plans to privatize ZCCM, but slowly. Stanford Research Institute (SRI) landed a contract under a World Bank mining sector loan to do a strategic survey of ZCCM, including an examination the best course to follow in privatizing the company. Many complicated issues need to be considered. Currently mined copper deposits are due to run out by the end of the century, but Zambia has large undeveloped reserves. The ministry of mines is actively seeking foreign partners to develop these reserves. Zambia has dozens of other minerals in commercially exploitable quantities but aside from gemstones and marble, there has been little interest in developing these resources. Gemstone mining remains informal and difficult to quantify.

Agriculture: Zambian agricultural production has made a solid recovery from the drought. Maize production is estimated at 18 million bags. The tobacco crop is the largest on record at 10 million kilograms. Hectarage planted in cotton, wheat, sorghum, groundnuts and sunflower was up from 10-40% from the previous year with good harvests in all cases. Agricultural marketing has been a problem, particularly in maize. Liberalized marketing began last year for most crops, but because of the drought, maize marketing remained in the hands of the government. This year maize marketing is supposed to be done by the private sector, but a lack of finance and storage, low demand, uncertainty over prices, and high inflation/interest rates have combined to keep most potential buyers from entering the market. The government is tentatively planning to allow only 2 million bags of exports. There is growing concern that the harvest may not be bought, transported, and stored before the rains come and farmers prepare for the next season in November.

Agriculture remains one of Zambia's most promising sectors. The increased hectarage planted in response to liberalized marketing is a positive sign. Problems in marketing may temporarily dampen that enthusiasm, but once the marketing system gets over its growing pains, agriculture should continue to grow. An EC program to lend money in support of non-traditional exports has benefitted several niche agriculture products with loans so far to the tobacco growers, the coffee growers and the horticultural grower's organizations. Future reforms in land policy to improve tenure and increase access to land should further encourage sector growth. There continues to be interest in Zambia from South African and Zimbabwean farmers.

Manufacturing: The manufacturing sector continues to struggle. Most manufacturing in Zambian is highly dependent on imported inputs, which have become expensive with the advent of a market exchange rate. At the same time trade has been liberalized and tariffs

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lowered. Manufacturers have had a hard time competing with imports, especially those from South Africa which enjoy export subsidies. Manufacturers are pushing for countervailing duties to balance the subsidies. High inflation continues to erode incomes and demand is sluggish. Many Zambian manufacturers have quality problems, but interest rates are high and medium and long term finance is unavailable making it difficult for them to upgrade their factories. Factory utilization rate remains low at 25-30%. Bucking the trend are companies that process domestic raw material for export which continue to prosper.

Communications: The Zambian telephone system is unreliable, but functions fairly well by African standards. Foreign firms have shown interest in investing in a privatized telephone company but the government has been slow to move in this area. A USAID- funded regional project is assisting the ministry of communication to draft regulatory law for a private communications sector. In the meantime the government continues to stall on applications for building a cellular system in Zambia. A Japanese-funded project is laying new cable.

Energy: Electricity production has recovered in the wake of the drought. In 1992 Zambia imported electricity from Zaire, and briefly ran load shedding operations. In 1993 exports to Zimbabwe resumed as water levels came back up. The government is increasingly skeptical about the proposed large hydro plant on the Zambezi River at Batoka gorge--a joint project with Zimbabwe. However, ZESCO (Zambia Electric Supply Co.) is moving ahead with plans to build a second dam in the Kafue gorge and TDA has funded a feasibility study for this project.

The price of electricity had not been adjusted for several years and the US dollar price had fallen to about one half cent per kilowatt hour. ZESCO recently announced 700 to 800% tariff increases to bring the prices up to 3.5 To 4 cents per kilowatt hour. The price increases have caused an enormous outcry, especially from commercial farmers and manufacturers. ZESCO has also been the company of choice for late payments, and to counter this tendency they have announced they will charge market interest rates on overdue bills. With interest rates at 130% this is strong incentive for timely payment. ZCCM is the largest electricity consumer.

Petroleum has been a problem in 1993. Despite a touted decontrol of petroleum product prices, the government continued to pressure the petroleum parastatal ZimOil to hold prices down. When the kwacha rapidly devalued after foreign exchange liberalization, prices failed to increase to match dollar costs. The inevitable result was that ZimOil was unable to cover the dollar price of new shipments. Nonetheless, the Bank of Zambia provided ZimOil with dollars, effecting what amounted to a 19 billion kwacha loan, which increased money supply and fuelled inflation. In the face of the crisis, ZimOil had to make, and the government to approve large price increases. Prices are now supposed to adjust automatically to the dollar exchange rate.

Retail and services: The retail sector has benefitted from liberalized trade and from the fact that goods are a better store of value than many cash investments in the current high inflation

environment. Those who use credit to finance inventories are concentrating on stock which turns over quickly. The banking sector has to manage carefully in these days of liberalization and high inflation. High reserve ratios to counter money supply growth leave banks scant room for maneuver. Treasury bills are competing for depositors money. Most banks moved quickly into the bureau de change business, and many are poised to be active brokers when a stock market is established. On the whole, service industries have fared better than manufacturers under the economic reforms.

Investment climate: The 1991 Investment Act is the current law, offering investors incentives such as improved repatriation of profit, exemption from import duties, and protection against expropriation. Although an improvement, the Act is still not considered competitive by world standards. A revised version of the Act is before parliament this year. It is supposed to further improve profit repatriation, but eliminate some tax incentives which disadvantage existing businesses.

Zambia offers a democratic political environment and an enviable record of stability. Many us companies operate successfully in Zambia. Bordering eight other nations, Zambia has the potential to become a regional trading hub as regional tariff barriers are removed. The most attractive sectors for investment are agriculture and food processing, mining and minerals processing, and tourism. Transportation, communications, and manufacturing offer some opportunities. When land reform is complete property development and construction should become growth industries.

Outlook: The outlook at the moment is uncertain. The Zambian government has so far done a good job of putting through a very ambitious reform program. However, the two top priorities for 1993--controlling inflation and improving implementation, especially of social programs--have seen little progress. Unless that changes, the program is set to run into serious public opposition. Already there has been a rising chorus of criticism and complaint about the reform program which focuses on rapidly increasing prices and the lack of social sector improvements. The government continues to support the program because there are no viable alternatives. But if public dissatisfaction grows as elections near, there will be an increasing temptation to stifle public criticism by turning on the printing presses.

If the government can manage to keep civil service wages down and help get maize marketing moving, then inflation should begin to come down, and interest rates along with it. This would give the economy some breathing space and activity would begin to pick up. The outlook for Zambia rests heavily on its ability to tackle inflation. It could go either way. The government's commitment to tackle inflation and not resort to printing money is strong. But the pressures on them to do so are also strong. If the fight against inflation fails, then the economy will continue to face a never-ending series of crises, one of which, sooner or later, will torpedo reform efforts. If inflation is brought under control, people and businesses will be able to respond to the market signals and begin to reorganize the economy along more efficient lines.

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ZIMBABWE

In the decade following independence from Rhodesia, in April 1980, Zimbabwe has progressively worked towards social and economic restructuring and has emerged with high marks in the areas of education, trade and banking. Zimbabwe's economic growth in the decade was uneven, fluctuating in conformity with the effect of rainfall on agricultural production, with world prices for the country's main exports, and with changes in government economic policy. None the less, with an abundance of natural resources, a well developed infrastructure and a diversified industrial sector, Zimbabwe is better placed than most African economies to withstand the effects of commodity price fluctuations, and to recoup short-term set-backs.

Tobacco is the country's largest export commodity, accounting for 22% of all export earnings, followed by gold (16%), cotton lint, textile products, footwear, nickel, asbestos, ferrochrome, sugar, copper, meat and other products. This list illustrates an unusually high level of export diversity for an African country.

Fuel is Zimbabwe's principal import, the country being totally dependent on imported petroleum. Petroleum products enter the land-locked country through a 300-km pipeline running between Mutare and the Mozambique port of Beira. Gasoline is blended with locally produced ethanol in a proportion of 90 to 10. The government intends to increase the capacity of the Triangle ethanol distillery from 40 million to 75 million liters per year, but this has been delayed by a lack of water needed to expand sugar production in the lowveld.

Private Sector/Investment: President Mugabe and the ruling party, Zanu (PF), advocate the establishment of a one-party state based on socialism. In practice, government economic policies have been relatively pragmatic in dealing with the private sector. Zimbabwe's diversified industrial sector remains largely in private hands, and 4,500 privately owned commercial farms are the backbone of the agricultural sector. Government policies have been directed at speeding the redistribution of wealth to the previously neglected black majority, but the government has explicitly rejected the expropriation of private property as a means to this end. The government recently introduced legislation to address an inequitable distribution of land. The details on the timetable and implementation of this program are still being developed, but it appears that the government intends to restrict foreign ownership of land and purchase underutilized commercial farmland for transfer to black farmers.

Parastatals: The government's participation in and control of the economy is considerable. Approximately 30 parastatal companies account for over 25% of GDP. Most of these were established by the previous regime. The government has also acquired equity positions in a few private companies, either as a direct purchase or on a joint venture basis.

Zimbabwe has long had an ambivalent attitude toward foreign investment. Government officials recognize that foreign investment is needed to bring in expertise, capital, and technology that Zimbabwe has no other way of obtaining. At the same time, they appear to

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be somewhat suspicious of foreign investors. This attitude toward investment has been changing recently. The government, in May 1989 issued guidelines for investors in a document entitled "The Promotion of Investment: Policy and Regulation." The document recognizes that foreign capital has played an important role in Zimbabwe's development, but emphasizes that Zimbabweans should have opportunities to participate fully in the country's development.

Manufacturing: Output in the manufacturing sector has been hampered by growing problems with transport and energy, and the chronic shortage of foreign exchange. Industrial production has remained fairly strong in 1990, but companies are being increasingly affected by a deteriorating capital base. This situation should improve when a US$120 million African Development Bank industrial rehabilitation loan is disbursed over the next few years. Industrialists highlight price controls and foreign exchange shortages as their chief problems, but they expect some relief as part of the new economic program.

Tourism: Tourist arrivals grew an estimated 10% in 1989 to nearly 500,000 and spending reached an estimated US$106 million. Prospects for continued growth are good. Air Zimbabwe has increased its capacity with new equipment, several new airlines have been granted landing rights in Harare, and construction projects such as the US$50 million reconstruction of the Elephant Hills resort at Victoria Falls will provide tourists new options.

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Trip Report:
Perspectives on Environmental Protection Concerns in Southern Africa

Harare, Zimbabwe and Johannesburg, South Africa

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Trip Report - Harare, Zimbabwe and Johannesburg, South Africa
20 August - 3 September, 1994

Philip Szmedra

Introduction

This trip report presents information gathered through meetings with individuals involved in the environmental movement in Zimbabwe and the Republic of South Africa (RSA), conversations with academics at the International Association of Agricultural Economics (IAAE) meetings in Harare, Zimbabwe and representatives of a large multi-national agrichemical manufacturer in the RSA. The trip's principal mission was to present results of a report commissioned by USAID Africa Bureau ARTS/FARA entitled "Pesticides and the Agrichemical Industry in Sub-Saharan Africa" at the IAAE meetings. Other objectives included: (i) providing supplemental information for a USAID preliminary stakeholder's analysis as preparation for the Initiative for Southern Africa (ISA). My objective was to focus on indigenous rural development and sustainable agriculture oriented NGO's to determine perceived issues of importance; (ii) explore ideas regarding the most effective methods to encourage regional cooperation in addressing common environmental problems facing the SADC member nations; and, (iii) explore the issue of the trade and movement of pesticides in the southern Africa region, the prevalence of IPM technologies and research advances in alternative pest management practices; and (iv) ascertain the implications to regional trade by RSA agrichemical producers in light of the new political and economic environment in the southern Africa region.

The environmental problems common to the SADC nations include deforestation, soil erosion, water pollution, and overgrazing. These problems trace their fundamental causes to the land tenure system and therefore are rooted in the historic evolution of the region including both the economic and political history of the colonial periods and the practice of apartheid in the RSA. Though the general nature of the existing problems are common to all nations within SADC, for reporting purposes each country visit is reported separately. Existing environmental problems and concerns are first set forth followed by a description of the conversations with individuals in both NGO and government organizations about methods by which these problems are being addressed by these groups.

Main Findings
Zimbabwe

Overview

Deforestation is a principal cause of much of the environmental degradation being experienced in Zimbabwe currently and in the recent past. Removal of vegetative cover for use as fuelwood or for the expansion of agriculture into new land to increase production or to allow the maintenance of bush fallow land management practices, reduces the ability of nutrients to recycle

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in the system. Soil fertility decreases, soil structure is damaged through exposure to solar radiation, and large amounts of topsoil are washed into water courses during the rainy season further decreasing fertility and diminishing the ability to sustain productive agricultural practices even into the near term. The siltation of rivers and dams decreases water catchment capacity and jeopardizes the ability to provide potable water, water for irrigation, and decreasing the capacity for power generation. In arid zones, which comprise a majority of the land in Zimbabwe, these conditions set up the likelihood of desertification and the total loss of agricultural potential save for marginal livestock grazing capacity. Additional human activities that contribute to the fragility of soils include road construction, commercial logging, deep plowing of vulnerable soils, and streambank cultivation.

The practice of traditional farming methods including mixing crop and livestock production systems and including rotation of fallow with crop cultivation allowed peasant farmers in the past to avoid the ecological crises that confront the agricultural sector today. Increasing human population, greater numbers of livestock, and the reduced productivity of already degraded land contribute to the increasing intensity of land degradation in the communal areas. Ironically, degradation of this sort may be in part the result of official policies addressing rectification of property right inequities dating from the colonial era. The pressure for land reform from many political, civic, and other community groups has been only marginally achieved. To a great extent the land redistribution issue has not been satisfied for the vast majority of communal farmers. An implicit policy of allowing deforestation and its subsequent resulting degradation has been used to appease and vent the social pressures resulting from the unresolved and continuing contentious land redistribution problem.

Pest management concerns focus on the damage caused by the pests themselves and the adverse environmental effects that occur as a result of the application of methods to control the various pest species. Animal and insect species that, at varying times, are considered pests include elephants that trample crops, quelea birds and rodents that consume crops in the field or in storage, disease transmitting flies, malarial mosquitoes, and the tsetse fly which carries the trypanosomiasis microbe. Zimbabwe is a major user of chemical pesticide products to control these and other species of crop pests as well as human and animal disease vectors. Though the pesticide formulation industry works within a framework of regulatory codes that have established a reasonable order in the manufacture and marketing of pesticide products, the actual practices of pesticide use by farmworkers is thought to be less than exemplary. Mishandling of pesticide containers, misuse and overdosing of pesticide materials on both cash and food crops, and unsafe handling and application practices are thought to often occur. The combination of poor land use planning and effective control of the tsetse fly is opening previously pristine lands to livestock grazing and uncontrolled settlement of livestock owners. In the past this practice has lead to overgrazing and general widespread land degradation. Both endosulfan and DDT are used for tsetse control in Zimbabwe. Both pose chronic risks to humans and animals.

A large number of NGO's are involved in addressing the issues of environmental degradation in Zimbabwe and establishing effective pragmatic networks of groups working to promote sustainable agricultural practices and natural resource management in the entire southern Africa

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region. During my time in Harare I had the good fortune to meet with representatives of a number of the more dynamic and outspoken organizations as well as individuals from Agritex, as the Government of Zimbabwe's (GOZ) agricultural extension service is known. The following summarizes a number of these conversations.

1. Oliver Chapeyama (National Program Officer) and Khethiwe K. Moyo-Mhlanga (National Coordinator) - Africa 2000 Network - United Nations Development Program - Harare, Zimbabwe

The NGO Africa 2000 Network is a UNDP initiative aimed at targeting grassroots community and PVO and NGO's involved in environmental management and rural development. Organizations eligible for Network support include: community-based organizations (village councils, farmers associations, etc); NGO's (local or indigenous and national affiliates of international NGO's); training, research, and technical institutions (willing to work at the grassroots level). Africa 2000 implements its work through environmental NGO's and government technical staff on the ground mainly the Natural Resources Department, Agritex, and the Ministry of Transport and Energy. The group supports activities at the village level which combat environmental degradation and promote effective natural resource management. It is characteristic of many of the grassroots organizations contacted in that it responds to priorities developed at the community level and advocates full participation in planning and implementation of projects.

Both Mr. Chapeyama and Ms. Moyo-Mhlanga were critical of past project identification and implementation and strongly felt that there was too much donor money floating around and too many NGO's chasing an influx of monies to the southern Africa region (indeed, as reported in *The Star* of Johannesburg during my stopover, there exist 56,000 NGO's in the RSA alone working in all sectors). What is needed is more grassroot development of groups that deal effectively in training farmers in sustainable production practices. Emphasis should be concentrated on provision of training and technical information based on experiences that work. There is an expressed need for institutions that support people on the ground. In fulfilling those goals Africa 2000 works with Agritex to address peoples problems. They seek to promote natural friendly farming methods including gardening, natural forest preservation, promotion of food production, preservation of species, and farmer involvement in agricultural research.

The important environmental issues facing Zimbabwe and all of southern Africa in this group's view are soil erosion and water conservation and harvesting. Water harvesting properly managed may give the greatest return on investment for donor organizations. The issue of pesticide use and related environmental and farmworker health problems are not priorities.

In their opinion there has been enough institutional research. The ordering pattern of new research should begin at the farm level and then move to the research institutes. Participatory methods are important as well as promotion of delivery systems. What has been critically lacking is on-ground NGO support. Workshops and consultations don't work and conferences waste money. Environmental issues must be addressed at specific localities with the explicit

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participation of people directly affected. Donor agencies should focus their activities on what could be termed "peoples initiatives". In that regard donor groups must identify and cooperate with NGO's that display vision.

In the view of Africa 2000 the donor bureaucracy must change including USAID. The ISA will prove fruitless if direct involvement with NGO's on the ground is not implemented. Their words of wisdom included "No more cars and computers". The NGO's that have benefitted from donations of vehicles and hardware in the past have been geared to meet USAID requirements for project funding but have produced nothing on the ground. Most NGO's are concerned with their own survival. A bottom up approach is needed with the direct involvement of people at the grassroots level in determining development priorities and addressing specific problems. Their watchwords and I think good ones are "Think with people rather than for people".

Other NGO's that have the respect of Africa 2000 or are members of the sustainable agriculture network in Zimbabwe include: Munazi Development Training Center; Matebeland Development Foundation; Rural Unity for Development; Zimbabwe Womens Network; Fambidzanai Permaculture Center; Land Forest Training Center; National Federation of Women's Institute.

2. Tonderai Andrew Mushita (Executive Director) and Roger Mpande (Associate)- Commutech (Community Technology Development Association)- Part of the Africa 2000 NGO Network - Harare, Zimbabwe

This group's bias is maintaining the biodiversity of the seed genome for traditional food crops through community based seed banks. Their concern is the accessibility and quality of seeds available to the small scale producer. Concentration is on small grains, sorghum, finger millet, and also the preservation of indigenous vegetables to enhance the nutritional quality of rural diets. The adoption of improved seed, though important for improving agricultural productivity, must be done concurrently with conservation of traditional seeds in seed banks. The responsibility to conserve alternatives should be controlled by farmers with the singular goal of developing a reliable backup system should improved seed varieties fail. Training is sought for seed conservers in every community.

In addressing the aims of grassroots groups in promoting sustainable practices the thinking is that programs must be based on needs. What is required is farmer involvement and at the next stage community involvement. NGO's should assist farmers and rural communities in general identify their problems and encourage their own solutions. Projects should be planned and built that address community needs as defined by the community and that have the support required for successful completion.

With regard to boosting technological transfer at the grassroots level much of the budget for extension has decreased due to structural adjustment. What is critically needed are linkages with NGO's and extension and a national network to promote suitable technologies. Institutions at the community level must be developed to address perceived problems and the structure of donor

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organizations must become sufficiently flexible to allow alternative concepts for grassroots funding to be considered. Little donor monies now find their way to the community level. It is argued that communities are open to accept new technologies. Farmers are receptive to new ideas and can tailor technologies to suit their own particular situations. Current NGO's are weak in providing this assistance save for the health and water sectors which have had some success in empowering grassroot organizations. Programs which target bio-diversity and water management have not been successful.

There is a need for capacity building. In that way the recognition of problems and definition of project objectives can be made at the community level with donor groups maintaining an oversight role. The issue of regional cooperation among NGO's is important in advancing the sustainability concept. National and regional NGO networks could be strengthened through meetings, exchange visits, training, and newsletters describing who is doing what and how and whether particular approaches are more effective than others in accomplishing project goals.
Both Mr. Mpande and Mr. Mushita attended the USAID ISA informational meeting held in Harare the day previous and had criticism of the "enabling environment" language. It was their feeling that grassroot NGO's don't have the ability to change policy to promote a successful grassroot movement or to direct monies into the types of organizations that would be most effective in promoting sustainable agricultural development. There is a perceived need among NGO's to increase institutional capacity building. NGO's must be able to challenge and give alternatives to proposed projects and in general to enhance their ability to deal at the policy level. Strong NGO's are the link between farmers and policy makers. Incentives must be established to keep good people at the grassroot level. NGO's must be strengthened to maintain skilled staff. The development of Western style policy responsiveness is needed here. This can be enhanced by establishing mechanisms for recognition, improving salaries to approach private sector levels, and enhancement of training opportunities. Donors should be partners in development rather than providing dictates and an emphasis on project coordination among donors would go far to promote sustainability. The community must measure success according to sustainability rather than profitability. Democracy and empowerment helps things improve.

3. Richie Gunner (Production Manager) - Bridgette O'Conner (Coordinator) - Shepard Mupfumi (Training Officer) - Fambidzanai Permaculture Centre (FPC) - Zimbabwe Institute of Permaculture (ZIP) - Natural Farming Network (NFN) - Harare, Zimbabwe

The FPC is one of twelve organizations that make up the NFN which is an alliance of Zimbabwean development agencies promoting "ecologically, economically, and socially sound agricultural practices". The other organizations include: Zimbabwe Womens Bureau, National Training Center for Rural Women, Dairy Development Program, Silveira House, Association of Zimbabwean Traditional Environmentalists, Weya Community Training Center, KAJIWA Development Co-op Association, National Federation of Womens Institutes, Chikukwa Permaculture Club, Nyahode Union Learning Center, and the Africa Center for Holistic Resource Management.

The Fambidzanai Permaculture Center was established in 1988 to help promote sustainable land

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use and rural lifestyles through training and the development of working examples. Activities at the center include training in the production of vegetables, fruit, nursery, small livestock, dairy, and bees, under sustainable methods, workshops on land use design and techniques, propagation of beneficial insect and animal species, textile production and training, brick production and training, alternative technology work examples, and joint research projects with other organizations. The Center is located approximately 20 kilometers north of Harare and includes a model village and experimental research plots. I was shown the truck garden - water harvesting section and was given a short course on vegetable production under drought conditions. The Fambidzanai Center has had GOZ Agritex people enrolled in its courses and is linked with the Ministry of Education to establish permaculture training in the primary school curricula.

Rural people come here for one to 3 weeks to learn low input practices and the emphasis is on carrying that training back to communities to inspire others to adopt sustainable practices. The FPC staff I spoke with claimed that the push to adopt new advanced techniques and hybrid seeds has left farmers more impoverished since costs have increased and recent years of drought have wrecked any notion of self sufficiency in food production. The emphasis by the govt has been on productivity to the detriment of food security at the local community level. In addition, because of the debt burden carried by many small holder and communal farmers, the privatization of landholdings as a policy objective is seen as a method by which credit institutions could take over title to land in foreclosure proceedings, and are therefore against this GOZ long term policy.

Some of the problems identified as hindering the growth of the environmental movement are similar to those mentioned by others I spoke with including donor monies used for purposes outside the original intent of a project's objectives, and the very basic issue of identifying the good and the bad NGO's. And too, there is the situation of good NGO's being overburdened and being unable to deliver. A case in point mentioned is ENDA-Zimbabwe which has lost focus because of its involvement in too many projects and activities.

Regarding the issue of pesticide use and pest control practices Fambidzanai has plans to launch a natural pest control laboratory when donor funding becomes available in an effort to make the technology farmer friendly. Though not against using chemicals for pest control in an IPM context no chemicals are ever used in the dryland water harvesting model area I visited. It was made clear that sustainability and not productivity was the main objective of permaculture and therefore comparisons of output resulting from high and low input methods have not been made. The issue is food security rather than production. During drought commercial aspects of farming fail resulting in little cash to purchase food resulting in communal crises of food availability and affordability.

Long term goals include making the Fambidzanai a regional resource attracting farmers from all of southern Africa as part of a regional association for permaculture. Current constraints include limited funding for provision of tuition subsidies to all that are interested in learning sustainable methods. Other goals include the promotion of linked activities among the permaculture network in southern Africa; the development of training curricula and facilities to respond to demand including more model villages staffed by trainers. Model villages encourage the construction of

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appropriate housing that is energy efficient. The Center needs transport for students and followup and advocates a permaculture convergence for past graduates to share experience.

4. Helen Vukasin - Zimbabwe Womens Bureau - Natural Farming Network, Harare, Zimbabwe

The ZWB works to improve the economic and social lot of women in both rural and urban high density situations in Zimbabwe through income generating projects, technical assistance, workshops and training courses. Pertinent environmental issues deal with land overuse and the pressures of population growth which constrain any expansion of agricultural productivity. In addition, soil degradation, erosion, deforestation mainly for fuelwood, and drought also confront those involved in promoting sustainable practices. The GOZ through Agritex promotes monoculture which requires high levels of input use. This is not a sustainable practice for smallholders. NGO's are working in cooperation to a greater extent than are governments in the region to promote alternatives to high input agricultural practices.

The lesson learned regarding grantsmanship by this organization is that only sophisticated NGO's get grant money and that many worthy grassroots groups receive little to continue their work. The thinking is there should be an NGO fund where small NGO's could go and receive funds without resorting to the involved process usually required by donor organizations. It is also the feeling of this group that ICRISAT is not helpful in transferring research results to farmers.

As a member of the Natural Farming Network the ZWB promotes ownership of projects by local groups. Their feeling is that participatory rural appraisal promotes self reliance. Donor agencies become troublesome and actually counterproductive by requiring results at the end of the fiscal year. What is important in the promotion of sustainable development is the support of the process and not necessarily any particular product. USAID could be most helpful in support of dissemination of sustainable practices by advocating less inputs and more self reliance. Educational programs should be centered around technology that is already known. The ZWB's words to live by were "Start with the people and learn from the people".

5. Carmel Mbviso - Zimbabwe Environmental Research Organization (ZERO), Harare, Zimbabwe

Begun in 1987 to address issues such as global warming, deforestation, and promotion of sustainable agricultural development, ZERO is basically policy oriented rather than directly involved in grassroots work. They promote regional cooperation among NGO's through exchange of information, and have successfully lobbied for environmental and development NGO's to have a larger role in SADC.

The environmental and natural resource problems identified include the organization of land tenure systems, desertification, deforestation, water availability, siltation of rivers, poor land

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management, poor natural resource management in general, population growth, and overgrazing. ZERO was the only group that mentioned a problem with agricultural pesticides which, because of soil erosion, are being washed into and polluting rivers in Zimbabwe.

Steps toward solving some of the existing environmental problems would include better networking among NGO's in the region, the promotion of educational institutions including better ways of managing resources at the local level, opening access to resources would place less pressure on the limited arable communal lands, further research into natural resource management issues, the promotion of rural industries, and the general strengthening of local institutions. These have been undermined since independence.

6. Wellington Chaomwa - Agritex, Harare, Zimbabwe

This is an individual I met at the annual Harare Agricultural Trade Fair being held concurrently with the IAAE meetings. This agent of the GOZ extension service felt that the promotion by the government of monoculturing practices has contributed to much of the environmental degradation experienced in Zimbabwean agriculture. In addition, there exists a problem of the Commons in that uncontrolled grazing denudes the land of needed vegetative cover and erosion and soil deterioration results. Erosion, deforestation, and overgrazing are occurring on most fertile communal lands. Good workable alternatives to wood fuel are needed in the rural areas. Reforestation or afforestation with eucalyptus is not a viable solution since maturation of these exotic trees is not quick enough to anchor erodible soils. The wide scale introduction of alternative construction materials such as brick are required replacing the traditional mud and straw for home building to relieve pressure on the environment.

In many instances training is misdirected. More focused grassroots approaches are required using appropriate techniques and targeting women. Promoting the concept of project ownership rather than the role of gift recipients would do much to sustain new materials and techniques after project termination. Also the increased emphasis on provision of support services to small scale operators would help to firmly establish both existing small scale farm operations and newly created entities carved from land appropriated through redistribution schemes.

Impressions

The NGO's contacted were, for the most part, concerned with developing a strong grassroots movement in which much of the superstructure of development aid could be made superfluous to the work that was taking place on the ground. The message that was clearly received was to structure programs based on perceived needs of small scale farm operators and attempt to avoid groups that spoke the correct donor language but accomplished very little concrete results. The Africa 2000 group was very emphatic in making the point that if USAID was to administer its ISA program as it had other projects in the past, that is, providing vehicles, computers, consultant salaries, and travel expenses for meetings and conferences, which would absorb the bulk of

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project monies with little trickling down to the grassroots level, then the agency should pack up its monies and good intentions and leave. What is needed is bolstering training of farmers in sustainable practices based on perceived needs of farmers and rural communities. Good NGO's exist to do just that and project monies should be directed to aid those efforts and underwrite those effective agencies.

By focusing on improving the lot of the small scale subsistence farmer, sufficient improvement of the rural standard of living may help to alleviate the pressures exerted on the natural resource base by rural populations. In addition, the promotion of sustainable agricultural practices in the context of improving agricultural productivity and promoting agricultural development helps to generate wealth which can be partially reinvested in environmental preservation. New structures and approaches by the donor community in addressing agricultural development are needed. These would include the active involvement of donor recipients in the preliminary stages of project identification, planning, and implementation. Further, active management of projects by recipients to foster ownership and a clear notion of a well defined stake in outcomes are required to ensure a suitable environment for project effectiveness. In this regard, coordination of donor assistance is imperative in addressing priorities expressed by Africans themselves rather than donor agency program managers. Investment in human capital at all levels is required to enhance the environment within which the development of the agricultural sector may take place. An emphasis on training of women farmers to enhance their income generating capacity leading to an increased valuation of agricultural work is needed. Focusing much of project programming, decision making, and other project management practices on women will promote the development of women's abilities to recognize the importance of natural resource conservation and the use of sustainable practices in their communities and everyday lives. Since in most instances women do not own the land they work, land tenure and related legal issues are central to the problems encountered by women farmers. A related issue deals with establishing effective farmer organizations to offer a collective voice to both government and donor organizations, and to establish a powerbase in commercial agricultural markets. This will require projects aimed at promoting small enterprise development, management, and community organization.

South Africa

Overview

Less than 10% of the RSA land area is suitable for arable farming while 3% is irrigable. About 80% of agricultural production comes from 25% of the farms. South African agriculture is divided into a relatively efficient, capital intensive, and commercially oriented white sector and a generally poor, land hungry, and subsistence oriented black sector. In 1985, the 50,000 white commercial farmers occupied about 70% of total farmland averaging about 1700 hectares per farm including almost all of the most productive land. In the same year, 1.1 million black, generally subsistence farmers occupied 13% of farmland averaging about 15 ha per farmer.

Racial Differences in Distribution and Production of Farmland in RSA, 1985

	# Farmers (000)	Avg Ha/ Farmer	Total Ha (million s)	Total Farmland (%)	Output/Ha (rands)	Total Budget Assessment 90/91 (%)
White/Com	50	1,700	87.8	70	1,000	65
Black/Subsi stence	1,100	15	16.7	13	21	35

Source: Schonfeld, A. "Environmental Issues in South Africa" in Population Growth and Environmental Degradation in Southern Africa ed Ezekiel Kalipeni, Lynne Rienner Publishers, Boulder, CO, 1994.

This land inequality is due to a series of apartheid laws enacted earlier in this century to accomplish exactly what has been realized - the disenfranchisement and economic marginalization of the black majority population of South Africa. Fragile environments in the homelands are being destroyed due to overpopulation and resulting poverty. In 1989, 16 million people lived in these reserves with population pressure far exceeding agricultural carrying capacity. Practices such as cultivation of marginal land, overgrazing, and poor land management practices in general are causing increasing ecological stress and deteriorating conditions. Soil and wind erosion are major concerns in the black homeland regions. The grinding poverty that exists prevents farmers from investing in practices that may alleviate or counteract some of the problems that are faced. This has caused some to conclude that blacks are disenfranchised not only politically but ecologically (Alan Durning, Apartheid's Environmental Toll, World Watch Inst., Wash. DC May, 1990, pg.14 as quoted in Schonfeld).

Environmental problems in white commercial agriculture are the result of overgrazing, conversion of grasslands for crop cultivation, fertilizer and pesticide runoff into watercourses and aquifers, and the issue of farmworker exposure to and chronic and acute illness arising from pesticide use.

Traditional notions of "the environment" and the conservation of natural resources has for the majority of South Africans implied wildlife preservation and the protection of biomes in which were found what are termed the "big 5": elephant, lion, leopard, rhino, and cheetah. The new government has included natural resource conservation as a goal of national policy and of agricultural policy in particular. However, other more urgent issues have higher priority including addressing the social and economic imbalances that exist. Chief among these is the issue of land redistribution. The ANC under its Reconstruction and Development Program (RDP) aims to redistribute 30% of commercial land holdings in the next 5 years.

Poor land use planning and social policies aimed at maintaining white supremacy and control over productive land have contributed to environmental and natural resource problems. Overgrazing and the harvesting of fuelwood in the homelands regions, the result of apartheid policies, have resulted in considerable degradation. Injudicious land use planning and misdirected commodity pricing policies which provided incentives to produce for non-existent markets have contributed to further decline in the resource base as have subsidy programs and extensive monoculture. Excessive fertilizer and pesticide use which increase production costs and have the

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potential to cause ecological disruption are also the result of misguided federal policies aimed at promoting commercial agriculture. Agriculture has contributed to the degradation of many sensitive resources such as wetlands, water courses, and the quantity and quality of soils. Natural resource management schemes have tended to focus on conservation works rather than on improving land use practices and farming systems.

The structure of the RSA bureaucracy in dealing with agriculture and natural resource issues was principally vertical in its approach. Under the new ANC agricultural policy greater interdepartmental cooperation will be promoted.

Environmental protection and progressive social reforms can be pursued together. Overcrowding in the Homelands (bantustans) has caused misuse and overuse of the resources available in those regions. By addressing issues of poverty and social justice the environmental problems in the bantustans and other communal areas can be concurrently addressed. Agrarian reform specifically targeted at land redistribution will alleviate overcrowding in the homelands. However, as new farmers attempt to establish viable operations on newly gained land, the need for support services including extension, credit institutions attuned to the needs and abilities of the small scale operators, marketing channels geared to service small operators, and access to affordable inputs, will intensify. Gearing this assistance to promote sustainable practices will, at the same time, spur economic development in the agricultural support industries, and generate employment at the farm and intermediate levels. Economic growth and environmental protection can be pursued simultaneously if policies are structured with long term sustainability as a prime objective.

Persons Contacted

1. Peter Ngobese - Director - Group for Environmental Monitoring (GEM), Johannesburg, GEM was begun in 1991 to address issues of the environment and sustainable economic development that were not in the purview of traditional conservation groups which focused on the preservation of wildlife and maintenance of wildlife preserves. They come to the arena with a different perspective including working for more community participation in developing plans for development and preservation of the natural resource base. Communities thus far have been excluded in determining priorities for project objectives. Grassroots groups that have been involved in these types of community organizing have in the past under the prior government been thought to be too politically involved and have therefore not been included in much of the conservation effort such as it was. GEM is involved in policy analysis and research while groups such as the Environmental and Development Agency (EDA) are involved in grassroots projects and implementation. The Environmental Justice Network is the umbrella organization which includes GEM and EDA.

There is a new thinking now and actual outreach by the old conservation and governmental organizations to include groups like GEM in the planning and analysis process. The group's focus has been on urban industrial waste and pesticide use as a subset of that focus simply because that is the concern of the SA public at this point. The old establishment is still running

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the show in the govt and there is therefore potential for confrontation if a business as usual approach is taken by government agencies charged with environmental protection.

A Council of the Environment currently exists in the present governmental structure and some established governmental agencies feel no new input is needed which is a flawed approach according to GEM. There are a host of new NGO's in the RSA working at the policy level that could offer valuable input into the new government's approach to environmental policy. In addition, there is a need for establishment of an extra-governmental Commission on the Environment to promote some type of interactive forum. The World Bank apparently sides with the GEM point of view and has provided support for consultation and participation of new groups in addressing the environmental problems facing the RSA.

Needs at the policy analysis and training level

In the past there has been a distortion of incentives toward large scale agriculture and little or no support for the small scale and communal farmer. New policies that address this problem need to be analyzed by people specifically trained to accomplish this task. Mr. Ngobese offered the observation that USDA runs training in project planning courses that would be very beneficial if given to qualified people in the RSA. However, these courses need to be tailor made in the country and not simply imported as a set piece able to be applied to any LDC. The need is for "contextualization" requiring more local expertise and local contact. Participants should be interdisciplinary. RSA is missing the linkage between policy people and grassroot NGO's. In addition, representatives of the RSA agrichemical industry should be involved in this training to sensitize them to the current and prospective issues. Capacity building is required.

Food security

Small scale agriculture will be productive if sufficient support is provided including credit availability requiring a reorientation of the banking industry that deals with agricultural loans, inputs, establishment of marketing channels, and so forth. In Mr. Ngobese's opinion the 30% figure of land to be redistributed from large commercial growers to the landless over the next five years is unreasonable because of the lack of trained people to implement the policy. The provision of USDA courses could have land use planning and land policy as focal points. Furthermore, farmer support of land reform is needed to avoid conflict.

The new government will initially attempt to redress years of policies specifically crafted to exclude the black majority from full economic and social participation. It will therefore focus funding on housing, education, health, and other social welfare issues and the environment will not see much new federal funding. The government may, therefore, allow donors to fund issues that pertain to the environment and natural resource management. As for regional cooperation among environmental NGO's, the experience of Zimbabwe, Namibia, Botswana, Lesotho and other nations in the region provide opportunity for exchange and linkage. Shared experience with micro-projects at the village level can be more broadly applied than has been the case in the past.

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2. Dick Cloete, Editor, New Ground, The Journal of Development & The Environment, Environmental and Development Agency Trust (EDA), Johannesburg, RSA

EDA began in 1977 to work in rural areas to support food production and dryland agriculture. Pressures on the natural resource base from deforestation, overgrazing, and low levels of management continue to be the principal issues driving NGO focus in the RSA. Under the previous government there had been no investment in building natural resource sustainability.

Post 1990 the EDA has worked on "integrated projects" including livestock for marketing purposes though this has been discontinued because of the problem of overgrazing contributing to the degradation of the resource base; a social forestry program which institutes nurseries as a small business undertaking involving rural civic associations in reforestation projects; and in general building local institutional capacity by providing people with expertise in running institutions. These projects will be handed over to the Hershel Development Trust to allow the organization to identify and address new rural and urban problems in which they could become involved. The range of services offered by the EDA Trust in its Development Services Group include: agricultural extension, land use planning, horticulture, social forestry, livestock management and marketing, small scale water development, small business development, environmental management, and organizational and institutional development. Its Information Services Group offers: media consultancy on environment and development, media campaigns for CBO's, publishing in the fields of environment and development, information gathering and advocacy.

Government linkages

Apartheid limited NGO linkages. However, there is a good relationship now with the new government and a readjustment process is underway in both directions; NGO's working on policy initiatives to help shape a new South Africa while the government affording an attentive ear to NGO input.

Fiscal Responsibility

In the past, little monitoring of project performance was undertaken, no outcomes were specified and no targets set. NGO's saw themselves as part of the democracy struggle and were perceived that way by funding agencies. Many undeserving NGO's were funded but little if nothing was accomplished. Under the new government the cost effectiveness of NGO projects must be demonstrated as well as their ability to add value.

There is the question of what the nature of agriculture in the new RSA should be. There is a history of subsidized agriculture and inappropriate land use. The large scale commercial agricultural model used here is not sustainable in terms of natural resource depletion and ecological viability. And there is the question of productivity. In areas of good soils and reliable rainfall small and large operators can be equally productive. In arid regions the promotion of ecotourism or game ranching is probably the approach to encourage rather than extensive livestock production which is practiced currently and is harmful to the environment under dry conditions. This is a major political issue. In addition, lack of governmental structures and

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experience to address the issues of equity will be a major constraint. Human and governmental capacity to address these issues must be built. Governmental and civil society structures are needed as are management skills and organizational development skills. Black communal farmers must be supported. Credit institutions must be made aware of the needs of small scale farmers. The banking system is currently geared toward serving the needs of large operators.

The Brain Drain

A major hindrance to NGO capacity building is the current brain drain from NGO's to the new government. Donor agencies must support the training and development of black people in NGO's to help change the NGO profile from white to black. Promotion of networking is vital to aid in the integration of the NGO network in RSA into other nations in the SADC region. Promotion of grouped regional training would aid in the networking goal. There is a need for an upgraded level of professionalism among NGO's and to institute cost/benefit analysis of their programs. The mentality has been that NGO's have been part of the anti-apartheid struggle and so anything goes, as it were. Now that the struggle has been won a self examination is in order.

With new funding the EDA would begin new large scale projects in the Transkei and Sekhukhuniland. New monies would go for salaries to help develop local capacity and the growth of local institutions, to hire field workers, project officers and managers, vehicles, travel expenses, and service delivery activities (water, promotion of vegetable and crop production) as well as the promotion of small business in the area.

In the ANC RDP document agricultural development with an eye on environmental impacts is prominent however the current structure of government agencies is vertical. Under the current system there is no cross-sectoral analysis of project and program impacts. EDA feels that environmental issues will be dealt with at the provincial level.

Enforcement

Currently there is little environmental monitoring of "brown" polluters. Companies decide what they want to reveal. There are 6 air pollution control officers in the RSA. There is no local standing for citizen action against a polluter under the current legal system. Only the government can take action. In a related issue there has been bias in the past against the environmental movement by the black community against the traditional white conservation groups because of the wildlife conservation focus and the ramifications for indigenous black populations of conservation and habitat preservation measures advocated and enacted. This remains an important and contentious issue.

Institution Building at the Local Level

Lack of local community institutions will cause direct payment of donor monies to farmers to go to waste and cause local conflicts over money. People need assistance in developing institutions and community structures to deal with environmental problems. The EDA sees itself as providing a contractual consulting role to empowered communities to provide expertise in helping to solve community identified problems. One of the first problems that may be encountered could result from the new government's housing initiative which has ignored environmental issues

in its rush to provide quick delivery.

3. Salim Fakir - Land & Agricultural Policy Centre (LAPC), Johannesburg, RSA

This think tank originated as ANC policy center for land management and development. It is now, however, independent and not subject to ANC doctrine but is closely aligned with the policies emanating from the agriculture and natural resources desk. Their focus includes land reform, rural development, natural resource management, agricultural policy, and law.

The LAPC deals in analyses of policy framework and resolution of conflicts involved in the above issues. It undertakes research and policy advocacy in analyzing problems with use of land and water, access to water, pollution, and public versus private access. Their mission is to inform decision makers at executive council level and at the national level influence is exerted through the issuance of "white papers".

Policy advocacy emphasizes the building of infrastructure. Currently there exists no equitable access to resources by black Africans including access to agricultural extension services and finance institutions. In terms of land tenure new forms of collective ownership must be developed. Small scale agriculture has potential for creating jobs. The issue is not just productivity. To that end different types of property regimes are being studied.

Environmental problems

In the communal areas use of unsustainable farming practices has caused major degradation of the resource base. Major soil erosion problems exist nationally. There is currently an excess of marginal land in production. Problems of water pollution, irrigators draining waters prior to downstream users needs are met, salinization of soil, and fertilizer and pesticides being carried into both surface and groundwater through runoff. There is DDT use in maize and horticulture production.

Most environmental groups are urban based and therefore focus their energies on "brown" problems including air pollution and toxic waste (mining pollution - coal, gold, uranium). Coal mining pollutes water while power generation pollutes air and is a principal cause of acid rain. There exists land and water pollution from forestry and sugar cane production as a result of bad land use planning. Industrial lobbyists are strong. An important function of LAPC is the socio-economic analysis of agricultural policies and the establishment of key indicators of poverty and food security. These include a drought warning system, indicators of nutritional intake, and maternal and infant health in both rural and urban areas. These types of programs had not been in existence for black Africans though the previous government did provide such services for poor whites.

4. Ciba-Geigy - Dr. Jan Nel (Director of Plant Protection) and Mr. Andre Schreuder (Head of Marketing), Johannesburg, RSA

Since 1975 Ciba has concentrated its manufacturing capacity and marketing efforts on the RSA. The surrounding countries are supplied from and marketing strategies are developed in Switzerland. However, under the new political and economic climate Ciba will focus on the entire SADC region from the Johannesburg facility. Plant protection markets are small, however, except for Kenya, and Zimbabwe. The same is true for the animal health products market. Ciba anticipates a 10-15% increase in business by including these nations in the marketing scheme. However, Zambia and Mozambique have a huge agricultural potential and therefore could be large potential markets for Ciba products. It was Dr. Nel's contention that Zambia could provide all of Southern Africa's maize requirements with the proper management. Mozambique is well watered by the Zambezi and has very fertile soils. Politics, however, hinders agriculture in the region. The RSA, by comparison, is poorly endowed for agricultural production. The country is composed of predominately poor soils and low rainfall (80% of RSA is low in rainfall). In addition, it was the view of my hosts that the social structure of black Africans was not geared towards high productivity but rather perceive agriculture from a subsistence point of view. This anti-commercial thinking by black Africans and the communal approach to land tenure has hindered progress in attaining a productive small holder farming sector. To rectify this situation the land tenure system must be changed. The social, philosophical, political, and cultural systems must be changed to promote private enterprise. Currently subsistence is the watchword. What is needed is training in commercial farming; i.e. the use of agricultural chemicals, fertilizers, highbred seeds. Also promotion of marketing channels is required as well as the development of cooperatives.

Ciba makes no attempt to sell to small scale producers. They are of no marketing importance from their point of view. Ciba targets the 60,000 commercial growers in the RSA. 18,000 are in crop production and the remainder in livestock. A foreseeable problem under the new government is the redirection of assistance from commercial farmers towards small scale producers. In the past the government subsidized interest rates for the commercial farm community. Without this assistance about 25% of commercial farmers would be at risk.

Other new impediments for the commercial growers under the RDP is a land tax which will be levied as 1-2% of the commercial value of the land. There will also be a tax on boreholes (wells). The new tax policy has been established not to generate revenue but to force marginal farmers out of business and allow their land to be purchased by the government and offered over to resettlement.

From Ciba's point of view small farmers could be lucrative markets for their products after the model of India, Pakistan and Indonesia. Prices are much higher for products in small packages. However, there exists a large generic pesticide industry in RSA controlling up to 50% of the market. Pricing policies will be constrained to some degree by the marketing environment. Ciba will adapt marketing and distribution strategies to the competitive pressures in the market and

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to new governmental policies as they are enacted.

But the point was made that the RSA has very fragile ecology not particularly suited to subsistence farming. Social welfare imperatives, however, will require ANC to insist on access to land regardless of the impacts on productivity. By 2000 30% of land is targeted to be in black hands. This is risky policy jeopardizing food security in a nation that was forced to develop food self sufficiency under apartheid. Ciba is maintaining a wait and see attitude not knowing what the exact policies will be.

Environmental Problems

Commercial farming is a genuine threat to wildlife including the big mammals, plants, and birds. Vast areas have been cleared for monoculture. Agrichemicals are a threat though this has diminished now that organochlorines are no longer used in the RSA. Organochlorines make their way to African continent from producers in India and other parts of Asia. New, safer products have made the situation better.

There is an R&D group doing field trials at CIBA with chemistry developed in Basel. Some new product development has concentrated on material that is compatible with the IPM ethic. Two new insect growth regulators for citrus and apples have been introduced into the RSA mkt. Ciba introduces 3 or 4 new products yearly which is apparently the most prolific in the industry. 30% of sales is new products. Ciba products must be registered by at least one of the OECD nations. There is one global marketing policy for Ciba and not 2 sets for the developed and the developing world. Feeling is that the large global competitors do not discriminate in this manner. Newly introduced materials in the RSA are not registered in the US. The RSA Department of Agriculture registers pesticides with requirements including biological evidence of effectiveness; full toxicological package generated in the US or Europe; toxicological package must be approved by the Department of Health; environmental effects must be documented but evidence of studies from other countries are accepted. Sanctions by the UN prevented RSA from becoming a signatory of PIC but will soon officially become one. The Agricultural and Veterinary Chemicals Association of South Africa (AVCASA) has just become a member of GIFAP.

Integrated Pest Management

Agricultural marketing companies have been on the forefront in developing IPM practices as an edge in the export market. Citrus growers insist on IPM as a result of ineffectiveness in the 1970's of a large spectrum of pesticide products against red scale. Biological control methods are currently used against this fungal disease on 5 million citrus trees in the western and eastern Cape regions. It is felt that the new government will focus research needs on small scale operators. New IPM research may be done or funded by growers or marketers. The small scale producer may not have expertise to use IPM. Potential crops that could be the focus of IPM research include sugar cane which can be grown profitably on small scale plots (3-4 ha) as can cotton. Dryland corn and wheat, however, are not profitable on a small scale operation.

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Impressions

There are a number of areas of particular importance that characterize the current environmental movement in the RSA: a) an historic focus on "brown" pollution issues which concern the urban population; b) the impressive array of NGO's whose energies have been directed at grassroot level empowerment in both rural and urban communities with considerable depth of human resource capacity; c) the expectation that the number of NGO's in the RSA will decrease by half due to the "brain drain" and lack of qualified people for their replacement as well as cessation of "struggle funding" by donor groups; d) the relegation of pesticide use and misuse issues to a sort of second echelon area of concern though there has been some work addressing the issues of farmworker safety and the environmental impact of pesticide use; e) the unfocused approach of the ANC in its RDP document to address issues of the environment with substantive proposals and programs; and f) the desire by existing NGO's to form partnerships with other groups in both the southern Africa region and worldwide to address both region specific problems and the larger issues facing the global community (global warming, ozone depletion, wildlife and fisheries conservation and management, etc.). Donor funding could well be used to promote an expanded agenda among these groups. This expansion could include initiation of research projects into the effects of agricultural restructuring on productivity and the food security situation in the RSA, dissemination of appropriate technology among the newly landed farmers under the RDP's proposed land redistribution program including alternative pest management practices, and similar topics.

From the contact with representatives of Ciba-Geigy it is apparent that the agrichemical industry is prepared to take advantage of the new political environment in place in southern Africa. Capacity exists to produce and market a full range of pesticide and other agrichemical products to the region. The constraints to market growth for the RSA chemical industry are: a) the precarious political situations in a number of nations in the region including Angola, Mozambique, and most recently Lesotho; b) poor management practices in the entire southern region which have hindered agricultural productivity causing food shortages, contributed to environmental degradation, and limited input markets; c) misguided agricultural policies which have led to creation of incentives for production of commodities for export contributing to an already oversupplied market in many instances and further jeopardizing food security; and d) the uncertainty regarding the land redistribution policy of the ANC and the future complexion of South African agriculture.

The advantages of this potential market growth for South African agrichemical firms into the southern Africa region include the possible displacement in the market of Indian and other Asian pesticide manufacturers which continue to supply many PIC listed pesticide products to the region. The policy of the multinational agrichemical firms in the RSA is to treat both the developing and developed nations as a single market with respect to the type of materials that are made available for sale. This would indicate that expanded markets for the multinationals may cause the prevalence in use of older more dangerous materials to decrease. The question becomes what portion of the expanded market would be controlled by the multinationals and what by domestic South African producers such as AECI, Sentrachem, and Sasol Chemical? And

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what of the product range and marketing philosophy of the latter? These questions are beyond the scope of this trip report.

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Persons Contacted

Zimbabwe

Nick Brooke	Mokoko Farm
Wellington Chaomwa	Agritex
Oliver Chapeyama	Africa 2000
Julius Chileshe	World Bank Resident Mission - Lusaka, Zambia
Gerald Chirapa	Agritex
Richie Gunner	Fambidzanai Permaculture Center
Joseph Kamumvubi	Communal Farmer
Carmel Mbviso	Zimbabwe Environmental Research Organization
Janet Mkombwe	Fambidzanai Permaculture Center
Khethewe K. Moyo-Mhlanga	Africa 2000
Bartholomew Mupeta	Henderson Agricultural Research Station
Shepard Mupfumi	Fambidzanai Permaculture Center
Roger Mpande	Commutech
Tonderai Andrew Mushita	Commutech
Bridgette O'Conner	Fambidzanai Permaculture Center
Helen Vukasin	Zimbabwe Womens Bureau

South Africa

Peter Ngobese	Group for Environmental Monitoring
Dick Cloete	Environmental and Development Ageny
Salim Fakir	Land and Agricultural Policy Center
Dr. Jan Nel	Ciba-Geigy
Andre Schreuder	Ciba-Geigy

Other individuals involved in the Environmental and Sustainable Agricultural Development and Natural Resource Managment Movement suggested to contact:

Dr Samantha Page	Zimbabwe Institute of Permaculture
Jeremy Burnham (021-789-1818)	Permaculture in Action, Noordhoek 7985, RSA
John Wilson	PELUM (Permanent Ecological Land Use Management)
Kenyan Institute of Organic Farming.	
Nick O'Conner	Artfarm in Zimbabwe
Steven Springbok (793-395/6 Harare).	BioMass Users Network

Other names offered by Peter Ngobese as important contacts:

Dan Taylor, University of Natal doing research on low input agr. practices;
Dr. Niko Human with the Agr. Research Council (govt agency) 012-326-4205 (Pretoria)

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Norton Tenille, Southern Africa Environment Project
Bev Geach, formerly of GEM but now in Port Elizabeth at 041-555-440.

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- Correspondance between Martin Kyomo, Director of SACCAR and Nathaniel Fields, Deputy Assistant Administrator, Bureau for Africa.

ANNEX C

September 13, 1994

TO: AFR/SA, Joseph Goodwin
AFR/SA, Lynn Keeys

FROM: AFR/SD/PSGE, Curt Reintsma

SUBJECT: Initiative for Southern Africa, Agriculture and Natural Resources, Update of Stakeholder Discussions

Following-up on the draft strategy for the ISA Strategic Objective for ANR, submitted to you on September 1, 1994, I am attaching several documents which provide additional details on the discussions we have been having in preparation of the Strategy and design of the ANR component for ISA. They are:

- Harare 10069, dated September 7, providing an overview of the stakeholder process and meetings held August 19 to 25;
- Synopsis of the Regional Food, Agriculture and Natural Resources Management Research Stakeholders meeting held in Gaborone, August 19 and organized in consultation with USAID/Botswana and SACCAR;
- Synopsis of the "Analyzing Agricultural Comparative Advantage in Southern Africa" workshop, (including ISA discussion) held in Kariba, August 19 and organized in consultation with REDSO/ESA;
- Synopsis of a meeting with USAID's bilateral and regional field missions held in Harare, August 24;
- Synopsis of Ad Hoc Meeting of ANR Stakeholders held in Harare, August 25; organized in consultation with ADO and GDO officers from Zimbabwe and Botswana with regional responsibilities;
- A progress report from Tony Pryor and Wes Fisher, discussing the detailed interviews they (and Zimbabwean Mandy Rukuni) are having with stakeholders in the region (also including a draft outline of the Stakeholder Analysis they will prepare, and interview guidelines being used);
- A draft report by Phil Szmedra of USDA's Resource and Technology Division of discussions he has had with stakeholders concerning environmental protection;
- Correspondance between Martin Kyomo, Director of SACCAR and Nathaniel Fields, Deputy Assistant Administrator, Bureau for Africa.

Let me highlight a few of the major points which have emerged so far:

1. We're taking the process and feedback seriously. Not only are we talking to a lot of southern Africans representative of a broad range of stakeholders, we're listening carefully to what they have to say. The formal meetings, for example, have all been chaired and dominated by southern Africans: AID staff and contractors have played a listening and inquiring role.

2. The process has already substantially guided the content and configuration of the ANR component of the ISA. As a result of the discussions to date, we've reduced the number of target outcomes from five to three and significantly adjusted the illustrative activities to correspond to the stated demands of the stakeholders.

3. The southern Africans are extremely supportive of the stakeholder process we are following and, in advance of USAID, have seized the initiative for regional integration and for identifying and addressing ANR sectoral weaknesses. The recent interviews have confirmed southern African agreement with the three reformulated outcomes of the strategy.

4. USAID has a tremendous opportunity to champion southern African leadership and ownership of the process. USAID is also challenged to maintain the flexibility necessary during program design, approval and implementation to foster that leadership and ownership.

Over the next few months, additional formal meetings and 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. We expect to continue to engage a broad cross-section of groups and individuals involved in agriculture and natural resource management throughout the program design and to make stakeholder participation synonymous with program implementation.

We will endeavor to keep you apprised as the process unfolds and would be happy to respond to any questions you may have.

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FOR AFR/SD, AFR/SA AND NAIROBI FOR REDSO/ESA

E.O. 12356: N/A
SUBJECT: REPORT ON ISA STAKEHOLDER MEETINGS FOR AGRICULTURE AND NATURAL RESOURCE MANAGEMENT: GABORONE, AUGUST 19; KARIBA, AUGUST 19; AND HARARE, AUGUST 24 & 25.

1. DURING THE MAY MEETING OF THE MISSIONS DIRECTORS IN SOUTHERN AFRICA, THE AGRICULTURE AND NATURAL RESOURCE SECTOR WAS IDENTIFIED AS AN AREA OF CONTINUING STRENGTH AND OPPORTUNITY FOR USAID IN SOUTHERN AFRICA. AS A RESULT, ANR WAS ELEVATED TO A STRATEGIC OBJECTIVE OF THE ISA. SINCE THEN AFR/SD/PSGE HAS BEEN WORKING WITH FIELD MISSIONS IN SOUTHERN AFRICA TO CONDUCT STAKEHOLDERS ANALYSES AND DESIGN AN ANR PROGRAM STRATEGY FOR THE ISA. THIS CABLE REPORTS ON THE OUTCOME OF STAKEHOLDER MEETINGS HELD IN SOUTHERN AFRICA OVER THE PAST THREE WEEKS AND EXPECTED FOLLOW-UP ACTIONS AND STAKEHOLDER CONSULTATIONS.

2. AFR/SD/PSGE, IN CONSULTATION WITH MISSIONS AND REGIONAL ORGANIZATIONS, IS CONVENING A SERIES OF AD HOC MEETINGS TO INFORM THE DESIGN OF ISA STRATEGIC OBJECTIVE THREE. DURING THE PERIOD AUGUST 19TH TO 25TH FOUR AD HOC STAKEHOLDER MEETINGS HAVE BEEN HELD IN SOUTHERN AFRICA. THEY INCLUDE:

A) REGIONAL FOOD, AGRICULTURE AND NATURAL RESOURCES MANAGEMENT RESEARCH STAKEHOLDER MEETING, GABORONE, AUGUST 19TH; ORGANIZED IN CONSULTATION WITH BOTSWANA MISSION AND SACCAR.
B) REGIONAL TRADE ANALYSIS STAKEHOLDER MEETING, KARIBA, AUGUST 19TH; ORGANIZED IN CONSULTATION WITH REDSO/ESA.
C) BILATERAL AND REGIONAL FIELD MISSIONS STAKEHOLDER MEETING, HARARE, AUGUST 24TH; ORGANIZED BY AFR/SD/PSGE.
D) AD HOC MEETING OF ANR STAKEHOLDER, HARARE, AUGUST 25TH; ORGANIZED IN CONSULTATION WITH ADO AND GDO

OFFICERS FROM ZIMBABWE AND GABORONE WITH REGIONAL RESPONSIBILITIES.

3. THE STAKEHOLDER MEETINGS HAVE INCLUDED A BROAD CROSS SECTION OF INDIVIDUALS INVOLVED IN AGRICULTURAL RESEARCH AND TRADE AS WELL AS SOME REPRESENTATION ON NATURAL RESOURCE MANAGEMENT. THE MEETINGS HAVE INVOLVED POLICY ANALYSTS, NATIONAL AND REGIONAL RESEARCH PROGRAM LEADERS, FIELD MISSION ADO'S, NATIONAL RESEARCH SYSTEM DIRECTORS, SADC FANR SECTOR COORDINATORS, SACCAR MANAGEMENT AND MEMBERS OF ITS GOVERNING BOARD, NGOS, UNIVERSITY RESEARCHERS AND NATIONAL GOVERNMENT POLICY MAKERS. INDIVIDUALS FROM 9 OF 11 COUNTRIES IN SOUTHERN AFRICA HAVE BEEN INVOLVED IN THE MEETINGS. THESE INCLUDE ZIMBABWE, MALAWI, ZAMBIA, SOUTH AFRICA, BOTSWANA, SWAZILAND, TANZANIA, NAMIBIA AND MOZAMBIQUE. REPRESENTATIVES FROM FOUR FIELD MISSIONS AND REDSO/ESA HAVE BEEN INVOLVED IN THE DISCUSSIONS.

4. THE MEETINGS HAVE 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 PROVIDED AN AD HOC FORUM TO DISCUSS PRIORITIES FOR REGIONAL PROGRAM SUPPORT.

5. THE SOUTHERN AFRICANS IDENTIFIED POLITICAL WILL TO SUPPORT ANR AS THE SINGLE GREATEST CONSTRAINT LIMITING IMPACT FROM INVESTMENT IN AND DEVELOPMENT OF ANR. HOWEVER, IT WAS NOTED THAT THE HEADS OF STATE FOR EAST AND SOUTHERN AFRICA HAVE APPROVED A STRATEGY, "GETTING AGRICULTURE MOVING", TO ADDRESS THIS CONCERN. HOPEFULLY, IT WILL BE IMPLEMENTED.

6. EMERGING FROM THE MEETINGS IS A REMARKABLY BROAD CONSENSUS FOR BOTH PROCESS AND CROSS-CUTTING TECHNICAL ISSUES. THESE REMAIN TO BE CONFIRMED OVER THE COMING MONTHS THROUGH FURTHER DIALOGUE. FOLLOWING IS A SUMMARY OF POINTS DISTILLED FROM THE MEETINGS. A SYNOPSIS OF EACH MEETING HAS BEEN PREPARED. CONTACT CURT REINTSMA, AFR/SD/PSGE, OR ROBERT MCCOLAUGH, USAID/BOTSWANA/ADO, FOR COPIES OF THE SYNOPSES.

7. THE FIRST AREA OF BROAD CONSENSUS IS THE NEED FOR AGRICULTURE AND NATURAL RESOURCES MANAGEMENT TO BE A STRATEGIC FOCUS FOR THE ISA. AMONG THE CONCERNS RAISED BY SOUTHERN AFRICANS IN THIS REGARD IS THE RELATIVE IMPORTANCE THAT ANR WILL HAVE IN THE ISA. THE BELIEF IS THAT THE ISA COULD PLAY A KEY ROLE IN LEVERAGING SOUTHERN AFRICAN POLITICAL WILL AND GOVERNMENT SUPPORT FOR ANR IF IT IS GIVEN SUFFICIENT PROFILE IN THE ISA.

8. THE SECOND AREA OF CONSENSUS IS THE NEED TO AND VIABILITY OF ACTING REGIONALLY TO INFLUENCE THE DEMAND FOR PRODUCTS AND THE SUPPLY OF SUPPORT SERVICES. REGIONAL TRADE OFFERS NEW OPPORTUNITIES. REGIONAL COLLABORATION OFFERS HOPE THAT THE CRITICAL MASS AND CAPACITY CAN BE AVAILABLE TO MEET THESE OPPORTUNITIES.

9. THE THIRD AREA OF CONSENSUS AMONG THE SOUTHERN AFRICAN ANR COMMUNITY IS THE PRIORITY GIVEN TO IMPROVING THE WAY BUSINESS IS DONE BY BOTH THE PUBLIC AND PRIVATE SECTOR AGENTS. THE "ENABLING ENVIRONMENT" IS A HIGH

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PRIORITY ON ALL AGENDAS. THIS REFERS TO THE ENABLING ENVIRONMENT FOR PUBLIC AGENTS TO EFFICIENTLY PROVIDE SUPPORT SERVICES AND THE ENABLING ENVIRONMENT FOR PRIVATE AGENTS TO INVEST IN AGRICULTURE AND NATURAL RESOURCES-RELATED ENTERPRISES. THE LEVEL OF CONCERN ABOUT THE ISSUE OF ENABLING ENVIRONMENT PLACES IT AT THE TOP OF THE AGENDA. HOW TO ADDRESS IT IS AN ISSUE FOR FURTHER ANALYSIS AND DIALOGUE OVER THE COMING MONTHS.

10. THE FOURTH AREA OF CONSENSUS IS THAT THE LIMITED REGIONAL AND DONOR RESOURCES SHOULD NOT BE 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. ASSISTING THEM IN REVITALIZING THESE INSTITUTIONS BY GIVING THEM THE TOOLS, INCENTIVES AND GOVERNANCE TO BE MORE EFFECTIVE AND SUSTAINABLE. THE SUSTAINABILITY OF INSTITUTIONS WAS A MAJOR ITEM OF CONCERN TO THE SOUTHERN AFRICANS AND USAIDS.

11. THE FIFTH MAJOR AREA OF CONSENSUS AMONG THE SOUTHERN AFRICANS IS THE NEED FOR THE ISA, DONORS AND NATIONAL ORGANIZATIONS TO INTEGRATE AGRICULTURE AND NATURAL RESOURCE MANAGEMENT. THEY SHOULD NOT BE VIEWED

AS COMPETING BUT, RATHER, COMPLIMENTARY.

12. THE SIXTH AREA OF CONSENSUS IS THE NEED TO SUPPORT AND DEVELOP SYNERGY, THROUGH BETTER LINKAGES, AMONG THE "PRIME MOVERS" NECESSARY TO GET ANR SECTOR MOVING AND TO SUSTAIN PROGRESS. THE FIVE BASIC PRIME MOVERS INCLUDE IDENTIFIED BY THE MINISTERS OF AGRICULTURE INCLUDE: TECHNOLOGY, HUMAN CAPITAL, SUSTAINED GROWTH IN THE PHYSICAL AND BIOLOGICAL INFRASTRUCTURE; EFFECTIVE INSTITUTIONS, AND ENABLING POLITICAL AND ECONOMIC ENVIRONMENT. THE NEED FOR FORWARD AND BACKWARD LINKAGES BETWEEN MACRO AND SECTORAL PLANNING IS ALSO AN ITEM OF CONCERN THE SOUTHERN AFRICANS BELIEVE IS LIMITING PROGRESS.

13. THE SEVENTH AREA OF CONSENSUS IS THE NEED FOR ANR ACTIVITIES TO FOCUS ON AND BE ACCOUNTABLE FOR INCREASING PRODUCTIVITY AND SUSTAINABILITY. TARGET LEVELS FOR PRODUCTIVITY SHOULD BE SPECIFIED IN REGIONAL AND NATIONAL PROGRAMS.

14. IN REVIEWING PRIORITIES, THE PRINCIPAL CONCLUSION REACHED IN EACH OF THE MEETINGS WAS THE NEED FOR USAID AND OTHER DONORS TO RESPECT AND SUPPORT THE SOUTHERN AFRICAN PROCESSES ALREADY UNDERWAY TO IDENTIFY PRIORITIES FOR ACTION AND INVESTMENT. 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 EXAMPLE, IN JULY, THE SOUTH AFRICA 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 APPROVED 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 SADCC FOR THE PAST YEAR TO FOCUS REGIONAL RESEARCH RESOURCES ON HIGH PRIORITY PROGRAMS.)

15. AREAS OF INTEREST TO THE FIELD MISSIONS AND

SOUTHERN AFRICANS INCLUDE INCOMES, JOBS, TRADE, AND MAINTENANCE OF THE ENVIRONMENT. THE ANR SECTOR ACTIVITIES IDENTIFIED AS NEEDING SUPPORT TO MEET THESE INTERESTS ARE POLICIES, TECHNOLOGY, HUMAN RESOURCE DEVELOPMENT, COMMUNICATIONS, RESOURCE PLANNING AND STAKEHOLDER EMPOWERMENT OVER RESOURCES.

16. AMONG THE GROUPS CONSULTED, THE DEVELOPMENT OF NATURAL RESOURCES AS WELL AS AGRICULTURE NETWORKS WAS VIEWED AS A HIGH PRIORITY REGIONAL ACTIVITY WITH A PROVEN TRACK RECORD IN BEING ABLE TO FUNCTION REGIONALLY AND AT THE SAME TIME STRENGTHEN NATIONAL DEVELOPMENT EFFORTS. IT WAS NOTED THAT TO BE SUCCESSFUL THE NETWORKS NEED TO FACILITATE COLLABORATIVE PLANNING, COMMUNICATION, INFORMATION EXCHANGE, TECHNOLOGY SHARING, AND AN EFFICIENT EFFORT IN SUPPORTING DEVELOPMENT GOALS.

17. NEXT STEPS

A. ON OCTOBER 11TH, AFR/SD/PSGE WILL ORGANIZE AN ANR STAKEHOLDER MEETING, BEFORE THE MEETING OF THE NRMP PROJECT COORDINATING COMMITTEE.

B. DURING SEPTEMBER, VISITS WILL BE MADE TO INDIVIDUAL COUNTRIES TO SURVEY MORE STAKEHOLDER AND EXAMINE TECHNICAL AND INSTITUTIONAL PROSPECTS FOR ISA ACTIVITIES.

C. A DRAFT PID WILL BE DEVELOPED BY OCTOBER 31, 1994. PRIOR TO THAT TIME, THE DRAFT WILL BE TAKEN TO THE FIELD FOR REVIEW WITH FIELD MISSIONS AND SOUTHERN AFRICANS.

D. ADDITIONAL STAKEHOLDER DISCUSSIONS, INTERVIEWS AND MEETINGS WILL BE DEVELOPED AFTER OCTOBER, AS AN INTEGRAL PART OF PROGRAM EVOLUTION.

D. DETAILED DESIGN EFFORTS WILL BEGIN IN NOVEMBER/DECEMBER FOR SELECTED ACTIVITIES SCHEDULED FOR FUNDING IN FY 1995.

18. REITERATING - PARTICIPATING USAID OFFICIALS RECOGNIZED THE SUBSTANTIAL DEGREE TO WHICH SOUTHERN AFRICANS, IN ADVANCE OF USAID, HAVE SEIZED THE INITIATIVE FOR TRUE REGIONAL INTEGRATION AND FOR IDENTIFYING AND ADDRESSING ANR SECTORAL DEVELOPMENT WEAKNESSES. USAID REPRESENTATIVES EXPRESSED HOPE THAT THE USAID/V-LED STRATEGY AND DESIGN PROCESSES WOULD MAINTAIN THE FLEXIBILITY NECESSARY TO ENABLE THE

SOUTHERN AFRICAN LEADERSHIP AND OWNERSHIP OF THE PROCESS TO CONTINUE. LAMPKER

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STAKEHOLDERS MEETING

SYNOPSIS
OF
DISCUSSIONS ON THE
INITIATIVE FOR SOUTHERN AFRICA

GABORONE, BOTSWANA - AUGUST 19, 1994

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SYNOPSIS OF DISCUSSIONS ON THE INITIATIVE FOR SOUTHERN AFRICA

Purpose: To initiate consultations with the stakeholders in Southern Africa in order to jointly identify priorities, strategies and framework for action for USAID's Initiative for Southern Africa (ISA)

Objectives:

The specific objectives of the meeting were to:

a) Identify and review on-going regional agricultural and natural resources management research and training programs in the SADC.

b) Review lessons learned from current and past regional programs.

c) Review issues limiting the success or impact of the on-going networking activities.

d) Identify opportunities and priorities for collaborative action for the immediate future in the region.

Participants:

An attempt was made to invite all stakeholders involved in capacity building as well as technology development and transfer. Invitations were extended to NARS representatives (both researchers and research managers), representatives of the executing agencies (IARCs), representatives of the SACCAR Board (responsible for the overall management of SACCAR's activities), representatives of bilateral and regional USAID missions, NGO's and private sector. A total of 27 representatives (see Annex A) from national, regional and international research systems, donor community, NGO and SACCAR management attended this one day brain storming session.

Presentations:

The SACCAR Director formally opened the meeting and stressed the importance of the gathering. He pointed out that the research systems in Southern Africa is confronted with dwindling resources and highlighted the need for prioritization of activities for regional and donor collaboration. He identified several activities that have been completed or are in near completion which should form the basis for future collaborative venture in the region. This list included:

→ The blue print for human resources and high level manpower development for the region.

→ The ministers report on Getting Agriculture Moving in Eastern and Southern Africa: Strategy and Plan for Action.

→ The report from the initiating workshop for agricultural policy analysis network.

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- The on-going Long-Term Strategy for Agriculture and Natural Resources Research for the SADC region.

- SPAAR's Framework for Action.

- SADC Livestock sector manpower needs assessment report.

The Director stressed that any action plan should recognize the priorities and recommendations contained in these reports.

Dr. Jeff Hill from USAID Washington gave a brief overview of the ISA and outlined the time frame for completing the various consultations and development of a draft agenda for action. Then the participants were divided into two discussion groups to review the on-going regional activities, lessons learned including the constraints that limit the full impact of these initiatives. Group one addressed activities and issues related to human resources development, enabling environment and technology transfer. Group two addressed activities and issues related to regional research networks, information exchange and technology transfer. Since technology transfer issues are considered to be very vital for NARS, both groups discussed this issue. While reviewing the on-going and approved activities, attention was paid to both regional initiatives as well as those bilateral initiatives with regional implications. The group paid attention to commodity research, natural resources management issues, information exchange, technology transfer, and human resources development. See Annex B for list of activities identified.

Observations:

- There is a strong commitment by the member states to build on the current institutions and mechanisms to facilitate co-ordination of regional programs in agriculture and natural resources management.

- The networking modality is considered to be the most cost effective means for collaborative research in the region. The existing networks through better collaboration and joint planning have contributed to:

  - increased probability of success for technology adoption

  - better utilization of available resources, through elimination of irrelevant treatments

  - increased accountability and impact consideration in research planning and implementation

  - greater responsibility assumed by the NARS for the execution of activities and increased regional responsibility and ownership of technology developed

- There are limited networking activities in the areas of livestock and natural resources management. Some of the on-going research activities in the area of natural resources management are socio-economic and policy oriented. There is also some work on technologies.

- There is a lack of clarity about what the priorities are for natural resources management.

- The current portfolio of regional commodity based programs do not address resource management issues. The natural resources issues are considered peripheral to agriculture, thus, not adequately addressed within the agricultural agenda.

- Technology transfer is assumed to be the responsibility of the national research and extension services.

- In order to have an efficient and effective network, stronger NARS and trained manpower are critical.

- NGOs are currently playing a greater role in assisting the technology transfer especially in the area of seed multiplication and distribution.

- The on-going networks have managed to mobilize the national and international resources and stimulated national interest for the neglected commodities/areas of research.

- With respect to human resources development:

  - there are only a few institutions to offer post graduate training in forestry

  - there are adequate number of veterinary training institutions in the region

  - there are no training institutions to offer wild life training at B.Sc. level

Issues and Constraints:

- The current diploma/certificate level training from national colleges do not provide adequate accreditation to allow for further degree training. This issue needs to be addressed with respect to human resources development.

- Lack of commodity market or market information and/or access to such information for decision making.

- Limited research or attention is being paid to the enabling environment. The absence of or imperfections in the enabling environment affect the performance of trained manpower (often leading to greater mobility and outward migration) as well as the people level impact of the technology developed.

- Weak linkages and lack of consensus between those engaged in developing macro economic and sectoral policies and those engaged in research management. There is a need to enhance the policy analysis capacity within the region to deal with this.

- The role of NARS vs the role of regional and international institutions in technology development and transfer needs to be clarified.

- Harmonization of activities and priorities between public sector, private sector and NGO's in the areas of natural resources management, human resources development technology development and transfer need to be worked out in order to provide opportunities for active collaboration and participation of the various actors.

Priorities for the Future:

The plenary discussion focussed on the immediate priorities for the future. After some preliminary discussions, there was consensus that the following are the key broader areas of priorities for the region:

→ Technology development and transfer for priority commodities as well as Natural Resource Management

→ Enabling environment

→ Human Resources Development

→ Infrastructure/Institutional Development

→ Policy issues related to the above

The group reached consensus that improving the enabling environment, improving the sustainability of successful programs, improving the accountability for resources, as well as new and more efficient way of doing business, are all equally important in the on-going initiatives in addition to initiating new programs in the priority areas identified. The concern of the group was not to increase the number of programs, but rather to (a) improve the performance of national and regional programs, and (b) identify and concentrate resources on high priority programs.

- During the presentations it was highlighted that there are some priority areas identified and approved by the board of SACCAR and the Council of Ministers but not funded currently. These areas should be considered under the ISA initiatives.

- The group also agreed that the priorities identified in the on-going Long-Term Strategy for Agricultural and Natural Resource Research should be considered in selecting specific areas for support to technology development for commodities. The on-going process also needs support for completing the exercise.

- With regard to natural resource management technology development and transfer priorities, the key conclusion reached was that greater attention is needed in regional programs for natural resource management technologies. It was also pointed out that there is a need to prioritize and review alternative strategies of integrating the mandate to develop NRM technologies into on-going commodity programs.

- In terms of policy research, it was agreed that the report of the initiating workshop should form the basis for action. This should also address the linkage issues identified earlier.

- Improving the enabling environment for technology development and transfer was identified as a high priority for action. The key areas identified as high priorities to improve the enabling environment include:

  - → regional communication
  - → strategic planning
  - → sustainability considerations and plans
  - → accountability and impact

- The major issues considered in the human resources development area was the degree level training and more targeted in-service training to improve the other complementary skills. Illustrative degree training include natural resource management areas, policy, forestry, agricultural engineering, food processing, and product development.

- Village level agro-based on- and off-farm activities in some areas such as seed multiplication and distribution, small-scale processing of cereals, roots and tubers, vegetable oils (post-harvest technologies) were also identified as priority areas to improve the technology development and transfer process and food security.

- The group also agreed that support is needed for SACCAR in order to implement and strengthen some of the recent undertakings.

Future Actions:

- → Draft synopsis of Stakeholders Meeting in Gaborone, Botswana.
- → Hold additional Stakeholder Meetings - Harare, Zimbabwe.
- → Complete and analyze Stakeholder questionnaire.
- → Follow-up the on-going priority setting activity and work with stakeholders to further clarify priorities.
- → Draft issues paper based on discussions at Stakeholder Meetings and information obtained in questionnaire.

ANNEX A

STAKEHOLDERS MEETING
GABORONE, BOTSWANA - AUGUST 19, 1994

Name	Organization	Telephone Number
Gordon Sithole	Ministry of Agriculture - Harare	263-4-706081
Chris T. Nkwanyana	SACCAR	267-1-373847/8
P. Anandajayasekersm	SACCAR	267-1-373847/8
Godwin Y. Mkamanga	SPARC - Lusaka	260-1-230511
James M. Teri	IITA/SARRNET	265-783082
T.A. Mushita	Community Tech Serv Assoc - Zimbabwe	263-4-732360
Joseph N. Mushonga	Crop Breeding Institute - Zimbabwe	263-4-704531
Christopher S. Manthe	Dept of Agricultural Research - Botswana	267-359780
David Rohrbach	SADC/ICRISAT SMIP	268-83-8311
Ditlhong Nkane	SACCAR (P/Bag 00108, Gaborone)	267-373847/8
Christopher Lunga	SACCAR	267-373847/8
John Woodend	SACCAR	267-373847/8
James Ted Munthali	Dept of Agricultural Research - Malawi	265-784299
L. P. Gakale	Chairman, SACCAR Board	
M.W. Matemba	Wildlife Management Sector - Malawi	
J.J. Mkoko	Inland Fisheries - Malawi	
Godfrey Lubulwa	ACIAR _ Australia	
L.K. Mughogho	Sorghum and Millet Improvement Program	
Dag Crowe	Deputy Dir. Wildlife Mngmt - Botswana	
Paul Bartel	USAID/Botswana	267-353382
R.E. McColaugh	USAID/Botswana	267-353382
D.R. Martella	USAID REDSO/ESA	254-2-331160
M.L. Kyomo	Director of SACCAR	267-373847/8
Paul M. Holmes	USAID/Washington (Consultant)	(301)593-6558
Jeff Hill	USAID/Washington	(703)235-3787
John Sanders	USAID Consultant	

ANNEX B

STAKEHOLDERS MEETING
GABORONE, BOTSWANA - AUGUST 19, 1994

INVENTORY OF ONGOING RESEARCH ACTIVITIES

A. Commodities

COMMODITY	IMPLEMENTING AGENCY	DONOR
* Sorghum-Millet	ICRISAT	USAID/CIDA/GTZ
* Groundnut	ICRISAT	ICRISAT/GTZ
* Pigeon Pea	ICRISAT	ADB
* Maize-Wheat	CIMMYT	EC
* Roots & Tubers	IITA	USAID/IDRC
* Agro-Forestry	ICRAF	CIDA
* Bean	CIAT	Unfunded
* Cowpea	IITA	EC
* Research Mgt. Training	ISNAR/ESAMI	USAID
* Vegetable Research	_____	Unfunded
* Research Coordination	SACCAR	NORAD/CIDA/SADC
* Plant Genetics Research	SACCAR	SIDA/DANIDA/NORDICS
* Tea	_____	Zimbabwe/RSA
* Livestock (approved)	_____	Unfunded
* Wool & Mohair (approved)	_____	Unfunded

B. Natural Resources Management

* NRMP	_____	USAID
* Land & Water Mgt	_____	CIDA/EC
* Agro-Forestry	_____	_____
* Aquaculture	_____	Unfunded

C. Policy Related

* Food Security	SADC	USAID
* Trade and Comp. Adv.	_____	USAID/_____
* Policy Analysis Ntwk	_____	Unfunded

D. Information and Communications

* Southern Afr. Agr. Information Ntwk	_____	IDRC
* Logistics Advisory Ctr	_____	USAID/WFP
* Info. Needs Assmt.	SACCAR	CTA
* SACCAR Publications, Zimbabwe Journal of Agr. Rsch		
* SADC Early Warning	_____	FAO/DANIDA/UNDP
* FEWS	_____	USAID
* Food & Nutrition Monitoring & Training	_____	_____

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* GIS	_____	_____
* Central Data Base (proposal)	SACCAR	Unfunded
* Plant Genetics D-Base	_____	Unfunded
* Agr. Research D-Base	_____	FAO
* SPAAR (Donor Coord.)	_____	Various

E. Technology Transfer

* On-Farm, Small-Scale Seed Production	_____	GTZ
* Product Specific TT Elements (e.g. NRMP, ____)		

F. Human Resources Development

* Blueprint for Training	SACCAR	CIDA
* Vegetable Research	AVRDC	GTZ
* Post Graduate Training	SADC Member States	GTZ

X:\ISA\STAKEGAB.894 August 24, 1994

DRAFT VERSION ONLY

MINUTES OF USAID SPONSORED WORKSHOP: "ANALYZING AGRICULTURAL COMPARATIVE ADVANTAGE IN SOUTHERN AFRICA"
KARIBA, ZIMBABWE 17-20 AUGUST 1994

Participants

Name		Institutional Affiliation
1.	Mr. J. Van Rooyen	Univ of Pretoria
2.	Mr. R. Hassan	CIMMYT/KARI, Nairobi
3.	Mr. G. Abalu	UNECA, Addis Ababa
4.	Mr. C. Ackello-Ogutu	Univ Nairobi/Technoserve
5.	Mr. F. Mucavele	E.M. Univ, Mozambique
6.	Mr. J. Carvalho	USAID, REDSO, Nairobi
7.	Mr. S. Cele	DBSA, South Africa
8.	Mr. T. Olson	USAID/AFR/SD/PSGE
9.	Mr. I. Kumwenda	Min Agric, Planning, Malawi
10.	Mr. T. Namkumva	Bunda College, Malawi
11.	Mr. J. Mwangangi	Technoserve, Kenya
12.	Mr. C. Sukume	Univ of Zimbabwe
13.	Mr. G. Magagula	Univ of Swaziland
14.	Ms. B. Keating	AMEX International
15.	Mr. B. D'Silva	USAID/AFR/SD/PSGE
16.	Mr. D. Chiwele	Univ of Zambia
17.	Mr. O. Saasa	Univ of Zambia
18.	Mr. F. Masanzu	AMA, Zimbabwe
19.	Mr. B. Kanu	UNDP, Harare

Minutes

Wednesday, 17 August

The Chairperson, Mr. Magagula welcomed participants and officially opened workshop at about 2:30pm on Wednesday 17 August. He called for individual introductions from participants, made a few administrative announcements and invited Brian D'Silva to deliver a brief on the workshop's activities scheduled for the next three days.

Introducing the subject, Brian advised participants activities of the next three days will focus on the following:

* The three year (FY 93-95) regional trade and comparative advantage agenda.

* Rationale for workshop--methods for comparative advantage analysis.

* Electronic Communications Network.

* Initiative for Southern Africa (USAID)

* Next steps--comparative advantage analysis and ISA

He noted that the expected outputs/expectations of the workshop will be:

* An agreement on the approach/methodology for conducting comparative advantage analysis.

* A draft work plan.

* A report to the IAAE mini symposium next week in Harare; and

* A report to the Initiative for Southern Africa (ISA) meeting; and

* A report to USAID Field Missions in the region.

Brian delivered a comprehensive overview of the three year agenda including its institutional/cooperative arrangements as well as the specific components of various activities. He noted that field work for the agenda will include obtaining estimates of informal trade in Eastern and Southern Africa and determining their importance for food security. He further discussed secondary data analysis and introduced the role and concept of the electronic communications network .

Describing his methodology for assessing cross border trade, Chris Ackello-Ogutu informed participants that among other activities, he has already initiated surveys at the Kenya/Uganda border. He underscored difficulties currently being faced in estimating the volume of border trade due to the part illegal nature of a number of these activities. He explained that his methodology looks at non-official/informal/unrecorded trade between countries, especially that taking place by fraudulent means. He discussed the three methods of estimating unrecorded trade that he is employing, namely:

* Keeping enumerators at the relevant border 24 hours a day, 2 weeks per month for eight months.

* Using secondary information; and

* Conducting baseline surveys twice within the eight month period.

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In presenting an overview of Tradenet '94 using a number of conceptual diagrams, Barbara Keating explained that this initiative will essentially be building on

named Southern Africa Food Information Resource Exchange (SAFIRE), which benefitted various Southern African countries using the US as its hub. Brian noted that Country participants of Tradenet will not have to pay any costs, which will instead accrue to the hub/USAID. He advised participants of the purpose and status of various activities (a total eight) envisaged within the ISA framework.

Brian briefed participants that the primary rationale for the workshop is to undertake an in-depth analysis of the paper to be presented tomorrow by Rashid and entitled "An Agroecological Approach to Comparative Advantage Analysis". This task, he added, will deepen our perceptions of the changing agricultural comparative advantage in Southern Africa and the methodological approaches to comparative advantage analysis in readiness for a deadline of 30 September.

ISA introduction

Further, Brian disclosed that the secondary purpose of the workshop is to use regional talent to develop an agricultural and natural resources sector strategy document for subsequent incorporation into the main ISA framework. He presented an illustrative overview of the ISA featuring overall goals, sub-goals, strategic objectives and illustrative outcomes.

The day's session ended at about 5:00pm.

Thursday, 18 August

The morning session began around 8:30am with a presentation from Rashid Hassan entitled "An Agroecological Approach to Comparative Advantage Analysis: A Conceptual Framework". Introducing the concept, Rashid noted the importance of comparative advantage analysis for sub-saharan African countries along the following lines:

* Agroecological suitability
* Serving as a potential guide for future investment in research and productive resources.
* Prices and policies vary between countries but not by AEZs.
* Provides a better structure for organizing other spatial data.
* Spatial analysis facility of GIS allows determination of optimal locations for efficient networks of roads, processing and marketing facilities.

Rashid advised that the paper represents an integrated model for socioeconomic and biophysical determination of agricultural comparative advantage, adding that the biophysical suitability step preceded the application of economic criteria. Since different crops responded differently to different environments, the first step, he said will help determine which crop can be grown where.

The next presentation on methodologies was entitled "A Methodology for analyzing comparative advantage in Malawian Agriculture" by Teddie Nakhumva. Introducing his presentation, Teddie explained that results of his study (which uses the DRC methodology) will serve as a basis for ranking agricultural enterprises. He disclosed general and specific objectives of the study, undertook a brief literature review, explained data collection procedures and carefully described and interpreted the Domestic Resource Cost (DRC) methodology. He warned participants of the following constraints to the DRC methodology:

* Data scarcity, e.g., input used data

* Overlapping of data.

* Labor valuation constraints; and

* Environmental factors such as soil degradation, and deforestation.

In conclusion, Teddy reiterated that due to Malawi's high population growth rate, land is rich in the frontier. The remedy therefore is to improve production, possibly via higher labor and land which will entail used of high yielding crops, hence the need for comparative advantage analysis.

The third presentation of the morning was on the "Spatial Equilibrium Model" by Johan van Rooyen. Introducing the subject, Johan described nine rules that have been established for enhancing the prospects for regional integration. He described the key features and application of the model as well as data issues. His preliminary results suggested that if trade is free, maize meal will flow in from Zimbabwe. Further, due to low price elasticities of supply in South Africa, production levels there do not respond to prices. On the demand side, he noted that the general high price elasticity causes pricing policies to impact on demand.

The Chairperson opened the floor to questions and comments on the papers presented, an inventory of includes the following:

* Need for the paper on agroecological approach to address issues eg, household food security in addition to the macro considerations that it already captures.

* A participant was also unsure as to how mixed/intercropping issues could incorporated into the model for the same paper.

* What is the role of smallholder sector both in the quantity of production and consumption.

* Since the CA model is dynamic, a participant thought there is need for use of other criteria rather than only economic considerations.

* A participant noted that there is need to appreciate the relative nascency of the GIS methodology, which in turn he felt meant learning is still ongoing on this methodology. The same participant stressed the need to separate

normative from explanatory aspects of the methodology. The need to devise a means to marry agroecological and political boundaries in most parts of Africa was also raised by the participant.

Rashid Hassan further discussed certain agroecological considerations of his paper and presented the following tropical classifications:

* Lowland Tropics
* Semi-arid Tropics
* Mid-altitude Tropics; and
* Highland Tropics.

Siphiwe Cele delivered a brief overview of an on-going research effort of his aimed at analyzing South Africa's industrial comparative advantage. This effort he informed was necessitated by the changing industrial structure of South Africa as well as the recent GATT agreements. He stressed the need for biological factors to be taken into account in DRC analysis, probably even more than was done by Rashid.

Ian Kumwenda discussed the agroecological approach in helping to explain the DRC methodology. He stressed the need to fully explain what the DRC coefficients mean after calculating them. Such policy implications could include the environment, food security, nutrition as well as foreign exchange implications.

George Abalu warned that the methodology that might emerge from the deliberations will represent the difficulties of the commodity specific thrust of all the approaches, adding that unless the scope of the methodology is enlarged from a single commodity definition to a more broad-based one, we might face difficulty eventually.

Rashid noted that he thinks it is the potential for a particular farming system that is missing in the DRC methodology. Chrispine Sukum enquired whether or not we are measuring existing or potential comparative advantage. Joe Carvalho enquired as to how changes in potential socioeconomic environments do impact on people's comparative advantages, adding that if most of the distortions are removed, what countries in Southern Africa should produce what? Johan requested clarification on whether or not the transportation cost potentials are included in the DRC model. George argued that from the various presentations, he had gathered that there is need to define precisely the basic kind of information that is expected to emerge from each study. He added that:

* The studies should provide a guide as to what investment and additional reforms are needed; and
* Answer with confidence questions as to whether trade liberalization is working, and if not what modifications need to be made.

Chris Ackello-Ogutu expressed views about the direction of the DRC methodology, especially as regards whether the calculation of a single DRC coefficient for say maize production in Malawi is adequate in itself to stress the need for that country

to produce such a crop only without undertaking DRC methodology studies regionally. He noted the need for further analysis after DRC coefficient computation in various countries. Johan asked whether it is possible to compare DRC coefficients for say maize across countries. Participants generated an opinion that the coefficients were indeed comparable across countries because they are "clean" of policy distortions and only vary in terms of country-specific technology levels. Oliver Saasa informed participants that he sees utility value of the DRC approach at two levels, i.e., national and regional, adding that he foresees complications at regional level arising from a tendency to ignore significant factors that could be meaningful in determining trade. George Abalu disclosed the possibility of aggregation problems at national and regional levels to exist and asked whether additional methodologies exist that will enable this difficulty to be reconciled.

Participants developed a consensus on the following:

* Identify optimal producing areas in the region (Southern Africa).

* Identify trade opportunities--start with existing production and trade patterns.

* Identify and explain gaps and constraints.

* Formulate policies and strategies for removing "3"; and

* And monitoring and evaluation of impacts of policies.

The afternoon session was devoted in part to Barbara conducted training sessions for participants on the TRADENET computer software, and Brian simultaneously discussing the ISA with other participants simultaneously.

The day's session ended at about 5:30pm.

Friday, 19 August

The Chairperson briefly summarized the previous day's activities and introduced those ahead for the day, i.e., the need for participants to collectively agree on which economic methodology that will be used for comparative advantage analysis (GIS, spatial equilibrium model, or DRC). He tasked Brian with briefing participants on the timing/schedule activities envisaged over the next few weeks that are anticipated to assist us achieve our objective.

Brian explained that AID will signing a cooperative agreement between USAID Nairobi and the University of Swaziland by September 30 to be effective October 1. The first 3-4 months will see the review of a small paper on methodology in the region. About 3-4 months for surveying the region on data availability. Country teams will be directly involved in working in each country. He anticipated that in some cases very little secondary data will be available. The question, then he said is how to generate this data for subsequent analysis. Instead of looking at specific commodities, e.g., maize he expected the emphasis to be on cropping systems. He expected work to be better

developed around October-February. Three workshops are planned in order to enable country teams to converge and consult on the analysis of comparative advantage. He stressed that the overall project activity will be heavily dependent on the electronic communication system for coordination during the next 18 months of its proposed time frame.

Data Questions

1. Definition of agroecological zones

-See SPAAR definition from USGS

Johan thinks that South Africa has updated theirs recently. Brian noted the essence of information on SPAAR activities so as to get a feel for what they have been doing. Brian proposed that in addition to setting limits in terms of country boundaries, we should also within countries define/delineate agroecological zones. He added that one question which needs to be reconciled is how the SPAAR and SACCAR zones fit with country specific zones and specifically to see how their normal zonation changed by interaction with SPAAR. A second question will be how many countries in the region have initiated activities on mapping capabilities and GIS issues. Countries such as Zimbabwe, Swaziland, South Africa and Malawi reported that relevant in-country activities already exist. George thinks the Intergovernmental Panel for Climate Change (IPCC) will be the appropriate institutional contact to obtain information on country specific activities. Lesotho, South Africa and Mozambique identified possible institutional in-country contacts.

Next Step--Data Types Required and Availability

Siphiwe suggested need for data on labor, capital, P-c.i.f., P-f.o.b., interest rates, and population densities (with a recent time frame for the latter).

Brian asked country participants whether or not annual surveys are being conducted to generate these data for various zones.

Malawi reported that a system is in place for collecting such information. For estates, crop budget information is available, but is imprecise and distorted for smallholders. Hence they think data variability will exist between estates and smallholders.

Mozambique announced that such data can be obtained from its Ministry of Agriculture, the University's Dept of Agricultural Economics, the Statistics Office, UN Centre for Resettlement, National Planning Commission and the Central Bank.

Zambia advised that the drought monitoring system provides mainly agricultural statistics at household level. The Ministry of Agriculture publishes a report on annual crop outputs and projections. The program against malnutrition furnishes household level data while FAO in collaboration with the Central Statistics Office undertake regional profile surveys in the northern region. Adaptive research planning teams are also involved in related activities.

South Africa briefed that the annual abstract of agricultural statistics, a five yearly publication of agricultural census with annual updates is published. The statistics office and department of agriculture also publish data from farm surveys. The input/output analysis initiative's information on smallholders is thin. Johan underscored that the link between Department of Agriculture and Universities has been thin for historical reasons.

Swaziland noted that information on exchange rates are available and reliable. The statistics office publishes an annual agricultural report but Glen was unsure of its reliability. His opinion is that need exists for farm surveys by the University which it is not currently doing.

Zimbabwe explained that the Departments of Economics and Marketing of the Department of Agriculture have undertaken annual surveys. AGRITEX, commercial farmers union, department of economics and extension of the university have all undertaken surveys. Those for the latter have not been country wide.

Lesotho: Joe announced that the central bank publishes relevant data. The ministry of agriculture and the University also undertake relevant surveys. The statistics office undertakes an annual survey on crop area allocation, yields, livestock, etc.

Transportation Costs Issues

* Processing, storage and handling data.

* Tariffs, duties and subsidies.

Various countries discussed trends and characteristics of the above issues prevailing in their countries. Teddy thinks that the workshop has effectively covered the most tricky aspects of data issues needed for comparative advantage analysis. George suggested the need to capture a time element, i.e., long term vs. short term concerns in terms of liberalization into our analysis. Teddy reported that labor use data especially for smallholders in Malawi tends to be scarce.

Agricultural and Natural Resource Management questionnaires as well as an excerpt of the ISA paper were distributed by Brian before the morning tea for review and completion by participants as appropriate.

ISA Discussion

Brian introduced the ISA and how trade and policy can be developed in the agricultural sector in Southern Africa. Rashid expressed the view that the ISA dovetails with the thrust of his paper. George revealed that in recent years, there has been a shift of most donors from agricultural research investment in Africa to capacity building investment. Joe Carvalho advised that he was of the notion that the problem in the agricultural sector is how to support research and proposed the involvement of the private sector, e.g., large agribusiness firms. Chrispen Sukume argued that most lack funds to undertake basic research. Joe Carvalho noted that Government lacks long term sustainable capacity to support agricultural research, hence the possibility might be to bring in the private sector. Farmino underscored the need NGOs and Universities to play an active role in the development of the ISA, while Chrispen stressed the importance of regionalizing various

institutional and policy issues. He added that transition problems could emerge in the movement from a controlled to an uncontrolled agricultural/research sector. Oliver Saasa noted that food security should go beyond food production. Ian Kumvenda revealed that in Malawi, estate sector which dominates the private sector export has benefited more than smallholders following macroeconomic adjustment, hence the need for targeted interventions exists. Chris Ackello-Ogutu argued that poor policy formulation and its implications for food security is a major problem, adding that countries are not all operating on the same level playing field. The concept of a regional commodity exchange was introduced and discussed especially along the lines of its shortcomings in Zimbabwe and Malawi.

Reviewing the ISA further, Brian stressed the importance of our current discussion to reflect the question of agricultural trade and policy in general for subsequent use in the presentation to the ISA meeting on thursday. He added that a total budget of $300 million will be allocated to the ISA over the next five years, $60 million of which will go to the agricultural sector. He explained that our discussion this afternoon will largely focus on strategic objective 3, with the ultimate objective of trying properly allocate the agriculture budget to various priority agricultural subsectors.

Glen thinks we have to show that financing and supporting agriculture will also positively influence other subgoals. George thinks we need to confirm outcomes again before we begin to define what should be done.

The workshop reconvened in the afternoon at 2:15pm and continued its critique of the ISA excerpt concept paper.

George argued that the paraphrasing of outcome 2 is not quite proper. Johan thinks it fails reflect a reference to farmers. He stresses the need to look at ways in which trade policy can facilitate food security at household, national and subregional levels. Joe thinks a possible intervention will be identifying and designing appropriate trade policies, while Johan contends that the concept of trade ought to be broadened. Chris claims that the outcomes appear to be policies and therefore does not perceive them as outcomes. George stressed the need for precision in stating outcomes instead of just describing what we want it be. Chris proposed that outcome 2 be: increasing trade in agricultural commodities within countries and across others in the region. George suggested that it reads: elimination of internal and external trade barriers at various levels. The workshop agreed that this outcome needs to be rephrased to reflect the link to increased incomes.

Tom Olson suggested that strategic objective 3 should read: increased food availability through increased agricultural productivity and production and through increased trade, for the ultimate achievement of food security. Another participant recommended that it reads: increased agricultural productivity, food availability and access and sustained management of the natural resource base. Brian emphasized that the concept of availability and access should be integral to the strategic objective so as to make the link to food security.

On outcome 3, George Abalu suggested the need to leave "institutions" as is, while strengthening the input delivery system.

On outcome 4, George proposed that the outcome will be too narrow if it is to be restricted only to "biodiversity", since the latter is not the most pressing environmental problem prevailing in the subregion. He therefore suggested that it be replaced with: community based environmental strategies and practices for environmental conservation.

Strategies and Interventions

* Reduction in tariff and non tariff barriers (bureaucratic customs formalities, import and export licenses)
* Remove internal movement restrictions
* Improve road transportation infrastructure so as to reduce transportation costs
* Liberalize market facilities
* Conducive macroeconomic environment
* Empower private sector
* Promote regional integration efforts/standards
* Market information
* Broadening base for agricultural trade, e.g., inputs
- Increased seed trade
- Vet supplies
* Build capacity for trade negotiations with rest of the world
* Trade policy analysis network; and
* Labor mobility.

Indicators

* Changes in the level (tariff) and status of non tariff (compared to baseline).
* Checklist (formal and informal) on restrictions.

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INITIATIVE FOR SOUTHERN AFRICA
AGRICULTURE AND NATURAL RESOURCES

SYNOPSIS OF USAID MEETING

Harare, Zimbabwe, August 24, 1994

I. PURPOSES OF THE MEETING:

a) Brief USAID field staff about current ISA thinking;
b) Engage field Missions in stakeholder analysis and opportunities for ISA investment;
c) Clarify linkages between bilateral and regional programs; and
d) Review the agenda for the August 25 southern African stakeholders workshop.

II. WORKSHOP PARTICIPANTS

The meeting was scheduled to precede the southern African stakeholders workshop scheduled for the next day. Twelve USAID staff or advisors attended: representing four bilateral missions, REDSO/EA and the SARP program. The list of attendees is attached.

III. PRESENTATIONS

Following the welcome, introductions and discussion of workshop objectives, Bob McColaugh and Bob Armstrong presented an informal overview of USAID-supported current regional and bilateral programs in southern Africa. Brian D'Silva and Jeff Hill introduced USAID's Initiative for Southern Africa, with particular emphasis on the Strategic Objective dealing with agriculture and natural resources management. Following there was a brief discussion of lessons learned and issues, a brainstorming of potential project options, and a discussion of next steps for field missions, REDSO and AID/W.

IV. OBSERVATIONS

- Except for Bob McColaugh and Bob Armstrong, who received the Draft Strategic Plan a couple of days earlier, none of the participants had previously seen the ISA and none had had an opportunity to discuss the ISA process or possible activities.

- Most AID supported ANR projects are being implemented on a bilateral basis. Again, except for Bob McColaugh and Bob Armstrong, who have regional responsibilities, few of the AID participants had an appreciation for what AID or other donors are doing in ANR on a regional basis and few are directly engaged in regional integration, "rationalization," collaboration and coordination. The southern Africans are out in front of AID on this.

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V. LESSONS LEARNED AND ISSUES

There was a lot of discussion (though no resolution) regarding the relationship of ISA to bilateral programs. In particular, what role should ISA play in those Missions with no ANR focus?

There was a general consensus that AID has gotten inadequate use out of the IARCS. To the extent possible, the ISA should attempt to strengthen national and regional capacities.

Currently agriculture and natural resources activities have different modes of operation: agriculture working primarily through public organizations while NRM works primarily through NGOs. Can the two be operationally merged? Should they?

OTHER ISSUES NOTED INCLUDE:

A) Many believe that capacity building must be focussed at the national level;

B) To what degree will the ISA be constrained by earmarks?

C) How best can AID facilitate the integration of RSA and the rest of southern Africa? Given the resources already going to RSA, what additional resources should be diverted from the ISA for the RSA?

D) What is the link between ANR's SO3 and the other SOs of the ISA?

E) Will the ISA result in "traditional" AID projects or try to be a true "initiative"?

F) Is SADC the right organizational focus for the ISA and to what degree should we buy into the SADC program v. do something else?

VI. PROJECT OPTIONS

Though there was not time for discussion of the merits of project options, the following is a list of the suggestions offered by the participants:

- The need to address a broad range of policy-related constraints including pricing, trade, harmonization, clarification of national v. regional roles, role of technical steering committees, etc.)
- A range of regional institutional capacity building ideas including: governance; roles; linkages; "way of doing business;" accountability; monitoring & assessment;
- Human resources development and exchanges;
- Promoting financial sustainability;

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- Technology development and transfer;
- Improving communications, networking and information;
- Helping to establish or strengthen NRM network;
- Promoting closer integration between agriculture and NRM;
- Facilitating ANR-related NGO development, communications and networking (business associations, growers, etc.)
- Extending the concept of community empowerment;
- Envisioning one of the roles of regional organizations as a service provider: (strategic planning, impact assessment, financial management and sustainability, governance, policy articulation and reform, human resources development, agribusiness promotion);
- TA to strengthen proposals made to the Enterprise Fund;
- ISA funds to the missions for buy-ins;
- Regional commodity exchange and commodity information

There was general consensus that the ISA program should not be a collection of disparate activities, but have a focus and strategic underpinnings to specific activities (one suggested package might be networking, communications, research, trade and NRM). To the extent possible, the ISA should leverage other resources and facilitate agribusiness and investment. The participants were clear that the ISA should not try to establish new institutions or add to USAIDs' management burdens.

VII. NEXT STEPS

MISSIONS	Review draft design document Send supporting cable (conditional upon agreement)
MEETINGS	Oct. 10/11 NRM meeting in Johannesburg Listen to southern Africa/RSA dialogue
AID/W	Get Kyomo letter to the field Update roadmap Maintain communications

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MEETING PARTICIPANTS

NAME	USAID MISSION OR OFFICE
Robert Armstrong	USAID/Zimbabwe
Joe Carvalho	USAID/REDSO/ESA
Brian D'Silva	USAID/AFR/SD/PSGE
Donald Drga	USAID/AFR/Maputo
Jeff Hill	USAID/AFR/SD/PSGE
Paul Holmes	USAID/Washington (consultant)
Eric Loken	USAID/REDSO/ESA
David Martella	USAID/REDSO/ESA
Robert McColaugh	USAID/Botswana
Thomas Olson	USAID/AFR/SD/PSGE
Kurt Rockeman	USAID/Malawi
Gale Rozell	USAID/Malawi

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INITIATIVE FOR SOUTHERN AFRICA

AGRICULTURE AND NATURAL RESOURCE MANAGEMENT

STAKEHOLDER MEETING

SYNOPSIS OF DISCUSSIONS

HARARE, ZIMBABWE - AUGUST 25, 1994

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INITIATIVE FOR SOUTHERN AFRICA
AGRICULTURE AND NATURAL RESOURCES

STAKEHOLDERS MEETING, HARARE, AUGUST 25, 1994

SYNOPSIS

Purpose: The Purpose of the "stakeholders analysis" for the ISA is to engage individuals and groups, in southern Africa, that will be involved with ISA related activities in a dialogue to jointly identify priorities, strategies, and a framework for guiding the agriculture and natural resource management components of the Initiative For Southern Africa.

Objectives:

USAID is convening a series of ad hoc meetings to inform the design of an initiative to support regional development efforts in agriculture and natural resource management in southern Africa. This ad hoc meeting was scheduled to coincide with the International Association of Agricultural Economists Conference, being held in Harare that same week. The intent was to draw southern African participants from the conference which was, in part, designed to attract senior analysts in the subregion.

The objectives of the meeting were:

a) Introduce the Initiative for Southern Africa (ISA) to southern African stakeholders, representing various perspectives and interests of agriculture and natural resource management;

b) Solicit southern African ideas on the relative importance of different kinds of potential ISA activities in the ANR sector; and

c) Identify issues that must be examined during September and next steps to insure African participation during the remainder of the ANR/ISA program design and review process.

Participants:

The stakeholders meeting involved 30 participants. The group included senior analysts and policy advisers from 7 countries and three regional organizations. The group also included USAID staff from 4 Bilateral Field Missions, REDSO/ESA, and AFR/SD/PSGE. The southern Africans came from ministries of agriculture, faculties of agriculture, regional coordinating organizations, international research organizations, development banking organizations, an NGO involved with community based technology transfer for natural resource management, and a local consulting firm. All of the participants were actively engaged in agricultural policy, development and research in southern Africa. Participation from NRM representatives, communal and commercial farmers and other organizations did not materialize. The workshop was chaired by G. Magagula, from the University of Swaziland.

Presentations and Process

The morning session was organized to (a) provide an overview of the agriculture and natural resource management activities that USAID is supporting within the region, (b) provide an overview of the Initiative for Southern Africa, and (c) provide an overview of the strategic planning being done by southern Africans on agriculture and natural resources management and their processes for regional coordination and cooperation. The following presentations were made:

a) An overview of USAID supported regional programs;

b) Overview of the USAID's Initiative for Southern Africa Strategic Objective #3;

c) Getting Agriculture Moving In East and Southern Africa: Strategy and Plan for Action.

USAID has supported regional agriculture and natural resource management programs in southern Africa for more than 10 years. These activities provide a strong foundation for investments that can be made through the ISA. The strategy document recently completed by experts from the region and endorsed by the Heads of State provides an action plan to get agriculture moving. The strategy represents a concerted effort over the last year of the agriculture community to examine priorities for the subregion. It also represents a strong commitment on the southern Africans to find solutions to their problems. The strategy was reviewed by technical advisers from throughout the region, Ministers of Agriculture for 22 countries in East and West Africa, and Heads of State. It represents the thinking of a broad set of stakeholders within the region. There was considerable discussion regarding strengths and weaknesses of the document, most believed that it constituted a reasonable framework for action regionally.

Brief presentations were made of recent workshops that inventoried ongoing regional activities, identified lessons learned, and reviewed the factors limiting the impact from regional programs. The meetings reported on include:

a) Initiating workshop for a Food, Agriculture and Natural Resources Policy Analysis and Research Network, July, 1994.

b) Stakeholder Meeting for Regional Agricultural and Natural Resources Management Research, August, 1994.

c) Kariba Regional Trade and Comparative Advantage Analysis workshop.

The group was then divided into three groups to discuss possible options for the use of ISA resources and attention.

Observations

The following observations are distilled from the plenary discussion and reports made by the break out groups.

- The discussion and process was open, candid and constructive. There was strong support for the collaborative process for program design and implementation being promoted by USAID in the ISA;

- The free and full participation of those present from South Africa illustrated the degree to which they are already collaborating in the agriculture and natural resources development issues of southern Africa;

- There was remarkable agreement among the three "break-out" groups regarding issues and programmatic focus;

- All "break-out" groups stressed the importance of political will and commitment to support agriculture and natural resource management activities. It was noted that political will is lacking in many countries to support agriculture and the ISA could make a useful contribution by helping to develop processes to build this political will;

- There was broad consensus that the ISA strategy should attempt to develop synergy between policy, technology, resource management and human resource development activities to promote sustainable economic development. The priority should not be to try and prioritize between them, but rather find ways to integrate them;

- Many of the regional organizations are either public or private monopolies and there is not sufficient interaction or linkages between public and private groups. Nor is there sufficient forward and backward linkages between macro and sector strategies. The Region needs to promote competition and develop better linkages between ongoing efforts and existing capacity.

- There was a clear consensus among the southern Africans present in the workshop that there is broad interest in and commitment to act regionally to get agriculture moving. The need expressed to establish donor will and an incentive structure to enable national agents (public and private) to act regionally.

- There was a clear consensus within the workshop regarding the importance of assuring the institutional and financial sustainability within any program activity undertaken. In other words, it is necessary to get the process right as well as having stable funding. (The topic/example of endowments and/or revolving funds frequently came up).

- ISA activities should build upon existing institutions, resources and projects. With the limited resources available it is neither advisable or possible to start new institutions.

- The Initiative could play a major role in the restructuring existing institutions to enable them to empower and serve a broad client base.

Issues

The following issues are a synthesis of break out group reports and plenary discussion.

- There is concern about the ISA process. The concern is that the ISA strategy appraisal process should make effective linkages at both the national and regional level. It was noted that there are development processes that are now underway to build broad based stakeholder support for national and regional development agendas. It was felt that every effort should be made to compliment these. It was noted if the ISA prescribes actions or activities that are in conflict with the priorities derived from the southern Africa led processes there could be implementation difficulties for the ISA and their own initiatives. The groups felt that it was important for the ISA appraisal to review the ongoing processes and see how best to enable these to efficiently identify priorities.

- There remains a lot of uncertainty about how NRM will be defined and understood within the ISA, e.g. wildlife; soils, water & rangelands; forestry; fisheries and aquaculture; regional planning, etc. What will be the relationship between agriculture and NRM activities? The group encouraged efforts to integrate agriculture and natural resource management activities.

- A concern was expressed that except for those handling regional activities out of Harare and Gabarone, USAID Missions in southern Africa do not have a regional perspective on agricultural or natural resources activities. What should be the relationship between ISA and bilateral programs? And how can bilateral Field Missions be more effectively engaged in regional programs?

- What, if any role should ISA play in support of southern African linkages with east Africa?

Priorities for The Future

There was consensus among the group that the ISA should develop and encourage linkages between the "prime movers" to get agriculture moving. The emphasis should be on developing synergy among elements of the agricultural sector, because priorities within the agriculture sector are not static.

The three break out groups that were asked to examine the relative importance of various types of investments in the region, focussed on (a) cross cutting themes and (b) linkages between various parts of the agricultural system. The principal conclusion reached was that you can not place all of your eggs in one basket because no single thing can get agriculture moving.

Group interests focussed on the following areas for possible attention and support under the ISA:

- The need to support efforts that will enable southern African institutions and organizations, supporting agriculture and natural resource management development efforts, to operate efficiently. These include policy-related constraints including pricing, trade, harmonization, etc.; human resource development; financing; planning and communication;

- The need to support efforts to increase incomes by making available technology; by creating jobs; by developing small and intermediate enterprises; and by improving the management of resources.

- The need for improved communications, networking and information exchange among the agriculture and natural resource management community.

Next Steps

- Continued stakeholder analysis: agribusiness meeting in Harare in September; NRM meeting in Johannesburg in October; consultant interviews and discussions with small/communal farmers, commercial farmers, NRM NGOs, agricultural NGOs, consumer groups.

- Development and review of the ISA agriculture and natural resource management strategy: draft complete by October 31, 1994; reviewed in southern Africa in November.

Participants List

NAME	INSTITUTION
1. G. T. Magagah	Univ. of Swaziland
2. Johan van Rooyen	Univ. of Pretoria (consultant)
3. M. Rukuni	Univ. of Zimbabwe
4. C. T. Nkwanyana	SACCAR, Botswana
5. P. Anandajayasekeram	SACCAR, Botswana
6. R. McColaugh	USAID/Botswana
7. P. Holmes	USAID/Washington (consultant)
8. Dr. C. L. Keswani	Harare (consultant)
9. E. M. Shumbe	Price Waterhouse, Harare
10. K. Rockeman	USAID/Malawi
11. J. Carvalho	USAID/REDSO/Nairobi
12. Jeff Hill	USAID/AFR/SD/PSGE
13. Brian D'Silva	USAID/AFR/SD/PSGE
14. D. Gale Rozell	USAID/Malawi
15. Wilfred Ngirwa	Min. of Agriculture, Tanzania
16. Melchior E. Mlambiti	Sokkoine Univ. of Ag., Tanzania
17. Joseph N. Mushonga	Crop Breeding Institute, Zimbabwe
18. Donald Drga	USAID/AFR/Maputo
19. Bungiwe Njobe	Univ. of Pretoria (consultant)
20. Nick Vink	DBSA, South Africa (consultant)
21. C. Chipeta	Univ. of Malawi
22. Wilfred Mwangi	CIMMYT, Ethiopia
23. Thomas Olson	USAID/AFR/SD/PSGE
24. Eric Loken	USAID/REDSO/ESA, Nairobi
25. Firorino G. Mucaveve	Eduardo Monalane Univ., Mozambique
26. David R. Martella	USAID/REDSO/ESA, Nairobi
27. Felix Masangu	AMA, Zimbabwe
28. Oliver Saasa	Univ. of Zambia
29. Gordon Sithole	Min. of Ag., Harare
30. Roger Buchland	SADC/FSATU

AFRICA BUREAU (OSD/FARA)
OFFICE OF SUSTAINABLE DEVELOPMENT
FOOD, AGRICULTURE AND RESOURCES ANALYSIS DIVISION
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT,

September 3, 1994

DATE: September 4, 1994

TO: Phil Jones
AFR/ARTS/FARA

FROM: Wes Fisher, Tony Pryor

SUBJECT: Preliminary Stakeholder Analysis

Below is an initial listing of organizations and their representatives interviewed during the week spent in Zimbabwe, along with a preliminary list of key organizational contacts in some of the other countries in the region, with special emphasis on organizations considered by IUCN to be deserving of stakeholder interviews. Other organizations have been identified in Mozambique, Swaziland, Namibia and Angola, and will be described later.

To date a total of 15 individuals from 9 organizations have been interviewed using the AGR/NRM Stakeholder Questionnaire. Interview comments from organizational representatives are also being compiled and will be prepared later.

A few preliminary findings are emerging:

- All of the organizational representatives strongly endorsed the effort to obtain stakeholder opinions prior to initiating design of the Initiative for Southern Africa.

- Suggestions for creating an African-owned initiative stressed building local capacity through small institutional strengthening grants to local AFR/NRM NGOs, through an institution which assists the NGOs with training and capacity building and with initial management of funds. IUCN follows this model in Zimbabwe.

- The importance of regional natural resource assessments, planning and policy was raised in several interviews, especially where related to shared water resources among member states, e.g. lakes and river basins, and how future water requirements will be affected by continued population growth and industrial development in the region.

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- To date interviewees have identified the following areas of potential focus for the AGR/NRM component of the ISA:

  - community natural resource networking to share experience and lessons; model initiatives.

  - natural resource assessment, planning and policy, particularly related to (1) regional water issues, e.g. shared resources such as the Zambezi River Basin, Lake Malawi, etc., and (2) trans-border migrations of wild species.

  - training in socio-economic monitoring and analysis related to community natural resource management.

  - maintenance of biodiversity

  - information exchange and networking on environment/natural resource information.

The limited number of focus areas identified to date reflects the interests of the groups sampled. For example, had the Southern Center in Zimbabwe been contacted, their primary interest would have been Global Climatic Change. As the analysis progresses, it is expected a broader range of organizations will be contacted and their representatives interviewed.

Nevertheless the interviews to date are demonstrating a depth of understanding of regional NRM issues, as well as yielding possible new approaches to addressing the issues. Following is a summary of only a small fraction of the kinds of comments received:

- A strong plea was made by David Cumming, WWF's regional representative, for careful analysis of the most productive uses of the vast regions of Southern Africa which are semi-arid, have poor soils and are subjected to cyclical drought. With roughly 70% of total land in the region classified as communal and with the characteristics described above, Cumming makes the case that multi-species animal production is the most productive alternative, in contrast to cattle or sheep production (which in its current form is causing severe degradation of soils and vegetative cover) or commercial crops which are subject to the vagaries of Southern Africa climatic variations.

- Davison Gumbo of ENDA points out that project environmental and socio-economic analysis and monitoring, if done at all, is carried out for project design and then frequently abandoned at later stages. A sustained regional program could carry out continuous monitoring and analysis of certain model programs, without suffering the vagaries of individual bi-lateral projects.

- Joe Matowanyika, the Coordinator of the IUCN/CASS Social Science Perspectives in Natural Resources Management Program pointed out that private commercial wild species conservancies are expanding rapidly in the Southern African region and opportunities exist for managing large tracts of land as ecologically sustainable and productive areas, through appropriate consultation with 'wild-resource' ecologists and managers.

- ENDA's Regional Managing Director, Robert Choate believes substantial potential exists for establishing sustainable community/corporate joint ventures in community natural resource management (e.g. ecotourism, crafts, furniture manufacture, etc.)

- Cumming also stressed the difficulty of altering natural resource institutions established under colonial administration to efficiently manage extraction of agricultural products and natural resources from the region. Reforming institutions and/or creating new ones, so that their missions are directed toward sustainable use, is extremely difficult in an environment where old institutional roles remain largely unquestioned by the bureaucracies that have been trained to serve them.

  Retraining and restructuring is needed, yet the resources for institutional reform are largely unavailable, because of the current stress on Southern African national economies. He suggests that retraining of government managers and technicians begin by ensuring that NGOs engaged in community natural resource management include funds for involving government agency personnel in community NRM activities (e.g. retraining, look and learn visits, etc.) Similar funds could be made available regionally for technical and management training of agency personnel who would benefit from exposure to multi-disciplinary approaches to sustainable agriculture/natural resource management.

- Davison Gumbo of ENDA also observed that community natural resource management requires the ability to manage finances and local enterprises. These skills are frequently the last to be provided in the "empowerment process" causing numerous well-intentioned initiatives to fail. A regional program provide could provide training in this key area.

Again, this initial memo does not do the interviews justice and captures only a small sample of the views expressed by those interviewed. However, it does provide some indication of the value of the exercise as it progresses.

Provided below is a partial list of some of the key stakeholder groups in the region. Lists for Mozambique, Angola, Swaziland and Namibia, are in preparation but not yet integrated into the report.

Also attached is a draft outline for the complete SO 3 Stakeholder Analysis Report. Your comments and revisions are invited.

ANNEX A

KEY NRM STAKEHOLDERS IN THE SOUTHERN AFRICAN REGION - PRELIMINARY IDENTIFICATION OF ORGANIZATIONS

[Draft: September 9, 1994]

I. ZIMBABWE . . . . . -3-
- A. IUCN Regional Office for Southern Africa (IUCN/ROSA) . . . . . -3-
- C. ENDA . . . . . -6-
- D. Centre for Applied Social Sciences (CASS) . . . . . -6-
- E. Campfire Association . . . . . -7-
- F. African Resource . . . . . -7-
- G. Zimtrust . . . . . -7-
- H. Southern African Research and Documentation Centre (SARDC) . . . . . -7-
- I. Parks and Wildlife . . . . . -8-
- J. Ford Foundation . . . . . -8-
- K. ZERO . . . . . -8-
- L. The Southern Center . . . . . -8-
- M. The Permaculture Institute . . . . . -8-
- N. Africa Capacity Building Foundation . . . . . -8-
- O. Leadership Environment and Development Program . . . . . -8-
- Africa Fertilizer Trust, ... -8-
- Q. Mining . . . . . -8-
- Australian High Commission . . . . . -9-
- Dutch aid regional advisor - . . . . . -9-
- T. Canadian CIDA . . . . . -9-

II. Zambia . . . . . -9-
- A. SADC Regional Gene Bank, ... -9-
- B. SADC Zambezi Action Plan . . . . . -9-

III. Botswana . . . . . -9-

IV. Malawi . . . . . -9-
- A. SADC Inland Fisheries, Forestry and Wildlife Technical and Administrative Unit . . . . . -9-
- B. TRAFFIC . . . . . -9-
- C. National Herbarium and Botanical Garden of Malawi . . . . . -10-
- USAID/Malawi . . . . . -10-

V. Lesotho . . . . . -10-
- A. SADC Environment and Lands Management Sector Coordination Unit (ELM) . . . . . -10-
- B. Lesotho Council of NGOs, ... -10-

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VI. SOUTH AFRICA . . . . . -10
A. Department of Environmental Affairs . . . . . -10-
B. Natal Parks Board . . . . . -11-
C. Southern African Nature Foundation . . . . . -11-
D. Endangered Wildlife Trust, ... -11-
E. FORESTEK . . . . . -11-
F. University of Cape Town . . . . . -12-
G. Cape Nature Conservation & Museums Board . . . . . -12-
H. Conservation of Wildlife of South Africa Durban Office . . . . . -12-
I. Group for Environmental Monitoring (GEM) . . . . . -12-
J. Institute of Natural Resources . . . . . -12-

VII. Others of Future Interest
. . . . . -13-

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II. ZIMBABWE

A. IUCN Regional Office for Southern Africa (IUCN/ROSA)

Contact Address:

6 Lanark Road
P.O. Box 745
Harare, Zimbabwe

Tel: 263-4-726266/7 FAX: 263-4-720738
E Mail: iucnrosa%mango@gn.apc.org

Persons interviewed:

India Musokotwane, Regional Director, Southern Africa
Nils D. Christoffersen, Program Coordinator, IUCN Regional Office for Southern Africa
Joseph Zano Z. Matowanyika (PhD), Coordinator, IUCN/CASS (University of Zimbabwe)
Social Science Perspectives in Natural Resources Management Program
Pontso Mafethe, Communications Program Coordinator
Simon Anstey, Angola/Mozambique Project Officer

Who Are they?
Current IUCN regional staff consists of 12 professional staff. IUCN-ROSA has 57 members. What do they do?
Building regional networks and providing regional support programs in different focus areas:

- Communication the Environment

- Social Science Perspectives in NRM

Also supporting establishing Biodiversity and Wetlands networks in conjunction with SADC.

Activities in 1993 included:

- Two major regional workshops
Biodiversity in Southern Africa
Zambezi River Basin Water Projects workshop

- Regional support programs in biodiversity and wetlands.
  Establishment of biodiversity network
  Collaboration with SADC-ELMS (Environment and Land Management Sector)
  in Lesotho and SADC Forestry, Fisheries and Wildlife in Malawi)

- Establishment of two other regional programs:
  Communicating the Environment (in conjunction with the Southern African Research and Documentation Centre. See below.)
  Social Sciences Perspectives in Natural Resources Management Program (Includes among other activities a partnership with CASS a 6 week training course for mid-level resource managers in the region.

- Initiation of Biodivesity Program and network.

- Preparation for two more regional programs;
  Biodiversity
  Wetlands

- Plan for an additional program and network in forestry.

- Country Specific Assistance

  Zimbabwe - partner with gov. in translating the National Conservation Strategy into action at national and local level.

  Mozambique and Swaziland - helped to establish a series of projects developed in the field of environmental ed, protected areas and community-based wildlife management

  Angola - development of a "preparing for peace" program focusing on regional exchanges, strengthening environmental expertise and institutional capacity building.

  Botswana - projects developed in the fields of protected areas management and follow-up initiatives for the Okavango Delta.

  South Africa - Preparatory steps taken for the development of a South Africa country program to start in 1994.

- Africa Region Working Session - The Future of Protected Areas in Africa.

Spinoff from involvement with CASS - would like to see the formation of Sustainable Development Policy Institute.

See developing local NGO management capacity as very important. IUCN used two Harvard MBA interns over the summer to help them. Says volunteer help like that is helpful.

Also local NGOs need help in basic project identification and design, integrating their activities into sound planning process, being strategic and avoiding opportunism. Internal inconsistencies in proposals.

Joe recommends paying attention to stakeholder groups not on the current list, i.e wildlife management companies represented in Zimbabwe through the Commercial Farmers Union and the Wildlife Producers Association. A definite trend in Zimbabwe of farmers with

contiguous tracks developing constitutions among landowners who wish to create wildlife conservancies. Tourism and safari hunting on the conservancies have been so successful that farmers who were combining game with cattle are now selling off their herds and going exclusively with game. Similar private reserves in RSA are highly successful, but these conservancies are generally held by a single owner.

An important individual with experience in the formation of private conservancies and representing the interests of wildlife farmers in Zimbabwe is Clive Stokil. He was also one of the individuals instrumental in the formation of CAMPFIRE. Contact: C. Stokil, SAVE Valley Conservancy, P.O. Box 396, Chiredzi. Phone (131) 2698 or 2617.

Summary Assessment of IUCN capabilities and capacity: Well respected by their members for meeting real needs, effectively serving a facilitating and networking function, as well as representing member interests to donors. The organization has grown quickly, but seem to have adapted well. Donor funding would allow further expansion of their networking and regional policy/planning assistance, workshops and training. They are especially interested in trying to establish a Southern Africa Membership Forum, linking corporate interests with IUCN natural resource interests, NGOs and Government agencies through 'institutional networking for conservation and sustainable development.' They also are hoping to establish a Sustainable Development Policy Institute for Southern Africa in cooperation with CASS and other academic/research institutions engaged in policy-oriented research. The intent in creating such an institute would be to create an independent center for policy and analysis, provision of advice to institutions and decision-makers, and training/human resource development. IUCN sees the need for such an Institute as a vehicle for attracting the highest calibre of experienced professionals and academics so as to provide the region with a unique focus and catalyst for promoting and developing concepts and polices of sustainable development/natural resource management.

Overall assessment of IUCN Regional Office: A key actor in regional programs related to resource assessment, environmental planning and policy, water planning and policy development, biodiversity with the capacity to take on additional initiatives.

B. WORLD WILDLIFE FUND

David Cumming, Regional Coordinator

As regional coordinator, David Cumming oversees WWF activities in Zimbabwe, Namibia, Botswana and Mozambique. He shares the view that multi-species animal production is perhaps the most productive use of the vast areas of Southern Africa which are semi-arid, have poor soils and are subject to cyclical drought (including much of the 70% of the region classified as communal land). This form of use creates opportunities for ecotourism which can be a significant revenue generator.

Summary Assessment of WWF regional capabilities and capacity:

WWF has to date been primarily be involved in implementation of field projects in wildlife management and community natural resource management which includes wildlife. Regional office contribution to the ISA might to limited to sharing information

and experience with other wildlife management groups in the region, and dialogue on the value of multi-species animal production.

C. ENDA

ENDA - Zimbabwe, Davison J. Gumbo, Managing Director, Tel: 263-4-301156/301162
ENDA - East and Southern Africa, Charles H. Gore, Managing Director, Tel: 263-4-753432/729904

ENDA is undertaking several enterprise development activities in the East and Southern Africa. A staff on the order of 40 Zimbabwean professionals. ENDA's philosophy is to look for income generating activities that do more than provide subsistence, e.g. activities that 'create wealth'. Excellent training facilities, but no dorms. Would like to expand services in (a) training in enterprise management of local natural resources, (b) training of trainers in socio-economic analysis and monitoring, (c) identification and development of possible community/corporate co-ventures, e.g. in ecotourism, furniture manufacture, etc.

Summary Assessment of ENDA regional capabilities and capacity: Potentially an important actor, linking enterprise development with community natural resource management.

D. Centre for Applied Social Sciences (CASS)

Jeromey C. Jackson, Acting Chairman. Tel: 303211 x1340 or x1337.

Working with IUCN in preparing and presenting regional workshops on Social Science Perspectives in Natural Resource Management. Will continue for the next 2 years.

Summary Assessment of CASS regional capabilities and capacity: An organization which has done ground-breaking applied social-science work in support of CAMPFIRE in Zimbabwe. However it has limited capacity and its management is impeded by the burdensome administrative requirements of the University of Zimbabwe and resulting difficulty in managing donor funds.

An important source of experience and lessons learned in community social-science analysis for community NRM. Should continue to be involved in the training of trainers.

E. Campfire Association, Mukuvisi Woodlands, P.O. Box 661, Harare

Taparendava N. Maveneke (Interviewed - to be written)

F. African Resource Trust

P.O. Box HG690, Highlands, Harare Tel/Fax: 263-4-739163, Fax: 708554

John Hutton (not interviewed)

Steven Kasere (Interviewed - to be written) Steven is working for the Campfire Association) Tel: 722957, FAX: 795150

ART is providing staff support to the Campfire Association as well as promoting the CAMPFIRE program and concepts regionally and internationally. Additional role presenting CAMPFIRE position on controlled hunting of elephant. ART is supported through ZIMTRUST, and acts as the CAMPFIRE group's primary regional and international lobbyist and intermediary. ART very interested in developing Zimbabwe-specific, regional and international networks, using if possible e-mail/Internet linkages.

G. Zimtrust

4 Lanark Road, Belgravia, P.O. Box 4027, Harare, Tel: 722957, 730543, Fax: 795150

Rob Munro
Nontokozo Mema, Information Officer
(Interviewed - to be written)

Support to community natural resource management and local control of resource revenues in several districts of Zimbabwe.

H. Southern African Research and Documentation Centre (SARDC)

13 Bath Road, Belgravia, P.O. Box 5690, Harare Tel: 737301

Munyaradzi Chenje, Editor, Environment, Tel: 738695/6 Fax: 738693
Mutizwa Mukute, Environmental Information Program, Tel: 737301

The parent information documentation centre is located on Barth Road near IUCN, but the new environment unit is at 15 Downie with in walking distance of WWF, Zimtrust and IUCN. Trying to diversify from past front-line communication into regional NRMP. Doing some work for IUCN. The unit maintains a ICES document file, environmental library and data base, and helped put together and publish The State of the Environment in Southern Africa. They are currently working on a similar book on water development and water policy in Southern Africa. They are also putting together a directory of Country Environmental studies which is funded by WRI, IIED and IUCN. The first of three volumes is to be published in March and will cover Zimbabwe, Zambia, Botswana and Mozambique.

I. Parks and Wildlife

Brian Child. Interviewed. (To be written)

J. Ford Foundation

(Not interviewed)

Ken Wilson, located in the center of town. See phone book. - focus on applied social science training. Doing training in Tet Province of Mozambique. Sending Mozambiqueans to CASS to do MSc thesis' in applied social science. Primarily involved in short-term support activities, e.g. in Namibia did evaluations/provided short-term technical advice, supported monitoring. Also short-term community project planning in

Tet Province of Mozambique and in Chimoyo, Mozambique. Activities of no more than a few weeks or months duration.

K. ZERO - network of environmental specialists. An activity in Moz.

L. The Southern Center - GCC and energy use affecting the southern hemisphere (more than Southern Africa) Contact Shakespeare Maya, according to Joseph Zano Z. Matowanyika Maya is an articulate spokesperson for the organization.

M. The Permaculture Institute, John Wilson

N. Africa Capacity Building Foundation (suggested by Joseph Zano Z. Matowanyika)

O. Leadership Environment and Development Program Supported by the Rockefeller Foundation in conjunction with the biomass users network. Conducts a 16 week training course over a 2 year period. Talk to Chive Chimombe or Dr David Mazambani.

P. Africa Fertilizer Trust, Dr. C. Muchena, Useful intergovernmental institution promoting sustainable agriculture (suggested by Joseph Zano Z. Matowanyika).

Q. Mining - Bob McColough recommends getting touch with John Blaine, a personal friend, to here his views on the importance of taping Mining Departments and the Mining Industry for information on the natural resource base in the region. Much information on soils and water resources is known to geologists and mining companies because they have walked more of the region than any other group of professionals, and drilled test over vast areas.

R. Australian High Commission - according to IUCN, an example of no strings attached donor funding. Especially good at small grants.

S. Dutch aid regional advisor - Rob Visser

T. Canadian CIDA regional office is here.

U. GTZ, Regional Rep in Harare, Peter Croll.

V. ODA, funded some SADC and Regional Activities.

W. Action AID

X. Save the Children

III. Zambia

A. SADC Regional Gene Bank, Dr. Godwin Mkamanga, Director, Bag CH6, ZA-153 02, Lusaka, Zambia FAX 260-1-290440, Tel: 260-1-283895.

B. SADC Zambezi Action Plan (New Lesotho-based advisor supported by UNEP)

IV. Botswana

USAID/Botswana, Robert McColough, ANRDO Tel: 267-353382/3/4, FAX: 267-313072
Kalahari Conservation Society
NGO Council Interim Committee

V. Malawi

A. SADC Inland Fisheries, Forestry and Wildlife Technical and Administrative Unit

Matthew Matemba, SADC Sector Coordinator 265-723854, 265-723340 265-731322 Fax: 731452
Dr. Ken Nyasulu, Forestry Secretariat, Technical Coordinating Unit for SADC.
IUCN believes it would also be beneficial to talk to Maida, Matthew's P.S.

B. TRAFFIC

Tom Milikin is in the same office as the SADC unit.

C. National Herbarium and Botanical Garden of Malawi

Dr. James H Seyani, General Manager and Chief Executive, Box 528, Zomba, Malawi. Tel: 265-523388, Fax: 265-522108 - Mobilizing biodiversity efforts in the region.

D. USAID/Malawi Tel: 265-782455, 265-782378 FAX: 265-783181, Kurt Rochmen

VI. Lesotho

A. SADC Environment and Lands Management Sector Coordination Unit (ELM)

Mr. Leleka. Tel: 266-312158 Fax: 266-310190 IUCN recommends visiting and discussing with Leleka SADC constraints.

B. Lesotho Council of NGOs, Caleb Selo, Executive Director

Also UNEP has provided a technical advisor for the preparation of the Zambezi River Basin Action Plan.

Also may want to contact Professor Maro who developed a policy document on environment in the SADC states.

VII. SOUTH AFRICA

Virtually all the contacts listed here and background information are provided courtesy of IUCN-ROSA in Harare.

A. Department of Environmental Affairs

Private Bag X447, Pretoria, 0001, South Africa Tel: 27-12-310-3695 FAX 27-12-322-2682

Alf or Steve Johnson (Pilanesburg?)

Mission Statement: To ensure effective protection and sustainable utilization of the environment for the benefit of everyone in South Africa. The department is the central government ministry dealing with environmental matters in the RSA. It is at present the senior Government agency member of IUCN. The Department will be designated to liaise
with IUCN on behalf of the government.

Brian Huntley
National Botanical Institute
Kirstenbosch
Rhodes Drive
PVT Bag x 7
Claremont, Capetown 7735 RSA
Tel: (27) 21-762-1162 FAX: (21) 761-4687
A key leader in efforts to build a biodiversity network for the Southern African region.
Currently in Lisbon on holiday.
Also with the Institute, Craig Hilton-Taylor.

Secure Program, Community AG/Natural Resource Management program supported by Steve Johnson (The community is approx. 1 hour from Pilanesberg, contact Robbie Robinson)

Development Forestry, contact Ms. Mankove Ntsaba, Pretoria 27-12-841-3740

B. Natal Parks Board

Robbie Robinson, Ex. Director of Natal Parks Board, P.O. Box 662, Pietermartizburg, 3200, South Africa. Tel: 27-12-343-9770
Tel: 27-12-343-9779, Fax: 27-12-343-9959

Mission Statement: To conserve the wildlife resources of Natal and the ecosystems and processes upon which they depend for their survival, and to assist all other public and private groups in ensuring the wise use of the biosphere. Size of permanent staff: 3300. Expenditures for 1992-1993 R118 million. Contact person for IUCN matters: Dr. George Hughes. Tel: 27-331-471.961 Fax: 27-331-471.037

C. 1. Southern African Nature Foundation (SANF), Ian MacDonald, Stellenbosch, Tel: 27-21-887 2801 Fax: 27-21-887-9517

Mission Statement: SANF, in keeping with the mission of the WWF, promotes the conservation and sound management of both terrestrial and marine environments, their natural resources and life support systems. 19 permanent staff, 350 corporate members, no individual memberships.

D. Endangered Wildlife Trust, Dr. John Ledger, Private Bag X11, Parkview, 2122, South Africa, Telephone: 27-11-486.1102, Fax: 27-11-486.1506.

Mission Statement: To conserve the diversity of species in Southern Africa.
8 permanent staff, 5054 members (individuals plus corporate) Expenditures for 1992-1993 R1,300,000.

Dr. Ledger is considered an important contact on sustainable use.

E. FORESTEK

Robert Scholls, Phone 27-12-841-2489 Fax: 841-2689
Dean Fairbanks, GIS, Remote Sensing researcher.

F. University of Cape Town

Professor John Cooper O: 27-21-650.3294 FAX: 27-21-650.3295 H: 27-21-685 1357 E-Mail jcooper@zoo.uct.ac.za
Professor Roy Siegried O: 27-21-7650-3294 Fax: 27-21-650.3295
Alternate: 21-21-650.3290/1. E-mail: csthomas@zoo.uct.ac.za

G. Cape Nature Conservation & Museums Board

Private Bag X9086, Cape Town, 8000, South Africa. Tel: 27-21-483.4093. Fax: 27-21-483.4093

Niel van Wyk (Biodiversity specialist)

Mission Statement: The conservation of the natural and cultural heritage of the Cape Province for the benefit and enjoyment of present and future generations. Size of permanent staff: 1825, Expenditures for 1991-1993: R183 556 000.

H. Conservation of Wildlife of South Africa Durban Office

Keith Cooper, Director, Tel: 210909
Involved in Kwazulu Natal and St. Lucia.

I. Group for Environmental Monitoring (GEM)

Johannesburg, Newtown
Dr. David Fig.

J. Institute of Natural Resources

P.O. Box 375, Pietermaritzburg, 3200, South Africa, Tel: 27-331-68.317 Fax: 27-331-68.991

Dan Archer Tel: 27-331-68-317

Mission Statement: The Institute of Natural Resources is committed to contributing towards the socio-economic upliftment of rural people and the management of natural resources in southern Africa through the integration of conservation and development initiatives.
Considered an important organization for community natural resource management.

VIII. Others of Future Interest

Oceanographic Research Institute, Durban

Rudy P. van der Elst Tel: 27-21-373536

USAID Contacts

USAID/Zimbabwe, Charles Cutshall, Project Officer, SARP NRM Project
AFR/ARTS/FARA, Tony Pryor, Natural Resource Advisor
USAID Regional Economic Development Services Office (REDSO/ESA), Eric R. Loken, Deputy Chief, Agricultural and Natural Resource Division (ANR) P.O. Box 30261, Nairobi, Kenya Tel: 254-2-331160 FAX: 254-2-330945.

INITIATIVE FOR SOUTHERN AFRICA
REGIONAL AGRICULTURE/NATURAL RESOURCE MANAGEMENT
STAKEHOLDER ANALYSIS

Draft Outline

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  - C.2. Summary of community natural resource management stakeholder regional interests, actions and implementation mechanisms.
  - C.3. Relationships to AGR/NRM ISA Outcomes.
- D. Key Stakeholders in Regional Resource Assessment, Environmental Planning and Policy Formulation.
  - D.1. Who are they? What do they do? Who do they work with? What are their perceptions of relationships with other NRM focus areas (e.g. agricultural development, community natural resource management, biodiversity, etc.?)
  - D.2. Summary of stakeholder regional interests, actions and implementation mechanisms in environmental planning and policy formulation.

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E. Key Stakeholders in Management/Preservation of Biodiversity.
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   - E.2. Summary of stakeholder regional interests, actions and implementation mechanisms in biodiversity.
   - E.3. Relationships to AGR/NRM Outcomes.

F. Key Stakeholders in Analysis of Global Climate Change.
   - F.1. Who are they? What do they do? Who do they work with? What are their perceptions of relationships with other NRM focus areas (e.g. agricultural development, community natural resource management, regional resource assessments, environmental planning and policy, etc.)?
   - F.2. Summary of stakeholder regional interests, actions and implementation mechanisms in global climate change.
   - F.3. Relationships to AGR/NRM ISA Outcomes.

G. Key Stakeholders for Education in Sustainable Agricultural/NRM.
   - G.1. Who are they? What do they do? Who do they work with? What are their perceptions of relationships with other NRM focus areas (e.g. agricultural development, community natural resource management, regional resource assessments, environmental planning and policy, etc.)?
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Annex III - Document List
Annex IV - Stakeholder Questionnaire

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INITIATIVE FOR SOUTHERN AFRICA
REGIONAL AGRICULTURE/NATURAL RESOURCE MANAGEMENT
STAKEHOLDER ANALYSIS
GUIDANCE FOR INTERVIEWERS

BACKGROUND

With the dramatic changes in the Southern Africa political economy, and the emergence of South Africa as a major partner and economic force in the region, opportunities may now exist for truly regional programs which would support efforts of those members states, organizations and stakeholders in the Southern Africa region who are attempting to forge new and effective regional relationships and approaches to Southern African regional development.

USAID is proposing a new multimillion dollar **Initiative for Southern Africa** to support regional Southern African regional development and cooperation. An anticipated component of this initiative related to regional natural management and sustainable agricultural development has yet to formulated. However, its strategic objective is to bring about sustainable and equitable increases in rural productivity, and the proposed outcomes are:

Outcome 1. Strengthening of the enabling environment to empower Southern Africans.

Outcome 2. Sustainable income generation through stakeholder control and management over natural resources, and

Outcome 3. Sustainable regional ecosystem management.

Interview Purpose.

The primary purpose for interviewing natural resource management and sustainable agriculture development stakeholders* in the Southern African region is:

- To determine from them who they believe are the key stakeholders in promoting sustainable agriculture and natural resource management in the Southern African region, their mission(s), their interrelationships with other stakeholders and their effectiveness.

- To elicit their views on the issues, constraints and opportunities for improved regional cooperation in natural resource management and sustainable agriculture.

- To obtain suggestions for the kinds of regional natural resource management and sustainable agricultural development programs and actions they believe would be most beneficial to the stakeholders of the region, and

- To ask for suggestions on how to ensure that regional initiatives are owned and carried out by the implementing stakeholders.

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* a stakeholder is defined here as an individual or group who cares about an outcome(s).

Interview Questions

Natural resource management encompasses all sectoral activities related to management of the natural resource base including, for example, sustainable agriculture development, wildlife management, biodiversity and environmental planning and management. These guidance questions have therefore been developed for use with the full range of natural resource stakeholders, including those engaged in sustainable agricultural development and research in Southern Africa.

A much larger set of questions has been developed for the stakeholder analysis and is provided as Attachment A. To cover them all would require far more than the anticipated period of one hour expected per interview. We therefore suggest you use the attached list of questions as a reference before you begin the interview, and again at its conclusion, asking yourself which of them are most relevant to that particular interview, and which questions might be answered by examining available reports and documents. Where reasonable, try to obtain documents which describe the stakeholder's programs and activities.

Below is a shorter set of sample questions to be used as the actual interview instrument, but again the questions should be asked and answers recorded only where relevant. A free and open discussion with the stakeholders being interviewed is encouraged over your trying to adhere religiously to the questionnaire format.

Please record the answers to these questions on separate sheets of paper and staple together with the 2 page questionnaire that follows.

SOUTHERN AFRICA
REGIONAL AGRICULTURE/NATURAL RESOURCE MANAGEMENT
STAKEHOLDER INTERVIEW QUESTIONNAIRE

Person Interviewed:_____ Date:_____
Title:_____
Organization:_____
Address:_____ Phone:_____
_____ FAX:_____
_____
Interviewer:_____

STAKEHOLDERS

1. From the list in Handout 1., please identify who you believe are the 4 or 5 key stakeholder organizations or programs with regional natural resource management and/or sustainable agriculture interests. Briefly describe their mission(s). How effective are they? Could they be made more effective? Are there stakeholders missing from the handout list?

2. As a natural resource management or sustainable agriculture stakeholder, what kinds of interactions do you have with other organizations in the region? Are you effectively represented in the region? Do you have regional interests or needs which are not being met (e.g improved regional communication and information exchange, planning, research, program coordination, etc.)?

REGIONAL OUTCOMES

Examples of actions or inputs in support of the three outcomes from achieving AID's Strategic Objective sustainable and equitable increases in rural productivity are provided as Handout 2.

3. What programs and organization(s) do you believe are or could be most effective in achieving the outcomes listed?

4. What kinds of donor-funded activities in natural resource management and/or sustainable agriculture do you consider ineffective. Which of these should either be reduced or dropped?

PROGRAM CONSIDERATIONS

5. Do you have suggestions for how USAID might more effectively encourage African participation in ownership of USAID-funded regional natural resource management and sustainable agriculture programs in Southern Africa?

6. Do you see a role for the establishment of sustainable financing mechanisms (e.g. revolving funds, endowments, membership fees) related to NRM and sustainable agriculture? If so, are you able to suggest what kind of institution(s) should receive consideration for donor supported sustainable financing approaches, and which of these should receive priority consideration?

REGIONAL COOPERATION

7. What are the most important issues or constraints to effective regional cooperation in natural resource management and/or sustainable agriculture?

8. Do you have suggestions for how South Africa might be best integrated into the Southern African natural resource management and sustainable agriculture development process?

9. Are you aware of opportunities for A.I.D. cooperation or overlap with other donors efforts in support of Southern Africa Regional NRM and sustainable agricultural development?

10. Summary question. In what areas, if any, do you think that a new natural resource management and/or sustainable agriculture development initiatives should be undertaken on a regional basis? If possible, suggest specific implementation mechanisms and assign relative priorities.

SACCAR

Southern African Centre for Cooperation
in
Agricultural Research & Training

Private Bag 00108 Gaborone Botswana
Telephone: 373847/8 Telex: 2752 SACAR BD Fax: 375204

REF: SAR/3/11

23rd June, 1994

Mr. Nate Fields
AA/AFR
USAID
WASHINGTON D.C.
U.S.A.

Dear Mr. Fields,

CURRENT STATUS OF AID SUPPORT TO AGRICULTURE AND NATURAL RESOURCES RESEARCH AND TRAINING IN SOUTHERN AFRICA AND REASONS FOR CONTINUATION OF SUPPORT

The Food, Agriculture and Natural Resources sectors occupy central position in the economic structure of the Southern African Development Community(SADC) region. The population of the region is currently estimated at 78 million and is growing at an average of 3% per annum. Up to 80% of the population and labour force in member states is dependent on agriculture for subsistence as well as for employment and income. From 1980-86, agriculture contributed 34% of the region's GNP, employed up to 80% of the total labour force and accounted for about 26% of the total foreign exchange earnings in countries that depend on mining for a larger share of the income and about 60% in countries where mining is not a major industry. Agriculture will still continue to be the major driving force in the economic development of the majority of SADC member states.

Having recognised the importance of agriculture in the economies of Eastern and Southern Africa, the Ministers of Agriculture met in Harare, Zimbabwe (14-15 April, 1994) to prepare a framework for action to be considered by Summit under the auspices of Global Coalition for Africa(GCA) The Heads of State in Southern Africa meet in June, 1994 to receive among other things a report from the Ministers of Agriculture which highlighted what needs to be done to make agriculture an engine of economic development in Africa. The report recommends that agriculture be put on top of the political agenda, increase public investment, develop comprehensive and implementable agricultural policies which encompass the key prime movers of agricultural development and these are: technology, human capital, physical and biological infrastructure, effective institutions, and an enabling political and economic environment to be

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developed as a package and be sustained for over a period of twenty to thirty years. Ministers also reaffirmed the commitment to regional cooperation in areas of mutual benefit strengthen national efforts. The Ministers identified areas of immediate priority concern to region and these include food security, water resources development and irrigation, and hur resources development. In the area of agricultural research, the Ministers recommended t the existing regional institutions be revisited in order to enhance their capacity to prov technical guidance and leadership. Another area of importance was the need to create Regional Agricultural Policy Network to enhance indigenous capacity for policy formulation a analysis. This network would among other things assist in the convening of the Conference Ministers of Agriculture to review the progress in the implementation of agricultural sect policies and strategies.

The DEVRES study on Agricultural Research Resource Assessment for SADC of 1985, whi AID funded, concluded that agricultural productivity was seriously constrained. It stated th agricultural research can help if it was re-oriented to meet the smallholder problems. It al recommended that a regional approach to solving agricultural problems was needed. Since th Heads of State and Governments of SADC in 1980 agreed to collaborate in agricultural researc and training, AID assisted SADCC by funding a Consultancy headed by the Internationa Agricultural Development Service on modalities of cooperation. The result was the creatio of the Southern African Centre for Cooperation in Agricultural Research and Trainin (SACCAR) based in Gaborone, Botswana. It is the secretariat of leaders of Nationa Agricultural and Natural Resources Research Systems and Deans of Faculties of Agricultur Natural Resources and Veterinary Medicine. Through periodic meetings of these heads of national institutions, regional corroborative research and training programs have been identified and are being implemented by SACCAR through collaborative research or training networks. AID is supporting the following:

1. SACCAR. Although SADC now funds 50% of its total annual budget, AID, Norway, Canada and Sweden have been funding specific programs. The most important current programs the AID is supporting are:

    a. Impact Assessment of investments to agricultural research at regional and national levels including capacity building and institutionalisation.

    b. Support to Food Policy Analysis Research Network.

2. Sorghum and Millet Improvement Research and Training Network.

3. Agricultural Research Management Training.

4. Southern African Root Crops Research Network.

5. Heartwater Research Project(implemented under Zimbabwe/University of Florida).

The status of these projects and their achievements have been shown in the SACCAR's 1992-93 Annual Progress Report to SADC with a lead statement: "Without Seed there is no Agriculture".

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The Board of SACCAR which comprises the heads of national institutions mentioned above ha developed a blueprint (20 year period) on training of professional and technician manpower fo the region. Four Universities in the region have already been assigned to run regional Maste of Science degrees in Agricultural Economics, Animal Science, Agricultural Engineering witr emphasis on land and water management and crop science. More regional training programme have been identified in the blueprint. This training initiative came out of the World Bank's assisted study which identified deficits in manpower at BSc. M.Sc., and Ph.D levels for research, training and extension and the solution was to come through regional initiatives ir student and university staff exchange. SACCAR has developed a Protocol on accreditation by courses being offered by the universities in the region and it is expected to be signed by the Heads of Universities during 1994. The Ministers of Agriculture have also resolved that excep for highly specialised training most overseas graduate training should be phased out over the next 10 to 20 years as and more relevant training is provided at graduate level in the region.

A similar long term strategy is being developed in regional agricultural research as a successor to the DEVRES study already mentioned. Fortunately, the preliminary findings show that the priority commodities and natural resources areas identified by DEVRES continue to appear under the top ten areas requiring continued assistance in technology development and transfer to increase their productivity in order to solve food security deficits, raise incomes and continue to provide employment to rural communities. These include the two commodity research networks (Sorghum and Millet and Root Crops) currently being supported by USAID.

The incorporation of a democratic South Africa into SADC by August 1994 will require the review of the blueprint on human resources and the long term agricultural research strategy. The conclusions of the DEVRES study on SADCC in 1985 would most likely be relevant to the situation in South Africa namely that "Agricultural Research can help if it is Re-oriented to meet Smallholder problems." SACCAR, has already started a dialogue with South African scientists on farming systems research, training and germplasm collection, characterisation, documentation, storage and exchange. A study is needed to review the priorities and activities of SACCAR in the light of the inclusion of South Africa as far as changing policy and institutional environments in the other member states. This idea was endorsed by the Board of SACCAR at its meeting in November, 1993 in Mbabane, Swaziland.

Given this background, we in SACCAR strongly believe that agriculture and proper management of natural resources will continue to play a crucial role in the economic development of the Southern African region. We also endorse the networking mode of collaboration as an appropriate mechanism to derive the maximum benefits from the scarce research and training resources. Therefore, we request continued assistance from AID in the following areas which were also endorsed by the Board of SACCAR, Ministers of Agriculture and Heads of State and Government:

1. Continued assistance to on-going projects;

2. A consultancy to revisit the cooperation in agricultural research and training in the new SADC.

3. Continued assistance to develop the capacity and institutionalisation of Impact Assessment as a planning tool in research management.

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4. Establishment of a centralised database at SACCAR which could be used for strategic planning by member states as well as SACCAR.

5. Assistance to support the implementation of the blueprint on training including regional scholarships to support the on-going and future regional graduate programs.

6. Implementation of the long term agricultural and natural resources research strategy.

7. Establishment and maintenance of the Agricultural Research Policy Analysis Network.

We trust that this information will assist you in developing strategies for the proposed Southern African Initiative. We would be pleased to be visited by your team and discuss these issues in detail.

Yours sincerely,

Martin L. Kyomo
DIRECTOR

cc: Dr. Lucas Gakale
Director of Agric. Research, Botswana
and Chairman Board of SACCAR
Private Bag 0033
GABORONE

: Mr. Ted Morse
Director
USAID
P.O. Box 6988
HARARE
Zimbabwe ATTENTION: DR. R. ARMSTRONG

: Mr. Howard Handler
Director
USAID
P.O. Box 2427
GABORONE ATTENTION: MR. R.E. McCOLAUGH

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

AUG 18 1994

Dr. Martin Kyomo
Director
Southern African Center for
Cooperation in Agricultural Research
Private Bag 00108
Gaborone, Botswana

Dear Dr. Kyomo:

Thank you for your letter on the status of the regional agricultural research activities that the Southern African C er for Cooperation in Agricultural Research (SACCAR) has been coordinating and USAID has been financing. The contribution SACCAR in coordinating donor assistance in this area has bee especially important. The copy of the Conference of Ministe of Agriculture's strategy for Getting Agriculture Moving in Eas nd Southern Africa is appreciated and most interesting.

I would like to reaffirm USAID's commitment to support agriculture and natural resource management sector through o Initiative for Southern Africa. We are now working on the strategic orientations of this sector of the Initiative. By e end of October analyses of strategies and options will be completed in close consultation with stakeholders throughout Southern Africa. Our goal will be to rationalize agricultur research in the subregion, taking into consideration the excellent work SACCAR has already done, in order to enable research systems to efficiently increase their contribution food security and economic growth.

The seven areas in which you have requested continued U D assistance are all areas we, too, consider important. While cannot now specify the exact nature of our future assistance these areas, I can assure you that they are priorities for u nd are being examined in the development of the Initiative for Southern Africa. Over the next several months we will spons consultancies to the region for the purpose of further explo g the exact nature of our support. We hope to work closely wi you to bring about a realistic assessment of needs, opportun es and resources.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

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Again, thank you for your letter, the report, and your continued partnership in agriculture and natural resource management in southern Africa.

Sincerely,

Nathaniel Fields

Nathaniel Fields
Deputy Assistant Administ or
Bureau for Africa

Clearances:
AFR/SD/PSGE:Dsonger DS date 8/3
AFR/SD/PSGE:CReintsma CR date 8/3
AFR/SD:AGetson AG date 8/16/94
AFR/SD:JWolgin JW date 8/17/94

cc: Carol Peasely, AFR/DAA
Robert McColaugh, USAID/Botswana
Robert Armstrong, USAID/Zimbabwe
Curt Reintsma, AFR/SD/PSGE

AFR/SD/PSGE:Dsonger/JHill:(202)647-7194:o:\artspub\fara\letters\kyomo.81

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ANNEX D

AFRICA BUREAU (OSD/FARA)
OFFICE OF SUSTAINABLE DEVELOPMENT
FOOD, AGRICULTURE AND RESOURCES ANALYSIS DIVISION
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523-0089

September 3, 1994

DATE: September 4, 1994

TO: Phil Jones
AFR/ARTS/FARA

FROM: Wes Fisher, Tony Pryor

SUBJECT: **Preliminary Stakeholder Analysis**

Below is an initial listing of organizations and their representatives interviewed during the week spent in Zimbabwe, along with a preliminary list of key organizational contacts in some of the other countries in the region, with special emphasis on organizations considered by IUCN to be deserving of stakeholder interviews. Other organizations have been identified in Mozambique, Swaziland, Namibia and Angola, and will be described later.

To date a total of 15 individuals from 9 organizations have been interviewed using the AGR/NRM Stakeholder Questionnaire. Interview comments from organizational representatives are also being compiled and will be prepared later.

A few preliminary findings are emerging:

- All of the organizational representatives strongly endorsed the effort to obtain stakeholder opinions prior to initiating design of the Initiative for Southern Africa.

- Suggestions for creating an African-owned initiative stressed building local capacity through small institutional strengthening grants to local AFR/NRM NGOs, through an institution which assists the NGOs with training and capacity building and with initial management of funds. IUCN follows this model in Zimbabwe.

- The importance of regional natural resource assessments, planning and policy was raised in several interviews, especially where related to shared water resources among member states, e.g. lakes and river basins, and how future water requirements will be affected by continued population growth and industrial development in the region.

- To date interviewees have identified the following areas of potential focus for the

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productive areas, through appropriate consultation with 'wild-resource' ecologists and managers.

- ENDA's Regional Managing Director, Robert Choate believes substantial potential exists for establishing sustainable community/corporate joint ventures in community natural resource management (e.g. ecotourism, crafts, furniture manufacture, etc.)

- Cumming also stressed the difficulty of altering natural resource institutions established under colonial administration to efficiently manage extraction of agricultural products and natural resources from the region. Reforming institutions and/or creating new ones, so that their missions are directed toward sustainable use, is extremely difficult in an environment where old institutional roles remain largely unquestioned by the bureaucracies that have been trained to serve them.

  Retraining and restructuring is needed, yet the resources for institutional reform are largely unavailable, because of the current stress on Southern African national economies. He suggests that retraining of government managers and technicians begin by ensuring that NGOs engaged in community natural resource management include funds for involving government agency personnel in community NRM activities (e.g. retraining, look and learn visits, etc.) Similar funds could be made available regionally for technical and management training of agency personnel who would benefit from exposure to multi-disciplinary approaches to sustainable agriculture/natural resource management.

- Davison Gumbo of ENDA also observed that community natural resource management requires the ability to manage finances and local enterprises. These skills are frequently the last to be provided in the "empowerment process" causing numerous well-intentioned initiatives to fail. A regional program provide could provide training in this key area.

Again, this initial memo does not do the interviews justice and captures only a small sample of the views expressed by those interviewed. However, it does provide some indication of the value of the exercise as it progresses.

Provided below is a partial list of some of the key stakeholder groups in the region. Lists for Mozambique, Angola, Swaziland and Namibia, are in preparation bu not yet integrated into the report.

Also attached is a draft outline for the complete SO 3 Stakeholder Analysis Report. Your comments and revisions are invited.

ANNEX A

KEY NRM STAKEHOLDERS IN THE SOUTHERN AFRICAN REGION - - PRELIMINARY IDENTIFICATION OF ORGANIZATIONS

[Draft: September 21, 1994]

I. ZIMBABWE . . . . . -3-
A. IUCN Regional Office for Southern Africa (IUCN/ROSA) . . . . . -3-
C. ENDA . . . . . -6-
D. Centre for Applied Social Sciences (CASS) . . . . . -6-
E. Campfire Association . . . . . -7-
F. African Resource . . . . . -7-
G. Zimtrust . . . . . -7-
H. Southern African Research and Documentation Centre (SARDC) . . . . . -7-
I. Parks and Wildlife . . . . . -8-
J. Ford Foundation . . . . . -8-
K. ZERO . . . . . -8-
L. The Southern Center . . . . . -8-
M. The Permaculture Institute . . . . . -8-
N. Africa Capacity Building Foundation . . . . . -8-
O. Leadership Environment and Development Programme . . . . . -8-
Africa Fertilizer Trust, ... -8-
Q. Mining . . . . . -8-
Australian High Commission . . . . . -9-
Dutch aid regional advisor - . . . . . -9-
T. Canadian CIDA . . . . . -9-

II. Zambia . . . . . -9-
A. SADC Regional Gene Bank, ... -9-
B. SADC Zambezi Action Plan . . . . . -9-

III. Botswana . . . . . -9-

IV. Malawi . . . . . -9-
A. SADC Inland Fisheries, Forestry and Wildlife Technical and Administrative Unit
. . . . . -9-
B. TRAFFIC . . . . . -9-
C. National Herbarium and Botanical Garden of Malawi . . . . . -10-
USAID/Malawi . . . . . -10-

V. Lesotho . . . . . -10-
A. SADC Enviroment and Lands Management Sector Coordination Unit (ELM) . . . . . -10-

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I. ZIMBABWE

A. IUCN Regional Office for Southern Africa (IUCN/ROSA)

Contact Address:

6 Lanark Road
P.O. Box 745
Harare, Zimbabwe

Tel: 263-4-726266/7 FAX: 263-4-720738
E Mail: iucnrosa%mango@gn.apc.org

Persons interviewed:

India Musokotwane, Regional Director, Southern Africa
Nils D. Christoffersen, Programme Coordinator, IUCN Regional Office for Southern Africa
Joseph Zano Z. Matowanyika (PhD), Coordinator, IUCN/CASS (University of Zimbabwe) Social Science Perspectives in Natural Resources Management Programme
Pontso Mafethe, Communications Programme Coordinator
Simon Anstey, Angola/Mozambique Project Officer

Who Are they?
Current IUCN regional staff consists of 12 professional staff. IUCN-ROSA has 57 members. What do they do?
Building regional networks and providing regional support programmes in different focus areas:

- Communication the Environment

- Social Science Perspectives in NRM

Also supporting establishing Biodiversity and Wetlands networks in conjunction with SADC.

Activities in 1993 included:

- Two major regional workshops
Biodiversity in Southern Africa
Zambezi River Basin Water Projects workshop

- Regional support programs in biodiversity and wetlands.
  Establishment of biodiversity network
  Collaboration with SADC-ELMS (Environment and Land Management Sector)

activities into sound planning process, being strategic and avoiding opportunism. Internal inconsistencies in proposals.

Joe recommends paying attention to stakeholder groups not on the current list, i.e wildlife management companies represented in Zimbabwe through the Commercial Farmers Union and the Wildlife Producers Association. A definite trend in Zimbabwe of farmers with contiguous tracks developing constitutions among landowners who wish to create wildlife conservancies. Tourism and safari hunting on the conservancies have been so successful that farmers who were combining game with cattle are now selling off their herds and going exclusively with game. Similar private reserves in RSA are highly successful, but these conservancies are generally held by a single owner.

An important individual with experience in the formation of private conservancies and representing the interests of wildlife farmers in Zimbabwe is Clive Stokil. He was also one of the individuals instrumental in the formation of CAMPFIRE. Contact: C. Stokil, SAVE Valley Conservancy, P.O. Box 396, Chiredzi. Phone (131) 2698 or 2617.

Summary Assessment of IUCN capabilities and capacity: Well respected by their members for meeting real needs, effectively serving a facilitating and networking function, as well as representing member interests to donors. The organization has grown quickly, but seem to have adapted well. Donor funding would allow further expansion of their networking and regional policy/planning assistance, workshops and training. They are especially interested in trying to establish a Southern Africa Membership Forum, linking corporate interests with IUCN natural resource interests, NGOs and Government agencies through 'institutional networking for conservation and sustainable development.' They also are hoping to establish a Sustainable Development Policy Institute for Southern Africa in cooperation with CASS and other academic/research institutions engaged in policy-oriented research. The intent in creating such an institute would be to create an independent center for policy and analysis, provision of advice to institutions and decision-makers, and training/human resource development. IUCN sees the need for such an Institute as a vehicle for attracting the highest calibre of experienced professionals and academics so as to provide the region with a unique focus and catalyst for promoting and developing concepts and polices of sustainable development/natural resource management.

Overall assessment of IUCN Regional Office: A key actor in regional programs related to resource assessment, environmental planning and policy, water planning and policy development, biodiversity with the capacity to take on additional initiatives.

B. WORLD WILDLIFE FUND

David Cumming, Regional Coordinator

As regional coordinator, David Cumming oversees WWF activities in Zimbabwe, Namibia, Botswana and Mozambique. He shares the view that multi-species animal production is

for community NRM. Should continue to be involved in the training of trainers.

E. Campfire Association, Mukuvisi Woodlands, P.O. Box 661, Harare

Taparendava N. Maveneke (Interviewed - to be written)

F. African Resource Trust

P.O. Box HG690, Highlands, Harare Tel/Fax: 263-4-739163, Fax: 708554

John Hutton (not interviewed)

Steven Kasere (Interviewed - to be written) Steven is working for the Campfire Association) Tel: 722957, FAX: 795150

ART is providing staff support to the Campfire Association as well as promoting the CAMPFIRE programme and concepts regionally and internationally. Additional role presenting CAMPFIRE position on controlled hunting of elephant. ART is supported through ZIMTRUST, and acts as the CAMPFIRE group's primary regrional and international lobbyist and intermediary. ART very interested in developing Zimbabwe-specific, regional and international networks, using if possible email/Internet linkages.

G. Zimtrust

4 Lanark Road, Belgravia, P.O. Box 4027, Harare, Tel: 722957, 730543, Fax: 795150

Rob Munro
Nontokozo Mema, Information Officer
(Interviewed - to be written)

Support to community natural resource management and local control of resource revenues in several districts of Zimbabwe.

H. Southern African Research and Documentation Centre (SARDC)

13 Bath Road, Belgravia, P.O. Box 5690, Harare Tel: 737301

Munyaradzi Chenje, Editor, Environment, Tel: 738695/6 Fax: 738693
Mutizwa Mukute, Environmental Information Programme, Tel: 737301

The parent information documentation centre is located on Barth Road near IUCN, but the new environment unit is at 15 Downie with in walking distance of WWF, Zimtrust and IUCN. Trying to diversify from past front-line communication into regional NRMP. Doing some work for IUCN. The unit maintains a ICES document file, environmental library and

areas.

R. Australian High Commission - according to IUCN, an example of no strings attached donor funding. Especially good at small grants.

S. Dutch aid regional advisor - Rob Visser

T. Canadian CIDA regional office is here.

U. GTZ, Regional Rep in Harare, Peter Croll.

V. ODA, funded some SADC and Regional Activities.

W. Action AID

X. Save the Children

II. Zambia

A. SADC Regional Gene Bank, Dr. Godwin Mkamanga, Director, Bag CH6, ZA-153 02, Lusaka, Zambia FAX 260-1-290440, Tel: 260-1-283895.

B. SADC Zambezi Action Plan (New Lesotho-based advisor supported by UNEP)

III. Botswana

USAID/Botswana, Robert McColough, ANRDO Tel: 267-353382/3/4, FAX: 267-313072
Kalahari Conservation Society
NGO Council Interim Committee

IV. Malawi

A. SADC Inland Fisheries, Forestry and Wildlife Technical and Administrative Unit

Matthew Matemba, SADC Sector Coordinator 265-723854, 265-723340 265-731322 Fax: 731452
Dr. Ken Nyasulu, Forestry Secretariate, Technical Coordinating Unit for SADC.
IUCN believes it would also be beneficial to talk to Maida, Matthew's P.S.

B. TRAFFIC

Tom Milikin is in the same office as the SADC unit.

Claremont, Capetown 7735 RSA
Tel: (27) 21-762-1162 FAX: (21) 761-4687
A key leader in efforts to build a biodiversity network for the Southern African region.
Currently in Lisbon on holiday.
Also with the Institute, Craig Hilton-Taylor.

Secure Program, Community AG/Natural Resource Management programme supported by Steve Johnson (The community is approx. 1 hour from Pilanesberg, contact Robbie Robinson)

Development Forestry, contact Ms. Mankove Ntsaba, Pretoria 27-12-841-3740

B. Natal Parks Board

Robbie Robinson, Ex. Director of Natal Parks Board, P.O. Box 662, Pietermartizburg, 3200, South Africa. Tel: 27-12-343-9770
Tel: 27-12-343-9779, Fax: 27-12-343-9959

Mission Statement: To conserve the wildlife resources of Natal and the ecosystems and processes upon which they depend for their survival, and to assist all other public and private groups in ensuring the wise use of the biosphere. Size of permanent staff: 3300. Expenditures for 1992-1993 R118 million. Contact person for IUCN matters: Dr. George Hughes. Tel: 27-331-471.961 Fax: 27-331-471.037

C. Southern African Nature Foundation (SANF), Ian MacDonald, Stellenbosch, Tel: 27-21-887 2801 Fax: 27-21-887-9517

Mission Statement: SANF, in keeping with the mission of the WWF, promotes the conservation and sound management of both terrestrial and marine environments, their natural resources and life support systems. 19 permanent staff, 350 corporate members, no individual memberships.

D. Endangered Wildlife Trust, Dr. John Ledger, Private Bag X11, Parkview, 2122, South Africa, Telephone: 27-11-486.1102, Fax: 27-11-486.1506.

Mission Statement: To conserve the diversity of species in Southern Africa.
8 permanent staff, 5054 members (individuals plus corporate) Expenditures for 1992-1993 R1,300,000.

Dr. Ledger is considered an important contact on sustainable use.

E. FORESTEK

Robert Scholls, Phone 27-12-841-2489 Fax: 841-2689

VII. Others of Future Interest

Oceanographic Research Institute, Durban

Rudy P. van der Elst Tel: 27-21-373536

USAID Contacts

USAID/Zimbabwe, Charles Cutshall, Project Officer, SARP NRM Project
AFR/ARTS/FARA, Tony Pryor, Natural Resource Advisor
USAID Regional Economic Development Services Office (REDSO/ESA), Eric R. Loken, Deputy Chief, Agricultural and Natural Resource Division (ANR) P.O. Box 30261, Nairobi, Kenya Tel: 254-2-331160 FAX: 254-2-330945.

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INITIATIVE FOR SOUTHERN AFRICA
REGIONAL AGRICULTURE/NATURAL RESOURCE MANAGEMENT
STAKEHOLDER ANALYSIS

Draft Outline

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Annex II - Summary of Interviews
Annex III - Document List
Annex IV - Stakeholder Questionnaire

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ACTIVITY	START DATE	END DATE	PSGE LEAD

ANNEX E

OUTGOING TELEGRAM

U S AGENCY FOR INT'L DEV. TELECOMMUNICATIONS CENTER

ORIGIN OFFICE AFSA-04
INFO AFEA-04 AFDP-06 AFFE-02 AFFW-02 PPDC-01
/019 A6 TR 31/1612Z

INFO LOG-00 AGRE-00 TEDE-00 /001R

DRAFTED BY: AID/AFR/SA:LAKEEYS:LAK:DOG:ECPR.ISA
APPROVED BY: AID/AA/AFR:JHICKS AID3033
AID/AFR/SA:JTHALE AID/AFR/SA:JBGOODWIN
AID/AFR/DP:JGOVAN (DRAFT) AID/PPC/DP:RMAHONEY
DAFT/AFR:CPEASLEY
----------A1045A 302352Z /38

R 302227Z JAN 95
FM SECSTATE WASHDC
TO AMEMBASSY HARARE
AMEMBASSY MBABANE
AMEMBASSY LUSAKA
AMEMBASSY WINDHOEK
AMEMBASSY MAPUTO
AMEMBASSY LILONGWE
AMEMBASSY PRETORIA
AMEMBASSY LUANDA
AMEMBASSY GABORONE
AMEMBASSY MASERU
AMEMBASSY DAR ES SALAAM
INFO AMEMBASSY NAIROBI

UNCLAS STATE 023933

ADM AID

E.O. 12356: N/A
TAGS:
SUBJECT: INITIATIVE FOR SOUTHERN AFRICA (ISA)--AFRICA BUREAU REVIEW

1. SUMMARY. THE ECPR MEETING TO REVIEW THE INITIATIVE FOR SOUTHERN AFRICA STRATEGIC PLAN HAS HELD ON FRIDAY, OCTOBER 7, 1994, IN ROOM 6941-NS, FROM 9:30 AM UNTIL 11:30 AM. AN ISSUES MEETING HAS HELD ON FRIDAY, SEPTEMBER 30, 1994, WHICH IDENTIFIED ISSUES FOR DISCUSSION. THE ECPR MEETING CONCLUDED THE FOLLOWING:

A) APPROVAL OF A TWO YEAR START-UP FRAMEWORK FOR THE INITIATIVE FOR SOUTHERN AFRICA.

B) AGREEMENT THAT THREE OF FOUR STRATEGIC OBJECTIVES WILL BE FURTHER REFINED DURING THE COURSE OF PROGRAM DESIGN, AND A MORE DETAILED PROGRAM LOGFRAME INCLUDED IN THE REGIONAL CENTER FOR SOUTHERN AFRICA'S ACTION PLAN.

C) AGREEMENT THAT A NEW REGIONAL PROGRAM STRATEGIC PLAN FOR THE INITIATIVE FOR SOUTHERN AFRICA WILL BE PREPARED FOR REVIEW IN LATE SPRING 1996.

D) AGREEMENT THAT CLOSE-OUT COUNTRIES WILL HAVE ACCESS TO ISA ACTIVITIES.

THE FOLLOWING PARAGRAPHS SUMMARIZE THE ECPR DISCUSSION AND REPORT ON ECPR DECISIONS.

2. ISSUE NO. 1: DOES THE STRATEGIC PLAN FOR THE

INITIATIVE FOR SOUTHERN AFRICA MEET THE AFR BUREAU AND AGENCY STRATEGIC PLANNING GUIDELINES, AND PROVIDE THE BASIS FOR A MANAGEMENT CONTRACT BETWEEN THE REGIONAL CENTER FOR SOUTHERN AFRICA AND USAID/WASHINGTON?

A. DISCUSSION: THE ISA DOCUMENT LAYS OUT OPERATIONAL PLANS FOR ACTIVITIES UNDER FOUR STRATEGIC AREAS: DEMOCRACY/GOVERNANCE, INDIGENOUS BUSINESS DEVELOPMENT, INFRASTRUCTURE AND AGRICULTURE/NATURAL RESOURCES MANAGEMENT. DURING THE COURSE OF REVIEW, A NUMBER OF QUESTIONS WERE RAISED BY DIFFERENT OFFICES WITHIN USAID:

--WHAT HAS THE RATIONALE FOR THE CHOICE OF THE FOUR

STRATEGIC AREAS;
--SHOULD THE STRATEGY DOCUMENT HAVE ASSESSED OPPORTUNITIES IN THE SOCIAL SECTORS: HUMAN CAPACITY DEVELOPMENT, FAMILY PLANNING/POPULATION, CHILD SURVIVAL, HIV/AIDS, AND WOMEN'S REPRODUCTIVE HEALTH;
--SHOULD URBAN ENVIRONMENT AND ENERGY BE INCLUDED;
--ARE GENDER IMPACTS ADEQUATELY ASSESSED;
--SHOULD GOVERNANCE BE AN EXPLICIT COMPONENT OF THE

DEMOCRACY STRATEGIC AREA;
--IS THE RELATIONSHIP BETWEEN THE FOUR CHOSEN STRATEGIC AREAS ADEQUATELY EXPLAINED;

OTHER QUESTIONS WERE RAISED ABOUT THE NEED DURING CPSP DEVELOPMENT TO MORE EXPLICITLY ADDRESS:

--INCOME GENERATION AND DISTRIBUTIONAL EFFECTS OF

AGRICULTURAL PRODUCTION;
--ENVIRONMENTAL CONSIDERATIONS AND COSTS;
--REGIONAL FOOD SECURITY ISSUES AND POLICY OPTIONS;
--LAND POLICY AND LAND MARKET REFORMS; AND
--EXPECTED FINANCIAL AND HUMAN RESOURCE LEVELS REQUIRED TO ACHIEVE THE EXPECTED IMPACT.

B. IN THE ECPR DISCUSSION, IT HAS NOTED THAT THE FOUR STRATEGIC AREAS IDENTIFIED IN THE PRESENT ISA DOCUMENT WERE BASED ON THE AREAS WHICH HAD BEEN PRESENTED BY THE ADMINISTRATOR IN HIS SPEECH PROPOSING THE INITIATIVE. IT HAS AGREED THAT THEY ARE APPROPRIATE FOR REGIONAL INTERVENTION AND WILL COMPLEMENT AND/OR REINFORCE BILATERAL PROGRAM ACTIVITIES. THE ISA DOCUMENT AS PRESENTED DID NOT FULLY COMPLY WITH BUREAU GUIDANCE ON CPSP'S AND THEREFORE DID NOT FORM THE BASIS FOR A MANAGEMENT CONTRACT BETWEEN THE REGIONAL CENTER FOR

SOUTHERN AFRICA AND USAID/W. NONETHELESS, ECPR AGREED THAT THE ISA DOCUMENT CLEARLY PRESENTED A CONCEPTUAL FRAMEWORK FOR THE ISA AND HAS ADEQUATE TO INITIATE PROGRAM DESIGN WORK FOR ISA ACTIVITIES. IT HAS SIMULTANEOUSLY AGREED THAT THERE HAS A NEED FOR GREATER ANALYSIS AND FURTHER STAKEHOLDER DISCUSSION IN SOME OF THE STRATEGIC AREAS; THIS CAN BE DONE IN THE COURSE OF DESIGNING NEW PROGRAMS AND DEVELOPING A LONGER TERM STRATEGY FOR THE REGION. WHILE THE ECPR ALSO RECOGNIZED THAT OTHER AREAS SUCH AS HUMAN RESOURCE DEVELOPMENT AND HIV/AIDS, TO NAME TWO, HAVE REGIONAL IMPACT, IT HAS NOTED THAT THESE AREAS ARE BEING ADDRESSED BILATERALLY THROUGHOUT THE REGION; A PRESENTATION OF BILATERAL PROGRAMS WOULD HAVE BEEN HELPFUL

TO ESTABLISH A PROGRAM CONTEXT AND RATIONALE FOR THE SELECTION OF ISA STRATEGIC AREAS.

C. ECPR DECISION: ECPR 1) AGREED TO VIEW THE CURRENT ISA DRAFT STRATEGIC PLAN AS PROVIDING A "START-UP FRAMEWORK" TO GOVERN THE PROGRAMMING OF ACTIVITIES UNDER THE INITIATIVE FOR THE NEXT TWO YEARS, AND 2) CALLED FOR THE DEVELOPMENT OF A CPSP (OR MORE ACCURATELY REGIONAL PROGRAM STRATEGIC PLAN), IN COMPLIANCE WITH AGENCY STRATEGIC PLANNING GUIDANCE, BY THE REGIONAL CENTER FOR SOUTHERN

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B. DECISION: THE ECPR CONCURRED WITH THE RECOMMENDATION THAT THE CPSP SHOULD CLARIFY THE MANAGEMENT AND MONITORING ROLES OF THE REGIONAL CENTER AND BILATERAL MISSIONS AND DATA COLLECTION RESPONSIBILITIES. OVER THE COURSE OF THE NEXT TWO YEARS AS THE CPSP IS DEVELOPED, AFR/SA AND THE REGIONAL CENTER WILL ENGAGE SOUTHERN AFRICAN MISSIONS IN DISCUSSIONS ON BILATERAL/REGIONAL DATA COLLECTION AND REPORTING RESPONSIBILITIES FOR THE INITIATIVE.

5. ISSUE NO. 4: HOW WILL THE CLOSEOUT COUNTRIES GAIN ACCESS, AND ON WHAT BASIS, TO ACTIVITIES UNDER THE INITIATIVE?

A. DISCUSSION: BOTSWANA AND LESOTHO WILL NOT HAVE A BILATERAL PRESENCE AFTER 1995 AND THE SWAZILAND PROGRAM WILL CLOSE IN 1996.

B. DECISION: THE ECPR AGREED THAT THE CLOSEOUT COUNTRIES WOULD BE ELIGIBLE TO PARTICIPATE IN ISA ACTIVITIES. IT SHOULD BE NOTED, HOWEVER, THAT ISA FUNDS ARE NOT TO BE VIEWED AS A SUBSTITUTE FOR BILATERAL ASSISTANCE FUNDS IN CLOSE-OUT COUNTRIES. THUS, WHILE COUNTRIES IN WHICH USAID NO LONGER MAINTAINS A BILATERAL PRESENCE WOULD BE ELIGIBLE TO PARTICIPATE IN MULTI-NATIONAL REGIONAL ACTIVITIES, USAID/W WOULD NOT EXPECT TO SEE ISA RESOURCES PROGRAMMED FOR COUNTRY-SPECIFIC ACTIVITIES IN CLOSE-OUT COUNTRIES.

6. RESOLVED CONCERNS: THE ECPR MEETING NOTED A NUMBER OF CONCERNS WHICH WERE RAISED AND RESOLVED BY THE REVIEW COMMITTEE.

A. CONCERN NO. 1: HOW AND WHEN WILL RESPONSIBILITY FOR THE CONTINUED DESIGN OF ACTIVITIES BE TRANSFERRED FROM WASHINGTON TO THE NEW REGIONAL CENTER?

DISCUSSION: RESPONSIBILITY FOR THE DESIGN OF NEW ACTIVITIES UNDER THE INITIATIVE WILL BE TRANSFERRED TO THE REGIONAL CENTER ONCE IT IS ESTABLISHED, WHICH IS EXPECTED TO BE EARLY CY 1995. AFR/SA, JOINTLY WITH THE REGIONAL

CENTER, WILL DETERMINE A TIMETABLE FOR TRANSFER OF DESIGN RESPONSIBILITIES TO THE REGIONAL CENTER; UNTIL THE TRANSFER OCCURS, AFR/SA WILL COORDINATE THE DESIGN OF ACTIVITIES WITH THE APPROPRIATE FIELD AND USAID/W OFFICES.

B. CONCERN NO. 2: WHAT APPROACH WILL BE TAKEN TO ASSURE A SMOOTH TRANSITION FROM MANAGEMENT OF THE CURRENT SARP PROGRAM IN HARARE TO MANAGEMENT OF THE ISA IN GABORONE?

DISCUSSION: A TRANSITION MANAGEMENT PLAN FOR THE TRANSITION OF ACTIVITIES FROM USAID/ZIMBABWE TO THE REGIONAL CENTER FOR SOUTHERN AFRICA, WHICH HAS IN THE PROCESS OF DEVELOPMENT AT THE TIME OF THE ECPR MEETING, HAS NOW BEEN APPROVED. THIS PLAN CALLS FOR A PHASED TURNOVER OF ACTIVITIES TO THE REGIONAL CENTER DURING FY 1995. A TIMETABLE HAS BEEN DEVELOPED AND WILL BE COMMUNICATED TO THE SOUTHERN AFRICAN MISSIONS IN AN OPERATIONAL CABLE.

7. IN ACCORDANCE WITH THE ECPR DECISION TO VIEW THE DRAFT STRATEGIC PLAN AS ESTABLISHING THE OPERATIONAL PHILOSOPHY AND THE STRATEGIC PARAMETERS FOR THE START-UP FRAMEWORK, THE DRAFT PLAN IS BEING REVISED BY AFR/SA TO INCORPORATE ECPR DECISIONS AND TO INCLUDE THE HISTORICAL CONTEXT FOR THE DEVELOPMENT OF THE ISA AND THE SELECTION OF THE FOUR STRATEGIC AREAS. THE DOCUMENT IS EXPECTED TO BE READY FOR DISTRIBUTION TO THE SOUTHERN AFRICAN FIELD MISSIONS AND GOVERNMENTS IN EARLY CY 1995.

8. AS A NUMBER OF FOLLOW-UP ACTIONS ARE REQUIRED TO MOVE

THE INITIATIVE FORWARD OVER THE NEXT SEVERAL MONTHS,

INCLUDING THE ESTABLISHMENT OF THE REGIONAL CENTER FOR SOUTHERN AFRICA, AFR/SA WILL SEND AN OPERATIONAL CABLE TO SOUTHERN AFRICA FIELD MISSIONS MID-FEBRUARY TO LAY OUT THE MANAGEMENT TRANSITION PLAN FOR SARP AND TO REPORT ON THE STATUS OF THE PROGRAM AND MANAGEMENT ISSUES AND DECISIONS.

CHRISTOPHER

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