

Southern Africa Enterprise Development Fund Board of Directors Meeting

*June 26 - 27, 1995
Harare, Zimbabwe*

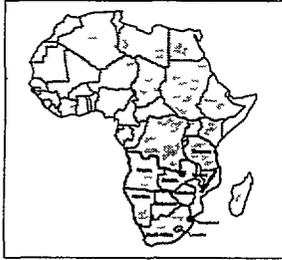
*June 28 - 29, 1995
Johannesburg, South Africa*



Briefing Book and Program

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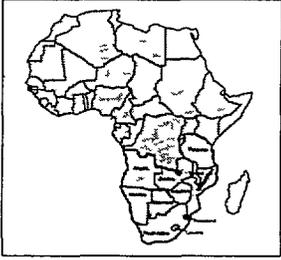


Welcome

**Monday, June 26, 1995
Sheraton Harare
Harare, Zimbabwe**

- 5 30 pm Reception for Board Members and USAID Mission Directors from the Southern African Region
Hosted by United States Ambassador to Zimbabwe, Johnnie Carson
- 8 00 pm Dinner for Board Members

USAID/Zimbabwe will provide an updated agenda for Zimbabwe activities upon arrival in Harare



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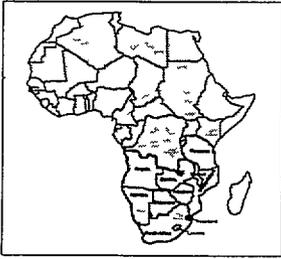


Board Meeting Agenda

**Tuesday, June 27, 1995
Sheraton Harare
Harare, Zimbabwe**

9 00	Welcome	Andrew Young
9 10	Discussion of Agenda	Andrew Young
9 20	Introduction of New Members	Andrew Young
9 30	Discussion of Next Meeting	Doug Gatlin
9 40	Approval of Minutes from Previous Meeting	Stephen Cohen
9 45	Executive Director's Report	Doug Gatlin
10 00	Treasurer's Report	Maurice Templesman
10 15	Committee Reports	
10 15	Executive Search Committee	Lamond Godwin
	<ul style="list-style-type: none"> ◆ Presentation of Summaries of Top Candidates ◆ Committee Recommendations ◆ Discussion and Selection by the Board 	
11 00	Operations Committee	Terry Jones
11 30	Investment Committee	Prakash Shah
	<ul style="list-style-type: none"> ◆ Continuation of Discussion of Investment Strategy 	

- | | | |
|-------|---|--------------|
| 12 30 | Board Member Search Committee | Andrew Young |
| | <ul style="list-style-type: none">♦ Discussion of Potential Additional Members♦ Selection of Candidates to Solicit to Join | |
| 1 00 | LUNCH
<i>Presentation by Mr David Robinson, Sweet Unity Farms, Tanzania on the needs and problems of rural Southern Africa</i> | |
| 2 00 | SAEDF Technical Assistance Project Report | Mike Unger |
| 2 15 | Discussion of RSA Visit and Program | Andrew Young |
| 2 30 | Discussion of Regional Trip Agenda | Andrew Young |
| 2 45 | Other Business | |
| 3 00 | Adjourn | |



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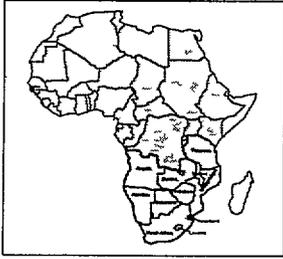
*June 28 - 29, 1995
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Zimbabwe: Panel Discussion and Individual Meetings

Tuesday, June 27, 1995
Sheraton Harare
Harare, Zimbabwe

- 3 00 - 4 00 Panel Discussion on Investment in Zimbabwe
*Six panelists, SAEDF Board Members, Ambassador Carson and USAID
Representatives*
- 4 30 - 5 30 Individual Meetings for SAEDF Board Members with Government of Zimbabwe
and/or private sector organizations
- 7 00 Reception for SAEDF Board Members and USAID Mission Directors from the
Southern African Region
- 8 00 Dinner
Brief Presentations by USAID Mission Directors
Brief Remarks by Ambassador Andrew Young
- Reception and Dinner Hosted by USAID*



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South Africa: Site Visits

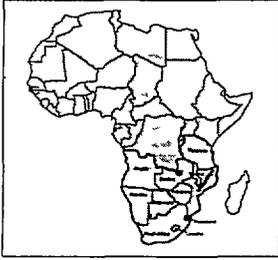
Wednesday, June 28, 1995
Carlton Hotel
Johannesburg, South Africa

Morning

- 8 30 Depart for Johannesburg
- 10 05 Arrive Johannesburg
- 10 10 Depart for hotel (by bus)

Afternoon

- 12 30 Depart hotel for Liefde en Vrede development site visit
- 1 00 Liefde en Vrede Site Visit
- 2 00 LUNCH
With business, civic, and political leaders in Soweto
- 3 00 Tour of Soweto
- 3 30 Travel to Jewel City
Presentation on the jewel industry will be made on bus during transit
- 4 15 Jewel City Site Visit
- 5 15 Travel to Thebe House for Discussion
- 6 30 Reception and Buffet Dinner
*Co-hosted by United States Ambassador to South Africa, Princeton Lyman and
Ambassador Andrew Young*



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South Africa: Guest Presentations

**Thursday, June 29, 1995
Carlton Hotel
Johannesburg, South Africa**

All presentations will be held in the Bloemfontein Room

- | | |
|---------------|--|
| 8 00 - 8 45 | "The Egoli Trust Concept"
<i>Presentation by the Black Integrated Commercial Support Network
(BICSN) Project and Theta Securities</i> |
| 9 00 - 9 45 | Presentation by the National Federation of Petroleum Dealers |
| 10 00 - 10 45 | Presentation by Kagiso Trust |
| 11 00 - 11 45 | Presentation by Business Challenge (to be confirmed) |
| 12 00 - 1 00 | Lunch in the International Suite |
| 1 00 - 1 45 | Presentation by Don Ncube of Real Africa (to be confirmed) |
| 2 00 - 2 45 | Presentation by the Get Ahead Foundation |

Afternoon

Board Members begin departing for country visits

<u>Name</u>	<u>Country</u>	<u>Dates of Visit</u>
Ms Alison Brisco	To Be Confirmed	
Dr Emma Chappell	Swaziland	June 29 - July 2
	Botswana	July 3 - 4
Mr Stephen Cohen	To Be Confirmed	
Mr Lamond Godwin	To Be Confirmed	
Mr John Hicks (USAID)	Tanzania	To Be Confirmed
Mr Terry Jones	Namibia	July 2 - 4
Mr Prakash Shah	Mozambique	July 2 - 4
Mr Jesse Spikes	Malawi	June 30 - July 2
Mr Maurice Templesman	Angola	July 1 - 5

USAID/Angola

I Introduction

Angola is the fifth largest country in Africa (1,246,000 square kilometers) and is endowed with abundant natural resources. In addition to extensive land areas suitable for agricultural and livestock production, the country has large forests, a 1,650 kilometer coastline on the Atlantic with rich fishing grounds, and rivers with considerable potential for hydraulic power generation. Its mineral resources include diamonds, iron, manganese, copper, and extensive petroleum reserves. The production and export of oil is presently the mainstay of the economy accounting for half of the gross domestic product (GDP) of approximately \$720 per capita, 90% of exports, and almost all government revenue.

The Angolan economy has the potential for high, sustainable growth with equity and a diversified production in the medium-term. Mineral-rich Angola also has the potential to generate significant investment opportunities in oil, diamonds and agriculture. Current crude oil production accounts for annual exports of \$2.5 billion. American companies are the largest foreign investors in Angola's \$4 billion oil industry. If strategically mobilized, Angola's strong natural resource base could be the main vehicle for economic growth.

Angola has been engaged in a civil war since the mid 1970s. It is estimated that the Angolan conflict has left one million dead, 100,000 crippled, five million displaced, two million refugees, a debt over \$20 billion, and three million starving Angolans. Without peace in Angola, the human and economic costs can only continue to grow. Peace in Angola also underpins the emerging trend toward democracy and stability in southern Africa.

II Critical Issues

Despite the country's abundant natural resources and the rapid development of the oil sector, the economic growth rate has been disappointingly low during the past ten years. The poor performance of the economy is largely explained by three factors: (a) civil war, which made life in the country side too insecure for agricultural production and transport, required heavy military expenditures, and destroyed a substantial part of the economic and physical infrastructure, (b) severe human resources constraints, due to massive exodus of Portuguese settlers at independence and the resulting skill shortages, and (c) ineffective economic management with excessive reliance on central planning and pervasive administrative controls.

This situation has affected many sectors in the economy. Angola, which was an important net exporter of agricultural products, has in recent years been increasingly dependent on food imports (and food aid) to supply its urban population. There are severe shortages of essential consumer goods and services throughout the country. Marketing infrastructure and rural trade systems have been devastated. There is a shortage of trained personnel in all sectors. The

concentration of war-displaced populations in various rural and urban fringe areas is a contributing factor to environmental degradation

In most sectors, output has remained far below the levels reached during the colonial period. With the exception of the oil industry, the capacity utilization of manufacturing industries has been severely affected by lack of inputs, spare parts and maintenance services, as well as the distorted policy environment.

III Description of Country Program

Emergency humanitarian programs will likely remain the lead element of U.S. assistance to Angola during 1995. USAID is reviewing plans for a sustainable development program centered around two strategic objectives: building democracy and promoting economic growth. The activities are described briefly below.

Building Democracy Critical to the successful conclusion of the peace process is the successful demobilization and reintegration of the National Union for Total Independence of Angola (UNITA) and Angolan Army combatants into society. There are an estimated 50,000 UNITA soldiers and up to 40,000 regular army troops that will need to be demobilized and reintegrated. Particularly in the case of UNITA but also for a number of Angolan armed forces members this will mean return to rural areas from whence they came. Hence, reintegration will require seeds, tools and/or other support for economic survival, as well as measures to ensure basic health services are available.

USAID is proposing to have the nongovernmental organizations (NGOs) currently implementing emergency programs in Angola to implement the proposed rehabilitation assistance through an NGO umbrella grant program. USAID is planning a focused grass roots program dealing with demobilization, reintegration, and rehabilitation coordinated with a program of demining, roads and bridge rehabilitation. The program would use grants to NGOs to support demobilization and reintegration, as well as to implement health and agriculture programs to help to restore essential health services. Initiating agricultural recovery would play a central role in helping move Angola on the road to rehabilitation and development. An umbrella grant mechanism managed by a contractor with well defined selection criteria would allow program management in country with minimum or no U.S. direct hire input.

Broad-based Economic Growth Under this strategic objective, USAID will assist with the stabilization of the Angolan economy. The Angolan economy is in serious difficulty. Inflation in 1994 is projected to be 800-1000%, extremely high but an improvement over the 1800% rate in 1993. The fiscal deficit will be 10-15% of GDP owing in part to subsidies in the economy, especially petroleum which sells at less than \$ 03/gallon. Another problem is the high dependence of the government on oil revenue (94% of budget) and the resulting shock when oil prices decline. The war has resulted in large defense expenditures (19% of the budget). Moreover, the war has severely affected agricultural production, and created a large number of

displaced people The external account deficit is \$600-700 million or 6.6% of GDP and heavy external borrowing has resulted in an external debt that was \$8.5 billion in December 1993, a majority of which is of a short-term nature Proposed activities include a long-term human resource development strategy for economic management such as developed with Berkeley-Indonesia, Chicago-Chile, and Harvard-Pakistan The project would address the lack of economic information for decision making by short-term funding of statisticians and analysts to work with government agencies to develop a program of data development The project would also fund policy studies to provide the information necessary to make major and difficult policy decisions

USAID/Botswana

I Introduction to Botswana and Critical Issues

Botswana, about the size of Texas, with a population of 1.3 million, occupies the center of the Southern Africa plateau. Most of its area consists of the inhospitable semi-desert of the Kalahari. Even the more arable regions of the country are subject to frequent droughts and unpredictable rains. Thus, agriculture is limited.

At independence in 1966, Botswana was ranked as one of the poorest nations in the world, with a per capita income of about \$60 per annum. It had virtually no infrastructure and its future was bleak. In 1973, diamonds were discovered in Letlhakane. The Government of Botswana (GOB) negotiated with DeBeers to exploit the discovery, and the GOB retained 51% of the operation. The GOB has developed similar arrangements with other mining companies to produce copper, soda ash, and coal. The GOB has pursued a thoughtful and sound development course with the wealth it has acquired. The GOB's commitment to prudent fiscal and monetary policy has left Botswana in a strong position for the future. It has made effective economic reforms on its own initiative, encouraged the development of the private sector, and invested its own resources in improving the country's infrastructure. It has expanded social services for all its people -- rural and urban. As a result of its mineral wealth, prudent management, and continued development, Botswana's economic growth since independence has been very impressive, averaging about 12.6% (1966-1989). Only in recent years has Botswana's annual growth dropped below double digits. As indicated above, this high growth rate has been largely due to the mining sector, especially diamond extraction. Current foreign exchange reserves stand at about \$4.3 billion or approximately 24 months of import cover and per capita GDP has risen from \$60 per annum in 1966 to approximately \$2,500 today.

Despite the above successes, income distribution remains a problem (Approximately 20% of the population earns 60% of the income). The mineral sector, which generates most of Botswana's wealth, provides limited employment. Unemployment, running at about 25%, remains a serious problem. Labor productivity is low. Shortfalls in skills, as well as incomplete adaptation to a market economy, account for a large part of the productivity problem. Combine this with high and increasing real wages and high utility costs, and the competitiveness of Botswana's industry becomes questionable.

Other constraints to development are a high population growth rate (3.5%), a teenage pregnancy rate of 25%, a population of which half is under the age of 15, increasing HIV rates (9% of the total population in 1994), and increasing competitiveness of neighboring countries. In brief, the major challenge to the GOB is whether it can translate its mineral wealth into employment and sustainable broad based productivity before that wealth is dissipated.

On the positive side, Botswana enjoys one of the most stable, democratic, non-racial governments in Africa. Government corruption is minimal. Infrastructure is good and getting

better Government regulations affecting business growth have been improved as a result of an effective dialogue process between the GOB and the private sector, to which USAID has significantly contributed

II An Overview of the USAID Program

After more than 20 years of highly successful assistance to the GOB, USAID is closing its bilateral office as of September 30, 1995. The current bilateral portfolio consists of three projects: the Basic Education Consolidation (BEC) project, the Botswana Private Enterprise Development (BPED) project, and the Botswana Population Sector Assistance (BOTSPA) project. BEC is to be truncated on September 30, 1995. BPED has been streamlined, LOP funding slightly reduced, and the PACD shortened by six months to September 30, 1996, and BOTSPA will continue unchanged through its original PACD of September 30, 1996. BPED and BOTSPA will be managed by the RCSA after September 30, 1995. USAID/Botswana also manages three regional projects: the Natural Resources Management project (NRMP), the Regional Agricultural Research Coordination Project (SACCAR), and the Southern Africa Agricultural Research Management Training Project (SAARMT) Phase II. These projects will become the responsibility of the RCSA as of October 1, 1995.

There follows a brief description of the Mission's portfolio

- ◆ BEC is designed to assist the Ministry of Education (MOE) to plan, implement and, evaluate an integrated, consolidated, and coordinated basic education program which covers the first ten years of public education
- ◆ BOTSPA is designed to improve the quality and availability of family planning (FP) and sexually transmitted disease (STD) services, and to expand AIDS prevention measures
- ◆ NRMP is designed to 1) demonstrate, through practical examples, the technical, social, economic, and ecological viability and replicability of community based natural resource management and utilization programs on marginal lands for increasing household and community incomes while sustaining natural resources, and 2) improve national and local capabilities to ensure the support for and maintenance of community based natural resource management through training, education, protection, communication, and technology transfer
- ◆ SACCAR is designed to facilitate cooperation and coordination in agricultural and natural resource research and training efforts among the eleven SADC Member States
- ◆ SAARMT is designed to 1) continue to strengthen the capacity of agriculture research managers to organize and manage research activities which address food problems, and 2) institution-alize agriculture research management training within the region

- ◆ BPED is the bilateral project most relevant to the SAEDF. The BPED project is designed to 1) improve the effectiveness of policy dialogue between the private and public sectors on issues affecting private sector-led growth, ii) broaden opportunities for citizen entrepreneurs, and iii) increase domestic and foreign private investment in non-mineral sectors of the Botswana economy. BPED has funded a number of initiatives in support of financial sector development in implementation of a major package of exchange control reforms which will greatly improve Botswana's economic competitiveness in the region and encourage the development of Botswana's financial services sector. A Collective Investment Undertakings project produced draft legislation which would establish Botswana as a jurisdiction for collective investment undertakings, and this legislation is likely to be presented to Parliament in the near future. Currently, BPED is funding a study which will assess the feasibility of establishing Botswana as an international financial services center. Early in 1994, the Botswana Development Corporation (BDC) commissioned a consultancy through BPED to develop a framework for accelerating the divestiture of its Industrial Division holdings to ensure that adequate funds are available for investment in new and necessary development projects. The Divestiture Study report was subsequently incorporated into BDC's Corporate Strategic Plan, and BPED is now funding a follow-up divestiture study of BDC's Properties Division portfolio. Finally, BPED is assisting BDC to assess the feasibility of setting up a regional venture capital fund and/or a regional venture capital advisory and support structure.

USAID/Lesotho

I Overview

Lesotho is completely surrounded and economically dominated by the Republic of South Africa (RSA). As a member of the Southern African Customs Union and the Common Monetary Area, Lesotho's trade regime and currency base are tied to those of South Africa. With roughly two million inhabitants and a very poor arable land base, Lesotho is a large importer of grains and other foodstuffs. Lesotho's industrial base is concentrated in the textile/garment and agro-industrial sectors, which operate primarily to transform imported raw materials and semi-finished goods for export.

Lesotho has a weakly developed entrepreneurial tradition. In spite of an IMF-guided structural adjustment program, the public sector remains the principal consumer of goods. Because of proximity and knowledge of the market, South African suppliers have a competitive advantage in the provision of goods.

Lesotho is home to one of the largest engineering and construction projects in Africa, the multi-billion dollar Lesotho Highlands Water Project (LHWP). Financed by the World Bank, African Development Bank, European Investment Bank, Southern African Development Bank, and a wide variety of bilateral donors and export credit agencies, the LHWP will capture, store and transfer the headwaters of the Senqu (Orange) river system to South Africa's industrial heartland in and around Johannesburg.

II Critical Issues

Lesotho has gained from economic reforms but has not been able to transform historically high national income growth rates into increased domestic employment; unemployment was estimated to be 35 percent in 1993. Savings and investment are inadequate to generate the needed sustainable growth and employment.

The issues of land access, management and use are central to long-term growth. At least 30 percent of rural households were without land in 1986, and landlessness has increased. Legislation allows agricultural land leasing, but in practice land leasing is nascent. Land reform will be necessary to help catalyze increased private sector employment.

Employment generation has been affected by tardy public sector reform as the government has continued to play a direct role in production and distribution. To accelerate public sector reform, the government will implement a public enterprise reform program and enhance economic management through a public sector financial management project.

The government now emphasizes Lesotho's competitive advantage for investment, especially in resource-based industries, including lack of history of nationalization or restrictions on after-tax

repatriation of investment returns, significantly lower manufacturing income tax than elsewhere in the region and low labor costs. However, agricultural sector distortions constrain long-term investment in agro-based and manufacturing industries, while rising labor costs relative to productivity are reducing Lesotho's attractiveness to investment.

III The USAID Program

USAID has worked in Lesotho since 1962, and has provided bilateral economic and humanitarian assistance totalling approximately \$268 million. The USAID program has focused on two major areas: 1) Increased agriculture production, diversification, and marketing through the private sector, and 2) education and human resources development. USAID has also provided bilateral assistance to a lesser degree in the health, human rights, and democratization sectors.

In FY 1993 USAID/Washington decided to close 21 Missions world-wide for management efficiency and to reduce Agency operation cost. Lesotho is one of nine countries in Africa to be affected by this decision. USAID/Lesotho's bilateral program will close on September 30, 1995. After USAID/Lesotho closes, all future U.S. Government economic and humanitarian assistance to Lesotho will be through the recently established USAID Regional Center in Gaborone, Botswana.

IV Private Sector Program and How It Relates to the Enterprise Fund

Lesotho cannot meet its national development objective unless significant new jobs can be created for the 20,000 Basotho entering the work force each year, along with those Basotho already among the nation's 35% unemployed and the tens of thousands more who are underemployed.

At the present time, the small business development (SBD) organizations in Lesotho that provide support services do not have the financial, human, or material resources to provide effective outreach. The result is that the potential income and employment opportunities of the small business sector are drastically underutilized.

In 1991, Peace Corps introduced its Small Business Development Project to Lesotho to provide business advisory services to strengthen Basotho entrepreneurs' planning, financial management, marketing, and profitability, and also strengthen the business service delivery capabilities of SBD organizations. At present 18 Peace Corps Business Advisors are assigned to a variety of organizations throughout Lesotho to provide technical skills. Business and management training and consulting with the SMEs is available but cannot stand alone.

Lesotho's small business sector offers the best income and employment creation potential. However, this potential cannot be realized unless there is a consistent source of capital available to the indigenous SMEs for start-up investment and business expansion.

Some of the principles of any successful lending program include realistic interest rates to recover costs, simplified systems that will minimize the complexity of the transactional process and reduce administrative costs, a peer pressure-type system, inherently sustainable by design, to prevent a delinquency culture

USAID/Mozambique

I Introduction

Almost half the population of Mozambique has been on the move over the last three years, including 1.7 million refugees returning from neighboring countries, 5.7 million internally displaced, and 270,000 demobilized soldiers and their families. Most of these are returning to the more agriculturally productive rural areas of Mozambique to begin building new lives. Treading on the heels of the returnees has been nascent commerce trying to bring in consumer goods and extract surplus agricultural production. Although some of this private sector activity has been from the medium-sized traders and merchants, much of the activity has been fueled by the informal sector and small-sized firms.

Despite Mozambique's tremendous agricultural and economic potential, Mozambique is the poorest and most donor-dependent country in the world. Ninety-five percent of Mozambicans are poor by generally accepted definitions. The most critical underlying cause of poverty in Mozambique is the disruption and destruction of the economic link between rural households (80% of the population) and both domestic and foreign markets. Post-independence Marxist-Leninist economic policies bankrupted the mercantilist colonial economic structure. Then the civil war destroyed the Marxist economic structure. FRELIMO tried to substitute. As a result, Mozambique is left with a very costly, largely defunct industrial sector, an agricultural sector that for the most part regressed to subsistence, a public sector dominated financial sector that is now being privatized, a private sector focused on short-term transactions, and a public sector that can deliver neither basic services nor goods to the vast majority of the country. Economic growth is essential to mitigate Mozambique's pervasive poverty and, in the near to mid term, make possible greater private and public sector investments that are not feasible at current growth levels.

To maintain the necessary rates of growth, the Government of the Republic of Mozambique (GRM) will need to accelerate the rate of change and the pace of implementation. With the successful completion of the first multiparty elections in October 1994 and projected 1996 municipal elections, Mozambique has moved forward on the democracy and governance front. Nonetheless, a number of challenges remain before Mozambique can fully take advantage of the energy unleashed by the increased economic and political participation of its citizens.

II Outstanding/Critical Issues

In 1993, GDP grew by 19% in the first post-peace year as people moving back onto their land were able to produce surplus for the first time in more than a decade. This dynamism, however, starts from an exceptionally low economic base and occurred in spite of some serious macroeconomic structural problems. The IMF estimates that growth will level off to around the 5% level in the near term. The newly elected government has begun to make serious economic

changes. This is a positive indicator for Mozambique's economic future, although performance over the rest of this year is particularly critical. Of particular importance will be

- ◆ increased transparency and accountability,
- ◆ reorientation of the budget to health and education and away from defense,
- ◆ reform of the financial sector,
- ◆ continuing the privatization of state-owned enterprises,
- ◆ an improved business environment for the private sector, and
- ◆ increased exports and private investment to gradually reduce donor dependency

III Description of Country Program

Macroeconomic concerns have been central to the choice of strategic objectives, guiding the Mission in its selection of priority sectoral policy issues and investment in public infrastructure. USAID/Maputo will support growth of the agricultural sector (the World Bank is supporting the industrial sector). USAID will also support the development of a government more accountable to its citizens both at the national level and, through the devolution of authority, at the local administrative unit level. Finally, USAID will help the GRM redefine the government's role in providing traditionally public social services, concentrating first on sustainable preventive and primary health care provision in selected areas of Mozambique.

The first Strategic Objective, increased rural household income in targeted areas, will be achieved if the Mission is successful in removing unnecessary regulation and licensing requirements for rural enterprises, ensuring that input and output markets are liberalized (as stated at the March 1995 Consultative Group meeting), liberalizing and deepening the financial sector, and assuring equitable access to foreign exchange. Then, the rest of the Strategic Objective's program outcomes to increase market access (based on rehabilitated roads and the development of markets), expanded rural enterprises and increased agricultural output will have a greater chance of succeeding.

The second Strategic Objective, government accountability to citizens, will have a greater chance for success if the new political freedoms are accompanied by freedom of economic activity, with private interests developing their own political agendas in a democratic society. The policy framework, including public sector transparency and accountability, devolution of central authority to local government, protection of individuals' rights, and freedom of information reinforce the functioning of a market economy, and are in turn strengthened by the development of a diversified economy independent of central authority.

The third Strategic Objective, increased use of maternal child health and family planning services in focus areas, depends on increasing access to preventive and primary health care services. USAID/Maputo's program seeks to empower communities and push decentralization of health care delivery to the lowest possible levels, redefining the roles of each level of government.

IV Private Sector Program/Relation to SAEDF

USAID has been an active partner with the World Bank in the continuing policy dialogue on improving the business and investment climate and reforming the financial sector. USAID will continue this policy dialogue in conjunction with an upcoming World Bank sector credit to address these issues. Specific private sector activities will focus on issues such as taxation and streamlining the burdensome regulatory environment. Through the Income Strategic Objective, USAID will directly seek to promote the development and expansion of rural enterprises.

Because the financial sector is still in a relatively nascent stage, particular activities such as facilitating privatization of public enterprises will be crucial during the initial years of the SAEDF. In addition, the SAEDF could complement the Mission's new Rural Income Project (to be designed in 1996) by providing up to \$3 million per year to small and medium enterprises through private financial intermediaries.

USAID/Namibia

I Introduction

Namibia, formerly known as South West Africa, is approximately twice the size of California with a coastline which borders the Atlantic ocean to its west. The country adjoins Angola in the north, Zambia and Zimbabwe in the north east, Botswana in the east and the Republic of South Africa in the south. At independence the land area covered 823,145 square kilometres. With the return of Walvis Bay in January 1994, Namibia added another 1,124 square kilometres. The acquisition of Walvis Bay added a valuable port for Namibia. The GRN announced plans to create an Export Processing Zone (Free Enterprise Zone) at Walvis Bay but this has not yet come to fruition.

Economically, Namibia has a strong private sector orientation and has benefited from infrastructure investments which favored urban areas, mining and commercial farming. The Government is the largest employer in the formal sector but the GRN is committed to reducing public sector expenditure and the government workforce (approximately 60,000 employees). Namibia has a shortage of skilled and professional workers such as engineers, architects, agriculturists, surgeons and nursing personnel. Its service sector is small.

Mining is the most important sector in terms of contribution to GDP (20%), exports (75%) and tax revenue (30 to 40%) over a 10 year period. Agriculture is second with respect to GDP (8%) and the major source of employment (70% including both formal and non-formal). In 1993, minerals, agriculture and fishing accounted for about 30% of GDP and nearly 70% of exports. The fiscal year 1993/94 produced the sharpest downturn in the Namibian economy since independence. Due to a significant fall in mineral production, Namibia's GDP decreased by 3.3%, compared to an initial, projected decline of 2%. Despite this economic sluggishness, the GRN has maintained relatively tight fiscal discipline, and was able to lower its budget deficit to 4.9% of GDP in 1993 (down from 5.8% in 1992).

In terms of reforms, the GRN (with World Bank, UNDP and Swedish assistance) has undertaken a review of public expenditures to identify inefficiency and waste in the Government. In addition, the GRN has authorized a review of its public institutions to identify better ways to increase efficiency.

II Critical Issues

Namibia's population of 1.6 million is divided into two distinct societies, the minority 5% which is of European descent and prosperous, and the majority 95% of African descent and impoverished. Two thirds of the African population is found in the northern area of the country (Ovambo, Kavango and the Caprivi regions) occupying fringe areas, while approximately 160,000 people live in the capital, Windhoek, and another 30,000 in two other urban areas.

Following independence in March 1990, the newly independent Government of the Republic of Namibia (GRN) embarked on a development program to eliminate the extreme economic and social disparities between the two populations. Social problems among the impoverished majority include high infant mortality (171 deaths out of 1,000 live births), high population growth rates (3.3%), high unemployment (30%), lack of access to basic social services, inaccessibility to water and a high incidence of communicable diseases. Since 1991, malaria cases have increased (190,000 to 306,000) and HIV/AIDS is a growing problem in Namibia, especially in the north.

III Description of Country Program

The goal of the U.S. Agency for International Development's (USAID) program in Namibia is to promote the economic, social and political empowerment of Namibians historically disadvantaged by Apartheid, to participate fully in Namibia's development. USAID/Namibia seeks to achieve this goal in a sustainable manner through human and NGO capacity building. The USAID program endeavours to assist Namibians to achieve this empowerment goal by focusing our activities in three areas: education and human resources development, environment and natural resource management, and democratic institution building. Over the last several years, USAID's program in Namibia has averaged US\$10 to 11 million annually.

USAID/Namibia does not currently have any specific private sector development activities. The mission will address the needs of the private sector through a new training program. To address Namibia's lack of well-trained managers, a legacy of apartheid that limits Namibia's growth potential, USAID/Namibia will soon initiate a Human Resources Development Assistance (HRDA) project which will provide short-term and skills training (locally, regionally and U.S.-based) for up to one year, as well as internships with U.S. companies, in order to facilitate the hiring and promotion of non-white (historically disadvantaged) Namibians into managerial and professional positions in the mainstream private sector (where non-white Namibians are grossly under represented). USAID plans to obligate \$1 million this year as a first tranche towards a \$4.3 million total over a two-year period.

IV Opportunities for SAEDF

While USAID/Namibia does not have any specific private sector activities in its portfolio, promoting business development among the African population is an important strategy for eliminating the income disparities between the white and black populations. The financing of small entrepreneurs is of paramount importance. The disadvantaged Namibian population has long been denied access to finance because they have not met the traditional banking criteria. There is a need not only to finance new entrepreneurs but also to help them develop and train them to become experienced businesspeople. There are excellent investment opportunities in Namibia to assist the small business people in both urban and rural areas.

USAID/South Africa

I Introduction/Overview

Five conditions will influence the future of economic growth in South Africa

- (1) South Africa has shown a strong commitment to market economic principles and to limiting the role of the public sector,
- (2) Physical and financial infrastructure is in place that is unmatched in other African countries,
- (3) There are economic distortions as a result of the former government's policy of apartheid, with the result that a majority of the population continues to be largely excluded from most benefits,
- (4) Until 1994, the economy was in recession, with per capita income at the same level as it was in the mid-1960s and 20 percent less than it was at its peak in 1981, and,
- (5) There is a political need to balance rising expectations from those who were exploited in the past while reassuring those who benefitted from the past system that there will remain a reasonably secure place for them in the future. This severely limits the short-term options of the South African Government of National Unity (GNU) to effectively deal with some of the structural problems

II Outstanding or Critical Issues

Broadening the base of private sector participation and ownership by South Africans disadvantaged by apartheid is critical if equity is to be improved, job creation encouraged, and private sector-led growth broadly accepted. Apartheid was designed to restrict ownership of assets, including businesses, by non-white South Africans. In recent years disadvantaged South Africans have made some progress, but in general their role as owners of businesses has remained restricted.

III Description of Country Program

By the end of 1994, USAID/South Africa had provided more than \$549 million in assistance. In 1994, the United States Government announced a three year, \$543 million program for South Africa. USAID/South Africa has provided opportunities for academic study for South Africans

from the historically disadvantaged, majority population for many years. Before 1993, USAID assistance was designed (1) to support the dismantling of apartheid, and (2) to help South Africa's historically disadvantaged population prepare for leadership roles in a democratic, post-apartheid South Africa. Since 1993, USAID's programs have been directed at political, social, and economic empowerment of historically disadvantaged South Africans with the objectives of

- (1) Effective and sustainable democratic governance,
- (2) More effective and equitable education and health systems, and
- (3) Increased majority population asset ownership and economic integration with a focus on housing and businesses

IV Private Sector Development Program and Relationship to the Enterprise Fund

The Private Sector Development program of USAID/South Africa works with South Africans to increase opportunities for access to and ownership of assets by historically disadvantaged South Africans and the necessary overall economic development to make this possible. Specific support is being provided to achieve the following objectives:

- ◆ Policy environment Mechanisms in place and functioning for creating an enabling policy and regulatory environment for increased asset ownership and related economic growth
- ◆ Access to Capital Historically disadvantaged South Africans with improved access to capital needed for asset ownership
- ◆ Effective Organizations A limited number of more effective and sustainable business, professional, community based organizations, and local authorities serving historically disadvantaged South Africans

Assistance is targeted to micro, small, medium, and where appropriate, large enterprises. Assistance for micro and small size enterprises includes credit guarantees, technical assistance, and entrepreneurship training and programs to improve the performance of various micro and small development organizations. This assistance is designed to increase their advocacy and research capacity, and to promote international exposure and collaboration. Assistance for medium to large disadvantaged business includes franchising, credit, affirmative procurement, training, and taking advantage of opportunities provided by unbundling by larger firms and privatization involving divestiture of government assets. Credit assistance includes a loan guarantee program with six South African banks for small, disadvantaged businesses.

USAID/South Africa is currently preparing a capital markets initiative to assist disadvantaged South Africans in increasing their access to the USAID-funded Southern Africa Enterprise Development Fund (SAEDF). The Equity Access System (EASY) will be a network of technical assistance contracts with small to medium investment houses and venture capital firms to identify and help package investment proposals for the market. This includes funds such as the SAEDF, as well as other private sector sources.

EASY is expected to have three to five implementors that are financial engineering firms and that will work on a cost sharing basis with the clients and USAID. Services will include due diligence, appraisal, feasibility studies, and financial structuring and debt and equity sourcing. Post investment management consulting in the technical areas of operation will also be included.

USAID/Swaziland

I Introduction

Swaziland is one of the countries in which the SAEDF will need to operate without a bilateral program or a resident mission in place. The current bilateral program will end by September 1996 and any further USAID resources for Swaziland will be delivered through the regional program. However, the current program, having had a private sector focus for the past five years, has laid some groundwork which may facilitate the introduction of the SAEDF program into the country.

II Current Programs

The current USAID program comprises six projects, all of which will be completed by the end of September 1996. Of the six, only the program for *primary education* deals solely with governmental organizations. The project for *family planning and AIDS* works through an NGO, the Family Life Association of Swaziland. The *Commercial Agricultural Production and Marketing* project works through the Ministry of Agricultural and Cooperatives but focuses on farmer organizations and on private sector marketing channels. The *Swaziland Training and Institutional Development (STRIDE)* project provides management training to both government and the private sector and provides policy assistance to improve the environment for private investment. The remaining two projects are probably the most directly relevant to SAEDF interests.

The *Swazi Business Development* project is implemented by the Swazi Business Growth Trust (SBGT). SBGT is a private, non-profit institution offering business advisory services, training, and credit facilities to the small and medium business sector. SBGT currently serves approximately 500 clients a month. Since the lending program began operating in February 1993, over 1,100 loans have been made ranging in size from \$570.00 to over \$30,000. Over 60% of loans granted have been to women, despite the legal constraints women face in Swaziland. SBGT has pioneered the use of a computerized "smart card" system for loan disbursement and monitoring.

Approval and funding have recently been obtained from AID/W for the creation of a \$5,000,000 endowment for SBGT, the first such endowment in Africa. The income from the endowment will be used by SBGT to supplement the fee income they receive from clients in order to operate their business assistance activities. To date, the bulk of the capital which SBGT has for lending has come from the Development Bank for Southern Africa. It is provided at near commercial rates and requires a 100% guarantee. We expect that within the next few weeks, the Government of Swaziland will make \$1.25 million of lending capital available to SBGT on softer terms.

The Mission believes that SBGT is an attractive intermediary partner institution for the SAEDF, and discussions between SBGT and the fund managers could commence immediately

The *Business Management Extension Program (BMEP)* serves a different client group than that served by SBGT. SBGT's clients are generally more established, having been in business for at least a year and having at least one paid employee. BMEP provides training, business advisory services, and limited lending to micro-enterprises and to those wishing to start a business for the first time. Between the two institutions, the Swazi micro, small, and medium size business community is served.

The sanctions against South Africa were, for several years, a powerful stimulus to foreign investment in Swaziland. The emergence of the new South Africa has, somewhat belatedly, focused the attention of Swaziland policy makers on the need to improve the climate for foreign and domestic investment in the country as well as the need to improve mechanisms for investing local capital in the country, rather than across the border. Over the past 12 to 18 months, USAID has been working with the Ministries of Finance and Commerce and the Central Bank on a series of linked policy and legislative initiatives to address these problems. These are

- 1) Insurance and Pensions Act,
- 2) Companies Act,
- 3) Securities Act,
- 4) Investment Code,
- 5) "Flexi-Bonds", and
- 6) Financial Asset/Liability Management

The following are organizations with which USAID has had little or no official contact but may be relevant to the SAEDF program

- ◆ Swaziland Chamber of Commerce - The chamber membership is mostly larger companies, wholly or partially foreign owned
- ◆ Swaziland National Business Council - This organization, which has been recently revived after several years of inactivity, is attempting to become the voice and advocate for smaller Swazi-owned businesses
- ◆ Tibiyo Taka Ngwane - Tibiyo (for short) was formed to collect, invest, and utilize for the nation the proceeds from mineral exploitation. Tibiyo now holds equity in nearly all large businesses in Swaziland. About two years ago, they were directed by the King to assist small businesses. A plan is now being considered to channel Tibiyo resources through other organizations for small business.

- ◆ Swaziland Industrial Development Company - SIDC is a private development finance company founded as a joint venture between the GOS and international development finance institutions. They provide both equity investments and loans to larger businesses. SIDC invests about E10 to 15 million yearly in a variety of business ventures. Their loans are mostly for capital improvements with a minimum of E100,000 (E3 6 equal \$1).
- ◆ Swaziland Stock Brokers and Stock Market - A new and very small operation with only six companies currently listed.

USAID/Tanzania

I Main Objectives

Development assistance to Tanzania furthers U S interests by

- ◆ Supporting stability in a country at the crossroads of Eastern and Southern Africa with a critical regional role in food security, transport networks, and refugee emergencies,
- ◆ Building larger markets for U S exports through supporting private enterprise development, trade and investment,
- ◆ Projecting American values in improving economic opportunity, government accountability, and political freedom, and
- ◆ Improving people's lives through expanding access to health services, increasing incomes, and improving infrastructure

II Major Successes

USAID/Tanzania has three important successes

- ◆ Rural Transport and Infrastructure As a result of USAID investments, hundreds of thousands of Tanzanians in rural areas have better roads Rural road rehabilitation and maintenance is now done by private road construction companies instead of government A National Roads Fund now provides most of the funding for road maintenance, aid donors provide only about 20 percent of total maintenance costs, down from 75 percent in 1990
- ◆ Family Planning Use of modern contraceptives by Tanzanian women of reproductive age has almost doubled in three years (now 11.3 percent) because of USAID assistance This makes our program one of the most successful such programs ever Increased use of modern family planning means improved maternal and child health We anticipate measurable decreases in fertility, which will translate into lower population growth
- ◆ Private Enterprise As a result of USAID and other donor financial sector reform programs, six private banks (including Citibank) are now established in Tanzania Two years ago there were none With other donors, USAID has established a venture capital fund, which has already attracted \$7.6 million in capital and invested \$3.3 million in 13 medium scale Tanzanian businesses Our Business Center has brought modern business management and market development expertise to the Tanzanian private sector

III Problems and Issues

Tanzania has been an Africa Bureau "focus country" since 1987, meaning that progress in economic and political development has been good, and the country has been judged a sound recipient of USAID assistance. In 1995 Tanzania fell out of the "focus" category due to sustained problems in fiscal mismanagement and governance. USAID/Tanzania has adopted a "watch and wait" policy to see if the nation's first multi-party presidential elections (in October 1995) bring increased accountability and better performance. We believe the SAEDF should undertake preliminary assessments for investing in Tanzania but make no investments until the new government has established its credibility. The following are some specifics on the current situation.

- ◆ Macroeconomic Performance Since 1986 Tanzania has set in place major free market reforms in all sectors of the economy. In spite of past progress, deficit spending and borrowing are on the rise, leading to increasing inflation (now estimated at 40 percent). New agreements with the IMF and World Bank are unlikely until after the nation's first multiparty presidential election in October 1995.
- ◆ Tax Evasion and Customs Corruption A variety of problems in tax collection, customs administration, and management of import finance programs led to a difficult Consultative Group meeting with donors in Paris in February 1995 and to the suspension of most balance of payments assistance. A joint donor committee has established conditions for a resumption of this aid. In recent weeks progress has been made, resulting in the sacking of 12 Treasury and customs officials and a decision by the Zanzibar government to authorize private post-shipment inspection companies to assess customs values. However, much remains to be done.

IV USAID/Tanzania Private Sector Program

The centerpiece of USAID/Tanzania's private sector activities is the \$60 million Finance and Enterprise Development Program (FED). Major components include:

- ◆ The Business Center supports small-scale entrepreneurial development and expanded trade and investment linkages between America and Tanzania. During 1994 the Center provided training to over 200 Tanzanians in business management and related commercial skills. The Center has also helped develop overseas markets, resulting in increased Tanzania-U.S. trade. The Center will shortly open a regional office to serve entrepreneurs in the fast-growing Lake Victoria region. The Business Center was the first entity in Tanzania to offer high-quality modern business skill training, and has already been emulated by several private service providers -- the best testament to its success.

- ◆ Micro-Enterprise Lending will support micro-entrepreneurs by making quasi-equity investment funds available through the local banking sector. Using innovative methods of screening and selection, this activity will be the first in Tanzania to provide non-debt financing to small business people in order to surmount the current limitations of the usually conservative, often inefficient, and in some cases, bankrupt formal financial sector institutions.
- ◆ The Tanzania Venture Capital Fund, a landmark equity investment institution, has already attracted \$7.6 million in capital from institutional investors, of which \$3.3 million was invested in 13 medium scale Tanzanian enterprises. The original Fund is fully subscribed, and a second venture capital fund is currently being prepared.
- ◆ The Social Action Trust Fund, a \$20 million (local currency equivalent) financial institution, was established using counterpart funds generated by the FED program. This one-of-a-kind private investment foundation will invest in the Tanzanian private sector, and will use profits and interest earnings to make grants to assist NGOs working to control the effects of AIDS.
- ◆ A Policy Reform Agenda is a three-year program of substantive policy and regulatory changes that have led to the opening of seven private financial institutions, to a fully-unified, market-based foreign exchange rate, and to a stronger central bank more independent of government political pressure. The final stage -- legalizing a private competitive insurance industry -- has been undermined by opposition from entrenched parastatal interests.

V Suggested Financial Intermediaries for SAEDF Consideration

Our recommendations to SAEDF with respect to financial intermediaries in Tanzania are outlined below.

Recommendation 1 The SAEDF should consider investing in the second venture capital fund subscription currently being assembled by Equity Investments Management, Ltd. This is a successful financial institution focused on small- to medium scale enterprise in Tanzania.

Recommendation 2 The SAEDF should consider using The Business Center, an entrepreneurial development and training institution, to assist in learning about Tanzania's private and financial sector, to assist in identifying appropriate financial intermediaries, and to assist in identifying and monitoring investments to the extent appropriate.

Recommendation 3 The SAEDF should consider -- after an initial period of observation -- using First Adili Bank, Tanzania's first indigenously-owned private bank, as a financial intermediary in reaching small-scale entrepreneurs.

Recommendation 4 The SAEDF should consider the Tanzania Development Finance Company, Ltd as a potential financial intermediary. It is by far the most successful financial institution in Tanzania today, effectively serving the medium-scale enterprise market. Although 35% is indirectly owned by the Tanzania Government, TDFL is operated in a fully commercial and consistently profitable manner.

USAID/Zambia

I Introduction/Overview

On October 31, 1991 the new government of President Frederick Chiluba and the Movement for Multiparty Democracy (MMD) made economic restructuring a part of its campaign, and has boldly followed through on many promises. In its Manifesto of 1991, MMD announced its economic plans to privatize public corporations and to redefine the government's role as a creator of an "enabling environment" for a market economy. Since taking power in November 1991, the MMD government has adopted reforms aimed at balancing the budget, encouraging exports, liberalizing the economy, reducing the size of the civil service, and embarking upon an aggressive plan to privatize the parastatal sector. These are critical developments for this landlocked country of 8.2 million people, where GDP is under \$300 per person, and both economic growth and social service delivery have declined for almost twenty years under the former socialist regime.

Although United States economic assistance predates Zambia's 1963 independence, the USAID mission to Zambia was only established in 1977. Through fiscal year 1994, the Government of the United States has provided almost \$800 million in economic development project and non-project grants, loans, and food commodity assistance. The United States bilateral economic assistance program to Zambia has been transformed over the past three years in response to the policies of the Chiluba government. Recognizing the social and political factors necessary to make growth successful, USAID's strategy in Zambia is basically focused on a) the consolidation of democratic processes, b) dismantlement of the state economy, and, c) improved health status for its population.

II Outstanding/Critical Issues

The major factors affecting Zambia at this time are a) wavering in the performance of the Government of Zambia (GRZ) on its economic stabilization and structural adjustment program, and, b) slow progress in the areas of public service reform and other institutional reforms required to improve governance and to reduce the widespread perception of abuse of public office.

Zambia is in the third year of an ambitious economic stabilization and structural adjustment program. Bold economic reform measures have been effected with evident stabilizing impact. Exchange rates are market-determined, import and export licenses have largely been abolished, and tariffs have been lowered and simplified, price controls and subsidies have been abolished, and tax reform has lowered rates, widened the base, and provided relief to low wage earners. At the same time, government has radically reduced inflation with its commitment to a cash-based budget and implementation of tight monetary policies. Privatization, after a slow start, is now moving very rapidly, and almost two-thirds of all parastatals are expected to be sold by January 1996.

However, serious problems arose in early 1995. The GRZ chose to bail out Meridien Bank and overspend its defence budget, causing a fiscal deficit which has frozen talks on the IMF ESAF loan and associated bilateral assistance. Although Cabinet has passed stringent revenue measures to deal with the fiscal deficit, Parliament may yet refuse to cooperate.

Limited government administrative capacity has stifled implementation of the social action program which is designed to improve schools, health services, road infrastructure, and other traditional public services and, in the short-run, to "compensate" the public for harsh economic austerity measures. Civil service reform, which aims to transform the civil service into a leaner, better paid, and more efficient bureaucracy, has only just been launched. Poor management structures, lack of qualified personnel, and hesitant decision-making have hindered revenue collection and some legal reforms.

A code of conduct for holders of public office has recently become law. The Government Ethics Act, along with other administrative measures, have been effected to improve governmental transparency and accountability.

Zambian agriculture has recovered from the 1992 drought, and good maize crops were harvested in 1993 and 1994. However, the 1995 drought has driven farmers back to the edge. Crop marketing has been a problem, as the private sector response to the opportunities of a liberalized marketing system have been constrained by high interest rates, limited availability of credit, and inadequate rural crop storage.

III Program Strategy and USAID Policy

A Country Program Strategic Plan (CPSP) for Zambia was reviewed and approved by the Africa Bureau in July 1993. The strategy specifies four strategic objectives (S O) and two targets of opportunity (T O) for the five year planning period.

- S O #1 The state removed from the provision of private goods and services,
 - S O #2 Appropriate policies, laws and regulations promulgated and enforced for increased agricultural production,
 - S O #3 Increased use of modern contraceptives,
 - S O #4 Improved HIV/AIDS/STD control practices by high risk individuals,
-
- T O #1 Improved democratic governance,
 - T O #2 Child survival enhanced

The A I D Administrator has established four priority areas that the Agency is emphasizing in pursuing sustainable development: encouraging broad-based economic growth, protecting the environment, stabilizing population growth and protecting human health, and building democracy. The Zambia bilateral program corresponds well to these Agency priorities. *Economic growth* is sought by (1) satisfying the major prerequisite to the establishment of a

market-oriented economy, i.e. the removal of the state from the provision of goods and services which the private sector can otherwise provide more effectively, and, (ii) legal, regulatory and systemic changes to deepen economic reform and support agricultural sector liberalization. In the area of the *environment*, sustainable resource management will feature heavily in USAID's work on Zambia's land tenure system, and industrial-source pollution is being identified and damage assessed as part of USAID's work on the packaging of firms for government divestiture of state-owned enterprises. USAID's *democratic governance* program in Zambia targets improved access to and effective decision-making by government. *Health* sector investments aim to a) reduce fertility rates, b) reduce HIV/AIDS transmission rates, and c) improve infant and child mortality and morbidity rates.

Three major project initiatives were authorized and funded in 1992: 611-0230 Privatization Support, 611-0226 Democratic Governance, and 611-0221 HIV/AIDS Prevention. These projects, together with the ongoing 698-0463 Human Resource Development project, formed the initial core of the portfolio approved for delivery over the five-year CPSP planning period. To this core, AID added one new major project in FY 93, i.e. 611-0235 Family Planning Services, and another in FY 94, namely the Agricultural Sector Liberalization Project (611-0231). An Integrated Child Survival (611-0237) project is expected to be authorized in FY 95 in support of Government health care decentralization strategy. No other new projects are planned at this time for the bilateral program.

IV Private Sector Program/Relationship to the Enterprise Development Fund (SAEDF)

Undoing the inappropriate policies of the past and extracting the state from what should be private markets is the first step in reviving private sector investment in Zambia. Acknowledging that parastatals are a drain on the national budget and a barrier to private sector growth, the GRZ has committed to divestiture of the 170 parastatals which have dominated 80% of Zambia's economic activity for twenty years. Targeted are the 152 subsidiaries of a large holding company which was liquidated in early 1995. These parastatals are involved in every sector from mines to bakeries. They are to be sold, liquidated or contracted out to private management within five years. Of the total 170 parastatal companies, thirty have now been sold or are at signing stage, with another 25 in negotiations and 45 in tender or post-tender evaluations. The program is picking up speed rapidly. Public opinion is more in favor of privatization as the public relations campaign gathers speed, Zambian owners buy smaller companies, and shares are floated on the new stock exchange.

To ensure maximum opportunity for Zambian participation in the privatization program and in establishing new companies in the new investment climate, various investment and financing schemes need to be established. These might include privatization trust funds, investments funds, unit trusts, and venture capital funds. A Privatization Trust Fund has been established as a warehousing facility for small holdings of company shares to be held for sale to ordinary Zambians as the security market develops. A new venture capital fund, due to start July 1, 1995, has been set up by Commonwealth Development Corporation (CDC) with participation from the Germans (KfW) and the European Investment Bank. This is the most likely option for

EDF funds management, since the fund has as part of its mandate assistance to Zambians in establishing (or purchasing through the privatization program) small or medium-sized enterprises

Zambians have regularly contacted this Mission regarding the option of equity financing, and specifically access to the EDF. Given the lack of term financing in Zambia and the high current interest rates (about 25% per annum in real terms), this is an important option for local business development

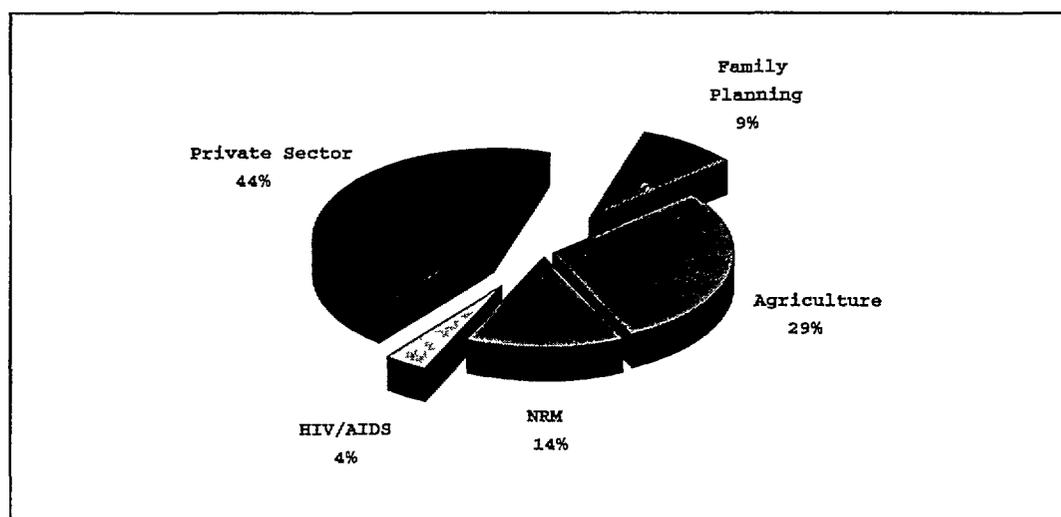
USAID/Zimbabwe

I Introduction/Description of Country Program

Since 1980, USAID has provided over \$655 million for agriculture, education, family planning, HIV/AIDS prevention, emergency food aid, housing, and private sector development assistance to Zimbabwe. The current program has a total life-of-project value of \$203.8 million and has three strategic objectives:

- ◆ Increased household food security in the arid and semi-arid communal areas of Natural Regions IV and V (\$87.6 million -- of which \$59.5 million in agriculture and \$28.1 million in natural resources management (NRM) -- 43% of total program),
- ◆ Increased ownership and investment at all levels of Zimbabwe's economy via housing guarantees and private sector development (\$89.7 million -- 44% of total program), and
- ◆ Sustainable improvements in reproductive health (decrease in fertility via family planning efforts and HIV/AIDS prevention activities (\$26.5 million -- 13% of total program)

USAID's staff in Zimbabwe consists of 12 U.S. direct hire employees (USDHs), 5 U.S. personal service contractors (USPSCs), and 65 Zimbabwean foreign service nationals (FSNs). Historically, it is also noted that USAID/Harare has managed most of USAID's southern Africa regional program, prior to the planned transfer of regional responsibilities to Gaborone to be completed during 1995.



II Outstanding/Critical Issues

At the most recent (March 1995) Consultative Group meeting on Zimbabwe, the donor agencies gave the GOZ high marks for making considerable progress in transforming the economy. Begun in 1991, Economic Structural Adjustment (ESAP) reforms have called for a combination of liberalization and stabilization measures to increase growth and reduce poverty. With a second round of ESAP scheduled to begin in 1996, there is reasonable optimism that by the year 2000 Zimbabwe will have completed its transition from the socialist-inspired model of the 1980s to a market-based model fully integrated with the global economy.

The most outstanding problems/opportunities on the agenda for the next five years are

- ◆ Employment generation finding solutions to reduce very high levels of unemployment, currently estimated at 30-40% of the workforce,
- ◆ "Indigenization" pursuing growth-enhancing (not redistributive) means to broaden the ownership of economic assets, while statistics are not exact, it is generally accepted that in excess of 75% of the industrial assets of the country are owned by minority (less than 1% of population) white Zimbabweans,
- ◆ Competitiveness further expansion of exports, and efficient producers selling to the domestic market (agribusiness is viewed as a sector with particular expansion potential),
- ◆ New round of reforms the most important unfinished business involving (a) fiscal policy (reducing the government deficit, lowering of interest rates), (b) privatization of parastatals, (c) broadening and deepening of capital markets, (d) expanded issuance of title deeds for land and other assets as a means of collateral for borrowing, and (e) increased foreign trade and investment with South Africa, the U S and other partners

III Private Sector Program/Relationship to SAEDF

Under USAID/Zimbabwe's Strategic Objective No 2, which aims at broadened ownership of economic assets and increased investment at all levels of the economy, activities planned for the next five years will address small/medium enterprise (SME) expansion, broadened ownership of assets (low cost housing, shareholdings by employees and small investors, new or expanded businesses), privatization of state-owned enterprises, agribusiness promotion, and expanded access to debt and equity investment capital. USAID will have in place a strong team, both at USAID and through contracted personnel working on bilateral project activities, to help identify and guide SAEDF on potential investment opportunities in Zimbabwe. The "deal flow" potential will stem from USAID's direct involvement with efforts to create new SMEs (e.g., through subcontracting, franchising, spinoffs, and management/employee buyouts), as well as close working relationships with local banks, venture capital firms, and other donors involved in the same effort, i.e., the search for viable SMEs in which to invest. As an opening assumption, it

is USAID's hope to work collaboratively with SAEDF with the objective of placing the equivalent of up to \$20 million in SAEDF investments in Zimbabwe, either via direct investments or via local intermediary financial institutions

INITIATIVE FOR SOUTHERN AFRICA

I Introduction

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

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

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

The countries of the greater southern Africa region include Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

II Program Focus

Under the start-up framework for the Initiative, USAID's assistance will support new or expanded programs and strategies in the following areas:

- 1) **Democracy and Governance** -- USAID will support a number of activities, including the establishment of a Southern Africa Democracy Fund, to promote democracy, human rights and democratic values across the region. The Democracy Fund would be able to support a wide range of programs to promote capacity building, regional networking, and the increased participation of civil society-- including the media, judiciary, legislature, labor, church, women and other civic organizations-- in the economic and political decision-making processes that effect their lives.

2) **Small and Medium-Sized Business Development** -- USAID will support the development of small and medium-sized business activities to respond to the growing need across the region for jobs. Among other activities, USAID will provide \$100 million for investment in small and medium-sized enterprises through the establishment of a Southern Africa Enterprise Fund. Also, USAID will provide an additional \$8 million to the Fund to offset the operating expenses of the Fund in its first five years of operation. The fund will seek to accelerate indigenous ownership of productive assets and the development of small and medium-sized businesses that have been denied access to capital and necessary technical assistance and technology. By placing emphasis in these areas the fund will be providing resources to those segments of the regional economy most likely to create jobs and generate incomes for the poorer population groups.

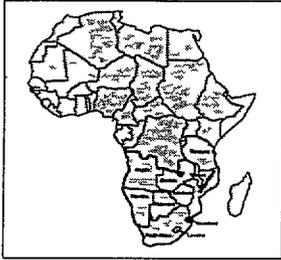
3) **Transport and Telecommunications** -- Sustainable economic growth in southern Africa is dependent upon the development of efficient transport and telecommunications to facilitate increased trade and investment within the region and with the rest of the world. Therefore, under the initiative USAID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

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

III Next Steps

The new Regional Center for Southern Africa, established in Gaborone, Botswana at the end of March 1995, administers the Initiative for Southern Africa. As the new Regional Center proceeds to define and develop additional program activities under the initiative, the process of consultation with southern Africans as an equal partner in this important regional endeavor will be intensified. Equally important USAID will look for opportunities to coordinate and cooperate in the southern Africa region with other bilateral and multilateral donors.

Many donors working in southern Africa have joined USAID in expressing the need for increased international coordination and collaboration to maximize the effectiveness of all the various regional initiatives. USAID will place strong emphasis on 1) working with donors and regional partners to develop and implement strategies in priority sectors, 2) organizing and participating in joint or co-funding arrangements, and 3) creating opportunities for donors and regional partners to share information and coordinate efforts.



Southern Africa Enterprise Development Fund Board of Directors Meeting

*June 26 - 27, 1995
Harare, Zimbabwe*

*June 28 - 29, 1995
Johannesburg, South Africa*



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