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PROPOSALS FOR A US AID PACKAGE FOR SOUTH AFRICA

In light of the political and social transformation of South Africa, the country needs extensive economic and development activity in order to address the socio-economic problems. The sectors which require technical assistance along with financial support range from job-creation, education programmes, health, housing and infrastructural development to informal commercial industrial development. The following proposals are submitted for consideration for the "aid-package" to be discussed with the US Administration.

Violence in South Africa and instability, if unchecked, will slowly wreck the many opportunities which exist to elicit investment. In order to end the violence and allow democratic elections to take place in the country, and let democracy to be maintained activities to help bring about a reduction of violence and stability are urgently desired. Top priority should be assistance to the **National Peace Secretariat** and the **April 1994 elections.**

1. LIFTING OF REMAINING STATE AND LOCAL SANCTIONS

Although much have been achieved with the sanction strategy, there are some states where difficulties are experienced to get the sanctions and/or divestment measures lifted. Due to this situation the normalisation of South Africa's relations with the individual state and local governments, as well as the furthering and strengthening of economic and financial relations, are severely hampered. Particularly in respect of legislatures not meeting until 1995 a problem exist where with White House cooperation it should be overcome.

2. THE CONCLUSION OF BILATERAL AGREEMENTS

Preparatory discussion in order to lay the foundation for the relevant bilateral agreements, for instance regarding trade, agriculture, culture and science and technology should be commenced as soon as possible.

Section 313 of the CAAA mandated the termination of the Convention for the Avoidance of Double Taxation and for Establishing Rules of Reciprocal Administrative Assistance with Respect to Taxes that was signed on December 13, 1946, and the protocol related thereto. The international agreements were terminated on October 8, 1986 and October 15, 1986, respectively.

Section 6(a) of the South African Democratic Transition Support Act (SADTS Act) of 1993 states that the US President should begin immediately to negotiate a tax treaty with South Africa. Negotiations on a new double taxation agreement should commence as soon as possible.

3. PROPOSALS FOR USAID TO EXPAND THEIR SOUTH AFRICAN PROGRAMME.

The following proposals, could in our view, be considered in order to identify areas where specifically the USAID/South African Programme could benefit or be expanded. These suggestions are made within the context of USAID's general policy principles, and more specifically, with USAID's development policy towards Africa in mind.

3.1 Proposal I:

The "South African Democratic Transition Support Act of 1993", Sec 5 (b), limits the current USAID/SA Programme to exclusively deal with South African non-governmental organisations and **the current South African Government is therefore excluded from any of USAID's programme activities.** A framework, in order to include a future democratically elected South African Government in the USAID/SA programme, should as soon as possible be formalised. The exclusion of the current South African Government resulted in duplication and uncoordinated initiatives within the programme. The normalisation of USAID's South African Programme (South Africa is the only country in which USAID runs a development programme, that excludes the local government) could prove to be time-consuming. It is therefore important that preparations and planning for the inclusion of a future government in South Africa, be initiated timeously.

3.2 Proposal II:

As stated above, USAID has due to Budgetary and other restraints, since the beginning of 1993, formulated an internal programme to focus more closely and concentrate on less programmes. The following policy guidelines were provided by USAID in this regard:

- Performing countries will tend to receive larger shares of economic assistance and non-performers less;

- To achieve greater results, USAID will need to focus efforts on priority country-specific developments, for which there is country commitment and less on meeting special interests or targets; and

- New, emerging priorities, especially in newly reforming countries, will mean cuts in other, lower priority bilateral programmes and some central programmes.

Considering the stated policy guidelines of USAID, it could be convincingly argued that the latest political and other developments in South Africa places it within the definition of what is meant by a "performing country". Regarding South Africa's transition to a fully democratic country, various "country-specific" developments will have to be addressed, of which the current violence in South Africa would be the most important.

In this regard, the current USD 26.4 million allocation for the 1994 Fiscal Year (FY) under Democracy and Civil Society in USAID's South African programme, could be increased, especially if one compares this to the USD 450 million granted to the Newly Independent States (NIS) of the former Soviet Union, for similar programmes. In addition to this, USAID also provides USD 42 million to the NIS for "Democratic Pluralism Initiatives" for assistance as the NIS "make their transition to pluralistic democracies."

Any additional assistance to South Africa should not be allocated from the present USD 80 million budget, as these funds have already been allocated to equally important social upliftment programmes, such as education, health and housing.

In this regard, USAID's South African Programme allocated USD 28 million for Human Resource Development (which focuses primarily on education) for the 1994 FY. This could be vastly expanded, especially if one considers that USAID's "Exchanges and Training Programme" for the NIS, currently amounts to USD 225 million for the 1994 FY. Consideration should also be given to the establishment of a foundation in SA, similar to the USD 12 Million "Eurasia Foundation" for the NIS, which was established to "support technical assistance, training and policy programmes in the NIS."

The current USD 22 million Private Sector Mobilisation allocation in the case of SA, could also be increased to the USD 190 million currently allocated to the NIS for the "development of a market-orientated housing sector."

The current USD 11 million for Black Private Enterprise Support in SA could similarly be increased within the framework of the USD 300 million aid to the NIS, for the establishment of an Enterprise Fund.

3.3 Proposal III:

The Development Fund for Africa (DFA), is the most obvious budget allocation to be utilised for additional funding for the South African Programme. As mentioned, the DFA currently amounts to USD 800 000 000, which also included the USD 50 000 000 for SADC. USAID describes the DFA as: "a single development account for Africa, which has proven to be an invaluable tool in further focusing and concentrating resources in a limited number of countries where they will be used most effectively, and also allows use of management resources as effectively as possible."

In accordance with these new policy guidelines, USAID recently announced the termination of their development programmes in the following African countries, Burkino Faso, Botswana, Cape Verde, Chad, the Ivory Coast, Lesotho, Togo and Zaire.

The re-channelling of these funds, in addition to the USD 80 million, to the South African Programme, could be further investigated.

3.4 Proposal IV:

USAID's total request for the 1993 FY for Development Programmes amounted to USD 1 265 500 000, and focused specifically on development assistance for: **Agriculture; Rural Development and Nutrition; Population Planning; Health; Child Survival Fund; AIDS Prevention; and Control; Education and Human Resources; Private Sector; Environment and Energy and Science and Technology.** Although some of the above are in the case of the South African Programme, already included in the USD 80 million, additional funding could be requested from the Development Programmes allocation. USAID funds, contained in the Africa Fund, which could be introduced to, or expanded in USAID's South African Programme, would be the following:

Economic Support Fund (ESF): which addresses economic and political foreign policy interests of the US;

The Agency Guarantee Programmes: which include:

Private Investment Programme (USD 114 000 000 for 1993 FY and USD 5 000 000 in direct loan authority. This is in addition to the USD 5 665 000 for subsidy costs and USD 1 447 000 for administrative costs);

The Housing Guarantee Programme (USD 95 000 000 for the 1993 FY and USD 16 407 000 in budget authority for loan subsidy costs and USD 7 000 000 in administrative costs); and

The International Disaster Assistance Programme: (USD 40 000 000 for the 1993 FY, for emergency relief efforts and improving foreign countries' own mitigation techniques and internal response capabilities.).

4. REGIONAL DEVELOPMENT : US PRIVATE SECTOR DEVELOPMENT IN AFRICA

Private sector development is a critical component in assisting Africans to modernise their economies and to liberalise their political systems. The private sector is where most Africans are employed and the potential for job creation is particularly high in micro and small enterprises. The US Government agencies are devoting considerable resources to private sector development in Africa as are other bilateral donors and multilateral institutions. Enterprise Funds and Growth Funds could serve to complement these ongoing efforts in particularly promising regions. For instance in ' post-apartheid South Africa the US Administration has a unique opportunity to assist the country in its political and economic transformation. An expanded Africa Growth or Enterprise Fund could assist in raising capital for small and medium sized enterprises among disadvantaged segments of the populations that previously had little access to capital.

4.1 OVERVIEW OF EASTERN EUROPEAN ENTERPRISE FUNDS

The Enterprise Fund (EF) concept emerged during the 100th Congress as a part of Public Law 101-179, the "Support for East European Democracy (SEED) Act of 1989." The SEED Act authorised the President to create the Polish-American and the Hungarian-American Enterprise Funds as nonprofit organisations to receive grants of $240 million and $60 million, respectively, for promoting the development of the Polish and the Hungarian private sectors.

Although the scope and pace of financial sector reform differs significantly among the nations of Central and Eastern Europe and the Newly Independent States (NIS), they share certain characteristics: (1) the legacy of central planning with severe distortions in the financial and productive sectors; (2) the lack of adequate financial and skilled human resources to develop the financial sector; (3) the inadequacy or lack of auditing systems to provide information on the creditworthiness of prospective borrowers; and (4) the poor quality of bank portfolios and inadequate capitalisation.

The purpose of the EF is to help develop indigenous private sectors. It seeks to spark private sector investment and to enhance overall business development as well as to demonstrate to other potential investors that private sector investment can be undertaken profitably in the respective country environment.

The basic reason for the EF is to provide risk capital in situations where the banking sector and financial markets are still evolving. The Enterprise Fund may be used to finance loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, and guarantees.

The EF concept, which is also sometimes referred to as venture capital funds, was subsequently extended to the Czech Republic, Slovakia, Bulgaria, Russia, and most recently to Romania and the Newly Independent States (NIS), which include both bilateral and multilateral initiatives.

The seven ongoing and proposed East European EF's have total planned obligations of $580 million, with each country grant to be disbursed over a four to five year period. The five ongoing and proposed NIS EF's have planned obligation levels of $720 - $770 million over the next four years.

The amount of capital allocated to each EF was determined on the basis of two principal criteria: (i) the country's current stage in transition towards a market economy, and (2) the need

for capital as reflected in the size of the economy and size of the population.

In 1994 FY, USAID is establishing three bilateral Enterprise Funds to assist small and medium-size business in the NIS. These Enterprise Funds: the Russian-American Enterprise Fund, the Central Asian-American Enterprise Fund and the Western NIS Enterprise Fund, may take equity positions or make loans to privatized of privatising small- to medium-sized enterprises . In certain instances, the Funds may also support technical assistance and training related to actual or potential investment and loans. Loans may be offer either directly or in conjunction with commercial banks.

In developing a package of technical assistance support for Russian, the G-7 nations created the Special Privatisation and Restructuring Programm (SPRP), which includes both bilateral and multilateral initiatives. As the principal bilateral component of the US contribution to the SPRP, USAID will managed the Fund for Large Enterprises in Russia aimed at meeting the special needs of medium,m to large enterprises who would require access to urgently-needed equity and loan capital as they merge from the mass privatisation efforts. In order to provide newly created small and micro enterprises in Russia with access to needed capital the G-7 members create a Small Business Fund (SBF). The SBF will provide equity capital, loans and loan guarantees primarily for purchased of fixed assets, though in some cases working capital may be advanced. Total funding is estimated at $300 million, half of which will be provided by the EBRD and the remainder will be provided by the G-7 nations.

Credit shortages and mismanagement are among the severe obstacles to enterprises restructuring, new business formations and private sector development in the NAS. In recognition of this, many donors, assistance agencies and private sector entities are exploring means to make financing available to the nascent private sector. Equity funds offer an attractive vehicle providing both management stake and risk minimisation and the Multi-lateral Equity Fund was established for this purpose.

4.2 US GOVERNMENT-SPONSORED VENTURE CAPITAL FUNDS AND GROWTH FUNDS IN AFRICA

Over the last two years, the US Agency for International Development (AID) has established several pilot venture capital funds in Africa, such as the Ghana Venture Capital Fund and the Tanzania Venture Capital Fund. These funds seek to mobilise long-term equity finance and have some resemblance to the Enterprise Funds in Eastern Europe.

The principal experience of the US Government, however, in supporting private enterprise in Africa through equity investment has been the Africa Growth Fund (AGF). The AGF was established by AID in conjunction with the Overseas Private Investment Corporation (OPIC), who supported its capitalisation.

The AGF and the venture capital funds in Ghana and Tanzania differ from the Enterprise Funds in Eastern Europe in that the US Government provides guarantees for investments only <u>after</u> private capital has been raised.

The AGF is designed to raise capital for creating, expanding and rehabilitating productive business enterprises in sub-Saharan Africa (excluding South Africa). It is a privately owned limited partnership having investment capital of $25 million. Equity capital totals $5 million in the form of limited partnership interests offered to US corporate and institutional investors.

OPIC has committed to guarantee AGF's debt capital of $20 million, created through promissory notes issued to qualifying private US financial institutions.

The AGF seeks to achieve long-term appreciation and a current return on its capital primarily by investing in equity securities of companies in sub-Saharan Africa. Companies for investment are chosen on the basis of their sound financial condition and/or attractive growth potential, as well as their positive developmental benefits. The AGF purchases securities of both new and established companies that plan to expand or modernise, add significant capital to increase their competitiveness, or intend to implement privatisation of a previously state-owned enterprise. Besides contributing to local development, AGF's investments are required to meet OPIC's criteria, as legislated in the Foreign Assistance Act, of being environmentally sound and of protecting local workers' rights and US employment. All AGF's investments involve a US company as owner, manager or supplier. Fund assets are invested in a broad spectrum of African industries, such as agribusiness, chemicals, construction, machinery and equipment, electronics, finance, international trade, and mining.

No more than 15% of AGF's total assets may be invested in any one company. Most of the AGF's investments are in medium- to large-scale enterprises, with typical commitments by AGF ranging from $500 000 - $3 million.

Principal participants are: OPIC (guarantor and participant in the oversight of investment operations), Equator Bank (AGF manager and general manager), and Citicorp Investment Bank (financial advisor and agency for sale of securities). US private lending institutions purchased AGF's $20 million of OPIC-guaranteed notes and five US corporations provided $5 million through the purchase of limited corporate partnership units, at $1 million each.

The AGF initially experienced resistance from US investors, but with over 50% of its capital invested and an expectation to distribute profits to investors this year, AID and OPIC believe that the fund is successful. AGF has not experienced any losses on its investments and the possibility is being explored of raising additional private capital for an Africa Growth Fund II.

4.3 SOUTHERN AFRICAN ENTERPRISE FUND

On 30 April 1992, former Representative Mervyn Dymally (D-CA), then Chairman of the House Subcommittee on Africa, introduced the Emerging South African Democracy and Open Markets Support Bill (HR 5036) which would establish a South African-American Enterprise Fund to assist in private sector development in South Africa.

The purposes of the measure were to promote: (1) equitable participation in a competitive free market economy in South Africa and joint ventures between US persons and black South Africans; (2) policies conducive to private sector development by the black population of South Africa through loans, grants, equity investment, feasibility studies, technical assistance, training, insurance, guarantees etc; (3) democracy and free market systems; and (4) sectors which promote development.

In addition to permitting that funds be made available to the Fund to be used for: (1) the establishment of **Employee Stock**

Ownership Plans in South Africa that are owned principally by black South Africans; (2) technical and other assistance to support the development of **indigenous credit unions** in South Africa, and (3) encouraged the Fund to utilize its resources in a fashion which would be supportive of the emergence of strong economies in neighbouring countries in southern Africa and of **regional cooperation and integration.** It also authorised the Fund to solicit U.S. venture capital for investment purposes and declared that the Fund should establish financial instruments to enable individuals to invest in commercial enterprises substantially owned and operated by black South Africans.

On 16 June 1992, the measure was approved by the House Foreign Affairs Committee but was never moved to the floor for House consideration. No similar measure was introduced in the Senate. The conclusion of the 102nd Congress at the end of 1992 sealed the fate of the proposed measure.

By the conclusion of the first session of the 103rd Congress during November 1993, no similar measure had been introduced. The House Foreign Affairs Subcommittee on Africa did, however, on 19 October 1993, hold hearings on the potential for an Enterprise Fund for Africa.

Witnesses testifying before the House Foreign Affairs Subcommittees on Africa and on Economic Policy, Trade and Environment were sceptical that an Enterprise Fund for Africa would be feasible or effective. This was largely ascribed to the fact that given Africa's heterogenous nature, the administration of such a fund would be unwieldy and expensive. Venture capital funds have been focused on individual countries only, be they African, Eastern European or NIS nations. The possibility of a Southern African Enterprise Fund was mooted with the prospect of later creating other regional enterprise funds.

The Director of USAID, Brain Atwood, during a speech in Gaborone on 27 January 1994 raised the issue of a Regional Enterprise Fund for Southern Africa: "Under the initiative (the support for the development of the indigenous private sector) USAID plan to design and establish a regional enterprise fund of at least USD 100 million over 5 years to stimulate the development of indigenous small and medium sized business, enhance their role in job creation and expand their involvement in trade and investment within the region and with the rest of the world".

4.4 US-SPONSORED REGIONAL CONFERENCE

The Director of USAID, Brain Atwood, in his speech to the Southern

Africa Development Council recently also raised the idea of an regional conference to be facilitate by the US Administration, some time after the elections in South Africa. A regional conference could broaden the dialogue on key issues and problems that constrain and limit regional economic growth and cooperation. The private sector with the principle donors, NGO's and civic and business leaders and potential foreign investors could participate in the conference.

The conference should focus on:

- regional cooperation and specific the role South Africa could play in the region;
- building and sustaining democracy and good governance in the region as a path to stability and peaceful conflict;
- strategies for stimulation small and medium private enterprises in the region;
- impediment to increase trade and investment and how to attract foreign capital;
- opportunities for increased donor coordination on a regional basis to address global concerns: the environment, population and AIDS.

From a South African point of view the following issues could be suggested for the agenda:

- South Africa's membership to the Southern African Development Community;
- a single currency for the region;
- future regional cooperation regarding the environment, telecommunication and health issues to prevent and combat the spread of disease;
- food and water security for the region;
- US-SA joint venture investment projects in Southern Africa.

5. SOUTH AFRICAN DEMOCRACY AID INITIATIVE

In the months following the lifting, by President Bush, of the Title III sanction measures of the Comprehensive Anti-Apartheid Act, former Representative Stephen Solarz (D-NY) spearheaded a bipartisan initiative dubbed the "South African Democracy Aid Initiative (SADAI)". A letter was send to President Bush in this regard with some detail of the proposal. Two significant elements emerged from the proposal. The first was the suggestion that a South African development bank be created through which the international community could channel economic development funds. The second element was that the bipartisan group signed a letter expressing the belief that the Multilateral Aid Initiative (MAI) for the Philippines would serve as a useful model for SADAI.

Although the most promising element of the proposed SADAI appeared to be the development bank proposal, no further action was taken by either Congress or the Bush Administration.

By way of background, the MAI was proposed in November 1987 by former Rep Solarz, then Chairman of the Asian and Pacific Affairs Subcommittee, and his Senate counterpart, former Senator Alan Cranston (D-CA). The MAI originally called for $1 billion per annum for five years for the Philippines.

The MAI was later revised to provide the Philippines with $2 billion per year over a five year period. Half the funding was in direct grants and loans from governments and the international development banks.

State Department and US AID officials outlined the MAI proposals at a hearing that was held on 7 March 1989, following meetings in Manila between Philippine officials and Messrs Alan Woods and Koichiro Matsuura, the then respective heads of the US and Japanese Foreign aid agencies.

MAI had four main elements: supporting an economic reform programme, including privatisation, deregulation and trade reform; promoting administrative reforms that would improve the capacity of the Philippines to use foreign aid; rehabilitating the nation's infrastructure, particularly communication, transportation and energy, and improving education and health services, primarily in rural areas.

On 4 July 1990, the United States, Japan, the EC (European Union) and other industrialised countries formally agreed to the five-year MAI at an international pledging conference in Tokyo. Then Secretary of State, Mr James Baker pledged a US contribution of $1 billion of grants over a five-year period (Congress approved the first instalment in 1989).

Since Section 9 (a) of the SADTS Act of 1993 encourages the US President to encourage other donors, particularly Japan and the European Union member countries, to expand activities in support of the transition to nonracial democracy in South Africa. Against this background the initiative could be explored.

The necessary funds could be obtained from USAID's Special Assistance Initiatives (SAI) designed to fund extraordinary economic assistance in developing countries. Projects previously funded by the SAI include the US contribution to the Philippines Multilateral Assistance Initiative and the support to the democratic evolution in Eastern Europe.

6. HOUSING BANK AND GUARANTEE FUND

A national Housing Bank should be established to gain access to wholesale finance for housing projects and a Guarantee Fund which would protect private sector funds from undue risks.

US Government institution (namely the US Treasury Department, USAID or the US Department for Housing and Urban Development) should be encourage to provide financial assistance and housing guarantees to this independent Housing Bank.

> These US housing guarantees would enable South African institutions responsible for the provision of new houses for black South Africans, such as the Independent Development Trust and/or the Department of Housing, to approach international financial institutions, such as foreign banks and investors for funds. The provision of these guarantees would therefore not only enable these private South African institutions to obtain funds, but would also grant them the opportunity to negotiate the most favourable terms of payment. Although US institutions may provide the guarantees for these loans, it remain only a guarantee and would therefore not be reflected in the US budget as an expenditure;

7. RURAL RESETTLEMENT PROGRAMMES

Financial assistance is urgently needed to launch a new decentralisation and regional development strategy for the country. Agreed resettlement programmes would have to be initiated to ensure productive use of land on a sustainable basis, financial support (private sector funds) would have to be provided for the infrastructure, extension services and research projects. In order to foster the growth of local economies, broadly representative institution must be establish to address local economic development needs. The purpose would be to formulate strategies to address job creation, community development, credit co-operatives and investment plans, training, small business and agriculture development.

A vibrant and expanded agricultural sector is a critical component of rural development and land reform programmes. Agriculture development projects could be initiated on unused military land and unproductive state farms with the focus on commercial farming to increase productivity, incomes, household food security. Major regional water supply projects could be initiated with US financial assistance and expertise using local labour for the building of dams, pumping stations and purification works to supply water for domestic, irrigation and industrial consumption.

Considerable potential for future development is in project farming whereby industrial crops, i.e. those which could be sold in bulk to processing industries, are grown on a large scale. Typical examples of such crops are sisal, cotton, sugarcane, coffee, tea and timber.

Regarding assistance in the areas of agriculture consideration should be given to the following:

- training of prospective small farmers in financial management, marketing and production techniques;

- research and development of sustainable production systems for small farmers under southern African conditions;

- direct financial aid for the erection of structures to reverse soul erosion, erection of fences to apply grazing systems and afforestation of environmentally challenged areas in current black owned agricultural land.

Special initiatives should be launched focusing on rural women to ensure that the economic needs and well-being of these women are recognised in development programmes. Attention should be given to rural women from disadvantaged household, female-headed households, young rural women, disabled women and migrant and displaced women. The rural women's access to resources should be improved to ensure more equitable gender-base distribution of land, labour, capital, technology, social services and infrastructure.

8. ASSISTANCE WITH SOCIAL AND EDUCATIONAL DEVELOPMENT PROGRAMMES

In terms of Section 5 (a) of the SADTS Act of 1993, US assistance should be used to increase the capacity of institutions to serve the needs of the disadvantaged communities, with the emphasis on scholarship for the youth at institutions within the country, and funding of non-traditional training activities. With the high level of youth unemployment financial assistance is required for the re-education of the so called "lost generation". A special youth re-education programme should be established to educate, develop, train and empower the unemployed youth in order to be able to participate in their communities through involvement in service projects.

For South Africa to develop an education and training system that provide opportunities to all sections of communities, foreign institutions already active in the country, namely the US Development Agency, the Food and Agricultural Agency and the Department of Education's International Division, should be encouraged to expand their programmes into the following areas:

8.1 Formal education : special video programmes should be compiled for the training of maths and science.

8.2 Adult education : head start literacy programmes for adults;

special highly focused, short-term training programmes.

8.3 Special education : assistance is needed for the establishment of appropriate institutional structures for the learning needs of children and adults with physical and other disabilities.

8.4 Vocational training : financing of skills development centres for unskilled youths.

8.5 Development of managerial and administrative skills: internships for officials and legislators in local governments; training programmes for community workers; training programmes for youth administrators and coaches.

8.6 Development of entrepreneurial skills: training programmes for business administrators; for small business persons and small business development.

8.7 Special programmes to educate and empower women to enable them to help themselves and assist with human development in rural areas.

8.8 Special training and exchange programmes which focus on educational exchange, business internships and cooperative scientific research.

9. INVESTMENT AND TRADE ISSUES

With the signing of the SADTS Act of 1993 negotiations were initiated for the SAG to sign the OPIC agreement opening the way to implement **OPIC programmes** in South Africa. OPIC should be encourage to:

- expand the OPIC sponsored Africa Growth Fund to South African order to take equity positions in business ventures.
- to promote new investment opportunities in the country, and
- offer insurance and project finance.

The US private sector should be encourage to create a **franchise fund** which could be to the benefit of the small black entrepreneur in South Africa. This franchise fund could assist the local small business person to facilitate an American franchise organisation.

Section 6 (c) of the SADTS Act stipulates that the Trade and Development Agency (TDA) has to provide additional funds to promote business enterprises in South Africa. This could give opportunities to the US investor to provide not only materials needed for education and training but to also provide expertise for enterprises in which unskilled and semi-skilled labour could be employed.

In terms of the German Government's "bilateral technical cooperation" with South Africa, a Technical Advanced Training Scheme (TATS) were initiated by the German Chambers of Industry and Commerce and the German/SA Chamber of Commerce and Industry, in order to expand dual vocational training in SA. A similar project could be initiated by the TDA.

10. COOPERATION BETWEEN INTERNATIONAL FINANCIAL INSTITUTION AND THE DEVELOPMENT BANK OF SOUTHERN AFRICA

For the international financial institutions to fully normalise operations in South Africa, the IMF and World Bank could extend its lending and other financial assistance to the Southern Africa Development Bank and other institutions, in an effort to assist with infrastructural development projects to improve management and services.

These institutions should also assist to identify a new role and focus for the Development Bank of Southern Africa. Administrative reforms should be implemented in order to improve the capacity of the country to absorb development assistance programmes.

These institutions could also be urge to fund programmes to initiate and/or expand technical assistance for the purpose of training people in government management techniques especially in the areas of local government.

11. PEACE CORPS INVOLVEMENT IN SOUTH AFRICA

The US Peace Corps has never been involved in South Africa due to previous concerns expressed about the internal situation in the country. In view of the April 1994 elections the idea of sending US Peace Corps volunteers to South Africa could once again be raised with the Administration and an invitation immediately extended. Should the US Peace corps decide to get involved in South Africa it would take up to a year for a contingent between 15 and 20 volunteers to arrive in the country. The main focus areas of the programme would include education (including adult education), small business development, urban development, housing, environmental protection (especially with regard to agricultural development) and the general improvement of facilities for a household i.e water and sewerage provisions.

12. FOREIGN POLICY CONTROL REVIEW

The 1994 Foreign Policy Control report that the Secretary of Commerce will submit to Congress will contain references to the relaxation of US policy towards South Africa in regard to Foreign Policy Proliferation Control and International Traffic in Arms Regulations.

13. COMMERCE CONTROL LIST

In the process of revision.

14. INCLUSION OF SOUTH AFRICA UNDER THE GENERALISED SYSTEM OF PREFERENCES

The Minister of Trade and Industry, Mr Keys, signed South Africa's formal application on 21 January 1994, which the US Administration is processing at the moment.

14.1 BACKGROUND

The Generalized System of Preferences (GSP) empowers the President to provide duty-free treatment for imported articles from developing countries which the President has designated to be beneficiaries of the preferences. The purpose of the GSP is to promote the economic development of underdevelopment countries by giving them temporary duty-free preferential advantages which enable them to compete effectively with developed countries in the international trading system. In renewing the GSP programme in 1984, Congress articulated additional public policy goals;

* promote the concept that trade is a more effective and cost-efficient way of promoting broad-based sustained economic development than outright aid has been,

* profits from trade stimulated by the GSP will result in growing markets for US exports,

* foreign exchange earnings will also enable the developing countries to meet their payment obligations on their international debt, and

* with the US liberalising its trade with the developing countries through the GSP, it is expected that the developing countries will be encouraged to liberalise their trading systems through elimination of trade barriers, protect the intellectual property rights of foreign nationals, and afford workers internationally recognised worker rights.

The GSP programme is intended to be a unilateral, non-reciprocal programme of temporary grants of preferences rather than permanent tariff advantages. It is intended to help those sectors of developing countries which are having difficulty competing internationally without adversely affecting the US industry competing with GSP imports.

14.2 CRITERIA FOR BEING DESIGNATED A BENEFICIARY DEVELOPING COUNTRY

The benefits of the GSP programme are limited to those countries that the President has designated as a "beneficiary developing country". The statute specifically lists certain countries, among them South Africa, which are prohibited from being designated as beneficiary developing countries. The President is also prohibited from designating any country as a beneficiary developing country if they fall into any of the following categories;

(1) if such country is a Communist country, unless its products receive most-favoured-nation treatment, it is a contracting party to the GATT and a member of the IMF, and is not dominated or controlled by international communism;

(2) if such country is a member of the Organisation of Petroleum Exporting Countries (OPEC) or other arrangement and withholds supplies of vital commodity resources or raise the price to unreasonable levels and causes serious disruption of the world economy;

(3) if such country affords preferential treatment to the products of other developed countries which has or is likely to have a significant adverse effect on US commerce;

(4) if such country has nationalised, expropriated, or otherwise seized ownership or control of property, including patents, trademarks, or copyrights owned by a US citizen or which is 50% or more beneficially owned by US citizens (this includes repudiation of contracts, taxes or other conditions which have the same effect), unless the President determines there has been adequate compensation, good faith negotiations are under way to provide adequate compensation, or the dispute has been submitted to arbitration;

(5) if such country fails to act in good faith in recognising as binding or in enforcing arbitral awards in favour of US citizens;

(6) if such country aids or abets international terrorism;

(7) if such country has not taken or is not taking steps to afford internationally recognised worker rights to its workers.

Notwithstanding the conditions set forth in items 4, 5, 6 and 7 above, the President may designate such country as a beneficiary developing country if the President determines that such designation will be in the national economic interest of the US and reports his determination to the Congress. In addition to the four policy guidelines set forth above, the statute also lists other factors which the President must take into account in his determination of whether to designate any country as a beneficiary developing country;

(1) express desire of the country to be so designated;

(2) the level of economic development, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors deemed appropriate;

(3) whether it has GSP treatment from other developed countries;

(4) the extent to which it is assured that it will provide equitable and reasonable access to its markets and basic commodity resources and that it will refrain from engaging in unreasonable export practices;

(5) the extent to which it is providing adequate and effective means for foreign nationals to secure, exercise and enforce intellectual property rights;

(6) the extent to which it has reduced trade distorting investment practices and policies, and reduce or eliminate barriers to trade in services; and

(7) whether it has taken or is taking steps to afford its workers internationally recognised worker rights.

Before designating any beneficiary country, the President must notify Congress of his intention and the considerations entering into such decision.

14.3 ADDING ARTICLES TO BE DESIGNATED AS ELIGIBLE FOR GSP OR WITHDRAWING DUTY-FREE TREATMENT ACCORDED TO ELIGIBLE ARTICLES

A <u>Request for Reviews</u> : The US Trade Representative administers the GSP programme through an inter-agency committee called the "GSP Subcommittee". A GSP Information Centre has been established in the Office of the US Trade Representative to assist interested parties with respect to GSP country or article designation. The GSP Subcommittee conducts an Annual Review of the list of articles and countries eligible for duty-free treatment.

Any interested party may submit a petition to the GSP Subcommittee before 1 June requesting that articles be added to or withdrawn from the GSP list or that the President exercise his waiver authority with respect to a specific article or that product coverage be modified. The regulations stipulate specific information which must be submitted in the petition. On 15 July an announcement is published in the Federal Register listing the petitions that have been accepted for review. The International Trade Commission (ITC) is requested to submit a report on the economic effects of the requested action with respect to GSP eligibility. The ITC will hold public hearings with prehearing and posthearing briefs being supplied by the interested parties. The GSP Subcommittee will hold public hearings and receive submission of written briefs prior to the hearing and rebuttal briefs thereafter. The ITC and GSP Subcommittee hearings take place in September and October. The ITC submits a public report on its findings and interested parties are given the opportunity to comment during December/January on the ITC report. e determination of the GSP Subcommittee is then reviewed by the Trade Policy Staff Committee, the Trade Policy Review Group and the Trade Policy Committee before a final recommendation is given to the President. The final decision of the President is announced on 1 April and implemented on 1 July with respect to modifications to the GSP programme.

B <u>Articles Which Qualify for Duty-Free Treatment</u> : In order to qualify for duty-free treatment under the GSP, an imported article must meet certain country of origin requirements. The article must be the growth, product, or manufacture of a beneficiary developing country that is imported directly from that country into the US and the cost or value of the materials produced in the country plus the direct costs of processing operations performed in the country must not be less than 35% of the appraised value of the article at the time of its entry into the US. The statute does not require that the subject article be "entirely" the growth, product or manufacture of the beneficiary developing country to qualify for GSP eligibility.

The statute specifically sets forth a list of articles which may not be designated as eligible under the GSP : textile and apparel articles subject to textile agreements; watches except those which the President determines will not cause material injury to watch manufacturing and assembly operations in the US; import-sensitive steel articles; footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel not eligible for GSP on 1 April 1984; import-sensitive semi-manufactured and manufactured glass products; and other articles which the President determines to be import-sensitive in the context of the GSP.

C <u>Import-Sensitivity: US Industry's Primary Defense Against GSP Eligibility of Imported Products</u> : As indicated above, articles which the President determines to be import-sensitive in the context of the GSP are not eligible for GSP designation. In determining whether ti "graduate" (remove) an article from the GSP programme, the GSP Subcommittee will review the beneficiary country's general level of development, its competitiveness in the particular article which is the subject of the proceeding, the country's practices relating to trade, investment and worker's rights, and the economic effect that GSP treatment would have on US producers of the subject article, its workers and consumers.

14.4 LIMITATIONS ON PREFERENTIAL TREATMENT

A <u>Discretionary Graduation</u> : The President may withdraw, suspend or limit the application os GSP treatment with respect to any article or country after taking into consideration the factors set out in 1 and 2 above. In such cases most-favoured-nation duties would be restored with respect to the articles that had previously had GSP treatment. This authority is characterised as "discretionary graduation" and has been used in the Annual Review where countries have demonstrated their competitiveness. It shifts GSP benefits to less competitive products from less advanced developing countries.

B <u>Competitive Need Limitations</u> : While a country may lose its GSP eligibility as a beneficiary country or on particular products as a result of petitions filed in the Annual Review or by discretionary graduation, it may automatically lose its GSP eligibility for a product which has exceeded the competitive need limitations set forth in the statute. Specific thresholds are established at which imported products from beneficiary countries are deemed competitive in the US market and no longer in need of GSP eligibility. This enables a shifting of GSP benefits to less competitive products from other beneficiary countries.

C <u>Graduation of Beneficiary Countries Based on Per Capita Gross National Product</u> : A beneficiary developing country may be graduated from the GSP programme over a two year period of time if it is determined that the per capita gross national product exceeds the "applicable limit". ($8 500 adjusted annually by 50% of the annual change in US GNP since 1984. The 1990 level was $10 405). During the two year period the competitive need limit with respect to import volume will be reduced from 50% to 25% of the volume of imports of GSP articles.

(Note : The above is an abridged version of a paper presented by Randolph J Stayin of Barnes & Thornburg at a seminar sponsored by the Cambridge Institute in 1991)

15. RESTRAINTS ON SOUTH AFRICAN IMPORTS

15.1 TEXTILES AND APPAREL

International trade in textiles and apparel is governed largely by the Arrangement Regarding International Trade in Textiles, more generally known as the Multi-fibre Arrangement (MFA). In 1991, the trade-weighted, average ad valorem tariff rates for U.S. imports of textiles and apparel were 12,6% and 16,8&% respectively. Textile and apparel imports qualify for preferential tariff treatment under free-trade agreements negotiated with Israel and Canada. In addition, a number of countries benefit from reduced duties under the Harmonized Tariff Schedule of the United States.

Although quantitative restraints on U.S. imports of textiles and apparel have been in effect since the 1950s, the scope of these restraints has increased significantly during the past two decades. The MFA is set to expire on 31 December 1993. The expiration of the agreement is intended to coincide with the implementation of an agreement on textiles and apparel negotiated in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).

No quotas have been set to date regarding imports from South Africa.

15.2 SUGAR

Historically, sugar programmes have been aimed at supporting the incomes of sugar-cane farmers, sugar-cane millers, sugar-beet farmers and sugar-beet processors by stabilising the US price of sugar at minimum levels. The current price support programme consists of non-recourse loans. To receive non-recourse loans, millers and processors must pay sugar-cane and sugar-beet growers support prices. The sugar is used as collateral for the loans. If processors elect to forfeit the sugar to the Commodity Credit Corporation, they are not eligible for repayment of the loan (hence, "non-recourse" loan).

Tariff-rate quotas are currently used in order to make the market a more attractive alternative to loan forfeitures. The tariff-rate quota allows for an allotted amount of sugar to enter the U.S. at a duty rate of 0,625 cents per pound. Any imports in excess of the allotment during the designated quota period are subject to a tariff of 16 cents per pound. During the current quota period, which runs from 1 October 1992 to 30 September 1994, the U.S. sugar quota is 2,5 million short tons, raw value.

South Africa was reallocated a sugar quota, but during the sanction years obtained other markets with the result that it does not, according to the South African Sugar Association, intend to export to the US at present.

15.3 COAL

The U.S. imports about 3 million tons of coal per year. With sanctions now lifted, South Africa has a chance of regaining part, at least, of the Florida market but little chance of selling to other regions of the U.S. because waterborne transport is less expensive in these areas than transport from U.S. coal mining regions.

15.4 LEATHER AND LEATHER PRODUCTS (Significant tariff restraint)

Personal leather goods: This category includes small articles normally carried on the person or in a handbag, such as billfolds, key cases and coin purses of leather or other materials, except of precious metal. Rates of duties on these articles currently range from 6,5% to 25%.

Leather gloves and mittens: For tariff purposes, leather gloves have historically been distinguished between those of horsehide or cowhide leather and those of other leathers. Developments over the years have tended to blur these distinctions somewhat. The tariff distinction based on leather types was eliminated with the adoption of the Harmonised Tariff Schedule (HTS) in 1989. The HTS now classifies dress and work gloves of all types of leather under a single subheading with a tariff rate of 14%.

Unfortunately, South Africa will not benefit under the GSP for these products as they are specifically excluded.

15.5 STEEL AND STEEL PRODUCTS

Imports of carbon alloy steel mill products have been subject to restraint since October 1984, when President Reagan's steel programme went into effect. The programme, which was instituted to address the problem of dumped and subsidised steel imports, was expected to provide opportunities for restructuring and modernising the domestic industry to 20,5% of the market for a five year period. A key component of the programme was the negotiation of 21 bilateral voluntary restraint agreements (VRAs) covering imports from 29 countries. The programme was strongly supported by the steel industry which mounted an aggressive campaign for a five year extension before the programme's scheduled expiration in September 1989.

In July 1989, President Bush announced his Steel Trade Liberalisation Programme, which had two principle components, namely the extension of the VRAs beyond September 1989, and simultaneous negotiation of an international consensus to eliminate those trade-distorting practices that precipitated the original programme. Bilateral agreements were subsequently concluded with 16 countries and the European Community that place an import ceiling of 19,1% of U.S. apparent consumption from these countries for the first period of the two and a half year extension, with additional increases authorised in subsequent periods for countries supporting the international consensus.

The first step towards the international consensus was the negotiations by December 1989 of bilateral consensus agreements (BCAs) with nine VRA countries and the EC. The BCAs, most of which will terminate on the same date as the VRAs, prohibit future subsidies and commit each signatory to open its markets by eliminating non-tariff measures and reducing or eliminating tariffs in the Uruguay Round of multilateral trade negotiations. The agreements also incorporate an effective dispute resolution mechanism and a commitment to work with the U.S. to incorporate the disciplines of the BCAs into a multilateral agreement

South Africa was not invited by the U.S. to renegotiate its VRA on unsanctioned manufactured steel structural products when the VRA lapsed in September 1989.

The U.S. Department of Commerce did an investigation for calender year 1992 on the countervailing of certain South African export programmes on certain classes or kinds of steel. Two programmes were found to be countervailing but the rates were de minimis. No request for renegotiation has thus far been received from the South African steel producers.

15.6 AGRICULTURAL COMMODITIES

Fruits, Vegetables and Nuts: Certain agricultural commodities (including fresh tomatoes, avocados, mangoes, limes, oranges, grapefruit, green peppers, cucumbers, eggplants, dry onions, walnuts and filberts, processed dates, prunes, raisins and olives in tins) must meet US import requirements relating to grade, size, quality and maturity. These commodities are inspected and an inspection certificate must be issued by the Food Safety and Quality Service of the Department of

Agriculture to indicate import compliance. Additional restrictions may be imposed by the Animal and Plant Health Inspection Service of that Department under the Plant Quarantine Act and by the Food and Drug Administration under the Federal Food, Drug and Cosmetic Act.

Meat and Meat Products: All commercial shipments of meat and meat food products (derived from cattle, sheep, swine, goats and horses) offered for entry into the US are subject to the regulations of the Department of Agriculture.

Time delays for approval have been experienced. Only the following fresh fruit and vegetables have been approved for importation, namely apples, pears, grapes, plums and gingerroots.

15.7 IMPORT QUOTAS

An import quota is a quantity control on imported merchandise for a certain period of time. US import quotas may be divided into two types: absolute and tariff-rate. Tariff-rate quotas provide for the entry of a specified quantity of the quota product at a reduced rate of duty during a given period. There is no limitation on the amount of the product which may be entered during the quota period, but quantities entered in excess of the quota for the period are subject to higher duty rates. Absolute quotas are quantitative; that is, no more than the amount specified may be permitted entry during a quota period. Some absolute quotas are global, while others are allocated to specified foreign countries.