

PD-ABL-044  
152 94632

EMBASSY OF THE  
UNITED STATES OF AMERICA

Office of Development Affairs  
April 27, 1989

Mr. Amon Ntuli  
President  
ACTWUSA Employment Trust  
P.O. Box 13010  
Jacobs  
4026

Subject: Black Private Enterprise Development Project  
ACTWUSA Employment Trust Agreement No:  
674-0303-G-SS-9020-00

Dear Mr. Ntuli,

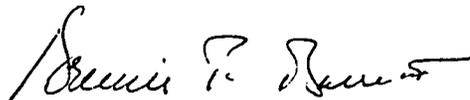
Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter "USAID") hereby enters into this Agreement with the ACTWUSA Employment Trust (hereinafter "the Recipient"), and obligates the sum of US \$125,000 to provide support for a program described in Attachment No. 1, entitled "Schedule", and Attachment No. 2, entitled "Program Description", of this Agreement.

This Agreement is effective and obligation is made as of the date of this letter. The Agreement and obligation shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning May 1, 1989 and ending May 1, 1990.

This Agreement is entered into with ACTWUSA Employment Trust on condition that the funds will be administered in accordance with the terms and conditions set forth in Attachment 1, "the Schedule", Attachment 2, "Program Description", and Attachment 3, "Standard Provisions". This letter and the three attachments just described, which have been agreed to by your organization, constitute the Agreement.

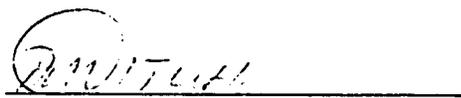
Please sign the original and six (6) copies of this letter.  
Please then return the original and five (5) copies of this  
letter to USAID/Pretoria.

Sincerely,



Dennis P. Barrett  
Counselor for Development Affairs

ACKNOWLEDGED AND ACCEPTED



By: Mr. Amon Ntuli

  
Trustee Actwusa Employment Trust

Title: President of ACTWUSA Employment Trust

Attachments:

1. Schedule
2. Program Description
3. ~~Standard Provisions~~
4. Ninety Day Advance (as applicable)

ATTACHMENT NO. 1

SCHEDULE

I. OVERVIEW OF AGREEMENT

A. Purpose of Agreement This Agreement provides funds to the ACTWUSA Employment Trust (hereafter "the Trust") to assist the Zenzeleni Clothing (PTY) Cooperative (hereafter "Zenzeleni" or "the Cooperative") to initiate clothing production. Funding will be used to finance the Cooperative's initial year lease payments on equipment and machinery. It is expected that A.I.D. assistance, through the Trust, will enable the Cooperative to secure other commercial finance and donations necessary for its success, profitability, replication, and sustainability.

II. PERIOD OF AGREEMENT

The effective date of this Agreement is May 1, 1989. The expiration date is May 1, 1990, meaning that no USAID funds under this Agreement shall be applicable to goods not furnished or services not performed for the project by this date.

III. AGREEMENT FUNDING AND PAYMENT

A. USAID hereby obligates the sum of \$125,000 for purposes of this Agreement.

IV. FINANCIAL MANAGEMENT

A. ACTWUSA Employment Trust shall be responsible for accounting for all funds provided under this Agreement including those funds which are sub-granted to the Zenzeleni Cooperative. Reimbursement for expenses incurred shall be in the form of a submission of invoices marked paid, cancelled checks, and other appropriate documentation, as further described in Part B of this Section. Included in this Agreement, as Attachment 4, is a one-year budget based upon expected expenditures covered by this Agreement. This budget also represents the ACTWUSA Employment Trust request for an advance. Execution of this Agreement constitutes USAID approval of the advance, and for AID's internal purposes, earmarks and commits all funds obligated under the Agreement. Any interest earned from funds provided under this Agreement will be returned to USAID.

B. Disbursement Procedures

1. Advances: It is recognized that an advance of funds is required, as working capital, to carry out the purposes of this Agreement. Refer to Section IV A and Attachment 4 which requests such an advance.

(a) The submission indicating that payment has been made on the leased equipment will be used to reduce the advance balance.

(b) This submission, discussed above, will include (i) a summary sheet listing, in a format compatible with the budget, the purpose and amount of all (individual) expenses incurred with a sub-total for each budget line-item and a grand total; and (ii) copies of paid invoices (not pro forma invoices), checks, or other documentary evidence showing that funds were expended and the payee received such funds; e.g. an invoice stamped "paid" and/or a cancelled check.

(c) At the end of the Agreement period, any advance balance will be liquidated through submission of paid invoices and/or cash.

V. FINANCIAL PLAN

A. The Illustrative Financial Plan for this Agreement is set forth in Table I below. Revisions of this Plan shall be made in accordance with Standard Provision 4 of this Agreement, located in Attachment 3 and entitled "Revision of Agreement Budget".

Table 1

	Illustrative Financial Plan	
	SAR	Total US\$
Leasing Equipment (12 months)	R316,250	\$125,000

B. Level of Assistance

The budget line items provided in Table 1 have been calculated by taking the amounts required by ACTWUSA Employment Trust in South African Rands and then converting these to U.S. Dollars at an exchange rate of R2.53/US\$1. While the Rand amounts are included in Table 1 for illustrative purposes, the U.S. Dollar totals, and not their Rand equivalents, constitute the binding level of USAID assistance. Should exchange rate fluctuations result in fewer South African Rands being available than budgeted for, ACTWUSA Employment Trust must finance the shortfall since the U.S. dollar amount prevails.

4

VI. REPORTING

ACTWUSA Employment Trust will submit to USAID a semi-annual progress report from the Zenzeleni Clothing Cooperative in months 6 and 12 of this Agreement, the format of which will be agreed to by the Parties at a later date.

VII. OVERHEAD RATE

Not Applicable.

VIII. TITLE OF PROPERTY

It is anticipated that during the term of this Agreement the Zenzeleni Cooperative will lease, but not have title to, the equipment procured under this Agreement. In the event that the Cooperative purchases the equipment and funds provided under the Agreement are utilized in part for this purchase, the title to such property shall vest in the cooperative in accordance with the A.I.D. Additional Standard Provision 19, entitled "Title to and Use of Property".

The ACTWUSA Employment Trust agrees to ensure that all property purchased with Agreement funds is used and maintained for the purposes set forth in this Agreement.

IX. AUTHORIZED GEOGRAPHIC CODE

The authorized geographic code for all procurement with AID funds under the Agreement is the United States, the Republic of South Africa and countries included in AID Geographic Code 935, meaning that all goods and services financed by this Agreement shall have, with respect to goods, their source and origin and, with respect to services, their nationality in the United States, the Republic of South Africa, or countries included in Code 935.

X. LOCAL COST FINANCING

It is hereby specified that the amount of U.S. dollars authorized to be used for local cost financing is the entire amount obligated under this Agreement.

XI. SPECIAL PROVISIONS

A. Conditions Precedent to Disbursement

1. Prior to the disbursement of funds or to the issuance of any commitment documents under the Agreement, the Recipient shall provide, in form and substance satisfactory to USAID, evidence that proper financial management systems for accounting and record keeping exist with respect to funds provided under this Agreement. If requested by USAID, the Recipient agrees to allow USAID to conduct a financial review to confirm that proper financial management systems exist.

B. Covenants

1. Procurement

(a) Scope. This provision is applicable to the extent that local cost financing is otherwise authorized by the Agreement. It does not require procurement in South Africa where off-shore procurement could otherwise occur.

(b) Policy. In the procurement of goods and services in South Africa, the Recipient shall, to the maximum extent practicable, award contracts to individuals or organizations which are disadvantaged by apartheid and which are responsive and appropriate providers of goods and services.

(c) Definitions. Individuals and organizations disadvantaged by apartheid shall mean (1) South African individuals of black, "colored" or Asian descent whose principal place of business is in the Republic of South Africa; and (2) private partnerships or commercial firms which are incorporated in or organized under the laws of the Republic of South Africa, whose principal place of business is in the Republic of South Africa, and which are more than 50 percent beneficially owned by South African persons of black, "colored" or Asian descent. The Republic of South Africa includes the so-called "independent" and "self-governing" homelands and, for the purposes of implementing this provision, Namibia.

(d) Except as provided in Section B.1. above, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, free and open competition.

2. Contingency Measures. Notwithstanding any other provision of this Agreement, should the Trust or the Cooperative be unable to use the funds for the purposes specified in this Agreement, the Trust and USAID may agree upon alternative uses of said funds.

XII. STANDARD PROVISIONS

The Standard Provisions applicable to this Agreement are contained in Attachment 3, Standard Provisions.

Attachment 2

I. SUMMARY

This Agreement provides assistance to the ACTWUSA Employment Trust for the Zenzeleni Clothing (PTY) Clothing Cooperative. Funds under this Agreement will be used to cover the Cooperative's initial equipment lease payments. This guarantee will enable the Cooperative to leverage long-term commercial finance necessary for its success and sustainability.

II. BACKGROUND

The Amalgamated Clothing and Textile Workers Union, known by its initials ACTWUSA, is expected to soon become the largest union in South Africa. It is a major participant in the Congress of South African Trade Unions (COSATU). ACTWUSA, like many other COSATU unions, is experiencing a crisis due the large number of employee lay-offs. Over the last several years, hundreds have been retrenched, and recently ACTWUSA was given notice that over the next three years an additional 3,000 members will be laid off. To deal with this issue ACTWUSA has adopted a pragmatic and highly practical solution. After lengthy negotiations with major employers of ACTWUSA members, the Frame Group, it was agreed that the Union would start a job creation project funded by the Frame Group.

The Union then formed the ACTWUSA Employment Trust as the primary stock-holder of the project; a clothing production and distribution factory located in Durban. It named the factory Zenzeleni, meaning "do it yourself" in Zulu. In 1988, the trust acquired premises in the Jacobs Industrial park and by March 1989 the first 60 workers were undergoing retraining. Zenzeleni expects to have 300 employees in place and producing by August of 1989.

The Zenzeleni Cooperative has adopted an extremely innovative and professional approach to its undertaking, bringing in outside personnel initially to shepherd the initiative, creating a pragmatic distinction of responsibilities between management and labor, producing sound business plans premised on a realistic market niche, etc. This appears to be fairly unique among cooperative endeavors in South Africa. Moreover, profits from Zenzeleni will be utilized by ACTWUSA Employment Trust to begin other cooperative projects, particularly in East London and Ladysmith.

---

7

8

III. PROBLEM

A. Black business in South Africa

One of the most odious aspects of apartheid in South Africa has been the economic disempowerment of the country's black inhabitants. Despite tentative reform initiatives in recent years, legal, regulatory and entrenched attitudinal discrimination continue to hamper black business and economic advancement. Resources available to the black community for capital investment are, at best, grossly inadequate, and are usually non-existent, especially when measured against the requirements for competitive entry into the mainstream economy. The problem is compounded by a general lack of responsiveness to black needs and realities by white financial institutions. The sum of black experience in managing large-scale initiatives or in economic risk-taking remains minimal, critically so.

In response to the practice and effects of economic apartheid, many black South Africans have proposed cooperative ventures as a uniquely appropriate means of fostering self-driven black economic improvement. Such interest in cooperatives would appear well justified by prevailing social and demographic conditions in the country, many of which are conducive to one or another form of cooperative initiative. A central element lacking from the picture, however, is a strong history of experience or data base within the black community on economically viable forms of cooperative effort. In the past this has tended to lead to the launch of ventures with insufficient planning or cognizance of business realities or with a record of frequent failure or dependence on external subsidies. If cooperatives are to truly serve as an asset in black improvement scenarios, innovative cooperative mechanisms must evolve that are capable of surviving and developing within the dynamic and highly competitive South African economic context.

B. Specific issues confronting Zenzeleni Clothing (Pty) Limited

Zenzeleni Clothing (Pty) Limited is a start-up effort which would not only establish a significant black entry in to the textile industry, but would also serve as a potential model for other cooperative enterprise efforts. The key problem in effecting the start-up is a shortage of capital, a frequent problem with black business initiation.

### Dependency relationship on white banks

The project has been proposed to various financial institutions all of whom have declined it for the usual reasons:

1. It is a start-up venture with no track record.
2. Their possible participation is contingent upon a full guarantee or a down payment equal to 12 months installments on the proposed package of equipment to be financed (R312,000 down for a package of R1.14 million).

This non-cooperative response from white controlled financial institutions is a prime hurdle faced by black business and evidences not only the high risk in start-up ventures in general, but also the lack of confidence of white bankers in black enterprise.

### Shortage of skilled black staff

Because of the apartheid-induced shortage of black managerial talent and the fierce competition for those black professionals available, Zenzeleni will hire professional management and will undertake an intensive 10 week training course for its operators. Timely installation of a profit-oriented, cooperative management-worker team with a well defined market strategy and efficient production will be critical.

## IV. PURPOSE

The immediate objective of this Agreement is to position the ACTWUSA Employment Trust and Zenzeleni Cooperative to overcome the hurdles created by the white textile firms and financial institutions, and hence emerge as a vibrant black institution in South Africa's economy. The longer term objective is to support a job-creation cooperative managed and owned by black South Africans which potentially could be replicated elsewhere in South Africa.

## V. PROGRAM DESCRIPTION

During a retrenchment negotiating session in 1988, the Frame Group, a major South African textile concern, agreed with ACTWUSA to fund a job creation project up to R 2.5 million. This funding was to be provided in a lump sum as soon as the project, Zenzeleni, commenced. Contrary to the original agreement, Consolidated Cotton Corporation Ltd., the primary actor in the Frame Group, subsequently decided its funding would be provided over a period of 18 months. Furthermore, it

placed a performance condition on the last two tranches of R500,000 each. As a result, ACTWUSA was forced to approach a variety of financial institutions for bridge financing, particularly to cover the costs of leasing factory equipment. The response was tentatively positive, but only if Zenzeleni could come up with a down payment equivalent to 12 month's worth of installments on the requisite equipment.

The attitude of the white textile and financial industries placed ACTWUSA and Zenzeleni in an untenable position not unusual to fledgling black businesses. To enable the venture to have a chance at success, the Agreement will provide the 12-month down payment on the factory equipment. Because a lump sum is necessary, the full amount of the Agreement, R312,000, will be provided to the ACTWUSA Employment Trust as soon as possible after the execution of this Agreement. In turn, the Trust, through a legal letter stating the purpose of the funds, will transmit the funds to Zenzeleni Cooperative. The Cooperative will immediately make the payment on equipment and provide USAID, through the Trust, with evidence of payment. Thus, the advance will be fully liquidated shortly after the beginning of this Agreement.

This Agreement reflects an extremely important and innovative enterprise venture. Zenzeleni and the ACTWUSA Trust, therefore, agreed to provide two progress reports to USAID. The first will be provided in October 1989; the second will be in the final month of the Agreement in April, 1990.

#### VI. ILLUSTRATIVE FINANCIAL PLAN

The following financial tables are provided in support of the agreement Financial Plan found in Attachment 1, Section V, which is the binding plan for purposes of the Agreement.

#### Illustrative Financial Plan (US\$1 = SAR 2.53)

	SAR	US\$
Leasing Equipment (12 months x R26,000)	R312,000	\$123,320
Exchange rate contingency	R 4,250	\$ 1,680
Total	<hr/> R316,250	<hr/> \$125,000

ATTACHMENT NO. 4

Annual Budget and Basis for Advance Request  
(South African Rands)

	<u>Twelve Month Budget</u>
Leasing Equipment (12 months x R26,000)	R312,000

Initial Advance Request - R312,000

FISCAL DATA:

Agreement No: 674-0303-G-SS-9020-00

Project No: 674-0303

Appropriation: 72-119/01037

BPC: GES9-89-21674-KG13

Reservation Control No.: B890046

Amount: \$125,000

Drafted: JBisgard<sup>AB</sup>:PDO:0018I

Clearances:

Mark Johnson, SPDO  
Harry Wilkinson, Program Officer (draft)  
Donald Keene, RLA (draft)  
Mel VanDoren, Controller (draft)  
Wendy Stickel, DD  
Chris Merklng, PDO (u/ accounts)

Funds Available: AStevens