[Office of the United States Trade Representative]

A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FOR THE COUNTRIES OF AFRICA

A Report Submitted by the President of the United States to the Congress

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I. EXECUTIVE SUMMARY

This report presents a comprehensive policy framework through which the United States will pursue its trade and development strategy with the 48 countries of Sub-Saharan Africa. Increased economic growth in Africa would not only stabilize the region financially and politically, but also create greater opportunities for U.S. businesses and investors and more jobs for Americans.

To seize the opportunity for partnership aimed both at supporting African objectives and pursuing U.S. interests, this policy establishes a framework for supporting and facilitating African efforts to create an enabling environment for the promotion of trade, investment, and sustainable development. To address effectively the wide spectrum of challenges that confronts African development, the policy framework outlined in this report is structured around five basic objectives: trade liberalization and promotion; investment liberalization and promotion; development of the private sector; infrastructure enhancement; and economic and regulatory reform. This report offers a summary of these objectives and the initiatives being pursued in each area. This Administration is also opening a wider dialogue with interested parties in Africa and the United States for the purpose of sharpening the focus of the U.S. role in the years to come. Developing a coherent strategy for promoting trade and development in Sub-Saharan Africa requires a coordinated effort among the Administration, the Congress and the private sector.

The United States recognizes the difficulties African countries have faced in their efforts to develop both human and economic capital. Problems such as overwhelming debt burdens, flawed economic policy choices, poverty and widespread unemployment, weak private sectors stifled by dominating parastatals, environmental degradation and an absence of democratic political institutions have combined in the past to hamper Africa's aspirations for growth and development. However, change has begun to sweep the African continent as countries are increasingly abandoning the discredited statist policies of the last three decades and committing to policy changes based upon democratic political principles and market-based economic reforms. This growing commitment to democracy and structural adjustment inspires optimism about the future of Africa and provides new opportunities for the United States both to support African efforts and to pursue American economic and security interests.

Indeed, African countries have begun to recognize the critical importance of creating a policy environment conducive to investment and growth. A recent World Bank report documents a direct correlation between those countries that have embarked on major policy reforms and those that have experienced the greatest economic growth. In addition, the report shows that bilateral and multilateral assistance have been instrumental in supporting a stable policy environment. This allows reforms the time necessary to take hold and has helped catalyze private investment, which will be the engine of future growth.

The challenge is to promote increased growth, often drawing upon the continent's fragile but rich resource base, in a manner which is sustainable and promotes individual initiative and private investment. Many countries are making significant progress in implementing policies which promote the husbanding of the resource base, however, environmental concerns still threaten many short term growth options.

Between 1990 and 1994, the United States provided $13.6 billion in all forms of bilateral and multilateral assistance to Africa. These funds promoted trade and development, helped develop the private sector, enhanced infrastructure, supported economic and regulatory reform, encouraged democracy, provided technical assistance and food aid, and helped stem environmental degradation.

In addition, multilateral institutions have also played a major role in assisting development in Sub-Saharan Africa: between 1993 and 1995, the World Bank Group provided over $3.7 billion for structural adjustment, private sector development and civil service reform in Africa; the International Monetary Fund had total credit outstanding to Africa of about $9 billion as of June 1995 to promote viable financial and balance of payments positions; and the African Development Bank committed over $13.6 billion to Africa (including North Africa) between 1990 and 1994 to support policy reform and economic development.

However, resources available to the United States Government, multilateral institutions and others providing official development assistance to Africa are in decline. This requires U.S. policy to focus on appropriate allocation of available funds and on successfully attracting more private sector participation and investment. U.S. policy will also seek to increase cooperation among donor nations and multilateral institutions.

This report outlines a comprehensive trade and development policy for the countries of Sub-Saharan Africa aimed at accelerating economic growth. It first notes the policy challenges and the reforms necessary for economic development and social stability. It then offers a brief summary of the critical policy choices the countries of Africa have made. After reviewing both bilateral and multilateral policies and programs currently in operation, this report defines objectives and new initiatives for increasing trade and development in Africa.

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II. POLICY STATEMENT

The primary objective of the Administration's Comprehensive Trade and Development Policy is to work with the people and leaders of Africa in the pursuit of increased trade and investment, and sustainable economic development. Achievement of these objectives would, in turn, enable the countries of Africa to become more fully integrated into the global economy and share in the prosperity enjoyed by participating countries.

The thrust of this policy is captured in the following passage from the Communiqué from the June 1995 G-7 Halifax Summit which appeared under the heading of "Promoting Sustainable Development:

A higher quality of life for all people is the goal of sustainable development. Democracy, human rights, transparent and accountable governance, investment in people and environmental protection are the foundations of sustainable development. The primary responsibility rests with each country but bilateral and multilateral international cooperation is essential to reinforce national efforts. We are committed to securing substantial flows of funds and to improving the quality of our assistance.

As this statement makes clear, the responsibility rests with African countries to commit themselves to these objectives and to make the policy choices that will enable them to achieve these objectives. Help from outside Africa cannot overcome lack of commitment or wrong choices by the governments or people of Africa. However, if the commitment is there and the right choices are made, external assistance can make a valuable difference. The commitment and right choices now being made by a number of African countries give us ample reason to re-energize our efforts and to join with those countries in a partnership to pursue our mutual interests in democracy, political stability and economic growth.

These historic policy changes offer a critical opportunity to the United States. By supporting African countries in the pursuit of their development objectives, many of our own interests -- from the promotion of American trade to international security concerns -- can be advanced simultaneously. Economic development in Africa will mean expanded trade with the United States, resulting in economic growth and new jobs for Americans as well as for Africans. The continued development of democratic institutions in Africa will not only stabilize the environment for this economic growth but will also help counter forces that threaten U.S. security, such as terrorism, refugee flows, narcotics trafficking, humanitarian crises, and environmental degradation.

Strengthening the synergies between trade and development is a major objective in U.S. policy toward

Africa. The successful experiences of East and Southeast Asia demonstrate that rapid expansion of trade leads to rapid economic growth and employment. The resulting increase in incomes, in turn, leads to greater foreign and domestic investment and increased demand for foreign goods and services. Foreign development assistance is replaced by increased trade and foreign and domestic private investment. Development then becomes self-sustaining.

Creating a more hospitable environment for private investment is critical to the success of Africa's development. We are in an era of declining official development assistance, both bilateral and multilateral. Future official aid programs will not be large enough to provide all, or even the majority, of the financing needed for Africa's development. Instead, they increasingly will serve to prepare the policy and management context for, and to catalyze, inflows of private capital. The emphasis, whether in aid councils or business development activities, must be on supporting those countries that show a willingness and ability to implement reform.

Given the current fiscal constraints faced by the United States, the Administration will not request any additional funding at this time. Funding for these activities will come from within current budgets. Moreover, since the budgets of the agencies participating in this policy are expected to decline in the short-term, it is probable that current levels of activities may even decline.

The United States will focus its support on those countries in Africa that are pursuing meaningful structural adjustment and economic reform because they have the greatest chance of success. Specifically, the United States will:

- join in multilateral efforts to assist those African countries undertaking meaningful economic and regulatory reform, including debt reduction where warranted;
- support efforts to improve essential government and non-government institutions.
- support efforts to improve physical infrastructure needed in a modern market economy;
- create a more growth-oriented business climate that will attract foreign as well as domestic investment and generate expanded trade in which U.S. firms can participate as effective commercial partners;
- remove barriers to trade in Africa and increase African participation in the world trading system, including the WTO, in the U.S. GSP program, and strengthen intellectual property protection;
- expand advocacy and support programs for U.S. exporters and investors in Africa; and
- promote greater regional integration within Africa.

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III. BACKGROUND

The 48 countries of Sub-Saharan Africa[1], with a population of nearly 600 million people, are at a critical point of political and economic transition (this report covers only the 48 countries of Sub-Saharan Africa. Most of the existing data and research literature addresses these 48 countries separately from the countries of North Africa because the issues and problems that concern these two regions are significantly different. Thus, it has not been practical to include the countries of North Africa in this report). Since African countries began gaining their independence in the 1950s, they have implemented various political and economic policies in their quest for stability and growth. Most adopted heavily statist economic regimes that conformed to the political agenda of the post-colonial era. But protectionism and public ownership have failed to deliver sustained increases in prosperity for the peoples of Africa. The deleterious effects of such policies have been further exacerbated by authoritarian regimes, disease, war and environmental degradation.

In the past decade, however, change has begun to sweep the continent. Leaders in Africa have increasingly committed themselves to policy changes that put their nations on a proven path to success -- market-based economic reforms and democratic political systems. As noted in several World Bank and IMF reports, structural adjustment programs are yielding rising incomes in a number of African countries. Furthermore, the last five years have witnessed democratic elections in more than twenty nations in Sub-Saharan Africa.

Although most African countries have abandoned failed statist policies of the last three decades, they are still in danger of being left behind by a world economy that is rapidly globalizing its markets for finance, technology and information. International trade and foreign direct investment are growing much faster than total world output and investment. If African leaders make the necessary policy choices, their economies can be pulled along by international trade's engine of growth. The alternative -- failure to pursue the needed reforms -- will surely entail further economic stagnation and deepening misery while the rest of the world moves ahead into the next millennium. Increased commitment to economic reforms should lead to an even greater increase in Africa's demand for U.S. exports and expand trade and economic relations between the United States and a revitalized Sub-Saharan Africa.

The United States has an important economic stake in Africa's success. In 1994, U.S. exports of goods and services to Africa totaled six billion dollars and supported approximately 100,000 jobs. This exceeded U.S. exports to either Eastern Europe or all of the states of the Former Soviet Union. However, the U.S. share of Africa's import market stands at only 7.7 percent, while the EU's is 41 percent. This Administration aims to assist American companies expand their market presence on the continent, in ways that also address the needs of African consumers and entrepreneurs.

The rate of investment in Africa in the 1970s and 1980s was very low. Because much of the investment was determined by political rather than economic considerations, the return on these investments has also been low -- an estimated 2.5 percent per annum. The accompanying economic stagnation, combined with one of the highest regional rates of population growth in the world (three percent), caused per capita incomes in Africa to decline during this period.

Nevertheless, for most of the past 14 years, Africa has led the world in rates of return on investments by American multinational firms in natural resources, manufacturing, and services. In 1993, for example, U.S. companies earned a 25.5 percent return on their (albeit minimal) African investments, while their average returns for similar ventures in all developing and developed countries were 16.6 percent and 8.6 percent, respectively. These high rates of return in Africa reflect investors' estimates of the degree of risk involved in the initial investment but also illustrate the opportunities available for well-considered investments.

The countries of Sub-Saharan Africa vary widely in terms of income, indebtedness, and export profile. Thirty-five of these countries are poor (1993 GNP per capita of $695 or less), severely indebted, and heavily dependent on exports of non-fuel primary products. Nine are classified as lower middle income (1993 GNP per capita of $696 to $2785), and four are upper middle income (1993 GNP per capita of $2786 to $8625).[2]

What has been our record of trade with Africa? Between 1985 and 1994, U.S. merchandise exports to Africa grew three percent per year. Two countries, South Africa and Nigeria, currently represent 62 percent of the total U.S. export market in Africa, with South Africa alone making up around 50 percent. Since the removal of most of the Comprehensive Anti-Apartheid Act (CAAA) sanctions in July 1991, annual U.S. export growth to South Africa has increased dramatically, exceeding 25 percent in 1995. Greater access to the South African market will contribute to further increases in U.S.-South African trade, although sustained growth depends on major trade and other economic reforms.

U.S. exports to Nigeria have to a great extent reflected Nigeria's economic reform program, which demonstrated impressive results until it was reversed by a series of administrative decisions beginning in 1992. While U.S. exports to Nigeria almost doubled between 1990 and 1992, they had fallen back to 1990 levels by 1994. Given the size of the Nigerian economy, there is enormous potential for U.S. export growth if Nigeria's leadership dedicates itself to extensive political and economic reforms.

Six other African countries -- Angola, Cote d'Ivoire, Ghana, Ethiopia, Kenya and Zimbabwe -- account for an additional 19 percent of U.S. exports to Africa. Each of these countries is capable of achieving rates of growth that would have a significant positive impact on U.S. exports.[3]

Given the current level of US exports to Africa, one might conclude that the region will never be more than a comparatively small trading partner. But a report written in 1960 might have made similar judgments about South Korea, Taiwan, Thailand and Indonesia. Commitment to far-reaching economic reforms can make increased growth in Africa more than a possibility.

Footnotes:

1 All subsequent references to Africa refer to the 48 countries of Sub-Saharan Africa which are: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, and Zimbabwe.

2 U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreements and U.S. Trade and Development Policy, United States International Trade Commission publication 2938, 1996, p. xvi.

3 Additional details on the U.S.-Africa trade profile are contained in the U.S. International Trade Commission report, U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreements and U.S. Trade and Development Policy. A copy of this report accompanies this policy statement.

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IV. CHALLENGES FACING SUB-SAHARAN AFRICA

Since the 1950s, poor economic policy choices, weak institutions and political mismanagement have seriously undermined the economic potential of many countries in Africa. In several cases the public sector has become too large and intrusive, requiring significant institutional reform. Current laws and regulations, where they exist, often do not adequately address the needs of an economy competing in the international arena. Where the laws are not enforced or procedures are not transparent, there is much scope for abuse. Courts tend to be weak and subject to manipulation, making contract enforcement difficult. Most banks remain undercapitalized, poorly managed, and subject to political pressure. The small size of Africa's managerial class inhibits private sector development, thereby reducing competition.

The main "winners" from this state of affairs have been large, inefficient public enterprises, which dominate economic activity and crowd out private entrepreneurs. The civil service absorbs more than half of government revenues in some countries, leaving too little funding for education, training and infrastructure development. The aggregate financial losses by approximately 5,000 African public enterprises have been estimated at two to three times total government spending on education and health in the early 1990s. This misallocation of resources contributed to the budget deficits of African governments, which averaged nearly five percent of GDP in 1994. Government mismanagement has soaked up savings, driven up interest rates and discouraged investment. Fixed exchange rate policies, combined with extensive financial sector controls, further raised the costs of doing business.

Partly as a result of such economic mismanagement, there has been a steady buildup in African debt. While country circumstances vary widely, the region's ratio of medium- and long-term external debt to GDP stands at about 83 percent -- much higher than in Latin America, Eastern Europe, or Southeast Asia. Slightly less than one-half of Africa's $178 billion debt is owed to other governments, about one-third to multilateral institutions, and just under one-quarter to private creditors. Only about $5.3 billion of this debt, or about three percent, is owed to the United States Government. This "debt overhang" may discourage investment in some heavily burdened countries by drawing resources from investment projects and essential imports, to servicing the government's international liabilities.

Constraints on the private sector: In this environment, it is not surprising that the African private sector remains small and vulnerable. Africa's $65 billion in exports principally consist of raw commodities such as oil, agricultural goods, timber, and minerals. The composition of African production and exports has changed little in the last decades -- the share of raw materials is about the same today as it was thirty years ago. The production of manufactured goods continues to be far below Africa's potential, and there are few African firms ready to embark on a partnership with foreign investors.

Beyond Africa's "formal" manufacturing sector, the "informal" sector includes many traders, artisans, service providers and other small-scale entrepreneurs who operate beyond the reach of formal credit, tax and statistical structures. That this informal sector accounts for as much as half of all economic activity in some countries indicates the potential for private enterprise in Africa once supportive structures replace barriers to internal and external trade.

The limited availability and poor condition of Africa's infrastructure -- telecommunications, roads, ports, railways, waterways, power, water and sanitation -- also represent major constraints on the development of Africa's private sector and on its potential to create a continental market. Partly as a result of these constraints, officially recorded trade *among* African nations accounts for only seven percent of total African trade -- one of the lowest shares of intraregional trade of any of the major regions of the world. Actual intraregional trade is likely to be larger because much of it is informal and unrecorded.

The colonial era splintered the continent into more than four dozen countries, many of whose small size discouraged efficient producers and foreign investors. Africans themselves have long recognized this handicap and made numerous attempts to encourage regional integration. While a few of these efforts show significant promise, many have failed because of political and economic instability, resistance of vested interests and the lack of strong economic linkages among the participating countries.

Unemployment and Poverty: Stagnating economic growth and the lack of employment opportunities constitute a major obstacle to the reduction of poverty in an area where population growth has, until recently, exceeded economic growth. It is estimated that about two-thirds of the region's total labor force are either under-employed or unemployed. In many countries, real wages have fallen drastically, by over 50 percent or more, since the 1980's. Furthermore, insufficient investment flows have resulted in a process of de-industrialization and a decline in employment growth. There has also been a reduced level of investment in fields important for the reduction of poverty, such as education, health, housing and social security. In addition, there has been a loss of capacity to carry out essential functions in the areas of labor relations, labor inspections, and occupational safety and health. A successful development policy for Africa should encourage economic progress as well as social progress.

Deteriorating natural resource base: Environmental quality for Africa rests fundamentally on the quality and vitality of its natural resource base. Africa's economic growth prospects and much of its trade rely substantially on agriculture, mining, timber and wildlife-based tourism; the long-term prospects for increased economic growth and trade are therefore inextricably linked to environmental policies and incentives. Africa's renewable and nonrenewable resources, however, are under attack first and foremost by mismanagement and impoverished citizens who must resort to practices that may be inimical to their longer term interests to meet the daily challenges of survival.

Africa must identify and promote policies that minimize the need for the poor to consume the natural resource base to meet daily needs, but that still maintain the integrity of the resource base for future generations. This is an exceedingly difficult task anywhere in the world; however, the prospects are not all bleak. Much progress has been made, and in many parts of Africa, the stage has been set for far more environmentally sound economic growth policies.

Economic and political transition in Africa: Despite these challenges, the 1990s are bringing changes to Africa as dramatic as those in Eastern Europe. With the end of the Cold War, most of the civil wars of the post-colonial era have ended. Whereas in 1989, only four African countries were implementing democratic reforms, now nearly two-thirds are at some stage of democratic transition. Formerly pervasive statist economic models have been largely discredited, and there is a growing commitment to market-oriented reforms. In addition, a recent World Bank study reports that Africa's human capital has been significantly upgraded: the recent trends of better educational, health, and nutritional conditions in Africa are signs of promise for these countries.

In its 1994 study of twenty-nine Sub-Saharan countries, the World Bank concluded that:

Policy reforms have been uneven across sectors and across countries. [Most African countries] . . . have generally been more successful in improving their macroeconomic, trade and agricultural policies than their public and financial sectors. Almost two-thirds of [sub-Saharan African] . . . countries managed to put better macroeconomic and agricultural policies in place by the end of the 1980s. Improvements in the macroeconomic framework also enabled countries to adopt more market-based systems of foreign exchange allocation and fewer administrative controls over imports.

However, reforms remain incomplete. In a third of the countries, macroeconomic policies actually deteriorated over the decade. Furthermore, countries are still taxing their farmers heavily through marketing boards and/or overvalued exchange rates. Most countries have further to go in eliminating non-tariff barriers and adopting a moderate, tariff-based level of protection. Social spending, while not showing an overall decline during the adjustment period, is misallocated within the health and education sectors. And the politically difficult reform of the public enterprise and financial sectors lags well behind.[4]

Advocating and implementing economic policy reforms presents a dilemma for African leaders. While they may accept the economic principles behind such reform and understand that in the long run their people will benefit, in the short run reform is politically unpopular and economically painful. Cutting the size of the civil service, removing subsidies for food, and cutting public expenditures all have social and political costs, particularly to fragile, young democracies. Further, if the dislocations associated with such policies are not addressed, the result can be instability that leads to violence and new regimes less amenable to political and economic reforms.

The World Bank report underlines the importance of popular political acceptance for the success of economic reform:

Government ownership of an economic reform program is a prerequisite for its success. But ownership must not stop with the government. Political leaders must build a broad-based consensus on the need for reform so that adjustment programs are not derailed by powerful interest groups. One of the major challenges for the next generation of adjustment programs is for governments and donors alike to find ways of widening ownership and building consensus.[5]

The United States has recognized this issue for several years, and has increasingly been involving a wide spectrum of civil society in the development of assistance programs and strategies.

Reform efforts are having salutary effects on the growth of African economies. After three years of economic decline, average real GDP growth increased to 1.9 percent in 1994. The aggregate rate of growth for Africa is projected to have been 3.6 percent in 1995, exceeding the population growth rate for the first time in many years. A number of reforming countries have recorded growth rates exceeding four percent, with a few approaching double digits. These signs of real progress and change provide an historic opportunity for the United States to join in a cooperative effort to help African nations prosper domestically, regionally and internationally.

Footnotes:

4 Adjustment in Africa, A World Bank Policy Research Report, (Oxford University Press, 1994), pp. 1-2.

5 Op cit., p. xii.

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V. AFRICAN INITIATIVES

Policy and program choices made by African governments themselves will continue to be the most critical determinants of success in economic development and trade expansion. The World Bank report cited earlier finds a direct correlation between policy reforms and economic growth. Six countries "with the most improvement in macroeconomic policies between 1981-86 and 1987-91 enjoyed the strongest resurgence in economic performance . . . by contrast, countries that did not improve their policies saw their median GDP growth fall.[6] Many countries in Africa have begun to take the necessary steps toward achieving effective economic reform. Despite the numerous remaining obstacles, reform efforts within Africa are being rewarded by stronger growth and greater investor interest.

Uganda provides a noteworthy example of the importance of sound economic policies. A report on Uganda in the 1980s would have portrayed a country in ruins following years of dictatorship, civil strife and economic mismanagement. During that time, per capita GDP declined 40 percent, inflation climbed above 200 percent per annum, and international trade dropped sharply. In 1986, however, a new government, with the support of the World Bank, the International Monetary Fund (IMF) and bilateral donors, embarked upon an ambitious program of economic and social reform that included: fiscal and monetary discipline, liberalization of the domestic business environment, adoption of a flexible, market-based exchange rate, and normalization of relations with external creditors. The effect of these efforts was dramatic. Over the past seven years, growth in Uganda has averaged 3.5 percent annually, reaching 10 percent in 1994. Foreign exchange reserves have recovered, and the government's budgetary position has improved substantially. Inflation during fiscal 1995 fell to less than 5 percent.

Ghana, through a twelve year reform effort, also has demonstrated remarkable progress toward achieving financial stability and creating an environment conducive to private enterprise. Its exchange and trade regimes have been liberalized and there have been substantial improvements in poverty alleviation. GDP growth has averaged about five percent since the beginning of this program, and foreign investment has begun to increase. Much of this has been supported by USAID, the World Bank, and the IMF. As a result of fiscal excesses leading up to the 1992 elections, Ghana experienced a wave of double digit inflation and currency depreciation which continues to hamper its development program. The government met its key fiscal and monetary targets in 1995, however, and the United States is working with the IMF and World Bank to encourage Ghana to maintain budgetary discipline in the run-up to the 1996 election.

Ethiopia too is achieving a substantial turnaround. Following years of Marxist dictatorship and a devastating civil war, which brought a sharp drop in GDP, Ethiopia began to rebuild in 1991. Due mainly to prudent economic management, improved policy incentives, and the availability of critical inputs through the multi-donor Emergency Recovery and Reconstruction Program led by the International Development Association (IDA), GDP grew by more than 12 percent in 1993. Reduction of state controls and price liberalization, aided by USAID's Competitive Market Program, have laid the appropriate foundation in Ethiopia for a new, emerging private sector which will continue to drive GDP growth.

Tanzania's reform program, initiated in 1986, aims to dismantle the system of pervasive economic controls that have prevailed since 1969 and encourage a larger role for the private sector. USAID supplemented the initiative with a program to attract private investment through a Finance and Development Project. Tanzania, along with Uganda and Zambia, has also placed formerly government-run agricultural marketing and input-supply agencies in private hands and simplified its business regulations. Tanzania's economy has responded with GDP and exports growing by about 4 percent annually since 1986.

Guinea, after thirty years of destructive Marxist-Leninist rule, has cut in half the size of its civil service and parastatal sector, and liberalized trade and prices. The result has been economic growth exceeding four percent since 1988. A model education reform initiative, supported by USAID and IDA, also has raised primary school enrollment rates significantly and bolstered hopes that future growth rates will remain high.

The common denominator in these African success stories is a policy environment conducive to investment and growth. These governments have allowed market forces to play a much greater role in determining exchange rates. All have taken major steps to reduce the size and cost of the public sector and substantially reduce budget deficits with beneficial effects on inflation and interest rates. All have begun to close or privatize public enterprises which opens new opportunities for the private sector. All have removed price controls and simplified burdensome regulations in order to make themselves more attractive to private investors. And most of them are strengthening their education programs to help their citizens become the literate voters, managers, employees, and consumers critical for increasing economic growth. Many countries are also devoting extra resources to improving conditions in rural areas, where its poorest citizens usually reside.

Many African countries have made significant progress in developing a positive policy framework and other enabling conditions -- such as improved tenure and rationalized pricing of resources -- to preserve the environment and the natural resource base. Institutions and personnel have been put in place to improve substantially the quality of environmental analysis, and to ensure that such analysis informs developmental policy. African countries have been remarkably pragmatic and growth-oriented in their work on the environment, again in large part due to the strong links in Africa between economic growth and the environment.

Above all, the more successful African governments have recognized that stronger growth depends primarily on the policy choices they themselves make. Once they have designed the policy framework, essential financial and technical support has come from the IMF, the World Bank, the African Development Bank, and bilateral donors. Such aid also has supported policy stability over a period of years, thus allowing reforms time to take hold.

Since all donors face increasing budgetary constraints, official international assistance is likely to play a diminishing role in the development of Africa's economies. Correspondingly, the role of the private sector must increase. The World Bank reports that in 1993 private financial flows globally amounted to three quarters of net resource flows to all developing countries -- a sharp turnaround 1990 when government loans and grants still exceeded total private capital flows to the developing world.

Unfortunately, this remarkable turnaround has yet to occur in Africa where private capital flows are no more than 10 percent of total net flows. In these times of contracting bilateral and multilateral assistance, the importance of African governments making correct economic policy choices cannot be overstated. If the role of private capital is to increase in Africa, a policy environment must be created that attracts private capital. The United States can help African leaders make the necessary reforms as quickly as possible by providing training and exchanges for government officials, using technical assistance to help governments build "safety nets," improving donor coordination and, most importantly, continuing to promote private sector development in these countries so that the public sector can reduce its role without significant social dislocation.

Footnote:

[6] Op cit., p. 1.

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VI. OVERVIEW OF TRADE AND DEVELOPMENT PROGRAMS

CURRENTLY IN OPERATION

A. United States Government Trade and Development Programs for Sub-Saharan Africa

The United States provided over $8.8 billion in bilateral assistance to Africa in the 1990-1994 period, a figure which includes $4 billion of USAID development assistance funds and roughly $2 billion of P.L. 480 funding for food assistance to Africa. In addition, the United States channeled $4.8 billion through international financial institutions and the United Nations. Thus the United States has contributed a total of $13.6 billion to Sub-Saharan Africa for all types of assistance from 1990-94.[7] As part of this assistance, the United States has undertaken a variety of programs to promote trade, economic growth, and development in Sub-Saharan Africa.

Trade and Investment: The Overseas Private Investment Corporation (OPIC) has contributed to building confidence in African markets by providing loans and guarantees totaling $441 million by the end of 1995. As part of its mission to help the private sector create and maintain American jobs, the Export-Import Bank of the United States (Eximbank) has financed a variety of exports to Sub-Saharan markets over the years and by 1995 had an accumulated exposure in Sub-Saharan Africa of $3.2 billion. The lack of creditworthiness of many Sub-Saharan countries during the 1990s has kept the level of annual Eximbank authorizations at modest levels.

The Department of Commerce has regionalized its United States and Foreign Commercial Service (FCS) program delivery in three of its African posts -- Abidjan, Nairobi, and Johannesburg. These offices actively support the efforts of the State Department posts in their respective regions to develop and promote American business. They develop regionally-focused commercial strategies, conduct regional market research, train embassy economic staff and recruit foreign buyers for U.S. trade shows.

The Departments of State and Commerce highlight trade and investment opportunities in Africa during their annual U.S. business conference on Africa. By coming together with those U.S. Government agencies involved in promoting trade and investment, U.S. firms become more aware of the opportunities Africa presents and of the United States Government programs available to facilitate their entry into Africa.

Trade promotion synergies have developed through the creation of positive linkages between the increasing number of constituencies interested in Africa. Commerce's network of offices in the United

States works to bring marketing information to an increasing number of Africa-oriented firms. Partnerships have been created between these offices and states and cities, not only to promote local development through the creation of new export markets, but also to foster small business development.

In recognition of the critical role which the U.S. private sector must play in future economic growth and commercial expansion in Africa and the decreasing level of federal funding, Commerce has also worked hard to build public-private partnerships to promote the construction of essential linkages, and to undertake program initiatives. Key examples of these partnerships include the U.S.-South African Business Development Committee and activities conducted in conjunction with the US-Angola Chamber of Commerce.

Multilateral development institutions offer opportunities for American firms to become engaged in Africa's development. To increase the participation of American firms in this process, Commerce has assigned staffers to work with the African Development Bank (AfDB) and the World Bank, not only to bring opportunities to the attention of American firms, but also to work with them throughout the tendering process. In 1995, FCS staffers were active in 34 cases of U.S. commercial successes from Benin to Zimbabwe in sectors as varied as aquaculture and iron ore mining.

Development of the Private Sector: USAID helps African nations create the economic, political and social environments that enable growth and encourage international trade and investment.

USAID also promotes broad-based growth essential to establishing and expanding vibrant markets in Africa through integrated programs that redress political, economic and social constraints to long-term sustainable development. This integrated approach to sustainable development focuses resources on five major areas: strengthening markets; expanding access and opportunity; investing in people; improving infrastructure; and building stable political environments.

Within this framework, the United States has provided approximately $517 million in the 1990s to support the African private sector. The bulk of this assistance has come from USAID programs to provide entrepreneurial skills training and support the development of capital and financial markets. The latter programs include subsidized lending to micro-enterprises through credit unions, the establishment and financing of venture capital funds, stock market development and other small- and medium-sized business ventures.

State and Commerce Department personnel stationed in embassies and consulates plus the 2,135 Peace Corps volunteers serving in Africa and the USIA officers working in educational exchange, media placements, and public explication/advocacy of U.S. policies also provide important support to the African private sector.

Peace Corps volunteers, for example, assist private sector development in a dozen African countries. Volunteers currently teach accounting, business planning, marketing, inventory control, and office organization and management to small and micro-entrepreneurs and to cooperative businesses. They also provide follow-up on-site consulting to assist entrepreneurs implement what they have learned.

Infrastructure Enhancement: USAID annually provides around $40 million of assistance for the development of infrastructure in Africa, particularly railroads and rural feeder roads. Technical assistance from the Departments of Energy and Transportation also enhances infrastructure development. The Trade and Development Agency financed $14 million in feasibility studies between 1990 and 1994 for projects in 21 Sub-Saharan countries. Funding for certain concessionary food exports by USDA has generated $73 million for infrastructure development through the resale of those commodities by the recipient African countries. These resulting funds were then used to improve port facilities and marketing systems within those countries.

Supporting Economic and Regulatory Reform: USAID has been supporting economic and regulatory reform in Africa since 1985. Programs have centered on deregulation of markets (particularly agricultural markets), reduction of regulatory barriers to investment and export, reforms of financial markets, and privatization.

To encourage development and economic reform, in the early 1990s the United States Government, with Congressional approval, forgave $1.14 billion of concessional loans owed to U.S. government agencies by African governments. This action was specifically designed for poor countries that were implementing IMF- or World Bank-supported adjustment programs. Since this action took place prior to Credit Reform, there was no requirement for a budgetary appropriation.

In FY 1994, the Administration obtained Congressional authority and appropriation to join other creditor countries in offering debt reduction through the Paris Club for non-concessional debts of the poorest, most indebted countries in Africa and elsewhere, which are implementing strong economic adjustment programs. Congress appropriated $7 million in both FY 1994 and FY 1995 for this purpose, permitting the United States to join in debt reduction for Guinea, Senegal, Niger and the Central African Republic. For FY 1996 the Administration requested $27 million for debt relief. The House-Senate Conference Report provides $10 million. By improving the financial position of these countries, debt relief strengthens the environment for private investment and trade.

Promoting Democracy: Investing over $300 million between 1990 and 1995 in support of free elections, decentralization, constitutional development, the rule of law, and freedom of the press, USAID has played a substantial role in promoting democratic governance in Africa. Part of this effort is channeled through the African Development Foundation and non-governmental organizations. USIA also provides support for democratic initiatives throughout the continent in areas including constitutional development, rule of law, and freedom of the press. USIA Office of Citizen Exchanges arranged training and two-way exchange programs dealing with rule of law and business development in 19 African countries. All of these activities promote transparency and accountability of the government and increase confidence among investors and potential trading partners.

Science and Technology: Much valuable aid is in the form of technical assistance. The technologies transferred by this assistance include those dealing with natural resources and environmental management, weather and oceanic projects and health assistance. The United States Government has signed 28 Science and Technology Agreements with 17 Sub-Saharan countries to facilitate the transfer of this valuable knowledge - - 18 of the agreements in the 1990s. These agreements, made with a variety of U.S. Government agencies, offer exchanges of information about a specific technology, such as mining, remote sensing for early famine prediction, seismology, HIV/AIDS, biomedical science, airport emergency techniques, satellite tracking, ecological monitoring, nuclear regulations, agriculture and forestry.

Food Aid: United States food assistance programs in Africa have provided emergency assistance in the aftermath of both man-made and natural disasters; provided commodities and funding to private and voluntary organizations to carry-out grass roots level development efforts; and provided direct concessional loans to African governments that agree to support agriculture and private sector development efforts.

USDA's Title I assistance is focused on the longer term development of markets for American agricultural exports. Decisions on Title I eligibility are based on the market development potential of the country and an assessment of the country's ability to service the debt. Any country can request assistance, or a request for consideration can be made by a USDA cooperator. For example, in FY 1994, Congo made a direct request to USDA; the Angola program, by contrast, was initiated based on a request from the United States Wheat Associates.

Since 1992, the United States has shipped over $1 billion in commodities to Africa under the P.L. 480 program including $170 million in concessional loans by USDA under the Title I program. These commodities have been used to improve food security and agricultural development, alleviate poverty and promote broad-based, equitable and sustainable agriculture.

B. Multilateral Programs for Sub-Saharan Africa

At their meeting in Halifax in June 1995, the G-7 heads of government acknowledged in their concluding communiqué the increasingly vexing problem of poverty in Africa, as well as the leading role of the international financial institutions in addressing this issue:

- *An overriding priority is to improve the plight of the world's poor. Persistence of extreme poverty and marginalization of the poorest countries is simply not compatible with universal aspirations for prosperity and security. Sub-Saharan Africa faces especially severe challenges. We will work with others to encourage relevant multilateral institutions to:*
- *focus concessional resources on the poorest countries, especially those in Sub-Saharan Africa, which have a demonstrated capacity and commitment to use them effectively, and take trends in military and other unproductive spending into account in extending assistance;*
- *direct a substantially increased proportion of their resources to basic social programs and other measures which attack the roots of poverty.*

Following are brief overviews of the activities of the World Bank, the IMF, and the African Development Bank, the World Trade Organization, and United Nations agencies in supporting African development, with particular attention to the relevance of their programs to a U.S. trade and development policy.

1. World Bank Group

The World Bank's African strategies can be summarized under four headings: liberalizing the trade regime, strengthening the African private sector, improving governance and alleviating poverty.

Trade Liberalization: The World Bank and the IMF help countries eliminate the distortions caused by overvalued exchange rates and price controls on traded goods. Nearly all structural adjustment programs, in addition, involve such steps as reduction and simplification of tariffs, elimination of non-tariff barriers and strengthening of customs administration. Other activities include the harmonization of intra-African trade regimes, reform of trade law and regulations, and technical training.

The World Bank's Cross Border Initiative supports regional trade liberalization by eastern and southern African countries such as Zambia, Mauritius and Malawi. After recipient countries, with the advice of their private sectors, have defined specific trade-related actions they wish to take, the Bank integrates these actions into its technical and financial support programs with the participation of the IMF, African Development Bank, and European Union.

Strengthening the African Private Sector: Scaling down the public sector by closing, privatizing, or commercializing public enterprises is a major objective of structural adjustment since it reduces budget deficits and creates opportunities for private investors. On a parallel track (i.e., in project loans), the

Bank encourages revision and simplification of investment regimes and reform of commercial banking systems -- important elements of a more hospitable environment for private investors.

The International Finance Corporation (IFC), an agency of the World Bank Group, offers loans on commercial terms and makes equity investments in private enterprises in developing countries where the economic or political environment might discourage private investment. One out of every four investments approved by the IFC in 1995 was in Sub-Saharan Africa. The IFC, with other agencies of the World Bank, also supports the Foreign Investment Advisory Service, which advises developing country governments on ways to attract more private investment. Finally, the IFC supports other financial vehicles, such as venture capital funds and leasing companies.

To support the very small firms that make up the majority of the African private sector, however, the IFC set up: (1) the Africa Project Development Facility, to help small entrepreneurs design "bankable" investment proposals; (2) the Africa Enterprise Fund, to lend to small and medium-sized African enterprises on commercial terms; (3) the Enterprise Support Service for Africa, to offer post-investment technical help to small African firms; and (4) the African Management Services Company, which helps develop Africa's managerial talent. The United States Government has strongly supported these initiatives.

Governance: Reducing the size of the civil service, while improving its quality and efficiency, is crucial to eliminating government deficits. The Bank and IMF are devoting major efforts to improving the composition and effectiveness of public spending and reducing the resources dedicated to non-productive purposes such as excessive military spending. The Bank finances projects aimed at strengthening African judicial, regulatory, accounting and auditing institutions. A critical condition of many Bank-funded programs is increased transparency and accountability -- e.g., publishing the financial records of public institutions and installing procedures aimed at preventing the misappropriation of funds.

Poverty Alleviation: Africa is the only major region of the world where poverty is expected to continue to increase in the coming decades. Any successful development policy must find ways to reach more of the continent's poorest people, including its rural poor. The Bank attempts to do so, in addition to its programs to accelerate economic growth, by investing in education and health programs that strengthen the human resource base. Where necessary, the Bank offers targeted loans, such as transition support for employees of privatized enterprises.

Financial Summary: Assigning exact dollar figures to continent-wide programs is difficult, but in 1993-95 the World Bank Group's commitments of both concessional and non-concessional funding in Africa included about $3 billion for structural adjustment, $150 million for privatization and private sector development and $600 million for civil service reform and institution building. The current president of the Bank and his predecessors, with strong U.S. backing, have stated their intention to increase the level of direct Bank support for African private enterprise.

Over the next three years the Bank had planned to commit a total of about $12 billion to Sub-Saharan Africa including $1.4 billion on near-commercial terms and $10.6 billion on highly concessional terms from the International Development Association (IDA) -- the Bank Group's concessional lending "window." Large arrearages in U.S. contributions to IDA, however, have delayed agreement on a replenishment of IDA's resources and future lending levels are uncertain at this time.

Because the 41 IDA-eligible African countries are not generally viewed as creditworthy for commercial loans, and their inflows of private investment still are at relatively low levels, IDA is by far their largest source of development finance. About one-half of future IDA resources are expected to go to Africa.

Structural adjustment lending represented about one-quarter of IDA activity in Africa in 1994. The balance was for sectoral programs, of which the largest were agriculture (27 percent of the total in 1994), transportation (11 percent), education (10.5 percent) and health (9 percent).

U.S. Funding: The United States is the largest contributor to the World Bank Group. While we are nearly current in our commitments to the World Bank and IFC, the $700 million approved by the House-Senate Foreign Operations Conference in October would leave us about $934.5 million short of our obligations to IDA. These arrears, and the importance other donors attach to equitable burden sharing, have delayed agreement among more than thirty donor countries on a replenishment to fund IDA's future worldwide operations.

2. IMF: Enhanced Structural Adjustment Facility

The International Monetary Fund's (IMF) involvement in Africa is aimed at promoting sustainable growth based on efficient use of resources. As of October 31, 1995, total IMF credit outstanding in Sub-Saharan Africa amounted to about $8.2 billion, compared to worldwide IMF credit outstanding of $59.5 billion. Of this total for Sub-Saharan Africa, loans under the Enhanced Structural Adjustment Facility (ESAF) amounted to $3.2 billion, or 40 percent of all IMF assistance to the region.

The ESAF share of total IMF credit to the region has increased substantially in recent years. Of total IMF disbursements of $3.1 billion to Sub-Saharan Africa (excluding South Africa) in the period 1990-94, $2.4 billion was ESAF-related. New ESAF lending commitments to the region in 1994-95 totaled just under $3 billion.

ESAF is an important resource for African countries because ESAF loans are extended on concessional terms and about half of them are made in Africa. They support economic reform programs designed to maintain balance of payments viability and promote sustainable growth in the poorest countries; continued ESAF support is conditioned on effective policy performance. ESAF assistance helps create conditions that enable African countries to participate more effectively in the world economy.

ESAF was capitalized in 1988 at about $7.6 billion. In 1993 the IMF enlarged it by a similar amount. Commitments to the Subsidy Account by member countries amounted to $3.6 billion under the first ESAF and $2 billion under the second, with a limited amount of internal IMF resources to top it up.

The United States contributes only to the Interest Subsidy Account. The United States Congress appropriated $150 million for the original ESAF, to be drawn in annual installments from FY 1990 through 2001. U.S. commitments to the successor ESAF amounts to $100 million, to be disbursed over a 15-year period beginning in FY 1997. Congress has appropriated only $25 million of the new commitment.

3. African Development Bank

The African Development Bank (AfDB), in cooperation with the World Bank and other donors, supports policy reform and economic development on the continent. Between 1990 and 1994, it committed almost $14 billion to Africa, including North Africa of which $9.3 billion was on market terms from the AfDB and $4.2 billion was on highly concessional terms from the African Development Fund (AfDF).

Almost 25 percent of total AfDB/AfDF lending has gone to the agriculture sector, which accounts for most of Africa's poor people. Other priorities have included public utilities such as water and sewage systems (22 percent), transport (17 percent) and industry (16 percent). The Bank also has provided a significant volume of lending for structural adjustment, mostly with other donors.

AfDB lending declined from $2.3 billion in 1991 to $1.4 billion in 1994, as fewer borrowers have had the creditworthiness to handle non-concessional debt. AfDF lending peaked in 1991 at $1.2 billion, but was halted in 1993 when concessional resources were exhausted. Negotiations on a replenishment are still in progress.

The United States and other non-African countries have been pressing for reform of management and lending policies at the African Bank. This effort began to succeed in 1995 when it attracted the strong support of African governments, which are the majority shareholders. It has led to major internal and external reforms. The impact of these reforms on the direction of the Bank and the future United States funding commitments remains to be determined. However, discussions of a general capital increase for the Bank and of a replenishment for the Fund are underway.

The United States Government, as the third largest shareholder after Nigeria and Egypt, has urged the AfDB and AfDF to emphasize closer program collaboration with the IMF and World Bank and greater emphasis on borrower performance as a criterion for lending. With total investment in the AfDB of over $1 billion since joining in 1983 and contributions of over $1.2 billion to the AfDF since joining in 1976, the U.S. has a strong interest in ensuring the stability of these institutions and the effective performance of their missions.

4. The World Trade Organization (WTO)

Establishment of the World Trade Organization (WTO) and the implementation of the Uruguay Round Agreements in 1995 mark an important turning point for the international trading system. Specific programs for the benefit of the poorest countries are provided as part of the implementation effort, particularly by the WTO's Committee on Trade and Development (CTD) and the Committee on Agriculture. The principal areas of focus have been technical assistance in the development of WTO-compatible practices affecting areas such as customs procedures, intellectual property protection, agriculture and the implications of the Uruguay Round Agreements for the poorest countries.

Uruguay Round agreements should enable countries at various levels of development to establish trade regimes based on the rule of law, which assures transparency and predictability. A key difference between the Uruguay Round and previous rounds was the attention given to the integration of all economies into a single set of rights and obligations within the WTO framework. The Agreements also contain provisions to benefit the poorest countries[8], including transitional provisions designed to facilitate their participation in the Agreements over a specific time frame. (These provisions also cover non-tariff measures, subsidies, agriculture, investment, and intellectual property.) Many of the transitional provisions allow for delayed implementation of rules and regulations, while setting clear standards and time frames enabling countries to enjoy the full benefits of the Agreements immediately.

Twenty-nine countries from Sub-Saharan Africa have joined the WTO[9], started to implement the various Agreements and begun to enjoy the benefits. Like most countries, Sub-Saharan WTO members are finding that implementation of the Agreements requires substantial resources and education. To facilitate effective implementation, the WTO Secretariat has worked with various WTO committees, such as the CTD and its Subcommittee on Least Developed Countries, which review technical assistance requirements. The CTD, working with the Secretariat, has prepared a substantial body of educational materials that should help countries comply with the requirements of the new Agreements.

5. The United Nations

Among the United Nations (UN) agencies and programs, the UN Development Program (UNDP), Food and Agriculture Organization (FAO),World Health Organization (WHO), UN High Commissioner for Refugees, the UN Children's Fund (UNICEF), the International Fund for Agricultural Development (IFAD), the UN Population Fund, United Nations Conference on Trade and Development (UNCTAD), the International Trade Center and the Protection of the Global Environment Fund are the most active in Sub-Saharan Africa.

The missions of these agencies in Africa are varied, but most center on poverty alleviation, development assistance or emergency relief. For example, FAO work in Africa centers on programs to alleviate poverty and hunger by promoting sustainable agricultural development, improved nutrition and the pursuit of food security, while promoting strategies for long-term conservation and natural resources management. FAO's Program on Food Production in Support of Food Security in Low-Income, Food-Deficit countries was introduced in 1994 and is directly aimed at improving food security in target countries, including Africa. The FAO offers direct development assistance and provides policy and planning advice to governments. IFAD offers special assistance to the least-developed countries.

The UNDP, in addition to providing direct grant technical cooperation focusing on poverty elimination, job creation, the advancement of women and environmental regeneration, works to coordinate the development efforts of the various UN agencies and also encourages coordination between national donors. UNICEF works to improve the health and education prospects for children in Africa, through immunization, nutrition, basic sanitation and access to education programs. WHO is improving access to basic health care. The UNCTAD and the International Trade Center provide technical assistance to help African economies and businesses to become better integrated into the global economy.

Under the auspices of United Nations Environment Program, and in fulfillment of a commitment made at the Rio Conference, a United Nations Convention to Combat Desertification and Mitigate the Effects of Drought, Particularly in Africa was concluded in June of 1994. Many Sub-Saharan nations and the United States actively participated in the negotiation of this instrument that, *inter alia,* seeks to ensure more effective use of existing foreign assistance.

The International Labor Organization's (ILO) program in Africa is its largest regional program. The objectives of the program reflect the priority concerns of constituents in the fields of employment and poverty. To improve and ensure its responsiveness to the real needs of the region, the ILO emphasizes capacity-building at the national level and maintains cooperative relationships with its tripartite constituents (i.e., workers, employers and governments) at the regional level, the Organization of African Unity, the United Nations Economic Commission for Africa, other UN specialized agencies and with intergovernmental and non governmental organizations. It is also working toward closer cooperation with the international financial institutions.

In response to identified regional and national needs, the ILO program in Africa has emphasized employment and human resource development; the promotion of the private sector, including enterprise and cooperative development in rural and urban areas; training policies and strategies within the context of employment promotion; labor statistics; labor administration; reinforcing the institutional capabilities of the social partners; conditions of work and the working environment; occupational safety and health; labor market information and equality of opportunity and treatment for women and disadvantaged groups.

Based on U.S. contributions to UN program agencies that provided development assistance to sub-Saharan Africa, the United States provided an estimated annual $140 million per year to the region, amounting to $700 million during FY 1990-94.

Footnotes:

[7] U.S.ITC, U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreements and U.S. Trade and Development Policy, p. 3-2.

[8] The Results of the Uruguay Round of Multilateral Trade Negotiations, "Decision on Measures in Favor of Least-Developed Countries", pp. 440-441; "Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries", pp. 448-449.

[9] Members as of November 30, 1995: Botswana, Burkina Faso, Burundi, Central African Republic, Cote d'Ivoire, Djibouti, Gabon, Ghana, Guinea Bissau, Republic of Guinea, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Nigeria, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

USTR

A COMPREHENSIVE TRADE
AND
DEVELOPMENT POLICY
FOR THE COUNTRIES OF AFRICA

A Report Submitted by the President of the United States to the Congress

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VII. A COMPREHENSIVE TRADE AND DEVELOPMENT POLICY FRAMEWORK FOR AFRICA

The lessons emerging from the last fifty years concerning how economies grow harken back to first principles of economics. For rapid development to take place, economies need to be open to the world and based on the creativity and efficiency of the market place. A successful development strategy must be *trade-led* and *market-oriented*. Every Asian success story is based on rapid growth of foreign trade. Countries need to adopt the policies, regulatory framework, and attitudes that foster openness, entrepreneurial creativity and private investment.

Moreover, with the decline in official development assistance, the majority of capital needed to finance rapid rates of growth must come from private sources, be they domestic or foreign. For example, economic growth of 6 percent per year has on average been associated with an investment rate of around 25 percent of GDP. Currently, African countries are investing 17.5 percent but saving only 15.5 percent. The increase required to reach high investment rates (around $21 billion annually in investment) will have to come from a substantial increase in the current $2.2 billion in foreign direct investment and from increased domestic savings. Thus, economic development is dependent on increased trade and investment.

As indicated above, the challenges are many and varied. As no single response can address all challenges, a broad spectrum of responses must be marshaled to address effectively the wide array of problems. To provide a coherent framework, the responses are focused on the achievement of five basic objectives:

- A. Trade Liberalization and Promotion
- B. Investment Liberalization and Promotion
- C. Development of the Private Sector
- D. Infrastructure Enhancement
- E. Economic and Regulatory Reform

Resources available to the United States Government and most other donors for official development assistance to Africa are flat or in decline. No new resources have been made available to implement the Comprehensive Trade and Development Policy for Africa and there are at best limited possibilities for reallocating funds. For example, after taking account of current Congressional earmarks and proposed funding levels, many USAID programs in Africa may be cut by as much as 30 percent in FY 96 and perhaps significantly more thereafter. As a result of these cuts, the United States will need four, or possibly five years to produce the funding it had originally committed to supplying to the IDA -- the largest source of concessional assistance for Africa -- in three years. Within these funding constraints, the Administration will vigorously implement the Comprehensive Trade and Development Policy for Africa to the greatest extent possible.

To implement this policy, the Administration is establishing a new interagency Africa Trade and Development Coordinating Group and launching a number of new and enhanced initiatives.

Africa Trade and Development Coordinating Group

The Africa Trade and Development Coordinating Group, an interagency group to be co-chaired by the National Security Council and the National Economic Council, has the following mandate:

- Better coordinate the many programs of the Federal Government intended to promote trade and development in Africa and continue to pursue concrete policy actions and initiatives to improve trade conditions for Africa;
- Oversee implementation of the policy and programs outlined below;
- Establish a dialogue with the Congress, with officials in Africa, and with business leaders, academics, and other experts in both the United States and Africa for the purpose of continuing to refine and focus U.S. trade and development policy for Africa to assure its maximum effectiveness;
- Work to eliminate unnecessary duplication of activities and programs between United States Government agencies, the multilateral development agencies and other bilateral donors; and
- Establish appropriate lines of communication with the multilateral organizations working in Africa for the purpose of improving coordination of U.S. bilateral and multilateral policies and programs.

The work of this group will be reported to Congress in the four subsequent annual reports mandated in the Uruguay Round Agreements Act.

A. Trade Liberalization and Promotion

The full benefits of expanded trade have yet to be realized in Africa. Active participation in regional and global trading regimes will help African countries take advantage of the benefits of trade liberalization. Additionally, it will provide greater opportunities for American businesses to play an important role in Africa's development.

1. Integration into the International Trading System

The World Trade Organization (WTO)

As part of the U.S. contribution to the WTO, technical assistance can be made available to those countries requiring it. In addition to its regular program, the WTO is committed to develop a "Plan of Action for Africa" with the goal of ensuring that all countries on the continent derive maximum benefit from actual or prospective WTO membership. As part of this effort, WTO Director-General Renato Ruggiero visited several African capitals in January 1996. He was accompanied by the Director of the WTO/UNCTAD (UN Conference on Trade and Development) International Trade Center to consider how best to provide technical assistance in the trade promotion area.

We expect that the WTO and the Trade Center will work more closely in the future to foster the development of market oriented trade policies. An important part of this plan will be close cooperation with other international organizations such as UNCTAD and UNDP. The plan likely will include educational seminars for trade officials in Africa, assistance to implement the results of the Uruguay Round with particular emphasis on implementing regulations and legislation, training, assistance to the business community in identifying trade and market opportunities, and diversification of Africa's production and markets. The United States will participate in the development of this plan, primarily through the Committee on Trade and Development and consultations with the WTO Director General.

As noted in the accompanying ITC report, the average tariff rates facing Sub-Saharan African exports to the United States and the rest of the developed world are comparatively low. Similarly, the markets of the newly industrializing and developing countries have been opened as a result of the Uruguay Round tariff negotiations and unilateral reductions. These new opportunities for African trade based on Most-Favored-Nation (MFN) treatment need to be taken into account in discussions of erosion of tariff preferences for Africa resulting from the Uruguay Round.

An area of particular importance is food aid. The United States has taken the lead in discussions in the WTO and elsewhere concerning the implementation of the Uruguay Round Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries (Marrakech Decision).

In meetings of the WTO Committee on Agriculture in November 1995, the United States led the way to a consensus agreement regarding eligibility criteria for net food-importing developing countries and on a work program for implementing the Marrakech Decision. That program calls for a review of (1) food aid needs and availability; and (2) existing guidelines for concessionality of food aid. In December 1995, the United States proposed in a meeting of the Food Aid Committee (FAC) of the International Grains Council that the FAC conduct the two reviews mandated in the WTO work program. (The minimum food aid commitments and the guidelines on concessionality referred to in the Decision are laid out in the Food Aid Convention, which is administered by the FAC.) The FAC is expected to complete that work in the first half of 1996.

Also in follow-up to the Marrakech Decision, the United States has actively encouraged the IMF and the World Bank to assist developing countries that are experiencing difficulties due to the current high prices of food imports. In December 1995, Secretary Glickman wrote to IMF Managing Director Michel Camdessus and World Bank President James Wolfensohn, offering to work with those organizations in coordinating multilateral food aid assistance and addressing issues of global food security.

Finally, the United States has filed protests against export restrictions imposed by the European Union and others in recent months because of the effects those restrictions are having on the cost to developing countries of grain imports. In a December 8, 1995, press release, the Secretary of Agriculture said that export restrictions were "inappropriate trade policy tools and [were] contrary to the spirit of the Uruguay Round agreement, which calls for freer access to both imports and exports."

Initiatives:

- Technical Assistance: Within the framework of the WTO and the Committee on Trade and Development, the United States will work to reorient technical assistance programs to support countries' efforts to comply with WTO rules and disciplines, particularly in areas such as customs practice and intellectual property. Of particular importance will be the WTO Director-General's efforts at coordination with the IBRD, IMF, UNDP, UNCTAD and the WTO/UNCTAD Trade

Center and bilateral programs.

- The U.S. government will continue to encourage the IMF, World Bank, and African Development Bank to consult with the WTO with a view to achieving greater coherence in global economic policy planning.
- Tariffs: To create a climate of stability and predictability in terms of access to African markets for the United States and all trading nations, the United States will encourage African countries to accelerate their Uruguay Round commitments and/or reduce tariffs while refraining from arbitrary changes to their customs regimes, including changes in tariff schedules and valuation practices.
- Agriculture: The United States will seek to ensure that the Food Aid Committee (FAC) of the International Grains Council completes its mandated reviews on minimum food aid commitments and the guidelines on concessionality during the first half of 1996 and, based on these reviews, establish appropriate multilateral policy responses.

2. Regional Coordination

Much of Africa's development and integration into the world economy will depend on its ability to integrate regionally. The small size of most African economies suggests that greater regional coordination would be beneficial. Beyond the advantages of coordinating infrastructural development and sharing technology and information, regional integration will also produce larger, more attractive markets for luring regional and global investment.

For the past three decades, African countries have sought with varying degrees of success to capture the benefits of economic cooperation. The Organization of African Unity dates back to 1963 as the oldest and most comprehensive in terms of its membership of 53 African countries. Since then, there have been dozens of other attempts at regional or sub-regional integration.

Of all the integration attempts, three appear to offer the best prospect for producing enduring and significant results: the Southern Africa Development Community (SADC), the West African Economic and Monetary Union (WAEMU) and the Intergovernmental Group on Development and Desertification (IGADD).

SADC's roots go back to 1980 when its predecessor (the Southern Africa Development Coordination Conference) was established to counter dependence of Southern African economies on South Africa during its apartheid period. Now South Africa is a key member of this regional group of 135 million people. Its headquarters and small staff are located in Gaborone, Botswana. It is loosely organized, with each member assigned a specific portfolio of responsibility, which each carries out using its own resources. Since South Africa became a member, the organization has been undertaking more determined efforts to coordinate expenditures and commit to trade liberalization using its own resources.

The WAEMU treaty was signed in 1994 by the leaders of seven francophone West African countries which were already joined in a successful monetary union. The aim is to create a market of 59 million people with a GDP of $27 billion. This union, which includes Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, established several supra-national institutions to serve as the functional apparatus for the eventual creation of a common market. These institutions would be funded by a common external tariff and indirect taxes, eventually to be replaced by a value added tax.

IGADD is composed of seven East African countries. IGADD was established in the aftermath of the East Africa famine of 1983-84 to coordinate disaster assistance and development programs in the region.

IGADD has been recently revitalized to take a more prominent role in regional development with a broader mandate to include: food security, conflict resolution and harmonization of policies regarding trade, customs, transport, communications and free movement of goods and people.

Initiatives:

- In 1995, USAID launched its Initiative for Southern Africa to encourage states in the region to continue growth-oriented reforms, to assist efforts already underway to expand economic and political cooperation among the Southern African states, and to support the reintegration of South Africa's industrial, financial and technical resources into the regional economy.
- As part of the Initiative for Southern Africa, Vice President Gore signed an agreement in December 1995 with SADC to provide a framework for technical assistance to its secretariat. This will include support from experienced U.S. consultants on measures to strengthen regional economic integration.
- In 1994 the President announced "The Greater Horn of Africa Initiative (GHAI)" to help turn the Greater Horn region from an area of chronic crisis and famine into one of growing food security capable of addressing regional conflicts. IGADD, as noted above, is being restructured, a new donor partnership is being built, and the various agencies of the U.S. Government as well as our private partners are now working closely to develop an integrated strategy and partnership with the African states in the region to deal more effectively with conflict and create a sustainable environment for growth.
- USAID will continue to work to promote regional integration by strengthening current efforts and expanding communication among African organizations including human rights groups, academic and research institutions, policy makers, and business persons.

3. Generalized System of Preferences

Legislative authority to operate the GSP program expired in July 1995. Reauthorization is strongly supported by the Administration.

Virtually all countries in Africa are beneficiaries of the United States Generalized System of Preferences (GSP) which allows duty free entry for a wide range of products.[10] All least developed African GSP beneficiaries are eligible to export to the United States all of the approximately 4,600 products that have been designated as GSP eligible, out of approximately 9,600 product categories in the Harmonized Tariff Schedule of the United States. The GSP statute also contains so-called *competitive need limits*. These are designed to remove individual products from GSP coverage for individual countries that have become competitive in those products. However, these limits are not applied to Least Developed Beneficiary Countries (LDBCs), the majority of which are African. The limits are applied to African non-LDBCs.

Initiatives:

- The Administration will continue to press its proposal to expand export opportunities for virtually all Sub-Saharan African countries. The Administration supports legislation to enhance GSP by allowing for the designation of new products that would only have GSP eligibility if they are imported from LDBCs. This would not include statutorily excluded products such as most textiles and apparel, shoes, handbags and a few others. Currently non-statutorily excluded products would be reviewed to determine whether they would be import sensitive if imported only from LDBCs on a duty free basis. Congress included GSP reauthorization in H.R. 2491, The

Balanced Budget Act of 1995, which was vetoed for other reasons.

- Since sub-Saharan GSP utilization rates are low, USTR, State, and USIA will launch a sustained effort -- through seminars and publications -- to inform governments and private firms about the GSP program's benefits and methods of operation.
- The Administration will designate groups of African countries for cumulation treatment under the program's rules of origin once they are determined to be making substantive and significant efforts to integrate. The cumulation will allow for the value of a product partially produced in several African countries to be added together to qualify for the 35 percent value added criteria that must be met for an imported product to be deemed eligible for GSP treatment.[11]

4. Intellectual Property Rights The extent to which a country provides adequate and effective protection of intellectual property rights (IPR) is one of the factors that bear on private sector decisions to invest and to transfer technology. Strong IPR protection conferred by the means of patents, trademarks, copyrights, trade secrets and other forms of protection also promote domestic creativity and innovation.

Improved IPR protection will enable U.S.-produced software, chemicals, brand-name consumer products, entertainment products (including sound recordings and motion pictures) and books to be exported without fear of piracy. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) was negotiated as part of the Uruguay Round and is administered by the WTO. While this Agreement contains transitional measures that grant developing and least developed countries a number of years to complete its implementation, the U.S. continues to urge accelerated TRIPs implementation, where possible, by African members of the WTO. The United States also will seek certain additional forms of protection beyond those required by TRIPs that are critical to the health of U.S. trade. Finally, we will encourage the development of the legal and bureaucratic infrastructure needed to support improved IPR enforcement.

Initiative:

- U.S. ambassadors in Africa will urge effective and timely TRIPs implementation by WTO member governments and comparable actions by non-members. Certain protections beyond those required by TRIPs will also be sought. As necessary, aid to facilitate the establishment of adequate and effective intellectual property protection should be sought from USAID, the Patent and Trademark Office in the Department of Commerce, the U.S. Copyright Office, and from the WTO, WIPO, UNCTAD, UNDP, World Customs Organization and other international organizations as appropriate.

5. Non-traditional Export Promotion

While African countries need to expand their traditional primary export commodities such as oil, copper, coffee, cocoa and tea, they also need to diversify their exports if they are to experience the export growth required to accelerate overall economic growth. Much of this potential lies in "non-traditional' exports -- e.g., horticulture, spices, fish and animal products and light manufacturing.

USAID now has major non-traditional export programs in four countries at an annual cost of $18 million. The most comprehensive is the Ghana Trade and Investment Program, which has led to: (1) adoption of a new investment code eliminating government control of new investments; (2) elimination of some regulatory bottlenecks to exports such as export permits and streamlining of others; (3) assistance in the building of export infrastructure; and (4) establishment of a new export promotion institution to represent the interests of exporters rather than bureaucrats. The result has been a 60 percent increase in non-traditional exports in two years and new investments or marketing arrangements with U.S. firms such as Starkist and Pier I. Programs of this type are also being implemented in Uganda and Kenya.

Initiative:

- USAID will expand or continue its non-traditional export programs to other countries, where appropriate, and deepen them to the extent that budget circumstances permit.

6. U.S. Trade Promotion

Given that the U.S. share of Africa's import market is 7.7 percent, while the EU's is 41 percent, there is significant scope for U.S. exports to Africa to expand. The Administration's efforts at trade promotion in Africa focus in three areas. First, since Africa remains the last frontier for most American companies, much work needs to be done on accessing and disseminating information and on effective matchmaking in Africa. Second, the United States Government will advocate actively on behalf of U.S. companies seeking contracts in Africa. The ITC report which accompanies this policy report contains extensive information which is useful for U.S. firms interested in doing business in Africa. There will be four annual updates of this report. Third, the United States Government will work with companies to seek to ensure that the process is open and transparent and that there is respect for the validity of contracts and the rule of law.

U.S. embassies in Africa provide important support for U.S. business. At each post, ambassadors lead interagency "country teams" that develop and implement strategic commercial plans for supporting U.S. business. Embassies provide regular reports on trade opportunities. Much reporting on economic and commercial developments in Africa is available through such sources as Commerce's National Trade Data Bank (NTDB) and the Department of State's Foreign Affairs Network (DOSFAN).

In 1994 the State Department hosted a series of roundtable discussions with members of the Corporate Council on Africa (CCA). This Administration implemented several of the recommendations CCA developed on ways the U.S. government can better promote private sector trade and investment with Africa.

U.S. embassies have fully supported U.S. firms pursuing new projects in Africa. During October 1995, following extensive advocacy by U.S. government agencies, General Electric was awarded a $132.8 million contract for the construction of two 100 MW combustion turbines for the Takoradi Thermal project in Ghana. The largest and most recent example of the success U.S. firms are having in Africa is the $700 million deal ENRON Corporation signed with the Government of Mozambique to develop the Pande gas field, including construction of a pipeline. The November 1995 signing marked the conclusion of long and at times difficult negotiations, during which the active involvement of the embassy and Washington agencies was crucial.

The State Department also has two pilot programs -- the Business Facilitation Incentive Fund (BFIF) and the Commercial Associate Program -- to provide additional trade and promotion resources to small posts without a Foreign Commercial Service (FCS) presence. BFIF is a small ($500,000) fund which allows posts without FCS officers to carry out innovative trade promotion activities. The Commercial Associate Program is a two-year pilot program assigning Foreign Service spouses to positions in small non-FCS posts anxious to carry out an active trade promotion agenda.

Initiatives:

- The Secretary of Commerce will lead a commercial visit to Africa in February 1996. The visit will emphasize that the private sector holds the key to Africa's development and future prosperity as well as the United States' readiness to be a full partner in Africa's efforts to build free enterprise. Emphasis on creating an enabling business environment will be a key part of the mission.
- The Administration will give new emphasis to its advocacy efforts in Africa on behalf of U.S. commercial interests. The Advocacy Center in the Department of Commerce's International Trade Administration serves as the nerve center for the Advocacy Network, an interagency group composed of the member agencies of the Trade Promotion Coordinating Committee. Through the Network, the Advocacy Center will coordinate the interagency resources of ITA country desks, sector specialists, and overseas posts to advocate with senior African officials on behalf of U.S. firms competing for contract awards throughout the Sub-Saharan region.
- U.S. ambassadors in Africa will be instructed to report on key projects of interest to the U.S. private sector.
- The Commerce Department will create a permanent Working Group on Africa within the Trade Promotion Coordination Committee (TPCC). The Africa Working Group will meet at regular intervals to reach decisions on issues in trade and investment between Africa and the United States that have implications for the U.S. competitive position in Africa, as well as those affecting Africa's position in the global trading community. The Working Group will involve senior representatives of State, Commerce, USTR, Treasury, Labor, Agriculture, Eximbank, OPIC, TDA, Energy and other interested agencies. It will also consider private sector advice such as that from the Trade Advisory Committee on Africa (TACA), the Corporate Council on Africa (CCA) and other organizations.

B. Investment Liberalization and Promotion

1. Improvement of Africa's Investment Regimes

U.S. companies will increase their investments in Africa if they are assured of being treated as fairly and as favorably as competitors and confident that the host country's legal system is stable; that there is a deterrent to, and a remedy for, expropriation; and that crime and corruption will not interfere with foreign investments. A review of African investment regimes, with an eye to removing such obstacles to foreign investment as performance requirements, restrictions on transfers and hiring requirements, would benefit both foreign investors and African governments. In addition, an open dialogue on such impediments as corruption, discriminatory treatment of foreign operations and improvement of the host country's infrastructure would also assist in creating investment regimes that would attract foreign capital. In the future, the United States may consider negotiation of Bilateral Investment Treaties (BIT) with countries where there are significant opportunities for U.S. investment, and where a stable and open investment regime exists so that the country can live up to the commitments in a BIT.

Initiative:

- U.S. embassies in Africa will engage host governments on improving local investment regimes (law governing foreign investment, business facilitation, infrastructure and other issues). The U.S. will consider as candidates for BIT negotiation those countries which are willing and able to assume the necessary obligations as contained in the U.S. BIT protocol.

2. Investment Guide

The attraction of foreign capital and know-how to Africa represents a primary goal of U.S. trade and development policy for Africa. Creating a depository of investment rules for African nations provides a single mechanism through which to address a number of obstacles to growth and development in Africa. Such a depository, initiated by those countries that already have publicly available investment codes, will potentially encourage cooperation as well as competition among participating African nations.

Transparency of investment procedures and regulations greatly increases the attractiveness of an economy to foreign investors. A guide to investment regulatory procedures in Africa will be a valuable resource to increase foreign interest. In many parts of Africa, where widespread corruption is a strong deterrent to private investment, such a guide will be another step toward increased transparency. The availability of advertising space in such a guide should encourage African governments to participate in the project. By providing a public listing of different countries' regulatory regimes, the guide may encourage competition among the African nations to eliminate barriers to investment and to establish a more attractive environment than that of their neighbors for drawing new foreign funds.

Initiative:

- The Administration will ask the World Bank to provide technical assistance to African economic regional organizations or countries interested in developing an investment guide modeled on those prepared by other regional organizations.

3. Tax Treaties

Tax treaties are bilateral agreements designed: (1) to avoid double taxation of income by both the source country and the foreign investor's homeland or residence country; and (2) to prevent evasion and avoidance of taxes. They are intended to facilitate flows of capital, trade, technology and personal services between the treaty partners. Treaties also assure non-discriminatory taxation, essentially national treatment, of residents or nationals of one country under the tax rules of the other.

In granting taxing rights to the source country (e.g., in Africa), treaties obligate the residence country (e.g., the United States) to relieve international double taxation either by granting a foreign tax credit against the residence country's tax for the source country's income tax or by exempting the income that is taxed by the source country. The United States avoids double taxation, both by internal law and treaty, by means of a foreign tax credit.

Currently the United States has no tax treaties with Sub-Saharan African countries, although one has been under negotiation with South Africa since October 1994 to replace the original bilateral tax treaty terminated on July 1, 1987. It is anticipated that the United States and South Africa will soon be in a position to conclude a treaty with one more round of face-to-face discussions.

Initiative:

- The Administration will encourage African countries to be in a position to negotiate tax treaties to alleviate double taxation by taking such steps as are necessary to ensure that their tax systems are fully transparent and nondiscriminatory; administered in a consistent and predictable manner; imposed at reasonable rates; and allow for reasonable deductions.

4. Support of Foreign Direct Investment

Although the economic and business climate is improving in most African countries, the level of political or commercial risk may cause potential investors to hesitate. To reduce that risk for foreign private sector investors, a number of multilateral and governmental institutions are active in African countries. Because of their public status, they are able to impose terms and conditions on the recipient countries or project managers that raise the probability of repayment to reasonably acceptable levels. As a result, the recipient country enjoys the development that investment can stimulate and the investor's country enjoys an increased level of exports and investment opportunities.

MIGA: The World Bank's Multilateral Investment Guarantee Agency (MIGA) offers political risk insurance for investment projects in developing countries, including guarantees for projects by citizens of one developing country in another. The latter is something no other agency in the world provides. MIGA also offers technical assistance to help countries apply better management and marketing techniques to their foreign investment promotion efforts. It organizes investment conferences and sponsors executive training programs, strategy workshops, and investment-promotion missions. Two examples in 1995 were a successful conference in Canada on the African mining sector, and an African investment promotion mission to Southeast Asia.

Total foreign direct investment supported by MIGA as of 1995 exceeded $8.5 billion in 34 developing countries, of which 7.1 percent is in Africa. Guarantees have been issued in Uganda, Ghana, Tanzania, Madagascar, and Cameroon, and in 1995 for the first time MIGA issued a guarantee for investment in South Africa.

OPIC: The Overseas Private Investment Corporation (OPIC) considers the private sector in Africa to be the primary vehicle to promote economic development. To support the continent's private sector, OPIC provides financial and political risk insurance, loan guarantees and direct project lending for United States investment projects in over forty African countries. This assistance is limited to projects where the public sector has, at most, a minority interest. OPIC only supports those projects that have a direct developmental impact on the local economy, and contribute significantly toward the development and expansion of the local private sector.

Between FY 1990 and FY 1994, OPIC extended political risk insurance coverage to 60 companies investing in Africa and financial support to 14. These 74 projects, in more than 24 countries, involved a total investment of more than $2.55 billion. In terms of job creation, procurement, training, and other opportunities, the associated benefits for the local private sector have been considerable.

In addition to its project finance and political risk insurance programs, OPIC also supports two privately managed equity funds focused on investments in Africa. The Africa Growth Fund managed by the Equator Bank invested $25 million in private sector projects in Sub-Saharan Africa. It was so successful that OPIC now supports 20 other private funds worldwide with a second fund for Africa, the Africa Growth Fund II, in the process of raising the necessary $75 million in capital. Through these funds, OPIC supports private sector development through equity investments that allow African companies to grow without becoming over-leveraged.

USAID: USAID has programs that complement those of OPIC. One program seeks to work with investment authorities or boards to reduce the delays and costs of investing in Africa. For example, in Uganda, USAID assisted in setting up the Uganda Investment Authority (UIA). The UIA, in existence for approximately four years, is the leading advocate for liberalizing trade and foreign exchange controls. The UIA is also responsible for approving and monitoring investment incentives, promoting investment in Uganda and assisting foreign investors.

In the newly emerging democracies of Africa, there is more scope for business interest groups to have a voice in government policies and strategies that potentially will build both democracy and an enabling environment for investment and trade. USAID has been working in this area all across Africa at an annual obligation level of $2 million. USAID is strengthening such institutions as the Chambers of Commerce in Zimbabwe and Tanzania, and regional networks such as the West Africa Enterprise Network (representing 300 businessmen and -women in West Africa), and the African Business Round Table (comprised of 120 members, including such U.S. firms as Coca-Cola.). Such organizations not only promote joint investments and trade among the members, but become a strong voice for reform. At the last meeting of the West African Enterprise Network, for example, members, working with the West African regional bank, ECOBANK, agreed on procedures to allow immediate payment in foreign exchange of amounts deposited in branches of ECOBANK in another country.

Initiatives:

- USAID will continue its existing programs to strengthen local and regional business associations in specific countries as appropriate and subject to availability of funding.
- OPIC will offer its finances and insurance programs throughout Africa, redoubling its efforts to encourage U.S. companies to invest in Africa.
- Eximbank will consider supporting projects that extract minerals for export even in countries where it is off cover, as long as control of the project is in private hands and an escrow account can be established.

C. Development of the Private Sector

Direct assistance to the private sector comes in three forms: (1) assistance in developing the human resource base for both the work-force and the managers; (2) assistance in expanding access to requisite capital, both working capital and investment capital; and (3) help in building institutions to support the private sector.

1. Human Resources

Experience from all regions of the world shows that building a healthy, educated and skilled population is necessary for sustained economic growth. Various studies have estimated the return on investment in primary education in developing countries at well over 20 percent, one of the highest rates of return on investment available. American companies are far more likely to invest where the work-force is healthy, literate and trained. This is one reason why USAID invests heavily in promoting adequate health services, education, and literacy and training programs.

a) Education:

More educated people are in general more productive, have greater access to wage employment, and earn higher incomes. While high enrollment rates are not a sufficient condition for sustained economic development, they are a necessary condition, especially at the primary school level. This is an area where Africa has experienced substantial growth, with primary school enrollments rising from 24 million children to 64 million between 1970 and 1990, and the average adult literacy rate going from 32.5 percent in 1980 to 47.2 percent in 1990. However, rapid population growth and budget crises have threatened these gains.

In 1994, 18 percent of U.S. development assistance went to education. USAID has been working for over five years on new programs of fundamental educational reform in primary education. These programs are currently being implemented in 10 countries at an annual cost of $90 million. They have had very positive impacts. For example in Guinea, between 1989 and 1993, the primary education share of the education budget rose from 14 percent to 26 percent. As a result, primary school enrollment grew from 28 percent to 40 percent, and girls' enrollment grew from 19 percent to 26 percent.

African higher education has experienced rapid expansion as well. The number of African university graduates has climbed from 89,000 in 1960 to 900,000 in 1990. The impact of this change is obvious wherever one goes in Africa. Highly educated and well-trained Africans now dominate all institutions, public and private. Where expatriates once made up 90 percent of agricultural scientists they now make up but 10 percent. But even with this phenomenal growth two problems remain. First, the availability of highly trained personnel, despite the dramatic increases, remains thin. Second, the university system in Africa is in crisis because of mismanagement, over-expansion and budget problems.

While USAID no longer directly supports African institutions of higher education, since 1992 USAID has been spending $12 million per year to support African masters and doctoral students studying in the United States. USAID pays for transportation and living expenses, while United States universities provide tuition. Over the past decade, USIA has funded 64 programs to initiate linkages between United States and African universities. In FY-95 alone, USIA spent over $10 million on university-level Fulbright Academic Exchange Program. Currently, 83 U.S. academics are teaching or conducting research at African universities and 62 Fulbright-supported Americans are studying or researching in Africa. More than 260 African students are now studying in the United States and over 40 African scholars are temporarily lecturing and conducting research here under Fulbright grants. In an effort to encourage African government officials to promote foreign investment and private sector development, the Humphrey program is bringing 57 trade, investment and media government officials from 28 African countries to the United States for training and internships in FY 1996.

Initiatives:

- As funding allows, USAID and USIA will expand and deepen programs in the critical area of education.
- USAID, in partnership with the U.S. university community, is launching a new Mandela Economics Scholars Program which will provide graduate training for South African economists to expand the capacity for economic policy analysis among the majority population.
- As a result of the United States-South Africa Binational Commission meeting in December 1995, the two countries have agreed to establish a bilateral Fulbright Commission which would govern and implement academic and professional exchange programs funded by the South African Ministry of Education, the United States Information Agency and private monies.

b) Health:

The World Bank states in its study *Better Health in Africa* that a concerted effort to combat illness and disability could raise productivity of Africa's labor force by 15 percent. Health problems continue to be a major factor impeding the development of Africa. The United States has been at the forefront in malaria research, in the war against HIV/AIDS and in supporting interventions to improve child health. USAID spends over $100 million annually on health programs in over twenty African countries. USAID, the Center for Disease Control (CDC) and other agencies are at the forefront of this fight. USAID-supported interventions against the spread of HIV/AIDS have seen some successes, particularly with respect to the reduced spread of sexually transmitted diseases, the reduction of high risk behavior and the increased use of condoms. However, HIV/AIDS remains a major threat not only to health but also to economic productivity. The CDC was instrumental in helping check the spread of Ebola in Zaire. The Onchocerciases program, sponsored by a number of donors, has eliminated river blindness in many countries and opened up new, rich river basins. The Rotary Club has been especially active in eliminating measles.

Many African countries are implementing the "Bamako Initiative" approach to the provision of local health services, which emphasizes preventive as well as curative health services and requires communities to assume responsibility for providing services and paying for their cost. Peace Corps volunteers are assisting ministries of health, international organizations, donors and local communities to train both health personnel and local health educators and health services management groups. These efforts will require volunteers increasingly to provide business management training and advice in addition to the preventive health activity currently underway.

Initiatives:

- USAID will expand and deepen health programs that support a healthier, more productive work force subject to availability of funds.
- Other relevant departments and agencies will investigate the prospects for expanding programs in this area.

c) Training:

USAID spends more than $75 million annually in training Africans in courses ranging from several weeks to graduate degree programs. Increasingly, these programs are focused on short courses in Africa for private sector participants in critical areas of business development and management. USAID's objective is to provide inexpensively and efficiently the skills required for private-sector led development.

USAID has also worked with other donors in improving the policy analysis capacity in African countries in order to strengthen the basis for market-friendly reforms. Also, USAID has pledged $10 million to the multi-donor funded $100 million African Capacity Building Foundation, which aims to ensure that within the next generation every country of Sub-Saharan Africa will have its own core group of first-rate economic policy analysts, development managers and sustainable institutions necessary to support them.

USAID has sponsored numerous short-term technical programs in Africa and in the United States in the areas of entrepreneurship, capital market development, new financial instruments and privatization. In Madagascar, USAID's Financial Marketing Development program provided training to Central Bank staff on information management, English language skills and privatization. In Tanzania, USAID has provided technical training in the United States to 62 Bank of Tanzania staff. The training has increased staff knowledge of supervisory techniques and bank examination methods, which are essential to promote further expansion of private banking capacity in Tanzania. In Ghana, USAID is providing needed training in business and strategic planning to new exporters, primarily small-scale farmers raising cashews and peanuts.

USDA administers the Cochran Fellowship Program to help promote United States agricultural exports by providing short term technical assistance in the United States for farm and business leaders from eligible African countries. For example, three commercial bank officials from Cote d'Ivoire came to the United States to learn about American agricultural marketing and export credit programs. South African farm union leaders came to learn about dairy herd management and beef and dairy breed genetics. A senior South African agricultural official came to review American agricultural marketing systems and farm credit programs.

The South African Ministry of Labor has requested that the U.S. Department of Labor, as part of the work of the Binational Commission, to provide technical assistance to strengthen its inspectorate and analytical capacities in seven areas, including labor relations, labor statistics and occupational health and safety.

Initiatives:

- USAID will continue to work with private voluntary organizations to provide advice and training to African entrepreneurs on production technologies, international marketing strategies and management techniques.
- USIA will utilize its Professional in Residence program to send private sector officials (Chamber of Commerce leaders, stock exchange officials, etc.) to Africa to meet with counterparts.
- USIA will focus its International Visitor program on young, dynamic business leaders in Africa (Chamber of Commerce leaders, stock exchange officials, etc.).
- USIA will gear its Book Distribution Program around economic/business texts for distribution in Africa.
- Peace Corps/Africa is implementing a transition to the next phase of its assistance to the private sector by creating and maintaining linkages in several important areas, including external business linkages, cross-sectoral linkages and NO sector linkages. This management skill transfer and consulting, which is highly-prized by participants and host agency officials, will be maintained and strengthened.
- The Labor Department will provide training to South Africa's newly proposed Mediation and Arbitration Council.
- The Department of Labor will help the South African Ministry of Labor to strengthen its capacity in such areas as employment services, labor-market statistics, occupational safety and health, youth development and gender services.

2. Food and Agriculture

Agriculture is the primary source of employment and export earnings for most African countries and their primary area of comparative advantage. An increasingly productive agricultural sector will provide both exports and import substitutes, thus providing foreign exchange for new investments. Agriculture has been shown to have the highest multiplier effects of any sector, because of its links to the processing, transport and trade sectors. In addition, a vibrant agricultural sector can keep food prices down and help African labor to be competitive internationally.

USAID's programs in agriculture center around agriculture technology, sustainable use of soil and water resources, liberalization of agricultural marketing and assistance to agribusiness. Over the last decade, USAID's programs in agricultural technology development and transfer have experienced rates of return in excess of 35 percent per year. USAID spent roughly $200 million per year for agriculture and natural resource management programs in Africa from 1990 to 1995. Its marketing liberalization programs have contributed to the opening of food and export markets in over fifteen African countries, liberalization that is largely responsible for a significant increase in the rate of agricultural growth in these countries.

USDA's most extensive involvement, other than food aid through P.L. 480 Title I, is through reimbursable interagency agreements with USAID. Since the 1960s, USDA experts have assisted USAID (and other development organizations) to plan and carry out agricultural and natural resource development programs in Africa. In 1995 those agreements totaled approximately $10 million.

USDA's Emerging Democracies Program utilizes technical assistance to increase trade opportunities for U.S. agriculture. The program, created in the Food, Agriculture, Conservation, and Trade Act of 1990, promotes agricultural exports to emerging democracies by sharing of U.S. agricultural expertise. The Act authorizes $10 million per year over five years to share U.S. agricultural expertise through technical assistance. The program's focus is on improving the effectiveness of food and rural business systems in emerging democracies and on increasing prospects for U.S. trade and investment in these countries. The program thus combines the objectives of market promotion and development assistance.

USDA with South Africa has explored development assistance possibilities under the Emerging Democracy program. A two-year resident assignment for a private sector technical assistance advisor will begin in FY 1996. The expert will help establish linkages between U.S. and South African agribusiness firms for mutually profitable ventures. An extended short-term assignment for a USDA nutrition expert was begun in for FY 1996. This expert will assist the South Africans to formulate an integrated provincial nutrition program. Assessments have also been conducted in Namibia and Ghana although no formal technical assistance projects exist for those countries.

USAID's new Food Aid and Food Security policy paper places the highest priority on using its P.L. 480 Title II food aid program to foster increased agricultural productivity and improve household nutrition in Africa. USAID and the private volunteer organizations (PVOs) are focusing particular attention on food for work projects designed to build farm to market roads and food storage facilities, which will increase incentives to local producers.

USDA's P.L. 480 Title I program focuses on market development for U.S. agricultural commodities by providing concessional financing to the governments of the recipient countries. Proceeds from the sales of the commodities are used for agricultural development projects.

USDA has modified its country specific practices under the General Sales Manager (GSM) Export Credit Guarantee Program and the Export Enhancement Program to provide for regional programs for agricultural exports in many of the countries of Sub-Saharan Africa. This change provides new opportunities for coordination among neighboring African countries' importers to reduce transportation costs. The GSM program also promotes regionalization of African banks.

Initiatives:

- On December 5, 1995, Vice President Gore and South African Deputy President Mbeki established an Agriculture Committee under the U.S.-South African Binational Commission. The Committee will provide a forum for discussion of a number of issues of mutual importance including: bilateral trade and market access, rural development, agricultural technology development and community development.
- USDA will modify P.L. 480 Title I to promote more directly investment and technology transfer in Africa by allowing any additional income realized from P.L. 480 to be used by the recipient governments to promote "free and open markets," encouraging international investment by funding improvements in market distribution systems, port and storage facilities, providing partnership loan guarantees or providing venture capital.
- USDA is seeking a modification in the Emerging Democracies Program to allow for expanded

operations into countries designated by the Department of State as Emerging Markets. The program would provide technical assistance to support exports of U.S. agricultural products to Emerging Market countries. Emerging Market countries are determined by USDA through economic and market analysis.

- With a change in the authority to Emerging Markets, USDA will initiate the Facilities Guarantee Program which provides credit guarantees for U.S. technology and expertise in support of market development efforts for U.S. agricultural commodities.

3. Financial Markets

A major precondition for expanded international investment as well as trade is the development of more effective financial markets. The World Bank has been instrumental in financial sector reform, which includes the promotion of private banking, liberalization of interest rates and reduction of government interference in financial markets. Poor financial policy often compounds the negative effects of market failure in Africa's capital markets. Due to serious costs associated with the poor credit histories of most potential borrowers and weak legal mechanisms to ensure lenders against borrower default, the allocation of credit does not adequately meet African entrepreneurs' need for investment financing. Small and uneducated borrowers generally find themselves locked out of the formal financial sector. Mobilization of financial resources -- held not only by wealthy exporters but also by farmers and small-scale businessmen -- is hindered by low real interest rates, which result partly from expansionary monetary policy used to finance Africa's budget deficits.

Central to development of the private sector in Africa and elsewhere are efficient and effective financial markets that encourage saving and provide investment funds for entrepreneurs seeking to start new or expand existing businesses. USAID's activities in this area focus on providing new institutional mechanisms for saving and investment finance in several key areas: (1) the rural economy; (2) micro-enterprises; and (3) small and medium sized businesses. The basic objective is to provide sustainable sources of finance for people who would have difficulty obtaining credit from traditional sources such as formal banks.

In the area of rural finance, USAID has been developing credit unions and cooperative associations in a number of African countries. These institutions are growing, have high repayment rates and are increasingly independent of outside assistance. In several countries, rural institutions have been linked to private banks, first through USAID-provided guarantees, but eventually without guarantees as the cooperative partners show themselves to be creditworthy.

In micro-enterprise programs, approximately $35 million per year has been obligated since 1991. These programs provide small loans (under $300 each) to micro-enterprises which would have no other source of credit. High repayment rates suggest these programs have been highly successful.

In Ghana, Uganda and Tanzania, USAID has supported venture capital funds. Total U.S. grant support for these funds was $4.3 million which has leveraged $92 million in investment capital for equity for small and medium sized firms. USAID's most notable effort in this area, the Southern Africa Enterprise Fund, is just beginning with expected funding from the U.S. government of $100 million over five years for investments in eleven countries.

Initiative:

- USAID will expand and deepen programs to develop effective financial markets in specific African countries as appropriate and subject to availability of funds.

D. Infrastructure Enhancement

Improving the infrastructure of Sub-Saharan Africa is a critical enabling condition for greater intraregional and international trade. There is a pressing need for development of transportation, water and energy resources and telecommunications. Since most of these developments involve efforts that cross national borders, a fair degree of regional coordination will be needed for planning, construction, financing and management of these projects.

In addition, development of these sectors represents significant commercial opportunities for American producers of the required capital equipment. Limited availability of U.S. budgetary resources for highly capital intensive infrastructure projects highlights the importance of private sector and multilateral investments in this arena. Nonetheless, given the right project conditions for private sector or for newly privatized projects, financing may be available for planning, procurement and installation of equipment and sometimes limited local costs even in countries where sovereign creditworthiness is deficient. These resources are currently available from U.S. Government facilities, such as the Trade and Development Agency, OPIC, the Department of Transportation's Maritime Administration (MARRED), the USAID Housing and Guarantee Program and certain programs of the Department of Agriculture.

Infrastructure development could be facilitated by privatization of existing infrastructure or the promotion of build-operate-transfer arrangements designed to attract private sector investment in infrastructure. Such steps will depend on policy reforms by African governments but could provide significant investment opportunities for U.S. firms.

1. Global Information Infrastructure

a) Telecommunications

With the lowest tele-density in the world and a population of nearly 600 million people, Sub-Saharan Africa has tremendous telecommunications infrastructure needs. Reaching the tele-density level typical of other developing regions would require investment of approximately $7 billion over the next decade. These needs can be addressed in part through lower-cost per capita strategies -- e.g. cellular, low-earth orbit-satellite delivered wireless telephony -- as well as through the supply of telecommunications equipment such as additional telephones, facsimile machines, personal computers, earth stations, radios and television sets.

Typically, government-run and -protected monopolies that dominate the telecommunications sector in Africa do not take advantage of the new technology and investment opportunities becoming available on the world market. Demand growth for telecommunication services is stifled not only by inadequate infrastructure but also by high user rates, pegged not to costs but to the generation of general revenues in both local currency and foreign exchange.

To address the impediments to additional investment in the African telecommunications sector, the Administration has set forth five basic principles that are necessary to foster the development of the Global Information Infrastructure (GII): private investment, competition, flexible regulation, open access to the public telecommunications network and universal service. U.S. training programs can help establish Internet nodes, considered to be the first step toward the creation of the GII, as a means to disseminate information necessary for African commercial activities.

The U.S. Federal Communications Commission (FCC) consults with African regulators, primarily in the broadcasting area, advising them on the drafting of broadcasting legislation and in the process explaining the importance of competition among broadcasters, removal of foreign investment restrictions in broadcasting and privatization.

Initiatives:

- U.S. embassies in Africa will encourage their host governments to participate (at least as observers) in the on-going WTO Negotiating Group on Basic Telecommunications negotiations to liberalize basic telecommunications and adopt pro-competitive regulatory principles (including interconnection, competition safeguards, transparency and independence of the regulator from the telecommunications operator).
- The United States will support, where appropriate, World Bank/IFC participation in financing country hookups to the Africa One project.
- The Administration will use the upcoming Group of Seven Information Society Summit in South Africa, May 15-16, 1996, to reiterate the importance for all countries, developing and developed, to adopt the Global Information Infrastructure (GII) principles in order to encourage development in their telecommunications sector and not to be left further behind in the Information Age.
- The Administration will monitor, in conjunction with the FCC, the UN International Telecommunications Union (ITU) recommendation that governments and private carriers negotiate over a five year period accounting rates that are cost-oriented, reflect cost-trends and are transparent. The FCC will be encouraged to ensure that U.S. carriers negotiate cost-based accounting rates.
- The Administration, in conjunction with the FCC, will seek to increase the funds that African countries make available for telecommunications infrastructure improvements by encouraging them to modify the way settlements of "accounting rates" are calculated and urge that these funds be used to develop telecom as a key sector for an enabling environment.

b) Internet

At the same time, USAID, together with the State Department, NASA and several other government entities, is finalizing the Africa GII Gateway Project, a $15 million five-year effort to establish widespread African links to the Internet. This is an opportunity for our partners in the university community, the private sector and foundations to link their ideas and cutting edge research with the nascent scientific and business communities in Africa. Such linkages are critical in the successful integration of U.S. businesses and African development.

The Africa GII Gateway Project has three major components:

1. Policy Reform -- Creating a policy environment in Africa that allows private sector management of information technology and communications.
2. Technology Transfer -- Introducing the U.S. hardware and software required to connect twenty African countries to the Internet.
3. Linkages -- Linking national Internet nodes to business and development institutions within each country to ensure that needed information gets to researchers and users.

Initiatives:

- Through the Africa GII Gateway Project and related efforts, USAID will work with the U.S. private business and university communities to:

- Develop distance education modules;
- Link buyers and sellers between the two continents and within Africa;
- Link potential investment partners between America and Africa and within Africa;
- Connect potential American exporters and investors to more effective information on doing business in specific African countries; and
- Link U.S. and African universities and researchers in key development disciplines.
- USAID will provide information and technical assistance, particularly to non-governmental organizations such as Chambers of Commerce, to establish Internet server nodes and local training initiatives to facilitate dissemination of information about African commercial requirements and opportunities. Establishment of these server nodes and training programs by local Chambers will act as a first step in the creation of the African component of the Global Information Infrastructure.

2. Transportation

Many of Africa's ports were designed decades ago as general cargo ports for handling small vessels. Most of these are inadequate by today's standards and inhibit the construction of more efficient transportation linkages. African railroads frequently have not developed as a network or system of interconnecting lines across national boundaries and vary in size, capability and state of repair. The lack of maintenance of existing infrastructure contributes substantially to inefficiencies in the transportation system. They have often evolved with the minimum investment needed to meet a specific export need, such as to carry minerals from the minehead or agricultural commodities to the nearest port, with little regard to conforming with standards that would make them interpretable with other rail lines.

Modern highways linking key international markets are missing in many parts of Africa. Similarly, the lack of feeder highways that can transport farm products to urban markets and other products between urban markets quickly, cheaply and reliably hinders the shift from dependence on subsistence crops to production of non-traditional crops and other commerce.

Under the USAID-sponsored Initiative for Southern Africa, funds have been allocated to improve the commercial and operational performance of the region's rail and telecommunications enterprises. USAID's program in Ghana to improve feeder road systems is generating benefits to rural dwellers by opening more marketing possibilities for producers. This translates into better prices.

South Africa is more advanced in transportation development than its neighbors, and the U.S. and South African Departments of Transportation have agreed to set up centers for the transfer of technology and road-related information to South Africa first and then to other Sub-Saharan countries. Part of this effort involves linking up related private sector U.S. and South African associations, such as the American Road and Transportation Builders Association and the American Consulting Engineers Council.

Initiatives:

- Eximbank will continue supporting infrastructure projects in creditworthy countries, such as those involving railroad equipment, goods and services required to modernize seaports, and the like.
- The USG will encourage multilateral development banks to promote reforms designed to permit private sector investment in infrastructure, whether through privatization or build-operate-transfer arrangements.

- TDA will give priority to requests for feasibility studies that focus on the development of transportation linkages throughout Africa, with particular emphasis on privatization or build-operate-transfer opportunities.

3. Utilities: Water and Energy Resources

Only 10 percent of Africa's population has access to electricity, and recent droughts have seriously reduced the electricity generating capacity of the hydro-electric projects on its rivers. The Department of Energy (DOE) has established a Coordinating Committee for Africa that seeks to leverage available DOE funding though public/private partnerships and a Renewable Energy for African Development project designed to promote renewable energy use. DOE technical assistance will focus on renewable energy, development of natural gas resources, technical training, and increased use of clean coal technology for environmentally sound electricity generation and transmission.

DOE has also enlisted the interest of U.S. equipment manufacturers through trade missions it has led to Africa and training sessions for Africans in the United States.

Initiatives:

- DOE will assist African governments to adopt policies that facilitate private investment in water and power generation, whether through privatization or build-operate-transfer arrangements.

4. Infrastructure Project Planning

TDA assists with assessment of project feasibility and facilitates the entry of U.S. suppliers into the competitive bidding process. The TDA budget of $45 million in 1994 is meager by most international standards, but it is highly leveraged because it offers assistance at the most pivotal points in the project cycle--feasibility studies and orientation visits. African region expenditures are determined by the volume and magnitude of the requests for planning assistance made by African governments and by the potential for U.S. exports to that region. In FY 95 $5 million was allocated for studies in Africa.

Total TDA funding in Africa since FY 1990 has been $14 million -- approximately 8.5 percent of TDA appropriations. This has resulted in the United States supplying $400 million of goods and services for "TDA" projects in Africa. This sum is expected to increase to $840 million as more of the TDA projects move from the planning stage to implementation. TDA has conducted 55 feasibility studies and 20 orientation visits relating to African projects. Recently one African country, Zambia, found this service so reliable that it asked TDA to manage a study for which it would pay 80 percent of the costs. This is a program that advances U.S. export potential while at the same time provides scarce technical resources to African countries to spur sound development projects in Africa.

Initiatives:

- NASA will seek to provide technical information to African regional organizations responsible for infrastructure facilities (power grid, transportation systems and port facilities) on the availability and applicability of data from Earth observation satellites in planning and development of transportation networks for the long run.
- TDA will reevaluate the share of its budget dedicated to feasibility studies for African infrastructure projects with the aim of increasing that share if possible.

5. Financing Infrastructure Development

The United States Export-Import Bank (Eximbank) supports the overseas sale of U.S. goods and services through loans, guaranties and export credit insurance. In this role, Eximbank can be a key player by financing the export of goods and services to support infrastructure investments in African countries, provided there is a reasonable assurance of repayment. At the end of 1994, Eximbank had a total exposure of $3.2 billion in Sub-Saharan countries, mostly in long and medium term financing. However, $2.5 billion of Eximbank's accumulated exposure is in 34 Sub-Saharan countries now closed to it for economic reasons and in two countries closed for legal reasons.

Currently, Eximbank is open for all programs in nine countries in Sub-Saharan Africa (South Africa, Seychelles, Namibia, Mauritius, Lesotho, Ghana, Botswana, Swaziland and Zimbabwe) and for some programs in an additional three (Gabon, Kenya and Uganda). Twice a year the cover policy for all countries in the world is reviewed by an interagency committee for creditworthiness and each is assigned a rating. Eximbank's loans and guarantees must meet the Congressionally required "Reasonable Assurance of Repayment" criterion in all transactions. Each African country can, to a large extent, affect the rating assigned to financing exports to it by the policies it adopts.

Initiative:

- Eximbank will consider support for exports to African infrastructural private sector or privatized projects in countries that may not be generally creditworthy, provided the projects are able to generate hard currency earnings for escrow accounts that can be used to give Eximbank the reasonable assurance of repayment it requires.

E. Economic and Regulatory Reform

Sustainable economic growth in Africa will not be possible without macroeconomic stabilization and microeconomic deregulation. Through its role in multilateral donor agencies such as the World Bank and the IMF, the United States encourages governments in Africa to take the necessary policy measures to achieve macroeconomic stability and also provides some of the critical funding for implementation of structural adjustment programs. On the microeconomic front, assistance provided by the international institutions as well as bilateral agencies such as USAID helps African governments make their economies more hospitable to private investors by reducing regulation where it has become excessive - such as cumbersome bureaucratic requirements associated with running a business - and increasing it where it is lacking, for example in financial markets.

A recent IMF study documents the poor fiscal management of African governments in recent years as budget deficits amounted to 7-9 percent of aggregate GDP in 1986-93. Excessive government spending not only resulted in high inflation and interest rates, but also greatly reduced the resources available to the private sector.

Overvalued exchange rates and inflationary monetary policy add to the macroeconomic imbalance imposed by budget deficits. In many African economies, exchange rates are fixed in order to keep the cost of strategic imports from rising as inflation erodes the purchasing power of their own currencies. This discourages local production and exports, thereby making Africa's economies less attractive to foreign investors. Highly regulated financial markets, with subsidized interest rates and politically determined credit policies, distort lending decisions and frequently steer bank credit to well-connected borrowers at the expense of more deserving projects. This has not only resulted in low returns on much investment in Africa, but has also stymied the development of Africa's banking systems which remain weakened by politically motivated but non-performing loans.

U.S. technical assistance programs in Africa, combined with U.S. policies, both bilaterally and though the international financial institutions, seek to encourage African governments to: impose fiscal discipline to eliminate budget deficits; control inflation; reduce market interventions; liberalize foreign exchange; privatize the parastatals; and replace marketing boards with private sector agribusiness coordinating mechanisms (e.g., brokers and farmer-owned marketing cooperatives).

1. Macroeconomic Policy

Fiscal Policy. Through the IMF and the World Bank, the United States is devoting major efforts to helping African governments reduce their deficits and improve fiscal practice. Many African countries have already made substantial progress. Nevertheless, there is a need for a more systematic approach in which African governments would take the primary responsibility for devising their own fiscal discipline.

At the 1995 IMF/World Bank meetings, the United States and other donors agreed that the composition of public spending in developing countries should be a major focus of development policy. They noted that unproductive spending, such as for inefficient public enterprises and the military, stunts growth and aggravates poverty. They agreed that economic reform programs should, as a priority matter, aim to improve the composition and efficiency of public spending. Public Expenditure Reviews, consequently, will be integral parts of all Bank- and Fund-supported adjustment programs. The result should be a stronger commitment to those programs by recipient governments and tighter control over allocation of scarce resources.

Monetary Policy. Reform of exchange rate regimes has been a major focus of all IMF- and World Bank-supported structural adjustment programs. One of the most important successful examples was the devaluation of the CFA Franc in January 1994, which has resulted in a major acceleration in production and growth in many of the participating francophone countries. The number of American companies active in Cote d'Ivoire, the largest economy of the Franc Zone, has increased in part due to the improved competitiveness resulting from devaluation and in part due to Cote d'Ivoire's own continuing economic reform program.

Beyond such exchange rate reform, the IMF, World Bank and other donors actively support reforms in the financial sector in order to increase the availability of credit. By increasing real rates of interest offered to savers, the financial resources of those currently outside the formal banking system - e.g. small-scale businessmen and farmers - can be marshaled for use in more productive investment projects. Credit policies also need to be reformed, with economic criteria replacing political ones in the allocation of Africa's scarce investment resources. Banking sector reform is particularly important, since the lack of local credit resources is cited repeatedly by private sector commentators as one of the major obstacles to doing business in Africa. Lasting reform of the banks is a long-term project, however, since success depends heavily on parallel reforms in public finance, the parastatal sector, and the investment environment.

Initiatives:

- The Treasury and State Departments will continue to seek to maintain strong U.S. participation in multilateral mechanisms that promote economic reform and trade, including IDA, ESAF, the African Development Bank and debt reduction.
- The Treasury Department will continue discussions with the South African Government about the possibility of offering assistance in developing the inter-governmental financing system

within South Africa.

2. Regulatory Reform

As part of the effort to improve the functioning of governments and strengthen the competitive position of Africa's economies, the United States joins other donors in urging them to reduce the extent of government intervention in financial, goods and labor markets. These entities should be exposed to market forces to the greatest extent possible, with the government's role confined to regulating "for competition" - i.e. keeping oligopolistic developments in check - and to enforcing environment, health and safety and other standards. In the cases of Ghana and Uganda, there has been notable progress in removing virtually all controls on trade, prices, and exchange rates, and liberalizing investment rules.

Under structural adjustment programs supported by the IMF and the World Bank, efforts are under way to tackle obstacles encountered in contract enforcement and tax, regulatory, trade and accounting systems. The United States Department of Commerce conducts a Commercial Law Development Program (CLDP) that supports such reforms. CLDP provides training and consultative services to lawmakers, regulators, judges, lawyers and educators seeking assistance in evaluation, revision and implementation of evolving legal systems. This initiative focuses on laws, regulations and administrative practices affecting domestic and foreign investment and trade, particularly international economic agreements, foreign investment laws, project and trade finance, export controls, intellectual property rights and government ethics. The program typically places expert advisors with host government ministries for periods of one week to one year. The participating U.S. officials are chosen based upon the substantial expertise they possess in the field of interest to their host countries.

As the trading relationship grows, so does the need to ensure that an environmental legal regime (laws, regulations and standards) is created and enforced and that compliance with its provisions is adequately monitored. Not only will this lead to the higher levels of environmental protection demanded by the beneficiaries of an improving economy, but it will help prevent the creation of pollution havens with their trade distorting effects. African country representatives are currently availing themselves of technical cooperation and assistance in these areas provided by the U.S. Environmental Protection Agency in the form of legal and enforcement training seminars.

Initiatives:

- The Department of Commerce is undertaking a multi-part program in the area of commercial law that currently encompasses two active programs and one proposed program. The two active programs are:
  a) The staging of a seminar in South Africa on intellectual property rights issues; and
  b) A privately funded Diversity in Law Clerkship Program in South Africa, in conjunction with the U.S.-S.A. Business Development Committee, to address the need to provide professional training opportunities to historically disadvantaged law graduates in the commercial law field.
- In addition, the Department of Commerce is proposing the establishment of a broader program of long-term technical assistance for South Africa through the Commercial Law Development Program for which it is seeking funding.

3. Better Governance: Civil Service Reform, Transparency and Accountability

Many African countries have maintained civil service establishments that are larger and more costly than they can afford. The civil service wage bill absorbs 60 percent or more of government revenues in a number of cases, leaving too little for investment in health, education, infrastructure, and other critical areas. The availability of civil service employment has also served to discourage risk-taking and the development of private business. The level of civil service training and productivity also is low in most cases, and hiring is often politicized. Performance of basic governmental functions, such as tax administration and commercial bank regulation, has suffered throughout the continent.

Civil service reform is a goal of structural adjustment programs in almost every African country. The first objective is to reduce the total public wage bill, initially by containing salary increases and ultimately by reducing the number of positions. At later stages there must be an increasing focus on reorganizing the civil service, reorienting its responsibilities and improving its technical competence. The resulting improvements in productivity should permit higher pay for those remaining so that a civil service salary is high enough to make corruption less necessary as a means of existence. There has been noteworthy progress in some countries: Guinea, for example, has reduced its civil service by about one-half in the last ten years, and Cameroon undertook in September to eliminate 6,000 positions by the end of 1995.

In order to increase the accountability of African governments to their constituents, the opening to public scrutiny of economic institutions like parastatal enterprises and government ministries is a primary goal of many IMF- and World Bank-supported adjustment programs. Many bilateral donors, including USAID and USIA, also are supporting reform of civil institutions such as parliaments, election boards, the courts and the press. This will of necessity be an evolutionary and therefore lengthy process.

Corrupt practices often are cited by executives doing business in Africa as major obstacles to trade and investment. Low-paid government officials may find it easier to make ends meet by demanding bribes while higher-ranking ones may simply see public office as an avenue to personal enrichment. Misappropriation of funds and other less visible forms of malfeasance are hampering African development efforts and discouraging investment by reducing the efficacy of public policy, draining public institutions of necessary resources and adding to the public debt.

Bilateral aid donors and international financial institutions are pressing African governments to improve "governance," by which they mean controlling corruption and improving public management. The principal means of doing so are improving the transparency, or public visibility, of government decisions and strengthening the accountability of public officials for those decisions.

The OECD adopted a recommendation in 1994 for member states to take measures to combat bribery. In January, 1996 the OECD Committee on Fiscal Affairs recommended that countries deny tax deductibility for bribes paid to foreign public officials. The OECD will discuss ways to criminalize foreign bribery throughout 1996. The great variety of conditions and legal standards among countries, however, means that solutions to this problem still must be country-specific. The countries of Africa should consider procedures they might adopt themselves to discourage corrupt behavior in addition to implementing more transparent, accountable procedures. Reform measures could include strong, explicit policy statements by top officials that corrupt practices will not be tolerated and strong civil/criminal sanctions for bribery or misappropriation of funds.

Initiative:

- The United States will work with other donors to ensure governance issues are an important condition in structural adjustment assistance and will continue to press in the OECD for multilateral support to combat bribery and corruption.

4. Rationalization of the Public Sector: Privatization

The statist political and economic policies adopted in many post-colonial African countries have left the continent's economic landscape littered with highly inefficient and wasteful parastatal enterprises. The IMF and World Bank estimate that there are nearly 5,000 state-owned enterprises (SOE) in Africa, which employ 2 million people and inflict a heavy financial toll on African economies. The Bank and Fund, with strong U.S. banking, are urging that many more be privatized or closed entirely. While privatization of SOEs is moving ahead rapidly in many regions of the developing world, in much of Africa the effort has lagged.

The IMF has highlighted the many benefits of privatization. The most important is a major change in incentives. The motivations of managers hired by private owners generally differ dramatically from those of the old SOE managers: profit versus employment maximization is a crude characterization, but emphasizes that private enterprises on the whole operate more efficiently than SOEs. A short-run benefit from privatization is a windfall of revenue for the government, which can assist in stabilizing its fiscal position.

The development of Africa's financial markets would receive a big boost from privatization programs. The process of selling off SOE shares encourages the introduction and refinement of the economy's financial infrastructure, which includes, *inter alia*, stock markets, foreign exchange and capital markets, brokerages, share depositories and a body of financial law. The variety and volume of financial assets available to domestic and foreign investors is increased by the initial share and debenture issues associated with privatization, by subsequent issues as privatized companies raise new capital, and, most importantly, by the freeing of financial resources which had been previously dedicated to the state sector. Finally, privatization appears to be positively correlated with foreign investment.

USAID has provided technical assistance on privatization to eleven African countries. The most important effort underway is in Zambia where USAID is assisting the government in the privatization of nearly 170 companies. In Senegal, USAID has been involved in the privatization of SONACOS, a large peanut oil exporter which accounts for over 50 percent of the country's exports.

Initiative:

- USAID will continue its existing programs of privatization and expand them to other countries as appropriate subject to availability of funding.

5. Reorienting Multilateral Lending Practices

Examination of the financial flows to the developing world during the 1989-93 period reveals two anomalies:

1. Over 80 percent of all international private capital flows to the developing world in this period went to just seventeen "emerging markets," such as China, Mexico and Thailand.
2. Yet 53 percent of multilateral disbursements went to the same seventeen countries, including highly concessional IDA funding to China and India.

In an age of increasing constraints on foreign aid budgets, we should look for ways to reduce the share of multilateral program assistance being directed to countries that are demonstrating their ability to attract large private capital flows. In particular, it makes little sense for important shares of scarce concessional funding to be directed to countries with high growth rates, significant industrial establishments, and prosperous middle class populations. While we recognize the arguments of such countries that they are home to large numbers of very poor people, it also is true that they can draw on substantial resources that are not available to many of the world's poorer countries. IDA needs a clearer policy to help it determine when and how to phase down and eventually terminate its support in countries that no longer need it.

Initiatives:

- The Administration will seek to maintain strong support for the concessional loan window of the World Bank. In particular, the United States should fulfill promptly its commitments to IDA 10 and participate in a significant replenishment of IDA 11.
- The Administration will press for IDA and other concessional lending agencies to focus less on the emerging market countries and to direct resources instead to the poorest countries implementing reform programs. As part of this effort, we will urge that IDA act more vigorously to phase out countries that no longer need its concessional resources.

Footnotes:

10 Gabon and Nigeria, as members of OPEC, are statutorily excluded. Liberia, Mauritania, and Sudan lost their beneficiary status for failure to take sufficient steps to provide internationally recognized worker rights, a mandatory designation criterion.

11 The GSP statute provides that in the case of an association of countries which is a free trade area or customs union, or which is contributing to comprehensive regional economic integration among its members through appropriate means, including but not limited to, the reduction of duties, the President may by Executive Order or Presidential Proclamation provide that all members of such association ... shall be treated as one country."

USTR