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Keynote Address: U.S. Government's Efforts for Growth in Southern Africa

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Good morning. It's a pleasure to be here today. I've been asked to speak to you about the U.S. Government's work on economic growth, particularly within Southern Africa, which is what I know best. I believe that it's important for you to know what USAID does, how the Agency goes about implementing development assistance programs, and why USAID works the way that it does.

Currently, I am the head of USAID's Southern Africa regional economic growth office. This portfolio includes South Africa's economic development bilateral program, SADC (Southern Africa Development Community), wide trade and investment activities, regional agriculture and a stand alone program in Swaziland, where USAID does not have an office presence.

My talk will focus on three areas: USAID as an Agency, USAID programs in the region, and the issues and constraints to effective economic growth assistance that development partners keep seeing over and over again. Please take my remarks as just that, my remarks. I do not speak on behalf of the U.S. Government, but as a development professional with 20 some years of experience in the field.

First, USAID is the U.S. Government's foremost international development agency. The Agency maintains technical expertise in all sectors and works through contractors and grantees, both local and international, who implement USAID programs on the ground. Like all U.S. agencies and as part of the government, the Agency's work is funded by the U.S. taxpayer. While most Americans believe that more than 10% of the federal government's budget is spent on foreign aid, it is in fact less than one-half of 1% of budget outlays. In 2001, federal budget outlays stood at $1,863.2 billion of which $11.42 billion went to aid overseas. During the tenure of President Bush, federal outlays grew by an annual growth rate of 6.6% from $1,863.2 billion in 2001 to $2,931.2 billion in 2008. Notwithstanding this fact, official development assistance to Africa (ODA) went from $1.3 billion in 2001 to

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$5 billion in 2008 under Bush or an annual growth rate of 21.2%. It is scheduled to reach $8.7 billion in 2010.

Aside from government development assistance, the private sector does play a significant role in channeling resources for development. Total private resource flow from the United States to developing countries worldwide reached $709 billion or 5.3% of US GDP in 2006, with private sector investment and remittances accounting for more than 85% of total all resource flows. More recently, other U.S. Government agencies have begun providing development assistance. These include, Departments of Agriculture, Commerce, Treasury, and Energy to name a few. USAID always tries to coordinate efforts between agencies, but as more and more agencies enter the field of international development, this becomes more difficult.

In almost all cases, USAID begins its program design process by consultations with host government bodies and/or the private sector, with the vast majority of USAID programs being implemented under bilateral agreements or agreements with regional governing bodies. In the case of Southern Africa, USAID has agreements with SADC[1] and several bilateral governments and organizations. With a recent change in the U.S. Foreign Assistance Framework, funding levels and programming sectors are somewhat predetermined by where a country falls on the development continuum: from failed states to sustainable partners.

With respect to the economic growth objective of USAID, its activities fall within five areas: trade and investment, infrastructure, private sector competitiveness, agriculture and environment. As you can imagine, activity designs often overlap these areas to form an integrated program. The Paris Declaration on Aid Effectiveness drives the process whereby donors, host governments, and regional bodies agree on areas of assistance as the host government and all stakeholders take ownership of the programs.

In the African context, USAID's bilateral economic growth program in South Africa in many ways mirrors USAID's bilateral programs throughout the region. There is often a policy component, looking at legislative or regulatory reforms, along with firm-level support to businesses or business support organizations. In South Africa, USAID has an enterprise development activity that focuses on increased competitiveness of black small and medium size businesses and a net increase in the number of jobs within this same sector. The programs support increased competitiveness domestically, regionally and internationally. To achieve these objectives, USAID's work targets a few high-potential value and supply chains, determined jointly with the SA Department of Trade and Industry. USAID also funds and manages a corporate linkages program that was recently added to the second phase of the South African International Business Linkages (SAIBL). This activity focuses on small and medium enterprises (SMEs) for two primary reasons—historically and internationally, economic growth hinges upon the SME sector; the same is true of employment. A greater number of vibrant SMEs translates into increased employment and enhances the overall level of economic growth.

[1] The member countries of SADC are: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe

Recently, USAID/Southern Africa launched a financial services program that complements the SAIBL program, which looks to increase access to finance by black SMEs. There is also a broader policy component which aims at providing technical assistance to various stakeholders to navigate around regulatory reform and evaluate the impact of policy on SME growth. It is interesting to note here that USAID has in the past made use of research facilities offered by South African universities, specifically to undertake impact analysis of legislation or the implementation of regulations at a local level, on SMEs. In addition, USAID has used universities to support value chain analysis and other key areas of policy concern.

A smaller program that is about to begin involves both U.S. community colleges and universities in South Africa. This program was the outcome of a competitive activity, whereby USAID/Southern Africa wrote a proposal to USAID/Washington and was awarded funding for two activities: one in the transport sector and another in the tourism sector. These activities will involve staff and student exchange programs and technical assistance from U.S. community colleges to both the Technology University of Tshwane and the University of Johannesburg. It's unfortunate that these types of programs tend to be small both in terms of funding and in scope. Fortunately, there are other higher education programs that are managed by USAID/Washington and the Higher Education for Development group funded by USAID; their website is www.hedprogram.org. This activity is the most structured program through which higher education institutions can partner with USAID.

USAID's regional trade program operates in the 14 member states of SADC. USAID/Southern Africa has a memorandum of understanding with SADC, and sub-agreements with various sub-committees and other regional organizations. The program provides trade capacity building and facilitation, working on policy development and policy implementation in the areas of transport, energy, and trade policy. Trade competitiveness is the second component and the program focuses on the specialty food, and the textiles and apparel sectors. Examples of work in these sectors include preparation of businesses for international trade shows, marketing assistance, meeting export/import requirements, and some trade policy promotion work, such as working with the region to allow trade in certain items, such as honey or fresh produce.

Of note is the fact that USAID's programming is often driven by Presidential Initiatives. Currently, USAID has two such initiatives in Southern Africa specific to economic growth: the African Growth and Competitiveness Initiative (AGCI) and the Initiative to End Hunger in Africa (IEHA). AGCI partially funds both the regional trade program and the South African bilateral program. AGCI works to increase trade, primarily to the U.S. under the African Growth and Opportunity Act (AGOA), but in addition, it provides funding for regional trade integration and harmonization. IEHA is a long term program that focuses on the development of agriculture throughout Africa—both from an agricultural productivity standpoint, as well as a marketing perspective.

Within USAID Southern Africa, IEHA probably makes the most use of institutions of higher learning. Working in conjunction with U.S. universities such as Michigan State and Iowa State and the World Bank's programs, USAID provides funding for agricultural research and linkages/capacity building programs for local universities. Such research supports numerous programs, from commodity research networks (there are five in Southern Africa that support the use of technology to increase food production), to Agribusiness in Sustainable Natural African Plant Products (ASNAPP), which combines applied research with a market-chain methodology. The one area where these programs may fall short is in linking local or regional organizations together. Whereas USAID may be providing assistance to a regional research organization or a network, those entities may not be connected to local universities and vice versa. The dollars available for such work are limited, and with all organizations competing for those dollars, it makes it difficult to allocate scarce resources effectively.

USAID programs throughout Africa may cover other areas such as environmental and infrastructure. Most activities are designed, however, to assist low-income populations or micro-medium sized enterprises in an effort to alleviate poverty which makes it possible for countries to reach the level of a sustainable trading partner with the U.S.

One initiative of USAID's current (2008) administrator is the Global Development Commons. It's a virtual commons or space in which various entities and individuals can come together, discuss, innovate and implement development activities. Announced last year, the Global Development Commons has just begun to be ingrained in our work. If the new Administrator of USAID continues with this initiative, then this may be an area of interest for academics. More about the program can be obtained from USAID's website: www.usaid.gov

Thus far, I've spoken about our programs. They were designed in response to several identified requirements for economic growth. There are four specific issues or constraints that development partners come across in our work or that recur frequently, specific to the growth of small and medium sized enterprises. These are:

- Skills
- Quality technical assistance
- Access to finance
- Enabling environment and the cost of doing business

All four of these elements have to do with the circumstances within which growth does or does not take place. Many of the factors behind these constraints are historical, but many are also structural or behavioral in nature; which may be difficult to overcome.

Low skill levels, prevalent among the majority of the Southern African population are a constraint to all development assistance. Without greater numbers of skilled and semi-skilled workers, growth will stall and the ranks of the unemployed will continue to grow. To address this shortcoming USAID has, for decades, managed a successful basic education programs at the primary level. In another program, USAID in conjunction with the South African National Treasury has implemented a very successful program through which 140 South Africans gained graduate degrees from U.S. and South African universities. When it comes to the growth of businesses or the implementation of the pro-growth policies of a government, it is not only the entrepreneurial spirit or the capacity of a few leaders that will determine success, but also the efforts of those thousands of trained individuals with multiple years of constant skills upgrading to meet growth projections.

The second constraint is the lack of sustainable quality technical assistance and the ability to source it locally. While our objectives are long-term, USAID's activities are short to medium-term in nature. Within five to seven years, the Agency looks for both impact as well as sustainability of its efforts after a program has ended. If the institutions, which are meant to carry out the work or develop new and innovative approaches to growth and poverty alleviation, are not equipped to do so, then no one has met their objectives. Finding the right local partners is crucial for any international development organization. Development partners have problems every day in finding and partnering with Nongovernmental organizations (NGOs) and private sector organizations that are capable. Often we find that we must provide local development partners with capacity and seed capital, supporting them as they acquire the skills to develop and implement activities once USAID activities have ended.

The third issue is that of access to finance. Without finance, businesses-small and large cannot grow. It is a critical requirement, like skilled employees and new technology (both of which come at a cost). Finance, if not available at the right times can have disastrous effects for a business growth and sometimes, even for an entire industry. Take one example from the energy sector: one company's (South Africa's electricity parstatal Eskom) credit rating was just reduced, making it more difficult for that company to raise capital. Credit will come, but with a higher price. This price increase does not stop at Eskom; rather it will spread to others affecting in several ways Eskom's supply chain. Banks, eventually, may even raise the cost of credit for suppliers to Eskom, while Eskom will first try to reduce the costs of sourcing supplies and equipment from these manufacturers, many of which are SMEs. SMEs, which have to fight everyday to be considered for financing from banks, will be less attractive to financial institutions. With fewer orders for products, these SMEs may need to scale back production and lay off workers. Other suppliers are also affected, and economic growth begins to falter and then stall. Other impacts could be the increased cost of energy for businesses which can make their production less competitive relative to manufacturers in other countries—it's all tied together. Access to affordable finance and a diversity of financial products to select from are essential to growth and employment.

Finance falls under a broader area of the cost of doing business. The enabling environment—legislation and the underlying regulation that determines business conduct, finance, trade, employment, business premises, taxation, and many more areas at the national, provincial, and local levels will greatly determine the success or failure of business. The problem with laws and regulations lies not only with their interpretation, but also in the myriad of overlapping, inconsistent, or contradictory laws and regulations that are on the books. Last week, I attended a Finmark conference on indebtedness and heard an astonishing statistic. Banks in South Africa are subject to the requirements of 232 laws. Now if we consider banks as businesses, and try to translate this number into laws that affect other businesses, I do not think we will find a number much lower than this. An environment intended to be enabling can be stifling and, at best, may be neutral. Very rarely does it enable growth in the broad sense and this often stops business creation before it has even started.

Before concluding my talk, I would like to make a comment about the potential for future partnering between USAID and Higher Education institutions. Historically, our efforts have been sporadic and short-lived. The problems associated with these types of partnerships are many, but from my perspective, it revolves around two issues. First, the scarcity of development assistance dollars and USAID's need for measurable impact within the medium-term, which is the competition for resources between different development actors; and secondly, the divergent development agendas that may exist between educational institutions and USAID.

USAID has very specific objectives in each country which are always consistent with host governments' objectives, but may not be consistent with the objectives of the higher education institutions. When the two objectives are consistent with one another, then USAID will look to fund research activities of these institutions and tap into their expertise. In the real world in which we all live, I believe the best we can hope for is partnering around common interests and managing complementary activities, where funding does not change hands. The sheer number of funding requests USAID/Southern Africa receives on a weekly basis is overwhelming, and thus the triage that is undertaken first looks at fit with USAID's and the host governments' objectives, the cost per result achieved, and the likelihood of sustainability of the activity.

In many ways I see academia as the hub of innovation in society. USAID should always be looking to innovate and improve the ways the Agency delivers development assistance. Finding ways for you to inform USAID's development process and those of our host country partners and our implementing partners is the first step. This common knowledge should then form the basis of any partnership between USAID and institutions of higher education.

Thank you.