SUGGESTED U.S. POLICIES TO PROMOTE GROWTH IN AFRICA

Compiled by the Fall 2012 Ambassador John Price Think Tank Students

The fall of 2012 marked the inaugural semester for the Ambassador Price Think Tank. John Price served as Ambassador to the Republic of Mauritius, the Republic of Seychelles, and the Union of Comoros from 2002-2005. He is currently serving as a Hinckley Resident Scholar. His Think Tank is reserved for our most globally-minded students and focuses on foreign policy as it relates to Africa and the Arabian Peninsula. For their final project, the students developed policy proposals for the U.S. to implement to best benefit Africa.

THE PROMISE OF SMALL- AND MEDIUM-SIZED ENTERPRISES

BY BASIL VETAS

Achieving substantial economic growth throughout Africa is far from a one-dimensional challenge. The problems facing many African countries are well known and include poverty, disease, and high infant mortality. However, also well known are many of Africa's successes, including the flourishing telecommunications, retail, and banking industries. In fact, between 2000 and 2008, real GDP in Africa rose 4.9% per year—and only about one-third of that growth was a result of rising commodity prices and natural resources (McKinsey, 2010). In this article, I will examine the other sources of Africa's GDP growth and attempt to identify what policies the United States can implement today to help Africa address existing challenges and to sustain the growth it has seen over the past decade.

With only about one-third of Africa's GDP growth coming from rising commodity prices, the remaining two-thirds has come through wholesale and retail businesses, transportation, telecom, manufacturing, and other industries. Many of the small and medium sized enterprises (SMEs) that drive these industries have thrived off of an improved business climate in Africa: an inflation rate that has dropped from 22% in the 1990s to 8% after 2000, and more access to credit through microfinance and growing international capital flows (McKinsey, 2010).

In developed countries, SMEs contribute 60% of employment and 50% of GDP, whereas in developing countries, the figures are only about 30% and 17% respectively (Kennedy School of Government, 2007). One reason for this disparity is smaller formal economies in developing countries. For the government, a more formalized economy provides less operational inefficiencies caused by black markets, a broadened tax base, reduced cash economy, and more resources for formal financial intermediation (USAID, 2005). But many businesses in Africa still operate in the informal economy due to financial constraints and few incentives to formalize. These SMEs often find it more profitable to stay informal despite growth opportunities that are seriously hampered by reduced access to formal credit and limited expansion out of local markets.

One may ask how United States policy can promote the growth of the SME sector and encourage the formalization of African businesses. There are a number of possibilities including foreign aid, trade policies, or even foreign intervention. But possibly the most powerful tool the U.S. has for helping the African SME sector grow and formalize is to increase international capital flows. Since 2000, net private capital flows to countries in Africa have increased six times, reaching $41 billion in 2010, and these flows have been an important catalyst for African businesses (IMF World Economic Outlook, 2011).

One U.S. approach is to mimic China, which has bid for access to millions of tons of natural resources in Africa in exchange for $6 billion of infrastructure investments including mine improvements, roads, rail, hospitals, and schools (McKinsey, 2010). Another avenue is to promote foreign direct investment (FDI) into Africa by limiting the transaction fees that banks can charge on FDI, remittances, and other international capital transfers.

Finally, one method for inducing international capital flows into Africa that is not as direct, but that may be more crucial than any of the others mentioned, is to reshape the domestic perception of U.S. citizens. Too frequently, there is a stigma associated with Africa as a place that is broken, unstable, and corrupt. In reality, however, Africa is home to many of the fastest growing economies in the world and should be viewed as a profitable and opportune place to do business. The U.S. can do Africa a great service by promoting this brand and reaffirming it around the world to corporations and individuals alike.

ACHIEVING ENVIRONMENTAL SUSTAINABILITY

BY WENDY KATTER

Many nations depend heavily on their natural resources to sustain themselves. As the population of the world is expected to reach 2 billion by the year 2050, this burden on the planet will be at its limit (“Environment,” 2012). Africa in particular is suffering twofold from environmental troubles. One, global climate change brought on by greenhouse gases from the developing world furthers desertification and drought on the continent, which therefore spurs famine and poverty. Two, Africa’s population is growing by about 2.2% each year, making its population surpass 1 billion by the year 2025.
As with all issues related to Africa, the continent’s fishing industry is highly complex, particularly when viewed from a sustainability and economic viability standpoint. There is no one single component of this issue that can be easily or readily addressed without dealing with a host of other components. There is also no single coordinated U.S. program or policy for dealing with the African fishing industry whether it be commercial fishing for export, local consumption, or aquaculture.

Illegal and over-fishing is extensive off all coasts of the African continent, depleting resources and affecting the African economy. Piracy, largely off the coast of Somalia and around the Horn of Africa, threatens international commerce. An insufficient number of deep-water ports limits shipping, affecting both import and export. Aquaculture, for both local consumption and for export needs to be further developed. Free trade zones are necessary to attract foreign investment. Consumers are increasingly demanding species from unsustainably fished stocks. There is a lack of fishing-related industry, such as canning for example, in much of the continent.

A report by The World Fish Center (2009) stated that fish is an important food for over 400 million Africans. At the same time, fish consumption in sub-Saharan Africa is the world’s lowest. Africa is projected to need an additional 1.6 million tons of fish a year by 2015 just to maintain current consumption, increasing by a further 2.6 million tons a year by 2030. Most wild capture fisheries, however, have reached their production limit or are over-fished. The rapid increases in fish supply required over the next decades will only be possible, therefore, if these fisheries are sustained and improved while simultaneously developing aquaculture” (p. 1).

The problem of over-fishing, or illegal, unreported, and unregulated (IUU) fishing, is a global problem being tackled by a host of organizations. The IUU-Working Group within the NEPAD Program of the African Union, working with NGOs, Civil Society, international organizations, and the fishing industry, is working to promote uniform policy throughout Africa regarding inland waters and marine waters, whether at small-scale or industrial level (The New Partnership for Africa’s Development, 2012). The National Oceanic and Atmospheric Administration (NOAA) is active in helping shape conservation and management practices of international fisheries by engaging other nations to ensure environmental protection and sustainability of fisheries (FAO, 2008). A U.S. State Department coordinated National Plan of Action of the United States of America to Prevent, Deter, and Eliminate Illegal, Unregulated, and Unreported Fishing outlines a comprehensive set of goals and cooperatives with other international efforts to prevent, deter, and eliminate IUU fishing.

Baker (2011), in an article on African maritime economy, states “The high profile of Somali piracy has brought the issue of African maritime security to the attention of world leaders and citizens” (p. 39). He explains that this crisis is not the only challenge facing Africa, but it is a symptom of a much deeper problem—Africa suffers from weak maritime governance and the lack of vision for an African maritime economy (Baker 2011). Global partners, to include the African Union, the International Maritime Organization, the UN, and the United States, are working together to make international waters safer for both import and export to aid the African economy. In response to piracy off the Horn of Africa, the U.S. National Security Council has prepared a plan that involves three distinct lines of action: prevent pirate attacks by reducing the vulnerability of the maritime domain to piracy; interrupt and terminate acts of piracy consistent with international law and the rights and responsibilities of coastal and flag states; ensure that those who commit acts of piracy are held accountable for their actions by facilitating the prosecution of suspected pirates by flag, victim, and coastal states, and, in appropriate cases, the United States (National Security Council, 2008). Additionally, in remarks made to the American University Law Review Symposium (2010), Andrew J. Shapiro, Assistant Secretary for Political-Military Affairs, U.S. State Department, said that the U.S. and other countries had formed a Contact Group on Piracy off the Coast of Somalia, with more than 50 countries and international organizations.

**A FOCUS ON THE FISHING INDUSTRY**

**BY SALVADORE MACIEL**

As with all issues related to Africa, the continent’s fishing industry is highly complex, particularly when viewed from a sustainability and economic viability standpoint. There is no one single component of this issue that can
This paper has looked briefly at only two of the issues concerning the African fishing industry. While the U.S. has no single policy, or organization, addressing all of the complicated components of the African fishing industry, it is working with international partners, NGOs, Civil Society, the African Union, and many others through a variety of programs, including those mentioned herein, the Feed the Future initiative, the Millenium Challenge Corporation programs, the Peace Corps, USAID, and the New Partnership to Fight Global Hunger. Progress is being made; the long-term challenge will be to maintain funding.

REMOVING BARRIERS TO FINANCE

BY BRADLEY CALL

The approach to agriculture in Africa has been dysfunctional for years. Insufficient access to capital at the local level is one of the major inhibitors to agricultural development. In order to create sustainable growth in the agricultural sector, smallholder farmers need skills in business and finance as well as a healthy economic environment. Historically, access to loans has been denied farmers because of the risks of loaning to under-skilled businesspeople. Additionally, poor government practices have poisoned the business environment by subsidizing unprofitable private interests. To remove these barriers, farmers need to be educated on best business and financial practices, while governments need to reduce the use of subsidies and increase investments in select physical and financial infrastructures.

Building farmers’ financial and business skills is a critical step in improving their access to necessary capital. They face difficulties securing loans from banks because they lack “training in basic farm economics, financial literacy, organization, governance, business management, and financial skills” (International Finance Corporation, 2011, p. 11). In fact, many farmers fail to see themselves as businesspeople (Making Finance Work for Africa, 2011). Moreover, banks hesitate to lend to the agricultural sector because of common problems such as collateral constraints and poor recordkeeping among would-be borrowers (Making Finance Work for Africa, 2011). Farmers who have business and finance training are more attractive borrowers to otherwise reluctant financial institutions.

The Ugandan Coffee Farmers Alliance (UCFA) has successfully worked with farmers to improve their business skills. The UCFA provides small-group training to farmers in “best business practices like bulk marketing, strict quality control and joint transporting” (Making Finance Work for Africa, 2011, p. 15). UCFA also connects farmer groups, financial institutions, and transportation services, closing the gap between farmers and lenders while providing improved access to markets. By working with UCFA, the average farmer with 300 coffee trees increases their income by 298%. This program lowers the risk of lending to coffee farmers by educating participants in best practices and providing technical assistance. This additional support lowers the risk of loan default, making it more profitable to lend to trained coffee farmers.

Even with improved financial and business skills, financial institutions will avoid lending to farmers in a toxic economic environment. For years, governments in Africa have attempted to shore up agriculture by subsidizing seeds, fertilizer, harvested crops, and by keeping interest rates artificially low. These practices provide short-term solutions, but they benefit only a narrow portion of the value chain, distort the market, and create a culture of dependency that keeps the market from strengthening itself by natural means (International Finance Corporation, 2011). Instead of subsidizing private interests, governments should devote funds to developing rural and financial infrastructure such as “weather stations for insurance, irrigation systems to mitigate weather risks, quality storage facilities to support warehouse receipt financing, and market information systems” (International Finance Corporation, 2011). For example, the Nigerian Agricultural Insurance Corporation (NAIC) has provided a 50% subsidy on insurance premiums against natural disasters. By participating in this government-owned program, 40,000 farmers and farmer groups have gained additional access to credit (Making Finance Work for Africa, 2011). These types of investments benefit the agricultural market as a whole. They create a safety net for farmers, reducing the risks of loan default. In addition, they foster an environment where markets can grow, bringing more revenue into the hands of farmers and financial institutions.

The current approach to African agriculture limits access to much needed funds among smallholder farmers. Farmers’ inadequate skills in financial and business arenas have traditionally made farmers risky borrowers. Although government subsidies have brought temporary local relief, they have largely failed to create sustainable agricultural growth. Providing farmers with the necessary financial and business skills will increase their ability to obtain loans. Furthermore, by redirecting subsidy funds to select infrastructure improvements, the government can correct imbalances in the value chain, thus creating an atmosphere conducive to lending. The improved skills of farmers combined with a more stable economic environment will help support sustainable growth in Africa’s agricultural sector.

INCREASING INTRACONTINENTAL TRADE

BY CHRISTIAN HERMAN

One of the largest problems holding back Africa’s potential as a continent is the lack of well developed economies in a majority of its nations. In recent years, African nations have come a long way in opening up their economies to increased global trade. However, Africa still continues to struggle economically. Presently, most of Africa’s trade is conducted with partners outside of the continent such as the United States. This has been facilitated, at least in part, by policies such as the African Growth and Opportunity Act (AGOA). While it has been helpful to the economies of many African nations, perhaps a better solution to focus on now would be to help African nations increase trade with one another.

High levels of intra-regional trade are a common characteristic of successful, developed economies around the world, and this is a characteristic that is missing from Africa. “Intra-African trade accounts for hardly 10% of the region’s total trade, compared to rates of 40% for intra-North American trade and about 60% for trade among Western European countries” (The World Bank, 2010). Due to the size of the continent and corresponding diversity of its resources, African nations each have varied trade advantages. Some countries are better suited to agriculture, others to mining or manufacturing, and so forth. If they choose to utilize their advantages by trading with each other, then each country will earn capital by exporting the goods they produce easily while simultaneously benefitting from the increased flow of imported goods that can be produced more easily in a neighboring country.

At present, Africa may not be completely capable of self-sufficiency in basic foods, but it has the potential to completely satisfy its import needs in several important areas, including fuels, beverages and tobacco, precious stones, and ores and metals (United Nations Commission on Economic Development, African Union Commission, & African Development Bank, 2010, p. 96). Therefore, while Africa will have to continue trading with intercontinental partners to meet the full scope of its economic needs, the continent can potentially be self-reliant in many vital economic areas.
Considering that the end goal of most efforts to improve the African economy is for Africa to eventually be less reliant on foreign aid, it is clear that a large step in the right direction would be for African nations to become more reliant on each other to fulfill their needs.

How can the United States assist Africa in this endeavor? The United States currently runs AGOA, which has been helpful in some sub-Saharan African nations at fostering trade relationships between the U.S. and African nations as well as helping African nations open up their economies to international trade. However, if the U.S. wants to see Africa reach its full economic potential, it ought to also encourage African nations to trade with each other. African nations will not increase trade with each other overnight, because doing so will likely require considerable changes in the existing economic and government institutions to open up national economies to increased intracontinental trade. Perhaps an expansion of AGOA with an added focus on intracontinental trade can be used as a tool to assist African nations in making these reforms and facilitate cooperation between nations to expand trade in the region.

EDUCATION FOR LIVESTOCK SUSTAINABILITY

BY ARIEL KATRINA ROBERTSON

Livestock is crucial to the rural economic development of Africa. Not only is livestock at times the only possible food source, but it is also necessary for agricultural sustainability. Within the arid parts of Africa, livestock is the only means of survival. “The economic health of the area and the livelihoods of the people—their food, clothing, health, well-being, and resilience—are centered on livestock production” (“USAID, East Africa, 2010). For smallholder farmers throughout the continent, animals are used in the place of tractors for crop production. At other times, livestock are the only source of cash to purchase essentials for crop production like seeds, fertilizers, and pesticides. Lastly, livestock are a critical link in the larger nutrient cycle as they return nutrients back into soil for crop production (“The importance of livestock,” 2012). Increasing livestock development throughout Africa is a critical step towards creating food security. In order to increase livestock production, the United States needs to continue creating programs that provide assistance in the creation of livestock cooperatives as well as providing educational training to smallholder farmers on land usage, disease prevention, creating value in livestock production, and in the creation of livestock trade among African countries (“Kenya drylands livestock,” 2012).

The United States Agency for International Development (USAID) has launched several programs that have assisted in livestock production throughout Africa. Two programs in Kenya have been notably successful. The first is the Kenya Dairy Sector Competitiveness Program (KDSPC). Started in 2008, the KDSPC has benefited 283,821 households, 45.7% of which have been run by women (“Kenya dairy sector,” 2012). Over 50,000 smallholder farmers have received assistance in creating relationships with financing institutions to expand their businesses, and 113,225 have received management training (“Kenya dairy sector,” 2012). The KDSPC has thrived because it increases the productivity and value of the dairy sector through small cooperatives and assistance in creating plants and distribution systems (“Kenya dairy sector,” 2012). By educating farmers on the proper techniques and methods to increase their productivity, the KDSPC is yielding stability and motivating long term agricultural involvement. Increasing the productivity provides incentive for farmers to protect their range land sustainably instead of utilizing ploughs (“The importance,” 2012). The KDSPC also has connected different industries in Africa by linking multiple small business organizations to expand the inputs and services across several economic sectors (“Kenya dairy sector,” 2012).

USAID’s other notable program is the Kenya Drylands Livestock Development Program. This program focuses on raising income and food security for pastoral farmers through a comprehensive approach including through trade and marketing, value creation of livestock products, and increasing productivity, efficiency, and competitiveness (“Kenya drylands livestock,” 2012). The program’s success is largely attributed to increased education of smallholder farmers. They receive veterinary, environmental, and climate instruction in order to build the resilience of their herds (“Kenya drylands livestock,” 2012). USAID guarantees implementation of the development plan through its partners: the Citizens Network for Foreign Affairs (CNFA), Kenya Livestock Marketing Council, and Agricultural Market Development Trust (“Kenya drylands livestock,” 2012). Together the organizations have created a community effort in assisting 11,338 households, including 149 women’s associations, with livestock production and sustainability (“Kenya drylands livestock,” 2012).

Ultimately, both programs have made a substantial impact on increasing food security. Their large success is due to the creation of trading relationships, the implementation of new technologies, and the focus on education. Most importantly, they empower smallholder farmers to become self-sustainable and independent of foreign aid. Both programs are excellent models of success that should be extended throughout Africa.

EMPOWERING THE WOMEN

BY KENDAH MELVIN

Women are an essential component in improving the agricultural status of Africa. They increasingly fulfill the role of not only primary caregiver, but also provider. Through agricultural means, they facilitate their families’ welfare and their children’s education (Alston, 2010). While women are more likely to become the primary source of resources, they are significantly less likely to have access to agricultural related education, credit, and supplies (Alston, 2010) One of the most effective means to increase agricultural productivity within Africa is to enhance the resources available to the continent’s women. Through collaborative efforts with various organizations, African women are able to improve their standard of living.

There are multiple organizations that strive to meet the needs of Africa’s women. One of the more successful efforts has been via the World Cocoa Foundation, whose mission focuses on influencing stable economies by developing proficient community economies and educating residents about responsible farming practices (“World cocoa foundation,” 2012). Over 2 million independent family farms within Africa produce about 70% of the world’s cocoa annually, and many of these farms are headed by women (“World cocoa foundation,” 2012). Currently the World Cocoa Foundation works in Cameroon, Côte d’Ivoire, Ghana, Liberia, and Nigeria and focuses on fostering women’s education in agricultural techniques (“World cocoa foundation,” 2012). Through education videos, discussion, and manual activities, women are able to not only learn the skills necessary to increase the productivity of their farms, but additionally network with other women in their communities. Overall the program has achieved notable success. For example, women in Ghana have been able to triple their production (World cocoa foundation,” 2012). Organizations such as these are highly effective in that they create long-standing systems in which women are better able to provide resources and education for their families.

Another impressive organization is AWARD. African Women in Agricultural Research and Development. Through an AWARD grant, African
women are able to study their own plight in order to develop effective programs to address needs. Over 250 women from 11 countries have participated in AWARD, and more than 15,000 women across the continent have benefited from these scientists’ discoveries and recommendations (AWARD, 2012). This program focuses on a “trickle down” effect; by educating women to be leaders, they are then able to teach women in their own communities how to better their farming processes. For example, one woman from Mozambique was able to earn a PhD in agriculture and worked to increase productivity in Mozambique’s poultry industry. By increasing the amount of peas consumed by the poultry, she is working to increase the lifespan and quality of the livestock (AWARD, 2012). AWARD is a highly beneficial program in that it focuses on influencing the entire woman’s farming process, from the leadership and education, to those working in the field.

Both the World Cocoa Foundation and AWARD are integral in developing agricultural capabilities in Africa. One of the most effective methods for increasing Africa’s agricultural independence is through empowering women by means of education and provision of resources. In order for African women to be successful as family providers, they need external help such as from these organizations. The effort to increase the role of women and the accessibility they possess is an essential component to helping Africa become a sustainable continent.

REFERENCES


