
Africa Programs In The FY 1996 Budget: Protecting Long-Term U.S. Interests

by

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Thank you for the opportunity to testify before this subcommittee as it undertakes the difficult task of assessing U.S. overseas programs and activities and recommending funding levels in what we all recognize is an extremely tight budget environment. My aim . . . is to help the subcommittee in this process. We are firmly convinced that it is in the long-term interest of the United States to remain actively and fully engaged in Sub-Saharan Africa. We will show how the Africa-related items in the Administration's budget request for FY 1996 complement each other and together contribute to the advancement of U.S. interests.

Our principal message is that we must take a long-term view that maintains U.S. international leadership. Of course, we must be rigorous in our request at a time of budgetary constraint—and we are. But we must avoid decisions that, while offering appealing savings in the short term, will actually result in far greater costs in the future. Our budget request reflects the minimal resources needed to implement our key foreign policy priorities in Africa, which are to:

- Promote democracy, respect for human rights, and good governance;
- Help mitigate and resolve conflicts;
- Encourage equitable economic growth, trade, and free markets; and
- Gain greater African participation in finding solutions to such transnational problems as narcotics trafficking, terrorism, AIDS, and environmental degradation.

AFRICA'S ONGOING TRANSFORMATION

Disasters and emergencies tend to make the headlines, but that is not the whole story about Africa. There have indeed been serious crises, both natural and man-made. It is estimated that at least 24 million people in Sub-Saharan Africa are currently at risk and could require emergency humanitarian assistance. The fate of these people is a serious concern, and . . . America is poised to help them. But these 24 million people represent less than 5% of the population of Sub-Saharan Africa. The plight of that 5% should not distract us from a telling and very encouraging trend. This is the story of the other 95%.

There is growing evidence that Africa is undergoing a major transformation, potentially comparable to what Latin America experienced over the past decade. The clearest indicators of this transformation are the growth and expansion of democratic governments and institutions, paralleled by significant economic reform and liberalization. Between 1989 and 1995, Africa's political landscape changed dramatically. Botswana, Mauritius, Senegal, and Zimbabwe were

joined by 17 new democracies, and 18 other countries are at some stage of political transition. Many African nations have taken difficult and courageous steps to reduce budget deficits, maintain realistic exchange rates, and increase competition through deregulation, trade reform, and privatization of public enterprises. The aim of these reforms has been to create an enabling environment in which the private sector can act as the engine of growth.

U.S. INTERESTS

The transformation of Sub-Saharan Africa has significant implications for U.S. interests. First, the emergence of more stable, more democratic governments has given us responsible partners with whom we can address the full range of regional and international issues: settling or preventing conflicts; combating crime, narcotics, terrorism, and weapons proliferation; protecting and managing the global environment; and expanding the global economy. Second, the progress realized to date has stimulated growing interest and opportunities for U.S. business.

Although the results thus far have been encouraging, we must recognize that Africa's transformation is ongoing, incomplete, and still tenuous in many places. Many of the new democracies and countries in transition face the continuing legacy of economic underdevelopment, entrenched corruption, and ethnic rivalries. In addressing these challenges, they will continue to look to the United States for leadership and support. It would be extremely shortsighted not to persist in the effort to consolidate and protect the investment already made. The problems that would arise if the transformation falters—failed states, political instability, human tragedy—would threaten our interests and result in further calls on our resources.

PREVENTING CONFLICTS AND DISASTERS WHERE POSSIBLE

Our strategy is preventive. A major conflict or crisis could easily halt or even reverse the progress that has been made to date. A relatively modest investment in conflict prevention, democracy, and sustainable development in Africa can help us prevent or avoid future disasters that would cause great human suffering and would end up being very costly to us.

It is not always possible to foresee or forestall every crisis. When we cannot, the costs—human, material, and financial—can be very high. Since April 1994, we have spent nearly \$400 million in humanitarian relief for Rwanda and Burundi—and that does not include the cost of deploying 2,000 U.S. troops between late July and the end of September 1994. U.S. efforts in the Somali crisis also have been very costly. In FY 1992-94, the total costs of all aspects of the U.S. operation in Somalia totaled about \$1.7 billion.

Elsewhere in Africa, our preventive approach has started to pay off. In Mozambique, our peacekeeping and democratization efforts and diplomatic engagement have brought new hope after years of strife. Sometimes our successes have gone largely unnoticed. In 1992, for example, there was a serious drought in Southern Africa. Thousands were at risk as crops withered and water holes dried up. But thanks to swift and massive intervention by the United States and the international community, widespread famine was averted.

BENEFITS FOR U.S. BUSINESS

Yet, our strategy of engagement in Africa is not just about avoiding disasters. There are substantial positive gains to be realized through mutually beneficial trade and investment relationships. Nowhere are the benefits of active U.S. involvement and investment more evident than in Southern Africa. Our efforts at conflict resolution and democratic institution-building have already paid significant dividends. With the establishment of a non-racial democracy in South Africa, U.S. business can contribute to the country's economic development and help

narrow the economic disparities that are the legacy of apartheid. South Africa already accounts for \$2 billion in U.S. exports and is the cornerstone of a much larger regional market encompassing 11 nations and their 130 million people.

In West Africa, Ghana provides another example of how U.S. involvement and support have yielded impressive results. Our leadership in promoting democratic institutions and economic reforms have helped Ghana become one of our most promising African export markets. In East Africa—Uganda, a country whose name was once synonymous with tyranny and strife—has made tremendous strides and is now experiencing a boom in trade and investment.

AN INVESTMENT IN OUR FUTURE

With over one-half billion consumers, Africa already offers significant business opportunities. In 1994, U.S. firms exported nearly \$4.4 billion in goods to Sub-Saharan Africa. This is 22% greater than our exports to the independent states of the former Soviet Union. African demand for foreign goods has risen dramatically—about 7% annually on average—over the past decade. If this demand continues to grow and if we can increase our market share—currently 7.7%—there should be significant opportunities for U.S. exports.

These exports represent tangible benefits to American families. By some estimates, every extra \$1 billion in exports adds 19,000 new jobs in the United States. Given the potential gains to us, our current bilateral development aid to Africa—about one-half of one-tenth of 17% of the federal budget—and our contributions to multilateral programs represent a minuscule investment with the possibility of a tremendous future payoff.

As the world's remaining superpower, the United States has the responsibility to lead, both in the interests of the American people and of the international community. Between 1990 and 1993, during this crucial period of African transition, net development assistance flows to Africa declined 9% in real terms. This erosion must be halted. Other donors follow the U.S. lead; if we cut back, others will too. That would have a chilling effect on progress made over the past several years.

OPTIMIZING USE OF SCARCE RESOURCES

The Administration's FY 1996 budget request for U.S. activities in Africa is therefore best viewed as an investment in political stability, market reform, and democratic development—not charity.

- Our budget request is designed to make optimal use of scarce resources; our bilateral programs are closely coordinated with other donors for maximum effect; and our multilateral contributions are leveraged with other partners to achieve the greatest developmental impact.

- On a continent where some of our business competitors have long-standing colonial ties, an active U.S. presence gives us credibility and clout and the ability to ensure a level playing field for U.S. business seeking to enter or expand in African markets.

- There are also considerable direct benefits for U.S. business in terms of procurement opportunities from bilateral and multilateral programs. USAID programs in Africa entail substantial purchases of U.S. goods and services. Development projects in Africa funded by the World Bank group brought contracts worth \$234 million to U.S. suppliers in FY 1994. Projects of the African Development Bank brought an estimated \$60 million to U.S. business in 1993.

BUDGET REQUEST OVERVIEW

I would like to give an overview of U.S. Government programs that promote peace, democracy, and sustainable development in Sub-Saharan Africa, with emphasis on the accounts for which this committee has responsibility. . . .

There are three major elements to our support for African development and reform:

1. Bilateral programs;
2. Multilateral programs; and
3. Debt reduction.

Each element contributes to African development and U.S. interests in a different way. All elements are important and mutually reinforcing.

- We favor bilateral programs in areas where we have the expertise and comparative advantage, and where a direct U.S. Government involvement on the ground is most efficient and serves our interests.

- However, the effectiveness of our bilateral programs in Africa depends to a large extent on the macroeconomic conditions and infrastructural environment in the host country. In our experience, only the multilateral institutions have the resources and expertise to address these issues.

- In the same vein, bilateral and multilateral efforts to support development are hampered if a country is saddled with an unsustainable debt burden. Therefore, debt relief also needs to be part of the equation.

BILATERAL PROGRAMS—FY 1996 REQUESTS

- **Development Fund for Africa: \$802 million.** The Administration's abiding commitment to democracy and development in Africa is carried out under the auspices of the Development Fund for Africa—DFA. Long-term DFA assistance to Africa will help improve child survival rates, combat HIV/AIDS, upgrade education, increase democratic participation, and improve economic management. . . .

- **Economic Support Funds: \$24.4 million.** Fast-disbursing Economic Support Funds—ESF—provide the responsiveness and flexibility necessary to support democratic and market-based transitions in the crucial early stages. The Administration has requested \$14.35 million for the Africa Regional Democracy Fund, designed to strengthen new democratic institutions and civil society, provide electoral assistance, and support economic reform in countries without USAID missions.

An additional \$10 million in ESF has been specifically targeted to promote democratic development and economic stability in Angola. Significant resources are needed to support demining, quartering of UNITA troops, demobilization, and reintegration of ex-combatants. We also will have to begin addressing long-term democratization, human rights, and sustainable development requirements.

- **Conflict Resolution, Peacekeeping, and Military Training: \$29.6 million.** To promote peace, security, and military reform, the Administration is proposing \$5 million to assist

Organization of African Unity conflict-resolution activities. \$18 million for bilateral grants to enhance the capabilities of selected African states to effectively participate in peacekeeping operations, and \$6.6 million for bilateral military training—IMET—that will emphasize professional standards of conduct, with a focus on the role of the military in democratic societies. These efforts are an investment in peace and regional stability, with a goal of assisting the development of better disciplined, more responsible, and responsive militaries. These programs respond to bipartisan congressional concerns expressed in the Africa Conflict Resolution Act.

- **Peace Corps: \$234 million worldwide.** The Peace Corps has long been considered one of the U.S. Government's more effective, grassroots development programs. The Administration proposes allocating \$63 million specifically for Peace Corps programs in Sub-Saharan Africa.

- **African Development Foundation: \$17.4 million.** Continued support for the African Development Foundation—ADF—is an integral part of our assistance strategy in Sub-Saharan Africa. With a relatively small outlay, ADF has a large impact on our efforts to help Africans help themselves. ADF funds are provided directly to community-based organizations for projects developed and implemented by Africans, empowering individuals, families, and communities at the grass-roots level.

- **Migration and Refugee Assistance: \$169.1 million.** Notwithstanding the progress that has been made, Sub-Saharan Africa continues to require humanitarian assistance. . . .

- **International Disaster Assistance.** The very nature of disaster assistance requires budget flexibility, but current levels give an indication of the order of magnitude of probable FY 1996 requirements. USAID's Office of U.S. Foreign Disaster Assistance expects expenditures in excess of \$150 million in Africa this fiscal year and will likely invoke its authority to "borrow" additional USAID funds. In addition, \$457 million is anticipated for Food for Peace programs.

- **Facilitating Trade and Investment.** The worldwide programs of the Trade and Development Agency, the Overseas Private Investment Corporation, and the Export-Import Bank of the United States also have provided important support to U.S. businesses seeking support for trade and investment links with Africa.

MULTILATERAL PROGRAMS—FY 1996 REQUESTS

We need to continue our strong support for the multilateral institutions that play the largest and most critical role in Africa's development. Our contributions to multilateral organizations are highly leveraged, since many other governments contribute as well. For example, for every dollar the U.S. contributes to the World Bank's soft-loan window, the bank will be able to lend \$6.

The emphasis the multilateral development bank—MDBs—place on strong economic management and market-oriented reform directly supports trade, investment, and sustainable growth in developing countries. Indirectly, this contributes to political liberalization as well.

We are the only major donor with arrears on its internationally negotiated commitments to MDBs. The magnitude of these arrears jeopardizes the MDBs' ability to assist developing country borrowers in maintaining the momentum of reform and undermines U.S. influence. While the President's FY 1996 budget includes money to reduce these arrears, we have not yet eliminated the problem.

The following multilateral organizations and programs are of particular importance to Sub-Saharan Africa:

- **International Development Association—IDA: \$1.4 billion worldwide.** IDA, a World Bank affiliate, is the single largest source of concessional—below market rate—financing for Africa. Between 40% and 50% of IDA resources go to Sub-Saharan Africa, where they promote macroeconomic policy reforms and support infrastructure development and poverty alleviation. The FY 1996 budget request for IDA includes a partial payment of U.S. arrears; we need to honor commitments made by the U.S. Government in full consultation with Congress. The proposed \$70 million rescission in FY 1995 IDA funding would further increase U.S. arrearages.

- **Enhanced Structural Adjustment Facility—ESAF: \$25 million worldwide.** The ESAF, a trust fund that is managed by the International Monetary Fund, provides financing at concessional interest rates to low-income countries, mostly in Sub-Saharan Africa, that undertake economic and structural reforms. In FY 1995, the Administration obtained \$25 million of the \$100 million it pledged toward the interest subsidy account of the ESAF and is requesting an additional \$25 million in FY 1996.

- **African Development Bank—AfDB: \$127 million.** We believe it is important that there be an effective regional development bank to complement the programs of the World Bank Group. The U.S. Government is working closely with the AfDB to make the institution a more effective instrument for African development by improving loan quality, management, and responsiveness to environmental concerns. The Administration's FY 1996 request would go to the African Development Fund—AfDF—the Bank's concessional [loan] window for the poorest countries. The proposed rescission of \$62 million from the FY 1995 appropriation for the AfDF would undermine U.S. leverage in ongoing AfDF replenishment negotiations.

DEBT REDUCTION

Debt reduction, implemented through the "Paris Club" of creditor governments, is designed to benefit some of the poorest reforming countries—many of them in Africa. Countries that would benefit from U.S. debt reduction must also meet criteria in U.S. legislation regarding human rights, terrorism, military spending, narcotics interdiction, and expropriations. The \$27 million requested for debt reduction in FY 1996 for the poorest countries worldwide makes possible the forgiveness of a far greater amount—in face value—of outstanding debt because the expected repayment is judged to be worth only a few cents on the dollar in present value terms.

CONCLUSION

In conclusion, Mr. Chairman, let me reiterate that it is consistent with our self-interest and our leadership responsibility to reinforce our commitment to democracy, peace, and sustainable development in Africa. The African continent is important to us now and will be even more so in the future. We must remain engaged and support the political and economic transformation currently underway. For a small investment in bilateral aid and contributions to multilateral organizations, we will be able to avoid costly future disasters and reap significant returns.