

AFRICAN DEVELOPMENT FOUNDATION



CONGRESSIONAL BUDGET JUSTIFICATION

Fiscal Year 2006

April 15, 2005

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April 15, 2005

On behalf of our Board of Directors, I am pleased to submit the African Development Foundation's budget justification for Fiscal Year 2006. The Administration has requested \$18.85 million.

Among U.S. Government foreign assistance agencies, the African Development Foundation plays a **critically important role** in developing **innovative models** to build bridges to economic opportunity, security and sustained growth. ADF's **direct, catalytic assistance** to small enterprises, producer groups and marginalized communities unleashes the entrepreneurial spirit of Africans, alleviates poverty, develops a new middle class, and demonstrates the continent's economic potential. It also fosters **self-help, transparency and accountability**.

The Foundation is at a critical transition and its **appropriated funding in FY 2006 is crucially needed** to:

- **pursue ADF's newly refined corporate strategy** which focuses on innovation to unleash African entrepreneurial spirit and create economic opportunities, ownership and broad-based growth;
- **leverage at least \$4.2 million in public and private contributions** under strategic partnerships that ADF has in nine countries; and
- respond to expressions of interest from the Congress and African governments to **expand ADF support to two additional countries** that are vitally important to U.S. interests in Africa.

There are **three compelling reasons** to fully fund the Foundation's request:

- ADF is unique, both in what it does and how it operates.
- The Foundation's programs have a high and sustainable impact.
- There is a high, unmet demand for ADF's assistance, both from African enterprises and from host governments who recognize the innovation and impact of the Foundation's program, and are willing to co-fund activities.

The African Development Foundation is only the only USG agency that works solely at the local level in Africa. More importantly, **ADF is unique in its strategy and approach** to building a strong base for sustainable economic growth in Africa.

- ADF provides African enterprises with **direct investment in business** initiatives that are **conceived by African entrepreneurs**.

- By using local African business and development experts, rather than expatriate advisors, ADF delivers **cost effective production, marketing and financial management assistance** to African entrepreneurs and enterprises.
- ADF is multiplying the impact of America's investment in Africa by **creating pools of capital for reinvestment** from contributions that ADF-assisted enterprises make to local development trusts once the businesses become profitable.
- **Every dollar directly benefits African clients.** The Foundation does not channel any of its assistance through governments or non-African organizations.
- ADF **ensures high accountability to the American people** by conducting detailed quarterly performance and financial reviews of all projects.

The Foundation's programs have a **significant and sustainable impact**. This past year, with a total appropriated budget of \$18.69 million, ADF assistance resulted in:

- More than 95,000 enterprises and entrepreneurs supported;
- 116,000 jobs created or sustained;
- \$43.5 million in sales revenue; and
- \$21.5 million in export earnings.

Finally, because of increasing recognition of ADF's innovation and effectiveness, there is a **strong unmet demand for the Foundation's assistance**. To date, the Foundation has nine active strategic partnerships – in Botswana, Nigeria, Ghana, Swaziland, Mali, Senegal, Cape Verde, Zambia and Benin. Seven of these were signed in the past two years. In these programs, **African governments are contributing 50 percent of the cash costs** of a project. Moreover, ADF has recently concluded two more strategic partnerships, and there are several other countries and one petroleum corporation that are interested in partnering with ADF, but the Foundation will need to increase its funding in order to undertake these new partnerships. ADF could leverage between \$4.2 and \$6.5 million in external contributions in FY 2006, depending on its appropriations.

The African Development Foundation is building bridges to economic opportunity, security and sustained growth, through innovative, cost-effective and catalytic investments. Because ADF is unique in its philosophy and operations, it is the kind of American assistance that has high demand in Africa, and it has broad appeal in the United States. ADF has demonstrated that it *does* make a difference in the lives of low-income people in Africa. The opportunities that the Foundation offers for promoting growth and improving the lives of people in the world's poorest region are large and the price tag is small. We hope you will support ADF's full budget request of \$18.85 million for FY 2006 to help advance the excellent and innovative work of the Foundation and to reaffirm America's commitment to Africa.

Sincerely yours,

Nathaniel Fields
President

EXECUTIVE SUMMARY

The African Development Foundation's unique and results-oriented programs are vital to supporting the United States' commitment to unleashing the economic potential of Africa.

The President is requesting \$18.85 million, which is critically needed to implement ADF's new corporate strategy, to leverage at least \$4.2 million in public and private contributions to complement appropriated funding, and to respond to expressions of interest from the Congress and African governments to expand ADF support to two additional countries that are vitally important to U.S. interests in Africa.

The Foundation makes **important and distinct contributions to advancing U.S. foreign policy** priorities and national interests in Sub-Saharan Africa.

- By *directly* supporting small entrepreneurs and farmers' cooperatives in trade and investment activities, ADF is uniquely supporting AGOA objectives and demonstrating how small African producers can become participants in the global economy.
- By unleashing the entrepreneurial spirit of African business people and building micro, small and medium enterprises, ADF is fostering self-reliance, alleviating poverty, and increasing incomes and productivity in sustainable ways, which reinforces U.S. foreign assistance objectives to promote greater economic prosperity and political stability.
- By working with and building local institutions, ADF is strengthening civil society and governance and laying a foundation for democracy.

ADF is doing some **trailblazing work** in promoting broad-based, sustainable development.

- The Foundation has developed a model of **venture philanthropy** that combines the rigor of investment banking with the values of conventional development. ADF conducts extensive due diligence on the applicant and its business, applies triple bottom line criteria – profitability, socio-economic impact, and sustainability with potential for replication or scaling up – in analyzing projects, and systematically monitors and evaluates its portfolio.
- Under its **trade and investment program**, ADF is providing small African businesses with access to improved technology, working capital, market information, and technical and managerial assistance to enable them to become players in the global marketplace.
- The Foundation has also initiated a **Community Reinvestment Grant** program, whereby profitable grant recipients commit to reinvest a portion of their profits into community development projects within their country. This unique approach produces a multiplier effect for ADF's initial investment by creating renewable pools of capital, and it also nurtures a culture of social responsibility among for-profit businesses in Africa.

ADF has long been a **leader in promoting indigenous-led development through its participatory development methodologies**. All ADF-funded projects are “made in Africa” – proposed, designed, and implemented by the beneficiaries themselves, with technical assistance

and training provided by African experts. The Foundation's efforts complement larger, government-to-government assistance programs by tackling problems "from the ground up" and developing successful models of participatory development that can be replicated on a larger scale by the private sector and other development assistance agencies.

The Foundation's hands-on approach, with our indigenous Partner organization providing on-going assistance to applicants and grantees, and systematic monitoring and rigorous remediation are **producing significant and measurable results**. Year-on-year these results are steadily increasing, almost always exceeding targets. ADF projects produce tangible people-level impact and profitable, sustainable businesses.

Because of its unique approach and high impact programs, numerous public and private sector entities have sought partnerships with ADF. The Foundation currently has **strategic partnerships in nine countries**, under which national and state governments are making **cash contributions** to ADF programs. Moreover, ADF has recently concluded two more strategic partnerships, and there are several other countries and one petroleum corporation that are interested in partnering with ADF. However, the Foundation will need to increase its funding in order to fully leverage contributions under the existing partnerships and to pursue these new partnerships.

ADF is unique in its focus and approach.

- ADF provides African enterprises with **direct investment in business** initiatives; it does not use intermediary financial institutions or international consulting firms as "implementing partners."
- All ADF-funded **projects are "made in Africa"** – conceived and implemented *by the African entrepreneurs and producer groups themselves*, with any needed technical assistance and training usually provided by local experts.
- By using local African business and development experts, rather than expatriate advisors, ADF delivers **cost effective production, marketing and financial management assistance** to African entrepreneurs and enterprises.
- ADF is multiplying the impact of America's investment in Africa by **creating pools of capital for reinvestment** from contributions that ADF-assisted enterprises make to local development trusts once the businesses become profitable.
- **Every dollar directly benefits African clients**. The Foundation does not channel any of its assistance through governments or non-African organizations.
- ADF **ensures high accountability to the American people** by conducting detailed quarterly performance and financial reviews of all projects.

ADF's efforts complement larger, government-to-government assistance programs by tackling problems "from the ground up" and by developing and testing innovative, new models for promoting broad-based economic development that can be replicated on a larger scale by the private sector, African governments, and other development assistance agencies.

Table 1

ADF'S STRATEGIC GOALS AND OBJECTIVES

Goal I: Stimulate economic growth, job creation and higher incomes and improve the lives of the poor by supporting innovation, entrepreneurship and ownership, at the business and community level

- Objective 1: Enhance the growth of African-owned small and medium size enterprises, improve their access to investment, and increase their participation in regional and international trade
- Objective 2: Expand small farmer production of high-value crops, value-added processing of agricultural goods, and access to local and global markets
- Objective 3: Promote innovative community-based solutions to critical social and economic needs of marginalized communities and peoples
- Objective 4: Create renewable pools of local capital to fund small businesses and community initiatives

Goal II: Expand local institutional and financial capacities to support and sustain grassroots development

- Objective 1: Build sustainable development organizations and business advisory services that provide technical assistance and training to enterprises and community groups
- Objective 2: Strengthen the capacity of African business and community leaders to foster entrepreneurship and social philanthropy and to model transparency and accountability
- Objective 3: Forge strategic partnerships with African governments, other donor agencies, and the private sector, to fund ADF programs that support enterprise and community development
- Objective 4: Promote and disseminate international and ADF best practices, lessons learned and successful models for African-driven development

INTRODUCTION

**“We believe that human suffering in Africa
creates moral responsibilities for people everywhere.”**

President George W. Bush

AFRICA’S DEVELOPMENT CHALLENGES AND POTENTIAL

Sub-Saharan Africa has made important gains, but the challenges facing the region are enormous. Africa could become the fastest growing market of the 21st century and help fuel global prosperity. However, endemic poverty, hunger, and disease create conditions that pose major threats to regional stability and global security. Nearly half the continent’s population of 885 million people lives on less than \$1 a day. Although agriculture is the backbone of most African economies, it is the only region in the world where hunger is getting worse overall; one quarter of the world’s malnourished live in Africa.

The message of this picture and the lesson of development experience are unmistakable: broad-based economic growth must be stimulated to alleviate poverty, development investments must reach the grassroots, and African communities and enterprises must be strengthened to lead their own development.

There are encouraging signs that underscore Africa’s potential. Due to better macro-economic policies and increased trade flows, sub-Saharan Africa’s recent economic growth has surpassed average global growth rates. Over the past decade, sub-Saharan Africa’s trade has grown by almost 40 percent. While the global economic downturn caused Africa’s exports to decline slightly in the past two years, the continent has fared much better than the developing world as a whole. Nonetheless, while it has 11 percent of the world’s population, Africa accounts for only 1.4 percent of global trade and 2.5 percent of foreign direct investment. Both trade and investment have been largely concentrated in a few countries and a few sectors. African countries are responding to the opportunities under AGOA, but the continent still needs innovative investments in its future.

COMPELLING JUSTIFICATION FOR THE REQUEST

“We believe that growth and prosperity in Africa will contribute to the growth and prosperity of the world... We believe that this can be a decade of unprecedented advancement...”

President George W. Bush

ADF CONTRIBUTES TO ADVANCING U.S. FOREIGN ASSISTANCE OBJECTIVES

The Foundation makes important and distinct contributions to advancing U.S. foreign assistance objectives in sub-Saharan Africa.

- By *directly* supporting small entrepreneurs and farmers’ cooperatives in non-traditional exports, ADF is uniquely supporting AGOA objectives and demonstrating how small African enterprises can become participants in the global economy.
- By unleashing the entrepreneurial spirit of African business people and building micro and small enterprises, ADF is fostering self-reliance, alleviating poverty, and increasing incomes and productivity in sustainable ways, which reinforces U.S. foreign assistance objectives to promote greater economic prosperity and political stability.
- By working directly with and building local institutions, ADF is strengthening civil society and governance and laying a foundation for democracy.
- By supporting innovative local solutions to stem the spread of HIV/AIDS and mitigate its impact, the Foundation is contributing to the U.S. policy priority to combat the pandemic in Africa.

The Foundation’s newly refined corporate strategic goals and objectives are found in Table 1.

ADF’S TRAILBLAZING WORK

Since its inception, ADF has been a pioneer in promoting African-led development through its participatory development methodologies. (See next section for more details.) However, in recent years, the Foundation has been doing some **trailblazing work** in promoting broad-based, sustainable development.

The Foundation has developed a model of **venture philanthropy** that combines the rigor of investment banking with the values of conventional development.

- ADF conducts **extensive due diligence** on the applicant and its business, assessing the group’s past performance, its overall management capacity, its internal controls and

financial management systems to account for U.S. Government funds, as well as the potential market for its products.

- As part of the design process, all enterprise proposals are subjected to **intense financial analysis**, using Palo Alto Software’s *Business Plan Pro*. The Foundation worked with the software developer to adapt this powerful planning and analysis tool to ADF’s grassroots clients, producing templates to assess production, agribusiness, and service projects. We also modified it to assess impact on employees and the ability of the enterprise to make Community Reinvestment Grant (CRG) contributions.
- The Foundation then applies **triple bottom line criteria** in analyzing project proposals.
 - 1) Profitability – ADF assesses profitability during the project period and over the longer term, considering both a likely “base” case and a worst case, downside analysis. The business is also analyzed in relation to its ability to contribute to the CRG.
 - 2) Socio-economic impact – ADF assesses the impact of the investment on employment generation and worker income, with standards for each. We also consider upstream and downstream linkages, as well as benefits that may flow to participants through profit-sharing, employee stock ownership programs, or provident/savings funds, as well as to communities through the CRG and other charitable programs the enterprise undertakes with increased profits earned as a result of ADF’s assistance.
 - 3) Sustainability, with potential for replication or scaling up – The Foundation analyzes investment returns and profit distribution plans to ensure that there is sufficient capital to enable continued growth of the business, as well as the management capacity of the enterprise to continue the business after ADF’s assistance ends.
- ADF’s financial analysis and social impact assessment is undoubtedly some of the most rigorous being done by development finance institutions today. In fact, the World Bank’s International Finance Corporation, which funds commercial business development, invited ADF to share its approach and tools at a recent conference it organized on “Grassroots Initiatives.”
- Finally, ADF **systematically monitors and evaluates its portfolio**. Grantees prepare and submit quarterly performance reports against project design targets, financial reports on the use of ADF funds, and financial statements on the business itself. Foundation portfolio managers review these reports and provide feedback to the grantee and Partner and also flag problem projects for remediation. An ADF committee conducts annually a formal portfolio review on all active projects in each country.

Under its **trade and investment initiative** (see below for more detail), ADF is providing small African businesses and farmers cooperatives with access to improved technology, working capital, market information and technical and managerial assistance to enable them to become

players in the global market. The Foundation's assistance enables these enterprises to become more profitable and more competitive by increasing production output, improving operational efficiency, and improving product quality. To date, ADF has promoted more than 20 export products, proving that African farmers and small business owners can diversify their products and meet international standards that will enable them to penetrate and capture foreign markets.

The Foundation has also initiated a **Community Reinvestment Grant** program, whereby grant recipients commit to reinvest a portion of their profits into community development projects within their country. Depending on the level of profitability, the grantee pledges to contribute up to the full value of the ADF grant. This produces a multiplier effect for ADF's initial investment by creating a renewable pool of local capital. It also nurtures a culture of social responsibility among for-profit businesses in Africa.

ADF'S APPROACH IS UNIQUE

“ADF's approach...contributes to the advancement of decentralized participatory development and poverty reduction in Africa.”

Aminatou Barry Camara

National Coordinator, Guinea Village Support Program

The Foundation is the **only U.S. Government agency working directly at the grassroots level in Africa** to alleviate poverty and promote broad-based sustainable development. Its efforts complement larger, government-to-government assistance programs by tackling problems "from the ground up" and developing successful models of participatory development that can be replicated on a larger scale by the private sector and other development assistance agencies. As described above, the Foundation's strategic objectives directly **contribute to USG foreign assistance objectives**, including advancing its own mandate under AGOA.

Furthermore, ADF is working in a number of countries where no other bilateral U.S. assistance program is currently operating, including:

- Cape Verde
- Niger
- Botswana
- Swaziland
- Sao Tome and Principe

ADF has long been a **leader in promoting indigenous-led development through its participatory development methodologies**. Its philosophy and approach set the Foundation apart from most donor agencies. Most conventional foreign aid programs are not "home-grown" within Africa. Expatriates typically design projects in conjunction with governments or international private voluntary organizations (PVOs). The bulk of funding goes to projects implemented by government agencies or international PVOs or their local affiliates that are heavily dependent on expatriate technical assistance. The intended beneficiaries usually do not have any sense of ownership of those projects.

In sharp contrast, ADF's twenty years of experience in grassroots, participatory development has demonstrated that local communities are a vital source of ideas and energy for development. There is a rich pool of underutilized African expertise and local resources that needs to be tapped. Consequently, the Foundation pursues a very different approach to promoting broad-based, sustainable development in Africa:

- All ADF-funded **projects are “made in Africa”** – proposed, designed, and implemented by the beneficiaries themselves, with technical assistance and training provided by African experts. ADF's programs are African-driven and African-owned.
- The Foundation makes **grants directly to indigenous entities** – to micro, small and medium-size enterprises, cooperatives, rural producer groups, community associations, or to local non-governmental organizations (NGOs) that represent and provide services to poor communities; none of our resources pass through government agencies or international organizations.
- As a result, ADF's assistance **directly affects people's lives and has measurable impact.**
- ADF's investments **help Africans take leadership and responsibility** for their own development. The Foundation helps grantees strengthen their management and technical capacity and financial viability so that activities are sustained long after assistance ends.
- The Foundation is making **catalytic investments**, supporting young but promising enterprises and organizations with new products and ideas.
- ADF can support higher risk, **innovative approaches** because it makes small grants, premised on much due diligence, and then its local Partner Organization works closely with grantees throughout implementation.
- ADF has a **unique business model for managing** its in-country operations and supporting its grantees. African professionals serve as the Country Representatives and staff of local Partner Organizations. They bring a rich knowledge of their communities, cultures, environments, and economies to ADF's program. The Country Representatives screen requests for funding to ensure that they meet ADF's funding criteria and certify the financial management capability of the grantees. The Partner Organizations assist applicants in developing, implementing, and assessing their projects. The Country Representatives also monitor the performance of the grantees and compliance with U.S. Government requirements and ADF policy.
- Finally, the Foundation places a high priority on **reaching underserved populations** such as women, ethnic and cultural minorities, and families and communities affected by AIDS. The bulk of ADF's assistance is directed toward rural and peri-urban areas.

Because ADF is unique in its philosophy and operations, it is the kind of American assistance that has high demand in Africa, and it has broad appeal in the United States. Moreover, as the only U.S. government agency or program focused uniquely on Africa, the Foundation has a special visibility among citizens and advocacy groups committed to assisting the continent's development.

MAKING A DIFFERENCE IN PEOPLE'S LIVES

"I started with one boat. Now I have thirty."

Kiwamuka Lukoda

Independent fish supplier to Uganda Marines (ADF-supported project)

**"ADF's programs have had a positive impact on local Guinean society.
The Foundation's grassroots-level projects energize local citizens
To develop their own communities collectively."**

Ambassador R. Barrie Walkey

Former Ambassador to the Republic of Guinea

ADF's programs have a significant and measurable impact on improving the lives of Africa's poorest. In fact, over the past four years, due to more rigorous project screening, design, and monitoring and as the portfolio matures, the Foundation's performance results have increased substantially.

In FY 2004, the Foundation **significantly exceeded its project-related performance targets**, including the following:

- ADF helped grow more than 95,000 micro and small enterprises – fifteen times more than in 1999.
- Three quarters (75%) of the direct beneficiaries from ADF's MSE support were women.
- More than \$17.25 million in small loans were extended to micro-entrepreneurs who could not access credit from a formal bank; 73 percent of those beneficiaries were women.
- ADF-assisted businesses in the active projects generated an estimated \$43.5 million in annual revenue, an increase of 50% over the previous year, and more than \$8.8 million in *profits* since the projects began.
- In addition, ADF's catalytic investments in small African business and agricultural cooperatives producing for the global market generated more than \$21.5 million in revenues, and increase of almost 80% in one year.

Table 2 summarizes results against some of the principal performance targets for FY 2001 through FY 2004, showing that **ADF's year-on-year performance has steadily grown.**

TABLE 2 – Performance Result Trends, FY 2001 through FY 2004 (cumulative numbers for active projects)

Performance Indicator	FY 2001	FY 2002	FY 2003	FY 2004
Enterprises Assisted	47,049	86,180	80,946	95,176
Owners and Workers in Assisted Enterprises	36,457	96,854	112,802	115,827
Women as a Percent of Owners and Workers in Assisted Enterprises	56.8%	58.1%	48.2%	75.6%
Enterprises With Loans	54,099	65,319	67,893	84,925
Value of Loans Disbursed	Indicator not in use	\$11.243 million	\$15.127 million	\$17.250 million
Proportion of Loans for Women	50.8%	60.6%	61.8%	73.2%
Gross Revenues of Enterprises and credit providers	\$17.457 million	\$53.440 million	\$28.830 million	\$43.485 million
Gross Revenues From Export Sales	Indicator not in use	\$7.594 million	\$12.027 million	\$21.530 million
Funds Leveraged Through Strategic Partnerships	\$0.364 million	\$1.104 million	\$0.455 million	\$2.704 million

* The actual percentages for women are higher than reported since all beneficiaries were counted as men when gender-disaggregated data was not available; thus percentage of women as beneficiaries is a conservative, lower bound estimate.

FORGING STRATEGIC PARTNERSHIPS

“The Government appreciates your contribution to the private sector and the companies that you assisted are performing well.”

John Kufuor, President of Ghana

Under its corporate strategy, the Foundation has set an objective to “establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development.” Toward this end, ADF is building innovative partnerships that can serve as vital sources of capital and technology to expand the impact of our program and to disseminate and replicate some of our rich lessons learned and best practices about grassroots development.

Because of its unique approach and high impact programs, numerous public and private sector entities have sought partnerships with ADF. The Foundation currently has active strategic partnerships in nine countries. Those partnerships and the maximum annual amount of external contributions that could be made to ADF projects are as follows:

1) Benin	\$1,000,000
2) Botswana	\$500,000
3) Cape Verde	\$500,000
4) Ghana	\$1,000,000
5) Mali	\$500,000
6) Nigeria/Kano State	\$1,000,000
7) Senegal	\$1,000,000
8) Swaziland	\$500,000
9) Zambia	\$500,000

A tenth partnership has been signed with Sao Tome and Principe (up to \$500,000 contributions annually), but the Foundation still needs to raise additional funding in order to launch it.

Demand from current and potential strategic partnerships far exceeds ADF’s ability to program and match those external contributions, largely because the Foundation needs to also meet programming demands in the half dozen important country programs where there are no strategic partnerships.

- We are currently able to leverage \$4.2 million in contributions against the \$7.0 million total potential annual contributions under the ten existing strategic partnerships.
- The Government of Ghana has indicated that it would be willing to provide several additional millions annually, if ADF funding permitted.
- There are several other governments, as well as with foundations and corporate entities seeking to fund philanthropic activities, that have indicated a willingness to enter into strategic partnerships once ADF has the funds to match those external contributions.

In the context of individual projects, the Foundation also builds linkages between the ADF-assisted enterprises and international business, which serve as vital sources of complementary capital and technology for grassroots development, as well as markets for products.

In all these programs, the Foundation maintains and promotes its core values – transparency, accountability, sustainability, innovation, grassroots-based and African-owned investments – and ADF is wholly responsible for accountability for funds, program implementation, and results.

STRENGTHENING PROGRAM OPERATIONS

The Foundation has undertaken a major restructuring of both its headquarters and field operations during the past two and a half years to strengthen program operations. These fundamental changes, which have not been without costs, are being driven by ADF management’s objectives of improving program effectiveness, protecting U.S. government resources, and containing costs.

- Through a recent headquarters restructuring, the Foundation will achieve better portfolio management.
- Through its Country Representatives, ADF is ensuring better due diligence and compliance.
- Through its Partner Organizations, both applicants and grantees are receiving the necessary support to improve the design and implementation performance of individual projects in each country portfolio.

In response to recommendations by the USAID Inspector General, the Foundation established two new mechanisms for field operations: the Partner Organization and the Country Representative.

ADF established the Partner Organization Development Program as a major strategic initiative and launched the arrangement in early FY 2002. Our experience showed that there was a great need for professional indigenous organizations that practice participatory development and are committed to grassroots development. The Foundation’s objective is to “build sustainable development agencies and business advisory services that provide technical assistance and training to enterprises and community groups.” Through an open, competitive grant process, ADF selected a local non-governmental organization in each country. Under a performance-based cooperative agreement, which is renewable annually up to five years, the Foundation is building the capacity of indigenous Partner Organizations to become sustainable, professional development entities.

The Partner Organizations assist prospective grantees in developing proposals for funding, including conducting rigorous financial analyses to ensure the viability and sustainability of the proposed projects. After ADF awards project grants, the Partner Organizations provide training in financial management and participatory evaluation to grantees, routinely visit them to monitor progress and assist in rectifying implementation problems, and advise them on preparing quarterly financial and performance reports.

The Country Representative an important, new component of the ADF business model. He/she reports to ADF and is independent of the in-country Partner Organization that ADF supports.

The Country Representative plays a critical role throughout the grant lifecycle. While the Partner Organization supports grantees, the Country Representative carries out functions that support ADF and, hence, are overhead in nature. Their principal duties include analyzing the viability of proposals, conducting due diligence on prospective grantees, assessing the financial management capacity of new grantees, reviewing their use of funds throughout the life of the grant, monitoring project implementation and remediation, and assessing program impact.

As African professionals, these highly qualified individuals combine a demonstrated knowledge of financial management with a sensitivity to and understanding of the cultures and environments in which they work. They provide the essential link between headquarters and field operations, and the budgetary resources dedicated to their work are key to the success of ADF's grant program.

In light of the new field structures, the Foundation has also realigned its headquarters staffing to give greater attention to project analysis, financial management, portfolio management, technical support for initiatives in trade and investment, forging and implementing strategic partnerships, assessing program impact, disseminating lessons learned and best practices, and strengthening outreach. This realigning resulted in a reduction-in-force at the end of FY 2004.

The Foundation is optimistic that these new structures will improve efficiency and effectiveness.

STRENGTHENING FINANCIAL MANAGEMENT AND MANAGEMENT INFORMATION SYSTEMS

The African Development Foundation has greatly strengthened both its own financial management and that of its grantees, and it has improved management information systems for headquarters operations and grants administration.

ADF takes its fiduciary responsibilities very seriously. Despite the nascent capacity of many of its grantees, the Foundation maintains high standards of financial accountability.

- As part of the initial screening process of prospective grantees, ADF staff formally assesses a group's capacity to control and account for funds and makes a certification of its capacity, including areas where additional training or remediation are required.
- After a grant is approved, the Partner Organization provides a five-day training course in ADF accounting procedures and reporting requirements. Each of the Partner Organizations has a full-time, experienced Financial Officer on staff that provides this initial training, as well as refresher training and advice, as needed by grantees.
- All grantees are required to submit quarterly financial reports and financial statements.
- The Country Representative monitors the reporting by grantees and also makes regular

site visits to check project accounting as well as to monitor overall implementation progress.

- Finally, ADF contracts with independent audit firms in each country where it operates to conduct audits of each grant over \$50,000 at least once during its life.

ADF also maintains financial oversight of all Partner Organizations that have cooperative agreements with the Foundation. An internal audit of each Partner Organization is conducted every year.

ADF has a comprehensive grants database to improve management oversight and internal controls for financial reporting by grantees and Partner Organizations. ADF is currently using the database to support its year-end financial statements.

ADF undergoes annual, independent audits that address its financial statements, internal controls, and compliance with USG laws and regulations. For the past three years, the Foundation has received an unqualified opinion on all five financial statements, as well as its comparative FY 2001/2002 and FY 2002/2003 statements, from its independent auditors and the USAID Office of the Inspector General. Thus, the Foundation is in full compliance with all OMB requirements and new statutes, including the Accountability for the Tax Dollar Act. These are major accomplishments.

FY 2006 BUDGET AND PROGRAM OVERVIEW

The President is requesting \$18.85 million in appropriated funding for FY 2006. This appropriation is expected to enable the Foundation to leverage \$4.2 million in non-Federal contributions for its programs. Table 3 contains a summary of ADF's budget for FY 2004 to FY 2006.

TABLE 3
Budget Summary

Description	FY 2004 Actual	FY 2005 Estimate	FY 2006 Proposed
FUNDING AVAILABLE			
Current FY appropriations	18,689	19,000	18,850
Rescission	(110)	(152)	0
Prior FY carry-over	3,207	5,448	0
Leveraged contributions	2,704	4,500	4,200
Contributions/Appropriations	14%	24%	22%
Total Funding	\$24,490	\$28,796	\$23,050
OBLIGATIONS			
ADF Program Funding	\$13,476	\$21,270	\$15,390
Project grants	9,475	15,954	10,560
Partner Organization development grants	3,693	4,016	3,530
Program contracts	208	800	800
Learning and Dissemination	100	500	500
ADF Operating Costs	\$7,228	\$7,526	\$7,660
ADF/W costs	5,809	5,312	5,260
Country Representative costs	1,419	2,214	2,400
Operating costs/Total funding	30%	26%	33%
Total Obligations	\$20,704	\$28,796	\$23,050

OPERATING EXPENSES

ADF expects the major restructuring initiatives begun in FY 2002 to reach a level of stability in FY 2006. For this reason, ADF's operating expenses remain constant at approximately \$7.5 million. By the end of this year, the costs for these initiatives – the restructuring of the Washington office, the implementation of a new, fully compliant financial management system, and the strengthening of Country Representatives and field offices – will represent a “steady state” rate of spending. Future increases in these areas will primarily reflect the inevitable inflation-related or cost of living increases as opposed to new initiatives. ADF management has now established structures in headquarters and the field that capture efficiencies from a core set of skills and staff. Thus, any additional funding – either from additional appropriated funds or from leveraged contributions will go directly to fund program activity.

The Foundation's Board of Directors and President are committed to ensuring a high level of efficiency and effectiveness in the organization's operations. Indeed, the downsizing of ADF staff from a high of nearly 60 FTE in the mid-1990's to only 32 FTE currently is a tribute to senior management's goal to do more with less, without sacrificing the methodology that has made ADF so successful.

PROGRAM FUNDING

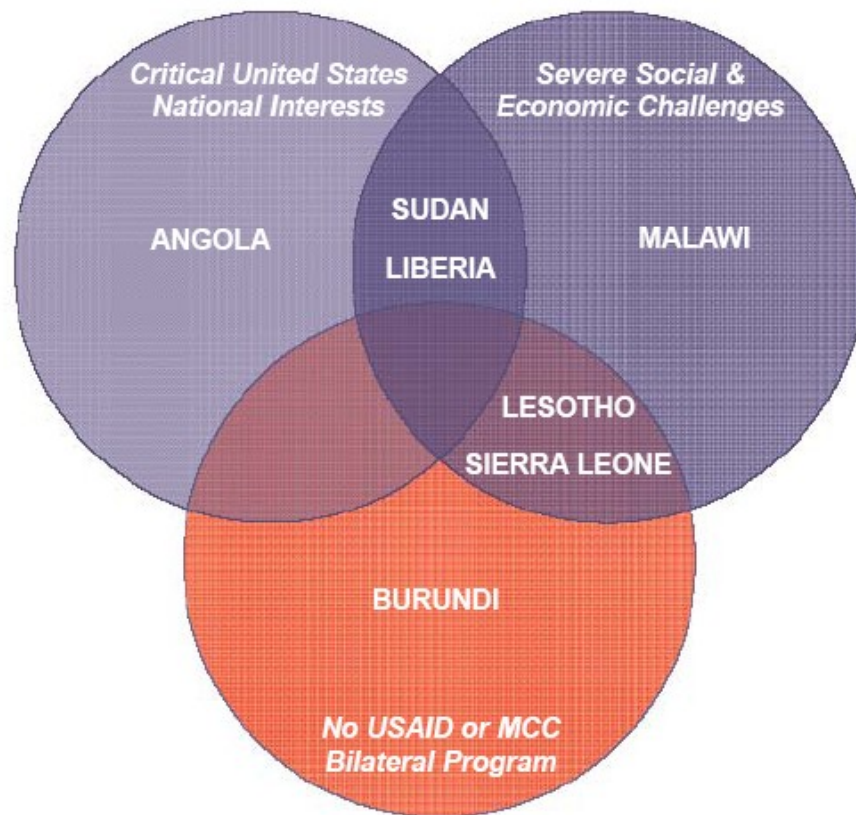
The Foundation is at a critical transition and its **appropriated funding in FY 2006 is crucially needed** to:

- **pursue ADF's newly refined corporate strategy** which focuses on innovation to unleash African entrepreneurial spirit and create economic opportunities, ownership and broad-based growth;
- **leverage at least \$4.2 million in public and private contributions** under strategic partnerships that ADF has in nine countries; and
- respond to expressions of interest from the Congress and African governments to **expand ADF support to at least two additional countries** that are vitally important to U.S. interests in Africa.

Eight new countries currently under consideration include:

- three countries – Angola, Democratic Republic of Congo and Burundi – where ADF would support the development of small enterprises and expand farmer production of high value cash crops; in Angola, an oil company is interested in co-funding activities;
- five countries that are facing critical social and economic needs, either as a result of civil war – Sudan, Liberia and Sierra Leone – or because of the ravaging impact of HIV/AIDS on families and communities – Malawi and Lesotho – where income generating activities would enable vulnerable communities and peoples to get back on their feet.

Figure 1: Potential Countries for New ADF Programs



The requested appropriation would also be used to:

- Promote new export trade and investment (T&I) opportunities for African enterprises, especially those involving U.S. businesses and small-scale producers in Africa. (The African Growth and Opportunity Act of 2000, which was passed with strong bipartisan support, specifically recognizes the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy);
- Increase the access of small enterprises to capital, improved technologies, training and technical assistance, and other business development services;
- Enabling small farmers to produce high value crops, engage in value-added processing and access local and global markets with their agricultural products;
- Support innovative, indigenous approaches to severe social and economic challenges, particularly assisting communities and families to get back on their feet after the devastation of HIV/AIDS or civil war;
- Generate local resources under Community Reinvestment Grants that can be used to multiply ADF's impact through funding other small business and community initiatives;
- Build local organizations to support to enterprises and community groups;
- Mobilize business and community leaders to foster entrepreneurship and local initiative;
- Encourage African governments and development organizations to increase use of best practices, lessons learned, and African development solutions.

In keeping with its Congressional mandate, ADF supports “development efforts initiated by communities themselves.” All proposals must be consistent with the Foundation’s overall strategic objectives, every group is screened against specific criteria to ensure they have the experience and capacity to execute their proposal, and each project is rigorously assessed to ensure its viability and sustainability.

Over the past five years that ADF has conducted an annual Assessment of Program Impact, the Foundation’s performance results have significantly increased. Based on the positive results recorded in the most recent impact assessment period (FY 2004), ADF is setting performance targets for FY 2006 that are substantially higher than the targets proposed in previous budget submissions. The \$18.85 million requested appropriations for FY 2006 are critical to enabling ADF to achieve these ambitious targets.

For every dollar of the requested appropriations, an additional \$0.22 in contributions would be leveraged from African governments, donors or corporations for programs administered by the Foundation, through the various strategic partnerships that ADF already has in place.

Goal I: Stimulate economic growth, job creation and higher incomes in Africa, and improve the lives of the poor by supporting innovation, entrepreneurship and ownership, at the business and community level

Despite recent, impressive growth and development, sub-Saharan Africa still lags behind all other regions of the world. Every significant socio-economic indicator (GNP per capita, life expectancy, infant and child mortality, adult literacy, primary and secondary school enrollment, total fertility) shows that the welfare of the people of Africa is still significantly worse than every other region.

ADF funds projects that directly and significantly improve the livelihoods of low-income people. The Foundation stresses innovation and the use of participatory development methods in its projects to create jobs and increase incomes for the poor. ADF seeks to stimulate growth on a large scale by demonstrating successful models that can be replicated by African governments, large bilateral and multilateral donors, and private voluntary organizations.

Strategic Objective 1: *Enhance the growth of African- owned small and medium size enterprises, improve their access to investment, and increase their participation in regional and international trade*

**“Trade is the great engine of economic progress...
The peoples of Africa have been left out long enough.”**

President George W. Bush

The increasingly integrated global economy presents unprecedented opportunities for grassroots entrepreneurs and producers to increase their incomes through greater participation in the international economy. For increased trade to result in broad-based income and employment gains at the grassroots level, smallholder farmers and other producers need to be actively involved in further processing and higher-level marketing of products. Small-scale producers often need assistance in increasing their volume or quality of production and in gaining access to value-added processing and more profitable marketing arrangements.

The African Growth and Opportunity Act of 2000 (AGOA) specifically notes the important role of ADF in developing and implementing strategies for promoting participation of small-scale enterprises and informal sector groups such as farmer cooperatives and artisans in trade and investment activities.

ADF is helping small and medium sized, African-owned enterprises grow, develop new products, and take advantage of opportunities in both the local and global markets by:

- providing access to operating capital and new technology to expand their production;
- funding technical assistance to ensure the quality of production and effective management of the enterprise;

- providing market information, advice on market access, and linkages with international buyers; and
- advocating changes in government policies that impede trade and investment, where necessary.

ADF helps applicants develop their proposals into business plans with full financial analyses, market assessments, marketing strategies, training plans, and implementation plans. ADF only funds enterprises that have good prospects for becoming profitable and sustainable by the end of the grant period. Once a project is funded, ADF provides assistance in implementation, upgrading of management information systems, monitoring, and reporting through its network of non-governmental Partner Organizations in Africa. More specialized African technical service providers are brought in where necessary.

ADF has on-going T&I programs in Uganda, Tanzania, Namibia and Ghana, focused on assisting small-scale enterprises and cooperatives to produce, process and export a variety of primary commodities, including paprika, vanilla, silk, Nile perch, rock lobster, leather products, fruit juices, sea salt, and table grapes. In addition, the Foundation is currently launching new T&I programs in Zambia and Cape Verde. Many of these programs involve co-funding contributions from African governments, and leverage capital or technical assistance from the private sector.

Through its *direct* assistance, ADF is uniquely supporting AGOA objectives and demonstrating that small-scale African enterprises and cooperatives can diversify production, meet international standards, and successfully compete in the global economy.

Requested FY 2006 appropriations for the trade and investment objective: \$4.75 million (45% of project grant funding).

Strategic Objective 2: Expand small farmer production of high value crops, value-added processing of agricultural goods, and access to local and global markets

“ADF’s funding helped us build a new fish processing facility. We are now producing quality fish, and our cooperative has become a landmark in the community.”

Member of the Women’s Fishmonger Association, Blekusu, Ghana

Poverty in Africa is most pervasive in rural areas. With as many as three quarters of the populations in many African countries depending on agriculture for their livelihood, the sector is truly the backbone of most economies. Enabling small farmers to move from subsistence farmer to production of high value cash crops has tremendous impact on improving the lives of Africa’s poor, the rural economy, and even the environment. It provides rural families with sorely needed reliable employment and better incomes. This enables them to buy fertilizer to increase productivity of staple crops, purchase food they cannot grow, pay school fees and medical costs,

and improve clothing and shelter. Moreover, the agriculture sector has many linkages with African economies, so it can provide a significant stimulus to growth and stability, in rural and urban areas, in formal and informal enterprises.

ADF is stimulating economic growth in rural economies by:

- Identifying non-traditional export crops that have potential on regional and local markets
- Supporting their by small-scale farmers through provision of technical assistance and seasonal agricultural credit;
- Establishing or expanding small-scale agro-processors, through operating capital and equipment procurement, and providing them technical assistance to ensure they meet market standards; and
- Creating new export marketing linkages for regional or world trade.

To make export production that benefits low-income producers more feasible, ADF often works with producer associations or cooperatives that bulk up the production of small-scale producers and carry out processing and/or marketing activities on their behalf. Producer associations and cooperatives can channel other support to small-scale producers effectively, for example through lower cost production inputs through bulk purchases, extension services, market and price information, and greater bargaining power in price negotiations.

Requested FY 2006 appropriations for the small farmers and agro-processors: \$4.75 million (45% of project grant funding).

Strategic Objective 3: Promote innovative community-based solutions to critical social and economic needs of marginalized communities and peoples

No other continent is more afflicted by natural disasters, disease and civil conflict than Africa. Many countries have recently emerged from prolonged civil war or ethnic conflict that have wrought devastation to families and destroyed the local economies. Those situations – including Sudan, Liberia, Sierra Leone, DRC and Angola – will require innovative approaches to stimulating community action and unleashing entrepreneurship.

In addition to its tremendous toll on life, AIDS has had a devastating economic impact at the family, community, and national levels in Africa. In countries such as Swaziland, Lesotho and Malawi, AIDS has destroyed traditional economic and social safety nets, made orphanages necessary as a new phenomenon in some societies, rendered many families destitute, undermined increases in productivity, threatened the viability of development investments, and overburdened already strained government budgets.

In FY 2003, the Foundation initiated a pilot program of small grants to support innovative, community-based activities for mitigating the economic impact of AIDS, through supporting

income-generating activities for families and communities devastated by the pandemic. Based on survey work and discussions with both UNICEF and USAID in Uganda, Tanzania and Zambia, there is great potential for ADF to work at the community level to complement other donors' larger-scale activities, by working *directly* at the level of affected households and communities.

In FY 2006, ADF will build on its community-level, enterprise development experience, to support mitigating the economic and social impact of AIDS, including sustainable income generating activities and innovative, community-based care for orphans and vulnerable children. The Foundation will continue programming under its co-funded strategic partnership in Swaziland. If funding becomes available to open a new country program in either Malawi or Lesotho, the programmatic focus would similarly be on fostering community level interventions to relieve the economic and social impact of HIV/AIDS.

Depending on funding availability, new ADF country programs in any of the post-conflict situations – Sudan, Liberia, Sierra Leone, DRC and Angola – would involve funding enterprises and community-based organizations to generate income and deliver essential services to affected and marginalized communities and peoples.

Requested FY 2006 appropriations for the social enterprise program: \$1.05 million (10% of project grant funding).

Strategic Objective 4: *Create renewable pools of local capital to fund small businesses and community initiatives*

In conjunction with its trade and investment initiative, ADF undertook an innovative program, called the Community Reinvestment Grant program, whereby grant recipients commit to reinvest a portion of their profits to a legally established development trust in their country. ADF's Partner Organization will then help manage and program these resources for other community development projects. Depending on the level of profitability, the grantee pledges to contribute up to the full value of the ADF grant.

The Foundation is providing intellectual leadership through this innovation, which not only produces a multiplier effect for ADF's initial investment, but it also nurtures a culture of social responsibility among for-profit businesses in Africa. The International Finance Corporation of the World Bank invited ADF to share its approach and experience to help it launch a new initiative focused on promoting "social enterprises." The ADF President will also be participating in an international conference in Switzerland in late 2004 to disseminate our experience and lessons learned. Moreover, we are currently in negotiations with a major foundation to undertake a joint investment program that would be funded from resources generated under one of the country trusts.

Requested FY 2006 appropriations for the community reinvestment objective: \$150,000 is required for this objective to recruit specialized expertise in venture capital investment and trust management to assist the Foundation in this critical initiative.

Goal II: Expand Local Institutional and Financial Capacities to Support and Sustain Grassroots Development

Conventional ways of stimulating economic development through huge infrastructure, large-scale industries, or expensive international consulting firms have yielded too little benefit for too few people at high financial and environmental costs. Projects administered by government agencies and parastatal companies are often inefficient and ineffective. By contrast, ADF works directly at the grassroots level with private enterprises, producer groups, and community organizations that assist them.

ADF has extensive experience in participatory, grassroots development strategies that are appropriate for the types of clients most under-served by conventional foreign aid programs. In addition to the direct impact on project beneficiaries, ADF seeks to multiply benefits by influencing how government agencies, bilateral and multilateral donors, development banks, and non-governmental organizations foster economic development.

Strategic Objective 1: Build sustainable development organizations and business advisory services that provide technical assistance and training to enterprises and community groups

During the past three years, ADF has pursued a unique business model to provide support to its applicants and grantees. In most countries where it operates, the Foundation is investing in developing the capacity of indigenous non-governmental organizations, which serve as its “Partner.” They help applicants that have passed the initial screening done by ADF’s Country Representative to develop their project ideas into business plans with rigorous financial analyses. After ADF awards a project grant, the Partner Organizations train the grantees in financial management and participatory monitoring, visit them regularly to monitor progress and help rectify any implementation problems, and provide assistance in procurement and in preparation of quarterly financial and performance reports.

ADF transfers U.S. development expertise to its African Partner Organizations through training and technical and managerial assistance to build their institutional capacity. It also monitors the quality of their services and helps them plan and develop systems for attracting future funding from other sources. ADF’s cooperative agreements with Partner Organizations are performance-based and renewable annually for up to five years. The Foundation’s goal is to help these organizations become sustainable and have diversified funding sources.

Requested FY 2006 appropriations for the objective of building local community development agencies in Africa: \$3.530 million for Partner Organization development grants (23% of program funding).

Strategic Objective 2: Strengthen the capacity of African business and community leaders to foster entrepreneurship and social philanthropy and to model transparency and accountability

Under this new initiative, which ADF will develop over the next year, the Foundation will mobilize the best local business people to promote entrepreneurship and social philanthropy and

to serve as models of good business practices. Similarly, the Foundation will recruit the most respected community leaders where ADF operates to promote local initiative and to model transparency, accountability and integrity.

Requested FY 2006 appropriations for the objective of mobilizing business and community leaders to foster entrepreneurship, social philanthropy and local initiative: No funding is currently required for this new initiative. ADF Country Representatives will do the initial work in the context of on-going programming.

Strategic Objective 3: Forge strategic partnerships with national and local governments, other donor agencies, and the private sector to fund programs that support enterprise and community development

“The Foundation showed tremendous creativity, flexibility, and responsiveness, and ADF’s history of concrete, on-the-ground experience in Guinea provided us [The World Bank] with valuable insights and ideas. What impressed us most was the fact that ADF worked with local staff, citizens of Guinea who knew their country and its needs. That gave us perspective we could use to the benefit of the entire development program.”

Suzanne Piriou Sall

Senior Rural Development Specialist, The World Bank

ADF is building innovative partnerships that can serve as vital sources of capital and technology to expand the impact of our program and to disseminate and replicate some of our rich lessons learned and best practices about grassroots development.

Because of increasing recognition of ADF’s unique approach and high impact programs, numerous public and private sector entities have sought partnerships with ADF. The Foundation currently has nine active strategic partnerships under which national and state governments are making cash contributions to ADF programs, typically matching the Foundation’s own funding for activities. Those partnerships are in Botswana, Nigeria, Ghana, Swaziland, Zambia, Mali, Senegal, Cape Verde, and Benin. Seven of these were signed in the past two years.

These partnerships clearly demonstrate that there is a strong unmet demand for the Foundation’s assistance. In addition to the nine active programs, ADF has recently concluded two more strategic partnerships, and there are several other countries and one petroleum corporation that are interested in partnering with ADF. However, the Foundation will need to increase its funding in order to undertake these new partnerships.

In the context of individual projects, the Foundation also builds linkages between African enterprises and international business, which can serve as vital sources of complementary capital and technology for grassroots development, as well as markets for products.

In all these programs, the Foundation maintains and promotes its core values – transparency, accountability, sustainability, innovation, grassroots-based and African-owned investments – and

ADF is wholly responsible for assuring accountability for funds, program implementation, and achievement of targeted results.

In FY 2005, ADF expects to attract \$4.5 million in contributions through these strategic partnerships. ADF could leverage between \$4.2 and \$6.5 million in external contributions in FY 2006, depending on its appropriations. These partnerships also provide excellent opportunities for ADF to influence more broadly national development strategies and program approaches.

Requested FY 2006 appropriations for the strategic partnerships objective: No additional funding is required for this objective.

Strategic Objective 4: Promote and disseminate international and ADF best practices, lessons learned, and successful models for African-driven development

African governments, other donors and PVOs/NGOs are very interested in adopting new ways of fostering broad-based and sustainable economic development when the cost-effectiveness of these approaches has been demonstrated.

With the recent restructuring of headquarters, a new thrust for the Foundation is knowledge dissemination. Having funded more than 1,500 projects during the past twenty years, the Foundation has a rich set of lessons learned and has developed some best practices. ADF is disseminating its innovative development strategies, such as its grassroots trade and investment program and CRG, and it is encouraging the use of participatory development methods through a revamped website that is receiving more than 100,000 hits per month, quarterly technical reports, and monthly e-newsletter on ADF's work.

In FY 2006, ADF plans to undertake several program evaluations, as well as revive its small program of funding research conducted by African experts to better understand the dynamics of grassroots development and the constraints and potential solutions. ADF will increase its efforts at documenting and publicizing its experiences for the broader development community to encourage the replication of successful activities. ADF will share the lessons learned from individual project evaluations, country program assessments, cross-country sectoral studies, and research grants with interested government agencies, donor organizations, and PVOs/NGOs. The Foundation will also participate in major international, regional, and national fora and conduct dialogues with development partners.

Requested FY 2006 appropriations for promoting and disseminating best practices and lessons learned: \$0.500 million for the work of the new Knowledge, Learning and Dissemination Division (3% of program funding).

