



**Testimony of the  
United States African Development Foundation  
before the  
House Committee on Foreign Affairs  
Subcommittee on Africa and Global Health  
March 22, 2007  
“Prospects for Peace in Guinea”**

**I. Introduction**

The United States African Development Foundation (USADF) thanks Chairman Donald M. Payne and other members of the Subcommittee for extending an opportunity to the Foundation to submit testimony on the topic of “Prospects for Peace in Guinea”.

USADF was created in 1980 by the U.S. Congress with the goal of overcoming poverty in Africa by adopting a different approach to traditional U.S. foreign assistance programs. The concept – then as now – is to enable individuals and groups to emerge from poverty by putting their own ideas to work, not someone else’s. USADF focuses on a sector that is largely overlooked by other development assistance efforts, that of small and medium-sized businesses and social enterprises that are the driving forces behind private sector growth. USADF’s methods have evolved over time, with experience, but one of the main pillars of the Foundation’s work has been to remove barriers to growth and to promote the success of our customers: thousands of Africans who have no lack of innate entrepreneurial instinct but simply lack the means to get going and stay on the path to success.

USADF investments are pivotal instruments of US foreign assistance programs transferring knowledge and capital, developing local skills, creating jobs and generating wealth. Through its support of small businesses and social enterprises, USADF is having a positive impact on the formation of stable, democratic economies that are necessary for maintaining peaceful societies.

## **II. Background to USADF Activities in Guinea**

USADF has been active in the Republic of Guinea since 1986. Over the past two decades, USADF has helped thousands of poor Guineans improve their lives by providing support to community-based organizations. The Foundation has used two approaches:

- 1) supporting small business development and job creation in poor communities; and,
- 2) participatory development in rural communities

In the area of small business development, USADF has directly invested in more than 30 small and medium-sized enterprises (SMEs) across Guinea and helped them become profitable by providing working capital, technology, technical assistance, and training. Under the Village Community Support Program, USADF helps rural communities to determine their needs and prioritize their investments in basic community infrastructure projects such as primary and secondary schools, health facilities, wells and bridges.

Despite government efforts to encourage a free market economy and promote foreign investment, USADF believes that Guinea's growth rate is still below its potential. Guinea has abundant natural resources, including approximately one third of the world's known bauxite reserves, as well as diamonds, gold and other mineral ores. The country also has great potential for developing hydroelectric power from the Niger and Milo rivers. However, the national economy is not diversified and remains heavily dependent on mining revenues.

The over-reliance on extractive industries has been a significant dilemma in Guinea, as in other countries across Africa. While creating substantial revenues for the government, the extractive industry in Guinea has not traditionally led to an improvement in the living conditions of communities that surround the mining operations. In short, it has failed to foster robust local supply chains that can generate wealth for local communities and build a stable, peaceful middle class. Thus, in Guinea as well as in many other parts of Africa, we encounter the juxtaposition of extractive operations that generate tremendous wealth within some of the poorest communities in the world. This is a recipe for instability and political unrest.

## **III. Solving the Extractive Industry Dilemma: USADF Partners with Global Alumina**

In an effort to improve the way that extractive industries have traditionally managed their investments in host countries, in 2006 USADF entered into a five-year strategic partnership agreement with Toronto-based Global Alumina. This partnership is designed to provide support for local communities affected by the mining and refining operations of Global Alumina as well as to promote the development of local SMEs and is an excellent example of how large scale investments can take an integrated approach to economic growth in Africa.

Over the next five years Global Alumina will invest \$2.35 billion in the development and operation of a 2.8 million ton bauxite refinery and related infrastructure in the Boke prefecture in northwest Guinea. This project represents one of the largest capital investments made in sub-Saharan Africa. Benefits of this investment will include:

- Increased revenues to the Government of Guinea: Annual revenue flows will range from \$5-12.5 million per annum; a 5% mining royalty; and corporate income tax at a rate of 35%, producing an annual revenue of \$100-150 million.
- Creation of jobs: Approximately 8,000 jobs will be created directly as a result of the construction phase, with an additional 24,000 to 40,000 jobs projected in sectors serving the mine and surrounding community
- Development of industry: It is estimated that the direct capital expenditure on Guinean products by Global Alumina will exceed \$100 million, not including labor salaries.

In addition, Global Alumina has agreed to contribute \$500,000 annually towards local community development, and will invest in excess of \$40,000 in employee housing and related social facilities.

While these impacts are significant, they will not translate into sustainable wealth generation in the local communities that surround the mine and refinery. To address this specific issue, USADF and Global Alumina have agreed to partner to develop the communities that are impacted by the refinery as well as to promote the development of local SMEs. A joint fund will be created through equal contributions totaling \$2 million annually over a period of five years. The fund will be managed by USADF in accordance with existing investment principles and eligibility criteria of the Foundation. The goal of the investment fund is to support local communities and to build a network of robust SMEs that serve both Global Alumina and the local economy in order to maximize socio-economic benefits from the extractive activities.

#### **IV. USADF – Global Alumina Partnership Objectives**

##### **A. Community Development**

The USADF – Global Alumina partnership is designed to enhance local participation and delivery of social services in the planning, execution and maintenance of micro-projects which address the priority needs of villages or communities directly or indirectly affected by bauxite mining, alumina processing and transport operations. Micro-projects may encompass infrastructure enhancements as well as small economic activities aimed at improving village-level conditions such as operation of grinding mills, livestock rearing and small-scale farming.

The expected results include:

- development of community awareness of the needs and concerns of women and poorer community groups in planning micro-projects;
- development of a set of prioritized micro-projects to be prepared and implemented with community contributions by the village and/or district;
- efforts to mitigate the impact of having to relocate households;
- development of trained village or district-based community infrastructure management and maintenance committees; and
- development of strategies for communities to prepare for the anticipated influx of workers and others associated with the mining operations.

Although the general strikes experienced throughout Guinea in early 2007 have created minor delays, USADF is on track to deliver rapid results. With the help of local USADF partner organization networks, local communities have defined their micro-projects and are in the process of implementing a number of them, including school construction, reforestation, and skills training in cottage industries such as soap making and vegetable cultivation.

#### **B. Creation of Local Supply Chains based on SME linkages**

The partnership will also promote the development of competitive, profitable and sustainable SME networks which will provide high quality services and products to Global Alumina and other entities. The goal of the partnership is to integrate these local enterprises into a supply chain that serves the refinery and the wider community. SME investments will target three stages of the Global Alumina venture:

- **Construction:** SMEs that operate as suppliers to Global Alumina or its contractors during the three year construction phase, such as building material manufacturers and welding companies.
- **Operations:** SMEs that provide ongoing goods and services to the refinery once it is operational in 2009, such as spare parts distributors and equipment maintenance and repair services.
- **Local economy:** SMEs that service the general needs of the communities surrounding the refinery, including poultry farms and hotels.

USADF has re-engineered its proven screening and assessment methodology to ensure that all investments are relevant to Global Alumina's needs. All SMEs will be required to demonstrate USADF's investment principles of profitability, socio-economic impact and replicability. Overall, investments will be designed to allow selected SMEs to develop the capability to work independently with Global Alumina. Investments include providing both capacity building assistance (e.g.

consulting, training) and capital investment (e.g. fixed assets and working capital).

As of end-February 2007, USADF has screened over 500 local SMEs and has identified ten strong candidates for investment funding. Over the next six months, the Foundation will work with its in-country partners to design and process investments which will enable these enterprises to begin to build a network of suppliers.

Not only will these strengthened SMEs create additional jobs, but more importantly, they will allow local communities to capture revenues that would otherwise flow out of the country. The net impact will be to build a strong local economy that derives sustainable benefits from the presence of Global Alumina's refinery.

## **V. Looking Forward: Guinea Aluminum Corporation Joint Venture**

On March 7, 2007, Global Alumina Corporation entered into a joint venture agreement with BHP Billiton, Dubai Aluminium Company Limited (DUBAL) and Mubadala Development Company PJSC to jointly develop and operate the alumina refinery project in Guinea. BHP Billiton, the world's largest mining company, is expected to manage the joint venture. BHP has a strong reputation for social responsibility, and has, in fact, successfully participated in a similar supply chain linkage project in Mozambique.

USADF looks forward to extending our positive relationship with Global Alumina to all new participants in the joint venture. We expect this will enhance our collective commitment and capability to delivery sustainable benefits to the economies and communities that surround the refinery.

## **VI. Conclusion**

Building upon over twenty years of business development and poverty alleviation in Guinea, USADF is excited to take our activities in Guinea to the next level through this public-private partnership with Global Alumina and its partners. Our unique strategy to partner with Global Alumina and jointly invest in SMEs will not only create jobs, but more importantly, will allow local communities to capture additional extractive revenues that would otherwise leave the country. We are optimistic that this is the best possible approach to addressing the extractive industry dilemma in a sustainable manner, both in Guinea and beyond. More importantly, USADF is confident that this public-private partnership will demonstrate how large scale industry and US foreign assistance programs can work together to contribute to stable, thriving economies and peaceful societies.