



CONGRESSIONAL BUDGET JUSTIFICATION

Fiscal Year 2007

April 15, 2006

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March 22, 2006

On behalf of our Board of Directors, I am pleased to submit the African Development Foundation's budget justification for Fiscal Year 2007. The Administration has requested \$22.7 million. ADF will produce significant, measurable results with this level of funding.

- The Foundation will leverage \$10.5 million of the \$18.5 million in outright annual cash contributions that it has already available in partnership agreements and firm offers.
- ADF will fund about 120 investment projects to grow small, African-owned businesses and support community development.
- It would begin expanding a new investment program in Liberia, begin in late 2006, at the request of newly-elected President Ellen Johnson-Sirleaf, which advances the U.S. foreign policy objective of supporting countries in transition from crisis situations.

The African Development Foundation is the United States' most effective agency for growing small African businesses and empowering local communities to take control of their own development. ADF provides a comprehensive, integrated package of investment capital, technology, training, and technical, managerial and marketing assistance. ADF's investment in growing African businesses and promoting their participation in trade is distinct but highly complementary to assistance provided by USAID and the Millennium Challenge Corporation.

There are four strong testimonies to the uniqueness and effectiveness of ADF's model for developing businesses and engaging them in the global market.

- First, the impacts on people and on enterprises speak for themselves. This past year, with \$18.69 million in appropriated funds, ADF assistance produced significant results:
 - More than 50 enterprises were *directly* supported;
 - Almost \$22.8 million in small loans were extended to 108,000 micro-entrepreneurs who could not access credit from a formal bank – a 33% increase over 2004;
 - More than 65% of the owners and workers assisted were women;
 - ADF-assisted businesses had \$69.7 million in sales revenue – an increase of 60% over 2004 and more than 140% in the past two years; and
 - Enterprises had \$33.8 million in export earnings, a 60 percent increase in one year, from more than forty different non-traditional exports.
- Second, African governments and international corporations are contributing their own cash resources to expand ADF's program. The Foundation already has twelve agreements in place totaling \$13.5 million annually, and another five under discussion, to be concluded in FY 06, for an additional \$5.0 million in matching funds. (There is an additional potential \$3.5 million in strategic partnership contributions that ADF is not actively pursuing for lack of matching appropriated funds.) No other development

agency – bilateral, multilateral or non-governmental – can boast of leveraging a 1:1 match in funding for the preponderance of its projects. Thus, we are effectively doubling appropriated dollars through the dozen existing partnerships. At the proposed appropriation level, however, ADF will potentially leave \$11.5 million in contributions unmatched, on the table.

- Third, American companies are linking with ADF grantees for quality products. We are in active discussions with Target Corporation, Cargill and General Mills to develop African enterprises that will be able to produce to international standards and sell, at a fair price, to those companies.
- Fourth, other development agencies, such as the World Bank, IFC, Rockefeller Foundation and the Shell Foundation, as well as advocacy groups, such as DATA (Bono's *Debt, AIDS, Trade, Africa* organization), are recognizing ADF's approach as the missing link in moving Africa into the global marketplace.

During the past five years, ADF has made year-on-year improvements in virtually all key program performance indicators. We have consistently exceeded targets. In late 2005, the Office of Management and Budget completed a comprehensive program assessment of ADF and deemed the agency fully "effective." This was a significant accomplishment given that only 11 percent of federal agencies, and a mere 5 percent of grant-making programs, receive the highest rating.

In 2006, the Foundation is undertaking a carefully redesigned field structure, which will ensure that leadership and management are closer to our field operating units. We have also developed some new assistance tools for incrementally growing businesses. These changes will further strengthen overall programming and implementation

I believe the African Development Foundation is poised to serve as a model of USG innovation and effectiveness in propelling grassroots economic growth. We ask your support for the resources needed to enable ADF to fully leverage contributions that have already been pledged and to enlarge the impact of this unique program.

Sincerely yours,

Rodney J. MacAlister
President and Chief Executive Officer

EXECUTIVE SUMMARY

Africa is showing encouraging progress and great promise following decades of decline and disappointment,. African leaders are demonstrating new vision and commitment to achieve economic growth and stability, both nationally and regionally. There is a clear consensus among national governments, indigenous civil society and the donor community that Africa's private sector must be unleashed to achieve significant and sustainable economic and social development.

Unfortunately, very few donors are able to *directly* assist African businesses, and there is a dearth of proven models for developing successful, small enterprises. Moreover, too much development assistance fails to reach the grassroots. Clearly, new approaches to development are needed in Africa.

ADF's programs are exactly what Africa needs and is calling for.

The African Development Foundation is the United States' premier agency for growing small African businesses and empowering local communities to take control of their own development – from the bottom-up. Its assistance enables: informal enterprises to move into the formal economy; small businesses to grow into robust enterprises that can produce high quality products as substitutes for expensive imports and for regional and global markets; poor farmers to produce non-traditional, high-value cash crops and capture additional revenue through processing prior to export.

The agency's program is highly complementary to other USG development assistance, but ADF's model is unlike any other currently in the market.

- ADF's approach is rigorous and holistic; it works with the prospective clients to assess all aspects of its operations, diagnose constraints, identify growth opportunities, and then provides a comprehensive, integrated package of investment capital, technology, training, technical assistance and market support tailored to a specific enterprise or industry.
- ADF uniquely blends the strongest aspects of private sector venture capital and donor philanthropy in its approach. Its small grants do not over-extend a growing business too soon, and the required contribution to a local development trust provides a strong commercial orientation to ADF's support. This enables the grantee to establish a "credit-worthiness" in order to subsequently access commercial credit.
- Working directly with the enterprise, rather than through government agencies or international NGOs, PVOs or consulting firms, means that 100 percent of the grant goes directly to the recipient.

As the international community rallies to help reduce poverty and promote broad-scale economic growth in Africa, it is recognized that all too little of external funding is actually getting to the grassroots. In contrast, the African Development Foundation can demonstrate tangible, measurable outcomes, which are *directly* attributable to its support. ADF grows sustainable, indigenous businesses that have an economic impact that far surpasses the original value of the grant.

During the past five years, the Foundation has made year-on-year improvements in virtually all key program performance indicators. Few USG agencies have consistently exceeded their annual performance targets to the magnitude that ADF has. As a testament to the Foundation's sound strategic planning, effective performance management, and consistently strong results, the Office of Management and Budget rated the agency fully "effective," after conducting a comprehensive program assessment of ADF. This is its highest rating and is a significant accomplishment, given that only 11 percent of federal agencies, and a mere 5 percent of grant-making programs, receive it.

Because of the Foundation's high impact and unique approach, both African governments and large, socially responsible corporations are seeking to partner with ADF and contribute their own capital funds to the Foundation to match appropriated funding. The Foundation already has signed Memoranda of Understanding with a dozen entities to contribute a total of \$13.5 million. ADF has received five additional partnership proposals, which it expects to conclude by the end of FY 2006, totaling \$5.0 million more. No other development agency – bilateral, multilateral or non-governmental – can boast of leveraging a 1:1 match in funding for the preponderance of its projects. This is not "parallel funding;" these are outright contributions made to the U.S. Government. Thus, we are effectively doubling appropriated dollars through the dozen existing partnerships. However, ADF is currently able to utilize only \$11.0 million of those potential \$18.5 million in contributions because we do not have adequate appropriated funding to match external funding.

During the past year, the Foundation's Board of Directors and management have undertaken several important steps to enable the agency to effectively utilize the increased resources we are anticipating:

- Created a new management structure for headquarters and is now instituting a carefully redesigned field structure, to strengthen all aspects of operations and to ensure that leadership and management are closer to our field operating units.
- Developed a new grant mechanism to support business start-ups and fledgling companies and a "step-up" approach for incrementally growing businesses.
- Formulated a new corporate strategy that provides a stronger, clearer program focus and reflects the Foundation's unique purpose, mandate and approach;
- Devised a classification of countries to prioritize programming; and
- Revised almost all ADF policies and procedures to enhance efficiency and effectiveness;

Thus, the Foundation is fully prepared to effectively program and manage the requested level of resources and produce results.

The President's request of \$22.7 million for the African Development Foundation would enable the agency to fund about 120 investment projects to grow small, African-owned businesses and support community development. Over the course of ten years, this level of funding and the local trust funds the ADF program generates would result in a significant increase in impact: 178,000 jobs would be created or stabilized, and about 1,000 enterprises would be directly started or grown, generating over \$65 million in annual operating profits.

America was built from the ground up, and our democracy thrives because Americans believe that their hard work and initiative will be rewarded with success. But achieving prosperity and a better future isn't just an American dream. It's an African dream, too. The African Development Foundation is focused on helping African entrepreneurs and communities make the dream of prosperity in Africa a

reality.

INTRODUCTION

“Africa’s the continent of the future. The 21st century is Africa’s century.”

“We can’t fix every problem, but the ones we can we must.”

Bono

ENCOURAGING SIGNS ON A TROUBLED CONTINENT

In 2005, Africa enjoyed a year of encouraging progress and great promise, despite events such as Darfur gripping the public consciousness. As the Blair Commission for Africa noted in its final report, African leaders are showing new vision and commitment to redress the continent’s problems. They are also working together through the African Union to resolve long-standing regional conflicts and through the New Partnership for African Development (NEPAD) to integrate their markets into an economic community that can serve as a dynamic engine for growth. Once the exception, multi-party elections are now the rule. Dozens of economies in eastern, southern, and western Africa are expanding rapidly. Last year, Africa produced the highest return on investment of all world regions, a feat that would have been unimaginable just a few years ago.

The international community is also deepening its commitment to the region. At the G-8 Summit in Scotland, President Bush and world leaders canceled the debt of 17 nations that have made significant progress toward democracy and equality of opportunity. President Bush has undertaken two major initiatives to address the continent’s needs – PEPFAR and MCA – and he convened a summit of African leaders in Washington to discuss next steps for achieving peace and prosperity in the world’s second-largest continent.

Despite encouraging gains, the challenges facing sub-Saharan Africa are enormous. Endemic poverty, hunger, and disease create conditions that pose major threats to national and regional stability and to 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. 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. Historically, 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.

For the recent positive trends to take root and serve as the foundations of sustained growth and stability, Africa needs a dynamic, indigenous private sector that can generate wealth and reduce poverty through good jobs and income. Unfortunately, Africa’s small and medium sized enterprises – which have the greatest potential to create wealth and alleviate poverty – have received relatively little donor or African government support. The formidable challenges involved in supporting young companies in difficult market conditions means that there are few effective, scalable models operating on the ground with the array of resources and experience base necessary to build indigenous African businesses.

NEW APPROACHES ARE NEEDED TO PROPEL AFRICA'S GROWTH

**“Africa can change for the better. The report shows how.
The issue is: do we, together, in Africa and amongst the wealthy nations of the world, have the
will?
The moral reason is clear.”**

**British Prime Minister Tony Blair
presenting the findings of the Commission on Africa**

The message of Africa's current situation and the lessons 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 is a strong consensus – among both government leaders and civil society, across the African continent and among industrialized countries – that new approaches to development are needed.

The Commission on Africa, NEPAD and U.N. Millennium Development Goals all have concluded that that broad-based development can only be accomplished by assisting Africa's indigenous private sector to thrive and grow. The public and private sectors need to work together to create a climate and provide support that unleashes the entrepreneurship of the people of Africa, generates employment and encourages individuals and firms, domestic and foreign, to invest.

Several key themes have emerged as critical to enhancing the impact of development aid:

- Donors need to support Africa's own priorities.
- African participation in and ownership of the development process is critical.
- Africa's indigenous private sector must be better assisted to grow, including addressing its needs for improved management capacity and access to capital, technology and markets.
- Careful attention must be given to ensure that the poorest people are helped to take advantage of new opportunities in the global economy.
- The quality of aid must be improved.
- Greater attention must be given to results.

As the international community rallies to help reduce poverty and promote broad-scale economic growth in Africa, it has recognized that all too little of external funding is actually getting to the grassroots. Unfortunately, very few donors are able to *directly* assist indigenous business.

ADF has 25 years experience working directly at the grassroots, funding high impact projects that communities design and drive themselves. Moreover, the Foundation has developed some unique tools and approaches to grow dynamic, African small businesses into larger players capable of holding their own in national, regional and even global markets.

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 **producing 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 and promoting transparency and accountability** through all its projects, ADF is strengthening civil society and governance and **laying a foundation for democracy and peace**.
- By supporting social and economic projects **in predominately-Muslim West Africa**, which convey the commitment and compassion of the American people, ADF is **reinforcing our public diplomacy** initiatives in this critical region of the world.
- By giving those who feel disenfranchised from global society the tools to create their own prosperity, we are reducing the seeds that generate instability and insecurity, thus helping break the cycle that has produced so much senseless conflict and violence in Africa, some of which carry security risks to the US
- By being able to move rapidly, ADF enables the US Government to be on the ground in places like Liberia immediately when democracy is re-established and help grow businesses that can provide critically-needed jobs for displaced people and demobilized ex-combatants.

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

Table 1

ADF'S PROGRAM 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: Growing businesses – 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: Enhancing agriculture – Expand small farmer production of high-value crops, value-added processing of agricultural goods, and access to local and global markets
- Objective 3: Supporting social enterprises – Promote innovative community-based solutions to critical social and economic needs of marginalized communities and peoples
- Objective 4: Expanding access to capital – 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: Growing African business advisory services – Build sustainable development organizations and business advisory services that provide technical assistance and training to enterprises and community groups
- Objective 2: Developing a business leaders' forum – Strengthen the capacity of African business and community leaders to foster entrepreneurship and social philanthropy and to model transparency and accountability
- Objective 3: Expanding strategic partnerships – 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: Enhancing learning and dissemination – Promote and disseminate international and ADF best practices, lessons learned and successful models for African-driven development

SMALL CATALYTIC INVESTMENTS PRODUCE SIGNIFICANT RESULTS

“...the African Development Foundation can make a major contribution to helping us meet our commitment to our people to deliver tangible development investments... Equally important, ADF’s program will lay the foundation For Liberia’s economic recovery and growth.”

Ellen Johnson Sirleaf, President of the Republic of Liberia

With the \$22.7 million request, ADF will directly and measurably impact people and grow enterprises. The Foundation will be able to leverage \$10.5 million of the \$18.5 million in total contributions that a dozen African governments and international corporations have already committed. With this funding ADF will investment in growing at least 120 small, African-owned businesses, farmer cooperatives and community enterprises. It would also begin expanding a new investment program in Liberia, requested by President Ellen Johnson-Sirleaf, to assist in rebuilding the economic foundation and basic rural infrastructure of the country.

ADF’S TRAILBLAZING WORK

Since its inception, ADF has been a pioneer in promoting African-led community-based development through its participatory development methodologies. However, in recent years, the Foundation has been doing some trailblazing work in growing small, African-owned enterprises.

ADF is successfully demonstrating how to grow African businesses – how to move informal enterprises into the formal economy, enable small businesses to grow into robust enterprises that can produce high quality products as substitutes for expensive imports and for regional and global markets, and introduce poor farmers to high value cash crops and capture additional revenue through processing prior to export.

Under its **trade and investment initiative** (see below for more detail), ADF is providing small African businesses and farmers cooperatives with access to capital, improved technology, 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 25 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** (CRG) 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 AND RIGOROUS

ADF is distinct from other USG agencies and donor organizations in a number of ways:

- What we do.
- Who we do it with.
- How we do it.

Most conventional foreign aid programs are not “home-grown” within Africa. Outside “experts” typically design projects in conjunction with governments or international private voluntary organizations (PVOs), and then those organizations control the bulk of funding, with implementation heavily dependent on expatriate technical assistance. The intended beneficiaries usually do not have any sense of ownership of those projects.

In sharp contrast, for more than twenty years the Foundation has pursued and refined a very different approach to promoting broad-based economic and social 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, farmers cooperatives, rural producer groups, community associations, and local non-governmental organizations (NGOs) that represent and provide services to poor communities; none of our resources pass through government agencies or international organizations.
- ADF’s assistance **directly affects people’s lives; we can measure impact.**
- ADF’s investments **help Africans take leadership and responsibility** for their own development. The Foundation strengthens grantees’ management and technical capacity and financial viability so that activities are **sustained long after ADF assistance ends.**

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.

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. 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.

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.
- The Foundation also conducts financial analyses and social impact assessments, which are undoubtedly some of the most rigorous being done by development finance institutions today. 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 then applies **several 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 scenario. The business is also analyzed in relation to its ability to contribute to the Community Reinvestment Grant trust.
 - 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 along the value chain, 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 and 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 also **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 of all active projects in each country.

Furthermore, ADF has developed two programming innovations to **multiply the impact of** appropriated funding, unlike any other USG development agency:

- The **Community Reinvestment Grant** mechanism which creates pools of reinvestment capital from profitable grantees (See above for details); and

- Under a dozen **strategic partnerships**, African governments and private corporations are contributing, on a fifty-fifty basis, their own financial resources to ADF's program. No other development agency – bilateral, multilateral or non-governmental – can boast of leveraging a 1:1 match in funding for the preponderance of its projects. Thus, we are effectively doubling appropriated dollars through the dozen existing partnerships. (See below for details).

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 across the political spectrum. 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

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 2005, the Foundation **significantly exceeded its project-related performance targets**, including the following:

- ADF helped grow more than 108,300 micro and small enterprises.
- More than two-thirds of the direct beneficiaries from ADF's support were women.
- Almost \$22.8 million in small loans were extended to micro-entrepreneurs who could not access credit from a formal bank – a 33 percent increase over 2004.
- ADF-assisted businesses in the active projects generated an estimated \$69.7 million in sales, an increase of 60% over 2004 and more than 140% in the past two years.
- In addition, ADF's catalytic investments in small African business and agricultural cooperatives producing for the global market generated more than \$33.8 million in revenues, and increase of 57% in one year.

Table 2 summarizes results against some of the principal performance targets for FY 2001 through FY 2005, showing that **ADF's year-on-year performance has steadily grown**.

During 2005, OMB conducted an comprehensive assessment of ADF's strategic planning, performance management and actual program results, and rated the Foundation as fully "effective." This is a significant accomplishment given that only 11 percent of federal agencies, and a mere 5 percent of grant-making programs, receive this highest rating.

TABLE 2
Performance Result Trends, FY 2001 through FY 2005
(cumulative numbers for active projects)

Performance Indicator	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Enterprises Assisted	47,049	86,180	80,946	95,176	108,300
Owners and Workers in Assisted Enterprises	36,457	96,854	112,802	115,827	114,600
Women as a Percent of Owners and Workers in Assisted Enterprises	56.8%	58.1%	48.2%	75.6%	65.0%
Value of Loans Disbursed	Indicator not in use	\$11.243 Million	\$15.127 million	\$17.250 million	\$22.790 million
Gross Revenues of Enterprises and credit providers	\$17.46 million	\$53.440 Million	\$28.830 million	\$43.485 million	\$69.698 million
Gross Revenues From Export Sales	Indicator not in use	\$7.594 Million	\$12.03 million	\$21.53 million	\$33.80 million
Funds Leveraged Through Strategic Partnerships	\$0.364 million	\$1.104 million	\$0.455 million	\$2.704 million	\$3.494 million

FORGING STRATEGIC PARTNERSHIPS

“The African Development Foundation has contributed to our efforts to unleash the entrepreneurial drive of local business to take advantage of new opportunities in the global economy. Your business development has proved highly effective in Ghana... I believe ADF is doing what Africa needs most – propelling grassroots economic growth – and you are doing it well.”

John Kufuor, President of the Republic 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 markets to expand the impact of our program and to disseminate and replicate some our rich lessons learned and best practices about enterprise and community development.

Because of the Foundation’s high impact, unique approach, both African governments and large, socially responsible corporations are seeking to partner with ADF and contribute their own capital funds to the Foundation to match appropriated funding. The Foundation already has signed Memoranda of Understanding with a dozen entities to contribute a total of \$13.5 million.

The Government of Ghana is using ADF's program as a cornerstone in its new development strategy. In 2005, after one year of operations, President Kufuor personally proposed to ADF's Chairman and President that the strategic partnership be expanded five-fold, with the GOG contributing \$5.0 million annually to ADF.

The Foundation has received five additional partnership proposals totaling \$5.0 million more.

No other development agency – bilateral, multilateral or non-governmental – can boast of leveraging a 1:1 match in funding for the preponderance of its projects. This is not “parallel funding;” these are outright contributions made to the U.S. Government. Thus, we are effectively doubling appropriated dollars through the dozen existing partnerships.

However, ADF is currently able to utilize only \$10.5 million of those potential \$18.5 million in contributions. (See Table 3 for details on the strategic partnerships).

In the context of individual projects, the Foundation also builds linkages between the ADF-assisted enterprises and international businesses. Some giants in the American private sector are seeing ADF's work as forging key links to markets. We are in active discussions with Target Corporation, Cargill and General Mills to develop African enterprises that will be able to produce to international standards and sell, at a fair price, to those companies.

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.

Table 3
ADF's STRATEGIC PARTNERSHIPS

Country	Annual Contribution	Program Focus	Date Signed
Already signed			
Botswana	\$400,000 + \$100,000 ops	PDM/MSE	Aug 97
Nigeria – Jigawa State ¹	[\$400,000]	Housing/SME	Aug 01
Guinea ¹	[\$50,000/proj]	Rural infrastructure	Dec 01
Namibia ¹	[\$500,000]	SME/T&I	Jun 02
Ghana	[\$1,000,000] \$5,000,000	T&I T&I	Nov 02 (amended)
Swaziland	\$400,000 + \$100,000 ops	AIDS remediation	Mar 03
Zambia	\$500,000	SME/T&I	Jun 03
Cape Verde	\$500,000	SME/T&I	Jun 03
Mali	\$1,000,000	SME/T&I	Jul 03
Senegal	\$1,000,000	SME/T&I	Sept 03/
Nigeria – Kano State	\$1,000,000	Housing/SME	Sep 04
Sao Tome	\$500,000 ²	SME/T&I	Sep 04
Benin	\$1,000,000	SME/T&I	Mar 05
Nigeria – Kaduna State	\$1,000,000	Ag/SME	Nov 05
Guinea – Global Alumina	\$1,000,000	SME/Supply Chain	Jan 06
Total Active	\$13,500,000		
Under Discussion			
Zambia – Imaginations	\$1,000,000	Agriculture & Youth development	Jun 06 (tent)
Angola – ESSO	\$1,000,000	SME/Supply Chain	Jun 06 (tent)
Kenya	\$1,000,000	Ag Bus/SME	2006 TBD
Niger	\$1,000,000	Ag/SME	2006 TBD
Burkina Faso	\$1,000,000	Ag/SME	2006 TBD
Additional FY06	\$5,000,000		
TOTAL (end 06)	\$18,500,000		

¹ Discontinued/completed partnerships: Nigeria – Jigawa State; Guinea – GOG/World Bank; Namibia

² Sao Tome agreement provided for \$200,000 in 2004, the first year, and \$500,000 in subsequent years

STRENGTHENING PROGRAM OPERATIONS

The Foundation has undertaken a major restructuring of both its headquarters and field operations to strengthen program operations. These fundamental changes 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 has achieved 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.
- During 2006, ADF is instituting a carefully redesigned field structure, to strengthen all aspects of operations and to ensure that leadership and management are closer to our field operating units.

In late 2005, the Board of Directors established a new position of Vice President/CEO for Africa Operations to be based in the field to direct all aspects of the Foundation's field work. The objective was to deploy strong program development, operations management, technical, representational and strategic leadership capability to the field, to interface with African governments, ADF's field teams, and its grassroots clients. The VP/CEO for Africa Operations will head up a small regional office of highly skilled development professionals in order to:

- Assure higher quality, increased quantity and greater accountability in ADF-funded projects, including those initiated under strategic partnerships;
- Mobilize specialized, field-based expertise in new program areas;
- Strengthen the capacity of ADF's Country Representative and Partner Organizations around their new roles and responsibilities; and
- Establish ADF programs in new countries.

This new office in Accra, Ghana is now operational.

The Country Representative is an important component of the ADF business model. He/she reports to the Foundation's VP/CEO for Africa Operations and is independent of the in-country Partner Organization that ADF supports. The Country Representatives make a critical contribution throughout the grant lifecycle. 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.

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.

Both the Country Representative office and the Partner Organization are staffed with African professionals, who possess solid experience in development and financial management and bring a sensitivity to and understanding of the cultures and environments in which they work. They provide the

essential link between ADF and its grassroots clients. Consequently, the budgetary resources dedicated to their work are key to the success of ADF's grant program.

These new structures are improving efficiency and effectiveness, and the Foundation is confident that it has the capacity to program and manage the requested level of resources and produce results.

ENHANCING 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. ADF undergoes annual, independent audits that address its financial statements, internal controls, and compliance with USG laws and regulations. For the past five years, the Foundation has received an unqualified ("clean") opinion on all five financial statements from its independent auditors and the USAID Office of the Inspector General. On the most recent, FY 2005 audit, the auditors found no material weaknesses. 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 at a small agency.

Despite the nascent capacity of many of its grantees, the Foundation maintains high standards of financial accountability for all groups receiving U.S. Government funds.

- 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 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.

Finally, a software contractor is currently redesigning ADF's grants database to improve management oversight and internal controls for financial reporting by grantees and Partner Organizations.

The Foundation has established management objectives (see Table 4 below), each with quantifiable performance targets on which ADF's management reports regularly to the Board of Directors and annually to OMB.

Table 4

ADF'S MANAGEMENT GOAL AND OBJECTIVES

Goal III: Ensure that ADF obtains and maintains resources necessary to deliver pre-eminent program performance in Africa and in all its operational functions and responsibilities

Objective 1: Outreach – Build a broad based of diverse, long-term loyalty and support from African grassroots communities, African businesses and entrepreneurs, African governments, USG agencies, development practitioners, corporations, foundations, and other organizations

Objective 2: Fundraising – Increase Congressional appropriations and private contributions during the FY 2006 – 2010 period, so as to reach an annual operating budget of \$50 million by 2010

Objective 3: Financial management and compliance – Ensure appropriated funds, non-appropriated funds and other contributed resources are managed judiciously, effectively and efficiently, in compliance with ADF, USG and contributors' policies, regulations and requirements

Objective 4: Internal operations support – Significantly enhance and streamline internal management procedures and processes, human resource management, technology support services, workflow, facilities and equipment, to increase efficiency and effectiveness, improve customer satisfaction, and further the mission and goals of ADF

FY 2007 BUDGET AND PROGRAM OVERVIEW

The President is requesting \$22.7 million in appropriated funding for FY 2007. With this, the Foundation will be able to leverage \$10.5 million in non-Federal contributions for its programs (less than the total offered by African governments). Table 5 contains a summary of ADF's budget for FY 2005 to FY 2007.

TABLE 5

Budget Summary

Description	FY 2005 Actual	FY 2006 Estimate	FY 2007 Proposed
FUNDING AVAILABLE			
Current FY appropriations	19,000	23,000	22,727
Rescission	(152)	(230)	
Prior FY carry-over	5,263	2,841	500
Leveraged contributions	2,409	13,000	10,500
Contributions/Appropriations	13%	56%	48%
Total Funding	\$26,520	\$38,611	\$33,727
OBLIGATIONS			
ADF Program Funding	\$18,321	\$29,250	\$24,500
Project grants	11,252	27,000	22,000
Partner Organization development grants	4,954	750	1,500
Program contracts	600	1,000	500
Learning and Dissemination	1,515	500	500
ADF Operating Costs	\$6,482	\$9,361	\$9,227
ADF/W costs	5,055	6,826	7,100
Country Representative costs	1,427	2,535	2,126
Operating costs/Total funding	24%	24%	27%
Total Obligations	\$24,803	\$38,611	\$33,727

OPERATING EXPENSES

During 2006, ADF will complete a major restructuring of its operations, both in headquarters and the field. Senior management is also conducting a top-to-bottom review of systems and procedures and establishing clear performance targets for internal management, with a view towards streamlining, increasing efficiencies, and improving customer service. For the past two years, the Foundation has operated at a bare-bones level, leaving critical positions vacant and delaying important capital investments. However, during FY 2006, senior management is filling long-vacant positions in headquarters, recruiting African country representatives for each field office, setting up a small regional office in Accra, and upgrading technology. For this reason, the Foundation's operating expenses rise necessarily in FY 2006 and then stabilize in FY 2007.

At that point, ADF will be fully staffed and equipped to function effectively and efficiently, including having sufficient capacity for expanded programming. Thus, future increases in operating expenses should be nominal, primarily reflecting the inevitable inflation-related or cost-of-living increases as opposed to expanded operations. Most additional funding – either from additional appropriated funds or from leveraged contributions – will go directly to fund projects and program activities.

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 (only 24 of which are actually filled) is evidence of senior management's commitment to contain overhead costs, without sacrificing the rigor that has made ADF so successful.

PROGRAM FUNDING

The Foundation is at a critical transition and its **appropriated funding in FY 2007 is crucially needed** to:

- **leverage at least \$10.5 million in public and private contributions** under strategic partnerships that ADF has in nine countries;
- **capture economies of scale** from ADF's operating structures and systems;
- **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; and
- respond to expressions of interest from the Congress and the specific request of the newly-elected Government of Liberia to assist in rebuilding the economic foundation and basic rural infrastructure of the country.

Five other new countries are currently under consideration, depending on funding availability, including:

- three countries – Burundi, Democratic Republic of Congo, and Sierra Leone – would be part of a post-crisis stabilization and development initiative, 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;
- Kenya, which would become one of ADF’s anchor investment programs; and
- Burkina Faso, which would include a strategic partnership with the Islamic Development Bank and become part of ADF’s global diplomacy/Islamic outreach effort.

As further explained in the next section, **the requested appropriation will also be used to:**

- Promote new export trade and investment (T&I) opportunities for African enterprises, linking small-scale producers in Africa with regional and global markets, and growing small businesses by increasing their access to capital, improved technologies, training and technical assistance, and other business development services;
- Enable 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 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 provide 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.

ADF will produce significant, measurable results with the level of funding requested, with a cumulative impact over ten years of:

- 178,000 jobs would be created or stabilized, which will directly improve the lives of over one million poor Africans; and
- about 1,000 enterprises would be directly started or grown, generating over \$65 million in annual operating profits.

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For every dollar of the requested appropriations, an additional \$0.22 in contributions will 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.

Table 6

**BREAKDOWN OF PROJECT FUNDING
by Country, FY 2006 and FY 2007**

Country			FY 2006 (Planned -- \$23 million)			FY 2007 (Projected -- \$23 million)		
	Program Focus	Co-funding available	Project Grants	Co-funding	Co-funding	Project Grants	Co-funding	Co-funding
				Used	Unused		Used	Unused
Angola	T&I/MSE	1000*	1500	750	250	1000	500	500
Benin	MSE	1000	1000	500	500	1000	500	500
Botswana	MSE	500	1000	500	0	500	250	250
Cape Verde	MSE	500	1000	500	0	-	-	500
Ghana	T&I	5000	10000	5000	0	10000	5000	0
Guinea	PDM/MSE	1000	2000	1000	0	1000	500	500
Kenya	T&I/MSE	1000*	-	-	1000	1000	500	500
Liberia	MSE	-	1000	-	-	500	-	-
Mali	T&I/MSE	1000	1000	500	0	1000	500	500
Namibia	MSE	500**	-	-	-	-	-	500
Niger	MSE	1000*	1000	500	500	1000	500	500
Nigeria	PDM/MSE/ T&I	1000 +1000	2500	1250	750	1000	500	1000
Rwanda	T&I/MSE	-	500	250	250	500	-	-
Sao Tome	MSE	500	-	-	500	-	-	500
Senegal	T&I/MSE	1000	1500	750	250	500	250	750
Swaziland	HIV/AIDS	500	1000	500	-	-	-	500
Tanzania	T&I	1000**	-	-	-	1000	500	500
Uganda	T&I	1000**	-	-	-	1000	500	500
Zambia	T&I	500+1000*	2000	1000	0	1000	500	1000
Partner Orgs			750			1500		
Potential	New Starts in	FY 07						
Burundi	MSE	-	-	-	-	-	-	-
Burkina Faso	MSE	1000*	-	-	1000	-	-	1000
Congo	T&I/MSE	1000**	-	-	-	-	-	1000
Total Funding			27750	13000		23500	10500	
Unused*** contributions		11500 +7000* +3500**			(5000)			(11500)

Notes: * Strategic partnerships already under consideration and funding to be secured during FY 06

** Future strategic partnerships that will be sought/secured by FY 07

*** "Unused" contributions are counted from the time they are planned to be available

Figure 1

Potential Countries for New ADF Programs

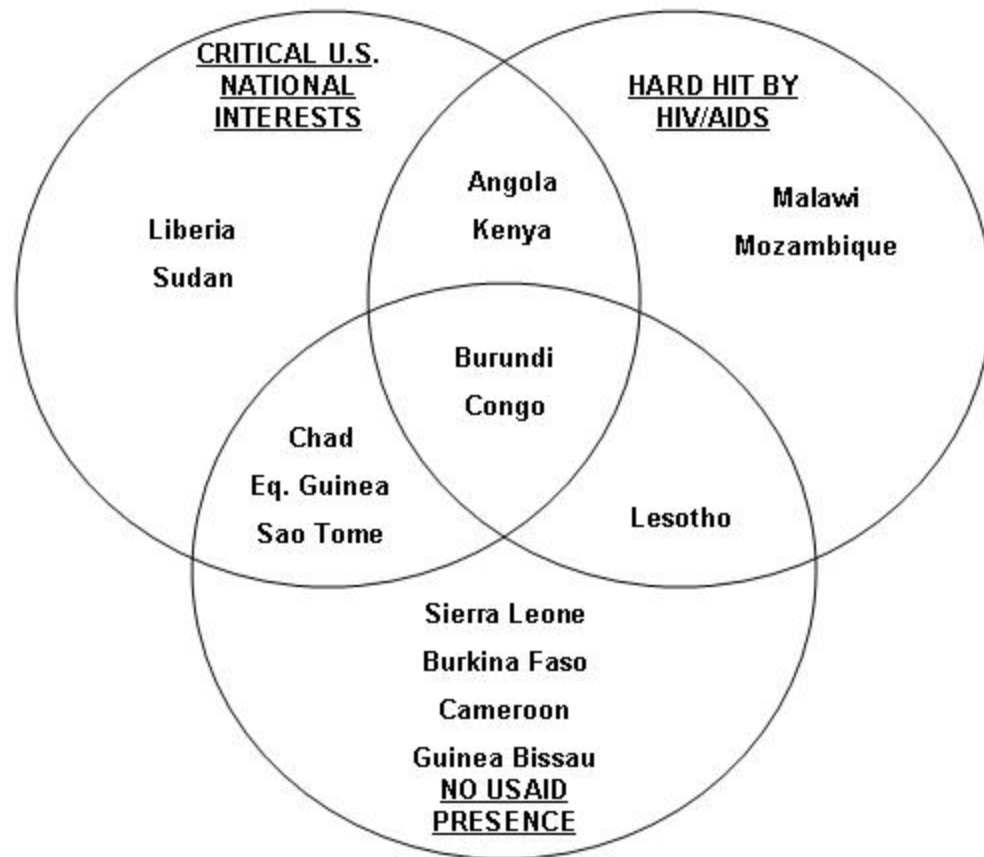


Table 7

ADF COUNTRY CLASSIFICATIONS

Tier 1 Major programs	Tier 2 Mid size programs	Tier 3 Small programs
Anchor programs for model demonstration and impact	Global Diplomacy – Islamic outreach	Good neighbors/Needy people, inc AIDS impact
Ghana	Senegal	Cape Verde
Nigeria	Mali	Botswana
Zambia	Niger	Swaziland
Angola	Northern Nigeria	Namibia
Uganda	Benin	<i>Sao Tome</i>
Tanzania	Guinea	
<i>Kenya</i>	<i>Burkina Faso</i>	
	Post-crisis recovery and development	
	Rwanda	
	Liberia	
	<i>Burundi</i>	
	<i>Congo</i>	
	<i>Sierra Leone</i>	

NOTE: *Countries in italics* are possible new programs, for FY 07 and beyond, depending on funding availability. (Priorities for FY 07 are: Burundi, Democratic Republic of Congo, Sierra Leone and Burkina Faso)

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 rigor 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

Building on more than 20 years of experience in grassroots development, the Foundation has formulated a high impact strategy to help small and medium sized, African-owned enterprises grow, develop new products, and take advantage of opportunities in both the local and global markets.

SMEs play two crucial roles in Africa’s economic development:

- Smaller businesses and agricultural producer groups provide a high percentage of employment of the poor.
- A more limited set of SMEs has the potential to grow rapidly into globally competitive companies that can add value to Africa’s exports and provide low-cost goods and services to Africa’s domestic markets.

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's investment in growing African businesses and promoting their participation in trade is distinct but highly complementary of assistance provided by USAID and the Millennium Challenge Corporation. (See Figure 2 on USG assistance to Africa's SME development).

ADF helps applicants conduct thorough assessments of their business constraints and opportunities and then assists them to develop their funding proposals into business plans with full financial projections, marketing strategies, training plans, and implementation plans. ADF provides them an *integrated* package of investment capital, training, and technical, managerial and marketing assistance. 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.

Through its *direct* assistance, 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. The Foundation's holistic approach is 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.

ADF has on-going trade and investment (T&I) programs in Uganda, Tanzania, Namibia, Ghana and Zambia, focused on assisting small-scale enterprises and cooperatives to produce, process and export more than two dozen products, including: clothing and fabric, silk, dried fruit and juices, vegetables, processed grains and legumes, meats, hides and leather products, butter, fish products (for example Nile perch and rock lobster), various spices (paprika, chili peppers, vanilla), honey, sugar, tea, coffee, sea salt, ceramics, and solar-powered hearing aids. Many of these products are certified organic and, consequently, fetch a premium price for the producer.

ADF has developed a business model that has uniquely positioned the agency as a leading catalyst for enterprise development in Africa. This includes:

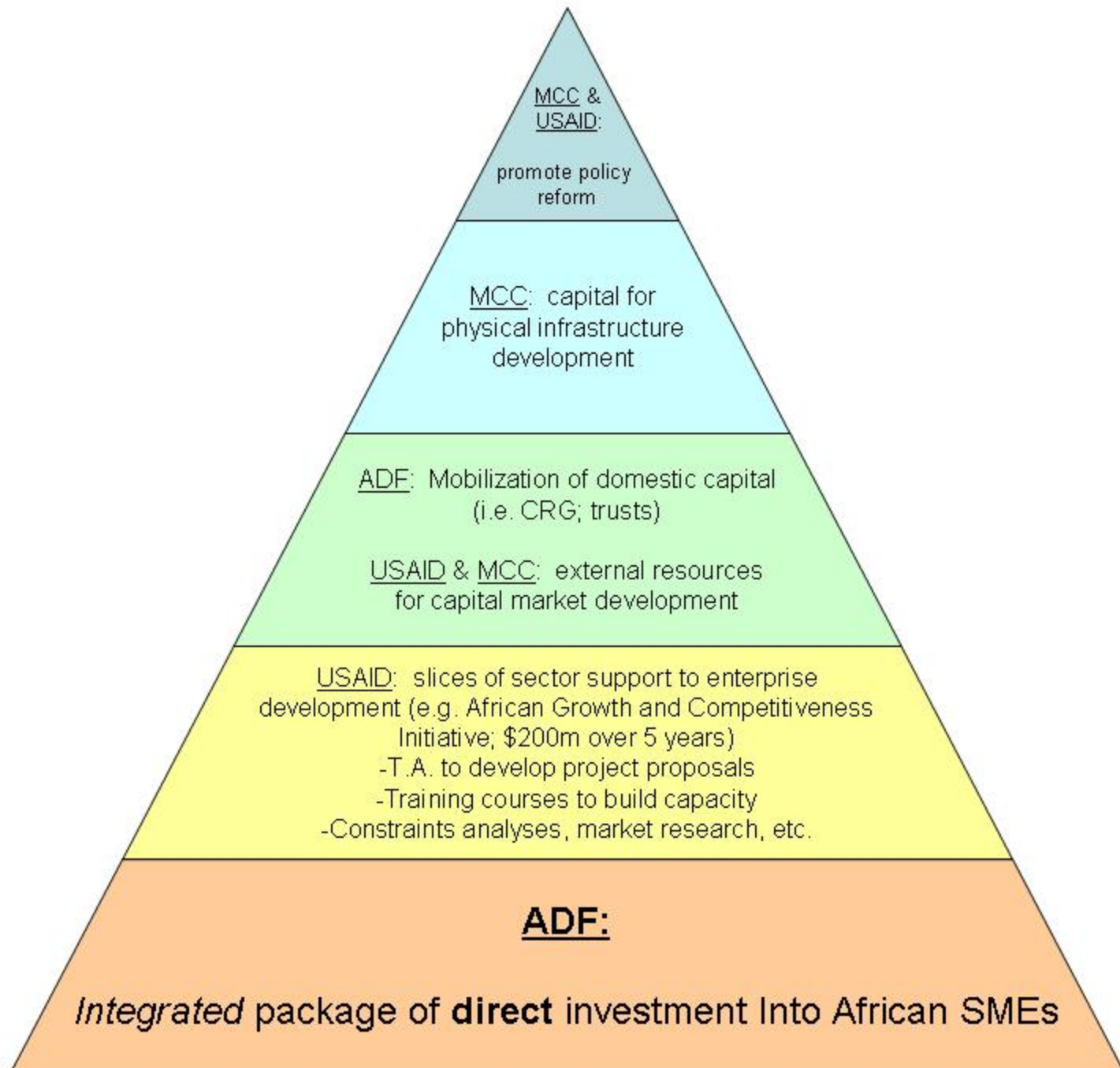
- Deep on-the-ground operations.
- Country specific investment strategies
- Industry-specific investment strategies
- An integrated package of technical, marketing and managerial assistance and funding
- Commercial discipline through reimbursable grants
- Host government matching, dollar-for-dollar contributions
- Private sector partnerships

(The above components of ADF's business model are detailed in Annex 1).

Requested FY 2007 appropriations for the trade and investment objective: \$9.9 million (45% of project grant funding).

Figure 2

**USG Assistance to Africa's SME Development
- Distinct but complementary roles -**



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

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 extensive forward and backward linkages within 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 high-value crops that have potential on regional and international markets
- Supporting their production by small-scale farmers through provision of training, technical assistance and seasonal agricultural credit;
- Establishing or expanding small-scale agro-processors, through operating capital and equipment procurement, and providing them technical and managerial assistance to ensure they meet market standards; and
- Creating new export marketing linkages for regional or international trade
- By thus working in all phases from farm to consumer, ADF is teaching the principles and practices of modern value chain management.

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 2007 appropriations for the small farmers and agro-processors: \$9.9 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 northern Uganda, Angola, Rwanda, Burundi, DRC, Liberia and Sierra Leone – will require innovative approaches to stimulating community action and unleashing entrepreneurship.

Examples of social enterprise support that ADF will provide under this objective include:

- Education and mentoring for “night commuters”, the children in northern Uganda who have been displaced and traumatized by civil war and abductions;
- Basic rural infrastructure, such as health clinics, schools, wells and farm-to-market roads and bridges, in Guinea, utilizing contributions from Global Alumina under a new strategic partnership with this socially-conscious corporation;
- Income-generating activities for families devastated by AIDS in Swaziland, under the strategic partnership ADF has with the National Emergency Relief Commission on HIV/AIDS; or
- Youth job training and community-based care for orphans and vulnerable children in Zambia, under an innovative debt-swap arrangement.

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

Requested FY 2007 appropriations for the social enterprise program: \$2.2 million (10% of project grant funding).

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

The Foundation has initiated a Community Reinvestment Grant (CRG) 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. The CRG provides a strong “commercial” orientation to ADF’s grant program, and it also nurtures a culture of social responsibility among for-profit businesses in Africa. CRG contributions produce a multiplier effect for ADF’s initial investment by creating a renewable pool of local capital.

The Foundation is providing intellectual leadership through this innovation. For example, 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.” ADF, its Partner Organization and the Rockefeller Foundation are jointly undertaking a joint investment program funded, in part, from resources generated under ADF’s program trusts.

Requested FY 2007 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 setting up the regional and local development trusts.

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 of ADF-funded grants on project beneficiaries, ADF strengthens African institutional and financial capacities to support and sustain grassroots development. It also 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

ADF's experience in grassroots development showed that there was a great need for local, African institutions and professionals able to provide high quality, reasonably priced technical assistance and training to enterprises and community groups. Consequently, during the past four 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 assistance to build their 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 were awarded based on an open, competitive grant process; they are performance-based and renewable annually for up to five years.

Requested FY 2007 appropriations for the objective of building local community development agencies in Africa: \$1.5 million for Partner Organization development grants (6% 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 two years, 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 2007 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*

ADF is building innovative partnerships with African governments and international corporations that can serve as vital sources of capital and technology to expand the impact of the Foundation's program.

Because of the Foundation's high impact, unique approach, both African governments and large, socially responsible corporations are clamoring to partner with ADF and contribute hard cash to the Foundation to match appropriated funding. The Foundation already has signed Memoranda of Understanding with a dozen entities to contribute a total of \$13.5 million. These include:

- Botswana – national government
- Ghana – national government
- Swaziland – national AIDS commission
- Zambia – national government
- Cape Verde – national government
- Mali – national government
- Senegal – national government
- Nigeria – Kano State government and Kaduna State government
- Sao Tome – national government
- Benin – national government
- Guinea – Global Alumina

The Foundation has received five additional partnership proposals totaling \$5.0 million more, including Esso Exploration in Angola. (See Table 3 for a complete list of actual and proposed partnerships, their programmatic focus, and their funding levels).

These partnerships clearly demonstrate that there is a strong unmet demand for the Foundation's assistance. No other development agency – bilateral, multilateral or non-governmental – can boast of leveraging a 1:1 match in funding for the preponderance of its projects. This is not “parallel funding;”

these are outright contributions made to the U.S. Government. Thus, we are effectively doubling

appropriated dollars through the dozen existing partnerships. 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. Some giants in the American private sector are seeing ADF's work as forging key links to markets. We are in active discussions with Target Corporation, Cargill and General Mills to develop African enterprises that will be able to produce to international standards and sell, at a fair price, to those companies.

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 2006, ADF expects to attract \$13.0 million in contributions through these strategic partnerships. ADF could leverage between \$10.750 and \$22.0 million in external contributions in FY 2007, depending on its appropriations. These partnerships also provide excellent opportunities for ADF to influence more broadly national development strategies and program approaches.

Requested FY 2007 appropriations for the strategic partnerships objective: No additional funding is requested 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 1,600 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 and periodic e-newsletters on ADF's work.

In FY 2007, 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 2007 appropriations for promoting and disseminating best practices and lessons learned:
\$0.500 million for the work of the new Knowledge, Learning and Dissemination Division (2% of program funding).

Annex 1

ADF's Business Model for Enterprise Development

ADF has developed a business model that has uniquely positioned the agency as a leading catalyst for enterprise development in Africa.

- ***An integrated package of technical, marketing and managerial assistance and funding.*** In order to become competitive, SMEs in Africa need access both to capital to grow and the marketing, management and technical assistance to enable them to use the capital effectively. ADF's blended packages of assistance and financing allows SMEs to build their management capacity, understand market opportunities, identify international best practices in their industries and access the financial resources they need to implement their business plans.
- ***Commercial discipline through reimbursable grants.*** ADF's unique community reimbursable grants (CRG) provides its portfolio companies with the patient capital they need to grow but, by asking them to reimburse the grant into a future community investment fund, ensures that they maintain the commercial discipline to access future capital requirements from commercial sources. The flexibility of the CRG instrument allows ADF to adapt the financing structure to the specific capital needs of the individual SME.
- ***Country specific investment strategies.*** In defining its country strategies, ADF evaluates what opportunities are available and what businesses can realistically be built, whether basic agricultural production or high growth potential SMEs. The portfolio of programs and companies being supported on a country-by-country basis reflect the needs on the ground. ADF will not just be a patient investor in companies, but a patient investor in countries as well.
- ***Industry-specific investment strategies.*** ADF will deepen its technical expertise and focus its strategies on the industries in which African SMEs have the opportunity and capability of producing goods and services on a competitive basis to the regional and international markets. Current industry strategies include: expanding high-end organic production; supporting supply chain providers to multinationals; promoting franchise operators for domestic markets; and developing private sector models for delivering health products and services. This specialized industry expertise allows ADF to proactively identify management talent and enhances ADF's ability to deliver world-class technical assistance.
- ***Deep on-the-ground operations.*** ADF has built strong local country teams, including local business assistance provider organizations and country representatives with strong relationships with the local business community. These country teams have both the skills to operate with commercial discipline and the commitment to building local entrepreneurial communities. ADF's strategic approach and training, investment and monitoring processes give the country teams the tools they need to reach and support a wide range of SMEs.
- ***Host Government Co-Investment.*** ADF has established strategic partnerships with 12 host governments in Africa. By getting these governments to invest in the SME sector alongside ADF,

governments are demonstrating their commitment to building a thriving SME sector. These governments fully understand that ADF, as a U.S. government agency, must maintain complete transparency, integrity and accountability for funds and ethical behavior in all phases of operations. These strategic partnerships have the potential to transform the relationship of governments to the SME sector and address some of the business environment hurdles facing African SMEs.

- ***Developing pools of local investment capital.*** With the resources mobilized from the CRG (see above), ADF is setting up regional and local development trusts. Additional capital will be attracted from international corporations and local businesses with a social responsibility orientation, as well as from the host government and other donors desiring to promote SME development.