

AFRICAN DEVELOPMENT FOUNDATION

Fostering Hope, Growth and Goodwill in Africa



CONGRESSIONAL BUDGET JUSTIFICATION

Fiscal Year 2008

May 2007

“Millions suffer from hunger and poverty and disease in this world of ours. Many nations lack the capacity to meet the overwhelming needs of their people. Alleviating this suffering requires bold action from America...

“We are a compassionate nation. When Americans see suffering and know that our country can help stop it, they expect our government to respond... It is the call to share our prosperity with others, and to reach out to brothers and sisters in need. We help the least fortunate across the world because our conscience demands it. We also recognize that helping struggling nations succeed is in our interest...

“Bringing progress and prosperity to struggling nations requires increased American assistance to countries most in need...

“It's in our interest that we help provide capital to African entrepreneurs. We want them to find access to capital, and we want them to have access to markets because we want to improve their lives. And when people's lives in countries on the continent of Africa improve, it helps the United States of America.

“We have an historic opportunity in the world to extend prosperity to regions that have only known poverty and despair... We're talking about improving lives in a real, tangible way that ought to make our country proud.”

President George W. Bush

Address to the U.S. Global Leadership Campaign, May 31, 2007

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May 30, 2007

On behalf of our Board of Directors, I am pleased to submit the United States African Development Foundation's budget justification for Fiscal Year 2008. The Administration has requested \$30.0 million.

USADF will produce significant, measurable results with this level of funding.

- The Foundation will utilize \$16.5 million of available cash commitments from African governments and private corporations, plus it will leverage an additional \$3.0 million in other private sector funding for USADF-led investments.
- USADF will fund about 150 new investments to grow small, African-owned businesses and to support community development.
- The Foundation will initiate country programs in Burundi and the Democratic Republic of Congo (DRC) to create jobs and income for the rural poor, both of which are critical to help rebuild those fragile states, and to continue expanding its program in Liberia, begun in late 2006 at the request of President Ellen Johnson-Sirleaf and the Administration.
- Finally, in FY 2008, USADF will further strengthen its field operations to provide high quality, indigenous business support and community development services to its clients.

The African Development Foundation is the United States' most effective agency for growing small African enterprises and empowering local communities to take control of their own development. USADF provides a comprehensive, integrated package of investment capital, technology, training, and technical, managerial and marketing assistance. USADF'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.

USADF is serving "the missing middle" – small, African-owned enterprises that need more than micro-finance but would not normally qualify for commercial credit. This target clientele is critical to producing jobs and becoming the engines of growth that African needs.

For the past several years running, the Foundation has **significantly exceeded its investment-related performance targets.**

- This past year, USADF *directly* supported more than 200 enterprises.
- From the growth of these enterprises, more than 46,500 jobs were created or improved; half of those benefiting from USADF's support were women.
- In 2006, USADF-assisted businesses had \$82.3 million in sales revenue – a tripling in the past three years.
- During the past three years, small agricultural producers had \$66.3 million total in export earnings, demonstrating that small African farmers can compete in the global market.

As an indication of their strength and sustainability, **almost 70 percent of USADF's clients were still in business three years after assistance ended – a far higher success rate than small businesses in America.**

American companies are linking with USADF for African-made products. We are in active discussions with Macy's, General Mills and Cargill to develop African enterprises that will be able to produce to international standards and sell, at a fair price, to those companies.

Finally, other development agencies, such as OPIC, the Millennium Challenge Corporation, the World Bank's IFC, the Rockefeller Foundation and the Dutch aid agency SNV, as well as advocacy groups, such as DATA (Bono's *Debt, AIDS, Trade, Africa* organization) and Bread for the World, have **recognized USADF's approach as the missing link** in moving African businesses into the global marketplace.

USADF leads with results. During the past five years, the Foundation 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 USADF and rated 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.

Our vision is to end the poverty of a million Africans by investing in their ideas. I believe the United States African Development Foundation is a model of American innovation and effectiveness in fighting poverty and propelling grassroots economic growth. It is a critical USG program in promoting peace and prosperity in Africa, and thus goodwill towards the United States. We ask your support for the resources needed to enable USADF 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, sustainable economic and social development and long-term stability.

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. Innovative approaches to development are critically needed in Africa.

USADF's programs are exactly what Africa needs and what African leaders are calling for.

“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 USADF is doing what Africa needs most – propelling grassroots economic growth – and you are doing it well.”

John Agyekum Kufuor, President of the Republic of Ghana

“We know that the US African Development Foundation can make a major contribution to helping us meet our commitment to our people to deliver tangible development investments. Equally important, USADF's programs will help lay the foundations for Liberia's economic recovery and growth.”

Ellen Johnson Sirleaf, President of Liberia

“The US African Development Foundation's presence will result in thousands of Rwandans having reliable jobs and increased incomes as well as improving their health and well being. This is critically needed at the present time to help further a peaceful integration and reconciliation among all of our people.”

Paul Kagame, President of Rwanda

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; and
- poor communities to develop African solutions for vexing social and economic problems.

The agency's program is highly complementary to other USG development assistance, but USADF's model is unlike any other currently active in Africa.

What Makes USADF Different?

USADF is an independent government agency that operates differently from conventional foreign aid programs.

- We are **intentional about fostering African ownership of development**, as we empower and resource enterprises and community groups.
- USADF makes **direct investments** in small and medium-sized African businesses and community groups – 100 percent of the investment funding goes directly to the client.
- We **require one-to-one matches** from African governments, effectively **doubling the impact of American taxpayers' dollars**.
- As they become profitable, **businesses repay** USADF's investment back to a local enterprise development fund, **so that U.S. resources can be used again and again**.
- USADF provides a **comprehensive, integrated package** of capital, technical assistance and training to expand production and increase quality, without creating dependency on our involvement.
- The Foundation uses a **rigorous business development model** drawn from private sector best practices.
- **We develop African experts** to deliver high quality, low cost technical advice to clients.
- USADF is able to **react quickly** to Africa's dynamic environment, including launching programs to help rebuild fragile states.

USADF is results-driven. As stewards of public resources, we are committed to producing results and operating efficiently. The Foundation has **exceeded its performance targets** for virtually all its key impact indicators, and most have increased steadily year-on-year, for the past five years. USADF received the highest rating given by the Office of Management and Budget for operational effectiveness.

The President's FY 2008 request of \$30.0 million for the African Development Foundation will enable the agency to expand and strengthen its operations and to leverage much more of the external funding commitments that it has secured to complement appropriated funds.

- USADF will fund about **150 new investments** to grow small, African-owned enterprises and to support community development.
- USADF will effectively double the impact of these appropriated funds with dollar-for-dollar contributions to all investments. The Foundation will utilize **\$16.5 million in cash contributions from African governments and special programs**, a portion of that which is available in signed partnership agreements and from an anticipated special program, plus it will leverage an additional \$3.0 million in private sector funding for USADF-led investments.
- The requested level will also enable USADF to open **new country programs in Burundi and the Democratic Republic of Congo (DRC)** to create jobs and income for the rural poor, which are critical to help rebuild those fragile states, and to continue expanding its program in Liberia.
- Finally, in FY 2008, USADF will **further strengthen its field operations** to provide high quality, indigenous business support and community development services to its clients, and to be able to effectively utilize the increased level of funding.

INTRODUCTION

INNOVATIVE APPROACHES ARE NEEDED TO PROPEL AFRICA'S GROWTH

“In a world where boundaries and borders have blurred, and where seemingly distant threats can metastasize into immediate problems, the fight against global poverty has become a fight of necessity – not simply because personal morality demands it, but because global security does as well.”

From Ending Poverty, Promoting Peace
Brookings Blum Roundtable (August 2006)

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 Blair Commission on Africa, NEPAD and U.N. Millennium Development Goals all have concluded 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.

In contrast, USADF has 25 years experience working directly at the grassroots, funding high impact investments that communities design and drive themselves. Moreover, the Foundation has developed some unique tools and approaches to grow dynamic, African-owned small enterprises into larger businesses capable of competing and winning in national, regional and even global markets.

COMPELLING JUSTIFICATION FOR THE REQUEST

USADF CONTRIBUTES TO ADVANCING AMERICAN VALUES AND U.S. FOREIGN ASSISTANCE OBJECTIVES

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

- By *directly* supporting small entrepreneurs and farmers' cooperatives in **producing non-traditional exports**, USADF 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, USADF is **fostering self-reliance, reducing 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 investments, USADF is strengthening civil society and governance and **laying a foundation for democracy and peace**.
- By supporting **social and economic investments in predominately-Muslim West Africa**, which convey the commitment and compassion of the American people, USADF 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.
- By being able to move rapidly, **USADF brings hope to those coming out of conflict** or turmoil, in places like northern Uganda, Liberia, Burundi and DRC, and helps create critically-needed jobs and income for displaced people and demobilized ex-combatants.

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

Table 1

USADF’S PROGRAM STRATEGIC GOALS AND OBJECTIVES

Goal I: Invest in businesses and social enterprises that create jobs, generate incomes, and improve the lives of the poor

- Objective 1: **Growing businesses** – Grow African-owned small and medium-size enterprises and increase their participation in local and global markets
- 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** – Develop sustainable social enterprises that meet critical social and economic needs of marginalized peoples

Goal II: Expand local institutional and financial capacities that support businesses and social enterprise growth

- Objective 1: **Creating local development trusts** – Create local development trusts and generate renewable pools of local capital to fund small business growth and community initiatives
- Objective 2: **Growing African business advisory services** – Develop African organizations that provide expertise to support businesses and community groups in Africa
- Objective 3: **Expanding strategic partnerships** – Establish strategic partnerships with African governments and institutions, development groups, and the private sector, to fund and replicate USADF programs and approaches
- Objective 4: **Enhancing learning and dissemination** – Promote and disseminate international and USADF best practices, lessons learned and successful models for African-driven development

SMALL INVESTMENTS – SIGNIFICANT RESULTS

“My commission has been studying how best to grow a new class of Liberian businesses. I believe that the African Development Foundation’s model of making direct investments into businesses and providing an integrated package of assistance is unique...ADF [is] a relatively small but hugely significant partner in our national economic recovery and development strategy.”

Richard Tolbert, Chairman, Liberia’s National Investment Commission

USADF has demonstrated that small, well-targeted and guided investments can have a significant impact on African-owned enterprises, disenfranchised communities, and the poor. Furthermore, USADF’s unique, high impact approach is attracting other resources in this “space” that has been largely unassisted. USADF’s assistance **directly affects people’s lives; we can measure impact.**

Our results in 2006 included:

- | | |
|--|----------------|
| • Jobs created or improved | 46,553 |
| • Women who directly benefited through jobs | 21,540 |
| • Gross revenues of USADF-assisted enterprises | \$82.3 million |
| • Value of export sales | \$11.0 million |
| • Cash commitments from African governments and corporations | \$14 million |
| • Follow-on financing from other entities, post USADF assistance | \$29 million |

With the \$30.0 million request, USADF will grow enterprises that can be engines of growth, create jobs and income for the poor, and empower communities to tackle their own development. The Foundation will be able to attract \$16.5 million in total contributions that a dozen African governments and international corporations have already committed. With this funding USADF will invest in growing at least 150 more small, African-owned businesses, farmer cooperatives and community enterprises. In addition to expanding the program in Liberia begun last year, USADF will also initiate new programs in Burundi and the DRC, to assist in rebuilding the economic foundation and basic rural infrastructures of these fragile, post-conflict countries.

USADF’S DISTINCT APPROACH

Fostering African Ownership

Most conventional foreign aid programs tend to be heavily dependent on outside “experts” to design investments and then implement them. The intended beneficiaries rarely control the funds, and they usually have little sense of ownership of those investments. This undermines the sustainability sought by conventional aid.

In sharp contrast, since its inception twenty-five years ago, the U.S. African Development Foundation has pursued and refined a very different approach to promoting broad-based economic and social development in Africa.

All USADF-funded **investments are “made in Africa”** – proposed, designed, and implemented by the client beneficiaries themselves, with technical assistance and training provided by African experts. USADF’s investments **empower and enable Africans take leadership and responsibility for their own development**. The Foundation strengthens clients’ management and technical capacity and financial viability so that activities are sustained long after USADF assistance ends. USADF’s programs are African-driven and African-owned.

Making Direct Investments at Africa’s Grassroots

Few development organizations are not able to deliver an integrated package of assistance directly at the grassroots or to invest directly in small African enterprises.

USADF is the *only* USG agency working directly at the grassroots in Africa. The Foundation makes **investments 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. Furthermore, *100 percent* of the investment funds go to and are controlled by the client enterprise.

USADF can support **higher risk, innovative approaches** because it makes small investments, premised on much due diligence, and then its local Partner organization works closely with clients throughout implementation. 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 USADF's assistance is directed toward rural and peri-urban areas.

Forging Strategic Partnerships for Capital and Markets

We are pleased with the tangible results that the US African Development Foundation program is producing: generating jobs and income for the rural poor, developing non-traditional exports, and linking our producers to the global market. We value the way in which USADF works – from the bottom-up, utilizing local expertise, and making direct investments into businesses with an integrated package of assistance.

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.” As a result, USADF has established innovative partnerships that 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.

In fact, as part of a country programming strategy, the Foundation now *requires strategic partnerships* – with the national or local government, a private corporation, or some special funding arrangement – that will provide cash contributions to match USADF’s appropriated funding. *No other development agency – bilateral, multilateral or non-governmental – can*

*boast of leveraging a 1:1 match in funding for virtually its investments. This **effectively doubles the impact of appropriated funding.***

The Foundation already has signed Memoranda of Understanding with eleven entities to contribute a total of \$14.0 million annually. The Foundation has six additional partnership proposals totaling \$3.0 million in additional annual cash contributions and \$3.0 million more in leveraged co-funding. These will be concluded in 2007.

(Figure 1 shows the constant growth of strategic partnerships, and annual contribution commitments).

In addition, the Governments of Cape Verde, Benin and Niger have all indicated an interest in increasing their annual contributions to USADF under the strategic partnerships. However, the Foundation does not currently have the resources to match those offers.

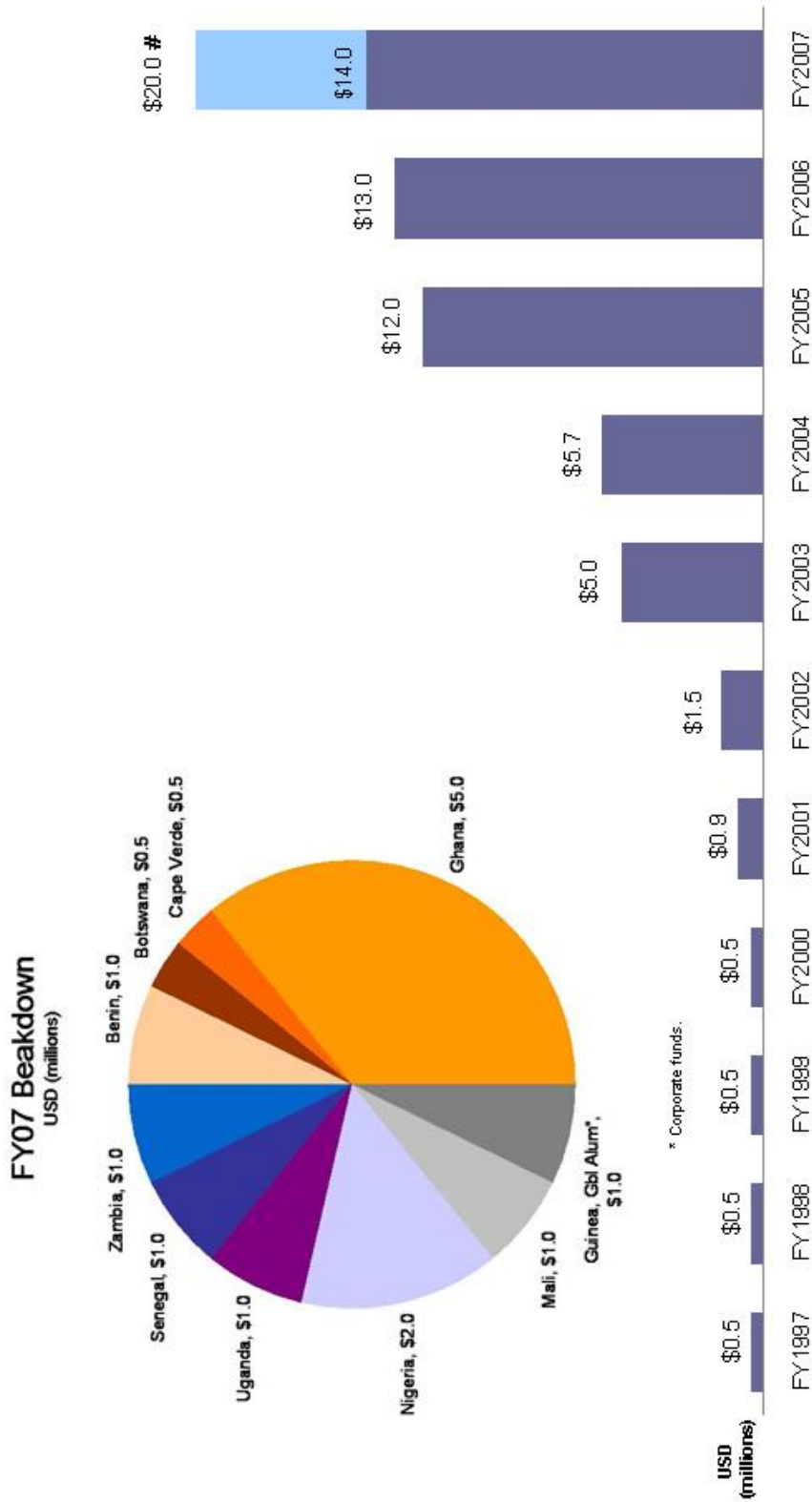
Because these African governments and socially responsible corporations are actually making a cash contribution to the USG, these partnerships serve as strong endorsements of USADF's high impact and unique approach.

These strategic partnerships are having an impact far beyond the additional resources that USADF leverages. The Government of Ghana is using USADF's program as a cornerstone in its new development strategy. In 2005, after one year of operations, President Kufuor personally proposed to USADF's Chairman and President that the strategic partnership be expanded five-fold, with the GOG contributing \$5.0 million annually to USADF. In addition, the Government of Cape Verde, as a direct result of USADF's partnership, has decided to set up a Ministry of Small and Medium-sized Enterprises to support development of their private sector. Similarly, USADF is partnering with the Robert Johnson Foundation and OPIC on developing Liberian enterprises, with USADF focusing on growing small enterprises that would not otherwise be able to draw upon the new Liberian Enterprise Development Fund.

In the context of individual investments, the Foundation also builds linkages between the USADF-assisted enterprises and international businesses. Some giants in the American private sector are seeing USADF's work as forging key links to markets. In 2006, USADF assisted two women's groups to produce baskets that were sold by Target as part of their "Global Bazaar." We are in active discussions with Macy's, General Mills and Cargill 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 USADF is wholly responsible for accountability for funds, program implementation, and results.

Figure 1
ANNUAL CONTRIBUTIONS COMMITTED UNDER STRATEGIC PARTNERSHIPS
FY97 – FY07



NOTE: USADF's ability to utilize these cash commitments is contingent on sufficient appropriated funding being available to match the external offers

Includes \$3.0M of contributions under negotiation: Tanzania \$1.0M, Niger \$1.0M (Islamic DevBank), Burundi \$1.0M (Dutch aid agency SNV); plus \$3.0M of leveraged funding: Nigeria \$2.0M (\$1.0M each from Spring Bank and Oceana Bank); Zambia \$1.0M (Youth Enterprise Fund)

Reinvestment Commitments – the “Pay It Forward” Requirement

USADF has developed a second **unique programming innovation** to get “**more bang for the buck**” and effectively multiply the impact of appropriated funding.

The Foundation has also developed, tested and refined a **Reinvestment Commitment (RIC)** mechanism, which is essentially a “pay it forward” requirement. Privately-held businesses agree to pay back the *full* amount of the USADF investment to a local development trust so that the capital can be utilized to grow other small enterprises. Community-based enterprises and farmers cooperatives, on the other hand, will plow back into their own community 25-100 percent of the USADF investment, depending on their profitability. This mechanism produces a *multiplier effect* for USADF’s initial investment by **creating renewable pools of local capital and supporting various community-level needs**. It also nurtures a culture of social responsibility among for-profit African businesses and grassroots communities.

Providing a Comprehensive, Integrated Package of Support

USADF’s model of enterprise development is unlike any other currently in the market.

- Its approach is holistic and diagnostic.
- USADF works with prospective clients to assess all aspects of their operations and to develop detailed business and investment plans.
- The Foundation then provides a comprehensive, integrated package of expansion capital, management, marketing and technical assistance to African-owned businesses to help them develop new products, expand their production, improve their quality, and compete in the global marketplace.
- We help small farmers move from subsistence agriculture into high-value cash crops and add value to their products through processing in Africa.
- Our Buyer Linkages Program helps African producers identify new export opportunities and actively links them with international buyers.
- USADF also provides funding to social enterprises and community-based organizations that offer essential services to improve the quality of life of the poor.
- The Foundation’s support is provided through a variety of financial instruments, with investments ranging from US\$50,000 to US\$250,000, over a period of one to five years. It takes great care to ensure that its investments do not over-extend a nascent business or community group.

Utilizing a Rigorous Business Development Model

The Foundation has developed a rigorous model for screening and developing investments.

- USADF 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 investment proposals.
- 1) **Profitability** – USADF assesses profitability during the investment 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 make a specific Reinvestment Commitment.
 - 2) **Socio-economic impact** – USADF 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 Reinvestment Commitment (RIC) mechanism and other charitable programs the enterprise undertakes with increased profits earned as a result of USADF's assistance.
 - 3) **Multiplication and replication potential** – The Foundation analyzes investment proposals for their potential for scaling and replication, not only by USADF but by other development agencies, the host government and the private sector. This helps expand the impact of USADF's investments beyond our direct funding, and it promotes best practices across Africa.

USADF also **systematically monitors and evaluates its portfolio**. Clients prepare and submit quarterly performance reports against investment design targets, financial reports on the use of USADF funds, and financial statements on the business itself. Foundation portfolio managers review these reports and provide feedback to the client and Partner and also flag problem investments for remediation. A USADF committee conducts annually a formal portfolio review of all active investments in each country.

Developing African Experts

USADF has a **unique business model for managing its in-country operations and supporting its clients**. 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 USADF's program. The Country Representatives screen requests for funding to ensure that they meet USADF's funding criteria and certify the financial management capability of the clients. The Partner Organizations assist clients in developing, implementing, and assessing their investments. The Country Representatives also monitor the performance of the clients and compliance with U.S. Government requirements and USADF policy.

MAKING A DIFFERENCE IN PEOPLE'S LIVES

USADF'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 investment screening, design, and monitoring and as the portfolio matures, the Foundation's performance results have increased substantially.

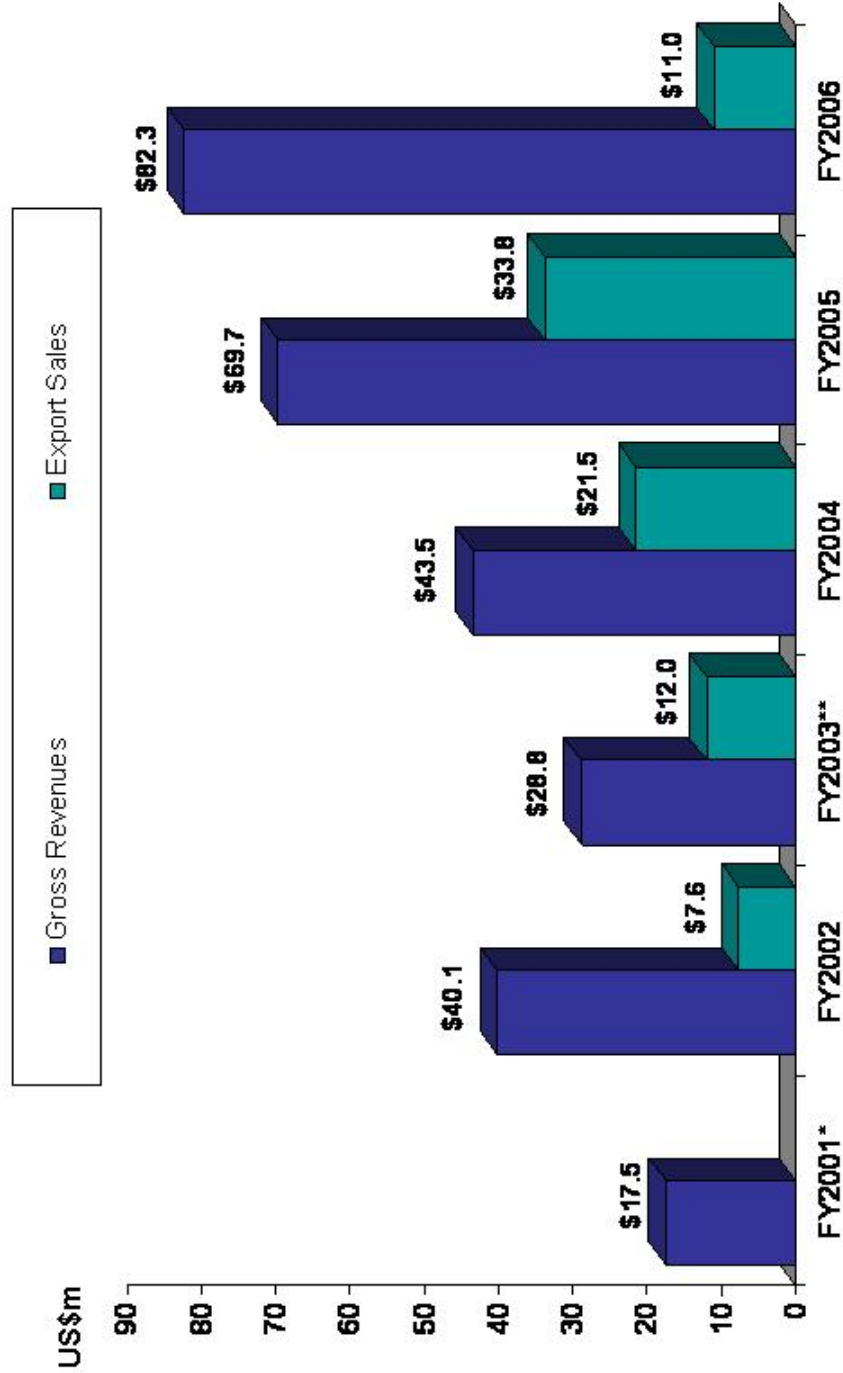
For the past several years running, the Foundation has **significantly exceeded its investment-related performance targets.**

- This past year, USADF *directly* supported more than 200 enterprises.
- From the growth of these enterprises, more than 46,500 jobs were created or improved; half of those benefiting from USADF's support were women.
- In 2006, USADF-assisted businesses had \$82.3 million in sales revenue – a tripling in the past three years.
- During the past three years, small agricultural producers had \$66.3 million total in export earnings, demonstrating that small African farmers can compete in the global market.
- As an indication of their strength and sustainability, almost 70 percent of USADF's clients were still in business three years after assistance ended – a far higher success rate than small businesses in America.

Figure 2 shows USADF's significant impact on small African-owned enterprises.



Figure 2
US AFRICAN DEVELOPMENT FOUNDATION
IMPACT ON USADF-ASSISTED ENTERPRISES FY01 – FY06
The Multiplier Effect



* Export earnings not available for 2001 ** Adverse exchange rates resulted in low dollar earnings in 2006.

STRENGTHENING PROGRAM OPERATIONS

During the past year, the Foundation's Board of Directors and management have undertaken several important steps to enable the agency to further strengthen program operations, including:

- Created a new management structure for headquarters and the field to strengthen all aspects of program operations.
- Formulated clear purpose, vision and mission statements and refined the corporate strategy to provide a stronger, clearer program focus and overall direction;
- Devised a classification of countries to prioritize programming;
- Revised almost all ADF policies and procedures to enhance efficiency and effectiveness; and
- Developed a new, comprehensive database for field and headquarters to support management of the more than 200 active projects.

These changes 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.

The Foundation has established management objectives (see Table 2 below), each with quantifiable performance targets on which USADF's management reports regularly to the Board of Directors and annually to OMB.

Table 2

USADF'S MANAGEMENT GOAL AND OBJECTIVES	
Goal III:	Broaden USADF's resource base and provide efficient and effective services
Objective 1:	Outreach – Enhance understanding of Africa's social and economic challenges and build a strong base of support for USADF's programs and approaches among the American public, USADF's clients in Africa, its strategic partners, and USG officials and the Congress, through systematic and targeted outreach and communications
Objective 2:	Fundraising – Develop a larger, more diverse funding base to support expanded operations and increased impact
Objective 3:	Management systems – Improve management systems to ensure timely planning, effective management, and full accountability of funds
Objective 4:	Internal operations support – Develop and further utilize the strengths of staff and enhance and streamline support systems and administrative procedures to achieve the best possible level of service to USADF clients

IMPROVING FINANCIAL MANAGEMENT SYSTEMS

The African Development Foundation has developed strong financial management systems.

USADF takes its fiduciary responsibilities very seriously. USADF undergoes annual, independent audits that address its financial statements, internal controls, and compliance with USG laws and regulations. For the past six 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 FY 2006 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 limited capabilities of many of its clients, 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 clients, USADF staff formally assesses a group’s capacity to control and account for funds. The assessment process is conducted at the applicant’s site, allowing the assessor to observe, test, and evaluate the group’s financial system first hand. As needed, extensive recommendations for training and remediation are developed, all of which must be implemented before final certification.
- After an investment is approved, the Partner Organization provides a five-day training course in USADF 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 clients.
- All clients submit quarterly financial reports and financial statements. These reports are reviewed at several levels to ensure problems are identified and resolved at the earliest stage possible.
- The Country Representative makes regular site visits to check project accounting, as well as to monitor implementation progress.
- USADF contracts with independent audit firms in each country where it operates to conduct audits of each investment over \$50,000 at least once during its life.
- Finally, an audit of each Partner Organization is conducted annually.

USADF currently has a cross-servicing arrangement for financial management services with the Department of Interior’s National Business Center. This arrangement conforms to OMB’s Financial Lines of Business initiative to standardize financial management through selected service providers, or “centers of excellence.” USADF has found that this arrangement, for the size of our administrative budget and the number of transactions processed annually, is very expensive – a full 12 percent of non-personnel operating costs. Consequently, we are reviewing alternatives to decrease the financial impact but maintain full financial integrity and compliance.

FY 2008 BUDGET AND PROGRAM OVERVIEW

The President has requested \$30.0 million in appropriated funding for FY 2008. With this, the Foundation will be able to leverage \$16.5 million in non-Federal contributions for its programs. Table 3 contains a summary of USADF's budget for FY 2006 to FY 2008.

TABLE 3
Budget Summary

Description	FY 2006 Actual	FY 2007 Estimate	FY 2008 Proposed
FUNDING AVAILABLE			
Current FY appropriations	23,000	22,800	30,000
Rescission	(230)	-	-
Prior FY carry-over and recoveries	2,787	4,218	-
Cash Donations	3,342	10,361	16,500
Leveraged funding		(500)	(3000)
Contributions + leveraged/Appropriations	15%	48%	65%
Total Funding (excluding leveraged)	28,899	37,379	46,500
OBLIGATIONS			
ADF Program Funding	16,482	26,424	35,000
Project investments and adjustments	8,047	22,264	28,500
Partner Organization development grants	5,486	1,189	4,000
Program contracts	768	1,539	1,500
Program assessment	2,181	1,432	1,000
ADF Operating Costs	8,605	10,955	11,500
ADF/W costs	5,971	6,487	7,000
Field operations costs	2,634	4,468	4,500
Operating costs/Total funding	30%	29%	25%
Operating costs/Total, including leveraged	30%	29%	23%
Total Obligations	25,087	37,379	46,500

OPERATING EXPENSES

For several years, the Foundation has under-invested in vital operating infrastructures, leaving critical positions vacant and delaying important capital investments. In fact, the headcount in ADF headquarters had remained almost constant for the past 10 years ago, while appropriations have almost doubled. Consequently, during 2006 and 2007, USADF undertook a major restructuring of its operations, both in headquarters and the field. This included establishing an Africa Regional Office in Accra, headed by the Vice President and “CEO for Africa Operations,” to push our business services and program oversight closer to our clients. It also included reconfiguring country teams, including recruiting several Presidential Management Fellows, to work on all aspects of program operations. This has increased operating costs in FY 2007.

However, we have now established the core staffing required to support the significantly increased level of programming, achieve some economies of scale, and increase operational effectiveness and efficiency going forward. Consequently, we project only a 9.5 percent increase in operating costs for FY 2008, most of which will be for cost of living adjustments and staffing two new Country Representative offices in Burundi and DRC.

Most additional funding – either from additional appropriated funds or from leveraged contributions – will go directly to fund investments and business development support.

As stewards of the taxpayers’ money, USADF’s management is committed to keeping operating expenses to as low a figure as is possible and responsible. There are several important things to keep in mind in analyzing the Foundation’s “overhead”:

- There are certain core functions, reporting requirements and “unfunded mandates” that we are bound to as a government agency.
- Personnel and services contracts make up 82 percent of our total operating costs, which provides limited latitude for budget reduction in light of our business and our fiduciary responsibilities.
- There are economies of scale that can be captured, building on our core infrastructure. The relationship between administrative and program costs is a function of total funding. Building on our core infrastructure, there are efficiencies to be gained as total resources increase. For this reason, operating costs as a percent of total funding drops from 29 percent in FY 2007 to 23 percent in FY 2008.
- Moreover, if USADF used the same formula that the IRS requires not-for-profit organizations to utilize, the Foundation’s current overhead would equate to only 13 percent of total funding. In fact, after categorizing all our costs according to the IRS Form 990, we found that we were well under the average cost structure for personnel, travel and facilities, when compared to Private Voluntary Organizations involved in international development work.

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 USADF 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 USADF so successful.

PROGRAM FUNDING

The Foundation is at a critical transition and its **appropriated funding in FY 2008 is crucially needed** to:

- **leverage at least \$16.5 million in public and private *cash* contributions, plus an additional \$3.0 million in leveraged co-funding**, under strategic partnerships that USADF has in eleven countries. Even then, about \$7.0 million in cash contributions will be left unutilized for want of funding to match the offers.
- **capture economies of scale** from USADF's operating structures and systems;
- **pursue USADF'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 requests of the Governments of Burundi and the DRC to assist them in rebuilding their economic foundations and basic rural infrastructures.

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

- **promote new grassroots 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 (Swaziland) or civil war (Liberia, Burundi and DRC);
- **generate local resources** under the Reinvestment Commitment mechanism that can be used to multiply USADF's impact through funding other small business and community initiatives;
- **build local organizations** to provide support to enterprises and community groups;
- encourage African governments and development organizations to **increase use of best practices, lessons learned, and African development solutions.**

A breakdown of funding by country is found in Table 4, and Table 5 indicates how USADF classifies each program.

PROGRAMMING PRINCIPLES

Assisting where we can make a unique and significant contribution: This is the most important criteria we weigh when deciding whether to enter new countries, or to exit an “graduate” an existing program. We assess what other donors are doing, the “enabling environment” of the country, and the likely impact of USADF’s business development model and our comparative advantage in light of the needs of the particular country. So, for example:

- In Rwanda, USADF’s community-focused model was a unique and potent way to help alleviate post-genocide tensions by bringing together all the people around a production activity and providing economic activities for everyone, regardless of ethnicity. Two of the Foundation’s initial investments included supporting smallholder specialty coffee production and rural women weaving “peace baskets”, both for the American market.
- In the post-conflict situations of Liberia, Burundi and DRC, USADF’s programs will be focused on rebuilding the fundamental building blocks of those devastated economies and societies – the small enterprise and farmers cooperatives – to create jobs and income that are vital to ensuring stability and to ushering peace and prosperity. USADF is both nimble and able to work *directly* at the grassroots, with a comprehensive assistance model, unlike other development agencies.
- The impetus for a new program in Zambia was developing cash crop opportunities for subsistence farmers to reduce poverty and to fuel the rural economy, an area in which USADF has extensive experience. Again, there was relatively little assistance being provided in this area, and no others utilizing USADF’s integrated investment model.
- In deciding to close out its program in Namibia, USADF concluded that it had successfully demonstrated how to grow indigenously owned businesses, but that the benefits generated were more costly than in other countries where the Foundation operates. Moreover, two SME funding institutions had taken up USADF’s model.
- We entered Swaziland because of the growing number of widows and orphans heading households and a 40 percent HIV/AIDS infection rate, with a specific strategy to focus on developing income generating activities for families devastated by the pandemic. There were no other development agencies working to counter the economic impact of AIDS.

Assisting where there is strong host country commitment→ need for strategic partnerships: This has become an *imperative* for programming. It enables USADF to double the impact of appropriated funds and to influence the host country’s development strategy and programs, and it evidences the government’s belief in and commitment to USADF’s approach. (See Figure 1).

- We look for strategic partnerships when we enter a new country (e.g. the Dutch SNV will assist the Government of Burundi in co-funding USADF’s new program there; HIPC

resources may be used to contribute to the program in DRC).

- In other new country programs, it may be important first to demonstrate the uniqueness and effectiveness of USADF's model. Then we work on partnerships after the program is up and running (e.g. we are negotiating a co-funding arrangement with the Rwandan Ministry of Commerce, as well as discussing contributions from several private companies in Liberia).
- For longstanding USADF programs, we go to the host government with program results and request their financial participation in their development. When successful (e.g. strategic partnerships concluded with Mali, Niger, and Uganda), USADF proceeds with programming.
- On the other hand, as Table 4 illustrates, when the host government is not interested in partnering or fails to make good on their contributions, then we reduce or suspend programming.
 - USADF suspended funding in Benin the past two years, but recently received the government's recommitment to co-funding, so we will restart programming in earnest in FY 2008.
 - All new programming has been suspended in Senegal until the government follows through on its promised contributions.
 - Similarly, funding in Zambia has been curtailed in FY 2007, except for the Zambia Youth Empowerment program.
 - Finally, while we await agreement by the Government of Tanzania to a co-funding strategic partnership, we have reduced funding in FY 2007.

Giving attention to implementation → bi-annual programming: USADF's experience has shown that enterprises experience some significant "growing pains" in their first year of expansion, and nascent enterprises in particular require a lot of nurturing and oversight. Thus, in FY 2008 and FY 2009, to make optimal use of our stretched field capacity, we will shift most of our country programs to biannual programming – one year staff will concentrate on new investment development and then the following year they will focus on implementation. This shift in programming will help ensure that enterprise investments are not just designed well, but that they can begin successfully executing on their business growth plan.

- For countries that developed many new investments in FYs 2006 and 2007, they will have no new funding (Cape Verde) or smaller funding levels (Mali, Rwanda) in FY 2008.
- For countries that had relatively light funding in FY 2007, they will focus on new investment funding (Swaziland, Tanzania, Uganda).
- For others that have relatively heavy funding in FYs 2007 and 2008 (Ghana, Guinea, Liberia, and Nigeria), they will shift to concentrating on implementation support during FY 2009.

We will pursue this programming rhythm as an interim strategy. Longer term, we will build the capacity to perform both vital functions of investment development and implementation support concurrently in all growing country programs.

**Table 4 – BREAKDOWN OF INVESTMENT FUNDING
by Country, FY 2007 and FY 2008**

Country		FY 2007 (Planned -- \$22.7 million approps)				FY 2008 (Requested -- \$30 million approps)			
	Program Focus	Co-funding available	Value of total Investment	Donations Used	Donations Unused	Value of total Investment	Donations Used	Leveraged funding	Donations Unused
Benin	MSE	1000	-	-	1000	1000	500		500
Botswana	MSE/PDM	500	850	425	75	1000	500		0
Cape Verde	SME	500	1000	500	0	-	-		500
Ghana	T&I/SME	5000	9000	4860	175	9000	4500		500
Guinea	PDM/MSE	1000	1500	700	300	2000	1000		0
Liberia	SME	1000**	950	-	-	1000	500		500
Mali	T&I/MSE	1000 500**	1250	880	375	1000	500 500		500 0
Namibia	Close-out	-	-	-	-	-	-		-
Niger	MSE	1000* 500**	1000	500	500	1000	500 500		500 0
Nigeria	SME/T&I	2000 [+2000*]	3500	1750	250	3000 2000	1500	2000	500 0
Rwanda	MSE/T&I	1000**	1000	-	-	-	-		1000
Senegal	MSE/T&I	1000	-	-	1000	-	-		1000
Swaziland	AIDS	500**	-	-	-	1000	1000		500
Tanzania	T&I/SME	1000* 500**	500	-	-	2000	1000 500		0 0
Uganda	T&I/SME	1000 500**	1200	600	400	2000	1000 500		0 0
Zambia	T&I/SME	1000** [1000*]	750	0	500	1000	1000	1000	0
Potential	New Starts in	FY 08							
Burundi	MSE	1000* 500**	-	-	-	1000	500 500		0 0
Congo	MSE	1000**	-	-	-	500	-		1000
Total Funding			22650	9750	6750	28500	16500	3000	7000

Notes: * Strategic partnerships already well advanced, to be secured during FY 07

** Additional strategic partnerships or special contributions programs to be sought

Program Focus: MSE = micro and small enterprises; SME = small and medium-sized enterprises; PDM = participatory development methodologies; T&I = trade and investment; AIDS = income generating activities to alleviate the economic impact of HIV/AIDS (Swaziland only)

Table 5
USADF COUNTRY CLASSIFICATIONS

Tier 1 Major programs	Tier 2 Mid size programs	Tier 3 Small programs
Anchor programs that demonstrate business model	Global Diplomacy – Islamic outreach	Social development
Ghana	Senegal	Cape Verde
Nigeria	Mali	Botswana
Zambia	Niger	Swaziland
Uganda	Northern Nigeria	Namibia (in close-out process)
Tanzania	Benin	
	Guinea	
	Fragile state recovery and development	
	Rwanda	
	Liberia	
	Burundi	
	Congo	
	Northern Uganda (Gulu)	
	Nigeria's Delta region	

PROGRAM GOALS

Program Goal I: Invest in businesses and social enterprises that create jobs, generate incomes, and improve the lives of the poor

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.

USADF funds investments that directly and significantly improve the livelihoods of low-income people. The Foundation stresses innovation and rigor in its investments to create jobs and increase incomes for the poor. USADF 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.

Objective 1: Growing Businesses

“Grow African-owned small and medium-size enterprises and increase their participation in local and global markets”

Building on 25 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 USADF 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. USADF'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. (See Figure 3 on USG assistance to SME development).

USADF 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 investments, marketing strategies, training plans, and implementation plans. USADF provides them an *integrated* package of investment capital, training, and technical, managerial and marketing assistance. Once an investment is funded, USADF 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.

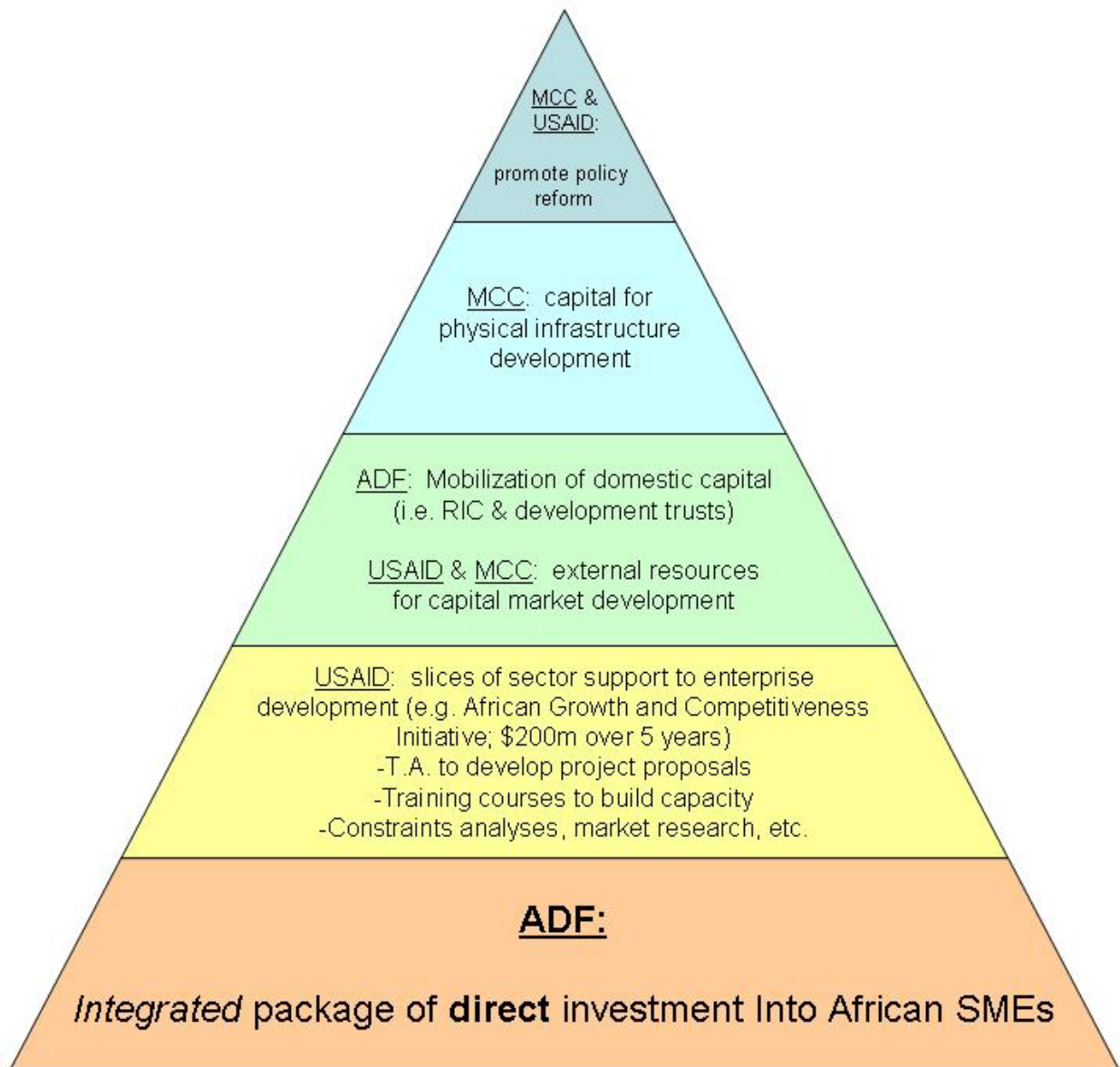
Through its *direct* assistance, USADF is helping small and-medium sized, African-owned enterprises grow, develop new products, and take advantage of opportunities in both the local and global markets. The Foundation's holistic approach is supporting AGOA objectives and demonstrating that small-scale African enterprises and cooperatives can diversify production, meet international standards, and successfully compete in the global economy.

USADF has major trade and investment (T&I) programs in Ghana, Tanzania, Uganda and Zambia, plus T&I investments in Cape Verde, Mali, Nigeria and Rwanda, focused on assisting small-scale enterprises and cooperatives to produce, process and export about 40 products, including clothing and fabric, silk, dried fruit and juices, vegetables, processed grains and legumes, meats, hides and leather products, butter, fish products (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.

USADF 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 investments;
- host government matching, dollar-for-dollar contributions; and
- private sector partnerships.

Figure 3
USG Assistance to Africa's SME Development
- Distinct but complementary roles -



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”

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.

USADF 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 working in all phases, from farm to consumer, USADF is teaching the principles and practices of modern value chain management.

To make export production that benefits low-income producers more feasible, USADF 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.

Objective 3: Supporting Social Enterprises

“Develop sustainable social enterprises that meet critical social and economic needs of marginalized 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, Rwanda, Burundi, DRC, and Liberia – will require innovative approaches to

stimulating community action and unleashing entrepreneurship.

Examples of social enterprise support that USADF 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 responsible corporation;
- Income-generating activities for families devastated by AIDS in Swaziland, under the strategic partnership USADF 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 public-private sector partnership.

Some of USADF’s programming in post-conflict situations – Liberia, Burundi, and DRC – will involve funding enterprises and community-based organizations to generate income and deliver essential services to affected and marginalized communities and peoples.

Program Goal II: Expand local institutional and financial capacities that support businesses and social enterprise growth

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. Investments administered by government agencies and parastatal companies are often inefficient and ineffective. By contrast, USADF works directly at the grassroots level with private enterprises, producer groups, and community organizations that assist them.

USADF 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 USADF-funded investments on investment beneficiaries, USADF 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.

Objective 1: Creating Local Development Trusts

“Create local development trusts and generate renewable pools of local capital to fund small business growth and community initiatives”

The Foundation has pioneered an innovative “pay forward” mechanism called the Reinvestment Commitment (RIC), which will vary in size and nature depending on the kind of enterprise. Privately held companies will treat this as an interest-free loan, and will repay 100 percent of the

USADF investment into a local development trust, from which it will be reinvested into other small African enterprises. Community-based enterprises and farmers cooperatives, on the other hand, will contribute 25-100 percent of the USADF investment, depending on their profitability, towards some community-based activity, which will be specified in USADF's investment agreement. This mechanism produces a *multiplier effect* for USADF's initial investment by creating renewable pools of local capital and by supporting various community-level needs. It also nurtures a culture of social responsibility among for-profit businesses in Africa and grassroots communities.

The Foundation is providing intellectual leadership through this innovation. For example, the International Finance Corporation of the World Bank invited USADF to share its approach and experience to help it launch a new initiative focused on promoting "social enterprises." USADF, its Partner organization in Uganda and the Rockefeller Foundation are jointly undertaking a joint investment program funded, in part, from resources generated under USADF's program trusts.

Objective 2: Growing African Business Advisory Services

"Develop African organizations that provide expertise to support businesses and community groups in Africa"

USADF'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, USADF has pursued a unique business model to provide support to its applicants and clients. 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 USADF's Country Representative to develop their investment ideas into business plans with rigorous financial analyses. After USADF awards a investment investments, the Partner organizations train the clients 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.

USADF 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. USADF's cooperative agreements with Partner organizations were awarded based on an open, competitive investments process; they are performance-based and renewable annually for up to five years.

Objective 3: Expanding Strategic Partnerships

"Establish strategic partnerships with African governments and institutions, development groups, and the private sector, to fund and replicate USADF programs and approaches"

USADF 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 and unique approach, both African governments and large, socially responsible corporations are clamoring to partner with USADF and contribute hard cash to the Foundation to match appropriated funding. The Foundation already has signed Memoranda of Understanding with eleven entities to contribute a total of \$14.0 million annually. These include:

- Botswana – national government
- Ghana – national government
- Zambia – national government
- Cape Verde – national government
- Mali – national government
- Senegal – national government
- Nigeria (2) – Kano State government and Kaduna State government
- Benin – national government
- Guinea – Global Alumina
- Uganda – national government

The Foundation is currently negotiating six more strategic partnerships, totaling \$6.0 million. \$1.0 million in annual cash contributions from each of the following:

- Niger – national government and the Islamic Development Bank
- Tanzania – national government
- Burundi – national government, with funding from the Dutch aid agency, SNV

\$1.0 million in leveraged co-funding from each of the following:

- Zambia – youth employment program, with matching funds of at least \$1.0 million annually from a consortium of companies including Nike, Nokia and others
- Nigeria – small enterprise development, with \$1.0 million annual co-funding by both Spring Bank and Oceana Bank

(See Figure 1 for a complete list of partnerships and the dramatic growth in this external funding during the past several years).

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 investments. 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 fully draw down the funding available under these exciting partnerships. While USADF expects to utilize \$16.5 million in contributions through these strategic partnerships in FY 2008, we will still leave at least \$7.0 million on the table in pledges for lack of appropriated funding to match them.

In the context of individual investments, 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 USADF's work as forging key links to markets. We are in active discussions with General Mills and Cargill 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 USADF is wholly responsible for assuring accountability for funds, program implementation, and achievement of targeted results.

These partnerships also provide excellent opportunities for USADF to influence more broadly national development strategies and program approaches.

Objective 4: Enhancing Learning and Dissemination

“Promote and disseminate international and USADF 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 1,700 investments during the past twenty years, the Foundation has a rich set of lessons learned and has developed some best practices. USADF is disseminating its innovative development strategies, such as its grassroots trade and investment program and the RIC mechanism.

In FY 2008, USADF will undertake program evaluation and will strengthen its documentation and dissemination activities to encourage the replication of successful models and investments. USADF will share the lessons learned from impact evaluations, country program assessments, and cross-country sectoral studies with other government agencies and development organizations. The Foundation will also participate in major international, regional, and national fora and conduct dialogues with development partners.

The Faces of USADF's Clients

