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THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD) AND THE IMPORTANCE OF AGRICULTURE DEVELOPMENT IN SUSTAINABLE GLOBAL POVERTY REDUCTION

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE, AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on:	
September 12, 2006	1
Appendix:	
September 12, 2006	21

WITNESSES

TUESDAY, SEPTEMBER 12, 2006

Beckmann, Rev. David, President, Bread for the World	4
Howard, Julie, Executive Director, Partnership to Cut Hunger and Poverty in Africa and co-author of Investing in Africa's Future: U.S. Agricultural Development Assistance for Sub-Saharan Africa	6
Lowther, Kevin G., Regional Director for Southern Africa, Africare	9
McNamer, Bruce, President and CEO, TechnoServe, Inc.	11

APPENDIX

Prepared statements:	
Waters, Hon. Maxine	22
Beckmann, Rev. David	27
Howard, Julie	34
Lowther, Kevin G.	41
McNamer, Bruce	45

THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD) AND THE IMPORTANCE OF AGRICULTURE DEVELOPMENT IN SUSTAINABLE GLOBAL POVERTY REDUCTION

Tuesday, September 12, 2006

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2128, Rayburn House Office Building, Hon. Frank D. Lucas, presiding.

Present: Representatives Lucas, Watt, and Frank.

Mr. LUCAS. This hearing of the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology will come to order. I am pleased to chair today's hearing that will examine the efforts of the International Fund for Agricultural Development, IFAD.

The United States has been the largest contributor to IFAD. In December of 2005, the United States announced a pledge of $54 million to IFAD's seventh replenishment, which maintains approximately the same level of burden sharing as it did in the previous replenishment. As chairman of the Subcommittee on Conservation, Credit, Rule Development, and Research of the Committee on Agriculture, and as a member of the Committee on Financial Services, I have a particular interest in hearing how IFAD works to complement efforts made by governments, donors, nongovernmental organizations, and other partners, such as members of the private sector, involved with capital markets, additional U.N. agencies, the World Bank, and research institutions in helping to finance cultural development projects for the primary purpose of producing food in developing countries, which, in turn, leads to greater services and a stronger economy.

I have always been struck by the fact that food insecurity and famine are not so much the result of failures in food production but structural problems related to poverty. I am also amazed by the fact that nearly 75 percent of the poor in developing countries, about 900 million people, are concentrated in the rural areas. IFAD believes, as I do, that the rural poor must be empowered to lead their own development. These people must be able to develop and

strengthen their local organizations and have a say in the decisions and policies that affect their lives.

It is for this reason that IFAD is so important. IFAD works on the local level to create projects that will end the cycle of poverty. By working closely with governments to develop and finance programs, IFAD is expected to help more than 100 million rural people living in poverty.

Unfortunately, due to U.N. regulations, we are not able to have representatives from IFAD testify before the committee today. However, I am pleased that we will have various organizations who work directly with IFAD and their partners who will be able to give us a close-up view of how IFAD operates.

I am also pleased to hear testimony that will address the progress made by IFAD and other organizations that seek to aid Africa in its development, the kind of commitments and future cooperation that would be necessary for continued progress and suggestions for making IFAD more effective.

And with that I would like to turn to the ranking member of the full committee, Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

This is a hearing we have not because there are problems, which sometimes we have, but really, I think, to show our support for this important operation.

As many of you understand, it is election season. There won't be votes until 6:30, so it is a time when there are not a lot of members around, but that is not an indication of there not being support. Not a lot of media either, but, as you know, interest around here tends to be generated by controversy, not by substance. And the lack of controversy, for which you can, to some extent take credit, because of the work you have done with IFAD, means that we don't have a lot of attention. But I am glad that you are here.

Let me say, I read over the statements and I am very much in agreement about what we should do. At least one of you said, in the testimony that I read, that Congress should avoid earmarking some of the assistance that we give. And I agree with that. Earmarks here, we should be clear, are not earmarks of the sort of company of A or company B, but they are policy related earmarks: Put in water, put in this, put in that.

I will tell you this. I can't think of an earmark that was generated by a Member of Congress. Earmarks come in response to well-meaning organizations that say, oh, well, this is important or that is important. So I would say two things. One, to those of you who agreed that we shouldn't earmark, never ask us to; and, secondly, help us resist. Because often what happens is a very good organization of decent, hard-working people comes and says, this area of activity is important. And an earmark is then considered to be, well, do you think that is a good activity or not, rather than should you restrict the flexibility and prefer this activity over other good ones. So I agree with that, but we are going to need your help in doing it.

And it may mean even—and this is, I noticed—I don't mean to single you out. People are always coming to us asking us to do things; and then I sometimes say, yes, but to do that we have to do the following. And they say, oh, well, that is controversial; we

can't take that position. That is, if you want to help us block earmarks, oppose the earmarks of some of your well-meaning colleagues, because otherwise they will go through unopposed.

Beyond that, I did want to say, as I read the testimony, that I agree that you have pointed out one of the enduring inconsistencies in American politics. That is American politics is, to a very great extent, today dominated by people who are generally conservative and who preach to others the values of the free market and the virtues of nongovernment intervention. But, as I have said before, apparently in all the great free market texts there is a secret footnote that says, oh, by the way, not agriculture. So that when my conservative colleagues talk about the importance of keeping the government out of the private sector, about self-reliance, about the dangers of tax subsidy, about protecting efficiencies, etc., they have taken this mental reservation that it doesn't apply to agriculture. Because agriculture in America is the most subsidized, regulated industry that we have.

For instance, we are sometimes told, well, we need that for the food supply. But I know that a couple of you mentioned that one of the problems that African countries encounter in their efforts to become economically advanced is the American subsidy of cotton which keeps African countries which could grow high-quality cotton more cheaply than us from putting it on the market. And when we raise the issue of these kinds of subsidies we are told, well, but what about food supply? I have not observed people eating much cotton. Maybe my experiences are too limited. But the cotton area is an example of an American policy of subsidy which has no basis, obviously, in food.

What particularly concerns me is that when some of us who have represented industrial areas have raised concern about the short-term impact of foreign trade, we are told that we are being protectionist and insensitive to poor people. And of course, as the collapse of the Doha Round just showed, the single greatest obstacle to progress in world trade and to alleviating poverty internationally in this regard is American agriculture policy.

Well, I take it back. We are not the single greatest. The single greatest is European agriculture policy. We may be tied for second with Japan, and the fact is that it is time to introduce agriculture in America to the joys of the free market which its Congressional representatives so freely argue for.

I have one last point along those lines. I agreed with the Bush Administration, particularly with Andrew Natsios with whom I had served in the Massachusetts House 30 years ago, that we should allow more of the food aid to be money, which would buy food on the spot. The insistence that all food aid be physically transported, I think, greatly lessens its value. A significant amount of it should be grown and transported, and that is only sensible, and it is political reality. But we are too restrictive in allowing some of it to be the money equivalent.

So I thank you for the work you do, for your support of IFAD, and for the policy points that you have made.

Mr. LUCAS. And the Chair thanks the ranking member and offers up to the panel an observation of all the fun and challenges that

the 2007 farm bill will be next year as we work our way through that.

With that, let's note for the record that, without objection, all members who may want to submit an opening statement will have that made a part of the record.

Now, let's turn to the introduction of our panel.

Reverend David Beckmann is president of Bread for the World. Bread for the World is most famous for working closely with rock star Bono and is a nationwide Christian movement that seeks justice for the world's hungry people by engaging in research and education on policies related to hunger and development.

Also, Dr. Julie Howard is the executive director for the Partnership to Cut Hunger and Poverty in Africa, where she works to reverse the persistent hunger and poverty in Africa. She has also coauthored the comprehensive agricultural report on Africa entitled: Investing in Africa's Future: U.S. Agricultural Development Assistance for Sub-Saharan Africa, with Michael Taylor.

We also have Mr. Keith Lowther. He is the regional director for southern Africa at Africare, an organization that works in partnership with African communities to achieve healthy and productive societies.

And, also, Mr. Bruce McNamer is the president and CEO of TechnoServe. TechnoServe is a nonprofit organization that focuses on economic development of Africa and Latin America. Its mission is to help entrepreneurial men and women in poor rural areas of the developing world.

With that, you may begin whenever you are ready, Reverend Beckmann.

STATEMENT OF REVEREND DAVID BECKMANN, PRESIDENT, BREAD FOR THE WORLD

Rev. BECKMANN. Thank you, Mr. Chairman, and Mr. Ranking Member. I really appreciate you holding this hearing.

The world, in fact, is making progress against poverty and hunger, and the work that IFAD has done over the last 30-some years is part of that progress. The attention that this committee is giving to that good work is part of that progress, so thank you.

At Bread for the World, in addition to doing research, we organize people and churches to lobby Congress. We mobilize about a quarter of a million letters to Congress every year on issues that are important to hungry and poor people in our own country and around the world. We think agriculture and rural development are really important to progress against poverty around the world, also progress against poverty in our own country, and we have come to love IFAD.

Almost 80 percent of the world's poor live in rural areas, but only 8 percent of development assistance goes to agriculture and rural development; this just doesn't make sense.

Compared to 10 years ago, USAID and the World Bank are talking a lot more now about agriculture, again. But there has been very little, if any, change in levels of funding for agriculture and rural development.

The most encouraging recent development is that the Millennium Challenge Account is including agriculture and rural development

in most of its compacts. And it is really instructive that when the MCA picks countries, poor countries, that have good governments, those countries overwhelmingly are coming back and saying they want help with agriculture and rural development.

We think that IFAD is an excellent vehicle for U.S. investment in agriculture and rural development. Bread for the World was founded about the same time as IFAD, and we have monitored IFAD since its inception. We follow its policies, our staff visits its programs and projects, and we are impressed.

In particular, we are impressed by two of IFAD's policies. One is a resolute focus on the rural poor. Most of our foreign aid money has two or three different objectives for every dollar that we spend. We are trying to contribute to U.S. security and help some interest group in this country and also help poor people around the world, and so it is not surprising sometimes that the objective of reducing poverty doesn't get carried out very effectively. IFAD is resolutely focused on helping poor people in rural areas get ahead.

The other policy that we think has been critical to its success is that it tries to involve those poor communities in decisions so they are not just the object of investment but, rather, IFAD makes real efforts to empower groups of farmers, women's groups, and other groups in rural areas so that they can take part in the design of the interventions. That means that those interventions are more likely to be effective, more likely to be successful, and they are more likely to last after IFAD finally concludes its involvement in the area.

So let me conclude with four recommendations. Two are directly under the jurisdiction of this subcommittee.

First, Bread for the World encourages you to enthusiastically support IFAD and, specifically, to support its policies of resolute focus on the rural poor and empowerment of the rural poor.

Second, we would encourage this committee to encourage other official development banks to increase their investment in agriculture and rural development and, specifically, to focus on poverty and the empowerment of poor communities.

Third—and this is a more general recommendation—we are thrilled that Congress and the President have been increasing funding for poverty focused development assistance. It is really remarkable. In 1999, the programs and agencies that we considered poverty focused development assistance were funded at a level of about $4 billion. That is up to $10.6 billion for this year, this fiscal year. The President has requested a $2 billion increase, but the House has so far approved only $1 billion of that increase that the President asked for. So our third recommendation is that you participate in getting the final number up to the President's recommendation for poverty focused development assistance generally.

And then, fourth, I do want to address the issue of agricultural protectionism. It is a very difficult issue. But the agricultural protectionism of the industrialized countries, first, it is tough. It is not good for our own agriculture. Our own agriculture becomes unresponsive. It is not meeting the needs of small-scale farmers and other poor people in rural Oklahoma. It is not easy to solve this problem.

But the current structure of global agriculture is really tough on farmers in poor countries, and, in the long haul, nothing is more important to U.S. farmers than the expansion of markets in developing countries. When people in East Asia were able to get out of poverty and hunger to some extent, that was good for agriculture in Oklahoma. And it is that positive interaction between agriculture and rural development among the poor around the world and agricultural and industrial development in our own country that we should be fostering. When really poor people get ahead a little bit, the extra dollar they get, 80 percent of it goes into food. So some of that will go into imported food and agricultural imports.

So addressing the concerns that Mr. Frank addressed is a big task for Doha. We hope the President will rescue Doha, and we hope the next foreign bill will find some ways to make progress in changing the structure of global agriculture.

Thank you very much.

[The prepared statement of Rev. Beckmann can be found on page 27 of the appendix.]

Mr. LUCAS. Thank you.

Dr. Howard.

STATEMENT OF JULIE HOWARD, EXECUTIVE DIRECTOR, PARTNERSHIP TO CUT HUNGER AND POVERTY IN AFRICA AND CO-AUTHOR OF INVESTING IN AFRICA'S FUTURE: U.S. AGRICULTURAL DEVELOPMENT ASSISTANCE FOR SUB-SAHARAN AFRICA

Ms. HOWARD. Mr. Chairman, thank you very much for this opportunity to testify about the importance of U.S. support for African agriculture in general, and for IFAD in particular.

I represent the Partnership to Cut Hunger and Poverty in Africa, which was founded in 2001 by African Union Commission Chair Alpha Konare and former USAID Administrator Peter McPherson; the Presidents of Uganda, Ghana, and Mozambique; former Congressman Lee Hamilton; Senator Robert Dole; and Reverend David Beckmann, to my side.

The Partnership is an independent U.S.-African coalition of public and private organizations advocating for greater and more effective investment in Africa's agricultural and rural sectors.

I would like to make six key points today.

The first one is that agriculture is pivotal in the fight against hunger and poverty in Africa. As you know, poverty and hunger are acute in sub-Saharan Africa and conditions are worsening. Nearly half of the population there gets by on less than a dollar a day, and a third go hungry.

Over the past few years, these tough realities have triggered a global recommitment to eradicate poverty and hunger. We see this reflected in the 1996 World Food Summit to halve the number of undernourished people by 2015, and this is reinforced by the United Nations Millennium Development Goals. This global consensus recognizes both the moral imperative of addressing these inequalities and also the self-interest of rich countries to do so.

Historically, agriculture has provided the foundation for economic take-off in almost every single country of the world. In Africa, 70 percent of the population lives and works in rural areas. So

if you want to have a major impact on poverty and hunger, there is really no other way and no better way to do this than by rapidly growing the rural economy.

My second point is that agricultural assistance to Africa is going to require broad and costly interventions. In Africa, the development challenge is more difficult and more complex than elsewhere in the world. Historically, during the Green Revolution in the 1960's in Asia and Latin America, a lot was achieved through improvements at the farm level just by providing improved seeds, fertilizer, research, and extension services for small-scale farmers.

But sub-Saharan Africa lacks much of the physical infrastructure, the roads, the ports, and the institutional capacity for research, governance, and functioning markets that made the Green Revolution possible for these other regions. Thus, for Africa, it is really important for us to reframe our thinking about agricultural development assistance.

So we are not just thinking about farm-level improvements, but we are actually including a much broader range of activities to help foster this agriculture-led economic growth. These improvements range from natural resources management and improved farm productivity all the way to assistance for market development, rural roads, and improving trade policy.

My third point, considering the issues that we have been discussing today, of the three Rome-based United Nations agencies, IFAD focuses exactly on this critical role of agriculture in facilitating broad-based economic growth for the rural poor. IFAD projects generate growth by integrating smallholders into markets, developing rural financial systems, improving land and water management and improving knowledge, information, and technology systems for the rural poor. It has important field experience, and on the basis of this field experience, IFAD is becoming an increasingly important voice at the policy level, arguing for market-led agricultural development. And, as Reverend Beckmann noted, IFAD also is facilitating the participation of the rural poor themselves in policy formulation and project implementation.

Mr. Chairman, support for IFAD is one of a number of ways that the United States supports African agricultural development. About 80 percent of U.S. funding for African agriculture is provided directly through U.S. agencies. USAID is the lead, also USDA, African Development Foundation, and now the MCC. It is just the remaining 20 percent of funding that is filtered through the multilateral agencies, including IFAD, the United Nations FAO, World Food Program, World Bank IDA, and the African Development Fund of the African Development Bank.

My fourth point is, given the critical importance of getting rural economies in Africa going, the United States is significantly underinvesting in African economic growth relative to spending for social programs.

The Partnership documented actual U.S. spending on African agricultural development in a report we released one year ago, "Investing in Africa's Future: U.S. Agricultural Development Assistance for Sub-Saharan Africa." We found that although U.S. leaders are embracing agriculture-led economic growth at the policy level, the financial support, in truth, is actually lagging. It has stagnated

since 2000. So total U.S. agricultural development assistance for Africa between 2000 and 2004 grew by only 2 percent in real terms. And if you compare this to what has happened with health programs and education programs, USAID health programs in Africa grew by 61 percent in the same time period; and this increase doesn't even include what we are spending on HIV/AIDS in the global fund to fight AIDS, tuberculosis, and malaria. The HIV/AIDS commitment itself is for $15 billion over 5 years.

Furthermore, the effectiveness of U.S. assistance is limited by earmarks, by fragmentation across agencies, and by a lack of coordination. Some of these challenges indeed could be eased if the Millennium Challenge Corporation fulfills its considerable potential. The MCC operates under a different framework, and it receives funds that are not earmarked, at least not thus far.

Our experience of MCA indicates when countries are allowed to choose assistance priorities for themselves, they go ahead and choose to fund programs that do stimulate broad-based economic growth. The three MCA compacts signed in Africa thus far, Madagascar, Ghana, and Benin, all have significant agriculture components. But MCA remains largely untested as a vehicle for development assistance, and it really focuses on a very limited number of countries.

Fifth, beyond the U.S., OECD development assistance reflects the same imbalance: great concentration on social spending, very little actually on economic growth. I think this puts into question whether we are going to be able to achieve the sustained progress on poverty and hunger that we want and need.

While overall bilateral assistance from OECD countries grew by 74 percent between 2000 and 2003, the share of agriculture-related assistance in ODA actually declined from 13 to 9 percent. By contrast, in this same period, health-related bilateral ODA grew by 115 percent and ODA for education increased by 77 percent. It has a spill-on effect in Africa, because African political leaders, while they also put high priority on rural economic growth and on the place of agriculture in their economies, they can't do this with their own domestic resources. They rely on the resources they receive from bilateral and multilateral donors. And if those are pre-selected for social projects, then the actual budget allocation is strong on social spending and weak on economic growth.

My final point is that the United States should take the lead with IFAD in urging significant increases in funding for economic growth, for facilitating agriculture-led economic growth in Africa.

While increased expenditures for health and education are important, the current ratio of investment by the U.S. OECD will not enable African countries to sustain their health and education systems over the long term. Food, health, and education are all high priorities and very interdependent. Without adequate food, people will never be healthy and children will not be prepared to learn. And without growing their rural economies, African nations will always be reliant on external assistance.

Thank you for this opportunity.

Mr. LUCAS. Thank you.

[The prepared statement of Ms. Howard can be found on page 34 of the appendix.]

Mr. LUCAS. Mr. Lowther.

STATEMENT OF KEVIN G. LOWTHER, REGIONAL DIRECTOR FOR SOUTHERN AFRICA, AFRICARE

Mr. LOWTHER. Thank you, Mr. Chairman. I am going to beg your indulgence and try to focus a bit on the field perspective.

I have had a working relationship with IFAD for the past 20 years, and I think everything you are going to hear today is simply going to underscore my own experiences there. But what I want to bring out in this testimony is a perspective from the farmers themselves and, in this case in particular, Zimbabwe. So the overall context of my testimony is going to be southern Africa.

Having lived or worked there for the past 28 years, I have had the opportunity to observe several trends as they evolved over an entire generation. When I went to live in Zambia in 1978, southern Africa was locked in several armed liberation struggles and confronting apartheid in South Africa. HIV/AIDS was still unknown, and the region was essentially food secure. Today, apartheid is history, and there is peace throughout. HIV/AIDS has emerged as a modern-day plague, but the most surprising change, to me at least, in southern Africa is that the region is now chronically food insecure.

If southern Africa was feeding itself a generation ago, what has happened that requires the World Food Program, USAID, and other agencies annually to provide thousands of tons of food to sustain millions of people? The short answer is the maize trap. Now for decades, smallholder farmers in southern Africa have relied almost exclusively on maize as their staple. Colonial and post-colonial governments alike promoted this dependence for reasons of their own, but not because maize was the best agronomic choice to ensure long-term food security.

The trouble with maize is that it is not a particularly nutritious crop. It exhausts the soil, and it requires reliable rainfall. This would not be a problem if there were an endless supply of fresh land and cheap fertilizer. It would not be a problem if rainfall in much of southern Africa were still reliable, which it is not. Farmers continue trying to grow maize on soil that is increasingly infertile, and the decline of those rainfall patterns have become notoriously fickle.

A more recent factor is HIV/AIDS, which is decimating families' capacity to cultivate their land. But the core reality is that farmers in southern Africa are trapped in a vicious cycle. The more they cling to maize, the more food insecure they become. Even in relatively good rainfall years few are able to produce enough maize to feed their families. The region is basically in a death spiral in terms of food security.

Along with dependence on maize has come a collateral myth that southern African farmers are unwilling to adopt new crops and technologies. Africare's experience in the SADC region shows the contrary, and perhaps the most instructive lessons have been learned in the drought-prone Midlands Province of Zimbabwe.

Africare decided to ask what the farmers of Midlands Province thought. We first organized a series of farmer demonstrations. Residents were introduced to simple, affordable technologies for

processing more drought-tolerant crops. These include sunflowers processed into edible oil, and soybeans converted into a variety of tasty and nutritious products. Farmers also began to appreciate what they could do with improved varieties of cassava, with more drought-tolerant crops like pigeon peas, and with leaves, as well as the flesh of cassava and sweet potatoes. They found that all of these crops could be integrated into their farming systems and that soybeans in particular restored soil fertility by fixing nitrogen. Because they could process these crops themselves, mainly for consumption, they did not have to worry about selling to some distant market. Their diets were enriched, and their immune systems strengthened. When communities elsewhere continued to suffer through drought, our Midlands farmers did not.

Who funded this innovative program? IFAD, which provided Africare with modest grants to support crop diversification and village-based food processing. As a result, we have a proven farmer-driven model which has liberated, in this case, more than 4,000 people in several wards of Midlands Province from the "maize trap." This is the kind of breakthrough programming which IFAD was intended to nourish.

IFAD had the flexibility to invest in a couple of $100,000 grants in the Midlands farmers to see what might happen. But IFAD's policies and procedures do not allow it to expand this program more broadly in Zimbabwe unless it does so through a loan to the government. IFAD is not presently able to consider new loans to the Zimbabwe government, and even if it were, we would have to hope that the Ministry of Agriculture would be prepared to embark on a national campaign to de-emphasize maize in favor of more nutritious, drought-tolerant, and soil-friendly crops.

The farmers in Midlands Province and elsewhere in the region have demonstrated that they are willing to diversify away from maize if they know that they can process and utilize these alternative crops. Within a decade, the face of smallholder agriculture could be changed dramatically if those agencies most concerned with food security and poverty were able to join forces to make it happen.

It was the Rockefeller Foundation which got Africare to begin focusing on soybeans, mainly as a means to strengthen soil fertility. The work has been very successful in a limited geographical area, but the foundation is not prepared by itself to replicate this throughout the region. The Bill and Melinda Gates Foundation is funding Africare in another part of Midlands Province to test crop diversification, but again on a limited scale. And, meanwhile, our IFAD-funded work in Zimbabwe is coming to an end. Very sad news for the farmers, I can tell you.

IFAD, I think, has a leadership role to play here. IFAD has the broad understanding of agriculture and its centrality in addressing poverty in regions such as southern Africa. It should have a clear and documented awareness of what works and what doesn't at the community level. It does not have the mandate or resources to restore sustainable food security in southern Africa. But it does have the credibility to lobby governments, its fellow United Nations agencies, and major donors, to launch a coordinated effort to end

southern Africa's dependence on a crop, maize, that is steadily aggravating food insecurity.

It is sad to say that Africare's largest funder in Zimbabwe is not IFAD, not the Rockefeller Foundation, nor the Gates Foundation. It is the World Food Program, which contracts Africare and other NGOs to deliver food—grown far, far away—to vulnerable groups. There is something very wrong with this picture. We know what can be done to achieve sustainable food security throughout southern Africa. Emergency food aid is not the answer. It is a Band-Aid, at best and, at worst, a crutch which will allow us to believe that all will be well in the long run and no one will starve.

Mr. Chairman, I will end there and, again, apologize for my voice and for my uncongressional garb, but there is a reason for that. And I will be happy to answer your questions later. Thank you.

Mr. LUCAS. Thank you.

[The prepared statement of Mr. Lowther can be found on page 41 of the appendix.]

Mr. LUCAS. Mr. McNamer.

STATEMENT OF BRUCE McNAMER, PRESIDENT AND CEO, TECHNOSERVE, INC.

Mr. MCNAMER. Mr. Chairman, Ranking Member and members of the committee, first, thank you for the opportunity to testify before you today and to offer a strong voice in support of the International Fund for Agricultural Development and its unique role in creating economic opportunity and hope for the world's rural poor. That, too, is TechnoServe's work and has been since we were founded 40 years ago by a Connecticut entrepreneur named Ed Bullard who sought himself to apply private-sector solutions and business-based approaches to alleviating poverty in the developing world.

Since then, we at TechnoServe have evolved to focus on building thriving businesses and industries as catalysts for poverty reducing economic growth in rural economies where 70 percent of the world's poor reside. We base our work out of offices in 13 countries in Africa and Latin America.

As with my own background, most of our global staff of 350 professionals is drawn from leading private-sector firms, both multinational and host county institutions. Many have run their own successful businesses, and this is based on our belief that the best people to help other entrepreneurs is business people themselves.

Last year, we assisted generated well over $50 million in revenues, and brought local raw materials worth $30 million, benefiting 700,000 people. In our work, we rely heavily on corporate partners—Proctor and Gamble, Kraft Foods, McKenzie, Cargill, Nestle, Google—and a number of public-sector partners. But quite prominent among those are USAID and IFAD.

Mr. Chairman, with its focus squarely on rural and agricultural development, IFAD is an organization with a unique mandate and a crucially important role. Indeed, it is much like TechnoServe with its mission of helping the rural poor to overcome poverty.

With U.S. and other funding for agricultural development in Africa stagnating from 2000 to 2004, IFAD's support for agricultural development in the world's poorest places is even more vital to the development and dissemination of sustainable improvements. Since

its creation 28 years ago, IFAD has worked continually to empower rural producers and to emphasize and promote the role of markets, the development of competitive value chains, opportunities to generate non-farm income and employment, and on the vital role of access to capital in rural economies.

While many major donors like the World Bank invest much of their efforts on higher-level policy and regulatory reform, or on large-scale infrastructure investments, IFAD stands out as the organization providing solutions to poverty targeting the rural poor where they live, in their communities, with hands-on practical assistance.

I want to give you just a recent example of a partnership with IFAD and TechnoServe in the African Cashew Development Program. This is a 3-year regional program in East Africa, and it aims to work all along the cashew value chain to increase farmer productivity and incomes, and to work with entrepreneurs to build value-added cashew processing factories. This is instead of a traditional reliance on the export of raw commodities to enable existing processors to be more competitive; to support sustainable industry trade and marketing organizations functioning at national and regional levels; to increase regional industry competitiveness through a stronger, harmonized policy environment; and to improve regional relationships and synergies among cashew industry stakeholders, leading to sustained growth, competitiveness, and profitability in the sector beyond that achieved at national levels.

IFAD's role in our partnership is threefold: as a funder for a subset of activities, specifically around farmer productivity and policy improvement; as a convener of public and private regional stakeholders; and as a disseminator of best practices both into the program, bringing to bear lessons they have learned in other value chain work, and out of it as well, cataloging what we together are learning for its wider application.

Our IFAD-supported cashew program is proof that these kinds of smart interventions can help. It has already resulted in 14 rural-based cashew processors in Mozambique purchasing raw cashew nuts from 110,000 farmers, earning $5.1 million last year in export earnings and employing over 3,000 workers.

We are working with IFAD now on replicating that success regionally. Already one new factory has been established in rural Kenya, industry efficiency improvements have been achieved in the existing factories in Kenya and Tanzania, and we have an entrepreneur who has established his first Mozambican model factory in Benin.

Our partnership extends to improving the business environment. A policy reform effort in Tanzania contributed to the creation of over 1,500 jobs and $5.5 million in export earnings from processed cashew kernels. And for the first time the Government of Kenya is about to start debate on creation of a national cashew policy.

We are gradually working ourselves out of jobs. Already, Mozambican processing factories have formed an association which has now taken over the majority of TechnoServe functions: financing, procurement, shipping and logistics, government lobbying, etc. Together with IFAD we look forward to moving on from the cash-

ew-processing industry confident that African farmers and entrepreneurs can take this business forward.

Mr. Chairman, this is but one example of the kind of work that IFAD undertakes and supports every day. There are many others. IFAD's focus and its particular approach are unique and effective, and they warrant our strong and continued support.

Thank you.

Mr. LUCAS. Thank you, Mr. McNamer.

[The prepared statement of Mr. McNamer can be found on page 45 of the appendix.]

Mr. LUCAS. For the record, I would note, without objection, that the entire written statement of each of the witnesses will be made a part of the record.

Mr. Lowther, you mentioned the challenges—obstacles perhaps is a better phrase—in Zimbabwe. Are there other obstacles that IFAD and organizations like yourself face in different parts of Africa of a similar nature?

Mr. LOWTHER. We probably need a full hearing for this.

Mr. LUCAS. Point understood.

Mr. LOWTHER. I think—let me put it this way. I was giving vent here to some frustrations that have built up over a long period of time in my work in the field, and I think it is shared by farmers, local officials, NGO workers, and everybody who is close to the ground, that there is a general appreciation that the people themselves are ready to take control of their destiny. They are not sitting around waiting for things to happen.

And I think one of the obstacles, as you put it, is the fact that the right people aren't giving the right credit to that reality. So the farmers in Zimbabwe that I was describing, these are people who are not sitting around waiting for me or you or Robert Mugabe to do something for them. As soon as they see good ideas, they will run with them, and that is what has happened here. New technologies, better seeds; once it is there, they can run with it.

I think the greatest obstacle is simply making sure that people on the ground have access not to a lot of money, but to information, to technology, and that no one gets in the way. One reason that our work in Zimbabwe has gone forward, thankfully, is that the government did not get in the way. Very often, governments do get in the way with wrong policies, and that goes back to the maize issue. As you know, maize was encouraged for all sorts of reasons, but very little to do with agriculture, and what grows best in the African environment. So I put my faith in the African farmers, Mr. Chairman.

Mr. LUCAS. This is an authorizing committee, and on many of these issues we have to deal with the appropriators to actually cut the check, so to speak, and they are the proverbial bean counters, so to speak. How do you measure the results on the impact on your communities in the situations that you just mentioned, the successful project and in the particular area in Zimbabwe? Is there a quantitative way to analyze that for the benefit of the people we deal with here?

Mr. LOWTHER. Yes, it has been analyzed. Because you can see how many meals a day people are eating. You can see what they are consuming in terms of nutritional value.

As I mentioned in my testimony, these people are surviving in drought circumstances. They are eating at least two meals a day, if not three, when communities elsewhere in the same general region are in jeopardy. There are other ways of measuring this, but we did make that effort to document it.

Mr. LUCAS. Mr. McNamer, you mention the businesses. How is the money earned by the businesses that are supported by TechnoServe? How does that stay in the hands of Africans?

Mr. MCNAMER. A lot of that has to do with the fact that we are systematically trying to move value and value chains back closer to Africa and to African farmers themselves. In the instance I cited, in the cashew-processing instance, the entrepreneurs themselves are Mozambican in the first instance and East African themselves.

We actually measure, to Mr. Lowther's point, a lot of metrics with respect to the businesses and some of those include wages that actually are disbursed to employees in the factory. So you can count the number of employees, and then you can track the wages that are paid in the hands of employees who are themselves African.

We track, as well, the percentage of total revenues that are paid to the providers of raw cashews in this instance. So as you start a tick-down and see those proceeds all start with a revenue number and say, you know, your cost of goods that is going to African farmers, your labor is being paid to African employees. Ultimately, your profits being kept in the pockets of African entrepreneurs.

Mr. LUCAS. Dr. Howard, how does the micro credit micro financing help with the rural work force in these sub-Saharan areas?

Ms. HOWARD. Providing access to financial services, I think, is critical to make a transition from project-oriented support to a system where, you know, once farmers, once agribusinesses begin to realize, well, how is it that you organize management, how do you organize yourself to get improved inputs, or how do you organize yourself to run a business—you know, that access to financial services lets them expand and gives them a window to increased profitability, expanding their business.

So I think that is one of the key missing links that we find in many parts of rural Africa especially. I mean, you have project finance and then, once the project ends, people have nowhere to go to get financing. So making this link is tremendously important.

Mr. LUCAS. Very good point. And as I turn to the ranking member, I would just note that in that infamous 2007 farm bill that we will work on next year, 36 million acres of American farmland are held at the CRP, held out of production. So while there are many effects of all nature of the farm bill, nonetheless, having that 36 million acres out of production reduces the supply that these individuals have to compete with around the world.

With that, the Chair wishes to turn to the ranking member of the full committee, Mr. Frank.

Mr. FRANK. Thank you.

Dr. Howard, one provincial point. When you list the African countries that are participating in the Millennium Challenge Account, my Cape Verdian constituents would want me to remind that you Cape Verde was one of the first in the first round. I don't

know if you have separated them from Africa, but they consider themselves a successful African example of that.

And, Mr. Lowther, our colleague, Mr. Watt, had to go off to a briefing on some security matters in the Judiciary Committee, but he was particularly interested in your conversation, and you might want to follow up with him. You know, he is the current Chair of the Congressional Black Caucus and is particularly interested in the specific issue, as are all of us.

The chairman and I sort of turned to each other. That is the first good news out of Zimbabwe many of us have heard. Is that going forward despite what would appear to be the extreme craziness of the President of Zimbabwe?

Mr. LOWTHER. There are a lot of good things happening in Zimbabwe, and it doesn't really surprise me. But when I go there, you gear up for, you know, all the bad things you know you may experience. And then nothing happens. And what is inspiring is when you are with the people in the rural areas. They are not bellyaching about all of these problems. They are looking for ways to deal with the day-to-day issues. And the biggest one really is feeding their families, and the other is finding health care.

Mr. FRANK. Oh, I agree. But it is just encouraging to know that they are able to do that without interference. I mean, in some areas we have heard that.

The one thing I would say is that—you are free to say what you want. I wish we were doing more in other areas, but, if I were you, I wouldn't denigrate emergency aid. As a substitute for something else, it is a problem. But I guess the question would be, would we be better off, everything else being equal, if we didn't offer it in emergencies?

Mr. LOWTHER. Well, I am not denigrating it. I am simply indicating that if you add up the resources that go into emergency assistance—and I have seen billions over the last 25, 30 years go in that direction—that is money that is basically lost for development.

Mr. FRANK. Okay. That is where I would differ with you. The fact is, nobody has set aside a pot of money to go for that. And my feeling, politically, would be that making a fight for the kinds of things you care for is important. But I don't think reducing emergency aid would help with that. I think it just responds to different political impulses, and I think the result would just be less overall.

Mr. LOWTHER. I agree with the point as you express it that way. But I think the point I was trying to make is that it is a lot easier for WFP to go out and bang the drum for people in need in Zimbabwe than it is for IFAD.

Mr. FRANK. I understand that. But what I am saying is, good, then help IFAD. Don't knock the WFP. And what you said could have been interpreted that way, and there is plenty of room for everybody here.

Mr. LOWTHER. Well, I hope it wouldn't be interpreted that way because, actually, WPF, from my standpoint—

Mr. FRANK. I understand that, but it came across that way. You said it is worse than a Band-Aid. It was a crutch. Although I, frankly, generally think that a crutch is probably higher up than a Band-Aid in the hierarchy of medical supplies. In terms of, certainly, Medicare reimbursement it would be.

I don't want to overdo the point, but I think it is important. We are in an uphill fight to get anything for anything that is good, and I wouldn't want to—but then that leads to my next question.

What I am struck by is the disparity between the good that you say IFAD does and the relatively small amount of money it gets. Now, obviously, it is an international thing. Should we be taking the lead, the United States, in trying to significantly increase IFAD's funding? It is in the, what, in the millions. What is it, $18 million? Within our budget there would seem to be room to increase that. Has there been an effort? Are you all involved in an effort to try and increase this?

Now, as the chairman pointed out, it is an appropriations issue since we have a permanent open-ended authorization here. So we don't get into it within this committee except we could become advocates for it with the appropriators.

So let me go down the list. Should we all start trying to double the money for IFAD? It doesn't seem like that would have any great budgetary strength. Reverend Beckmann.

Rev. BECKMANN. Yes, we do support increased funding for IFAD. There was a period where we were struggling just to maintain U.S. funding for IFAD. But among—it is a multilateral development bank. It is now supervised by Treasury. It is under your jurisdiction. We think—in general, we think the multilateral development banks do a pretty good job. But IFAD is unique in its focus on rural poverty and in the way it empowers poor people. So we do think and are arguing for increased funding for IFAD as part of the overall increase of development assistance that we are seeking.

Mr. FRANK. Well, I am glad you said that. Because implicitly there was a suggestion again that you want to increase IFAD by taking it away from the other banks. And I mean, when you said doing it comparatively—

Rev. BECKMANN. No. I agree. I didn't mean to suggest that.

Mr. FRANK. You caught it. Again, but particularly here, the amount of money is so little. As I go down—because I am assuming implicitly there was no capacity problem, that we could make a significant increase in the funding and they would be able to spend it appropriately.

Dr. Howard.

Ms. HOWARD. I believe that is the case. I mean, we also would support an increase in IFAD funding. I mean, in talking to some of our colleagues on the European side I believe that other bilateral agencies are considering ways to increase working with IFAD and increase budget allocations from their countries to IFAD.

Mr. FRANK. Yes.

Rev. BECKMANN. Just the immediate opportunity is you mention that you agree with the President on reform he has proposed in food aid. The President has also asked for a $2 billion increase in poverty focused development assistance, and the House has approved a $1 billion increase. I am grateful for the $1 billion. That extra $1 billion, a lot of that would go into the Millennium Challenge Account for agriculture and rural development. So when Congress returns after the elections and finalizes appropriations, there is a billion dollars for poor people that is hanging fire. It is money that the President has asked for and if—we hope that the final

number is the President's number and is closer to the President's number than the House's initial number.

Mr. FRANK. And would you—because at this point I guess there would need to be some steps taken before they go to IFAD. But it would go to the MCC?

Rev. BECKMANN. A lot of the difference would go to MCC.

Mr. FRANK. MCC for agriculture.

Rev. BECKMANN. Yeah. A lot of the MCC money turned out to be going toward agriculture.

Mr. FRANK. Mr. Lowther, the capacity problems if you were able to increase the money?

Mr. LOWTHER. Well, I would certainly increase the funding, but I think IFAD also has to decide what it really wants to achieve. I mean, we have this kind of diffuse focus right now, helping the rural poor. But I think the assistance is just that. It gets diffused in a way that we do some good things here, we do some good things there, but not an awful lot in between.

And this is what I was trying to explain in the context of Zimbabwe. You wouldn't need an awful lot of extra money to make a much broader impact in that country. But in southern Africa, as a whole, if you could get a consensus that crop diversification, as an example, needed to be promoted, you could put a price tag—

Mr. FRANK. Let me ask, with the chairman's indulgence, is that something that would primarily come from IFAD? What is the balance of power between what IFAD does and local—decisionmaking local governments? I mean, we have different problems. The World Bank will tell you sometimes, well, we would like to do this, but we have local resistance. I mean, how much autonomy does IFAD have in make the decisions about where it would spend its money?

Mr. LOWTHER. It can be a partnership. And that is what I was trying to suggest, that I think IFAD has a potential role here.

Mr. FRANK. I understand that. But I am asking you what it is. I mean, are you saying they should take more of the leadership? Should they be more—that they should be more directive? Would they run into resistance? Should they be pushing the governments more?

I mean, I want to get beyond the level of everybody—if everybody was nice and everybody agreed, everything would be good. Then I wouldn't have a job. I agree. But given that there are disagreements, you think, you don't like what they are doing now. You think they could be doing better? How should they do that? Should they push the governments more?

Mr. LOWTHER. Absolutely.

Mr. FRANK. Should we be pushing them to do more?

Mr. LOWTHER. They know what works. They are in a better position than most to know what works.

Mr. FRANK. IFAD.

Mr. LOWTHER. Yes, and they need to be more aggressive in getting that information out to the right folks.

Mr. FRANK. Do the others agree with that?

Yes, Dr. Howard.

Ms. HOWARD. I just want to return to a point that you actually made early on about the importance of strengthening African capacity. I mean, I think at the end of the day, we are only going

to make progress if we can create African capacity, African institutions so there can be strong governance and strong civil society organizations to guide investments. I mean, to some extent, we are seeing MCA starting to go down that road, and I think it is very impressive that MCA is actually turning into a learning organization, and I would commend the Congress for supporting that, to the extent that we should be looking to increase our investments.

Mr. FRANK. Well, is IFAD the vehicle for doing that? I mean, we are here on IFAD. Should they be focusing on technical, or do you want them to get into this kind of capacity building as well in a broader sense?

Ms. HOWARD. IFAD does focus on capacity building. I mean, they are building the empowering local organizations participating in these policy discussions—very, very important, but I just want to point that out as a very important principle.

Mr. FRANK. You did. There are a lot of nice things in this world, but I really am interested in how we get there.

I mean, yes, I am all for hopeful capacity. I want to know who should be doing what. I read that—well, let me ask, I will get to Mr. McNamer. I am stuck with this because to some extent when we hear from local groups, for instance, if we are talking about some of the IFI's, there is an argument that they have been too assertive and not respectful enough of local decisions. Mr. Lowther is suggesting the balance might be the other way.

There is room, not being disrespectful, but for the international financial institution to be more assertive. I want to know what people think about it, the whole question of more money for IFAD and its role.

Mr. MCNAMER. I think we are a long way from running up against capacity strength, so, yes, more money for IFAD.

There is some self-interest at work here to the extent that they are uniquely focused on what our organization is focused on, which is rural development, small holder farmers as business people. There are very few organizations with such a unique focus; in some sense it is an earmark, but it is one that we like.

But—and I would say, moreover, that it is increasingly our sense that money spent with IFAD is money well spent. I think they have taken seriously in these last several years a mandate to think about themselves, organizations, both in respect to strategy and their focus in respect—and with respect to organizational locations. In my own short tenure in TechnoServe, we have seen the results of some of that brought to bear both in terms of processes and new organizational approaches and in terms of persons.

Mr. FRANK. That is useful and I appreciate the indulgence the chairman is showing on the time, but we don't usually get, frankly, this kind of a consensus. We didn't set out to handpick witnesses who were going to be favorable. In fact, usually when you have a hearing, it is easy to get people and you want to come whack somebody because generally people are more motivated.

So this is an unusual consensus and leads me to think maybe we should talk to the chairman and some others. Maybe we can get some support for higher funding, especially—and given the low level or relatively small amount of a few million.

Let me ask my last question. Obviously, we are part of a multilateral operation there. If we were to take the lead, who are the other major funders? Is this the western Europeans, or where does the other major funding come from?

Rev. BECKMANN. It is unique in that the developing countries themselves put in a substantial amount of money, especially the oil countries. It was started about the time when OPEC raised prices in the 1970's, and so the OPEC countries, the oil countries, have traditionally contributed substantially.

Mr. FRANK. This would be a useful time for the United States to initiate an increase going by those others. So when you say "developing countries," are you talking about oil producing countries?

Rev. BECKMANN. They were partners from the beginning, but I think, in general, there is more money from the developing countries that goes into IFAD, and then other institutions.

Mr. FRANK. I appreciate that, and we will continue to work on what I hope are necessary changes to the American policy. But that is a good message to come away with. It is unusual to hear an international institution have this degree of support.

Thank you, Mr. Chairman.

Mr. LUCAS. The ranking member's time has expired and the Chair would note that he will always be indulgent of the ranking member, until November 7th.

With that, the Chair notes that some members may have additional questions for the panel which they may wish to submit in writing, and without objection, the hearing record will remain open for 30 days for members to submit written questions to the witnesses and to place their responses in the record.

With that, the hearing is adjourned.

[Whereupon, at 3:00 p.m., the hearing was adjourned.]

A P P E N D I X

September 12, 2006

Opening Remarks

Representative Maxine Waters D-35th CA

Subcommittee on Domestic and International Monetary Policy, Trade and Technology

Hearing on

"The International Fund for Agricultural Development (IFAD) and the Importance of Agricultural Development in Sustainable Global Poverty Reduction"

September 12, 2006

Good afternoon ladies and gentlemen. I want to thank the Subcommittee Chairwoman Deborah Pryce and Ranking Member Carolyn Maloney for holding today's hearing on "the International Fund for Agricultural Development (IFAD/Fund) and the Importance of Agricultural Development in Sustainable Global Poverty Reduction." Indeed, the participation of the United States in the IFAD is critical to achieving the goal of sustainable

global poverty reduction. Our participation in the IFAD is also important because it signals to rest of the world our commitment to eliminating global poverty.

The IFAD was established in 1976. So, it is fitting that on the 30th Anniversary of the organization that we should consider the replenishment of the IFAD. The mission of the IFAD is to" enable the rural poor to overcome poverty". Poverty is still a major concern and much of the current focus of the international community is on eradicating poverty throughout the world. Indeed, the IFAD's mission is consistent with the Millennium Development Goals of "halving hunger and extreme poverty."

The Fund plays an important role in finding solutions to global poverty. The IAFD through developing

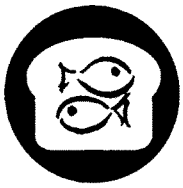
and transition economy governments uses "participatory' methods to design projects and programs to address rural poverty. The Fund's activities in rural and agricultural development are based locally and are uniquely tailored to meet the needs of the rural women, indigenous groups, and ethnic minorities in many poor countries. According to the Fund's published reports, more than 13 million people were assisted annually through 192 projects in 86 countries. Current on-going projects and programs total $6.1 billion, of which IFAD's investment is $2.8 billion, nearly 50 percent of the total. Since 1978, IFAD has invested more than $8.5 billion in 676 projects assisting more ¼ billion people who are the rural poor.

I believe that U.S. participation in the Fund symbolizes what is good about American foreign policy.

Moreover, given the controversy about our involvement in Iraq and elsewhere, it is absolutely essential that we continue to support international development institutions such as IFAD whenever we can. The Seventh Replenishment of the IFAD will further our longstanding commitment to the organization and its goals to eliminate rural poverty. The replenishment target of $800 million will enable the IFAD to expand its work by 10 percent through 2009. I strongly support our pledge of $54 million to IFAD, which represents a 20 percent increase over our last pledge of $45 million. The United States is the largest donor to IFAD, while Great Britain and Sweden are the next largest donors with $50 million and $44 million, respectively.

Finally, because of the sweeping institutional reforms related to governance and transparency adopted

and being implemented by the IFAD, I believe that the IFAD will become an even more effective agent for improving the quality of life for millions of rural poor in the developing world. As many countries attempt to modernize to compete in the global economy, the rural poor are often neglected. To ensure that we recognize that the success of a country is not so much a matter of how much it grows annually, we must continue to focus on how much global poverty is reduced annually, particularly among the rural poor. Thank you. Madame Chairwoman.



Testimony of
Reverend David Beckmann,
President, Bread for the World

"The International Fund for Agricultural Development (IFAD) and the Importance of Agricultural Development in Sustainable Global Poverty Reduction."

September 12, 2006

House Financial Services Committee, Subcommittee on Domestic and International Monetary Policy, Trade and Technology

Madam Chair and members of the committee, I would like to thank you for this opportunity to speak about the work of the International Fund for Agricultural Development, my own organization, Bread for the World, and the importance of rural development and agriculture to the fight against hunger and poverty. I hope we will all keep the 852 million people who go hungry every day in our minds as we have this discussion today in Washington.

Bread for the World counts itself as one of the longest-standing and most ardent of IFAD's supporters in the U.S. Bread for the World's 56,000 members lobby Congress and the administration to bring about public policy changes that address the root causes of hunger and poverty in the United States and overseas. Founded in 1974, Bread for the World is a nonpartisan organization supported by 45 denominations and over 2500 churches. We mobilize a quarter of a million constituent contacts with members of the U.S. Congress every year. Bread for the World helps concerned people learn about policy issues that are important to poor and hungry people, and then helps them turn this knowledge into positive political action.

The world food crisis of the 1970's and the subsequent convening of the first World Food Conference were the impetus to the founding both of Bread for the World and the International Fund for Agricultural Development. In response to severe and simultaneous famines in Africa and Asia, world leaders agreed that much more needed to be done to address the structural problems that resulted in persistent hunger and malnutrition. They established IFAD, with a mandate "to combat hunger and rural poverty in developing countries, especially low-income, food-deficit countries, and to improve the livelihoods of poor rural people on a sustainable basis."

Bread for the World has official observer status on IFAD's Governing Council. Over the years, Bread for the World has followed IFAD's activities closely, collaborated with it in policy dialogue and outreach, and advocated for strong and active U.S. participation and funding for its operations. Among international financial institutions, IFAD is singularly focused on initiatives that reach poor grassroots communities in rural areas. IFAD accomplishes its mission by working in partnership with governments, donors, and NGOs. It provides highly concessional loans for agricultural and rural development projects within low-income countries and grants to NGOs and agricultural research institutions experimenting with innovative approaches to rural poverty alleviation. Since its establishment in 1976, IFAD has financed 707 projects reaching almost 300 million rural people for a total commitment of approximately $9.0 billion in loans and grants.

IFAD's resources come from replenishments to its core resources originating from voluntary contributions of IFAD Member States (which are negotiated approximately every three years), and from loan repayments and investment income. There have been a total of seven replenishments to date. A

distinguishing characteristic of these processes relative to the funding of other international financial institutions is that the developing countries share a substantial burden in supporting IFAD financially. The U.S. is the largest single contributor to IFAD, contributing 7.5% of the overall target level in the most recent replenishment. We are grateful to this Subcommittee and to the U.S. Government for providing leadership in this initiative over the past two decades.

The story of the financial resources is only a piece of IFAD's contribution. Over the past 30 years, IFAD has been an exemplary model for leveraging other international partners leading to a further $16 billion in financing. For every dollar invested, it has mobilized nearly two additional dollars from developing countries or other donors. As the U.S. seeks to transform its own development programs with greater efficiency and accountability, these reforms should amplify the lessons from successful models such as IFAD.

One of the most important reasons that Bread for the World so steadfastly supports IFAD is its commitment to the empowerment of rural poor people. Bread for the World's very existence is based on the recognition that power is both part of the problem and part of the solution to hunger and poverty, in this country and around the world. Both IFAD and Bread for the World believe that unless the poor have a greater say in decisions that affect their lives, international efforts to assist and enable the poor to overcome poverty will be hampered.

We share IFAD's conviction that aid must target rural and agricultural development and build the capacity of rural communities. Why?

First, effective poverty-fighting resources must go where the poor are. Extreme poverty remains a daily reality for more than 1 billion people who subsist on less than a $1 a day. 75% of the world's poor live in rural areas. Most of them make their living as farmers or farm workers. If we want our resources to reach the world's poorest people, then those resources must target the rural areas where three-fourths of them live and work.

Second, aid resources should target the things that the poor do to earn money. The rural poor are often smallscale farmers, farm workers, herders, or fishers. Even rural entrepreneurs rely on customers whose income hinges on agriculture. In short, the majority of the men, women and children who comprise the rural poor depend -- directly or indirectly -- on agriculture for their livelihoods.

Third, agriculture and rural development are the keys to the economic growth needed to sustain poverty reduction. For developing countries without substantial mineral or oil wealth, agriculture is often the basis of the economy. The World Trade Organization reports that agriculture accounts for one-third of the export earnings of nearly 50 developing countries. Further, WTO reports that

almost 40 of them depended on agriculture for over half of export earnings between 1998 and 2000.

Fourth, productivity increases in agriculture can generate results. The World Bank estimates that a mere 10% increase in crop yields would reduce the proportion of people living on less than a dollar a day by between 6 to 12%. For African countries, a 10% increase in yields could reduce the percentage of the extreme poor by nearly 10%.

Balancing Productive and Social Investments, and Rural and Urban Needs

This is not to say that agriculture and rural development are all that is needed. Other sectors, including the social sectors, are also important to development and progress against poverty. But only 8% of the world's official development assistance now goes to agriculture. Think about that: only 8% of international aid goes to the economic activity upon which 75% of the poor depend for their livelihoods.

USAID has demonstrated an increasing interest in agriculture, although earmarks for other things have hampered USAID in this effort. The Millennium Challenge Account is also providing some funding for agriculture and rural development in most of its early compacts. The MCA has picked exemplary, democratic governments among the world's poorest countries and asked them to identify their own priorities. It is striking that most of these governments have asked for MCA funding for agriculture and rural development. But despite these positive shifts in USAID and the MCA, and despite a substantial increase in total U.S. funding for development assistance, total U.S. funding for agricultural development has not increased at all in recent years.

The International Fund for Agricultural Development

The International Fund for Agricultural Development is one valuable conduit through which the U.S. and other donors can direct appropriate levels of resources to rural and agricultural development.

IFAD is the only international financial institution that focuses exclusively on reducing poverty and achieving household food security in rural areas. IFAD supports community-based projects that increase the productivity and incomes of the rural poor, stimulate broad-based economic growth through rural development, and create the conditions in which rural women and men can take the lead in overcoming poverty.

Through contributions to IFAD, we target aid resources directly to the rural areas where they are most needed. These resources support community-based and effective strategies that not only increase economic opportunities for the rural poor, but also build their capacity to seize the opportunities.

IFAD has been a major catalyst in bringing private banking financial services to poor rural communities. IFAD has brought together banks like Citigroup with major microcredit organizations such as ACCION and FINCA. As a result FINCA affiliates have significantly lowered the cost of loans and dramatically increased their earnings.

Indeed, IFAD gives priority focus to strengthening the capacity of the rural poor and of their organizations – such as farmer cooperatives, traditional village work groups, or self-help groups organized around microfinance. At the same time, IFAD also works to strengthen the capacity of local and national governments to respond to the rural poor and their needs. In this way, IFAD goes beyond increasing the capacity of the poor to generate incomes. It also develops their ability to engage in their governments effectively, and to weigh in on the issues that shape their lives and opportunities.

Most importantly, IFAD's projects get results.

Many of IFAD's projects focus on creating access for poor farmers to the assets, knowledge, and technology that they need to improve their production. In Honduras, for example, IFAD fostered the development of producer cooperatives in the economically depressed western region of the country. In an area where access to technical assistance by poor farmers has been limited, the cooperatives were able to finance assistance through the earnings generated by the organizations' credit and marketing activities. The project reached twice as many producers as planned, in part because of a low-cost approach that relied on innovative producers from local communities to disseminate new technologies and production systems.

In Ethiopia, IFAD is supporting improvements to and expansion of traditional, small-scale irrigation schemes in drought-prone regions. The innovation in IFAD's approach involves the inclusion of additional activities that are needed to sustain the improved irrigation schemes, such as seed production, extension, social organization, and market linkages, as well as soil conservation activities and women's gardening programs in areas outside of the immediate irrigation zone. The project has led to initial increases in production and income, and improved nutrition and benefits to women who are growing vegetable gardens. Farmers in the improved irrigation areas are growing a greater variety of crops.

Nearly three-quarters of IFAD's projects include a microfinance component, reflecting the critical role that access to finance plays in enabling poor people to overcome poverty. In the Philippines, IFAD has helped to build financial systems that reach underserved poor rural communities. This has promoted widespread replication of the approach pioneered by the Grameen Bank in Bangladesh (group lending without collateral, with repayment of loans in weekly installments). Working with the government, NGOs, cooperatives, and local

banks to create lending channels, IFAD helped to strengthen the capacity of more than 160 microfinance institutions to reach the rural poor, most particularly women, who comprised ninety-eight percent of the microfinance clients. An Asian Development Bank (ADB) assessment determined that the project has resulted in a twenty-eight percent increase in incomes and increased expenditures on food and schooling. Ninety-five percent of the project beneficiaries reported increased self-confidence with respect to conducting business.

Over the years, Bread for the World staff have monitored IFAD's policies and visited IFAD projects in a number of countries. We respectfully submit the following recommendations regarding IFAD and agriculture and rural development among poor people around the world.

First, the U.S. should continue to support IFAD's efforts to integrate stakeholders into decision-making processes and to be flexible in its policy prescriptions. Including communities in decisions helps to make programs responsive to local needs and sustainable after IFAD concludes its involvement. IFAD does not rely on any single model for its projects and recognizes that country contexts may require different development approaches. IFAD does not limit its projects to agriculture, but instead flexibly responds to the various development needs of poor rural people. Grassroots participation and flexibility have been hallmarks of the capable leadership of IFAD's president, Lennart Bäge. These principles have worked for IFAD and should be adopted by the other assistance programs that the U.S. supports.

Second, the U.S. should continue to increase funding for poverty-focused development assistance and, specifically, for agriculture and rural development. U.S. funding for the agencies and programs that Bread for the World counts as poverty-focused development assistance has grown from $4 billion in FY 1999 to $10.6 billion in FY 2006 – which is profoundly encouraging. But this growth should have included rapid growth in funding for agriculture and rural development, and that has not happened. IFAD deserves increased U.S. funding.

Third, agricultural trade should be promoted. Agricultural protectionism in the industrialized countries stymies agriculture in developing countries. The current system of farm subsidies also fails to address the needs of small-scale farmers and other struggling families in rural America. Rescuing the Doha negotiations would be good for America – and would also give a powerful boost to the incomes of poor rural people in developing countries. Even without a Doha deal, next year's Farm Bill should shift resources from trade-distorting subsidies to other investments in farm and rural development.

Madame Chair, most global poverty is rural poverty. Rural poverty is rooted in the limited resources that poor people have to meet their income and food security

challenges. The most acute poverty is among women and minority groups who are subject to specific and discriminatory mechanisms of exclusion. Overcoming global poverty will require intensified effort to solve these very clear problems.

IFAD's success is related to its resolute focus on the livelihoods of the rural poor. Bread for the World will continue its advocacy focus on poverty and, specifically, on behalf of IFAD. I hope this subcommittee will actively support IFAD's work against rural poverty.

Thank you for the opportunity to testify before you today, and I would be happy to take any questions.

DAVID BECKMANN

David Beckmann is president of Bread for the World, Bread for the World Institute, and the Alliance to End Hunger.

Bread for the World is a citizens' movement that lobbies the U.S. Congress and President to do their part to end hunger in the United States and around the world. Bread for the World has a 32-year record of legislative successes. Bread for the World Institute does research and education on hunger.

The Institute organized the Alliance to End Hunger. Bread for the World is a broadly interdenominational Christian organization, but the Alliance reaches out to a more diverse array of institutions – Jewish, Muslim and secular organizations, corporations, unions and farmer associations. The U.S. Department of Agriculture and the U.N. Food and Agriculture Organization participate as observers.

Beckmann is a Lutheran pastor and also an economist. He worked on poverty issues at the World Bank for 15 years before moving to Bread for the World in 1991. He earned degrees from Yale, Christ Seminary, and the London School of Economics and has also been awarded five honorary doctorates.

THE IMPORTANCE OF U.S. SUPPORT FOR AFRICAN AGRICULTURE AND THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Statement by

Julie Howard, Ph.D.

Executive Director, Partnership to Cut Hunger and Poverty in Africa

Before the Sub-Committee on Domestic and International Monetary Policy, Trade and Technology
House Committee on Financial Services

September 12, 2006

Mr. Chairman, Ranking Member and Members of the Sub-Committee:

Thank you for this opportunity to testify about the importance of U.S. support for African agriculture through the International Fund for Agricultural Development (IFAD). In my statement I will also discuss the critical importance of agriculture in African economic development and the role of other organizations working to foster broad-based, agriculture-led rural economic growth in Africa. I represent the Partnership to Cut Hunger and Poverty in Africa ("the Partnership"), which was founded in 2001 by African Union Commission Chair and former President of Mali Alpha Konaré, the Presidents of Uganda, Ghana and Mozambique, former USAID Administrator Peter McPherson, former Cong. Lee Hamilton, Senator Robert Dole, Rev. David Beckmann and others. The Partnership is an independent US-African coalition of public and private organizations that advocates for greater and more effective investment in Africa's agriculture and rural sectors.

These are the key points of my statement:

- Agriculture is pivotal in the fight against hunger and poverty
- Agricultural assistance to Africa requires broad interventions
- IFAD focuses on the critical role of agriculture in meeting the Millennium Development Goals
- The U.S. under-invests in African economic growth relative to social spending; and aid effectiveness is further limited by earmarks, fragmentation, and lack of coordination
- Out-of-balance OECD spending threatens sustained progress on hunger and poverty
- The U.S. should take the lead, with IFAD, in correcting imbalances in assistance in order to facilitate broad-based economic growth in Africa

Agriculture is pivotal in the fight against hunger and poverty

The divide between the world's rich and poor has never been more glaring. In our world of plenty, half of the people on earth live in poverty and one in six go hungry. Poverty and hunger are particularly acute in sub-Saharan Africa. Nearly half its people try to sustain themselves on less than one dollar a day; a third, or about 200 million, confront hunger daily; and Africa is the only region of the world where poverty and hunger are worsening. Over the past decade, these harsh realities have triggered a global recommitment to eradicate poverty and hunger and a new push to identify the steps necessary to achieve this goal, especially in the world's poorest countries.

A global consensus now recognizes not only the moral imperative to tackle poverty and hunger in poor countries but also the self-interest of rich countries in doing so. This new commitment was reflected in the 1996 World Food Summit's pledge to reduce by half the number of undernourished people by 2015, which was reinforced by adoption of the United Nations' Millennium Development Goals in 2000. During the last five years, the global community has been reminded of the critical importance of addressing severe inequalities of income and opportunity, or risk conditions that can foster increased terrorism.

The recommitment to poverty reduction has been accompanied by a reaffirmation of the essential role of agriculture. For millennia, agriculture provided the foundation for economic well-being and growth worldwide, and it has reemerged today as the key driver of strategies to reduce poverty and hunger in rural Africa, where 70% of Africa's population lives and works. This recognition is grounded in the great potential of Africa's vast land and creative people to produce not only an abundance of food but genuine wealth through modern, market-oriented agriculture and agribusiness.

In fact, never before has the opportunity been so great to construct a foundation for sustainable economic growth in Africa. At their July 2003 African Union Summit in Maputo, African heads of state endorsed the Comprehensive African Agriculture Development Program (CAADP) developed by the New Partnership for Africa's Development (NEPAD). They also pledged to allocate 10% of their national budgetary resources to agriculture based on their conclusion that "agriculture must be the engine for overall economic growth in Africa." The United Nations has made eradication of extreme poverty and hunger the first of the Millennium Development Goals (MDGs) and called specifically for public investment in such areas as agricultural research, extension, and market infrastructure. Former USAID Administrator Natsios and other agency leaders, including World Bank President Paul Wolfowitz, have also strongly endorsed a renewed focus on agriculture-led economic growth strategies to combat poverty.

Agricultural assistance to Africa requires broad interventions

Today in Africa, the development challenge is more difficult than elsewhere in the world. Historically, in developing countries of Asia and Latin America, agricultural development was assistance for on-farm improvements in productivity, such as improved seed, farming practices, and extension services for small-scale farmers. This understanding stems in part from the Green Revolution begun in the 1960s, when the

development and dissemination of improved inputs – supported by the Rockefeller Foundation, the United States, and other donor governments, spawned rapid progress in agriculture and improved the lives of millions of people.

However, sub-Saharan Africa lacks much of the physical infrastructure (e.g., roads and other transport facilities) and institutional capacity (for research, governance, and functioning markets) that helped make the Green Revolution happen in other regions. Thus, for Africa, it is necessary to take a broader view of agricultural development assistance to include the range of activities that help foster agriculture-led economic growth, from natural resource management and improved farm productivity to rural roads and trade policy. Enhancing farm productivity remains important, but for African countries to achieve sustainable economic growth and reduce poverty and hunger, farmers must have access to markets and be able to sell their products at prices that adequately reward investment of scarce time and resources. Off-farm employment opportunities stemming from more productive agriculture must also be generated. Public assistance from developed countries is critical to creating the conditions that foster private investment and entrepreneurial activity.

IFAD focuses on the critical role of agriculture in meeting the Millennium Development Goals

Of the three Rome-based UN agencies, IFAD is most effectively focused on long-term agricultural development for the rural poor. Formed as an international financial institution in 1977, IFAD was an outcome of the 1974 World Food Conference that responded to the African food crises of the early 1970s. In recognition of the fact that food insecurity is due more to poverty than to inadequate food production and that the majority of the world's hungry live in rural areas, IFAD's mission is stated broadly as: "enabling the rural poor to overcome poverty...by fostering social development, gender equity, income generation, improved nutritional status, environmental sustainability, and good governance." In Southern and Eastern Africa, for example, IFAD's regional strategy focuses on generating growth in the smallholder economy through promoting efficient and equitable market linkages, developing rural financial systems, improving access to and management of land and water, and creating a better knowledge, information and technology system.

IFAD finances agricultural development in developing countries, primarily through loans. Since it started operations in 1978, IFAD has invested more than $8.5 billion in 676 projects and programs that have reached more than 250 million rural poor people. IFAD member countries make annual contributions in accordance with periodic replenishment agreements. The U.S. is the largest contributor to IFAD's annual budget, providing about $15 million per year or 7-8% of IFAD's total annual budget. IFAD leverages the impact of its resources by seeking partnerships and opportunities for co-financing projects. For every dollar invested by IFAD, partner organizations have contributed an additional two dollars, for a total investment by partners of approximately $23.7 billion. Its current portfolio or projects and programs total $6.1 billion, of which IFAD's investment is $2.8 billion. IFAD is increasingly active at the policy level,

facilitating the development of farmer organizations and their participation in policy formulation and discussions at national, regional and global levels.

The U.S. under-invests in African economic growth relative to social spending; and aid effectiveness is further limited by earmarks, fragmentation, and lack of coordination

The Partnership documented actual U.S. spending on African agricultural development assistance since 2000 in a report released one year ago, *Investing in Africa's Future.*[1] We found that, despite a policy-level embrace of agriculture-led economic growth, U.S. financial support for African agriculture has stagnated since 2000 and lags far behind substantial increases in foreign aid for other purposes.

Total U.S. agricultural development assistance for Africa grew only by an estimated 2% in real terms since 2000 ($459 million in 2000 to $514 million in 2004). In stark contrast, USAID health programs in Africa grew by 61% in the same time period, from $295 million to $474 million. This increase does not include the additional, substantial funding contributions to health issues from the Bush administration's commitment of $15 billion over five years to fight HIV/AIDS and U.S. participation in the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

About 80% of U.S. funding for African agriculture is provided directly through U.S. agencies (USAID, USDA, African Development Foundation, Trade and Development Agency). The remaining 20% of funding for African agriculture is channeled through international organizations including IFAD, United Nations Food and Agriculture Organization (FAO), World Food Program (WFP), World Bank International Development Association (IDA), and African Development Fund (ADF) of the African Development Bank.

USAID is the lead development agency through which more than 75% of all U.S. development assistance and the preponderance of agricultural assistance flows. USAID increased its available development assistance funds for African agriculture by 9% (real terms) from 2000 to 2004. But this gain occurred in one year (FY 2002-FY 2003). We are greatly concerned that it has already reversed, as there was an absolute decline in estimated funding in 2004, with further cuts predicted for 2005 and 2006.

Between 2000-2004, USAID's gains were offset by absolute reductions in funding for African agriculture through USDA food aid programs, the second largest source of US funding for agriculture-related projects, which declined by 17% from 2000 to 2004. U.S. funding of agriculture through multilateral channels increased slightly, due almost entirely to increases in World Bank IDA commitments, especially for roads.

Competing policy and political considerations limit the total amount of resources available for agricultural development assistance and also how most resources can be

[1] *Investing in Africa's Future: U S. Agricultural Development Assistance for sub-Saharan Africa* by Michael R. Taylor and Julie A. Howard. Partnership to Cut Hunger and Poverty in Africa. September 2005. Executive Summary and Full Report may be downloaded at www.africanhunger.org.

allocated. Strong congressional earmarks direct how at least 90% of USAID's Development Assistance account must be spent. Some earmarks relate to rural Africa, but restrict programming flexibility because of their terms. These include earmarks for trade capacity, micro-enterprise, biodiversity, fertilizer, and plant biotechnology. These are important areas in general for agricultural development but may not match specific country priorities. The impact of the congressional earmarks is to reduce the flexibility of development assistance programs to respond to the most important needs at the field level and, thus, undermine the effectiveness of assistance.

Fragmentation of resources also raises questions about the coordination of agricultural development assistance within USAID, among U.S. agencies, and with other donor countries and international institutions. For example, within USAID, the Bureau for Africa and Food for Peace traditionally have operated in parallel but independently. There is no U.S. government mechanism in place to closely coordinate agricultural development strategy, resource allocation, and on-the-ground activity with USDA or multilateral development institutions.

The extreme fragmentation of development assistance project portfolios spreads aid resources very thin while absorbing a disproportionate amount of donor and recipient country administrative capacity. USAID Africa Bureau agriculture assistance averages only $6 million per country per year. This country-level funding is then further subdivided among multiple contractors and grantees. Country efforts are not coordinated well with regional programs, programs of other U.S. agencies or other donors. The result is a large number of relatively small, separately managed projects. From our discussions with country partners in Africa, we know that the problems of tied assistance and fragmentation are not limited to U.S. programs but are pervasive.

Some of these challenges could be eased if the Millennium Challenge Corporation (MCC) fulfills its considerable potential. The MCC is a new government corporation that operates under a different institutional and policy framework and receives funds that are not earmarked thus far. It has the potential to become a significant funder of agricultural development in Africa because African countries make up about half of the Millennium Challenge Account (MCA)-eligible countries. The experience of MCA indicates when countries are allowed to choose assistance priorities for themselves they choose to fund programs that stimulate broad-based economic growth. The three MCA Compacts signed in Africa thus far – Madagascar, Ghana and Benin – all have significant agriculture components. But MCA remains largely untested as a vehicle for development assistance, and it is currently focused on a very limited number of countries.

Domestic political considerations increase the costs of U.S. development assistance, including the costs incurred to procure food in the United States and ship it to Africa in U.S.-flagged ships, tying aid to procurement from U.S. sources, and using predominantly U.S. contractors to implement development projects in Africa.

Out-of-balance OECD spending threatens sustained progress on hunger and poverty

OECD spending on agricultural and rural development assistance mirrors the imbalance in US priorities. While overall bilateral assistance from OECD countries grew by 74% from 2000-03 and absolute agriculture-related Official Development Assistance (ODA) gained by 20%, the **share** of agriculture-related assistance in overall development assistance actually declined, from 13% to 9%. By contrast, health-related bilateral ODA for developing countries grew by 115% in the same period and ODA for education increased by 77% .[2]

African political leaders and strategic plans place high priority on rural-led economic growth, on changing archaic, near-subsistence agricultural economies into progressive, dynamic, entrepreneurial and profitable businesses. When countries have an opportunity to direct development assistance to the priorities they have identified, as demonstrated by early experience with the MCA, they invest in rural economic growth.

However, because domestic resources are scarce and countries rely on external donors for 40-90% of funding to implement their strategic plans, in fact agriculture often competes unfavorably with other sectors, notably education and health, for Poverty Reduction Strategy Paper (PRSP) funding. In the focus countries for our study, Ghana, Mali, Mozambique and Uganda, the proportion of PRSP expenditures dedicated to agriculture, and actual domestic spending on agriculture and rural development, was expected to decline between 2000 and 2004 because funds were not available.

The U.S. should take the lead, with IFAD, in correcting imbalances in assistance in order to facilitate broad-based economic growth in Africa

Mr. Chairman, while increased expenditures for health and education are important, the current ratio of investments will not enable African countries to sustain their health and education systems over the long term. Food, health and education are all high priorities and highly interdependent. Without adequate food, people will never be healthy and children will not be prepared to learn. And without growing their rural economies, African nations will always be reliant on external assistance.

In my statement today I have noted opportunities for the U.S. to improve the effectiveness of its assistance to Africa. I have also highlighted IFAD's important role in redressing the current imbalance between investments in broad-based rural economic growth relative to social service improvements, and improving the effectiveness of agricultural assistance. I offer several recommendations from our recent report, *Investing in Africa's Future.*

- ***Invest More in Economic Growth*** - Assistance to African agriculture should grow at least as fast as overall foreign development assistance and at least double to 10% or more of U.S. development assistance by 2009.

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[2] *Beyond Good Intentions for Africa's Rural Poor: An Agenda for Transatlantic Collaboration on Investment in Pro-Poor Economic Growth.* German Marshall Fund of the United States Trade and Development Working Paper. December 2005. The Full Report may be downloaded at http://www.gmfus.org/trade/publications/article.cfm?id=158&parent_type=P.

- ***Foster Local Ownership of the Development Process*** – The U.S. should expand its program and budget support funding for agricultural development in countries that have committed to a clearly defined development strategy and have installed the systems required to manage resources with transparency and accountability.

- ***Reduce Political Overhead*** – Congress and the administration should review the policies governing sourcing and shipping of food aid, U.S. procurement preferences, and reliance on U.S.-based vendors so that more of the resources appropriated for agricultural development assistance reach the ground.

- ***Reduce Fragmentation*** – The U.S. should mount larger and more focused programs within countries and within the region, taking advantage of all available U.S. resources and managed by fewer vendors, to ensure that the U.S. investment adds up to meaningful improvement in the public goods required to build a successful agricultural system.

- ***Develop a Coordinated U.S. Strategy to Support Agriculture-Led Economic Growth in Africa*** –The U.S. should have a cross-agency plan that defines funding priorities and outlines how agricultural development resources will be spent in a coordinated manner to foster broad-based economic growth and poverty reduction.

- ***Improve Transparency, Accountability, and Focus on High-Impact Programs with Longer Time Horizons to Achievement*** – The U.S. should develop and implement a consistent reporting mechanism that documents levels of U.S. assistance for agriculture-led economic growth and poverty reduction in Africa on an annual basis, across all agencies with related programs; progress against indicators of substantive progress established in the comprehensive cross-agency plan; and assesses the projected long-term impact of funded projects.

Testimony of Kevin G. Lowther, Regional Director for Southern Africa, Africare on "The International Fund for Agricultural Development and the Importance of Agricultural Development in Sustainable Global Poverty Reduction," before the House Committee on Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology September 12, 2006

Mr. Chairman, thank you for this opportunity to share with the subcommittee my experience with the work of the International Fund for Agricultural Development—IFAD—and my perspective on the role of agricultural development in reducing poverty abroad, and particularly in Southern Africa. My association with IFAD dates back nearly 20 years. At Africare, where I have been responsible for our programs in Southern Africa since 1978, I have worked on several IFAD-funded activities. I also serve on IFAD's Washington-based NGO advisory group.

The context of my testimony is Southern Africa. Having lived or worked there for the past 28 years, I have had the opportunity to observe several trends as they evolved over an entire generation. When I went to live in Zambia in 1978, Southern Africa was locked in several armed liberation struggles and confronting apartheid in South Africa. HIV/AIDS was yet unknown. And the region was essentially food secure. Today, apartheid is history and there is peace throughout. HIV/AIDS has emerged as a modern-day plague. But the most surprising change is that Southern Africa has become chronically food insecure.

Africare works in eight of the SADC-member states. We are extensively engaged in agricultural programs in most of these countries. You name it, we have worked on it: crop production and village-based food processing, marketing, credit, smallscale agribusiness, seed multiplication, permaculture, drip irrigation, community-based natural resource management, aquaculture and crop diversification. I will return to this last, because I believe it is the most important.

If Southern Africa was feeding itself a generation ago, what has happened that requires the World Food Program, USAID and other agencies annually to provide hundreds of thousands of tons of food to sustain millions of people? The short answer is: the "maize trap."

For decades, smallholder farmers in Southern Africa have relied almost exclusively on maize as their staple. Colonial and post-colonial governments alike promoted this dependence for reasons of their own—but not because maize was the best agronomic choice to ensure long-term food security.

The trouble with maize is that it is not particularly nutritious; it exhausts the soil; and it requires reliable rainfall. This would not be a problem if there were an endless supply of fresh land and cheap fertilizer. It would not be a problem if rainfall in much of Southern Africa were still reliable, which it is not. This, then, is the maize trap. Farmers continue trying to grow maize on soil that is increasingly infertile and in a climate whose

rainfall patterns have become notoriously fickle. A more recent factor is HIV/AIDS, which is decimating families' capacity to cultivate their land. But the core reality is that farmers in Southern Africa are trapped in a vicious cycle. The more they cling to maize, the more food insecure they become. Even in relatively good rainfall years, few are able to produce enough maize to feed their families. The region is in a death-spiral in terms of food security.

Enter crop diversification. Along with dependence on maize has come a collateral myth that Southern African framers are unwilling to change or to adopt new crops and technologies. Nothing could be further from the truth. Africare's experience in the SADC region shows the contrary.

Perhaps the most instructive lessons have been learned in the drought-prone Midlands Province of Zimbabwe. Africare began working with about a thousand families to test their willingness to try several "new" crops, such as pigeon peas, sunflower, soybeans, sweet potatoes, groundnuts and cassava. Skeptics pointed out that Zimbabweans traditionally do not eat cassava. Nor did they grow many other crops, which were difficult or impossible to process—soybeans, for instance. Promoting these crops, many believed, was a waste of time.

Africare decided to ask what the farmers of Midlands Province thought. We first organized a series of farmer demonstrations. Residents were introduced to simple, affordable technologies for processing more drought-tolerant crops. These include sunflower processed into edible oil and soybeans converted to a variety of tasty and nutritious products. Farmers also began to appreciate what they could do with improved varieties of cassava, with more drought-tolerant crops like pigeon peas, and with the leaves—as well as the flesh—of cassava and sweet potatoes. They found that all of these crops could be easily integrated into their farming systems, and that soybeans in particular restored soil fertility by fixing nitrogen. Because they could process these crops themselves, mainly for consumption, they did not have to worry about selling to some distant market. Their diets were enriched and their immune systems strengthened. When communities elsewhere continued to suffer through drought, our Midlands farmers did not.

Who funded this innovative program? IFAD, which provided Africare with modest grants to promote crop diversification and village-based food processing. As a result, we have a proven, farmer-driven model which has liberated more than 4,000 people in several wards of Midlands Province from the "maize trap." This is the kind of breakthrough programming which IFAD was intended to nourish. IFAD had the flexibility to invest in a couple of $100,000 grants in Africare—and in the Midlands farmers—to see what might happen. But IFAD's policies and procedures do not allow it to expand this program more broadly in Zimbabwe unless it does so through a loan to the government. IFAD is not presently able to consider new loans to the Zimbabwe Government, and even it were, we would have to hope that the Ministry of Agriculture

was prepared to embark on a national campaign to de-emphasize maize in favor of more nutritious, drought-tolerant and soil-friendly crops.

The farmers in Midlands Province—and elsewhere in the region—have demonstrated that they **are** willing to diversify away from maize if they know that they can process and utilize these alternative food crops. Within a decade, the face of smallholder agriculture could be changed dramatically **if** those agencies most concerned with food security and poverty were able to join forces to make it happen.

It was the Rockefeller Foundation which got Africare to begin focusing on soybeans—mainly as a means to strengthen soil fertility. The work has been very successful, in a limited geographical area, but the foundation is not prepared by itself to replicate this throughout the region. The Bill and Melinda Gates Foundation is funding Africare in another part of Midlands Province to test crop diversification, but again on a limited scale. Meanwhile, our IFAD-funded work in Zimbabwe is nearing its end.

IFAD has a leadership role to play here. IFAD has the broad understanding of agriculture and its centrality in addressing poverty in regions such as Southern Africa. It should have a clear and documented awareness of what works and what doesn't at community level. It does **not** have the mandate or resources to restore sustainable food security in Southern Africa. But it does have the credibility to lobby governments, its fellow United Nations agencies and major donors to launch a coordinated effort to end Southern Africa's dependence on a crop that its steadily aggravating food insecurity.

It is sad to say that Africare's largest funder in Zimbabwe is not IFAD, not the Rockefeller Foundation, nor the Gates Foundation. It is the World Food Program, which contracts Africare and other NGOs to deliver food—grown far, far away—to vulnerable groups. There is something very wrong with this picture. We know what needs to be done—and can be done—to achieve sustainable food security throughout Southern Africa. Emergency food aid is a bandaid at best, and at worst a crutch which allows us to believe that all will be well in the long-run.

All will not be well in Southern Africa if we do not take concerted action to arrest the region's decline into chronic food insecurity. IFAD is positioned to assume a key role in this regard—if it has the resources, but more importantly, if it has the responsibility to take the working models it has helped to pioneer to a regional scale.

Thank you.

Kevin G. Lowther
8404 Golden Aspen Court
Springfield, VA 22153
(703) 913-2824 (home)
(202) 328-5334 (work)

Work Experience

Regional Director for Southern Africa, Africare, Washington, D. C. **1984 to Present**
Responsible for the development, planning, management, supervision, and monitoring of Africare programs in Angola, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe. Spend about three months annually in Africa on supervisory missions.

Resident Representative, Africare, Zambia **1978-83**
Established and managed Africare's first program in Southern Africa, ranging from refugee assistance to agriculture, health and water resource development.

Editorial Page Editor, *Keene Sentinel*, Keene, N. H. **1971-78**
Wrote and edited the editorial page for a daily newspaper.

Peace Corps, Washington, D. C. **1965-71**
Served in a variety of positions, including recruitment and training of Peace Corps Volunteers. Served as Country Desk Officer for Southern Africa and as Acting Chief of the East and Southern Africa Division.

Peace Corps Volunteer, Freetown, Sierra Leone **1963-65**
Taught West African and world history at the Sierra Leone Grammar School, the oldest secondary school in West Africa.

Education

Bachelor of Arts, History, Dartmouth College, Hanover, New Hampshire 1959-63
Non-Degree Fellowship, University of Michigan, Ann Arbor 1976-77

Publications

Co-author, with C. Payne Lucas, of *Keeping Kennedy's Promise*, a critique of the first ten years of the Peace Corps. Numerous op-eds and articles published on development, Africa and related issues in *The Washington Post, The Christian Science Monitor, allafrica.com and American Legacy,* among others.

Travel

Have lived in Sierra Leone (two years) and Zambia (five years) and traveled widely throughout Southern, West and East Africa.

Boards and Community Activity

Member of Mayor's Commission on African Community Affairs, Washington, D. C.
Member of the board of the U. S.-Angola Chamber of Commerce
Volunteer for So Others Might Eat in the Shaw neighborhood of Washington, D. C.

Personal

Married to the former Patricia E. Mitchell in Washington, D. C., June 10, 1967
Two daughters, Allison and Andrea, born in Washington, D. C., 1968 and 1971.

Statement by

Bruce McNamer

President & CEO, TechnoServe, Inc.

Before the Sub-Committee on Domestic and International Monetary Policy, Trade and Technology
House Committee on Financial Services

September 12, 2006

Introduction

Mr. Chairman, Ranking Member and members of the Committee:

Thank you for this opportunity to testify before the Committee and offer a strong voice in support of the International Fund for Agricultural Development (IFAD) and its unique role in creating economic opportunity and hope for the world's rural poor. Unfortunately, the topic of today's hearing is as relevant today as it was almost 40 years ago, when a Connecticut entrepreneur named Ed Bullard created TechnoServe to apply private sector solutions to poverty in the developing world. Moved by the plight of people he encountered volunteering at a hospital in rural Ghana, he sold his business and created TechnoServe to give the rural poor in the developing world access to the tools they need to improve their lives. While many others have since adopted a private enterprise approach to poverty reduction, TechnoServe was one of the first to pioneer this approach in the late 1960s.

Since then, TechnoServe has evolved to focus on building thriving businesses and industries as a catalyst for poverty reducing economic growth, with a particular focus on the rural economy, where 70% of the world's poor reside. We work in 13 countries in Africa and Latin America. Our staff, primarily host country nationals, is drawn from the private sector--from leading industry and management consulting firms. Many have run successful businesses themselves—the best people to help other entrepreneurs to start or grow their businesses.

While relatively new to TechnoServe, I also bring a private sector perspective to anti-poverty efforts. Before joining TechnoServe I worked in investment banking at Morgan Stanley and management consulting at McKinsey & Company. My thinking on poverty and economic growth has also been heavily influenced by my hands-on experience as a Peace Corps Volunteer in Paraguay.

Last year enterprises TechnoServe assisted in Africa and Latin America generated $50M in revenues, and bought local raw materials worth $30M, benefiting 750,000 people. In this work

we are honored to have as partners such leading US firms as Proctor & Gamble, Kraft Foods, Ernst & Young, Cargill, Nestle, Peets Coffee & Tea and Google who share our commitment to making the benefits of globalization inclusive.

Our approach varies by industry and country, according to the specific economic opportunity. But the core elements of the approach are:

- **Analyze the business opportunity**: Identify a high-potential industry that can support scaleable, replicable businesses that benefit the rural poor and the point(s) along the value chain where interventions can be most effective. We do this using the same approach used in venture capital to identify the economic opportunities with the highest return on (donor) investment.
- **Identify the entrepreneur**: Find someone with business aptitude and the drive and determination necessary to succeed.
- **Develop the business**: Provide the necessary technical and business development support to help the business reach its full potential.
- **Improve the enabling environment**: Promote regulations and policies that improve the business climate.
- **Refine and scale up to expand impact**: Improve the business model based on experience and use it to launch or expand more businesses within the industry.

To complement our business- and industry-building work, we also run entrepreneurship development programs that more broadly promote a culture of entrepreneurship and give individuals the training and connections they need to successfully launch and manage their own businesses.

Mr. Chairman, with its focus squarely on rural and agricultural development, IFAD is an organization with a unique mandate and a crucially important role. Indeed it is much like TechnoServe with its mission of "helping the rural poor to overcome poverty."

With U.S. funding for agricultural development in Africa stagnating from 2000-2004, IFAD support for agricultural development in the world's poorest places is even more vital to the development and dissemination of sustainable improvements. Since its creation 28 years ago, IFAD continues to work with developing and transition economy governments to empower rural producers, the role of markets, non-farm income and employment, and on decentralization and governance. It is unique in that its resources are devoted solely to rural and agricultural development. Its experience is highly attuned to today's issues of globalization and market-based development

The role that US assistance can play- -thru USAID as well as IFAD – is critical in strengthening farmers, private agricultural markets and the value chain – market-driven, pragmatic, results-oriented training, business mentorship and linkages that is resulting in real income increases for millions of the rural poor. The US remains a leader on this. USAID has significant success that is not well known, and USAID continues to scramble for funding year-

to-year to support agricultural-led economic growth. Farmers in developing countries need the kind of assistance provided by TechnoServe, IFAD, USAID, and others to take advantage of marketing opportunities, and to provide them the tools to develop thriving free markets.

While many major donors like the World Bank invest much of its efforts on getting the business environment right, or infrastructure improvements, IFAD stands out as the organization providing solutions to poverty targeting the poor where they live, in their communities, with participatory approaches and hands on practical assistance.

IFAD is an important player in three areas:

- Supporting policy dialogue on private sector development;
- Supporting local private sector development in rural areas; and
- Partnering with the private sector to leverage investment and know how in rural areas

Within this overall context, IFAD has a critical, differentiated role to play vs. other donors in market-led, poverty-reducing economic growth. A recent example is IFAD support to a TechnoServe project (with complementary funding from USAID and the Swiss government): the African Cashew Development Program. This is a 3-year regional program in E. Africa. It aims to:

- Increase farmer incomes and productivity
- Create jobs by establishing rural value added cashew processing factories as sustainable providers of markets, employment and production assistance
- Enable existing processors to be more competitive
- Increase regional industry competitiveness to a stronger, harmonized policy environment
- Support sustainable industry promotion organizations functioning at national and regional levels; and
- Improve regional relationships and synergies among cashew industry stakeholders, leading to sustained growth, competitiveness and profitability in the sector beyond that achievable at national levels

IFAD's role is threefold: as a funder for a subset of specific activities (around farmer productivity and policy improvement), as a convener of public and private regional stakeholders; and as a disseminator of best practice around innovation in integrating small-scale farmers into sustainable, competitive value chains.

As a funder, its provides $1.4M of the $6.3M program costs to support activities in Kenya, Tanzania and Mozambique for 2005-2007. This is in addition to the $120,000 IFAD provided to fund TechnoServe's pilot activities.

As a convener, it has the power to bring the full range of important actors—from rural farmers to NGOs business people to government to for to problem solve around regional industry cooperation.

As a disseminator of knowledge sharing and best practice, it can play a unique role by documenting lessons learned from projects like the African Cashew Development Program and helping governments, practitioners and donors to identify high potential sectors, and the scaleable, replicable, cost-effective solutions to maximize impact. They have the power to help change the conversation, and to shape donor thinking about new ways of doing business. Ways that will sustain and grow impact on poverty reducing growth.

Our IFAD-supported cashew program is proof this can happen. It has already resulted in 14 rural-based cashew processors in Mozambique, purchasing raw cashew nuts from 110,000 farmers, earning $5.1M in export earnings, and employing over 3,000 workers. We are replicating that success regionally. Already, one factory has established in rural Kenya, and industry efficiency improvements have been achieved in existing factories in Kenya and Tanzania and an entrepreneur has established the first 'Mozambican-model' factory in Benin. Our partnership extends to improving the business environment. A policy reform effort in Tanzania, contributed to the creation of over 1,500 jobs and $ 5.5M in export earnings from processed cashew kernels. And for the first time the Government of Kenya is about to start debate on creation of a national cashew policy.

A common critique of development activities that they have a finite lifespan, after which the impact achieved during the project can disappear with donor funding. IFAD's approach, which we share, builds sustainability into the industry support from the start. Already, Mozambican processing factories have formed an association which has now taken over the majority of TechnoServe functions (e.g. financing, procurement, shipping and logistics, government lobbying etc).

TechnoServe believes private enterprise is the linchpin of efforts to promote economic growth in the developing world. Indeed it is the only thing that can. Entrepreneurial people, given the knowledge and tools to improve their lives, will improve productivity, promote innovation, and create the jobs and incomes to improve living standards and escape poverty. TechnoServe has worked with thousands of entrepreneurs in the developing world to build thriving businesses and industries, creating economic growth that benefits not only individual households, but entire communities and countries.

With poverty in the developing world heavily concentrated in rural areas, smallholder farmers represent the vast majority of income and employment. While non-agriculture jobs and gradual rural transformation will be required, finding new ways to integrate farmers into growing supply chains is necessary for promoting poverty reducing economic growth. TechnoServe analysis identified a potential $9 billion annual opportunity for African smallholders to supply urban markets. For farmers to link into those markets, people with business aptitude need the knowledge and tools to create and grow businesses.

IFAD is a strong supporter of this approach, and like TechnoServe, provides these smallholders solutions to the challenges they face in effectively participating in local supply

chains. Smallholders face numerous impediments in market access, limited ability to implement new techniques, lack of access to capital, information and support, limited leverage negotiation abilities, and poor income stability leading to risk aversion. Public-Private partnerships have an important role to play to overcome these obstacles. They are an effective means of promoting effective business models. The business model plays a catalytic role in growth, not just in potential industries like urban markets, but in all aspects of production, standardization and trade.

IFAD's experience and ours suggests that a private enterprise approach is a powerful solution to poverty reduction. Yet despite a growing acknowledgement of the importance of entrepreneurship in reducing poverty and catalyzing growth, there are vast areas of the developing world where it is not yet unleashed. We both believe efforts to support entrepreneurs to create long-term growth, require a holistic approach around three key areas:

- Entrepreneurship and business development
- Enabling Environment
- Capital access

I will briefly share observations on these three areas and propose specific recommendations. These reflect not only TechnoServe experience, but IFAD's own evolution in thinking. It is this powerful approach that positions IFAD, with continued support, to play an increasingly important role in scaleable enterprise solutions to poverty.

Entrepreneurship and business development

Entrepreneurship and economic growth are inextricably linked. They must be encouraged from the bottom up (or from sideways in)– and that public sector support – at the industry level and down to the level of the individual entrepreneur, producer, enterprise, is critical to building a thriving private sector. There is no magic bullet. Interventions must be focused, prioritized and fundamentally market driven, with investments made in sectors with the highest growth potential. This kind of approach looks to sources of comparative and competitive advantage, and at value chains for opportunities to bring value-added activities closer to the farm or factory gate, and identifies business models that can capitalize on such opportunities. In the nascent stages of industry development, some subsidy may be essential, drawing on appropriate expertise and building capacity where needed at the level of the individual sector or firm. We have seen how interventions at this level can be powerful catalysts -- in refining a business model, building market linkages, and in providing demonstrable successes for other entrepreneurs to emulate.

At the industry level, there are opportunities to work with industry associations which can play a vital role in driving industry development, as forums for agreement on standards, for the dissemination of best practices, for risk-pooling, and collective advocacy for policy improvements. And public sector actors have a role to play in fostering their development.

Enabling Environment

Critical to both firm-level and industry interventions is the ability of public sector actors – both government and international -- to leverage best practices internationally, to effect knowledge transfer and capacity building, to stimulate innovation, to enhance access to capital (which I will address more later), and to work to address specific enabling environment constraints. While there is widespread agreement that "getting the business environment right" is important, decades later we know it is not that easy. Nor is it sufficient. Unleashing entrepreneurship requires getting in place those policies to support development of a competitive, profitable value chain (e.g., those specific regulations hampering a particular export; the particular levies that are destroying incentives, those particular bureaucratic constraints to establishing and growing businesses).

Capital Access

Capital is the lifeblood of commerce; all businesses and their value chains require adequate finance and responsive financial services if they are to flourish. Much has been achieved to develop, replicate and scale microfinance, a critically important tool for micro-enterprise development and poverty alleviation. A similar investment in developing scaleable solutions is sorely needed for small and medium-sized enterprises (SMEs), the key catalyst for economic growth. As in developed economies, small and medium-sized firms provide profitable, growth-oriented models that can achieve scale and be replicated, and lead growth in jobs and incomes. For maximum poverty reducing impacts, based on economic growth, the poor must be linked to profitable businesses that can innovate and expand, based on their connections to domestic and international market opportunities.

High potential small and medium-scale businesses especially those in the agriculture sector, are largely too small or unproven to access commercial loans, and too large for microcredit loans. Where commercial financing is theoretically available, few banks are willing to finance them, and in some cases, bank staff lack the skills to assess non-asset based lending. Venture funds or angel investors are rare, if not non-existent. Some nascent initiatives are underway by TechnoServe and others to address SME finance paired with business advisory services. As Lael Brainard and Vinca LaFleur of the Brookings Institution noted (The Private Sector in the Fight Against Global Poverty, 2006) SMEs in developing countries are a starved segment with unique potential, and over the next few years should see a great emphasis on their role as engines of growth and employment.

Thank you Mr. Chairman, Ranking Member and Members of the Committee for your serious attention to supporting high quality, performance-driven assistance programs that will provide hardworking entrepreneurial people in the developing world the tools they need to generate long-term solutions to poverty and to create better lives for themselves and their children.

Bruce McNamer
1749 Q Street NW, #D
Washington, DC 20009
Phone: 202 257-9999; e-mail: brucemcnamer@yahoo.com

Work Experience

President and CEO, **TechnoServe**, Washington, D.C. and Norwalk, CT, 2004-present

- Responsible for overall strategic direction, fundraising, general management and Board relations for 350-person international NGO (offices and operations in Africa and Latin America)

COO, **Verified Identity Pass, Inc.**, Washington, D.C., 2003-2004

- Drove all aspects of start-up of venture-backed company – strategic partnerships, new business development, product development, initial marketing/branding, financial and strategic planning (Steve Brill – Founder and CEO).

CFO, **Appfluent Technology, Inc.**, Arlington, Virginia, 2000-2003

- Helped start, build and manage software company – including two rounds of venture capital funding (totaling over $20 million) and first product launch
- Responsible for all aspects of finance and administration – Operations, HR, IT, Legal and Finance

VP Business Development, **Varsitybooks.com**, Washington, D.C., 2000

- Started and ran business development efforts for publicly traded, on-line textbook provider
- Responsible for sales, negotiations and implementation of marketing services contracts with Fortune 500 clients
- Drove revenues for unit from $0 to $3.5mm in six months

Director and White House Fellow, **National Economic Council, The White House**, Washington, DC, 1998-1999

- Responsible for day-to-day White House policy coordination on Asian/South American financial crisis
- Wrote decision-making memoranda for President on range of international economic policy issues -- from bioengineering to export of US environmental technology
- Ran NEC annual process on microfinance lending
- One of 17 White House Fellows chosen by Presidential Commission from over 1,000 applicants from private/public/military sectors to serve for one year at high level of government.

Engagement Manager, **McKinsey & Company**, San Francisco, 1996-1998

- Led teams of 3 or more consultants and up to 10 client team members on projects lasting 2 to 6 months
- Employed skills for fact-based decision-making, including quantitative analysis, interviewing/group facilitation, and intensive project management. Interacted consistently with senior management of client companies.
- Developed strategies and oversaw implementation thereof for companies in energy and financial services. Range of projects included organizational redesign for major wholesale bank, strategic market assessment and launch plan of major new product line for energy manufacturing concern, operational consolidation for national finance company, product profitability study for national mortgage lender
- Consistently ranked in top quartile among peers, with specific strengths in leadership, development of others, and communications

Financial Analyst, **Morgan Stanley and Company**, New York, San Francisco, Hong Kong, 1985-1988

- Extensive research and financial analysis for current and prospective investment banking clients.

Other Employment

Volunteer , **U.S. Peace Corps**, Paraguay, 1990-1992

Education

J.D./MBA, **Stanford University**, 1996: Founded or active in start up of three non-profit ventures (including Start Up – micro-enterprise lending and financing), Public Management certificate, GSB Rugby ("Most Inspirational Player"), a capella singing group.

A.B., *cum laude*, **Harvard University**, 1985: majored in American History. Harvard Class Marshal; Kirkland House Committee Chair and Masters Award; Varsity Football; Boxing Club; Big Brother

Other

Montana native; Speak Spanish and Guarani; dual US/Irish citizenship (E.U. passport), Member - California State Bar, Board Member - Capital Partners for Education (where I am also mentor to high school boy) and Docs for Tots (Chair of Board). SIPA (Columbia School of International and Public Affairs) Board of Advisors

TECHNOSERVE
Business Solutions to Rural Poverty

The TechnoServe Story

People in developing countries don't choose to live in poverty. But innate ability and drive can get them only so far. That is what prompted Connecticut businessman Edward P. Bullard IV to found TechnoServe in 1968. Moved by the plight of people he encountered while volunteering at a hospital in rural Ghana, he created TechnoServe to give the rural poor in the developing world access to the tools they needed to improve their productivity – hence the name TechnoServe: Technology in the Service of Mankind.

Since then the organization has evolved to focus on building thriving businesses and industries, creating economic growth that can benefit not just individual households, but also entire communities and countries. Yet its fundamental aim has remained the same: to use private enterprise to help people escape poverty, thus providing a hand up rather than a handout.

Our work varies by sector and country, according to the opportunity. But the core elements of our approach are:

- **Analyze the business opportunity**: Identify a high-potential industry that can support scaleable, replicable businesses that benefit the rural poor, and the point(s) along the value chain where interventions can be most effective.
- **Identify the entrepreneur**: Find someone with business aptitude and the drive and determination necessary to succeed.
- **Develop the business**: Provide the necessary technical and business development support to help the business reach its full potential.
- **Improve the enabling environment**: Promote regulations and policies that improve the business climate.
- **Refine and scale up to expand impact**: Improve the business model based on experience and use it to launch or expand more businesses within the industry.

To complement our business- and industry-building work, we also run entrepreneurship development programs that more broadly promote a culture of entrepreneurship and give individuals the training and connections they need to successfully launch and manage their own businesses.

In keeping with our private-enterprise approach, we also track and evaluate our impact using business metrics, including company revenues, profits, wages paid and supplies bought from the rural poor. We also track and evaluate the social impact of our work.

Our success is due to our talented business advisors – many of them former management consultants or industry experts – as well as input from strategic partners such as Procter & Gamble, Liz Claiborne, Kraft Foods, Ernst & Young, Peet's Coffee & Tea, Cargill, Nestlé and Google.

We provide the following services:

Developing Businesses	*Developing Industries*
• Business needs and feasibility assessment • Business planning • Market linkages • Capital raising • Managerial and employee training • Management consulting and technical advice • Intensive operational support • Farmer organization and support • World-class business mentor linkages	• Market and industry research • Industry strategic planning • Supply chain organization • Industry association formation and support
	Improving the Enabling Environment • Entrepreneurship development • Policy analysis • Advocacy support and training

We work in the following sectors:

• Agriculture (notably horticulture, nuts, coffee, dairy, cocoa, tea, Artemisia and poultry) • Alternative energy • Tourism • Wood products • Entrepreneurship development

Countries in which we work:

Latin America:	*Africa:*
• Colombia • El Salvador • Guatemala • Honduras • Nicaragua • Peru	• Côte d'Ivoire • Ghana • Kenya • Madagascar • Mozambique • South Africa • Swaziland • Tanzania • Uganda
(TechnoServe also has an affiliate program in Poland.)	

Impact

Since its inception in 1968, TechnoServe has helped to create or improve more than 1,500 businesses, benefiting millions of people in 30 countries. In 2005, TechnoServe assisted 166 clients who generated nearly $50 million in sales and purchased about $35 million worth of products from more than 143,000 rural producers. We have also trained thousands of people in business and entrepreneurial skills.

For more information: Luba Vangelova, Marketing Communications Director, TechnoServe
1800 M Street, NW, Suite 1066, South Tower, Washington, DC 20036
Tel: (202) 785-4515; Fax: (202) 785-4544; Email: LVangelova@tns.org; Web: www.technoserve.org

TECHNOSERVE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal agency Agreement or award number	Originating office /Description	Beginning Date	Ending Date	Cash on Hand or (Receivable) 12/31/2003	Current Year Receipts	Current Year Expense	Current Year Pass through	Cash on Hand or (Receivable) 12/31/2004
Agency for International Development								
USAID Letter of Credit # 72-00-1358								
641-CA-00-98-00241	Ghana mission - TIRP	6/18/1998	10/31/2004	($51,545)	$411,142	$323,593	$36,004	$0
FAO-A-00-98-00058-00	BHR/FFP - Institutional Support Agreement	8/ 1/1998	12/31/2003	(99,290)	99,290	-	-	-
FFP-G-00-98-00036-00	BHR/FFP Kenya - Monetization (202e)	3/10/1998	9/30/2004	(9,653)	38,612	28,959	-	-
656-A-00-01-00040-00	Mozambique mission	6/21/2001	1/31/2005	(165,072)	1,036,781	1,087,705	-	(215,996)
HFP-A-00-01-00022-00	BHR/PVC - Matching grant	10/01/2001	9/30/2006	18,518	794,043	900,692	-	(88,131)
623-A-00-02-00025-00	Tanzania mission (SHAMBA)	11/30/2001	9/30/2005	(170,132)	920,132	1,022,129	-	(272,129)
656-A-00-03-00087-00	Mozambique mission - Moz-Link	7/15/2003	12/31/2005	(265,938)	353,829	137,465	-	(49,574)
596-A-00-04-00061-00	Coffee Diversification - Central America	3/04/2004	3/07/2007	-	350,000	377,877	-	(27,877)
	Sub-total USAID Letter of credit			(743,112)	4,003,829	3,878,420	36,004	(653,707)
Other USAID federal assistance (Non Letter of Credit)								
	Ghana - Monetization - CEDI Trust	---	---	440,484	2,086,431	2,324,441	-	202,474
FFP-A-00-98-00018-00	BHR/FFP Peru - Monetization	10/01/1997	12/31/2002	566,630	6,716		-	573,346
FFP-G-00-98-00036-00	BHR/FFP Kenya - Monetization (Proceeds)	3/10/1998	9/30/2004	(172,732)	560,958	388,226	-	(0)
FFP-A-00-99-00052-00	BHR/FFP Uganda - Monetization (Proceeds)	10/01/1998	5/31/2004	0	76,582	58,173	-	18,410
623-A-00-00-00158-00	REDSO/ESA - RTAA	9/22/2000	8/31/2002	825	(825)		-	(0)
Subagreement No. 61-2928	Michigan State University	7/08/2003	9/30/2005	15,272	305,746	247,912	-	73,106
Subcontract 641-M-00-00037-TNS-0	TIPCEE / Chemonics -Ghana	12/02/2004	11/30/2009	-	-	7,083	-	(7,083)
Agreement 2003/SC-1	International Institute of Tropical Agriculture	12/01/2003	8/31/2004	-	124,000	124,000	-	-
U.S. Department of Agriculture								
FCC - 522-2002/1020-00	Honduras - Monetization	6/14/2002	---	1,000,563	8,050	645,212	-	363,401
OGSM: FGR-527-2003/025-00	Peru - Monetization	9/03/2003	---	1,746,674	648,445	980,519	-	1,414,600
G-656-2002/1124-00	Mozambique 416 b Monetization	9/26/2002	---	283,222	9,394	292,616	-	0
OGSM: FCC-519-200/104-00	El Salvador - Monetization	6/22/2004	---	-	943,828	147,596	-	796,232
Total Balances and Total Expenditures of Federal Awards				$3,137,826	$8,773,154	$9,094,198	$36,004	$2,780,778
			Footnotes	(1)	(2)	(3)	(3 & 4)	(5)

TECHNOSERVE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal agency Agreement or award number	Originating office /Description	Beginning Date	Ending Date	Current Year Expense	Current Year Pass through	Total Expenditures
Agency for International Development						
USAID Letter of Credit # 72-00-1358						
656-A-00-01-00040-00	Mozambique mission	6/21/2001	1/31/2005	81,000	-	**81,000**
HFP-A-00-01-00022-00	BHR/PVC - Matching grant	10/01/2001	9/30/2006	629,496	-	**629,496**
623-A-00-02-00025-00	Tanzania mission (SHAMBA)	11/30/2001	3/31/2006	636,203	-	**636,203**
656-A-00-03-00087-00	Mozambique mission - Moz-Link	7/15/2003	12/31/2005	450,512	-	**450,512**
596-A-00-04-00061-00	Coffee Diversification - Central America	3/04/2004	3/07/2007	889,206	-	**889,206**
520-A-05-0049-00-00	Guatemala mission - Business Plan Competition	3/03/2005	7/31/2006	195,897	-	**195,897**
656-A-05-0031-00	Mozambique mission -(EMPRENDA)	2/01/2005	1/31/2008	886,154	1,645,337	**2,531,491**
	Sub-total USAID Letter of credit			**3,768,468**	**1,645,337**	**5,413,805**
Other USAID federal assistance (Non Letter of Credit)						
- - - -	Ghana - Monetization - CEDI Trust	1997	9/30/2010	1,900,518	-	**1,900,518**
624-0-00-05-00012	Ghana Contract - Enviromental assesment	2/09/2005	2/19/2005	58,285		**58,285**
- - - -	Swaziland Enterprise and Entrepreneurship Program	12/19/2005	12/31/2010	14,000		**14,000**
Subagreement No. 61-2928	Michigan State University	7/08/2003	4/30/2006	590,858	-	**590,858**
Subcontract 641-M-00-00037-TNS-04	TIPCEE / Chemonics -Ghana	12/02/2004	11/30/2009	521,369	-	**521,369**
Subagreement	International Institute of Tropical Agriculture	1/17/2005	2/28/2005	121,247	-	**121,247**
U.S. Department of Agriculture						**-**
FCC - 522-2002/1020-00	Honduras - Monetization	6/14/2002	---	366,277	-	**366,277**
OGSM: FGR-527-2003/025-00	Peru - Monetization	9/03/2003	---	1,176,845	-	**1,176,845**
OGSM: FCC-519-2004/104-00	El Salvador - Monetization	6/22/2004	---	707,603	-	**707,603**
OGSM: FCC-522-2005/049-00	Honduras - Monetization	6/06/2005	---	292,000		**292,000**
OGSM: FCC-615-2005/056-00	Kenya - Monetization	9/28/2005	---	69,002		**69,002**
						-
Total Balances and Total Expenditures of Federal Awards				**9,586,471**	**1,645,337**	**11,231,808**

TECHNOSERVE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF JUNE 30th, 2006

Federal agency Agreement or award number	Originating office /Description	Beginning Date	Ending Date	Current Year Expense	Current Year Pass through	Total Expenditures
Agency for International Development						
USAID Letter of Credit # 72-00-1358						
HFP-A-00-01-00022-00	BHR/PVC - Matching grant	10/01/2001	3/31/2007	400,000	-	**400,000**
623-A-00-02-00025-00	Tanzania mission (SHAMBA)	11/30/2001	3/31/2006	101,542	-	**101,542**
596-A-00-04-00061-00	Coffee Diversification - Central America	3/04/2004	3/07/2007	232,917	-	**232,917**
520-A-00-05-00049-00	Guatemala mission - Business Plan Competition	2/17/2005	9/30/2006	169,402	-	**169,402**
520-A-00-06-00123-00	Guatemala mission - Business Plan Competition	8/4/2006	8/3/2008	-	-	**-**
656-A-00-05-00031-00	Mozambique mission -(EMPRENDA)	2/01/2005	1/31/2008	664,102	-	**664,102**
621-A-00-06-00007-00	Tanzania mission (GDA)	4/17/2006	4/16/2009	9,399	-	**9,399**
	Sub-total USAID Letter of credit			**1,577,362**	-	**1,577,362**
Other USAID federal assistance (Non Letter of Credit)						
- - - -	Ghana - Monetization - CEDI Trust	1997	9/30/2010	896,348	-	**896,348**
- - - -	Swaziland Enterprise and Entrepreneurship Program	12/19/2005	12/31/2010	420,438		**420,438**
Subagreement No. 61-2928	Michigan State University	7/08/2003	4/30/2007	400,000	-	**400,000**
Subcontract 641-M-00-00037-TNS-04	TIPCEE / Chemonics -Ghana	12/02/2004	11/30/2009	354,060	-	**354,060**
Task Order #17192	RAISE Plus/Abt Associates	1/10/2006	1/09/2008	158,564	-	**158,564**
U.S. Department of Agriculture						**-**
OGSM: FGR-527-2003/025-00	Peru - Monetization	9/03/2003	---	244,986	-	**244,986**
OGSM: FCC-519-2004/104-00	El Salvador - Monetization	6/22/2004	---	350,000	-	**350,000**
OGSM: FCC-522-2005/049-00	Honduras - Monetization	6/06/2005	---	450,000		**450,000**
OGSM: FCC-522-2006/106-00	Honduras - Monetization	5/04/2006	---	-		**-**
OGSM: FCC-615-2005/056-00	Kenya - Monetization	9/28/2005	---	360,465		**360,465**
OGSM: FCC-656-2006/058-00	Mozambique - Monetization	6/8/2006	---	48,587		**48,587**
						-
Total Balances and Total Expenditures of Federal Awards				**5,260,810**	**-**	**5,260,810**