AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

REMOVING OBSTACLES FOR AFRICAN ENTREPRENEURS

HEARING

BEFORE THE

SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND INTERNATIONAL OPERATIONS

OF THE

COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

JUNE 8, 2006

Serial No. 109–192

Printed for the use of the Committee on International Relations

Available via the World Wide Web: http://www.house.gov/international_relations

U.S. GOVERNMENT PRINTING OFFICE

27–989PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON INTERNATIONAL RELATIONS

HENRY J. HYDE, Illinois, *Chairman*

JAMES A. LEACH, Iowa
CHRISTOPHER H. SMITH, New Jersey, *Vice Chairman*
DAN BURTON, Indiana
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
DANA ROHRABACHER, California
EDWARD R. ROYCE, California
PETER T. KING, New York
STEVE CHABOT, Ohio
THOMAS G. TANCREDO, Colorado
RON PAUL, Texas
DARRELL ISSA, California
JEFF FLAKE, Arizona
JO ANN DAVIS, Virginia
MARK GREEN, Wisconsin
JERRY WELLER, Illinois
MIKE PENCE, Indiana
THADDEUS G. McCOTTER, Michigan
KATHERINE HARRIS, Florida
JOE WILSON, South Carolina
JOHN BOOZMAN, Arkansas
J. GRESHAM BARRETT, South Carolina
CONNIE MACK, Florida
JEFF FORTENBERRY, Nebraska
MICHAEL McCAUL, Texas
TED POE, Texas

TOM LANTOS, California
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
ENI F.H. FALEOMAVAEGA, American Samoa
DONALD M. PAYNE, New Jersey
SHERROD BROWN, Ohio
BRAD SHERMAN, California
ROBERT WEXLER, Florida
ELIOT L. ENGEL, New York
WILLIAM D. DELAHUNT, Massachusetts
GREGORY W. MEEKS, New York
BARBARA LEE, California
JOSEPH CROWLEY, New York
EARL BLUMENAUER, Oregon
SHELLEY BERKLEY, Nevada
GRACE F. NAPOLITANO, California
ADAM B. SCHIFF, California
DIANE E. WATSON, California
ADAM SMITH, Washington
BETTY McCOLLUM, Minnesota
BEN CHANDLER, Kentucky
DENNIS A. CARDOZA, California
RUSS CARNAHAN, Missouri

THOMAS E. MOONEY, SR., *Staff Director/General Counsel*
ROBERT R. KING, *Democratic Staff Director*

SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND INTERNATIONAL OPERATIONS

CHRISTOPHER H. SMITH, New Jersey, *Chairman*

THOMAS G. TANCREDO, Colorado
JEFF FLAKE, Arizona
MARK GREEN, Wisconsin
JOHN BOOZMAN, Arkansas
JEFF FORTENBERRY, Nebraska
EDWARD R. ROYCE, California, *Vice Chairman*

DONALD M. PAYNE, New Jersey
GREGORY W. MEEKS, New York
BARBARA LEE, California
DIANE E. WATSON, California
BETTY McCOLLUM, Minnesota
EARL BLUMENAUER, Oregon

MARY M. NOONAN, *Subcommittee Staff Director*
GREG SIMPKINS, *Subcommittee Professional Staff Member*
NOELLE LUSANE, *Democratic Professional Staff Member*
SHERI A. RICKERT, *Subcommittee Professional Staff Member and Counsel*
LINDSEY M. PLUMLEY, *Staff Associate*

CONTENTS

Page

WITNESSES

Mr. Manuel A. Rosales, Assistant Administrator, Office of International Trade, U.S. Small Business Administration 7
Mr. Rodney J. MacAlister, President and Chief Executive Officer, African Development Foundation 13
Mr. Charles M. Williams, Senior Associate, Carmen Group, Inc. 31
Ms. Shade Bembatoum-Young, Executive Director, African Sustainable Small Enterprise Export Development Foundation 36

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

The Honorable Christopher H. Smith, a Representative in Congress from the State of New Jersey, and Chairman, Subcommittee on Africa, Global Human Rights and International Operations: Prepared statement 3
Mr. Manuel A. Rosales: Prepared statement 9
Mr. Rodney J. MacAlister: Prepared statement 15
Mr. Charles M. Williams: Prepared statement 34
Ms. Shade Bembatoum-Young: Prepared statement 39

APPENDIX

The Honorable Jeff Fortenberry, a Representative in Congress from the State of Nebraska: Prepared statement 49

REMOVING OBSTACLES FOR AFRICAN ENTREPRENEURS

THURSDAY, JUNE 8, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS
AND INTERNATIONAL OPERATIONS,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2 p.m. in room 2172, Rayburn House Office Building, Hon. Christopher H. Smith (Chairman of the Subcommittee) presiding.

Mr. SMITH. I am advised that our Ranking Member, Donald Payne, will be here in about 2 minutes, so I thought I would start and then yield to him some opening comments and then go to our distinguished witnesses.

Six years ago, the African Growth and Opportunity Act was signed into law by President Clinton with the goal of stimulating growth in African economies through decreasing trade barriers and encouraging business-friendly regulatory environments. Since then, President Bush has expanded and extended AGOA. Over the past 6 years, United States-Africa two-way trade has increased by about 115 percent. Last year, 98 percent of U.S. imports from AGOA nations entered the United States duty free.

Despite the good news, however, it must be acknowledged that AGOA's goal of promoting multi-sector economic growth in Africa has been met only partially. Expansion of trade with Africa is largely due to oil imports from western African nations. Total non-oil trade under AGOA actually declined last year by 16 percent. This was despite increases in trade in non-oil sectors such as footwear, toys, chemicals, electronic products and cut flowers.

In the original version of AGOA, this trade preference program was intended to benefit small and medium enterprises as well as large businesses and state-owned enterprises. Still, there remain constraints on African entrepreneurs that limit their ability to take advantage of AGOA or any other program to enhance trade.

There is an axiom that two-thirds of any African economy is in the informal sector. Many of these businesses are microenterprises, but a large number are also considered small and medium companies with up to 100 or more workers. As in industrialized nations such as the United States, small and medium enterprises are the engine of job growth in an economy. If not for their ability to create jobs, many more Africans would be unemployed.

Unfortunately, entrepreneurs operating in the large informal economy, the majority of them female-headed businesses, lack ac-

cess to government services. They too often are denied adequate financing from banks. Their needs for infrastructure and economic policy changes are not taken into account. Corruption makes their existence more tenuous, even, than weak economies. As a result, according to a World Bank study, small and medium enterprises have less of an impact on economic growth than they might otherwise have.

The United States Government has attempted to enhance the capacity of African small and medium enterprises during the term of AGOA. Last year alone, $199 million in trade capacity building was spent in this area. Four hubs for global competitiveness have been established for this purpose in Botswana, Ghana, Kenya and Senegal. Nevertheless, African small and medium enterprises continue to lag in their ability to enjoy the benefits of AGOA.

In recognition of this continuing problem, Congressman Tom Lantos, Ranking Member of the House International Relations Committee, and I have introduced legislation (H.R. 4319) to address the remaining capacity needs of African small and medium entrepreneurs.

The Assistance for Small and Medium Entrepreneurs in Sub-Saharan Countries Act of 2005 makes a number of interventions that we believe will better enable African entrepreneurs to become more successful exporters in the global economy: H.R. 4319 provides for example technical assistance that will improve the ability of African banks to provide financing to small and medium enterprises; H.R. 4319 extends capacity building to African entrepreneurs, including youth and farmers; H.R. 4319 addresses intellectual property rights protection for African farming innovation, entertainment and against counterfeit drugs; H.R. 4319 gives technical assistance to African countries to enable them to meet U.S. food safety standards and strengthen agriculture research; and finally, H.R. 4319 helps protect labor rights so increased production won't mean workers are operating in unsafe conditions for too little pay.

Surely, African nations have proven themselves able to make choices that can transform their economies once needed assistance is provided. Madagascar's economic policies have transformed this nation into an engine of trade under AGOA. Botswana today has a higher sovereign credit rating than Japan.

Many of us have witnessed the skills of African entrepreneurs who have come to America and demonstrated how successful they can be, provided they are given the right environment. Africans living in America have one of the highest family incomes in our country because of their diligence and talents in doing business. These skills could be creating wealth and employment in Africa as well if the economic policies of those nations better provided for indigenous entrepreneurs at home so they aren't forced to seek opportunities and jobs abroad.

Africans and Americans benefit from AGOA, the Millennium Challenge Corporation and other U.S. programs. However, a case can also be made that those who most need these opportunities have been least able to benefit from them.

I hope our colleagues will work with us to gather all the information we can from today's hearing and support our legislative efforts

in order to completely fulfill AGOA's promise as well as better benefit African entrepreneurs.

I would like to yield to my good friend, Madam Ambassador, for any opening comments you might have.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY AND CHAIRMAN, SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND INTERNATIONAL OPERATIONS

Six years ago, the African Growth and Opportunity Act was signed into law by President Clinton with the goal of stimulating growth in African economies through decreasing trade barriers and encouraging business-friendly regulatory environments. Since then, President Bush has expanded and extended AGOA. Over the past six years, U.S.-Africa two-way trade has increased by 115 percent. Last year, 98 percent of U.S. imports from AGOA nations entered the United States duty-free.

Despite the good news, however, it must be acknowledged that AGOA's goal of promoting multi-sector economic growth in Africa has been met only partially. Expansion of trade with Africa is largely due to oil imports from Western African countries. Total non-oil trade under AGOA actually declined last year by 16 percent. This was despite increases in trade in non-oil sectors such as footwear, toys, chemicals, electronic products and cut flowers.

In the original vision for AGOA, this trade preference program was intended to benefit small and medium enterprises as well as large businesses and state-owned enterprises. Still, there remain constraints on African entrepreneurs that limit their ability to take advantage of AGOA or any other program to enhance trade.

There is an axiom that two-thirds of any African economy is in the informal sector. Many of these businesses are micro-enterprises, but a large number also are considered small and medium companies with up to 100 or more workers. As in industrialized nations, such as the United States, small and medium enterprises are the engine of job growth in an economy. If not for their ability to create jobs, many more Africans would be unemployed.

Unfortunately, entrepreneurs operating in the large informal economy, the majority of them female-headed businesses, lack access to government services. They too often are denied adequate financing from banks. Their needs for infrastructure and economic policy changes are not taken into account. Corruption makes their existence more tenuous even than weak economies. As a result, according to a World Bank study, small and medium enterprises have less of an impact on economic growth than they might otherwise have.

The U.S. government has attempted to enhance the capacity of African small and medium enterprises during the term of AGOA. Last year alone, $199 million in trade capacity building was spent in this area. Four hubs for global competitiveness have been established for this purpose in Botswana, Ghana, Kenya and Senegal. Nevertheless, African small and medium enterprises continue to lag in their ability to enjoy the benefits of AGOA.

In recognition of this continuing problem, Representative Tom Lantos, ranking member of the House International Relations Committee, and myself have introduced legislation, H.R. 4319, to address the remaining capacity needs of African small and medium entrepreneurs.

The Assistance for Small and Medium Enterprises in Sub-Saharan African Countries Act of 2005 makes a number of interventions that we believe will better enable African entrepreneurs to become more successful exporters in the global economy:

- H.R. 4319 provides technical assistance that will improve the ability of African banks to provide financing to small and medium enterprises.
- H.R. 4319 extends capacity building to African entrepreneurs, including youth and farmers.
- H.R. 4319 addresses intellectual property rights protection for African farming innovation, entertainment, and against counterfeit drugs.
- H.R. 4319 gives technical assistance to African countries to enable them to meet U.S. food safety standards and strengthen agricultural research.
- Finally, H.R. 4319 helps protect labor rights so increased production won't mean workers are operating in unsafe conditions for too little pay.

Surely, African nations have proven themselves able to make choices that can transform their economies once needed assistance is provided. Madagascar's eco-

nomic policies have transformed this nation into an engine of trade under AGOA. Botswana today has a higher sovereign credit rating than Japan.

Many of us have witnessed the skills of African entrepreneurs who have come to America and demonstrated how successful they can be in the right environment. Africans living in America have one of the highest family incomes in our country because of their diligence and talents in doing business. These skills could be creating wealth and employment in Africa if the economic policies of those nations better provided for indigenous entrepreneurs at home so they aren't forced to seek opportunities abroad.

Africans and Americans benefit from AGOA, the Millennium Challenge Corporation, and other U.S. programs. However, a case can also be made that those who most need these opportunities have been least able to benefit from them. I hope our colleagues will work with us to gather all the information we can from today's hearing and support our legislative efforts in order to completely fulfill AGOA's promise as well as better benefit African entrepreneurs.

Ms. WATSON. Thank you so much, Mr. Chairman, for holding the hearing. We here in the Subcommittee have all expressed our interest in economic development in Africa. We talk about it a lot in the abstract, as if the continent itself were capable of generating wealth. So perhaps today's hearing will give us a chance to slightly amend our words so we can better articulate what we truly seek, and that is the economic development of each and every person on the continent of Africa.

The land of Africa has always been richly resourced, but, despite this wealth, Africans themselves grapple with crippling poverty. Part of the problem is that for decades governments in both Africa and the West have had the wrong focus. We have spent our resources either on major development projects that often become white elephants or on social projects which, while necessary, focus on the symptoms of poverty rather than on providing a cure.

The time is ripe for a new approach. It is time to reorient our policies to focus on Africa's most valuable yet least valued resource, the human capital of Africans themselves. For this reason, I am proud to be co-sponsor of H.R. 5480, the African Entrepreneur Act of 2006.

This bill would seek to provide American support for those Africans seeking to build their own capacity to build business and to build wealth in sub-Saharan Africa.

But this is only one part of what must be a comprehensive strategy, and I would be remiss if I did not mention two issues that I believe are crucial to such a strategy.

The first is helping to build capacity within African governments to protect intellectual property. We will only encourage African entrepreneurs to innovate and create their way out of poverty if we encourage their governments to protect the fruit of their intellectual labors.

The second is to help Africans develop the tools to demand accountability and transparency from their governments. No African will take the risk inherent in entrepreneurship if they fear the rewards of their efforts will be confiscated by corrupt officials. Both corruption and piracy are theft, and both must be tamed if Africans are to achieve their full entrepreneurial potential.

So, Mr. Chairman, I want to thank you for holding the hearing; and I look forward to working with you and Mr. Payne and the rest of our colleagues to develop a strategy that promises entrepreneurship, protects intellectual property, and defeats corruption in Africa.

Thank you, and I yield back.

Mr. SMITH. Ms. Watson, thank you very much.

I yield to Ranking Member Donald Payne.

Mr. PAYNE. Thank you. Thank you very much; and thank you, Mr. Chairman, for calling this important hearing on removing the obstacles to African entrepreneurship.

One thing that I have seen through the years in Africa is that you have a lot of entrepreneurs. I mean, if you go down any main street in any city, if it is not Nairobi or Addis or if it is in Arusha or you name it, you find a lot of entrepreneurs. Salespeople all over the place, vendors, stalls, stands; and so entrepreneurial small business is a spirit that is very alive and well in Africa.

But there are certainly obstacles, and we need to get beyond just the street vendors and the small entrepreneurs. I think that this hearing is extremely important and timely. In most African countries, most microbusinesses operate in the informal sector of the economy. The informal economy is a source of income for most African people. So it is something that we should focus meaningful attention on in our effort to increase development within the African sub-Saharan countries.

The informal economy accounted for an average of about 42 percent of the gross national product in Africa in 2000, as compared to 26 percent in Asia and 41 percent in Latin America, 38 percent in Eastern Europe and 18 percent in OECD countries, 8.8 percent in the United States. So we can see that the informal economy in Africa is very high.

I think on the issue of development in general it is important we not apply our own concepts of what development looks like and how it must happen.

Everyone in the world wants to be a part of a vibrant economy where they can work and earn wages to provide for their families and for their needs. Since there is much reliance on and so much activity within the informal sector in these microenterprises, we should focus on strengthening capacity in this area while we also deal with strengthening small- and medium-sized businesses.

Today, we will hear testimony from one of the architects of the African Growth and Opportunity Act, Mike Williams, when he was on the staff of Congressman McDermott. I was very impressed with this idea that he came up with and encouraged his boss to take credit for it.

I was mentioning that the other day to Congressman McDermott at one of the hearings and I told him, no longer is he the father of AGOA, he is the grandfather, since he is getting grayer.

It is good to see you, Mr. Williams.

And also, Rod MacAlister, we are glad to see you here as the new President of the African Development Foundation, the ADF, which, as many of us know, was created in 1980 by Congress. ADF was created to deliver direct financial support to African entrepreneurs and community based organizations. I think they have done a great job over the recent years under the direction and guidance of Nate Fields, who has taken a new position as Director of Regional Programs based in Ghana.

I look forward to working with the new President to ensure the wonderful programs that are in place will continue and so that

microenterprises in Africa is even expanded. I have had the opportunity, of course, to talk on several occasions with Mr. Fields; and he is very encouraged by the new arrangement.

AGOA extends preferential treatment to imports from eligible countries that are pursuing market reform measures. Data shows that U.S. imports under AGOA are mostly energy products, but imports to date of other products are growing, and we need to really expand outside of the extractive industries.

AGOA has given African nations and African entrepreneurs hope that there is a tool in place to increase trade and investment between Africa and the United States.

Since being signed in law May 18, 2000, AGOA has proven its importance and its power by providing real economic opportunities for Africa. There is, however, still much to be done on AGOA. It must be expanded to broaden beyond textiles to maximize economic activity among a variety of sectors and to ensure real and measurable impact on the economic well-being of sub-Saharan Africa.

But AGOA has not reached its full potential. It must do more to help African small- and medium-sized businesses. Many entrepreneurs are in agriculture and most agriculture products are not a part of AGOA, for example, and that needs to be looked at and changed.

The Civil Society Coalition, which held its forum on the Hill yesterday, agrees that AGOA must be integrated into the larger strategy that aims to unleash the entrepreneurial force of Africa in urban, rural and agriculture sectors, especially, among women. We must all work together to make sure that perhaps AGOA IV is even more encompassing.

I would like to acknowledge that the former Chairman of the Committee, Mr. Royce, had a tremendous amount to do with AGOA and attended AGOA conferences in Africa; and it was his persistence and interest and support that helped move AGOA forward.

So I was very impressed with the hearings yesterday, with so many AGOA participants at the forum that was sponsored by the NGOs yesterday. I think that it is alive and well, but we do have to expand, and we have to put all of our legislative authority into AGOA to ensure that it continues to improve. So, Mr. Chairman, I appreciate you calling this important hearing.

Mr. SMITH. I thank you very much, Mr. Payne.

Mr. Tancredo.

Mr. SMITH. Let me now introduce our first panel beginning with Manuel Rosales, who was appointed as the Assistant Administrator for the U.S. Small Business Administration's Office of International Trade in October 2001. In his position he serves as the SBA Administrator's principal adviser on international trade. Before joining the SBA, he successfully operated his own financial services company, Inter-American Financial Services.

We will then hear from Mr. Rodney MacAlister, who was appointed President of the African Development Foundation in February 2006. Mr. MacAlister has extensive private-sector experience in Africa, having led operations, business development and community development efforts for ConocoPhillips in central Africa for 12 years, many of them in conflict-affected countries.

Mr. Administrator, the floor is yours.

STATEMENT OF MR. MANUEL A. ROSALES, ASSISTANT ADMINISTRATOR, OFFICE OF INTERNATIONAL TRADE, U.S. SMALL BUSINESS ADMINISTRATION

Mr. ROSALES. Thank you, Mr. Chairman, Ranking Member and distinguished Members of the Committee. I thank you for inviting me to testify on the subject of Removing Obstacles for African Entrepreneurs.

My name is Manuel Rosales, and I am the Associate Administrator for the Office of International Trade at the Small Business Administration. The SBA is tasked with assisting American businesses. The Office of International Trade provides technical and financial assistance to American companies who wish to expand into the international marketplace.

The SBA has been working closely with the Department of State, Department of Commerce, U.S. Agency for International Development and the U.S. Trade Representatives Office in working with respective governments and private-sector organizations in Africa. SBA has a successful 53-year history of providing technical assistance, financial assistance, contracting assistance, and advocacy to the U.S. small business community.

SBA has had an opportunity to share our experience with international visitors. Visitors to the SBA come from foreign governments, private-sector organizations from many countries. Visitors from many nations of Africa are no exception. In some cases, SBA, through its Office of International Trade, has established strategic alliances and collaboration agreements where we can share our experiences with these countries.

Under the African Growth and Opportunity Act, AGOA, African Trade and Investment Policy Program, the SBA received funding to assist in the development of Business Information Centers, BICs, in Nigeria. This project was completed in 2003.

These BICs were examples of public-private partnership pursued by the SBA, a model for one-stop community based business assistance centers where small- and medium-sized enterprises can acquire technical assistance, gain computer skills, access the Internet, explore financial options and link with other businesses.

A second component of the program includes training for BIC managers and personnel in conducting entrepreneurial development training in their communities. These initiatives show how significant it is to have a good business environment to enable growth. The small business community needs to have the internal and external infrastructure to stimulate development and growth. This is one of the issues crucial to the success of AGOA.

For SBA, AGOA has opened up possibilities and opportunities for U.S. small businesses to enter the sub-Saharan African market with confidence and assurance from the United States Government. As a result of this legislation, the key component of the Bush Administration's trade policy toward Africa, SBA has either worked with or hosted high-ranking diplomats from numerous sub-Saharan countries such as Botswana, Senegal, Nigeria, Rwanda and Burundi. The President's interest in creating trade with sub-Saharan Africa has also driven policy changes that have made communications with and obtaining information about sub-Saharan Africa more accessible to United States businesses.

From the meetings with African governments, nongovernmental organizations and African entrepreneurs, we have learned what some of the obstacles to small business development and growth in Africa are; and they are: Limited access to capital. The funding available is at a high cost. African entrepreneurs typically have little or no collateral or are perceived to be high risk.

Lack of capacity building. Foreign aid projects begin with best intentions, but the lifespan is often short.

Failure to develop and sustain business clusters and small business incubators, both of which are valuable tools for economic development.

Serious shortfalls in telecommunications and communications technology facilitate marketing and e-commerce activities.

Significant shortcomings and weaknesses in long-term technical assistance.

Ineffective governance at national, state and local levels. More qualified human capital is needed to facilitate and implement effective services.

Limited intellectual property rights protection for African and small- and medium-sized enterprises inhibits their willingness to trade between neighboring provinces and states. This also significantly inhibits United States small firms from engaging African small businesses in trade.

Effective collaboration between countries in the region, with support from both the private and public sectors will significantly enhance economic development and growth.

One example of cross-border collaboration and economic ties is SBA's initiative with the SME Congress of the Americas. The SME Congress of the Americas is a network of micro, small and medium enterprise service providers working together to promote the participation of SMEs in international trade.

This leads me to my final point regarding promoting small business growth in Africa. This is not something that the governments of Africa can do on their own, even with assistance from foreign governments. The private sector needs to be a full partner in grassroots economic development. Just as we recognize that our small business development assistance can play a role in helping create more and better trading partners for United States businesses, the private sector operating in Africa needs to realize the stability and prosperity that small business development provides and creates opportunities for economic enrichment.

I again thank you for the opportunity to share our thoughts and experience regarding Africa and entrepreneurial development.

[The prepared statement of Mr. Rosales follows:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

TESTIMONY OF

MANUEL ROSALES
ASSOCIATE ADMINISTRATOR FOR INTERNATIONAL TRADE
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE INTERNATIONAL RELATIONS COMMITTEE
SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND
INTERNATIONAL OPERATIONS SUBCOMMITTEE
U.S. HOUSE OF REPRESENTATIVES

HEARING ON

REMOVING OBSTACLES FOR AFRICAN ENTREPRENEURS

June 8, 2006

SBA IS AN EQUAL OPPORTUNITY EMPLOYER AND PROVIDER
Federal Recycling Program Printed on Recycled Paper

Mr. Chairman, Ranking Member, and distinguished Members of the Committee. Thank you for inviting me to testify on the subject of Removing Obstacles for African Entrepreneurs.

My name is Manuel Rosales and I am the Associate Administrator for the Office of International Trade at the Small Business Administration (SBA). The SBA is a domestic economic development agency tasked with assisting American small businesses. The office of International Trade is mandated to provide technical and financial assistance to American companies who wish to expand into the international marketplace.

I would like to recognize the leadership of SBA's Administrator Hector Barreto, a staunch advocate for active small business participation in trade and the international marketplace. He is a friend and proponent of all small businesses.

The SBA has been working closely with the Department of State, Department of Commerce, U.S. Agency for International Development and the U.S. Trade Representative's Office in working with respective governments and private-sector organizations in Africa. SBA has a successful 53-year history of providing technical assistance, financial assistance, government contracting assistance and advocacy for the U.S. small business community.

Over the course of time we have had the opportunity to share our experiences with international visitors. Visitors to SBA come from foreign governments, their embassies here in Washington, and also from the private-sector organizations from these countries. Visitors from the many Nations of Africa are no exception. In some cases, SBA, through its Office of International Trade, has established strategic alliances and/or collaboration agreements where we can share our experiences and best practices with these countries.

Under the African Growth and Opportunity Act (AGOA) African Trade and Investment Policy Program, the SBA received funding to assist in the development of Business Information Centers (BICs) in Nigeria. This project was completed in 2003. The grant to SBA was made under the auspices of the USAID Inter-Agency Agreement as part of the Africa Trade and Investment Policy Program (ATRIP) through the National Security Council to provide technical assistance to Nigeria to create two Business Information Centers (BICs).

These BICs were to serve as examples of public-private partnerships such as those pursued by the SBA. These BICs were created to serve as a model for one-stop community-based business assistance centers where small and medium-size enterprises (SMEs) can receive technical assistance, gain computer skills and internet access, explore financial options, and link with other businesses. A second component of the program includes training, both in the U.S. and Nigeria, for BIC managers and personnel responsible for conducting entrepreneurial development training in their communities. The U.S.-Nigeria Development Institute was the partner and implementer of the project in Nigeria. We believe that this initiative provided us a chance to realize how significant it is to have a good business environment to enable growth. The small business community needs to have the internal and external infrastructure that stimulates their development and growth. This is one of the issues crucial to the success of AGOA.

For SBA, AGOA legislation has opened up possible opportunities for U.S. small businesses to enter the Sub-Saharan African market with confidence and assurance from the U.S. Government. As a result of this legislation, which has served as a key component of the Bush Administration's trade policy toward Africa, SBA has either worked with or hosted high-ranking diplomats from numerous Sub-

Saharan African countries such as Botswana, Senegal, Nigeria, Rwanda and Burundi. The President's interest in creating trade with Sub-Saharan Africa, has also driven policy changes that have made communication with and obtaining information about Sub-Saharan Africa more accessible to U.S. businesses.

From the meetings with African governments, Non-governmental organizations (NGOs) and African entrepreneurs and small business owners, we have learned what some of the obstacles they see are to small business development and growth in Africa. They are:

* Limited access to capital. The funding sources that are available come at a high cost. African small enterprises typically have little or no collateral and are perceived to be extremely high risk.

* Lack of sustainable capacity-building. Foreign aid projects may begin with the best of intentions, but their lifespan is often short.

* Failure to develop and sustain business clusters and/or small business incubators, both of which are viable tools for economic development, especially in support of the small enterprise.

* Serious shortfall of telecommunications and communications technology that would facilitate marketing and e-commerce activities.

* Significant shortcomings and weaknesses in long-term technical assistance.

* Ineffective governance at national, state and local levels. More qualified human capital is needed to facilitate and implement effective services.

* A need for better infrastructure support for small business by public/private sector service providers, business associations and/or large corporate sponsors.

* Limited intellectual property (IPR) protection for African small and medium enterprises (SMEs) inhibits their willingness to trade between neighboring provinces and states. This also significantly inhibits U.S. small firms from engaging African small businesses in trade.

Effective collaboration between countries in the region, with support of both the public and private sectors, will significantly enhance economic development and growth.

One example of cross-border collaboration and the implementation of economic ties on a regional basis is SBA's initiative with the *SME Congress of the Americas*, under which we have been working with counterpart agencies throughout the Americas since 2003. The *SME Congress of the Americas* is a hemispheric network of micro, small and medium enterprise (SME) service providers, public and private-sectors, working together to promote the participation and competitiveness of SMEs, especially in international trade. Countries that conduct international trade have much more economic strength and a stronger, more viable small business community, and those are some of the objectives of AGOA.

This leads me to a final point that I would like to make regarding recommendations for promoting entrepreneurship and small business growth in Africa. This is not something that the governments of Africa can do on their own, even with resources and assistance from foreign governments such as the U.S. One of the things that SBA does best is leveraging partnerships with private and not-for-profit organizations. We certainly could not do all that we do on our own. It is critical that Africa recognize this.

The private sector needs to be a full partner in grass-roots economic development. Just as we recognize that our small business development assistance can play a role in helping to create more and better trading partners for U.S. small businesses, the private sector operating in Africa needs to realize that the stability and prosperity that small business development provides creates opportunities for economic enrichment.

Again thank you for the opportunity to share our thoughts and experiences regarding Africa and entrepreneurial development.

Mr. SMITH. Thank you so for your testimony.
Mr. MacAlister.

STATEMENT OF MR. RODNEY J. MACALISTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AFRICAN DEVELOPMENT FOUNDATION

Mr. MACALISTER. Mr. Chairman, Mr. Ranking Member, distinguished Members of the Committee, thank you very much for this opportunity to appear before you today and to share what the United States African Development Foundation is doing to remove obstacles for African entrepreneurs.

The Foundation was created in 1980 to take a different approach to fighting poverty in Africa. The concept, then as now, is to enable individuals and groups to get out of poverty by putting their own ideas to work, not someone else's. Our methods have evolved over time with experience, but one of the main pillars of our work throughout has been to remove barriers and promote the success of our customers, who are thousands of Africans who have no lack of innate entrepreneurial instinct, as you mentioned, Mr. Payne, but simply lack the means to get going and stay on the path to success.

We believe people in poverty know better than anyone what they want to do to improve their lives, and usually they lack only the technical know-how and the necessary capital to make their dreams a reality.

I would appreciate being able to submit a longer testimony for the record, please.

Mr. SMITH. Without objection so ordered.

Mr. MACALISTER. Thank you.

Let me tell you four things about us and what we do: One, USADF has a unique model for growing businesses which gets impressive results; two, the Foundation is stretching appropriated funds with leveraged contributions; three, our work is in high demand across the continent; and, four, after 25 years as part of the overall American aid and development framework, USADF would like to and has the potential to do much more.

So, first, we are actually unique, which I know is a pretty bold claim. But our core business is growing African-owned small businesses and demonstrating that African entrepreneurs and farmers can compete in the global marketplace. Since 1984, we have made more than 1,500 investments in enterprises owned and managed by poor Africans, businesses that they themselves have conceived and operate.

The way we go about doing this is distinct from other agencies.

First, we work directly with our clients. Other than employing African host government funds, there is no host government control over what we do and how we invest our joint funds; and we do not work through NGOs, consultants or other intermediaries. We believe our customers have the best view of their obstacles and how to remove them.

Second, we help our clients think commercially. We show them how to diagnose their constraints, assess opportunities, conduct rigorous financial analyses on their options and develop business

plans that are commercially viable and generate income for owners, employees and suppliers.

Third, USADF provides a comprehensive package of direct investments in African small- and medium-scale enterprises and small farming operations. Essentially, we enter into a 3- to 5-year relationship and stick with them through thick and thin to help them succeed.

Fourth, we work with enterprises that could not otherwise access commercial capital through banks. The investment is interest free, but the customers commit to contribute up to 100 percent of the investment amount to a local development trust. This feature reinforces commercial discipline and will create a pool of development funds for reinvestment in other businesses and community initiatives.

Fifth, because our business development model is unique and effective, African governments are making cash contributions to match one for one appropriated funds. I know of no other agency whose core model is specifically based on leveraging American taxpayers' funds in partnership with host governments.

USADF works. It is producing results. Our investments in small African-owned businesses are generating economic growth. Small farmers are increasing their income by diversifying their production into high-value cash crops. These African businesses and farmers can compete in the international marketplace. We help them meet the quality and quantity demands of global markets and create relationships with international buyers.

Last year, USADF's investments across Africa helped create more than 110,000 jobs for poor Africans and generated $70 million in gross revenues for enterprises and almost $35 million in export sales. Local communities are taking control of their own development. Thus, USADF is advancing the objectives of AGOA and furthering United States objectives of building a foundation of peace and prosperity in Africa.

My written testimony includes examples that will illustrate what our customers are accomplishing.

Second, USADF is stretching appropriated dollars. Because of the Foundation's distinct approach and high impact, a dozen African governments and two private corporations are actually matching the United States Government's funding, dollar for dollar. USADF has a total of $22 million in actual commitments and expressions of interest. However, at the current level of funding, USADF will leave $11.5 million of this private co-funding on the table because we do not have adequate appropriated funds to match the private contributions.

Third, we are in high demand. As an example of the walk-in business we experience, just this week, during the 2-day AGOA Ministerial Forum, we were asked by the Minister of Industry from the Congo, the Secretary of Commerce from Malawi, the Minister of Commerce from Burkina Faso, the Minister of Commerce from Benin and the Minister of Foreign Affairs from Burundi to match funds that they have ready to put into USADF work in their countries. It hurts, quite frankly, not to be able to say yes.

For another example, President Ellen Johnson-Sirleaf of Liberia has requested USADF help in rebuilding her country and restoring

hope through creating small businesses and community enterprises that can provide meaningful jobs to ex-combatants, women and youth. USADF is already developing an initial round of investments to be funded this year, but we will need additional funding next year to expand the program.

Fourth, and finally, it is time for USADF to grow to its optimal potential.

What will it take to enable us to increase our impact in Africa and deepen our contributions to United States objectives? Two things.

The first is, this is an important year for us. We have put in process a number of improvements, including stationing our former President, Nate Fields, in Ghana to oversee in a more hands-on way the service we are providing to the poor. And I do thank you, Mr. Payne, for your kind remarks on my predecessor. He is a wonderful manager within USADF.

But to have the capacity, we need to answer all the demand we have, including being able to match the $11.5 million in contributions of African governments that are currently left on the table, we do need adequate funding. Our board of directors has committed itself to this goal, and we will work with the administration and Congress to achieve it. We would be exceedingly grateful for the support of this Committee's Members.

Secondly, we also need some technical updates to our authorizing statute. During our 25 years of operations, the context for our work has changed significantly, but the legislation has never been revised. We believe several changes are now needed to better enable us to achieve our congressional mandate.

I am extremely grateful to Congresswoman Lee, Congressman Payne and Congressman Boozman for their support in general and their leadership in particular on shepherding this small but necessary bill through the House. All of the proposed revisions are straightforward, so I hope the Committee will be able to consider it as a form of technical corrections bill. I would welcome the opportunity, Mr. Chairman, to meet with any Members or their staff on the proposed revisions.

Mr. Chairman, thank you for the opportunity to appear before you today. More importantly, I thank you and your colleagues for your commitment to the poor of Africa. The work of the United States African Development Foundation is a powerful example of the goodwill of the American people and I believe is one of the most effective foreign assistance programs we have. I look forward to working with you in furthering the United States's interests in Africa.

Thank you.

[The prepared statement of Mr. MacAlister follows:]

PREPARED STATEMENT OF MR. RODNEY J. MACALISTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AFRICAN DEVELOPMENT FOUNDATION

Mr. Chairman and distinguished members of the Committee, it is my pleasure and privilege to appear before you today to share what the United States African Development Foundation (USADF) is doing to remove obstacles for African entrepreneurs.

The Foundation was created in 1980 to take a different and then-untried approach to fighting poverty in Africa. The concept—then as now—is to enable individuals and groups to get out of poverty by putting their own ideas to work, not some-

one else's. Our methods have evolved over time, with experience, but one of the main pillars of our work throughout has been to remove barriers and promote the success of our customers: thousands of Africans who have no lack of innate entrepreneurial instinct but simply lack the means to get going and stay on the path to success.

In describing our work, I will address four dimensions:

1) USADF has a unique model for growing businesses, which is showing impressive results.
2) The Foundation is stretching appropriated funds with leveraged contributions.
3) Our programs are in high demand across the continent.
4) After 25 years of operations, and given the distinct and effective contribution that the Foundation makes to the U.S. foreign assistance community, USADF has the potential to do much more.

USADF is unique. The United States African Development Foundation's core business is growing African-owned small businesses and demonstrating that African entrepreneurs and farmers can compete in the global market place. Over the years, it has made more than 1500 investments to promote economic and social development for the poor in Africa.

The way we go about doing this is distinct from other agencies:

- First, USADF *works directly* with its clients. Other than employing African host government funds, we bypass other governments and do not use international consultants or intermediaries.
- Second, the Foundation helps its clients *think commercially*. We show them how to diagnose their constraints, assess market opportunities, conduct rigorous financial analyses on investment options, and develop business plans to support commercially viable activities that generate income for owners, employees, and suppliers.
- Third, USADF provides a *comprehensive package* of *direct* investments in African small and medium-scale enterprises, agri-businesses, and smallholder farming operations. This integrated investment package combines technical assistance and training to strengthen technical, managerial and marketing capacities, with working capital and access to new technology. The Foundation assists its clients to: diversify their product lines; enhance the quantity and quality of production to meet market standards and demand; increase value through processing; and access regional and global markets.
- Fourth, while we were an early pioneer in microfinance, nowadays USADF-supported *enterprises receive between $50,000 and US$250,000* in investment financing, as this is the least-served level of capital need. The investment is interest-free, but the customers commit to contribute up to 100% of the investment amount—based on business projections and actual profitability—to a local development trust. This unique feature of USADF's enterprise development model ensures companies have the "patient" capital they need to grow, and at the same time reinforces commercial discipline so that small enterprises can access future capital requirements from banks and other commercial sources. It also fosters a culture of social responsibility and it creates a pool of development funds for reinvestment in other businesses and community initiatives.
- Fifth, because our business development model is unique and effective, *African governments are making cash contributions to match*, one-for-one, appropriated funds. I know of no other agency that is so successfully and extensively leveraging American taxpayer's funds. This critical aspect of our program is detailed below.

USADF works—it is producing results. The Foundation's investments in small African-owned businesses are generating economic growth. It is helping small farmers increase income by diversifying their production into high value cash crops. USADF is demonstrating that small African businesses and farmers can compete in the international market place; it is helping them meet the quality and quantity demands of the global marketplace and creating linkages with international buyers. The Government of Ghana has made USADF's model of growing small businesses one of the major components of its national economic development strategy. Last year, USADF's investments across Africa helped create more than 110,000 jobs for poor Africans and generated $70 million in gross revenues for enterprises and almost $35 million in export sales. (A chart showing the growth of gross revenue and

export sales among USADF-supported enterprises is attached). The Foundation's community enterprise investments are supporting grassroots solutions to local problems and empowering communities to take control of their own development. Thus, USADF is advancing the objectives of AGOA and furthering U.S. objectives of building a foundation for peace and prosperity in Africa.

Four ADF-funded projects demonstrate the success and impact of our investments in growing small, African-owned businesses and launching some of them into the global marketplace.

- Bosbel Vegetable Oil Mills Ltd., located in Tamale, northern Ghana, specializes in the production of vegetable and groundnut oils for the Ghanaian and export markets. Aging equipment and limited resources were hampering Bosbel's ability to meet increased demand both from the local and export markets. In FY 2004, Bosbel Vegetable Oils was approved for the equivalent of US$245,117 in funding support, enabling them to expand production. Since ADF's involvement commenced, Bosbel Vegetable Oils has experienced revenue growth of US$306,977, of which over 50% is derived from exports.
- The Tanzania Mtibwa Sugar project has demonstrated an impressive capacity to scale up its production to meet the demands of the export market through its support for the production of small-scale sugarcane "outgrowers." First funded during FY 2002, Mtibwa Sugar has increased its gross export revenues by 423 percent over the past three years, from US$1.188 million during FY 2002 to US$5.034 million in FY 2005.
- Ruembe Outgrowers Association, another small-scale sugarcane producer in Tanzania, has already exceeded most of the targets established when it was approved for US$228,740 in ADF funding in FY 2004. Yields per hectare are up 30% and cumulative export sales stand at US$4.7 million. The number of participating cane farmers has increased by 50 percent since project inception and the income of the 1440 growers has almost doubled as a consequence of ADF's investment. Ruembe Outgrowers have become a trusted supplier of sugarcane to the Kilombero Sugar Company.
- Kelvin Shaun Investments Ltd., Uganda, a hydrated lime processing business, received a US$250,000 grant in FY 2005 to enable it to expand production and meet market demand, currently being met by imports. Funding support from ADF allowed Kelvin Shaun to construct new facilities, procure vehicles and equipment, and purchase inputs. Kelvin Shaun has subsequently secured a contract to supply an international construction company with 200 metric tons of hydrated lime valued at US$259,500. The company's net income has increased 17 fold since ADF support commenced.

USADF is highly effective. Over the past five years, the Foundation has consistently exceeded its performance targets. After conducting an extensive assessment of our operations last year, OMB gave USADF its highest performance rating, which only 11 percent of all government agencies and only 5 percent of all investment-making programs receive. We are very proud of this achievement and are committed to building on our record of strong performance management. As a business ourselves, our goal is to model the kind of management practices that we expect from those we serve.

USADF is stretching appropriated dollars. Because of the Foundation's distinct approach and high impact, a dozen African governments and two private corporations are actually matching the U.S. government's funding, dollar-for-dollar. For example, the Government of Ghana is providing $5.0 million annually in co-funding for the Foundation's program. Moreover, the agency stipulates that African enterprises that receive USADF support must contribute to a locally owned and directed venture capital fund. Thus, taxpayer funds invested in Africa can be used again and again to fund enterprises within the community and thus have a significant multiplier effect. Through these two mechanisms, USADF is effectively *more than doubling* the program impact of appropriations. No other agency operates on this basis. USADF has a total of $22.0 million in actual commitments and expressions of interest. However, at the current level of funding, USADF will leave $11.5 million of this private co-funding on the table, because we do not have adequate appropriated funds to match the private contributions. (A list of the strategic partnerships is attached to this statement).

USADF is in high demand. The African Development Foundation is a vibrant program that both furthers U.S. foreign policy objectives in Africa and also supports Africa's own priorities. Because it is seen as highly effective and supporting local needs, African governments, businesses and communities are clamoring for USADF's investments; demand for its services greatly exceeds resources. For exam-

ple, President Ellen Johnson-Sirleaf has requested USADF to help in rebuilding Liberia and restoring hope through creating small businesses and community enterprises that can provide meaningful jobs to ex-combatants, women and youth. (A copy of her official request is attached to this statement). USADF is already developing an initial round of investments to be funded this year, but it will need additional funding next year to expand that program. The Governments of Burundi and the Democratic Republic of the Congo have also requested USADF to assist in their post-crisis transition and development, but USADF does not currently have the funds to undertake other new country programs.

It is time for USADF to grow to its optimal potential. The Foundation's programs are high impact and in high demand. It has been externally judged—by our clients, the Administration and Congress alike—to be effective. USADF makes a unique and valuable contribution within the US's foreign assistance program.

What will it take to enable the United States African Development Foundation to increase its impact in Africa and deepen its contributions to U.S. objectives? I believe there are two critical components needed:

1) This is an important year for us. We have put in process a number of improvements, including stationing our former President, Nate Fields, in Ghana to oversee in a more hands-on way the service we are providing to the poor. But to have the capacity we need to answer all the demand we have, including being able to match $11.5 million in contributions of African governments that are currently left on the table, we need adequate funding. Our Board of Directors has committed itself to this goal, and we will work with the Administration and Congress to achieve it. We would be exceedingly grateful for the support of this Committee's members.
2) Some technical updates to our authorizing statute. During our 25 years of operations, the context for our work has changed significantly but the legislation has never been revised. We believe several changes are now needed to better enable us to achieve our Congressional mandate, including:
   - Redesignating the agency the "United States African Development Foundation," to clearly identify the Foundation as a U.S. government agency.
   - Specifically including small enterprises and farmers associations as eligible recipients, recognizing that these are the engines for Africa's economic and social development.
   - Increasing the cap on grants from $250,000 to $400,000 to better meet the needs of African enterprises, smallholders and communities.
   - Revising a number of personnel provisions.

I am extremely grateful to Congresswoman Lee, Congressman Payne and Congressman Boozman for their support in general and their leadership in particular on shepherding this small but necessary bill through the House. All of the proposed revisions are straightforward, so I hope the Committee will be able to dispense with it as a form of technical corrections bill quickly. I would welcome the opportunity, Mr. Chairman, to meet with any members or their staff on the proposed revisions.

Mr. Chairman, thank you for the opportunity to appear before you today. And I thank you and your colleagues for your commitment to the poor of Africa. The work of the United States African Development Foundation is a powerful example of the goodwill of the American people, and I believe it is one of the most effective foreign assistance programs we have. I look forward to working with you in furthering the United States' interests in Africa.

Mr. SMITH. Thank you very much, Mr. MacAlister.

Thank you both for your testimonies, for your very timely recommendations to the Subcommittee to take action but also to encourage our colleagues, in like manner, to be aware of the good work that has been done, is being done, and certainly can be done.

You mentioned Liberia. Obviously, Liberia and the other countries you have mentioned are in desperate need of transitioning so that a tourniquet is put on any possibility of ever going back; and certainly with the election of Ellen Johnson-Sirleaf there is great hope and expectation that Liberia can become another jewel. But it needs, as you pointed out, technical support and access to capital, certainly, and a structure that systemizes that and expands it

so that the African subcontinent can realize its true potential, which is greatness.

Let me just ask you a couple of questions.

One, you know, just an aside, but having worked there for so long, Mr. MacAlister, especially—I am sure both of you have insights on this—and that is the nexus that disease morbidity, mortality is having—not just the HIV/AIDS crisis but also the malaria crisis—every 30 seconds, as we know, another child dies from malaria.

This morning, the President was—actually, First Lady Laura Bush along with Ambassador Tobias and I joined him at the National Press Club when they announced that Malawi, Mozambique, Rwanda and Senegal have been added to the President's initiative on malaria in an attempt to cut by half the number of malaria deaths in those countries. That now brings to seven the number of countries in that cluster that will grow and hopefully grow even faster going forward. One-point-two billion dollars over 5 years is what the President wants to use for this malaria initiative.

I mention that because when you talk to people who want to invest, there is that concern about the indigenous desire of locals to get access to capital and create their own economic prosperity. But for foreigners, Americans and others, to invest, there has been that reluctance based on war and I do believe based on disease. And I would appreciate any insights you might have on that.

We know that, until malaria was licked, the Panama Canal was going nowhere and other diseases remained there.

It seems to me that the sooner we get a handle on that, for the best reasons to protect people's lives but also to enhance their quality of life, the better. And what is the nexus that you see between the health issue and business?

Mr. MACALISTER. I am not an expert in diseases. I understand conflict and warfare and that dimension of the threat to the sustainability of Africa's businesses and its economic growth much better. But, clearly, there is a nexus, Mr. Chairman.

We can easily assume a lot of things that are essential for success that we don't have to worry about in our country, such as good health and solid infrastructure and other things, none of which can be assumed or taken for granted in Africa. So while USADF has no particular mission in health or indeed in security, we do have to pay attention to these things; we are mindful of them. That is where I think good synergy across the different government agencies is a useful thing, particularly where our relatives at USAID and MCC have programs that address these specific needs.

Mr. SMITH. Mr. Rosales, did you want to respond?

Mr. ROSALES. Usually, small businesses, when they trade internationally, their main concerns are transparency, arbitration, dispute resolution, non-tariff barriers and the introductions to investment, knowing that marketplace or knowing their investment would be safe. You know, capital is a coward. But as far as disease and warfare, I think Mr. MacAlister is the expert on that subject matter.

Mr. MACALISTER. I was just handed a note as well that I think is an interesting additional point, and that is that we are actually

seeing the need to double the training for enterprise managers within USADF projects just to allow for morbidity.

Mr. SMITH. Wow. I appreciate that insight.

Could you speak to the issue, and it goes along with technical capabilities, so that the skills to grow a business are sustainable, knowing how to meet a payroll, how to ensure that your business survives, that you have a product that is viable in your locale.

Many of us—and I served on the Veterans Affairs Committee for 24 years until last year; and I was always struck that, post-World War II, it was the GI Bill with its emphasis on housing but also on access to college that created the entire middle class in this country. Until World War II, the two echelons were like we see in so many other countries, the very rich and the very poor. And I am wondering if you might speak to maybe the African countries don't have the wherewithal for something equivalent to the GI Bill, but one of the outcomes of the GI Bill was the creation of the community college system, the 2-year community college system which has enabled so many people of limited means to get college and then to break out, go right through that glass ceiling that might have otherwise been imposed on them.

What is your sense about that kind of higher education infrastructure, especially over time? It seems to me that you are late putting seeds—111,000, or whatever that number was, jobs is nothing to snicker at. That is very significant, and I congratulate you on that. But, obviously, you want to grow it. You want more resources.

You even said, and I thought this was interesting, that foreign aid projects may begin with the best intentions but their life span is often short. So there is almost like a fatigue that sets in or a lack of planning for sustainability. But the education part, it seems to me, is crucial.

Mr. MACALISTER. Well, you are absolutely right, Mr. Chairman. In fact, it is even more fundamental than the community college level.

Here is a quick look at some of the recent developments in the USADF portfolio. As I mentioned, we are going into Liberia. That is our newest country. We are going there as fast as we can at the request of the White House. We were actually in President Johnson-Sirleaf's office 13 days after her visit here. So we think we can move as fast or faster than any other part of the U.S. Government to help her show meaningful results within the first 150 days.

But we are also going into Angola, we began last year in Rwanda, we are going into Burundi, we are in northern Nigeria but moving toward the delta shortly, and we are in northern Uganda; and just the names of these places tells you something about the issues that we face.

In countries that have known warfare for a protracted period of time, such as Liberia, for 14 years, any Liberian that you meet between the ages of 10 and 30 essentially has had no education and no childhood, lost their childhood violently and was taught how to cause others to lose their childhood in the same way.

Because of that, because of the lack of ability just to read and write, add and subtract, they not only have those problems but a lack of faith in their fellow human being, the ability to believe in

tomorrow, the ability to sacrifice for a gain the next day, many of the things that again are so fundamental. So even before we can get to a level of community colleges and that sort of thing there is a great deal of remedial need at the basic educational level.

Mr. ROSALES. I would like to add that the project that we did in Nigeria really addressed that issue. The reason why it is still available to the communities are there was buy-in from the local government. These BICs were really intended to be a place where they can have resources, including counseling and access to the library, to be able to get into business, and as was stated, the very lack of education.

In our experience at the SBA, capacity building or technical assistance is just as important or more important than capital. Because our role is to create an environment with these businesses of sustainability to reduce the failure rate. This capacity building in Africa is in all fronts in the governments to provide the same kinds of services and products that we do for our small businesses so they can thrive, private-sector organizations like chambers of commerce or industrial groups that can provide the services to their memberships so they can grow, and to the SMEs themselves. We understand that our SMEs here are large compared to the SMEs in Africa where there are more microbusinesses, which has a totally different challenge. The capacity building, technical assistance, education is the key.

Mr. SMITH. Lastly, one final question. Yesterday, the AFL–CIO filed a section 301 complaint with the USTR toward the People's Republic of China because of their horrific record on labor rights and their mistreatment of workers' rights—no collective bargaining, no ability to have OSHA-like protections.

When Greg Simpkins and I were in Uganda, we visited a factory that is making clothing for export, much of it coming to the United States, and asked them a number of questions about worker rights while they were there. It seems to me that some U.S. businesses are very quick to invest where the pay and health benefits—or lack of it—is so small that people—you know, there is more money to be made. And my question is—and I read the AFL–CIO's complaint yesterday, and it is an indictment of China for its abuse of workers. I am wondering what safeguards—because this was a topic of conversation when AGOA was considered originally—but what safeguards do you think are needed so that a culture that respects the rights of workers, as these businesses are small, medium and even large, are getting off the ground, can be inculcated?

Mr. ROSALES. In my statement, sir, I mentioned big governance; and I think that is within the crux of some of the issues in developing nations.

I am not an expert on the subject matter, but, you know, knowing that if you have good labor standards and good relations between the management and the companies and their employees that you will have a more productive society.

Mr. SMITH. Okay.

Mr. MACALISTER. As a U.S.-Government-owned corporation, USADF tries to operate as a small business and therefore a model for the rest of our customers. We have a union within our own or-

ganization, and we try to manage our labor relations in such a way that they can be a model for our customers.

In Africa, there are so many differences in the quality of work life. One of the things that I have made a priority to focus on is simply the safety, health and well-being of the people that come to work every day. From the oil business background that I had, where safety is virtually a religion, I am trying to bring a culture where everybody understands that they have to come home at the end of the day in the same fine shape that they arrived at in the morning. And in ways like that as well as in environmental policy and other things we are trying to bring more of this culture and imbue it deep within the businesses that we invest in.

Mr. SMITH. That is really outstanding.

Just one footnote, one point that I noticed in the human rights report this year for China, the lack of concern for worker rights. There were at least 125,000 men and women who died in industrial accidents in the PRC last year, which is a horrific loss of life. I saw nothing in the reports dealing with Africa, so I don't know if that is being chronicled.

But thank you for the wonderful work you are both doing. We appreciate it.

Mr. Payne.

Mr. PAYNE. Thank you very much; and let me also indicate that I think, as I indicated in my opening remarks, it is very important that we attempt to really get more activity moving in this whole small business and entrepreneurial area in Africa.

I wonder, Mr. Rosales, if you can talk about any specific project that SBA has implemented with any country in Africa with African entrepreneurs to improve capacity and combat the obstacles you mentioned, such as developing and sustaining small business networks and incubators. Are there any specific programs that you have been involved in in any of the countries there?

Mr. ROSALES. Yes. Thank you Mr. Payne.

The Small Business Administration's main focus is domestic. It is to assist and create the opportunity for small businesses. Our role in the international arena is to take those businesses abroad, so our interaction with Africa is limited, and it is limited to two projects that we have done. One was in Egypt, which is not sub-Saharan but in Africa; and those were again to assist the Egyptian Government to develop these technical assistance centers. The other was in Nigeria, where we established these two BIC centers that provided basic information and technical assistance to budding entrepreneurs.

The other area that we are involved in is when we have visitors come to us who are seeking some of our best practices so they can, hopefully, take those best practices and utilize them in their economies.

We have an agreement with Nigeria, an MOU, Memorandum of Understanding, where we can share our technology and share our best practices for them to look at certain sectors' particular access to capital, our guaranteed programs for banks, and our government contracting program.

So our ability to do what Mr. MacAlister does is restrained. Our real role is to really focus on the small businesses in America and

have them get ready to export and compete internationally and hopefully gain ground, particularly in China.

Mr. PAYNE. All right. Then it might be good, a nice project if your agency had the capacity to grow to try to even be a little more aggressive in some African countries to export your skills that you do here domestically.

Mr. ROSALES. Yes, sir. In my interaction this week with the AGOA countries, most of them, if not all, are seeking that kind of technical assistance. We work very closely with the other agencies, the U.S. Government particularly through the Trade Promotion Coordinating Committee, where they may have the ability to do things on the ground in Africa and we add value to their projects. But it is technical assistance at all levels that they seek, and we can offer that through the exchange of best practices. But, you know, we don't have the mandate to do so abroad.

Mr. PAYNE. Okay, as you mentioned—thank you—that you are primarily domestic. But I wonder, you know, we are always attempting to, through SBA and section—I mean, what you call USAID program set aside and some of the programs that we used to have, I wonder if you have been there long enough to see whether any minority businesses, women-owned businesses, African American-owned businesses or other kind of small businesses have been worked with, since you say you are mainly domestic, to see about getting these minority businesses connected to African businesses.

Mr. ROSALES. Yes, sir. Our role is to go out in all communities to promote the opportunities that are abroad. And the best conduit to trade between Africa and United States is the African American community. My experience as a head of a chamber of commerce in California, an Hispanic chamber, is that we dealt very closely during the NAFTA debates in creating those linkages with the Mexican companies so we can create opportunities for trade. I think those linkages are very important. That is why in my testimony I indicated the private sector.

Private sector is very much the key, because we need to remember that most of these businesses in Africa that will be able to export, the numbers are not that great. In the United States alone, we only have 220,000 exporters out of 25 million small businesses.

So we need to focus on those areas where the opportunities are, and the bridge—the natural bridges would be the diaspora communities from those countries here who have the relationships back home; and through our programs like 8A and all our assistance programs, we encourage, obviously, all sectors to export abroad. Our assistance to minority communities has been on the increase the last 4 years, but we are breaking records not only in our 7(a) program but in our contracting programs and in our technical assistance areas, also.

Mr. PAYNE. Thank you. Is there any connection—I know Overseas Private Investment Corporation, OPIC, is usually—I guess have your bigger maybe road programs and so forth. Do you get involved at all with OPIC, which, of course, is trying to encourage U.S. products to be sold abroad? I mean, is the overall product—of course, we want to see it both ways. We need you to look at China, perhaps, so we can sell something to China rather than buy

everything they make, but that is another day for another story. Is there any connection with your SBA and OPIC?

Mr. ROSALES. Yes. As a matter of fact, before I go any further on that question, sir, we have a women's business center in Virginia that is funded through the SBA that works with Africans in Ethiopia in business development. So we have a lot of our private sector partners who are dealing with those kinds of situations.

As far as our engagement with other agencies, we have an MOU of understanding both with OPIC and with Ex-Im Bank in assisting them with developing their small business centers within their agencies.

As a matter of fact, the Ex-Im Bank, I think, 6 months ago created a small business center. We have a co-guarantee working capital program with Ex-Im Bank so we can go out and reach more small businesses that want to export abroad. And with OPIC, we are working with them so they can bring smaller deals to the table. And in the last 6 months, I think OPIC has done about 100 small deals that we are looking into how large each deal was.

So we do work very closely with them because we have a network, which they do not. Both of those agencies are headquartered in Washington, DC, with very few offices throughout the United States, whereas the SBA has the resource partners through universities, through the banking system and through our district offices, so we work very closely with those agencies.

Mr. PAYNE. Well, that is great; I am glad to see OPIC getting into smaller projects.

You know, early on they were only kind of dealing with the Halliburtons and that sort of thing. I don't think they need any more help. I mean, maybe we could break that down into small business; we could probably create another 2,000 businesses if we did that.

But the total, Mr. MacAlister, you mention that no other agency operates on the basis as you. You talk about USADF has a total of 22.0, 22 million, in actual commitments and expression of interest; however, at the current level of funding, you must leave 11.5 million of this private co-funding on the table. Could you just elaborate on that a little bit more?

Mr. MACALISTER. Certainly, Mr. Payne. We have got a $23 million budget this year, and that has been the administration's request for next year. The total leveraged contributions that we are able to match is $10.5 million, so that is where we get the $11.5 million difference.

Mr. PAYNE. So you could—if you had to expand that capital, you could certainly do—there is certainly much more demand than you have the ability to finance?

Mr. MACALISTER. That is right. Our optimal funding level at the level of demand that has been expressed—although that is increasing constantly—is $35 million. Being that that is not what the President has requested, I obviously have to respect the President's request, but I don't mind making it known that I find it a bit of a management challenge for us to optimize the delivery of our services when we don't have the capital capacity to do so.

Mr. PAYNE. Okay. Something we can look at.

Thank you very much.

Mr. SMITH. Ambassador Watson.

Ms. WATSON. Yes. Thank you very much to the panel.

And, Mr. Rosales, you mentioned that in California you are looking at helping businesses there. Well, are you aware of our trade centers that we have on the continent of Africa? I think we have two, one in Johannesburg and the other one probably down in Zimbabwe. I know that we were able, myself and others, to open up one in Brazil and so on.

If you are aware of those, can you bring us up to date? Because what I would do when I was taking groups to South Africa would be to take my group through our center for an orientation because people fantasize about Africa. One woman contacted my office, she makes African dolls. She thought she could go sell them. That is like taking sand to the beach. So what we did was give our group an orientation and hoping that when they got back to their respective homes, other people who had interest in entrepreneur pursuits would be able to be guided and directed to, A, what would sell there in Africa, what businesses they could start up, and what the time is like.

Could you comment on if we still have those trade missions, and if somebody wanted to start a business; and they came to you before they left going to Africa, what kind of information would they receive?

Mr. ROSALES. Thank you.

First of all, I have been out of California for 5 years. This was my experience when I was head of the Chamber of Commerce over 10 years ago. And unfortunately, California has shut down most of their international centers. I am aware that under Mr. Davis that those centers were closed. And California does not have a trade and commerce agency. It is under a different agency now.

But those centers were very helpful in the sense that they augmented what happens in our commercial services in our Embassies, where they specifically geared toward the State's products and services they had to offer. So those centers were very productive and very helpful. As a matter of fact, I helped cut the ribbon to the center in Mexico City that was established back in the early 1990s. So those centers do work.

Now, if somebody walks into one of our expert assistance centers—because the SBA is collocated in 16 locations with the Department of Commerce, and Ex-Im Bank in 5 locations—and they are looking for basic services in export, depending on exactly what their needs are depends on which agency would help them. And it is a one-stop shop for that assistance. If they happen to walk into an SBA office, we have what we call an International Trade Officer at each SBA office that would lead them to our trade expert officers.

Most of our role is in the finance side. The outreach and the promotions that we participate in is mostly conducted by the Department of Commerce. Ex-Im Bank and SBA, our major role is financing those deals. We finance the smaller ones and Ex-Im Bank the larger ones. Through our co-guarantee program we have been able to maximize our resources capital that we can put out to the small business community.

Our role is to look for the companies that are ready to export, the companies that have already proven that they have sustainability in the marketplace, and they are ready to expand and have the capacity to do so, and those are the companies we work with. International trade is not a very easy market. In domestic it is not easy, and now you take that to a greater level.

So our training and capacity-building happens in several areas. One is training the banks, telling the banks what we have to offer. Most banks do not have international individuals in their branches so they can help our prospective clients, so we help the banks. At the same time, we train the individuals from A to Z how to export. As a matter of fact, one of our tutorials on line is how to break into the trade game.That can be used universally.

And thirdly, we help them do their financing schemes, how to set up their infrastructure, what kind of product they use for their particular product line that they are trying to sell. We have basic programs that deal with real estate and equipment, and we have programs for short-term capital, and then we have revolving lines that go up to $2 million.

We work very closely with Commerce, who sets the stage by having field offices abroad, who work very closely with these State offices, to be able to help the small businesses while in country. They do the analysis, they do the groundwork, they know the people. In trade, the big word is the know who, not so much the know-how. So they know the who in those countries that can help them connect and make those matches so they can execute trades.

So it is a very complex and very good service that we provide to small businesses. Unfortunately, not a lot of them know that we are there, and our job is to go out and to promote and be sure that they understand the opportunities that the U.S. Government affords them in expanding their marketplace.

Ms. WATSON. Thank you very much.

And to Mr. MacAlister, in the remaining time, Mr. Chairman, can you describe what you see are the major needs of the native Africans as they go about entrepreneurship? Now, you go into a village, and the women are the shopkeepers, and the men have other duties. Now that high technology is spreading over many of the countries on the west coast, what would you see are their needs, most of the young Africans, in terms of becoming entrepreneurs? That is number one.

And I mentioned in my opening that I was concerned about the piracy of intellectual property. Let me give you an example. You know the tunes, the little rhythms and so that they have seem some way to end up in a lot of our music over here on these shores. And I have heard people say, you know, you were humming something, and that is what we chant in the village, or maybe that is the basis over here of a lot of our religious music.

So there is a connection, and I was concerned about the intellectual property that might originate in Africa and come over here—of course, I have a major concern about our intellectual, creative and innovative pieces ending up in other places, too, maybe in Africa, being copied. But for the most part what would you see are the major needs in training?

Mr. MACALISTER. Certainly, Ambassador Watson.

You know, at some fundamental level, what we all need to succeed is somebody to believe in us. And so the first and probably foremost thing that we offer consistently to the poor of Africa that we work with is belief in them and their ability to succeed. We come alongside them, we help them understand their needs; we take their ideas, we help them evaluate their context, how enabling is the environment around them, where is the market, what would the price be, how to put this into a plan, and how to pass muster just as they would if they went to a bank. And we sort of step into the shoes of a would-be bank and require the same standards of them as they would if they walked into the doors to a bank, but then we stick with them.

Most of the time the problems are not complex, and most of the time—in our portfolio we don't often see problems of intellectual property. I will give you an example. In northern Ghana, for instance, we are helping some 200 small farmers become mango outgrowers to a major fruit company there. These fruits, the mangoes, are going to go into the export markets. It takes a lot of work to grow a mango grove. It is at least 3 years before you get any fruit, 5 years before anything much is happening, before a major crop. And during that time, it is not simple like pulling nuts out of the ground. And so we help the farmers sustain themselves through that tough period during which some initially fell away because of the hard work, because of the discouragement, because of the delayed results, all of the things that they were not used to.

Well, now it is like a fashion statement to be a mango producer in northern Ghana because they have seen the quadrupling and quintupling of incomes that come as a result of that. Now there is a processing facility outside of Accra called Blue Skies; and what this facility does is intake mango, banana, papaya, coconut, all the tropical fruits from 150 outgrowers within an hour or 2's trucking distance from the plant. They would like to double their capacity so that they can export these fruits to further markets in Europe and abroad, but their constraint is the number of growers that they have to depend on. And they have quality problems and reliability problems and everything.

So when we pitched up, we said, look, this is what we do, we grow growers; we have the financial capital for them and the technical ability to help them become reliable and meet the quality standards you require. It is not exceedingly complex, it just requires the patience, the endurance, perseverance and the commitment to do it.

Ms. WATSON. If I have another half a minute left, I know early on—I am talking about in the 1960s—1970s—in talking to one of the governors in Nigeria, he said that he had capped his gold mines and his diamond mines because they did not have the skills and the technology to administer and operate those mines themselves, and so he was working on sending young people to the States, to Western Europe to learn those skills. Now, that was back in the 1970s. Do you see more highly skilled workers that could go in and process their own resources and operate their own mines? I have no idea; I haven't followed up.

Mr. MACALISTER. In the extractive industry specifically?

Ms. WATSON. Yes.

Mr. MACALISTER. That is not an industry that we have any direct investment with. We are working with Global Alumina in Guinea, who are making the largest single foreign investment in the continent for many years, and helping them manage a lot of their community relations challenges that they are going to have, but we have not, to my knowledge, financed individual extractive operations.

Ms. WATSON. Well, it looks like the continent of Africa will be our continent for resources, natural resources, in the future, and I think what might be interesting, Mr. Chairman, is that we kind of see or do a—I would guess a report on how the Western countries of Africa are preparing to be able to process these natural resources for worldwide trade. We might want to look into that because they are so rich, and we are concerned about the poverty levels, so that people are trained and they could extract their own resources and process them and send them internationally. I think that would help a great deal, rather than receiving handouts from the various other countries of the West.

And I want to thank our panel very much. This is very enlightening.

Mr. SMITH. I would just add to that, we have actually held hearings on this. The concern that many of us have is that countries like China, which has a great need for natural resources—timber, oil, and metals—are getting those metals and those precious resources for a song. And that is a very disturbing trend for armaments and weapons in places like Sudan, for example, and Zimbabwe. So I think your point is very well taken, and I thank you for it.

Yes, Mr. MacAlister.

Mr. MACALISTER. With your permission, Mr. Chairman, I would like to go back to that question you asked about China earlier and the labor practices there. In a way, it is a pity that you don't have Dick Day and Larry Bevan behind me sitting here, who, combined, have more than 50 years experience in this field versus my 4 months.

But the note that I have received says the following: That we ensure, as a criteria for support, that USADF invests in businesses that pay at least double the average daily wage. Our objective is to fuel economic growth through small businesses that generate good-paying jobs for the poor.

Mr. SMITH. Thank you for that, and thank you for that amplification.

If you could also get back with us, if you would, maybe with some amplification on the nexus between disease—you mentioned morbidity, and it would be very helpful for the Committee if we knew about that. And it would help us, I think, garner additional resources for that important humanitarian issue if we can also prove or show the connection of economic growth and vitality.

Mr. MACALISTER. We would be happy to do that.

[The information referred to follows:]

August 22, 2006

Response from Rodney J. MacAlister, President, U.S. African Development Foundation to Congressman Christopher H. Smith, June 8, 2006 HIRC Hearing, Removing Obstacles for African Entrepreneurs

Questions:
What are the effects of morbidity on African entrepreneurial growth and vice-versa?

Answer:
The United States African Development Foundation (USADF) builds bridges to economic opportunity, security, and sustained growth. Operating in 17 countries across Africa, we focus on innovation to unleash African entrepreneurial spirit and create economic opportunities, ownership, and broad-based growth. By helping to support enterprises, create jobs, and increase sales and revenue, USADF's programs have a sustainable and significant positive impact on the lives of the poor.

The link between economic prosperity and physical health has been made by statesmen and researchers alike. On being sworn in as President of Malawi on May 24, 2004, Dr. Bingu Wa Mutharika said "We shall see the emergence of Malawi from poverty to prosperity…In addition to (waging the war on) poverty, Malawi is waging another war…the effective management of basic health… (This) has become essential for our nation's economic productivity and survival. (We are working toward) reducing the morbidity and mortality and meeting basic health care needs."

Ghana's Poverty Reduction Strategy (2003-5) includes programs to ensure macroeconomic stability, enhance production and gainful employment, and enhance human resource development and social services provisions. This multi-pronged strategy is premised on the government's conviction that the economy needs to be managed effectively to create wealth and reduce poverty.

As well, in the April, 2001 working paper "Health, Nutrition, and Economic Prosperity: A Microeconomic Perspective," from the World Health Organization's Commission on Macroeconomics and Health, Duncan Thomas wrote, "There is a strong positive association between health and economic prosperity. This is observed in both micro and macro data. It has been shown to be true for a wide array of health indicators and for many different dimensions of economic prosperity."

However, "Isolating a causal effect of health on economic prosperity has proved to be very controversial." Evidence shows that higher income individuals invest more in health. Presumably the direct correlation runs in both directions, and improvements in health lead to labor force returns, but establishing cause and effect is not straightforward. Among the hurdles are how and when to measure health status. As well, evaluations of health programs and initiatives need to take into account impacts on economic well-being, in order to fully reflect their costs and benefits. A body of research does show, over the long term, "a positive association between economic prosperity and health of a population as measured by morbidity, mortality or nutritional status."

Clearly, some linkage exists between health and economic growth. Improving social and economic conditions is one distinct strategy for promoting health, preventing disease, and reducing morbidity. Editorials (June 2000) of the American Public Health Association have identified poverty and income equality among the underlying causes of urban mortality and morbidity. Specific diseases have a disproportionate adverse impact on certain communities and countries. Consider recent reports from the World Health Organization and findings in an article in the Winter 2006 issue of Resources, Malaria Among African Children: Hope for Progress Against a Growing Menace: "Malaria drains wealth, costing Africa $12 billion a year…Macroeconomic studies have shown malaria could shave as much as 1.3 percent off annual economic growth rates even after controlling for other factors that affect growth. The (adverse) effect of malaria on household well-being has also been examined." In sub-Saharan Africa every year, an estimated one million children under the age of five succumb to malaria, added to an additional two million victims annually. Strong evidence shows that reducing malaria can improve economic wealth.

The Director General of the World Health Organization, Dr. Gro Harlem Brundtland, pointed out that one of the biggest obstacles to good health is poverty. "Ill health leads to poverty and poverty breeds ill-health," she stated, adding "the deep roots of global health challenges are still linked to poverty and underdevelopment.

As part of American assistance to improve the lives, security, and well-being of people across the globe, USADF supports the development of human capital by focusing on economic and entrepreneurial development. We support and promote the indigenous African capacity to address national crises and challenges. Our effort to reduce poverty and make a difference in people's lives by enhancing opportunities for economic growth and investment reflects core American values. USADF has demonstrated it does make a difference in the lives of low-income people in Africa, and provides an innovative, catalytic program for the United States that has broad appeal here and high demand in Africa.

Concern for the economic impacts of HIV/AIDS on entire communities is what led USADF some years ago to undertake a few investments to help such communities mitigate the economic harm that the morbid ravages of that one disease have wreaked in so many places. Much more could, and should, be done in this area by the international community.

Mr. SMITH. Thank you very much, and thank you both for your testimony and your excellent work.

I would like to now welcome to our witness table our next two witnesses, Mr. Charles Williams, who is Senior Associate at the Carmen Group in Washington, where he assists United States companies to develop market opportunities in sub-Saharan Africa.

While he was a congressional staff member—and Mr. Payne made reference to this earlier—he was truly instrumental in developing the original African Growth and Opportunity Act legislation. Subsequently, Mr. Williams was founder and president of the U.S.-Nigeria Development Institute in Abuja, Nigeria.

We will then hear from Ms. Shade Bembatoum-Young, who is Executive Director of the African Sustainable Small Enterprise Export Development Foundation, whose main objective is to assist small and medium enterprises in Nigeria and other African nations to develop products into internationally competitive exportable items.

During the past 16 years, she has been a strong advocate of non-oil and non-traditional export intraregional training in West Africa, and the capacity development of small and microenterprises.

Mr. Williams, if you could begin.

STATEMENT OF MR. CHARLES M. WILLIAMS, SENIOR ASSOCIATE, CARMEN GROUP, INC.

Mr. WILLIAMS. Thank you, Mr. Chairman, for graciously providing this opportunity for me to speak to the Committee.

In my role at the Carmen Group, as you mentioned, my primary job is to help United States companies identify opportunities to do business in sub-Saharan Africa, and it has been an interesting process. We work with a number of large companies both in the United States and India and other places who are beginning to be very eager about finding opportunities and assuming the risk and developing business opportunities and creating jobs in sub-Saharan Africa.

Today I would like to talk a bit about what I consider to be one of the most important issues confronting Africa's future, namely, what the global community can do to help empower Africa's private sector to create wealth and become that much-talked-about engine of growth, capable of improving the quality of life and the well-being of Africans throughout the continent.

First of all, before I begin to talk about the subject of this hearing, I would like to especially thank Congressman Payne, who, during my 12 years of labor on Capitol Hill, a very interesting and wonderful time in my life, was a mentor and a person I looked up to, and I am very, very pleased to see that you are still the champion of the cause. So we thank you.

I would like to commend you, Mr. Chairman, and the Committee, and the House of Representatives in general, for your leadership on African issues. Obviously much needs to be done, and we could all do a lot more; but this Committee has always been a leader, helping to forge bipartisan consensus, and building bridges in support of a peaceful resolution of many of Africa's most pressing conflicts and problems. I want to personally thank you and the Members of this Committee for all that you have done and try to do to help the

people and the countries of Africa to enjoy the benefits of democracy.

I think over the tenure from Congressman Royce to Congressman Smith—and Congressman Payne has been the Ranking Member and leader in all of that. I came from the Ways and Means Committee. I was chief of staff, as Congressman Payne mentioned, to Congressman McDermott, but we always had a close working relationship with this Committee. And the work that was done on AGOA could have never been done without the stewardship of the Africa Subcommittee and the Members then and now. And I think the history there has served you well for the very ambitious agenda that you have set for the future of this Committee, so I want to commend you on that.

I believe firmly, and my personal experience in Africa supports this belief, that the most important thing that America can do for Africa is to transfer to African entrepreneurs the knowledge and the experience about how to create wealth. Working directly with African businesspeople to develop the skills to create wealth and stimulate employment will do more, in my opinion, to combat the HIV epidemic, to minimize civil conflicts in all of our assistance programs.

As you know better than I, development assistance is a necessary but not a sufficient remedy for the problems that confront Africa. Africa respects America because of the wealth and the quality of life that we have created for ourselves. That is what they like and appreciate the most about us. Empowering people to take care of themselves weakens the stranglehold that inefficient governments and corrupt politicians have on their people.

A stable, dynamic private sector will support a growing and educated middle class that will demand change and have the power to make those demands a reality. This is the spirit that led to the development of the Africa Growth and Opportunity Act, AGOA. Unfortunately, I think for many of us who worked on the initiative, we stopped before we completed the job, and that is why I am so exited about the hearing today for the potential, I think, to pick up the mantle of what was the vision in that era and to continue with it.

In the mid-1990s, when AGOA was just an idea, a bipartisan group of Members decided that they wanted to do something about the lack of engagement regarding trade and investment relations with the countries of sub-Saharan Africa. There is a small story that I like to tell. The Ways and Means Committee had a hearing on the Uruguay Round Agreement Act—well, acts, there were a number of them, so I guess it was plural. There was a question raised at that hearing to Mickey Cantor, who was the USDR rep at that point, about what this act would do for the countries of Africa. And he was puzzled, and he said something which ultimately led to the work on AGOA, which was, if you are talking about Africa, you need to talk to USAID; that Africa was not a part of the global trading system, so therefore you should talk to USAID. And that was sort of the beginning of the process around AGOA.

So in order to build support for this, we worked with this bipartisan group of Members to build support for this new direction that created—we ultimately created the African Trade and Investment

Caucus, which I believe, Mr. Payne, you were a founding member. Working very closely with Members of this Committee and Members of the Ways and Means Committee, that caucus fashioned legislation which ultimately became AGOA, after a lengthy series of discussions with interest groups and organizations across the political spectrum, from the Heritage Foundation to CATO, to the Africa Union, to a host of trade groups, to Bread for the World.

I am aware that Ray Almeida is in the audience today, who has also been a long-time champion and was part of that discussion back in 1994, 1995.

We talked to people in Africa and the United States. It was decided that what we needed to do was to develop a way for African entrepreneurs to have a competitive edge in the United States marketplace so that they would have a chance to learn how to compete and would be in a better position to attract foreign direct investment. We thought that duty-free access to the United States market would be a strong incentive for foreign companies to reassess their position on investing in Africa. We also hoped that modern management and technology would begin to be transferred to Africa to create a competitive manufacturing sector that could employ local people and export value-added products to the United States.

After 4 years of intense debate on AGOA, it was clear to many Members that AGOA was not the answer, but like development assistance, it was a necessary part of the answer. Many AGOA supporters hoped that we would have an opportunity to promote companion legislation that would address the supply side of the issue. The thinking went that AGOA would open up the market, creating the potential demand for products from Africa and giving the African producers the leverage to be able to compete in the global marketplace, but AGOA was not designed to speak to the needs of the African entrepreneur. AGOA is a short-term answer to the demand side of the problem.

Unfortunately, textiles and apparel dominated the thinking on subsequent AGOA bills and amendments, and an important opportunity, I think, was lost. So it is no surprise, I think, that after 5 years, while we have seen some successes in textile and the apparel sector, U.S. oil companies are the dominated AGOA exporters, and they are one of the chief beneficiaries of the AGOA legislation.

The law of unintended consequences, unfortunately, seems to always be at work. But if we can get back, I think, to the original vision of the Congress when AGOA was enacted, it would be clear that we must complete the task that you began with this legislation by doing everything we can to unleash the dynamic generation of African entrepreneurs who just need a little help to make a huge difference in the lives of their people.

In this regard, my hope is that this Committee and Congress will enact this year H.R. 4319 introduced by Chairman Smith and Congressman Lantos, and H.R. 5480 introduced by Congressman McDermott and a number of other Members, very similar bills in intent that I believe would have a dramatic impact on the ability of African entrepreneurs to compete in the marketplace. Both bills have the potential to do for African entrepreneurs what the SBA's

array of programs have done for the American small business person.

We have the most small business community in the world, responsible for creating the majority of our jobs in part because we have a system of technical support and financial assistance that says that it is in our interest for us to help you succeed, and if you fail, we will help you get up and try again. SBA has built a business support system that is the envy of the world, and I think what we should do for Africa and for ourselves is to give Africa the opportunity to adapt our experiences, our programs and our knowledge about helping companies grow and compete to their realities. If we can do that in conjunction with development assistance and the market access provided by AGOA, I believe that we can see dramatic job growth, dramatic increase in income per capita and the quality of life for millions of Africans.

But we have to do these things in tandem to have the greatest success. An aid approach will not work by itself, AGOA will not work by itself, and just focusing on the private sector will not work by itself; but these three separate but interrelated approaches can have a significant impact on the lives of people.

I lived in Nigeria for 5 years, and one of the things that I learned was that Africans are natural entrepreneurs, and that they don't need a lot from us, but what they want is simple and straightforward; they want a chance to get the knowledge, to compete, and to earn their own way. We have the knowledge at the Department of Agriculture, the Department of Commerce, at SBA, and in particular I think the African Development Foundation, which is on the ground every day providing these services. These three, I believe, are the most important agencies to the African private sector. We need to empower these agencies to do more and to be more engaged. As it stands now, they are on the sidelines without the funding or mandate to do what they can do best for Africa.

Thank you again for the opportunity to testify today. I am available for questions.

[The prepared statement of Mr. Williams follows:]

PREPARED STATEMENT OF MR. CHARLES M. WILLIAMS, SENIOR ASSOCIATE, CARMEN GROUP, INC.

Thank you Mr. Chairman for your gracious invitation to testify today on what I consider to be the one of the most important issues confronting Africa's future. Namely, what can the global community do to help empower Africa's private sector to create wealth and become that much talked about engine of growth, capable of improving the quality of life and wellbeing of Africans throughout the continent.

First of all, before I begin to talk about the subject of this hearing, I would like to commend you, this committee and the House of Representative in general for your leadership on African issues, obviously much needs to be done and we could all do more, but this committee has always been a leader helping to forge bipartisan consensus and building bridges in support of a peaceful resolution of many of Africa's conflicts. I want to personally thank you and the members of this committee for all that you have done and tried to do to help the people and countries of Africa to enjoy the benefits of democracy.

I believe firmly and my personal experience in Africa supports this belief, that the most important thing that America can do for Africa is to transfer to African entrepreneurs the knowledge and the experience about how to create wealth. Working directly with African businesspeople to develop the skills to create wealth and stimulate employment will do more, in my opinion, to combat HIV/AIDS and minimize civil conflict than all of our assistance programs. As you know better that I, develop-

ment assistance is a necessary but not a sufficient remedy for the problems that confront Africa.

Africa respects America because of the wealth and quality of life that we have created—that is what they like and appreciate the most about us. Empowering people to take care of themselves weakens the stranglehold that inefficient governments and corrupt politicians have on their people. A stable dynamic private sector will support a growing and educated middle class that will demand change and have the power to make those demands a reality. This is the spirit that led to the development of the African Growth and Opportunity ACT (AGOA). Unfortunately we stopped before we completed the job.

In the mid 90's when AGOA was just an idea, a bipartisan group of members decided that they wanted to do something about our lack of engagement regarding trade and business relations with the countries of sub Saharan Africa. To build support for this new direction they created the African Trade and Investment Caucus. Working closely with members of this committee and members of the Ways and Means Committee the caucus fashioned legislation which ultimately became AGOA. After a lengthy series of discussions with interest groups and organizations from across the political perspective, in Africa and the United States, it was decided that what we needed to do was to develop a way for African entrepreneurs to have a competitive edge in the U.S. marketplace so that they would have a chance to learn how to compete and would be in a better position to attract foreign direct investment. We thought that duty free access to the U.S. market would be a strong incentive for foreign companies to reassess their position on investing in Africa. We also hoped that modern management and technology would begin to be transferred to Africa to create competitive manufacturing plants that could employ local people and export value added products to the United States. After four years of debate on AGOA it was clear to many members that AGOA was not the answer but like development assistance it is a necessary part of the answer. Many AGOA supporters hoped that we would have an opportunity to promote companion legislation that would address the supply side of this issue. The thinking went that AGOA would open up the market creating the potential demand for products from Africa and giving the African producers the leverage to be able to compete in the global marketplace but AGOA was not designed to speak to the needs of the African entrepreneur. AGOA is a short term answer to the demand side of the problem. Unfortunately textiles and apparel dominated the thinking on subsequent AGOA bills and an important opportunity was lost. So it is no surprise that 5 years latter, while we have seen some successes in the textile and apparel sectors, U.S. oil companies are the dominant AGOA exporters and one of the chief beneficiaries of the AGOA legislation. The law of unintended consequences seems to always be at work.

But if we can get back to the original vision of Congress when AGOA was enacted it would be clear that we must complete the task that you began with the passage of that legislation by doing everything we can to unleash this dynamic generation of African entrepreneurs who just need a little help to make a huge difference in the lives of their people. In this regard, my hope is that this committee and the Congress will enact this year H.R. 4319 introduced by Chairman Smith and Congressman Lantos and H.R. 5480 introduced by Congressman McDermott both bills (very similar in intent) would I believe have a dramatic impact on the ability of African entrepreneurs to compete in the global marketplace. Both bills have the potential to do for African entrepreneurs what the Small Business Administrations array of programs have done for the American small businessperson. We have the most dynamic small business community in the world, responsible for creating the majority of our jobs, in part because we have a system of technical support and financial assistance that says that it is in our interest to help you succeed and if you fail we will help you get up and try again. SBA has built a business support system that is the envy of the world and I think what we should do for Africa and for ourselves is to give Africa the opportunity to adapt our experiences, our programs and knowledge, about helping companies grow and compete, to their realities. If we can do that in conjunction with development assistance and the market access provided by AGOA I believe that we could see dramatic change in job growth , income per capita and the quality of life of millions of Africans but we have to do these things in tandem to have the greatest impact. An aid approach will not work by itself, AGOA won't work by itself and just focusing on the private sector will not work by itself but these three separate but interrelated approaches can have a significant impact on the lives of millions of people. I lived in Nigeria for 5 years and one of the things that I learned was that Africans are natural entrepreneurs and that they don't need a lot from us but what they want is simple and straightforward. They want a chance to get the knowledge to compete and earn their way. We have the knowledge at the Department of Agriculture, the Department of Commerce and the SBA. The three

most important agencies to the African private sector, we need to empower these agencies to do more and to be more engaged as it stands now they are on the sideline without the funding or mandate to do what they do best in Africa. Thank you for the opportunity to testify today and I am available to answer your questions.

Mr. SMITH. Thank you so very much for your leadership and for your testimony and your ongoing work.

I would like to now ask Ms. Bembatoum if you could provide your testimony.

STATEMENT OF MS. SHADE BEMBATOUM-YOUNG, EXECUTIVE DIRECTOR, AFRICAN SUSTAINABLE SMALL ENTERPRISE EXPORT DEVELOPMENT FOUNDATION

Ms. BEMBATOUM-YOUNG. Thank you, Mr. Chairman, Mr. Ranking Member, and distinguished Members of the Committee.

I wish to first begin by expressing my deep gratitude to the Government and people of the United States for making it possible for me to come from Nigeria to attend the AGOA Civil Society Forum and giving me the opportunity and honor to testify today.

As you are well aware, in 2004, petroleum and extractive industries accounted for 87 percent of exports from Africa under AGOA; and in 2005, this figure rose to 92 percent. We also know that Africa still accounts for only about 2 percent of world trade, and that the volume of recorded trade between African countries is much lower than trade between neighboring countries in other parts of the world. Something is obviously very wrong.

There are serious obstacles which are impeding the development and growth of non-oil and non-traditional exports from African countries, and in my opinion, they can be grouped into three main categories. I have done this because I was told that I would have to be very brief, but I do have a lot of information that I would want to share with you, maybe later. Group one comprises infrastructural problems, such as inadequate and unreliable power and water supply; these cause serious production problems. However, I want to emphasize that poor quality or lack of access roads to villages in rural areas, inadequate transport facilities and the high cost of transportation prevent agricultural raw materials that are needed by small, medium and large-scale industries, as well as handicrafts and artisanal products from cottage industries, from reaching both the domestic and the export markets on time, and make these products uncompetitive both in the local market and in the export market.

Furthermore, I would like to submit that in this era of globalization, there is no such thing as a local market. Every market is a global market. If you cannot compete at home on your own market, you certainly cannot compete abroad.

Now, these conditions make it impossible to create jobs and reduce poverty in rural areas through sustainable export; and this is what AGOA is all about.

The second problem or group of problems has to do with financing. Financing is a huge problem, it is a big headache for micro and small and medium enterprises in Africa, because banks generally see SMEs as very serious business risks. Most African countries are coming up with different schemes, different financing packages, which are supposed to be designed to meet the needs of African en-

trepreneurs. However, most African entrepreneurs are not too happy with a lot of those schemes. Many of them are drawn up without input from the entrepreneurs, and I think that is a serious mistake.

In Nigeria we have a scheme called the Small and Medium Enterprises Equity Investment Scheme, which started a few years back, but it has not been successful, because although the banks who started it have put aside 10 percent of their profit after tax for equity participation in small or medium enterprises, there has been reluctance on the part of the enterprises themselves to apply. This is because a lot of them do not quite understand equity investment, and they really don't want banks coming in to own any type, any size of their company for any amount of years, even 1 year.

The banks also say that they are not receiving the kind of proposals that are bankable, and that SMEs cannot draw up proper business plans. Unfortunately, this situation has gone on for over 3 years.

My own opinion is that we should encourage banks to use some of that money to ensure that SMEs can be trained to do the kind of paperwork that they want them to do so that they do get their loans, their proposals, agreed to.

Now, recently, also, in the agricultural field, we have a new financing package has just been introduced by the Federal Government, and this will allow farmers access to loans repayable at 8 percent, but it is really too early to say what kind of success this will have. But the farmers are very happy that they are seeing a single-digit interest rate.

Part of the solution would seem to be to package SMEs, especially those with export potential, in such a way that they become an attractive business proposition to banks. On the other hand, banks need to be properly educated so they can fully comprehend the role they could play in assisting SMEs to grow their businesses so they don't continue to throw the baby away with the bathwater. After all, any bank which provides financial support in the form of loans to SME exporters will benefit directly when successful exporters deposit their repatriated export proceeds in foreign exchange in their bank.

I would like to add here that women have an additional problem in getting any sort of funding from banks because of the fact that in many of our societies women are not allowed to own property, so obviously that is one form of collateral they could never provide.

In my opinion, I think banks should be encouraged to work with business development support services in the public, private and not-for-profit sectors in order to obtain expert risk assessment regarding proposals submitted by exporters. They should also work closely with BDS (business development services) with expertise in product development, export marketing, export financing and export procedures. Pre-shipment and post-shipment export finance must be readily available to SME exporters, and export development funds should be established in each African country so that SMEs can obtain grants to cover part of the funds they would require to engage in market research, prepare and translate promotional material, conduct contact promotion and publicity campaigns in respect to export markets, participate in trade fairs, and

cover part of the travel and accommodation expenses for eligible companies and their consultants.

Last, but by no means least, ASSEED believes that improved information flows, technical assistance and capacity building at enterprise level for Chambers of Commerce, women business associations, farmers' cooperatives, handicrafts and cottage industry cooperatives, and for export development service providers are the key to success. Even if all the other constraints are removed, and the issues of packaging of products and human capital development are not addressed through trade-related technical assistance, there is little hope that the volume of export from SMEs in Africa will increase and create the kind of sustainable wealth required to make poverty history on the African continent.

One of the problems we find in the field is that there are many very good schemes and programs being run by different agencies, but it is sad that the people who need those schemes and services are not even aware of them. I think it is time for agencies to have better outreach programs and take their services to the people where they need the services, because as it is now, for instance, with the West African trade hub, which is in Ghana, we in Nigeria, in order to have any kind of benefit have to either get on a plane or take a long bus ride, and, quite frankly, this costs money, which most people really cannot spare. And even the resource center that we have in Nigeria needs to be better equipped and more fully staffed.

I am a friend of the center; I went there before I came. They have a very good person in charge, but definitely he could do a lot more with more support.

Now, ASSEED itself was set up because we, having worked in the field for almost 16 years, have been identifying all these problems as being the reason why export is not getting off the ground, non-oil export. There is interest, and many of our Export Promotion Councils are promotion councils that promote exports, but they cannot always develop the export sector because they themselves are in need of training and capacity building.

So we believe that it is not just the job of government, but of the private sector and NGOs, because now there is a growing crop of social entrepreneurs, a lot of people who have worked as professionals in a particular field and now wish to set something up which is not for profit, which doesn't mean that they will not make profit, it just means that they will put all the profit back into the institution and not share it. So this kind of institution also needs to fit in somewhere in the scheme of things.

You mentioned USAID, somebody did just now, that if you want to talk about trade, you have to talk to them in Africa. I went through this—as I said, I have been in this a long time, and the problem there has been that if USAID programs are governance or they are health-related, which they were, no matter how much the person in charge is convinced that you, as an NGO, can deliver a viable service, there can be no real interaction between you.

So I must say that I am very excited about the Assistance for Small and Medium Enterprises in Sub-Saharan African Countries Act of 2005, the African Entrepreneurship Act of 2006, and the creation of the Trade Capacity Enhancement Fund in the 2007 For-

eign Operations Appropriations Bill. I have read through these bills, and I believe that they will go a long way to helping us in Africa to become viable business partners to United States companies who are interested in importing our products.

One last word on women, because—not because I am a woman—I actually started out with multinationals, large companies, trying to get them to do AGOA's trade—to register under the ECOWAS Trade Liberalization Scheme. But as I went to more and more trade fairs in the West African sub-region, I found a lot of the participants were women. They were very enthusiastic about getting into export markets, but most of them were doing what one could call "suitcase export." And I am sorry to say that almost 15 years later, most of them are still doing just "suitcase export," although a lot of their products do come under AGOA, some of the cloth, woven cloth and the dyed cloth, and the artisanal products, food products, dried fruit and so on.

Where I am going with this is that we really need to keep it in mind that women cannot always attend the kind of events and training that men can, and so we also need to have special training sessions for them. I am not saying they shouldn't be part of the mainstream, but for those who for cultural reasons or family reasons cannot travel long distances and leave their homes, we have to have that kind of intervention for them.

Also, international agencies should train a special cadre of certified women, SME business development service providers, that are equipped to handle specific needs of women entrepreneurs in a globalized economy. The training of women trainers is of paramount importance.

Lastly, I would like to appeal to international agencies to adopt a regional approach to training and technical assistance so that benefit can be derived from best practices existing within each subregion and beyond, in other places in Africa. I have found that sometimes we are reinventing the wheel in one country because we are not aware of what is happening in a neighboring country that is working. Even if we don't take on whatever it is wholesale, it does save time if you have a basic structure, a basic program that you can work around and develop.

I think I have run out of time now, so I would like to thank you once again for this great honor. And I must say that I have an AGOA history as well. In 1999, I came to the States for other reasons and I found out about the East Coast Regional Summit of the National Summit on Africa that was held in Baltimore, where I met quite a lot of people—Mr. Payne wouldn't remember, but I did meet him then—and I was quite overwhelmed with the kind of support that all Americans, not just African Americans, were giving to the AGOA bill.

So I came back. I paid my way back in 2000 to be at the National Summit on Africa, and it was one of the experiences in my life which I will never forget. Thank you.

[The prepared statement of Ms. Bembatoum-Young follows:]

PREPARED STATEMENT OF MS. SHADE BEMBATOUM-YOUNG, EXECUTIVE DIRECTOR, AFRICAN SUSTAINABLE SMALL ENTERPRISE EXPORT DEVELOPMENT FOUNDATION

Honourable Members of Congress,

I wish to begin by expressing my sincere gratitude to the government and people of the United States for making it possible for me to attend the AGOA Civil Society Forum in the Washington, DC and granting me the privilege of being a witness at this hearing.

As you are well aware in 2004 petroleum and extractive industries accounted for 87% of exports from Africa to the U.S. under AGOA. In 2005 that figure rose to 92%. We also know that Africa still only accounts for about 2% of world trade and that the volume recorded trade between African countries is much lower than trade between neighboring countries in other regions of the world.

There are obviously serious obstacles which are impeding the development and growth of the non-oil and non-traditional exports in African countries, and in my opinion they can be grouped into three main categories.

1 *Infrastructural problems* such as inadequate and unreliable power and water supply cause serious production problems. However I wish to emphasize that poor quality or lack of excess roads to villages in rural areas, inadequate transport facilities and the high cost of transportation prevent agricultural raw materials that are needed by small, medium and large scale industries, as well as handicrafts and artisanal products from cottage industries from reaching both the domestic and export markets on time, and make these products uncompetitive. Such conditions make it impossible to create jobs and reduce poverty in rural areas through sustainable export.

2 *Financing is a huge problem for micro, small and medium enterprises in Africa* because banks generally see SMEs as a serious business risk. Most African countries are coming up with different financing packages which are supposed to be designed to meet the needs of African entrepreneurs, (an example of one such scheme in Nigeria is the SMEEIS (Small and Medium Enterprises Equity Investment Scheme) under which banks set aside ten percent of their profit after tax for equity participation in small and medium enterprises. Unfortunately, a great proportion of these funds have not been accessed by SMEs because the banks complain that SMEs have not been able to submit bankable projects in the form of proper business plans and the SMEs are would rather not have banks invest in their businesses, insisting that what they really need are low interest loans.) The Nigerian Government has recently introduced a financing package for farmers with loans repayable at 8% but it is too early to evaluate the success in implementing the scheme.

Part of the solution would seem to be to "package" SMEs, especially those with export potential, in such a way that they become more attractive business propositions to bank. On the other hand, the banking sector needs to be properly educated to fully comprehend the role they should play in assisting SMEs to grow their businesses so that they do not throw the baby out with the bathwater—after all, any bank which provides financial support in the form of loans to SMEs exporters will benefit directly when successful exporters deposit their repatriated export proceeds in foreign exchange in their bank. Banks should therefore work with business development support services in the public, private and not-for-profit sector, in order to obtain expert risk assessment regarding proposals submitted by exporters. They should also work closely with BDS services with expertise in product development, export marketing, export financing and export procedures. Pre-shipment and post-shipment export finance must be made readily available to SMEs exporters and Export Development Funds should be established in each African country so that SMEs can obtain grants to cover part of the funds they would require to engage in market research, prepare and translate promotional material, conduct contact promotion and publicity campaigns in prospective export markets, participate in Trade Fairs and cover part of the travel and accommodation expenses for eligible companies and their consultants.

3 *Last but by no means least, ASSEED believes that improved information flows, technical assistance and capacity building* at enterprise level, for Chambers of Commerce, Women business associations, Farmers cooperatives, handicraft and cottage industries cooperatives and for export development service providers are the key to success. Even if all the other constraints are removed and the issues of packaging of products, and human capital development are not addressed through trade related technical assistance, there is little hope that the volume of export from SMEs in Africa will increase and create the kind of sustainable wealth required to make poverty history on the African continent.

In order to ensure that the products they export comply with international quality and environmental and standards, grants or waivers should be given by African governments to the Export House or the micro/small enterprise concerned, to cover at least 75% of the high cost of testing and certification. Inability to pay for such services (which are often provided by government agencies) is preventing the products of such enterprises from gaining access to global markets.

African governments should call upon International agencies to assist with capacity building for Public/Private Sector and NGO MSME Business Development Service Providers, Chambers of Commerce, Women's Business Associations, Youth Entrepreneurship Development Initiatives, Women Farmers Organisations, Crafts Associations and Cooperatives, Producer Associations, Cooperatives etc so that they can render better quality and more relevant services which will empower their members to participate in or facilitate global trade, especially pro-poor trade and fair trade.

International agencies should train a special cadre of certified women MSME business development service providers, equipped to handle the specific needs of women entrepreneurs in a globalised economy. Women who wish to become producer exporters, merchant exporters, product development, adaptation and export marketing professionals, or learn how to export their services, should be given adequate training at highly subsidized rates. This is because of the urgent need for women in the private sector in Africa to be encouraged to acquire such expertise so that they can pass it on to other women. In some parts of Africa, only women will be able to provide such training to their peers for cultural or religious reasons, and some women feel more at ease with women trainers. Training of women trainers is therefore of paramount importance.

International agencies should adopt a regional approach to training and technical assistance so that benefit can be derived from best practices existing within each sub-region and beyond (in view of the influence of French, British and American approaches on Anglophone and Francophone African countries). Women, who have acquired the necessary expertise and experience should be encouraged to export their services to other African and developing countries. Some of the certified women international business development professionals should be trained in business advocacy and as international trade negotiators.

Women Business Centres and export production and counseling centres for women and young entrepreneurs in Africa should be established in rural and urban areas and be adopted as a NEPAD Programme in each sub-region.

Mr. SMITH. Ms. Bembatoum, thank you very much for your testimony, and just let me ask a few opening questions. First, yesterday I and others met with the President of the Congo, who, as you probably know, wears the dual hat of being the African Union President as well, and had a very lively discussion about the whole issue of transparency, including two people in his own country who have recently been arrested. We have written letters to him expressing concern that they may indeed be political prisoners; we are concerned about it.

We had Nuhu Ribadu here from Nigeria, who gave riveting testimony about the whole issue of transparency and the challenges he is facing, he and his colleagues in the Economic and Financial Crimes Commission in Nigeria.

So my question is, first, on the issue of the trend in transparency, it seems to me that the more predictable and the more open and transparent all of these proceedings are, the better it is, the climate it is for foreign investment.

Also, if I could ask you on the issue of microcredit whether or not—obviously microcredit lending has been going on for many years. This Congress and the President appropriates about $200 million per year. Much of it goes to Africa; the overwhelming majority of those microcredit loans goes to women. Is there any evidence that those women, besides growing small business of three and four and five, have moved up the ladder and have, again, broken through the glass ceiling that they may be facing with regards to access to credit and finance, or even the owning of property, as you pointed out in your testimony a moment ago? Has there been a trickle-up effect, if you will, as a result of microcredit?

Ms. BEMBATOUM-YOUNG. Thank you, Mr. Chairman. I would like to say yes, but I am not sure that I really can.

In Nigeria, I was actually looking forward to the microcredit program, which has just been launched. It came out in December or so last year. And as you know, last year was the International Year of Microcredit. And some of us in the NGO sector, from the year before, were saying, "Look, what is coming up is the Year of Microcredit, what is happening, what is UNDP doing?" And quite frankly, I was very disappointed because, as you say, microcredit has been around for a long time, and I have seen it in operation in other West African countries. I can only say that unfortunately in my country, maybe because we are a big country, we tend to look at the big things and sometimes neglect the smaller things, to our own detriment, because as you know, the informal sector is actually what has been keeping the Nigerian economy, the real non-oil economy afloat, and women form the majority of that sector.

But we do have local indigenous schemes, like maybe you have heard of "Esusu." How it works is that women—well, mainly women, but men do it as well—will contribute a certain amount, the same amount every month, and put all the money together, and one person takes it out each month. You take it out in turn. So this means that if there are 10 of you, and you are contributing, let's say, $100, you have $1,000, and the next month it is somebody's else's turn. Now, because there was nothing else, this indigenous way of saving and getting a loan—obviously from people you know, the risk is very, very minimal because everybody who does this knows the other person; it is not done with people far away.

But these have been the things that have enabled market women and other people—I even know people who have salaried jobs who do that so that you can have a certain amount in hand and do what you need to do then, because in many cases you are saving 100 every month, so you don't really feel it.

But as I said, we will have to wait a while for any effect because the community banks were not a great success. There has been, as you know, restructuring in the banking sector, as you know, in Nigeria. Now it is being said that banks who did not make the amount that needed to be deposited to remain normal commercial banks are going to be somehow converted into some sort of community bank scheme. But everything is just starting out, and it is not clear what effect these measures will have.

Mr. WILLIAMS. A couple of points, Mr. Chairman.

A lot of these issues, the important issues of transparency and even microcredit lending, I think these things are all on the ascendancy in sub-Saharan Africa. I think if you look at 2 years ago and now, things are—there are more opportunities for United States companies to see that if their investment proceeds in a country, that they will be functioning in a more transparent environment, not necessarily one like the one we have here today, but certainly one more transparent than it was previously in these countries, and I think that is a very good thing.

I think you are seeing in many of these countries that newspapers are more vigilant, they are reporting in a less aggressive fashion. And most importantly, the facts are becoming more like facts as opposed to speculation. So there is some real reporting and investigative reporting going on.

I think there are new agencies. The Economic and Financial Crimes Commission in Nigeria has had its problems, accusations in a number of different fronts, but they have done some phenomenal things, the arrest of the police chief in the country, the arrest of other high-profile individuals for corruption, and also dealing with some of the banks.

Shade mentioned when Nigeria just went through the recapitalization, they went from 89 banks to 27 or 28 banks in the country. A number of board of directors and managing directors were arrested because when central bank went in and looked at the books, the money didn't back up what was on the books, and obviously people had fleeced the corporation and they were arrested.

So in terms of transparency, little things, but very significant steps are taking place. And also, you are finding more and more individual citizens utilizing the system for redress on corporate problems.

In terms of microcredit lending and women, it is a huge problem; without appropriate infrastructure and without a lot of change culturally will be a continuing problem, much like it was here in the United States. But I would like to tell you at least about one interesting success, again in Nigeria. Access Bank just this week signed an agreement with the IFC for a $15 million loan program for women in Nigeria. And that is a great success, and it is a bank that has a record; it has a number of women in management positions. It is one of the new powerhouse banks in Nigeria, and it will be operating this program with $15 million from IFC and their money—probably a larger fund than that—to focus on women.

President Obasanjo has probably the most difficult job in the world, but he has consistently talked about women entrepreneurs. And the set-aside program that he put forward years ago, 5, 6 years ago, was supposed to do a lot of things for women. It didn't do it, but a big part of that is because they can't do it for all private enterprise. It is not just a women's issue. Loans are not available for anybody, male or female, to speak of, and so women obviously are suffering more than men in that regard. But progress is being made, and I think I have seen some substantial progress over the last 5 years.

Mr. SMITH. Mr. Payne.

Mr. PAYNE. Thank you very much.

And let me thank both of you for your testimony. And this area of financing is extremely important.

Let me just ask the three areas that you spoke about, Mrs. Bembatoum-Young, infrastructure, financing, and the need for improved information flows, technical assistance and capacity building. Is there any plan in Nigeria to attempt to deal with the infrastructure problem? We heard even yesterday at the AGOA forum that some of the persons are saying it is difficult for them to get their products to the market, to transshipment places, because of the infrastructure. And is there, to your knowledge, planning going on in Nigeria around the major cities—I mean, it is a large country—to try to deal with this infrastructure problem?

Ms. BEMBATOUM-YOUNG. Yes, there are several initiatives. I think you are talking more about transport roads———

Mr. PAYNE. Right, absolutely.

Ms. BEMBATOUM-YOUNG. Actually, one of the major problems has been the lack of a railway system in Nigeria which used to exist. In my parents' school days, people used to go from the north to the south; people from the east would come to the west all on trains. And we have had repeated attempts to get the railway system back on track.

Why I am laying emphasis on this is I think it is obvious that with such a huge country and with so many raw materials and products that need to move from one part to another over long distances, it makes a lot of sense to have an efficient rail system.

As for the roads, you know, sometimes you wonder if it is not two steps forward and three back because of the terrain, because of the climate. Sometimes because of shoddy workmanship, and contracts being given to all sorts of people, you find roads are being done, and in no time they are bad again. But I would say that one way I think the government is trying to get around this is through foreign direct investment. And I do see—I don't know much about it, but I see on television visits from foreign companies who are interested in BOT arrangements and things like that. But I don't know—I don't have any figures, and I haven't been around Nigeria extensively for the past 7 or 8 years.

Mr. PAYNE. Thank you very much. I am a firm believer in the agricultural possibilities for Nigeria. I think unfortunately there has been a distraction away from agriculture. I think that their ability to have as many as three crops in some areas, in Liberia, three cycles, whereas, you know, here in the United States, we can only get one out. And so I wonder—I don't know, Mr. Williams, if you have any thoughts about the agriculture sector in Africa in general, and whether you feel that perhaps—even the subsidies is a handicap that the West has for its farm industry, but the potential of agriculture in general in Africa.

Mr. WILLIAMS. Thank you.

Agriculture is still the dominant sector in most African countries, if not all African countries. And certainly when it comes to a country like Nigeria, when you have 150 million people, it has become, I think, since the mid-1980s, and 1985 with the economic support or adjustment program that they adopted under the World Bank, an import-dominated economy. I know in the rice sector Nigeria imports over $1 billion worth of rice; I know they import over $300 million worth of fish, $500 million in beef, and on and on and on, toothpicks—there is one funny story about $150 million, more than that.

Ms. BEMBATOUM-YOUNG. Not anymore.

Mr. WILLIAMS. Tomato paste, et cetera.

So there are always these issues. But the farm community is very eager to be able to take up on these imports and to be able to produce the products themselves. The issue is management and modern farm technology, and developing a system for the transfer of that. That is why I think I mentioned in my comments that the Department of Agriculture—which, by the way, gets hundreds of requests from African and Nigerian farmers for assistance, but is not able to respond to them because they don't have the resources—but if that kind of structure could be set up so that our farmers who, for instance, now are more inclined to sell their tech-

nology and their management as opposed to the raw product could engage with African farmers, there would be an explosion, I think, of domestic production. But there needs to be a bringing together of this modern farm technology and modern farm management in order for small subsistence farmers to be able to produce on economies of scale in order to compete against imported products.

Nigeria's rice primarily comes from Thailand and India, and it is usually 6 or maybe more months old, and consumers complain about it; but it comes in cheap, and it undercuts the local producers of rice. And I know during the time that I was there, every election the local rice farmers would complain, and the politicians would respond with a temporary embargo, but soon after that rice would start flowing back into the country.

So there needs to be assistance to these local farmers, and we need to have programs. Right now under AGOA we don't have those types of things. We have a few agricultural promotional officers in Nigeria, but their job is primarily to help United States companies sell into these countries. For instance, in West Africa now, I think the dollar figure is up to $18 billion in commodities that go into West Africa. Very little of it comes from the United States. We tend to price ourselves out of the market.

But the opportunities for U.S. farmers are in partnership with the local level in transferring technology and management skills, and I think it could be extremely lucrative for our farmers if we could do that.

Mr. ROYCE [presiding]. If I could follow up on Don's question. And, Mike, I know you have spoken on this in the past, but as Don has pointed out, when we had our AGOA Civil Society Forum yesterday—Don Payne and Members participated—Don points out over 70 percent of Africans operate in the agriculture sector, and yet at the end of the day, our efforts to stimulate United States-African trade often seem to focus on textiles and on apparel, as you point out in your testimony. So why do you think there seems to be such a relative disinterest in terms of the agricultural sector?

And what do we do now? How do we overcome those existing impediments that you talk about in terms of United States-African agricultural trade? One of the things we have held hearings in the past on was doing away with the subsidy for cotton and other subsidies in the United States in order to make African agriculture more competitive. We are also pushing an initiative, Jim Colby has an initiative to sort of build trade capacity-building, and in that, I think we can kind of steer it toward some of these issues.

But, Mike, if you would tell us the prescription you would give us right now in terms of overcoming those impediments.

Mr. WILLIAMS. Well, what I would do right now is probably not the most political thing but would be to cut out the middleman that USAID uses for their consultants and go directly to the farmers, to the American farmers, to the business people who know how to do business as opposed to the consultant or the technical person who knows how to talk about what it should look like. I know that American farmers are very interested in doing business in Africa. During my time in Nigeria, people paid their own way to come and figure out how to do business. Mississippi farmers, Louisiana farmers, farmers in Arkansas are very interested in their rice sector, in

the tomatoes and processing. But we don't have the structure in place to allow business-to-business interaction. We can allow government-to-government discussions about these issues, policy discussions, trade policy, but not business to business. And I think if we could figure out a way to put this money in the hands of the rice, soybean and cotton co-op people in Mississippi and Louisiana and these other places and get them touching base with the farmers in Ebonyi State and Bayelsa and River State, we would see a tremendous explosion in trade. But the way we are going about it now, it never translates.

Mr. ROYCE. Let me also ask Ms. Bembatoum-Young for her observations on this.

Ms. BEMBATOUM-YOUNG. Thank you. You can see I was bursting to say something. In the past 5 years or so, there has been a positive shift back toward agriculture.

This last administration has really pushed cassava for instance. There is a Presidential initiative on cassava. Everybody is growing cassava now, and it happens to be something that grows all over Nigeria.

And we have actually gone out and found export markets for cassava. One of the biggest is China, and the race is on to see that we can actually grow enough to meet the needs of China. That is just to give you an indication.

As far as rice is concerned, I buy Nigerian rice now, and I wouldn't have 5, 10 years ago.

Well, first of all, there is more growing of rice. It has been promoted by several state governments. But also the milling and the packaging and everything and the price is okay.

Of course, some people will always buy—am I allowed to name brands—but you know there are certain brands that people will just buy. American rice is what they want, or Thai rice is what they want.

Mr. PAYNE. You can get Uncle Ben down there?

Ms. BEMBATOUM-YOUNG. Sorry? That was the one I was going to mention. Yes. But I am sorry, I don't eat Uncle Ben's anymore.

Mr. ROYCE. You get Nigerian rice now.

Ms. BEMBATOUM-YOUNG. Yes, honestly, I would be quite happy to let you have some. There is another crop that might surprise you; cocoa is coming back. And I was interested to hear the World Cocoa Foundation talk about their tree crop program.

So, you know there is definitely a push for agriculture now.

Mr. ROYCE. We have to give up this room by 4:15, so I want to go to Congresswoman and former Ambassador Diane Watson from Los Angeles and let her ask her questions.

Ms. WATSON. I had mentioned before, I am interested in Nigeria's ability to perform and to handle the technology that seems to be spreading throughout the country.

Can you comment on their advancement in handling technology?

Ms. BEMBATOUM-YOUNG. What kind of technology do you mean?

Ms. WATSON. Well, I know they were involved in cell phones. I know a delegation came over to my district about putting the satellite up. They were joining 3 or 4 other nations.

Ms. BEMBATOUM-YOUNG. Well, yes, actually Nigeria's telecommunications sector has just exploded. I mean, I cannot remember what it felt like not to have a cell phone.

It has only been a few years. And that is one of the few areas where we have a very strong consumer lobby, because actually these phones are still quite expensive. But because they are so necessary and because people saw what it could do to them, their businesses—you don't have to sit in a traffic jam for 3, 4 hours. You can call somebody. You can send a text message. Even the farmers we have in our NGO association, we have a network run by some young people, and they are using their cell phones to inform the farmers of prices, of weather, you know, forecasts and things like that. So it has really made a lot of difference to life. But it is still expensive.

Ms. WATSON. I would say that Nigeria, if you look at the six western countries along that coast, would probably be the most advanced. And I know they had a large number of young people going to school in the West.

I visited one of the countries—it is no longer Anambra State—many years ago. And they were doing automobile parts assembly.

And I am just curious as to what do you see in terms of future investments. And I know oil companies with their share in particular; I know about the Ogoni Delta region and the problems they have had in that area. But in terms of the technological areas, what do you see for the very near future with Nigeria?

Ms. BEMBATOUM-YOUNG. Well, already, as you mentioned with the automobile spare parts, they have clusters. They have been making these parts for at least 15 years, because I remember going to trade fairs in Dakar 15 years ago, and people were asking about them. So that is one of the areas where people do buy Nigerian products. Also, leather shoes, leather shoemaking is also very predominant in that area. Again, they have clusters set up by UNIDO and the state governments and the new SMEDAN, which is the Small and Medium Enterprise Development Authority of Nigeria. So, yes, there are areas, pockets of technological and manufacturing abilities that are growing and being encouraged.

Ms. WATSON. One of the issues, and this is my last point, that seems to have plagued that country is the, shall I say, governmental changes, the coups and the corruption. I can't think of Nigeria without thinking of what I see as obstacles to the progress of this as a leading country in Africa. Can you comment in those areas?

Ms. BEMBATOUM-YOUNG. Well, briefly, my comment would be that we do have a very strong NGO network now, and we were very quick to come up with a 12-point plan on fighting corruption years ago.

We have done work in at least one local government area where we are teaching the people. It is called a watch, citizens watch, teaching people that they are to hold their leaders accountable. They are to monitor budgetary spending. They are to make sure they know what is going on and be part of the planning of whatever development is going on, even economic development.

So I think there is a lot of hope in that area.

Mr. PAYNE. Would you yield a minute on that?

Ms. WATSON. Yes, I will.

Mr. PAYNE. Just last week, as it was indicated 2 weeks ago, I don't recall the gentleman's name, but he testified before the Committee, and he was the most impressive person dealing with the whole question of corruption. He was just, you know, courageous, and he gave examples of some of the things Mike was talking about. They even had a little investigation for President Obasanjo. I told the boy, now, don't go too far. But now he really gave a fantastic report. And so I do think that things are moving in the right direction. Of course, we all know about 419, but we don't want to get into that, and I don't know if you have heard about it, but I hope we are certainly moving in the right direction on that. Thank you.

Mr. ROYCE. Thank you very much.

And we really want to thank both of our witnesses here for their testimony here today. And we will take your suggestions and try to incorporate them into public policy as we go forward. And as we move forward with the relationship, we are trying to build trade capacity and address the needs of those in civil society in Africa.

Thank you, very much. We stand adjourned.

[Whereupon, at 4:15 p.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. Chairman, thank you for convening this hearing today to explore opportunities for strengthening entrepreneurship and sustainable economic development in Africa.

As a Co-Chair of the West Africa Caucus, along with my colleagues Mr. Boozman, Mr. Meeks, and Ms. Watson, I am particularly interested in working to develop creative initiatives to help African entrepreneurs achieve both their human potential and economic security.

Small and medium enterprises, however defined, play a vitally important role in reducing poverty throughout the developing world.

I look forward to hearing from our witnesses on what Congress can do to help foster indigenous African entrepreneurship without imposing preconceived models that may not be appropriate to local circumstances.

As a representative of the people of Nebraska's First District, I am particularly interested in exploring the status of economic opportunities in the agricultural sector, and learning what we can do to work with African entrepreneurs to advance mutually beneficial programs.

For example, the University of Nebraska is currently working with the University of Zambia on cooperative research in agricultural development and HIV transmission research. I believe that such programs are important vehicles for enhancing regional stability by improving child and maternal health and fostering private sector competitiveness in agriculture.

For the past 20 years, the University of Nebraska has been working on efforts to develop sorghum and millet varieties adaptable to Zambia's climate and needs. The University is also working to counsel families struggling to combat the ravages of HIV/AIDS in a nation where the life expectancy has dropped to 39.7 years.

Again, Mr. Chairman, thank you for focusing our efforts on this encouraging topic. I look forward to hearing from our witnesses regarding prospects for cultivating positive and enduring economic growth in Africa.