

CEBI
**Community Entrepreneurship and
Business Initiative**
South Africa

Third Party Evaluation




September 4, 2002

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I. INTRODUCTION

During June-July 2002, LTL Strategies conducted a third party evaluation of the United States Agency for International Development (USAID)-funded program known as the *Community Entrepreneurship and Business Initiative* (CEBI).

CEBI is a small, medium and micro enterprise development program run under the auspices of CHF International's South African office, based in Port Elizabeth, South Africa. This program is jointly implemented by three US-based international development organizations: Agricultural Cooperative Development International (ACDI), National Cooperative Business Association (NCBA) and CHF International, designated as the lead agency.

This three-year local economic development program started on May 1, 2000 and will end on April 30, 2003. CEBI benefits from total funding of US \$3,100,000 from USAID. The CEBI program was officially presented to stakeholders in Port Elizabeth on July 20, 2000 and became operational in South Africa in September 2000.

Through the unique application of cooperative development principles, including a combination of community empowerment through democratically structured group-based organizations, cooperative business development and locally owned and controlled financial services, the three partner organizations' vision is to enhance local economic development, increase access to financial markets for historically disadvantaged township residents and their businesses, and create employment.

This vision is supported by the enormous needs that exist for greater business opportunities in South Africa, especially in the peri-urban black townships. There, the economic picture continues to be bleak. According to the Government of South Africa, whites on average earn 9.5 times the income of blacks per capita¹. The lack of education, a dearth of job opportunities and the absence of

1. *A Profile of Poverty, Inequity and Human Development in South Africa*. HSRC, 1995; see also *Reducing Poverty in South Africa*. The World Bank, June 1994.

community development organizations perpetuate a sense of powerlessness among township residents, and security remains threatened. In spite of the remarkable political transition in South Africa in the last five years, the labor market remains inflexible and township businesses have stagnated. This economic isolation has attendant implications for security and stability within the society at large.

To stimulate rapid business development in two townships of Port Elizabeth located in the Nelson Mandela Metropolitan Municipality, CEBI has opened one office in the township of Motherwell and, more recently, in 2002, a second one, in the township of New Brighton.

Motherwell is the third largest township of South Africa with a population of around 500,000. The population growth is estimated at 0.6%, with no figures for migration. Among other things, Motherwell is characterized by high crime rates, high unemployment, and high population density. The Motherwell area was established around 1982 and the first houses were constructed and occupied in 1985. Since 1990 the area has experienced a high influx of people from former Eastern Cape "Bantustans" and farms in neighboring rural towns. Large areas of Motherwell provide a temporary entry point for people into the Port Elizabeth area. Some South African experts consider that *"the lack of a sense of community may be a factor that has contributed to crime in this area"*².

Motherwell is located 20 km from the center of Port Elizabeth and 10 km from the proposed industrial development zone in Coega. The communities currently staying in Coega will be moved to Wells Estates in Motherwell.

CEBI develops community-based business leadership and culture while providing essential business training and financial services, job referral services, business certification, and marketing and linkage services. With 10 out of its 13 staff based in its Motherwell office, CEBI provides these services through its 3 units:

- Business Creation and Training Unit (BCTU), led by NCBA
- Financial Services Unit (FSU), led by ACDI/VOCA
- Administration and Marketing Unit, led by CHF International

From June 26 to July 3, 2002, René Lake, the president of LTL Strategies, the Washington-based consulting firm hired by CHF International to conduct the third party evaluation, visited CEBI operations in Port Elizabeth. He met and interviewed CEBI's management and staff, a large number of CEBI's partners and clients as well as representatives of USAID and the three partner organizations.

2. *Presidential Urban Renewal Programme: Motherwell, Port Elizabeth*, The Department of Social Development of Port Elizabeth District Office, 2000

The first part of this report summarizes the results of the evaluation, based on over 30 interviews, the review of more than a 1,000 pages of documents and web pages directly related to CEBI, and a one-week field trip to South Africa where LTL Strategies visited CEBI's operations and partners in Port Elizabeth, Pretoria, and Johannesburg.

The second part of the evaluation report assesses the extent to which the CEBI program is or is not in line with the strategic objectives defined in USAID's PVC Results Framework.

From the third to the sixth part, the report focuses on the operations of CEBI. The report highlights the outputs of each of the units, their challenges and a few recommendations. The following aspects the CEBI program were evaluated:

- Business Creation and Training Unit
- Financial Services Unit
- Administration and Marketing Unit
- Management and Business Development

Just before the conclusion, the seventh part of this evaluation presents a number of recommendations.

In order for this evaluation to be useful for the managers of the program and the three partner organizations, LTL Strategies has decided to present this report in a format that will favor actions. Based on the definition of an "efficiency evaluation" as proposed by Joseph Valadez and Michael Bamberger³, the evaluator understood that the client was interested in an evaluation that would be used to assess and improve the performance of CEBI.

³ "Monitoring and Evaluating Social Programs in Developing Countries", WBI Development Studies, The World Bank, October 2000.

II. CEBI AND USAID's STRATEGIC OBJECTIVES

LTL Strategies was able to assess that the CEBI program is very much in line with the strategic objectives defined in the PVC Results Framework of USAID.

Advancing SO 1: “Increased participation by U.S. PVOs in USAID priority areas (measured in terms of number of PVOs involved in key USAID priorities, their breadth and distribution, and the private resources they leverage)”.

CEBI has formed numerous alliances with:

- **NGOs:** Community Self Employment Centre (COMSEC), Uitenhage Self Employment Centre (USEC), University of Port Elizabeth Small Business Unit, Port Elizabeth Region Manufacturing Advisory Centre (PERMAC), Port Elizabeth Mental health, World Education–Ntinga, Savings and Credit Co-operative League of South Africa (SACCOL), etc
- **Private sector corporations:** PPC Cement, SPAR, Waste Trade, Servcon, Arthur Anderson, Nedbank, Canon, Delta Motors Corporation, Woolworths, etc.
- **Local and national government institutions:** Nelson Mandela Metropolitan Municipality, COEGA Industrial Development Zone and Deepwater Port, NTSIKA, Eastern Cape Development Corporation, Industrial Development Corporation, Khula Finance Corporation, Nursha, etc.

An illustration of the strength of CEBI's alliances and network is the luncheon organized on June 27, 2002. Among the attendees were the Managing Directors of two of the biggest industries of the region: PPC Cement (third largest cement producer in South Africa and largest in the Eastern Cape Province) and the Port Authority (third largest in South Africa). Also in attendance were one of the top officials of the Municipality, one of the deputy mayors, a Municipality Council member, and the head of the Economic Development and Tourism Department.

Advancing SO 2: “Local NGOs and Cooperatives strengthened in selected USAID priority areas (selected areas for initial years of the strategy include: conflict, micro-enterprise, agriculture and health, and work in non-presence countries)”.

CEBI has developed several partnerships with PE-based NGOs and non-profit organizations based in other provinces of the

country. LTL Strategies has visited two of these NGOs: USEC in Uitenage and World Education Ntinga in Johannesburg. With USEC, CEBI has developed a training partnership and with Ntinga, CEBI is finalizing an agreement on marketing and linkage development.

Advancing SO 3: “Increased effectiveness of PVO, NGO, and Cooperative activities (measured in terms of adoption of best practices, special emphasis during the initial years of the strategy are the cross-cutting issues of advocacy, scaling up, sustainability and partnership)”.

By developing an aggressive partnership strategy with both NGO and corporate programs, CEBI brings a set of services and/or capabilities to strengthen the capacity of its partners. Some examples were presented to LTL Strategies. LTL Strategies met twice with Sipho Manqana who was trained in Uitenage by USEC and received a CEBI loan for R4,000 to buy equipment to develop his burglar proofing and steelwork welding business.

III. THE BUSINESS CREATION AND TRAINING UNIT

The initiators of CEBI had envisioned that the Business Creation and Training Unit (BCTU) would provide training, assistance and encouragement to township residents to develop new businesses. Existing business would also benefit from BCTU offerings, including: contract negotiating, legal reviews, short technical and management workshops, annual audits and business certification and assistance.

This unit is led by a manager, Chantel Cooper, who reports directly to CEBI executive director, Pumlanzi Tyali⁴. Like the two other units of CEBI, BCTU has three staff members reporting directly to the unit's manager:

- Field Officer: Cindy Nogaya,
- Training Officer: Zanele Xipula
- Business Support Officer: Jaime Webber

All four members of the unit are employed under a contract signed with NCBA, the leading partner organization for this unit.

In two years, BCTU has obtained the following results:

- ✓ 235 people trained
- ✓ 162 start-up businesses trained
- ✓ 32 existing businesses trained
- ✓ 46 entrepreneurs trained for skills reinforcement
- ✓ 15 competitive contracts secured worth close to R5 million (US \$500,000)
- ✓ 37 start-up businesses created
- ✓ 69 businesses linked to competitive bidding processes

To analyze these results, it is important to understand the context in which they have been obtained. For various reasons, it took almost a year for CEBI to become fully operational. Despite the challenges faced by CEBI before becoming operational, if the actual BCTU results were considered as outcomes for 12 months of real activity, the results should be considered close to the goals set by the initiators of the program.

The number of businesses linked to competitive bidding processes represents 75% of the stated objective. The goals set by the initiators of the program were 10 public sector contracts and subcontracts for the year 2001

If we consider the indicators of the initiators, the number of start-up businesses created at mid-program represent a realization of 74% of the original goal.

4 See *CEBI Organizational Chart*

The number of people trained in the first year of activity represents 47% of the mid-program objectives.

Concerning the job referral activities, BCTU first tried a system based on the use of its own database. Two new options are being implemented currently. One, by combining the job referral activities with the business linkage activities, and the other, by reinforcing strategic partnership relationships with other NGOs with a stronger job referral capacity.

In addition to providing training and business development services, BCTU tried to enhance small business competitiveness through collective buying power. CEBI was involved in the creation of a Central Buying Center, which was supposed to be a retail group within Motherwell that would negotiate discount prices with the manufacturers and wholesalers. The plan envisioned making revolving loans available for some of the members. The project did not go through and BCTU is exploring new avenues to realize a similar project in partnership with an entrepreneur who approached CEBI to that effect.

Overall, this unit seems to increase its performance on a regular basis. A remarkable effort has been made to rationalize the functionality of the unit and to increase the quality of the training sessions.

The linkages activities are growing considerably. The unit's manager shows talent in the area of business networking. The combination of her activities with the outreach capabilities of the executive director constitutes an impressive potential for success.

In the area of business support, BCTU has been able to help several of its clients to secure contracts from competitive municipality bids. The plan to open an information services center in the Motherwell office will certainly increase the efficiency of the business support activities. A computer is being set up to allow CEBI clients to have access to business information and a website is to be developed where the clients' products and services are to be marketed.

Some of the remaining challenges and recommendations for BCTU are summarized below:

- *Increasing the number of requests:* In order to increase the number of persons trained by BCTU, it is important for BCTU to receive more training requests. The development and the implementation of a marketing strategy will certainly help this unit to surpass the objectives set by the initiators of the program.
- *Increasing the number of referrals to the Financial Services Unit (FSU):* Among the requirements for a loan, BCTU advises its clients on the imperative necessity of writing a 10-page business plan at the end of their training. The evaluator found out that this requirement might discourage many people applying for loans. For example, the evaluator met with

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Noncedo Octavia Mayambela, a former BCTU trainee who was declined the opportunity to even request a loan based on the argument that she had not finished writing her business plan. Ms. Mayambela, who was obviously not very comfortable with writing or even speaking in English, had proposed to guarantee her R30,000 loan with a trust fund of R50,000 blocked until 2004.

- *Strengthening the coordination with other units.* Like the other units of the program, BCTU performances will benefit from the reinforcement of the horizontal communications and coordination. Often, units of the CEBI program tend to work as independent entities. For example, the idea that a business plan is an absolute requirement for getting a loan is interpreted differently in the financial unit.
- *Strengthening the customer service orientation:* The idea that CEBI's clients should be considered as valuable and essential partners who need special care and attention at every stage of their relationship with the program should be at the center of CEBI corporate culture, particularly in the two units that offer the essential services of the program: BCTU and FSU.

IV. THE FINANCIAL SERVICES UNIT

The initiators of CEBI had envisioned that the Financial Services Unit (FSU) would design a customer-responsive menu of competitively priced and consistently high quality financial services. Potential offerings would include: a sustainable, cohesive, group-based micro-finance program for women micro-entrepreneurs, a financial service cooperative owned and controlled by community-based shareholders, linkages with commercial bank small business lending programs, a small business start-up matching grants program and an equity participation program.

This unit is led by a manager, Charity Mbelekane, who reports directly to the CEBI executive director, Pumlan Tyali⁵. Like the two other units of CEBI, BCTU has three staff persons reporting directly to the unit's manager:

- Loan Officer: Fikelwa Peter
- Loan Officer: Pamela Mahuwa
- Bookkeeper: Heather Richardson

All four members of the unit are employed under a contract signed with ACDI, the leading partner organization for this unit.

In two years, FSU has obtained the following results:

- ✓ 49 businesses financed
- ✓ 266 jobs created
- ✓ R2.10 million (US \$210,000) loans approved
- ✓ 96 businesses evaluated

The maximum amount of a loan is R50,000 (US \$5,000), with 22% interest and a maximum 24-month repayment period. Since July 14, 2002, the interest rate was supposed to be adjusted to 24%. According to the management of the unit, the non-repayment of loans is at 30%.

As stated with BCTU, it is important to understand the context in which these results have been obtained. Beyond the fact that it took almost a year for CEBI to be fully operational, the financial unit has experienced a number of challenges, including a high staff turnover. The manager of the unit has been changed 3 times in the past 11 months.

If the actual FSU results are considered as outcomes to be compared to the indicators at mid-program, the number of loans distributed to date represents 49% of the objectives.

5 See *CEBI Organizational Chart*

Since the arrival of the new manager of the unit in May 2002, a steady, consistent effort has been made to rationalize the procedures and the policy of the unit. A marketing strategy based on a grassroots approach is being implemented. As a result, the number of loans approved has already improved significantly.

Some of the remaining challenges and recommendations for FSU are summarized below:

- *Increasing the number of requests:* Since the recent arrival of the new manager, the unit has initiated a marketing plan that is actually being implemented. In addition, the development of a global CEBI marketing strategy would enhance the capacity of this unit to attract more requests for loans.
- *Reviewing the loan policy:* The policy under the new management of the unit seems quite set regarding loan eligibility. The unit asks for a down payment of 10%. In the context of extreme poverty of most of the residents of Motherwell, these requirements cannot always be met. For example, the BCTU trainee mentioned earlier, Noncedo Octavia Mayambela, did not have the means to mobilize a down-payment of 10% of the R30,000 loan she was trying to obtain, but she was ready to guarantee her loan with her own trust fund of R50,000, blocked until 2004.
- *Increasing the types of Loan Guarantees:* Loan guarantee requirements are problematic for some applicants. FSU seems not quite comfortable with the use of movable assets (i.e. refrigerators, cars, etc) to secure loans. The requirement of fixed collateral, such as land, houses, etc, may discourage many people from applying for loans.

V. ADMINISTRATION AND MARKETING UNIT

Beyond its administrative tasks, the initiators of CEBI had envisioned that this unit would establish a large network of business and community leaders called the Community Enterprise Leadership Forum (CELf). CELf activities such as conferences and workshops, networking opportunities, business roundtables, and local trade fairs would generate business partnerships both inside and outside the townships.

This unit is led by a manager based in the New Brighton office, Gcinashe Vambe, who reports directly to the CEBI executive director, Pumlani Tyali⁶. This unit has three staff persons reporting directly to the unit's manager: Two of the staff members are based in the new office in New Brighton.

- Logistics and Support Officer: Jasper Skosana
- Administrative Support Officer in Motherwell: Thandi Maqungu
- Administrative Support Officer in New Brighton: Nothando Smith-Mlele

All four members of the unit are employed under a contract signed with CHF, the leading partner organization for this unit. The actual manager of the unit just came into office in May 2002.

Unlike the other two CEBI units, this administrative and marketing unit is not really service-oriented. Beyond the establishment of CELf, this unit supports the program for administrative matters and marketing activities.

This unit has produced the corporate identity package of CEBI as well as some of the marketing materials.

This unit is currently starting the process of creating CELf. On June 27, 2002, this unit organized a successful corporate relations luncheon. Among the attendees were the Managing Directors of two of the biggest industries in the region: PPC Cement (third largest cement producer in South Africa and largest in the Eastern Cape Province) and the Port Authority (third largest in South Africa).

Also in attendance were one of the top officials of the Municipality, one of the deputy mayors, a Municipality Council member, and the head of the Economic Development and Tourism Department. A total of 20 corporations, NGOs and government representatives were present at the luncheon.

That luncheon was the launch of the CELf project. The forum intends to promote and sustain dialogue among corporate sector leaders, local entrepreneurs and relevant policymakers around the question of stimulating economic development.

6 See *CEBI Organizational Chart*

In the official presentation document distributed at the event, it is mentioned that CELF will serve as an advisory board to CEBI, will act as an evaluation vehicle, will inform and influence policy and strategy development in CEBI, will act as a medium to market and communicate CEBI activities and finally, will provide a platform for government and corporate sectors to use CEBI as a vehicle to interface with entrepreneurs in the townships. Based on the reactions from the attendees gathered by the evaluator, CELF has the potential to be quite successful.

Some of the remaining challenges and recommendations for this unit are summarized below:

- *Developing a marketing strategy:* CEBI needs a marketing strategy for CEBI that will integrate a marketing strategy for both BCTU and FSU. CEBI is actually reviewing a proposal for a marketing plan submitted by The Onion Factory. Without anticipating the CEBI management decision on the plan, the evaluator considers that the plan submitted may be relevant to the marketing of CEBI as an entity, but not enough to the specific needs of BCTU and FSU.
- *Increasing the coordination with other units.* Like the other units of the program, this unit could benefit from stronger horizontal communications. This unit needs to be fully involved in the specific marketing activities going on in BCTU and FSU.
- *Developing more promotional material:* The actual promotional materials are brochures, a few fact sheets and information papers. The unit has not yet developed an internal or external communications strategy. The program would benefit from having a web site and an email service system integrating the program name as part of the domain name.

VI. GLOBAL MANAGEMENT AND BUSINESS DEVELOPMENT

CEBI has a positive impact on the black-owned small business community. With two offices located in the heart of two large townships, Motherwell and New Brighton, CEBI is creating a number of opportunities for black entrepreneurs to: (i) start businesses; (ii) develop their existing businesses, and/or (iii) receive training to reinforce their management or technical skills.

CEBI appears to benefit from a great deal of credibility, both in the non-profit and the for profit sector, as well as with the local and national government institutions. This credibility has been critical to the development of an aggressive, sustainable partnership strategy that has actually been implemented by CEBI with quite remarkable success.

The business development opportunities seem to be infinite for this program. During the one-week field evaluation, LTL Strategies was able to meet with several committed strategic or potential strategic CEBI partners. These partners have clear ideas of the projects and programs they would like to implement in partnership with CEBI.

Despite the impressive network and personal credibility of the Executive Director and the high level of commitment of the CHF South Africa Director, the senior management of CEBI faces some challenges. Some of those challenges, along with some recommendations, are summarized below:

- *Project coordination:* Each of CEBI units has the tendency to operate as an independent entity and this sometimes presents a challenge for the coordination of the program. An example is that the evaluator received from five different CEBI employees, 3 different interpretations of CEBI's loan requirements, including 2 different interpretations within the loan department itself.
- *Project management:* The program would benefit from operating with a single center of coordination to harmonize the different activities in the program and ensure that each activity benefits from the synergy created by other activities within the organization. For example, each unit meets once a week whereas the general staff meeting happens only once a month. A structured management system would permit this to be done the other way around.
- *Day-to-day monitoring of logistics.* The CEBI cars are used almost exclusively by the managers of the units. In an area where transportation can be a serious issue, it would make sense to organize the use of the cars with drivers to allow the staff to use the program vehicles in a rational and efficient way.

VII. RECOMMENDATIONS

Considering that the CEBI program has already completed two-thirds of its program life, and considering the turnover in personnel in the past two years, the evaluator does not recommend any changes in personnel. Some of the recommendations made in this report did suggest some readjustment of responsibilities among the staff, and the evaluator believes that a good project management system could take care of most of the capacity building issues.

Below, LTL Strategies has intentionally limited itself to recommendations that are the simplest, easiest and fastest to implement.

- **Project Management:** CEBI should hire an outside structure or a senior consultant to facilitate a process for the delivery of a project management system that would make CEBI more efficient. In this case, the Executive Director would manage the day-to-day aspects of projects after the system was in place.
- **Global Strategy:** The overall program, marketing and communications strategy of CEBI should be elaborated and implemented as soon as possible. That strategy should be global in terms of business development for CEBI and also very specific to each of the units. That strategy should be designed, implemented and managed in the marketing unit with the direct involvement of the Executive Director, who will remain the point person for business development. The specific marketing activities of BCTU and FSU should be integrated into the overall marketing strategy of CEBI so that the unit could take advantage of the synergies created by this approach. The actual BCTU field officer seems to have good marketing skills, which should be used for the benefit of her unit, as well as for the rest of the program.
- **Strategic Planning:** The three partner organizations should facilitate a review of the financial and training procedures and policies of both the BCTU and the FSU. This process could be summarized in a strategic planning session with the entire staff of CEBI and the representatives of the three partner organizations.
- **Training Partnership:** The actual CEBI strategy of developing partnerships with other local training organizations should be reinforced. CEBI is actually considering a partnership agreement with World Education Ntinga. This partnership could be extended to the delivery of services than could enhance the efficiency of BCTU. World Education could conduct a training assessment for BCTU, review the training procedures and contents of BCTU and train BCTU staff to formulate training analysis.

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- **Customer-service Oriented Culture:** The leadership of CEBI should organize regular training sessions for the staff in order for them to be much more customer-service oriented.
- **Loan Range:** In order to increase the number of loans made by FSU and in order to respond to a need expressed by the community, and supported by a USAID representative in Pretoria, the evaluator recommends the creation of a new business development financial service which will offer loans in the range of R50,000 to R150,000.
- **Transformation into a Local Institution:** The large number of opportunities for CEBI to generate revenues locally to ensure its sustainability suggests that the program should be transformed into a local institution. The managing directors of two of the most powerful local private corporations have already directly expressed their strong interest in benefiting from CEBI's services to the evaluator. At the request of the Nelson Mandela Metropolitan Municipality, CEBI has submitted a proposal for the development of the Motherwell Business Incubator.
- **Replication:** Based on the lessons learned from the CEBI experience, the three partner organizations should submit a new proposal to USAID to replicate the project in three or four other townships of South Africa. Based on the CEBI experience, the evaluator recommends townships with an average income revenue higher than Motherwell, and at least at the level of New Brighton.

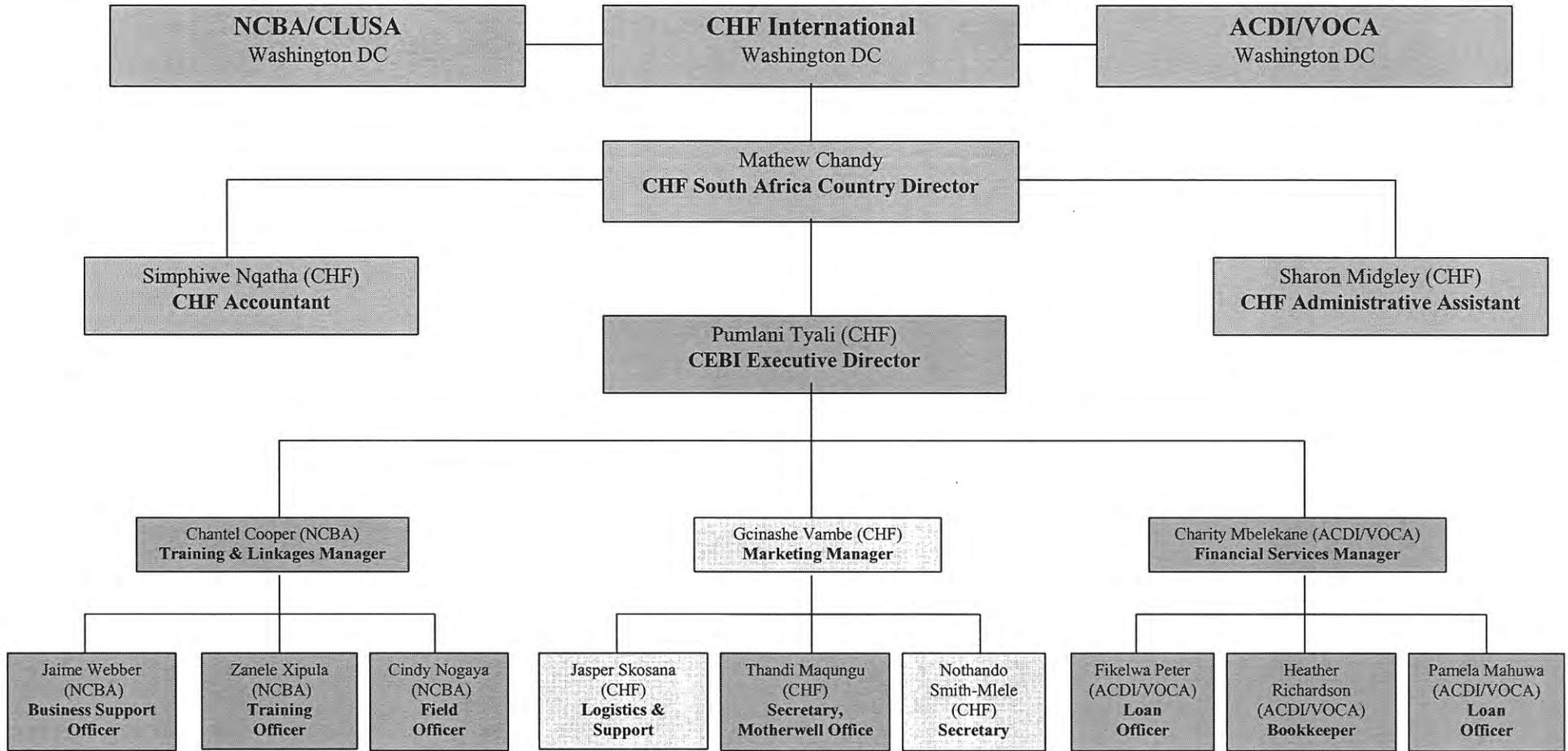
VIII. CONCLUSION

Despite normal management and program development challenges, CEBI has the potential to quickly become a high-quality, effective economic development program.

CEBI has already established impressive linkages with a wide range of local and national businesses and organizations. There is also the potential for CEBI to serve as a link between US and South African businesses, particularly around the implementation of the African Growth and Opportunity Act (AGOA). CEBI could be a major facilitator of local South African businesses' eligibility for and access to the AGOA mechanism.

A significant number of large South African companies appear to want to try to work with small, black-owned businesses. CEBI's credibility with the local and national private sector, as evidenced by the impressive number of Managing Directors who attended the luncheon CEBI organized, is an excellent starting point for increased business linkage activity on a broader scale. CEBI is in an excellent position to take advantage of the Black Economic Empowerment policy being implemented by the current government of South Africa.

CEBI Organizational Chart



-  Washington DC
-  Pier 14 – Port Elizabeth
-  Motherwell Office
-  New Brighton Office