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SOUTH AFRICA: EVALUATION OF THE BUSINESS ACHIEVERS FOUNDATION

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for:	*USAID/South Africa* *and* *Bureau for Africa,* *Office of Market Development and Investment*
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GLOSSARY

BAF	Business Achievers Foundation
BPED	Black Private Enterprise Development Project
EY	Ernst & Young
IQC	Indefinite Quantity Contract
SBDC	Small Business Development Corporation
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

USAID/South Africa initiated its Black Private Enterprise Development Project (BPED) in 1987 to a) assist the development of the black private sector in South Africa, and b) promote linkages between the black and non-black private sectors as a means of delinking apartheid from the broader notion of private sector economic development. As part of BPED, USAID signed a four-year Cooperative Agreement (No. 674-0303-A-00-9017-00) with the Business Achievers Foundation (BAF) in June, 1989. The Cooperative Agreement was designed to support BAF's ability to provide working capital credits and business development services to private, small-scale, black manufacturers.

The Cooperative Agreement included in its project design a provision for a mid-term evaluation (mid-1991) to assess the impact of the project. The evaluation schedule was advanced to mid-1990 after financial abuse and operating problems were discovered in early 1990. The current evaluation represents the "mid-term" evaluation. USAID/South Africa selected the consulting firm of Ernst & Young to perform the evaluation; Ernst & Young assigned Michael Borish (Team Leader, J.E. Austin Associates) and Kenneth Eisen (Private Consultant) to the evaluation. The consultants devoted approximately 42 person days in South Africa to conduct the evaluation and formulate findings and recommendations for USAID/South Africa and BAF.

The evaluation team interviewed more than 50 individuals consisting of a) BAF group members, b) staff, c) Board members, d) USAID officials, e) suppliers to BAF members, f) buyers of BAF member goods, g) corporate sponsors, h) three auditing firms, and i) institutions and NGO's engaged in small business development. Efforts were made to talk to a representative sample of individuals and enterprises that directly impact the operations of BAF. Findings and recommendations are based on these interviews, as well as financial and operational documents of BAF.

The team's work focused on the following:

1) BAF's Performance to Date
2) Management and Production Capabilities of BAF Members and Staff
3) Financial Condition of BAF and Potential for Financial Self-Sustainability
4) Strategic Options and Recommendations to Achieve Cooperative Agreement Objectives

Findings and recommendations are summarized below.

BAF'S PERFORMANCE TO DATE

The Foundation's performance to date has been mixed relative to Cooperative Agreement conditions. The following summarize key performance measures:

1) **Membership: BAF has organised 100 members as of year 1, and is technically on schedule.** The Cooperative Agreement includes an option for USAID to sponsor one team (25 members) for every four teams (100 members) formed by BAF with sponsorships. Given BAF's financial and operating problems encountered to date, it is unlikely that USAID will provide funds for team sponsorship.

2) **Credit: BAF has demonstrated prudent controls in the <u>allocation</u> of credit, but been weak with loan <u>collection</u>.** This has partly been due to staffing problems (insufficient on-site management), but also due to the apparent cash-generating limitations of members. **The limited profitability of small-scale manufacturers supported by BAF has also limited credit <u>turnover</u>, reflecting the need for a larger mass of members to make the BAF concept financially feasible.**

3) **Business Development Services:** BAF has demonstrated good results with a) training in bookkeeping and job costing, and b) delivery of materials to members at slightly discounted rates. Nevertheless, attendance at training sessions has been low, location of training has been problematic, and volume of materials sold has been low. Thus, **BAF has demonstrated that it can capably provide business development services, but volume has been low in both training and materials.**

4) **Financial Self-Sustainability:** The Foundation made virtually no progress towards financial self-sustainability in year 1. While original projections show that substantial progress was not to emerge until year 3, the Foundation would not be able to achieve self-sustainability by year 5 (as projected) under the status quo. As such, **the evaluation is recommending organizational, operating and financial changes to improve the probability of achieving self-sustainability by year 5.**

5) **Reporting:** BAF is required to submit quarterly reports to USAID reviewing the credit portfolio, member activity, sponsorship activity and financial progress. **Only one report was submitted (May, 1990) in year 1, reflecting non-compliance with the Agreement.**

6) **Information Systems and Institutional Infrastructure:** BAF was expected to hire consultants to provide technical assistance for the design and implementation of Management Information Systems that would be computerized by the end of year 2. These systems would be the means by which BAF would develop the critical institutional infrastructure needed to provide services to members

and generate needed funds for operations. **BAF made limited progress in year 1, although improvements have been made since the resignation of the Executive Director in April, 1990. It is likely that technical assistance will be required, as called for in the Agreement.**

7) **Personnel Recruitment: BAF hired most of the people it needed in year 1 according to plan.** Existing staff appear capable of handling most tasks, although an additional staff member will be required to permit the Finance and Materials Managers to perform more essential tasks than they have been performing in recent months.

8) **Employment and Women:** The Agreement calls for BAF to serve as a vehicle for employment creation, with special focus on women. As 96 of BAF's 100 members are women, BAF has clearly conformed to the Agreement. Based on interviews with members, they appear to have more employees than before joining BAF. The contribution BAF has directly made to incremental employment and income is uncertain. Nevertheless, **BAF has met Agreement conditions concerning employment and women's development issues.**

MANAGEMENT AND PRODUCTION CAPABILITIES OF BAF MEMBERS AND STAFF

1) **Members: Most BAF members are small-scale textile producers with limited production and marketing capabilities.** The majority market products door-to-door, although a sizeable number also a) telephone buyers, b) use relatives and friends as marketing agents, and c) sell output in flea markets. Equipment is usually limited to no more than a few sewing or weaving machines. Members often sub-contract when orders exceed production capacity. **While demand appears high for members' goods, member cash flow is limited due to small orders and profits. This prevents enterprise expansion, and thereby limits the amount of purchases members can make from BAF.**

2) **Staff: BAF staff members appear capable and competent. What is lacking is a commercial orientation that would provide direction, delegate tasks, set performance criteria and allow sufficient time for the Finance and Materials Managers to attend to more essential tasks such as marketing, financial controls and fund-raising.** The evaluation recommendations represent a first step in this direction.

FINANCIAL CONDITION AND POTENTIAL FOR SELF-SUSTAINABILITY

1) **Income Statement:** BAF's income generation from operations is low due to a) currently insufficient membership to make bulk purchasing effective; b) limited purchasing power and production capacity of BAF's existing membership; c) limited gross margins

from materials sold to members (due to the competitive nature of the industry and small lots purchased); and d) no major alternative income sources to sufficiently augment operating income. BAF's expenditure consists primarily of salaries and benefits (about 65%), and the Foundation would need more than 4,000 members (vs. the current 100) to be at breakeven at current levels of member activity. **For the foreseeable future, BAF will not be able to cover expenses from operating income unless it adopts a more profit-seeking, commercialized orientation.**

2) **Balance Sheet: BAF's balance sheet is overstated due to a "Research and Development" account that is carried as an asset, but represents largely uncollectible and non-earning assets from operations before the Agreement with USAID was signed.** Some of BAF's major tasks during the interim period consist of a) settling outstanding liabilities with trade suppliers that date back to pre-June, 1989 operations; b) settling liabilities outstanding to the previous Executive Director that are disputed, but nevertheless carried on the balance sheet; and c) implementing stricter conditions on existing and past members with regard to debt service so as to properly establish reserves against loan losses. **All of these issues will require scarce cash, and further weaken the financial condition of BAF.**

3) **Prospects for Financial Self-Sustainability: Prospects for financial self-sustainability by year 5 are weak unless BAF adopts a more commercial approach to its operations.** Some of these ideas are discussed in recommendations below.

STRATEGIC OPTIONS AND RECOMMENDATIONS

1) **Options:** BAF has four general options it can pursue, consisting of the following: a) Marketing Orientation with slight increases in existing overhead; b) Training Orientation with reduced overhead; c) Status Quo; and d) Ceasing Operations. Marketing Orientation would a) provide for slight increases in fixed costs to focus on generating orders and other commercial activities, while b) keeping the cost structure low enough to make achieving breakeven from operations feasible within a five-year time frame. Training Orientation would reduce fixed costs, withdraw from most commercial activities, and seek to take advantage of increased sponsorships due to tax breaks afforded to corporate sponsors for educational activities. Status Quo would a) keep overhead at current rates and b) continue striving for bulk discount purchases and training services while c) not achieving breakeven within the originally projected five-year time frame. Ceasing Operations would constitute a liquidation scenario in which liabilities would be paid off prior to terminating operations.

2) Recommendations: Based on feasibility projections, it is recommended that USAID provide funding to cover BAF operating expenses for an interim period of six months, subject to the conditions of the Cooperative Agreement and specific requirements during the six-month period. If substantial progress is not demonstrated so as to a) improve income generation, b) add corporate sponsorships, c) reduce debt outstanding to trade creditors, d) reduce liabilities to the previous Executive Director, e) improve loan performance by members, and f) implement proper controls and reporting procedures, then it is also recommended that USAID consider de-obligating any funds remaining under the Agreement.

Requirements that must be met to ensure interim financing from USAID consist of the following: a) BAF develop a plan with targets and benchmarks, and then pursue the Marketing Option with particular focus on generating orders for members, charging fees for services rendered, and more aggressively soliciting potential corporate sponsors; b) BAF demonstrate, within 30 days, that its Board of Trustees has agreed to generate a specified number of corporate sponsorships (e.g., five) within a six-month period consistent with financial projections specified under the Marketing Option to make progress towards financial self-sustainability; c) BAF establish an activated Executive Committee within one working week to coordinate #a and #b, and to develop a strategy for adding at least two new Board members with contacts to the textile trade (e.g., factories, contractors, buyers, retailers) and with links to the corporate sector to increase sponsorships; d) BAF collect a minimum of 70% of outstanding principal and accrued interest (e.g. approximately R40,000) from old Southern Sun members within six months; e) BAF collect 100% of outstanding principal and accrued interest from all current debtors, or consider alternative methods of credit use and repayment; f) BAF devise a plan of action within 60 days to fully eliminate all loans outstanding to trade suppliers to ensure no legal action is taken by suppliers after the March, 1991 moratorium expires; g) BAF sell all existing non-textile inventories (e.g., window frames) and allocate proceeds to repay P & H Harnischfeger within 60 days; h) BAF develop a plan of action within 60 days, including a legal assessment of potential liabilities and court costs, to liquidate all liabilities to Bernard James currently carried on the balance sheet; i) BAF contract out an IQC accounting firm to ensure proper controls are in place, and to ensure monthly reporting for internal purposes and distribution to USAID occurs in a timely manner; j) BAF contract out the same IQC firm to certify quarterly financial statements for distribution to USAID and existing corporate sponsors; k) BAF hire a Team Manager to provide daily contact with members and to carry out such tasks as quality control, materials orders and deliveries, loan collections and membership fee payments; l) BAF arrange to lease a vehicle for six months to permit the Team Manager to perform his job; and m) BAF, through its Acting Executive Director and/or Board President, communicate

all plans, decisions and actions to USAID on a <u>monthly</u> basis (when invoices are submitted) to ensure proper communications are in effect.

I. INTRODUCTION

USAID/South Africa initiated its Black Private Enterprise Development Project (BPED) in 1987 to a) assist the development of the black private sector in South Africa, and b) promote linkages between the black and non-black private sectors as a means of delinking apartheid from the broader notion of private sector economic development. As part of BPED, USAID signed a four-year Cooperative Agreement (No. 674-0303-A-00-9017-00) with the Business Achievers Foundation (BAF) in June, 1989. The Cooperative Agreement was designed to support BAF's ability to provide working capital credits and business development services to private, small-scale, black manufacturers.

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The evaluation team would like to thank the following individuals for their cooperation in assisting with the evaluation: David Himelfarb (USAID); Stephen Wade (COMAD); Willie Ramoshaba, Elliot Vilakazi and Alex Besserab (BAF); John Davis (Ernst & Young); and Navin Lakha (Pema Lakha). The team would also like to thank the many individuals not cited who were helpful in providing administrative and logistical support and time for interviews.

II. STATEMENT OF METHODOLOGY

The evaluation team utilized the following to carry out its evaluation:

a) USAID documentation, including Cooperative Agreement No. 674-0303-A-00-9017-00

b) BAF files containing operating and financial information; and

c) Interviews with BAF members, staff and Trustees; textile suppliers and buyers; corporate sponsors; USAID officials; Ernst & Young and Pema Lakha; and non-bank lending institutions.

A list of meetings is found in **Annex I: List of Meetings**. Efforts were made to talk to a representative sample of individuals involved in BAF's operations. The team interviewed 26 of 100 members, three of seven Trustees, most staff members, three of five corporate sponsors, both auditing firms, the previous Executive Director and a series of other individuals involved in supplying materials, buying textiles and extending credit. In the case of member interviews, short questionnaires were used to assess employment, turnover, production, marketing, capacity utilization, quality control, recent and anticipated performance, and the role BAF has played concerning credit, materials provision, training and marketing.

The evaluation team also analyzed internal financial documentation and the qualified financial statements and recommendations of Ernst & Young. Interviews with Ernst & Young and Pema Lakha supplemented analysis of statements, and both were used as the basis for financial analysis of BAF, determination of conceptual viability, and recommendations for restructuring.

Consistent with the Scope of Work, the team's work focused on a) BAF's performance to date, b) the management and production capabilities of BAF members and staff, c) the financial condition of BAF and potential for financial self-sustainability, and d) strategic options and recommendations to achieve Cooperative Agreement objectives. Section III presents findings (#a-c), while Sections IV and V present options and recommendations (#d).

III. EVALUATION OF PROJECT COMPONENTS

A. PROJECT PROFILE

1. PURPOSE OF THE BUSINESS ACHIEVERS FOUNDATION

BAF was established to provide bulk discounts, short-term supply credits and business management services to black South African manufacturers who had previously been barred from owning their own formal manufacturing operations. Such barriers to ownership and entry, reversed only in recent years, prevented blacks from a) accumulating the capital needed for equity investment and bank credit, b) developing finance and accounting skills required to organize and administer formal enterprises, and c) establishing the procurement, production, marketing and distribution relationships necessary to compete in the marketplace. Hence, BAF conceptualized its role as an organization that would a) arrange for sponsorships from large corporations operating in South Africa to provide seed capital for business development, b) organize existing owner-operators into groups of 25 for business training purposes, c) provide supply credits to give members greater access to working capital, and d) buy materials in bulk and pass on discounts to members to reduce their time and money costs while generating income for BAF. The expected result was that the provision of business training, working capital credits and bulk purchase discounts would increase black productivity, employment and incomes and professionalize the growing force of small-scale black manufacturers.

2. MEMBERSHIP

BAF currently has 100 members in four groups. Three groups are in Soweto (Orlando East and Penneyville), and a fourth in the Kwa-Thema township. All 100 members are engaged in textile production, primarily track suits, jerseys, school uniforms, dresses and trousers. Virtually all members are women (96%), and nearly all are strictly engaged in textile production; of 26 members interviewed, only two had their own training activities and one repaired sewing machines, reflecting little diversification. Many of the members worked in textile factories (which have since closed down) until the early 1980's, while most others had engaged in informal, "backyard" production until forming their enterprises in recent years.

Most members' assets consist of a sewing and/or weaving machine, and small stocks of raw materials. In some cases, these assets were financed from personal, family and group savings, and at other times from SBDC loans. Few members have more than a few pieces of equipment, and virtually all members claimed they could operate at high capacity utilization rates with additional equipment.

The 26 members interviewed employ 49 other workers, hence BAF's current total production groups might be numbered at 300. Average monthly turnover is estimated to be R2600, although this varies by member, is skewed by the success of a few, and may deviate from real turnover figures. (Interviewee figures ranged from R250 to R15,000).

Virtually all members are located at SBDC industrial parks, and many work as informal cooperative groups. The use of sub-contracting is widespread among members, and most members interviewed claimed to be working at 100% capacity. Demand appears to be strong for members' goods. (Given that winter is a busy season and the improved and sometimes festive political atmosphere has led to increased demand, one cannot responsibly estimate the degree to which BAF has contributed to increased capacity utilization).

Members' marketing activities tend to be in the community, with door-to-door sales and flea markets as common marketing outlets. In many cases, the producers already have a reputation and receive orders at the workshop or home. However, a large number also try to increase sales by a) contacting schools, hospitals and companies by telephone, b) using relatives as sales agents (e.g., mines, clubs, hospitals and schools), c) advertising via signboards and calling cards, and d) providing supplies to hawkers and stores for sale on consignment. Members' marketing efforts are plagued by a) inability to produce in volume, b) low margins resulting from fierce competition, c) lack of product specialization, d) generally weak cash flow which prevents needed business expansion, and e) the perceived and real inaccessibility of credit.

When orders are generated, members routinely require a 50% deposit as down payment. Upon delivery, most members find that buyers require up to three months to repay the balance, although members also report that repayment rates are high. Repayment rates to BAF are low, however, as most producers generate marginal income, utilize those earnings for household needs, and fail to both repay debt promptly and retain earnings for enterprise growth. These patterns are reflected in BAF's loan portfolio data, as member loan repayment to BAF has been about 20% (April 1990 figures) since November 1989 when activity began.
Discussion of member performance in the marketplace since joining BAF, and member feelings about BAF, is found in Section IIIB below.

3. BOARD OF TRUSTEES

BAF has a prestigious Board of Trustees consisting of seven black South Africans well known in their respective fields (see Annex II). The defined role of the Board is to assist in attracting corporate sponsorships to finance the revolving loan funds BAF needs to purchase in bulk for members.

4. SPONSORS

Since the Cooperative Agreement with USAID was signed in June, 1989, BAF has arranged four sponsorships. These consist of three of the four currently active sponsorships from Anglo-American Corporation, South African Breweries and ISM (IBM), and a fourth from Squibb which is awaiting formation of a group. The sponsorships are for R60,000 each, with R50,000 allocated for the Revolving Loan Fund and an additional R10,000 to finance BAF operating costs. These sponsorships are open-ended timewise, although BAF members are to have "graduated" after roughly three years with ample training, a track record of demonstrated creditworthiness, and sufficient links and know-how for continued competitiveness.

5. USAID

In June 1989, USAID entered into a Cooperative Agreement with BAF under the former's Black Private Enterprise Development Project (BPED). USAID committed $1 million to BAF over a four-year period (June, 1989 to September, 1993), of which $684,109 was obligated from June, 1989 to May, 1991. The primary function of USAID's assistance is to provide financing to cover BAF's operating costs and needed overhead until BAF becomes operationally self-sustaining, envisioned after September, 1993. Terms and conditions for continued USAID financing were attached to the Cooperative Agreement. Terms, conditions and compliance are discussed in IIIB below.

B. PERFORMANCE OF THE BUSINESS ACHIEVERS FOUNDATION

1. KEY PROVISIONS IN THE BAF-USAID COOPERATIVE AGREEMENT

Key provisions in the Cooperative Agreement Schedule (Attachment I), as they apply to continued USAID funding and purposes of the mid-term assessment, consist of Overview (I), Recipient Resources (IV), Financial Management (V), Reporting and Evaluation (VII), and Special Provisions such as Conditions Precedent and Covenants (XII). Attachments II-IV in the Cooperative Agreement consist of a Program Description, Budget and Financial Plan which are used to support the performance assessment based on the aforementioned key provisions found in the Cooperative Agreement Schedule. BAF performance with regard to the Agreement is discussed in B2 below. A matrix of BAF performance is found in Annex III.

2. BAF PERFORMANCE RELATIVE TO THE COOPERATIVE AGREEMENT

a. Overview: The Agreement calls for USAID to support BAF's ability to effectively and efficiently provide credit and business development services to black manufacturers. The Agreement also calls for USAID to review and monitor BAF's performance to permit adjustments if needed.

To date, BAF's performance has been mixed, but generally ineffective and inefficient. On the positive side, the allocation of credit has been controlled and measured conservatively against likely profitability, thus reducing loan losses. BAF has also prudently followed the Revolving Loan policy of not issuing loans in excess of repayments unless previous loans have been repaid. However, because of this policy, loan turnover has been slow, with BAF members only making small repayments due to limited surplus cash generated from operations. Loan collection has been weak, as demonstrated by the 20% loan recovery rate since November, 1989. These loans may be recoverable, but repayment has been slow. **Thus, credit provision measures may be considered reasonably effective under the circumstances, but actual credit allocation (as measured by turnover) and collection have been inefficient.**

The provision of business development services has likewise been mixed. Members have been pleased with a) training provided in bookkeeping and job costing, and b) procurement and delivery of materials used in textile production. Training in bookkeeping and job costing appears to have given members an appreciation for cash management, inventory control and pricing in a fundamentally low-margin sector. The procurement and delivery of materials appears to have been beneficial primarily in terms of time saved, and to some degree in terms of materials cost reduction. Nevertheless, both training and materials distribution have been carried out in far less volume than originally projected. Attendance at training sessions has been low, and the number of sessions less than originally anticipated. Volume of materials purchased and delivered has likewise been less due to a) the limited size of its membership, b) low margins and productivity characteristic of small-scale manufacturers in the textile sector, c) small orders which limits demand for materials, and d) direct member purchases that could be performed by BAF. **Thus, BAF has been effective in the provision of business development services, but shown minimal effectiveness overall given its limited membership, small-scale clientele, and internal operating and resource constraints.**

As for USAID, involvement has consisted of a) processing reimbursements on a monthly basis, b) freezing funding once internal BAF problems surfaced, and c) contracting private sector consultants and accountants to perform the current evaluation and audit. **Such involvement conforms to the "review" and "monitoring" role defined in the Agreement.** Nevertheless, such issues as resolving problems associated with BAF's Balance Sheet predating the Cooperative Agreement (see Section IIID) suggest "substantial" involvement has not been forthcoming from USAID. Reporting requirements discussed in Section V attempt to address these problems.

b. Recipient Resources: BAF was not expected to generate substantial revenue in year 1 as this was considered a start-up year. Nevertheless, BAF is expected to generate sufficient income over the four-year life of the Agreement such that USAID's share of recurrent cost financing would become zero in year 5. Given a) the limited income-generating options pursued by BAF in year 1, b) the small-scale nature of its members, and c) BAF's high fixed cost structure consisting largely of salaries and benefits, **the Foundation made little progress toward self-sustainability.** These issues are fully discussed in Section IIID.

c. Financial Management: The Agreement calls for BAF to provide a monthly submission of paid invoices, cancelled checks, signed payroll sheets and other appropriate documentation before USAID reimburses BAF for agreed costs. USAID appears to have disbursed funds on a regular basis beginning in the second half of 1939 subject to Controller approval.

One area that may concern USAID is interest earnings from funds provided by USAID. In Section V of the Schedule (Attachment I), interest earnings are to be returned to USAID. However, in Section XIIC, interest earnings from USAID funds may be retained by BAF on the condition they are used to capitalize the Revolving Loan Funds of USAID-sponsored teams. **As USAID has yet to sponsor a team, it is possible that BAF owes USAID a small balance of interest earnings.**

d. Reporting and Evaluation: According to the Agreement, BAF is supposed to submit quarterly reports containing specified information on program activities, BAF's loan portfolio, and general sustainability issues. **BAF has been negligent in this regard, submitting only one report since the Agreement went into effect in June, 1989.** This report conforms to the Agreement's requirements, but should have been a regular quarterly feature in BAF reporting to USAID. Revised and enhanced reporting requirements are discussed in Section V and Annex VIII.

e. Conditions Precedent: The Agreement contains a series of conditions precedent to guide BAF performance during the four-year funding relationship with USAID. These include the following: 1) retire all debt incurred previous to June 23, 1989 before obligating additional funds; 2) procure a minimum of 10 sponsorships before year 3 and 24 sponsorships before year 4 for further disbursement of USAID funds; 3) design and install an appropriate Management Information System, and establish an appropriate institutional infrastructure by the end of year 2 to accommodate anticipated growth in years 3 and 4; and 4) freeze all disbursements if USAID discovers funds have been misused.

Concerning debt (#1), BAF has no chance of liquidating its debts incurred before June, 1989 if it operates under the status quo. Liabilities include 1) R86,670 in uncompensated salary and other items to the previous director, part of which predates the Agreement (these claims may be disputed, but stand on the Balance Sheet as of March, 1990); 2) R77,793 in loans outstanding to suppliers on which there has been a moratorium which ends March, 1991; and 3) R10,587 in current liabilities such as back taxes which will have to be paid before May, 1991. As for prospects for repayment, BAF's cash flow is weak due to a non-performing loan portfolio, few income-generating activities and limited membership capabilities. **Without drastic changes, it will be impossible for BAF to liquidate debts incurred before June 23, 1989, a necessary condition to qualify for additional USAID funds beyond year 2.** Section IIID more fully discusses the financial condition of BAF, and the non-viability of the current model.

As for sponsorships (#2), BAF has arranged four corporate sponsorships in 14 months, and thus could be considered on track to achieve 10 by May, 1991. This is particularly true if one considers 1) USAID has agreed in the Cooperative Agreement to sponsor one team for every four sponsorships generated by BAF; 2) sponsorship activity has come to a virtual halt since April, 1990, or five of the 14 months concerned; and 3) BAF has received little marketing support from its Board of Trustees. On the positive side, effective restructuring of BAF combined with corporate will to provide sponsorships offers BAF hope of achieving its targets. On the negative side, difficulties associated with the restructuring of BAF combined with competition for sponsorships makes achieving those targets more difficult. As with debt repayment, **BAF will have to undergo drastic restructuring at the Board, managerial and operational level in order to achieve its respective end-of-years 2 and 3 targets of 10 and 24 sponsorships.** Restructuring options are discussed in Sections IV and V and Annex VII.

The Agreement calls for the design and installation of appropriate Management Information Systems and institutional infrastructure (#3) to be developed in year 1, and computerization to have taken place by the end of year 2. BAF has made some progress in setting up the systems it needs to operate effectively, as demonstrated by the report sent by BAF to USAID concerning program activities, the loan portfolio, and program sustainability issues. Nevertheless, additional work is required to improve on the accuracy, depth, regularity and usefulness of BAF's information systems and institutional infrastructure. As the Program Description (Attachment II) calls for a qualified local firm to assist in design and implementation, **it appears that BAF failed to implement one of the most critical conditions of professional business**

management. This, in turn, has negatively impacted BAF's operational efficiency in year 1 and likely slowed progress in year 2, a critical year for marketing development.

Concerning the misuse of funds, the Agreement states that USAID disbursement should cease until means and sources of improprieties have been removed and are unlikely to recur. This condition has been adhered to only on a partial basis, as disbursements supporting salary, benefits and rent to the Previous Executive Director have ceased. Nevertheless, BAF still appears to have a liquidity problem, partially due to the failure of BAF to submit claims on allowable expenses under the Agreement. **It appears that sponsorship funds have been drawn down to carry operations.** In the event that BAF substantially increases membership activity with the existing groups, the Loan Fund would have to be replenished. **Such use of Revolving Loan Funds should continue to be a concern to USAID, and strengthens the need for better controls, reporting and audits.** These issues are discussed in Section V and Annex VIII.

f. Covenants: The Agreement includes a number of covenants that BAF has agreed to observe. Some of the key covenants concerning year 1 include 1) personnel recruitment; 2) credit performance and debt service; 3) employment generation and women's participation; and 4) best efforts to expand non-USAID financing sources and make progress toward self-sufficiency.

Personnel recruitment **generally conformed to plan, with the key appointments of Finance and Materials Manager in place by the last quarter of calendar 1989. Nevertheless, for a number of disputed reasons, relations between the Executive Director and others associated with BAF were incompatible. This undermined the effectiveness of BAF's work, and the Executive Director was asked to resign in April, 1990.** BAF currently has seven staff members, consisting of the Finance Manager (Acting Executive Director), Materials Manager, Bookkeeper, Secretary/Receptionist, Driver/Mechanic, Driver/Office Attendant and Maid. The Finance Manager is the only employee with a written contract from BAF. The Materials Manager was originally hired as a Technical Assistant, but has since become a staff member. The Finance and Materials Managers are serving as Team Managers for the groups. BAF has two automobiles, and these are used by the two managers to buy and distribute materials, collect loans and fees, and transport the managers to/from work. Staff capabilities and needs are discussed in Section IIIC.

The Agreement calls on BAF to place strong emphasis on black and women's employment generation. **This has been one of BAF's strongest performance indicators since the Agreement went into effect.** BAF has focused on the textile sector in the black townships of Soweto and Kwa-Thema. Consequently, virtually all of its 100 manufacturers are women. In addition, three staff members and one Trustee are also female.

Problems of credit performance and debt service have been discussed above. General finance and cash flow issues are discussed in Sections IIID, IV and V.

3. MEMBER PERFORMANCE IN THE MARKETPLACE

As BAF's members are small-scale producers with minimal bookkeeping records, it is impossible to perform a financial analysis of member performance in the marketplace. Nevertheless, six key areas of business activity were discussed with members, buyers and BAF staff. These include a) product quality, b) timely production, c) volume purchasing, d) incremental turnover and profits, e) credit, and f) employment.

Product quality appears to be a strong point among many members, as reflected in market demand for their goods. In a few cases, retailers such as Edgars and Piccanins have expressed interest in purchasing certain members' output. The main concern buyers have with regard to quality is coordination of design and pattern making. Given the competitive nature of the textile trade, buyers in particular said that suppliers, producers and buyers need to better coordinate their design requirements. For the moment, some members appear competitive on a quality basis, although buyers feel technical training in pattern making would be useful.

Timely production is considered a problem for small-scale producers in general. Buyers feel this has more to do with business acumen than plant and equipment, as many of the larger textile producers in the country actually source out from small-scale producers via sub-contracting rather than producing in vertically integrated factories. Buyers complain that meeting deadlines is a problem with smaller producers, and that notification in advance when deadlines are not to be met is an even larger problem. Buyers feel small-scale producers need to be trained in bookkeeping, costing and budgeting to better understand their own capabilities, as well as buyers' needs in a competitive marketplace.

As for volume purchasing, hardly any of the members are capable of large purchases at this point. BAF credit allocations have been limited to what BAF feels members can pay within a three-month period. Consequently, average loan allocations have been small and turnover has been limited. As such, BAF's volume purchasing approach has not been effective to date, and there is little likelihood BAF's group members will be able to engage in the levels of volume purchasing that would have a material impact on their operations. This is more fully discussed in Section IIID.

Despite limited production capacity and materials purchases, members almost universally stated they had benefited from incremental turnover and profitability in the last year. Given changes in the political environment and urban marketplace, it is not possible in this evaluation to determine the degree to which BAF has played a role in these incremental benefits. Nevertheless, members credited BAF with playing a role in these improvements, as discussed below.

The role of credit has been discussed. Generally, member debt service to date has been poor. BAF's loan portfolio as of April, 1990 showed only a 20% recovery rate. Most loans are delinquent (aged more than 90 days), although BAF has not yet set up a system for aging its loan accounts. Most members are attempting to repay, but these are usually in very small amounts. In most cases, because of household needs, profits from production are not retained in the business nor used to service debt. The result is that members' loan servicing performance has been poor, undermining their ability to take on more credit and expand the business.

Despite poor debt service, it appears that incremental employment has resulted from increased turnover and profits. Among the 26 members sampled, total employment (net of members) had increased from 35 to 49 in the last year. As with turnover and profits, it is not possible to determine the degree to which BAF has influenced these trends. Nevertheless, members claimed that BAF had facilitated these developments.

4. MEMBER PERCEPTIONS OF BAF

Member perceptions of BAF were generally favorable, although it is difficult to determine the degree of appreciation and loyalty members actually feel. On the positive side, most appeared satisfied with credit, materials delivery and training. Virtually all members wanted more credit, but understood there were limits to loan funds based on repayment. Delivery of materials was viewed as a benefit in terms of time saved, and there were no reported problems of quality despite the number of small orders that BAF has filled. Members were virtually unanimous in correlating BAF assistance, particularly training, with improved financial performance and employment generation. It appears that many members have benefited from bookkeeping and job costing, giving them an appreciation for financial organization in a low margin business.

On the negative side, members sometimes believe credit allocations and price discounts on materials are too small to make a difference. As a result, **members often bypass BAF and buy their materials directly, undermining one of BAF's key assumptions for operating self-sufficiency.** Some members feel that BAF could be more useful as a marketing agency to generate the larger orders members would like to have. Others feel that BAF needs to restructure and become a materials wholesaler with requisite equipment for weaving and cutting before being effective as a bulk purchaser and distributor of materials. In both cases, members appear to believe BAF lacks the ability to generate volume based on current operations.

C. PERSONNEL ASSESSMENT

1. STAFF MEMBERS AT BAF

As of August, 1990, BAF has seven staff members as discussed in Section IIIB. These consist of a Finance Manager, Materials Manager and five support staff. **All appear capable of performing duties as outlined in the Program Description (Attachment II to the Agreement). Nevertheless, a more efficient and commercial approach to management and operations will have to be implemented to make BAF run effectively.** Some of the significant operational and organizational weaknesses of the Foundation consist of the following: a) absence of performance targets on which to assess personnel productivity, compensation and contribution to BAF's provision of business development services; b) lack of direct involvement of the Board of Trustees in assisting with operations, professionalizing management and supporting infrastructural development to increase personnel effectiveness; and c) absence of a full-time Team Manager to handle the normal operating tasks (e.g., materials orders and deliveries, credit collections, basic quality control) that are currently assumed by the Finance and Materials Managers. To address these, the Foundation will have to establish benchmarks for personnel performance, involve the Board more directly in BAF fund-raising and support activities, and hire a Team Manager to permit the Finance and Materials Managers to perform more critical management and revenue-generating functions for BAF. Based on interviews and review of documentation, however, **it appears that staff are capable of handling tasks essential to BAF's performance, and in conformity with the Agreement.**

It should be noted that certain issues have been raised about the integrity of certain personnel at BAF. BAF has a number of issues to settle with its previous Executive Director, and both USAID and the Board should be aware of those issues and how they are resolved. Section V addresses controls and reporting to lessen the probability of mismanagement and abuse. These should be adhered to given a) past problems and abuses, b) potential for increased purchases and inventory, and c) lack of Board involvement.

2. BOARD OF TRUSTEES

BAF has a prestigious Board of Trustees consisting of seven of South Africa's most prominent blacks. **Due to Trustees' commitments to numerous causes in addition to their own enterprises, few appear able to provide the commitment needed to make BAF financially self-sustainable.** BAF will have to make a determination about replacing inactive Trustees with active ones, particularly at this sensitive stage in the Foundation's development. Replacements should include individuals with contacts in the corporate sector (for sponsorships and procurement relations) and textile industry (for sub-contracting arrangements).

D. EXISTING FINANCIAL CONDITION AND VIABILITY OF THE BUSINESS ACHIEVERS FOUNDATION

1. OVERVIEW

BAF's financial statements are in the process of being audited by the accounting firm of Ernst & Young (EY). The statements produced by EY cover the period from incorporation (June, 1989) through March, 1990. In effect, these constitute six-month operating statements as BAF's active groups did not begin with the Foundation until October, 1990. Nevertheless, the Foundation's prior period activities from establishment in 1987 through incorporation are reflected through certain balance sheet accounts described below. EY's final opinion and distribution of statements is currently pending, subject to possible adjustments to the financial statements as described below. Financial statements produced by EY are not certified, and would be issued with numerous qualifications. They are found in Annex IV.

2. INCOME STATEMENT

BAF's operations show a net profit for the six-month period of R62,142, although that profit would be a severe loss if 1) interest earnings and fees were recorded on a cash (versus accrual) basis; 2) provisions for loan losses were allocated to build up reserves against unrecoverable loans; and 3) liabilities owed to trade suppliers were paid. Adjusting BAF's income statement to reflect 1) interest (50%) and member fees (20%) on an approximate cash basis, 2) a 50% provision for loan losses (current and long-term), and 3) 50% cash payment to suppliers, BAF's operations would then show a net loss of approximately R32,000. **As adjustments need to be made to more accurately reflect the financial results of operations, it is satisfactory to conclude BAF is generating net losses from operations, even with support from USAID and corporate sponsors.** It is also fair to state that losses were projected, and that this is typical of start-up operations.

BAF's primary source of income is R276,437 in funding received from USAID. Other income includes 1) sales to members of R33,638, which includes BAF's routine mark-up of 10%; 2) corporate sponsorship funding of R30,000; 3) R9,734 in accrued interest income, much of which has not been paid for more than one year; 4) R7,560 in membership fees, with only about 20% having been paid; and 5) R2,734 in 2.5% discounts received from bulk purchases on materials ultimately sold to members. **In sum, "operating income" was R332,605, 83% from USAID.**

Operating expenses of R270,462 consist primarily of 1) R177,259 in salaries and benefits (64%); 2) consultation costs of R27,000 (10%), which could be considered salary considering the consultant is currently an employee; 3) R25,000 in rent (9%); and 4) various other administrative expenses (17%). **As USAID expected to cover 100% of BAF's operating costs in year 1, after six months the ratio was slightly higher.**

Reported six-month 1) gross income from sales (R5,139) plus 2) operating income from fees, discounts and interest (R20,029) compares favorably to budgeted income of R19,875, as submitted in the Agreement with USAID. However, because of the questionable cash value of certain accruals, it is likely that income performance is unfavorable compared to Plan. Operating expenses of R270,462 are above budgeted operating expenses of R246,748 (after netting out R&D which has not been properly expensed, and purchases which have not been made). Thus, **six-month results suggest an unfavorable variance of approximately R18,400 before adjustments which would reflect an even more unfavorable variance.**

3. BALANCE SHEET

BAF's balance sheet shows total assets of R437,192, consisting of 1) "capitalized Research & Development" of R267,624; 2) R104,721 primarily in cash, loans to members and inventory; and 3) vehicles, equipment and furniture valued at R64,848. The real value of BAF's assets, however, is far less due to 1) the nature of the R & D account, which generally consists of unrecoverable loans and pre-incorporation operating losses carried forward, and 2) the likely non-repayment of some of BAF's current loans outstanding to members. **The absence of provisions for loan losses and past substantial operating losses that have been capitalized severely undermines the financial condition of BAF, and makes achieving financial self-sustainability by year 5 less likely.**

On the liability side, BAF owes R164,463 to trade suppliers and the previous Executive Director. While BAF disputes R86,670 owed to the previous Director, the Foundation is carrying R77,793 in debts owed to suppliers on which a two-year moratorium ending March, 1991 was placed. (The continued non-payment of these debts means BAF has no ongoing credit from materials suppliers, further constraining BAF's operating capabilities). BAF claims it can negotiate the book value of its liabilities, and that the book value actually overstates the real liability that it will ultimately incur. However, until a plan of action is devised and initiatives are taken to resolve these problems, they will continue to weaken BAF's financial condition and operating leverage.

After deducting total liabilities of R175,050, BAF reports net equity capital of R262,142 consisting of 1) R200,000 in sponsorship capital (for the working capital Revolving Loan Fund), and 2)

R62,142 in retained earnings. However, as discussed above, **BAF's earnings are not only overstated, but likely disguise a loss position. In addition, up to R100,000 in sponsorships from P & H (Harnischfeger) and Southern Sun Hotels should be written off due to unrecovered loans. Thus, 1) favorable and prompt settlement of liabilities, 2) collection of loans outstanding from members (old and new), 3) sale of certain assets (e.g., metal frames), and 4) profitable operations to generate retainable cash earnings are essential to strengthening BAF's relatively weak capital position.**

4. POSSIBLE ADJUSTMENTS TO BAF FINANCIAL STATEMENTS

Based on their preparation of BAF's financial statements, EY has proposed certain adjustments which would reduce the amount of equity capital from R262,142 to R56,188, and possibly to a negative balance (see Annex IV). **These writedowns strongly suggest that BAF will not be able to continue operating much longer as a going concern without obtaining additional capital and/or restructuring outstanding liabilities.**

The biggest writedowns are to the capitalized Research & Development account, carried at R267,624. Smaller writedowns of R25,000 are recommended to reserve against R38,462 in bad debts, most of which originated prior to March 1989.

The R&D account relates to 1) losses on operations incurred prior to incorporation (and not run through the income statement of BAF) coupled with 2) debtor balances that are in excess of one year old. EY's recommendation may be to write off R&D against current earnings, or transfer the asset and offsetting liabilities into a separate business entity.

The latter option does not appear practical since creditors would likely not consent to such a restructuring without a demonstrated source of repayment. The Foundation also does not currently appear to have the ability to repay R164,463 in "long-term" liabilities unless 1) the total is negotiated downward, or 2) BAF receives an infusion of outside capital.

In addition to general issues of financial condition, the Cooperative Agreement between USAID and BAF specifies that any additional funding for year 3 will not occur without repayment of debt incurred prior to the date of the Agreement. It is unlikely that USAID would provide any funding beginning year 3 (June, 1991) without meeting the terms of the Agreement.

5. OVERALL FINANCIAL ASSESSMENT

The writedowns described above indicate that on a liquidation basis, BAF's liabilities may well exceed the market value of its assets. However, this situation underscores much more important concerns.

First, the reserves required for bad debt indicate that granting credit to members represents an undue risk to the financial stability of the Foundation. In recognition of this problem, BAF has greatly restricted new extensions of credit. This, in turn, contradicts one of the fundamental aims of BAF, which is to grant increasing amounts of credit to its members to finance materials purchases so that members will 1) benefit from bulk purchase discounts, 2) expand their businesses and profitability, and 3) provide BAF with the needed volume of activity to finance operations without external assistance.

Second, **the limited income generated from operations to date, coupled with unsatisfied liabilities, provides evidence that BAF as currently structured is not a viable organization. This is due to insufficient volume of activity, poor loan performance, and BAF's high cost structure relative to members and sponsorships.**

IV. STRATEGIC OPTIONS FOR THE BUSINESS ACHIEVERS FOUNDATION

A. INCREASED MARKETING FOCUS

1. ORGANIZATION AND PERSONNEL

The Marketing option represents a reorientation of the way in which BAF operates. While not rejecting the notion of economies of scale, **the Marketing option assumes that the benefits of bulk purchasing, lower member costs of production and fee income for BAF would not be sufficient for financial self-sufficiency until BAF plays a more aggressive role in the marketplace to generate firm orders for its members.** These would likely come from a) larger corporations and institutions, and b) sub-contracting from other larger producers that outsource. Once orders are in place, larger bulk purchases on more favorable terms could be passed on to members, encouraging the levels of inventory turnover envisioned by BAF. Without some effort to generate these orders, however, it is unlikely that BAF would be able to pursue a bulk purchasing approach and achieve financial self-sufficiency within 5 years.

The Marketing option also assumes that some measure of commercial activity with non-members would take place. In addition to sales to members, sales to non-members would include a) retail sales of materials on a cash basis, and b) consignment sales of finished goods to boutiques.

Because the success of the Marketing option is predicated on a) enhancing the profit potential of existing and future member activity, and b) supplementing that activity with retail sales to non-members, **BAF would have to be aggressive in pursuit of corporate relationships.** This includes a) traditional fund-raising activities, and b) non-traditional solicitation of orders from corporate and medium-scale institutional procurement programs. The ability to generate orders from corporations and institutions would be largely dependent on the ability to convey a professional, results-oriented image. As such, recommendations on improved reporting for USAID would be designed to be useful to BAF's fund-raising efforts.

To facilitate orders, BAF would consider the following: a) restructuring the Board of Trustees to include at least two new members who would be committed to generating large orders from corporations, institutions and/or factories that BAF members could fill according to standard; these might include non-black South Africans with substantial experience and contacts in the corporate and textile sectors; b) once reports are in order, utilizing the Finance Manager's time to make presentations to larger corporate and institutional bodies for both sponsorships and procurement; and c) allocating part of the Materials Manager's time to generate medium-level orders (e.g., smaller institutions, boutiques). It

would also be useful to provide incentives to Board members and staff when they play a direct and indispensable role in generating corporate sponsorships and bulk orders successfully serviced.

2. MEMBER IMPACT

Reorientation of BAF to a more market-driven organization would benefit members. As most members market door-to-door or by telephone in limited quantities, BAF's ability to generate orders would increase the membership's ability to buy more materials, service debt, and employ more workers for increased productivity. The current effort to pass on bulk purchase discounts is not succeeding largely because the critical mass of members does not yet exist. At the same time, **orders would provide a more direct method of a) selling materials to members through the Foundation so the latter could capture fees, b) capturing payment for goods sold to ensure improved debt service, and c) saving production time that the members otherwise spend marketing their output. This would also likely facilitate formation of additional groups, improving prospects for economies of scale and critical mass.**

3. FINANCIAL CONSIDERATIONS AND PROJECTIONS

Financial projections for the Marketing option are found in Annex IV. Key assumptions, quantified in the Annex, include the following: a) because current members have been able to purchase only limited quantities of materials and had poor debt service, the Foundation attempts to increase revenues by generating orders and selling retail; b) BAF forms at least as many groups as called for in the Plan (24 at end of year 3), and actually surpasses Plan by forming a total of 36 by the end of year 4; c) gross margins increase from about 12.5% in year 1 to 25% in years 2-4 due to more aggressive marketing and a better product mix; d) personnel levels are held constant, except for the addition of a Team Manager in year 2; e) bad debt and interest are projected at 30% (leaving much room for actual improvement); f) the inflation rate is assumed to be 15% each year (currently 13.3% and declining); and g) salary and benefits are 67% of total operating costs aside from bad debt expense.

Based on the above assumptions, BAF has a chance of becoming financially self-sustaining by year 5, as envisioned in the Cooperative Agreement. However, this assumes a level of marketing and commercial activity to non-members not previously anticipated. The reason for this is due to the limited debt capacity of BAF members, reflecting their current inability to substantially increase turnover. Bulk discounts have not proved to be sufficient for spiralling turnover, nor has training sufficiently increased profitability in a manner that would likewise increase turnover and improve debt service. Nevertheless, this option provides the opportunity to supplement member turnover in a way that generates the revenues BAF needs to achieve self-sufficiency. **Generating**

orders for members will contribute to members' earnings and, therefore, ability to purchase in volume.

The Marketing option projections show declining operating losses each year as BAF increases membership and turnover (to both members and non-members). **Because the critical mass of approximately 36 groups still appears to be in effect, BAF's top priority would have to be corporate sponsorships unless income can be generated from alternative sources (e.g., higher margins, non-members).** Without those sponsorships and/or cash-based non-member transactional activity, BAF would not be able to form the groups needed to create critical mass, and would therefore be unable to achieve self-sufficiency. **The projections also assume a substantially increased profit margin from roughly 12.5% to 25%.** Without an improved product mix to generate better returns, BAF would continue to engage in relatively low margin activities with a relatively high cost structure, undermining its ability to achieve breakeven.

4. CONCLUSION

The Marketing option provides BAF with an opportunity to achieve financial self-sufficiency. Central to success would be a) increased sponsorships for group formation; b) increased volume of marketing activity, focusing on orders for members and retailing on a cash basis to non-members; c) improved product mix to boost gross margins from 12.5% to 25%; d) restructured Board of Trustees to assist with sponsorships and orders; e) reorganized personnel functions with results-oriented performance and compensation standards; and f) commitment to cost containment at the operational level given the competitive nature of the textile sector that keeps pressure on margins.

B. INCREASED TRAINING FOCUS

1. ORGANIZATION AND PERSONNEL

The Training option represents a strategy to a) strengthen the provision of business development services, b) reduce the risk of losses from bulk purchasing operations, and c) facilitate corporate sponsorships due to special tax breaks corporations get when contributing to educational activities. **This would lead to a radical restructuring of BAF operations, with efforts geared primarily to the corporate sector, quality control, and business management and training. No credit would be extended as BAF would cease involvement in the procurement and distribution of materials.**

2. MEMBER IMPACT

Members are attracted to BAF because of a) the provision of working capital credit, b) purchase and delivery of materials, and c) training activities. **By curtailing #a and #b, it is likely that BAF would find it difficult to organise needed memberships for self-sustainability.** Members would welcome the training, but that is a lower priority for them than credit and materials. Further, as the Training option does not carry a Marketing component, most members would probably consider BAF's impact marginal.

3. FINANCIAL CONSIDERATIONS AND PROJECTIONS

Financial projections for the Training option are found in Annex IV. Key assumptions, quantified in the Annex, include the following: a) due to weak debt service and turnover, BAF curtails inventory and credit activities, and focuses on training; b) BAF forms a total of 23 groups through year 4, 10 less than Plan; c) BAF charges R20 per training session per member, twice a month, with 75% attendance; d) personnel levels are substantially reduced, although a Team Manager is added in year 2 to act as a Quality Control assistant to implement the training program; e) bad debt and interest are projected at 30% for year 1, but cease to be an expense after year 1; and f) salary and benefits are 67% of total operating costs aside from bad debt expense.

Based on projections, BAF would have little chance of becoming financially self-sufficient. Not only would BAF lack comparative advantage in the educational market, but its cost structure would be too high relative to what members could afford for training sessions. Despite the elimination of the largest cost (materials) in this option, the only way to become self-sufficient would be to streamline operations. BAF would substantially reduce its fixed cost structure by releasing the Materials Manager, Junior Accountant and one of the Drivers. However, even with reduced operating expenses and no inventory costs, BAF would need nearly 4000 members to achieve breakeven.

4. CONCLUSION

The Training option provides BAF with a means of a) reducing inventory risk and operating costs, and b) possibly generating increased sponsorships. Nevertheless, by streamlining operations away from credit, materials and marketing, it is unlikely that BAF would be able to form the critical mass of members it would need to achieve breakeven. Adoption of the Training option would also clearly be a radical departure from BAF's original approach.

C. PRESERVATION OF THE STATUS QUO

1. ORGANIZATION AND PERSONNEL

The Status Quo option would a) retain current staff levels, b) continue to focus on materials delivery and bulk discounting, and c) pursue marketing channels. Despite internal organizational problems that have distorted BAF's performance to date, it appears unlikely that this option would provide for financial self-sufficiency by year 5.

2. MEMBER IMPACT

Members would probably be content to pursue the status quo. They have generally been satisfied with BAF performance to date, and are unaware of the Foundation's operating losses. In addition, BAF has been lenient with them in terms of credit repayment and membership dues, partly because of the absence of a Team Manager in recent months.

3. FINANCIAL CONSIDERATIONS AND PROJECTIONS

Financial projections for the Status Quo option are found in Annex IV. Key assumptions, quantified in the Annex, include the following: a) materials purchases and credit performance consistent with historical trends; b) BAF forms 23 groups by the end of year 4; c) gross margins are 12.5% based on current mark-up and discount policy; d) personnel levels are held constant, except for the addition of a Team Manager in year 2; e) bad debt and interest are projected at 30%; f) the inflation rate is assumed to be 15% each year; and g) salary and benefits are 67% of total operating costs aside from bad debt expense.

Following these assumptions, BAF would be unable to achieve financial self-sufficiency by year 5. Revenues from sales would barely cover materials costs, by far the largest cost as membership grows. Gross profits and additional income from operations would be far less than operating expenses. By year 4, BAF would need nearly 4400 members, or 176 groups, to achieve breakeven.

4. CONCLUSION

BAF's problems go beyond issues concerning previous Executive Directors. It appears that BAF would be unable to achieve self-sufficiency based on the original model for reasons already explained (e.g., limited memberships, weak purchasing power, low turnover, poor debt service, high operating costs). For BAF to be viable, it will have to reorient its operations to ensure substantially higher revenues and operating income while containing costs. The Status Quo option does not conform to those needs.

D. CEASE OPERATIONS

1. ORGANIZATION AND PERSONNEL

The Cease Operations option would displace seven people, most of whom have been employed at BAF since late 1989. Perhaps more importantly, if BAF ceased operations, creditors might sue for outstanding liabilities. This would include trade suppliers, the previous Executive Director, and possibly the new landlord. The Board of Trustees might ultimately be liable for these obligations, some dating back to the period before incorporation and the Cooperative Agreement with USAID.

2. MEMBER IMPACT

Members have been satisfied with BAF's performance, although it is unclear if they are willing or able to show additional commitment to make the Foundation more effective. Ceasing operations would have a negative impact on the 100 members and their employees (approximately 200), although it would not put them out of business.

3. FINANCIAL CONSIDERATIONS AND PROJECTIONS

Ceasing operations would leave approximately R175,000 in liabilities that BAF would have to settle. Methods of settlement are discussed in Section V.

4. CONCLUSION

Given BAF's partial success to date under difficult operating circumstances, it does not appear that the Foundation will cease operations. Nevertheless, without USAID funding, BAF would have little chance of operating given limited sponsorships. To avoid having to cease operations, BAF will have to professionalize operations and commercialize its orientation. Inability to move in this direction and show results within the next six months would provide USAID with sufficient reason to cease funding to BAF.

V. RECOMMENDATIONS

A. INTERNAL CONTROLS AND REPORTING

1. COMPLY WITH RECOMMENDATIONS OF IQC ACCOUNTING FIRM

In conjunction with its audit of BAF, the IQC accounting firm of Pema Lakha is making a number of recommendations to improve BAF's internal controls and overall planning process. **These include a) initiating short- and long-term budgets and cash flow projections; b) enhancing the credit approval process; c) establishing more formal accounting policies and procedures; d) preparing monthly and quarterly reports for USAID, its own internal purposes, and possibly sponsors; and e) aging loans to members coupled with more vigorous collection of outstanding debts.** Irregularities were detected involving the previous Executive Director. USAID and BAF are advised to review and implement these recommendations as appropriate. Samples of operating control statements are found in Annex V.

2. HIRE IQC AUDITOR FOR QUARTERLY REVIEWS

While improvements have been noted in BAF's controls, it is recommended that the IQC accounting firm currently engaged by USAID be retained for a minimum of six months to review books and records and ensure compliance with the terms and conditions of the Cooperative Agreement. **This engagement should also include reviewing operating cash budgets and the reasonableness of assumptions used in formulating these budgets (see #3 below).**

3. PREPARE OPERATING CASH BUDGETS

As suggested by Pema Lakha, **it is recommended that BAF immediately prepare a monthly cash budget covering the period from September 1, 1990 to August 31, 1991** (see Annex V). This report will summarize expected sources and uses of cash as well as expected surpluses or deficits. **The budget should specifically include consideration of all liabilities incurred prior to the Cooperative Agreement as the Agreement requires full repayment of such obligations by May, 1991. BAF should further indicate how it intends to cover any shortfall (e.g., raise additional sponsorship capital, sell assets, renegotiate outstanding debts).** BAF should continue to prepare such cash budgets on a <u>monthly</u> basis to highlight key issues and facilitate strategic planning. This exercise should include a variance analysis of planned and actual cash results. It is recommended a) that Pema Lakha monitor preparation of these budgets, with the initial submission due no later than August 31, 1990, and b) Pema Lakha conduct subsequent reviews on a quarterly basis.

4. PREPARE AGINGS OF DEBTOR ACCOUNTS

BAF should prepare a monthly aging of its loan portfolio and accounts receivable summarizing amounts owed to BAF from members (see Annex V). The information provided will help BAF determine a) the creditworthiness of its individual members; b) amounts due in total; c) appropriate credit terms to offer; and d) projected cash flow.

5. PREPARE WEEKLY AND MONTHLY INVENTORY REPORTS

BAF is considering stocking additional inventory at its main office to market to non-members through outside sales representatives. The purpose of such a plan is to take advantage of volume purchase discounts that require orders in excess of identified member needs. This strategy carries with it the risk that scarce working capital will be tied up in inventory and that the Foundation will not be able to sell all that it purchases. **BAF should, therefore, prepare weekly inventory reports to reduce the risk of carrying unnecessary inventory.**

By preparing weekly inventory reports (see Annex V), BAF will be able to determine optimal inventory levels and appropriate inventory mix, both of which will be useful in determining purchasing decisions. These reports provide critical information on materials and their associated costs. The reports would be derived from sales invoices and purchase orders.

6. PREPARE WEEKLY AND MONTHLY SALES REPORTS

Preparation of weekly and monthly sales reports serve to summarize total revenues in addition to sales of critical items (see Annex V). These reports are also derived from sales invoices. The information generated from these reports should help BAF determine a) the most popular items, b) inventory needs, and c) future demand. Longer-term uses of these reports include a) demand patterns, b) inventory levels required to support profitable activities, and c) strategic planning.

7. EXPAND NUMBER OF AUTHORIZED SIGNATORIES

Since the departure of the former Executive Director, BAF's Board President and Acting Executive Director are the only authorized check signatories. As all checks require two signatures, this creates a problem when one of these individuals is not available. It is recommended that one more individual be added as an authorized signatory. This person should not purchase or account for inventory or loans (separation of responsibilities). It is recommended that one of the active board members, Jeff Van Rooyen, be asked to assume this responsibility.

B. ENHANCEMENT OF ROLE OF BOARD AND PROFESSIONAL STAFF

1. ACTIVATE BOARD OF TRUSTEES

One of the key weaknesses of the Foundation is the non-involvement of the Board. The Trustees tend to be active in a number of business and social activities that lessen their ability to address BAF's needs. It is recommended that a number of changes be implemented with regard to the role of the Board: **a) during the upcoming six-month interim period, the two active Board members work with the Acting Executive Director to establish achievable performance targets for all personnel and Trustees to increase sponsorships, improve operating cash flow, restructure the balance sheet and implement internal controls and reporting systems; and b) the Board replace inactive Trustees with potentially active ones, preferably individuals that will facilitate sponsorships, procurement relationships and sub-contracting activities for BAF members.**

2. ALTER JOB RESPONSIBILITIES OF STAFF

Job descriptions for BAF's staff are outlined in Attachment II (Program Description) of the Cooperative Agreement. **It is recommended that these roles be redefined to be consistent with the increasing marketing focus evolving at BAF.** The following job descriptions are not intended to be comprehensive, but rather to serve as useful guidelines. In addition, as BAF achieves performance benchmarks, it is recommended that consideration then be given to adding staff and dividing these responsibilities.

a. President of the Board: The President should 1) advise the Executive Director on policy decisions; 2) chair the Executive Committee to review monthly financial reports, summarize operations and identify business opportunities and strategies for growth; 3) take the lead in mobilizing the Board to help attract corporate sponsorships, orders, sub-contracts and expertise in the textile industry; and 4) approve member credit limits and BAF obligations above specified amounts (e.g., R5,000).

b. Acting Executive Director: The Acting Executive Director should 1) establish goals and objectives for the Foundation (with input and assistance from the Board); 2) formulate detailed plans to achieve objectives, and manage implementation of those plans; 3) oversee implementation of all financial management issues, including accurately recording all financial transactions, determining financing needs and sources of capital, preparing reports that enable management to assess overall operating performance and compliance with the Cooperative Agreement; 4) train the bookkeeper and delegate report preparation <u>to the extent practical</u>; 5) determine appropriate credit standards and monitor orderly collections of all sales on account; 6) maintain active contact with corporate sponsors, including preparing and presenting an annual report highlighting major accomplishments and goals; and 7) identify and contact (jointly with Trustees) prospective corporate sponsors.

c. General Manager: The General Manager should 1) make inventory purchases on the most favorable terms to the Foundation; 2) monitor production activities to ensure quality, consistency, and timely delivery of orders; 3) identify market needs, monitor the actions of competitors, determine product mix and pricing strategy, and manage relations with customers; and 4) acknowledge top performers by awarding prizes and recognizing performance at member meetings.

d. Team Manager: The Team Manager should 1) identify potential new members for BAF; 2) service members, including resolving production and marketing problems; 3) with assistance from specialists as appropriate, conduct or coordinate training courses (e.g., costing, bookkeeping, quality control); 4) assist members with loan applications; 5) with assistance from the bookkeeper, collect loans from members on a scheduled basis; and 6) take materials orders and coordinate delivery of material to team members.

e. Bookkeeper: The bookkeeper should 1) prepare financial reports under the direction and supervision of the Financial Manager; and 2) control inventory by monitoring purchases and movement of materials between BAF office and members.

f. Secretary: The secretary should 1) respond to telephone calls and receive visitors; 2) work with the bookkeeper to maintain an orderly filing system; and 3) assist staff with typing and correspondence

g. Driver: The driver should collect and deliver materials to members, and pick up finished garments from members, all under the supervision of the General Manager and coordinated with the Team Manager.

h. Mechanic: The mechanic should 1) repair members' sewing machines and other equipment on a fee basis; and 2) attend to custodial matters at Foundation offices.

C. RESOLVE PROBLEMS ON BALANCE SHEET

1. ASSESS OUTSTANDING LIABILITIES TO BERNARD JAMES

BAF's financial statements indicate an outstanding liability in the amount of R86,670 to the former Executive Director, Mr. Bernard James. This appears to consist of R5,000 in rent due to his wife (landlord for leased facilities) coupled with R81,670 in salaries, car allowances and other expenses originating in the period prior to the Cooperative Agreement. While it is clear that USAID has no direct responsibility for this liability, it does not appear that BAF has the ability to retire this amount from operations. As a result, Mr. James could request that the Foundation be liquidated. In such a case, USAID's contributions will not be of any lasting benefit to BAF.

It is crucial that BAF obtain a full accounting of this liability as soon as possible, and assess its potential exposure. In order to implement this recommendation, BAF should engage an IQC firm to audit these expenses and identify the documentation supporting these items. In particular, they should identify what agreement existed prior to June, 1989 regarding BAF's compensation to Mr. James.

It is also recommended that BAF engage a qualified attorney to prepare a letter assessing the potential exposure to the Foundation. **In the event the attorney concludes that BAF is liable for all or most of this amount, USAID should consider terminating all further advances to the Foundation. It is recommended that USAID require both the accounting and legal review be completed within 60 days.**

2. RENEGOTIATE UNSECURED LOANS

BAF's balance sheet further indicates unsecured loans of R77,793, consisting of debts due to suppliers. The former Executive Director negotiated a two-year moratorium on these loans through March, 1991. Ernst & Young further reports that these loans are due on demand in the event USAID terminates its agreement with the Foundation.

While BAF indicates it intends to honor these obligations, it appears that BAF does not have the ability to liquidate these debts from operating cash flow. BAF is planning to repay these debts from new sponsorship contributions not earmarked for the Revolving Loan Fund (generally R10,000 each).

It appears unlikely that BAF will raise sufficient sponsorship funds to fully retire these liabilities by May, 1991 (the date required for full repayment by USAID). Even if BAF is successful in raising this capital, most or all of these funds will likely be required to pay the portion of operating expenses not reimbursed by USAID (10% in year 2, 62% in year 3).

It is recommended that BAF selectively utilise the funding it does receive from corporate sponsors to approach these creditors and propose satisfying these obligations at a discount (e.g., 25-50% of face amount). This plan relates to the twelve-month cash budget recommended above. In the event that a) cash flow is insufficient to cover debts, and b) BAF can not establish a credible plan to cover this shortfall, USAID should consider terminating funding for BAF.

3. COLLECT DELINQUENT LOANS

BAF's balance sheet includes R38,462 in what is categorized as amounts due from debtors (current asset). In addition, as much as R100,000 of additional debtor accounts are carried in an asset account categorized as "Research and Development" (R&D). The debtor accounts are reported to have originated in March, 1990 or earlier. The debtor accounts, carried under R&D, are reported to be between one and two years old.

Ernst & Young is currently proposing that R25,000 of the debtor accounts be written off (see Annex IV). EY further proposes that the entire amount of BAF's R&D account (totaling R274,000 in debtor accounts and prior operating losses that were capitalized) be written off, or loss reserves established.

BAF's viability is contingent on more effective collection of its debtor accounts. It is recommended that BAF aggressively work to collect its trade debtor accounts. This is crucial in that a) should BAF be unable to collect its debtor accounts, and b) should Bernard James successfully substantiate his claims, it appears that BAF would have a negative equity position. This could result in BAF being considered technically insolvent. Management of BAF has concurred that these accounts should be written off in the event they can not be collected within 60 days.

D. STRATEGY FOR CASH FLOW GENERATION

1. MOVE TO ATTRACT ADDITIONAL CORPORATE SPONSORS

BAF needs to attract a large number of corporate sponsorships in order to build the critical mass it needs to be financially self-sufficient. Consequently, it is imperative that BAF develop a strategy for raising funds from corporate sponsors. This should include a) restructuring the Board with a focus on contacts for sponsorships, b) setting performance targets based on contacts with specific companies, c) preparing the necessary reports and member profiles required for fund raising, and d) setting up meetings.

A minimum of five additional sponsorships should be arranged and/or in progress by March, 1991.

It appears there is substantial corporate interest in financing organizations like BAF to contribute to the development of successful black industry and entrepreneurship. BAF can best capitalize on this opportunity by identifying potential corporate sponsors and their criteria for funding (e.g., education and training). **By identifying the criteria of various corporate sponsors, BAF can maximize its effectiveness in raising funds.**

2. DEVELOP AN INTERIM MARKETING PLAN

Consistent with the Marketing option, BAF needs to develop a marketing plan for increased cash flow. This should include a) target retail markets, and likely quantities that could be turned over; b) target wholesale markets, and reasonable estimates of amounts members could supply with quality; c) target producers for sub-contracting, and volumes that could be generated; d) pricing targets to maximize returns on BAF's scarce financial and personnel resources; and e) alternative sales mechanisms (e.g., consignment, commission) to facilitate turnover. It is recommended that the General Manager be provided financial incentives based on ambitious performance targets.

3. DEVELOP A NON-MATERIALS PLAN FOR CASH FLOW

In addition to materials sales, **BAF should develop a plan to increase cash flow from other sources. These include a) stricter loan collection once a Team Manager is hired; b) accelerated payment of membership fees, and possibly at higher rates; c) service fees for deliveries; d) "matchmaker" fees for marketing services; and e) buying and selling repaired equipment (e.g., sewing machines). It will take time before BAF has the critical mass it needs to become financially viable. Thus, a more commercial approach to both materials and non-materials activities will be necessary to reduce dependence on USAID financing.**

E. USAID

USAID should continue funding BAF for an interim period of six months based on the above recommendations. BAF's President and staff appear to be committed to developing a more productive organization. Ability to meet the above conditions within the coming months will provide USAID with the information needed to determine whether funding for BAF should continue into year 3 of the grant. In the event that BAF and USAID cannot agree on terms for continued funding resulting from this evaluation, USAID should then terminate funding immediately. In the event that BAF is unable to meet the conditions for turnaround, as proposed above and agreed to by BAF and USAID, USAID should cease funding BAF and de-

obligate remaining grant monies no later than March 31, 1991. In the event BAF is able to turn its operations around and demonstrate commercial viability, it should continue to receive funding assistance from USAID consistent with the terms of the Cooperative Agreement. This includes reducing USAID funding in years 3 and 4 to 38% and 10%, respectively, of BAF's operating costs.

ANNEX I

LIST OF MEETINGS

LIST OF MEETINGS

BAF MEMBERS

Esther Msimango
Pauline Nhlapo
Deliwe Ngwenya
Mivah Nkosi
Joyce Mthembu
Martha Klanye
Rosiva Mattoenya
Joanne Zetikmmike
Martha Letouva
Jabumthethwa
Phyllis Nkibi
Shiella Ledwaba
Sekgoche Ramaphakela
Frances Xipu
Winnie Majeke
Wilhelmina Ngwenya
Alice Mashiloane
Elizabeth Msipi
Lorraine Moleledi
Sybil Khulu
Sbongile Motsepe
Jeanette Motlhamme
Patricia Samuels
Leah Shongwe
Sannah Motaung
Mary Madoda

BAF STAFF

Elliot T. Vilikazi, Acting Executive Director
Alex Besserab, Materials Manager
Judith __________, Junior Accountant
Bernard James, previous Executive Director
George Moya, former Team Manager

BAF BOARD OF TRUSTEES

Willie Ramoshaba, President
Jeff Van Rooyen
Marina Mopanya
G.M. Pitje

TRADE SUPPLIERS

Alvaro Bertolli, Fleecytex
Chris Botha, Winna Sports Wear
Mohammed Mohammed

CORPORATE SPONSORS

Bernice Kaplan, IBM
Toitje Lillie, IBM
B.A. Freimond, Anglo-American and De Beers Chairman's Fund
Peter Rantla, P & H (Harnischfeger)

TEXTILE BUYERS

Judy Venter
Arlette Frauks, Piccanins

AUDITING FIRMS

John Davis, Ernst & Young
Navin Lakha, Pema Lakha & Associates
Rob Beulle, Coopers & Lybrand

SMALL BUSINESS DEVELOPMENT CORPORATION

Johan Kruger, Penneyville site

GET UP

Lyn Anderson

CENTER FOR DEVELOPING BUSINESS

Ian Clark

USAID

David Himelfarb, Project Manager
Stephen Wade, Consultant

ANNEX II

LIST OF BOARD MEMBERS

ANNEX III

BAF PERFORMANCE RELATIVE TO COOPERATIVE AGREEMENT WITH USAID

BAF PERFORMANCE

CATEGORY	DEGREE OF COMPLIANCE		
	STRONG	MEDIUM	WEAK
A) CREDIT:			
Allocation	XX		
Volume		XX	
Collection			XX
B) SERVICES:			
Training Quality	XX		
Training Volume			XX
Materials Delivery	XX		
Materials Volume			XX
C) MEMBERSHIP:			
vs. Target		XX	
vs. Needs			XX
D) FINANCE:			
Liquidity			XX
Liabilities			XX
Sponsor Capital		XX	
Cash Flow			XX
E) REPORTING:			
Credit Portfolio		XX	
Membership Activity			XX
Financial Progress			XX
F) INFORMATION SYSTEMS:			
Financial		XX	
Operations			XX
G) INSTITUTIONAL INFRASTRUCTURE:			
Personnel		XX	
Board			XX
H) SOCIAL:			
Employment		XX	
Women	XX		

ANNEX IV

FINANCIAL STATEMENTS, PROJECTIONS AND SCENARIOS

BUSINESS ACHIEVERS FOUNDATION

INCOME STATEMENT FOR THE PERIOD ENDING:

	2/28/90 (5 mos.)	3/31/90 (6 mos.)
INCOME		
Sales	31654	33638
Purchases	68388	61939
Less: Stocks	44579	33440
Cost of Sales	23809	28499
Gross Profit	7845	5139
Other Income:		
USAID	188600	276437
Corp. Sponsors	30000	30000
Interest	8444	9734
Membership Fees	7440	7560
Discounts	2538	2735
Donations	1000	1000
Total	238022	327466
OPERATING INCOME	245867	332605
OPERATING EXPENSES		
Salaries/Benefits	154455	173259
Rent	22500	25000
Technical Assistan	20250	27000
Recruitment	6960	6960
Motor Expenses	5356	5701
Repair/Maint.	4455	4455
Bad Debts	3026	3026
Legal Fees	2469	5219
Refreshments	2448	2461
Hire Charges	2083	3068
P + T	1866	2223
Other	6103	12091
Total	231971	270463
SURPLUS	13896	62142
RATIOS:		
Gross Margin	24.8%	15.3%
USAID/Op. Exp.	81.3%	102.2%
Sponsors/Op. Exp.	94.2%	113.3%
Fee Inc./Op. Exp.	7.9%	7.4%
Salaries/Op. Exp.	66.6%	64.1%

BALANCE SHEET FOR THE PERIOD ENDING:

	2/28/90	3/31/90
ASSETS		
Cash	5751	32339
Loans to Members	29878	38462
Stocks	44578	32820
Loans to Staff	3600	1100
Current Asset	83807	104721
Net Fixed Assets	67130	64848
Capitalized R&D	267065	267624
TOTAL ASSETS	418002	437193
LIABILITIES AND CAPITAL		
Bank Creditors	17222	0
Trade Creditors	14000	0
Taxes Payable	8033	7532
Other	388	3055
Current Liab.	39643	10587
Trade Creditors	77793	77793
B. James	86670	86670
L-t Liab.'s	164463	164463
TOTAL LIAB.'S	204106	175050
Sponsorships	200000	200000
Surplus	13896	62142
TOTAL CAPITAL	213896	262142
TOT LIAB+CAP	418002	437192
RATIOS:		
Current Ratio	211%	989%
Tot. Liab.'s/Cap.	95%	67%

FINANCIAL PROJECTIONS

SCENARIO 1: MARKETING OPTION

ASSUMPTIONS:

1. Average Member Credit: R825 in Year 1; 15% increase thereafter
2. Average Turnover/Member: includes sales to members and non-members converted to a unit basis; from year 2
3. Average Members: year 1 actuals; 8 new groups in year 2; 12 new groups in year 12 new groups in year 4
4. Gross Revenue: Average Turnover/Member (#2) * Average Members
5. Gross Profit: #2 * 25%, based on a weighted average based on existing and potential sales; 12.5% in year 1; 25% from year 2
6. Membership Fees: R120 * Average Members
7. Interest Earnings: Total Member Credit * 21% less 30% for non-service
8. Salaries/Benefits: Excludes BAJ salary after 3/31/90; projections based on exi staff as of August, 1990; includes 13th month bonus for service greater than six months; includes medical benefits (R3000 per month) and pension (7.5% of 12-month salary); adds Team Manager (R2000/month) year 2; includes 15% inflati factor from year 2
9. Bad Debt: Total Member Credit * 30%
10. Total Operating Expenses: (150% * #6) plus #7
11. Breakeven: #8/(Sales-Cost of Goods Sold), or #8/25%; for Members, number of members to reach required sales based on average loans

	Year 1	Year 2	Year 3	Year 4
Average Credit	825	949	1091	1255
Avg. Turnover/Memb	825	2000	2300	2645
Average Members	81	200	450	750
Groups (Yr. End)	4	12	24	36
INCOME STATEMENT				
Gross Revenue	66825	400000	1035000	1983750
Gross Profit	8353	100000	258750	495938
Member Fees	9720	24000	54000	90000
Interest Earnings	9823	27893	72174	138333
Income	27896	151893	384924	724271
Salaries/Benefits	265867	276846	318373	366129
Bad Debt Expense	20048	56925	147293	282312
Other Oper. Exp.	150000	138423	159186	183064
Expenses	435915	472194	624853	831506
Operating Losses	-408018	-320301	-239929	-107235
Cumulative Losses	-408018	-728319	-968248	-1075483
Breakeven Sales	3487316	1888776	2499411	1108674
B-E per Member	43053	9444	5554	1478
# Members for B-E	4227	1991	2291	884
Balance Sheet Write-offs:				
Suppliers	-77793	0	0	0

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BAJ	-86670	0	0	0
Bad Debt	-50000	0	0	0
Total	-214463	0	0	0
Total Losses	-622481	-320301	-239929	-107235

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FINANCIAL PROJECTIONS

SCENARIO 2: .TRAINING

ASSUMPTIONS:

1. Average Member Credit: R0; Scenario assumes no materials provided after year 1
2. Average Members: year 1 actuals; 5 new groups in year 2; 6 new groups in year 8 new groups in year 4
3. Gross Revenue: from year 2, R20 per lecture per member; 2 lectures per month; therefore, R20 per lecture * 24 lectures p.e. * average members * 75%
4. Gross Profit: Equal to revenues derived from lectures from year 2
5. Membership Fees: R120 * Average Members
6. Interest Earnings: strictly from cash balances from year 2
7. Salaries/Benefits: Excludes BAJ salary after 3/31/90; projections based on exi staff as of August, 1990; includes 13th month bonus for service greater than six months; includes medical benefits (R3000 per month) and pension (7.5% of 12-month salary); Team Manager (R2000/month) added year 2; Materials Manager, and Junior Accountant released after year 1; inflation factor from year 2 assumed to be 15%
8. Bad Debt: Total Member Credit * 30% at end of year 1; 0% thereafter
9. Total Operating Expenses: (150% * #7) plus #8
10. Breakeven: #9/(Gross Margin), or equivalent to #9, from year 2

	Year 1	Year 2	Year 3	Year 4
Average Credit	825	0	0	0
Average Members	81	175	300	475
INCOME STATEMENT				
Gross Revenue	66825	63000	108000	171000
Gross Profit	8353	63000	108000	171000
Member Fees	9720	21000	36000	57000
Interest Earnings	9823	3308	5670	8978
Income	27896	87308	149670	236978
Salaries/Benefits	265867	177111	203678	234229
Bad Debt Expense	20048	0	0	0
Other Oper. Exp.	150000	88556	101839	117115
Expenses	435915	265667	305516	351344
Operating Losses	-408018	-178359	-155846	-114366
Cumulative Losses	-408018	-586377	-742224	-856590
Breakeven Sales	3487316	1062666	1222066	1405376
B-E per Member	43053	6072	4074	2959
# Members for B-E	4227	2952	3395	3904
Balance Sheet Write-offs:				
Suppliers	-77793	0	0	0
BAJ	-86670	0	0	0
Bad Debt	-50000	0	0	0
Total	-214463	0	0	0

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FINANCIAL PROJECTIONS

SCENARIO 3: STATUS QUO

ASSUMPTIONS:

1. Average Member Credit: R825 in Year 1; 15% increase thereafter
2. Average Members: year 1 actuals; 5 new groups in year 2; 6 new groups in year 8 new groups in year 4
3. Gross Revenue: Average Member Credit * Average Members
4. Gross Profit: #2 * 12.5%, based on current mark-up and discount policy
5. Membership Fees: R120 * Average Members
6. Interest Earnings: Total Member Credit * 21% less 30% for non-service
7. Salaries/Benefits: Excludes BAJ salary after 3/31/90; projections based on exi staff as of August, 1990; includes 13th month bonus for service greater than six months; includes medical benefits (R3000 per month) and pension (7.5% of 12-month salary); includes 15% inflation factor from year 2
8. Bad Debt: Total Member Credit * 30%
8. Total Operating Expenses: (150% * #6) plus #7
9. Breakeven: #8/(Sales-Cost of Goods Sold), or #8/12.5%; for Members, number of members to reach required sales based on average loans

	Year 1	Year 2	Year 3	Year 4
Average Credit	825	949	1091	1255
Average Members	81	175	300	475
INCOME STATEMENT				
Gross Revenue	66825	166031	327319	595993
Gross Profit	8353	20754	40915	74499
Member Fees	9720	21000	36000	57000
Interest Earnings	9823	24407	48116	87611
Income	27896	66161	125031	219110
Salaries/Benefits	265867	257221	295804	340175
Bad Debt Expense	20048	49809	98196	178798
Other Oper. Exp.	150000	128611	147902	170087
Expenses	435915	435641	541902	689060
Operating Losses	-408018	-369480	-416871	-469950
Cumulative Losses	-408018	-777498	-1194370	-1664320
Breakeven Sales	3487316	3485127	4335215	5512480
B-E per Member	43053	19915	14451	11605
# Members for B-E	4227	3673	3973	4393
Balance Sheet Write-offs:				
Suppliers	-77793	0	0	0
BAJ	-86670	0	0	0
Bad Debt	-50000	0	0	0
Total	-214463	0	0	0
Total Losses	-622481	-369480	-416871	-469950

BUSINESS ACHIEVERS FOUNDATION

BALANCE SHEET

AS AT 31ST MARCH 1990

CAPITAL EMPLOYED				
Sponsorship Team			200 000.00	
Excess Income Over Expenditure			62 142.31	
				262 142.31
Long Term Loans				
Unsecured Loan Account			77 793.40	
Unpaid Liabilities			86 670.04	164 463.44
				R426 605.75
EMPLOYMENT OF CAPITAL				
Fixed Assets			67 130.11	
Less: Provision for			2 282.02	64 848.09
Research & Development				267 623.80
NET CURRENT ASSETS				94 133.86
CURRENT ASSETS				
Cash at Bank-Current A/C		26 531.00		
Team/Sponsorship		4 221.58		
E / Sponsorship		1 358.87		
Petty Cash		28.00		
Sundry Deposit		200.00		
Debtors-Member	29 268.12			
-Winna	9 193.95	38 462.07		
LoanA/C-H.Rampa		1 100.00	71 901.52	
Stock		33 439.67		
Less: Stock Difference		620.17	32 819.50	
			104 729.76	104 721.02
Less: CURRENT LIABILITIES				
W/R Consultants			2 750.00	
G.S.T.			4 372.95	
PAYE			3 159.16	
U.I.F.			265.05	
Membership Accural			40.00	10 587.16
				R426 605.75

BUSINESS ACHIEVERS FOUNDATION

TRADING ACCOUNT FOR THE PERIOD

ENDING 31 MARCH 1990

Sales		33 638.33
Purchases	71 133.11	
Less: Returns	9 193.95	
	61 939.16	
Less: Closing Stock	33 439.67	
Cost of Goods Sold		28 499.49
Gross Profit		5 138.84
OTHER REVENUE:		327 465.97
Donations	1 000.00	
USA-Funding Sponsorship	276 437.16	
Discount Received	2 724.80	
Interest Received	9 734.01	
Membership Fees	7 560.00	
Sponsorship Funding	30 000.00	
		332 604.81
OPERATING EXPENSES		
Advertising	647.30	
Consumables	698.32	
Entertainment	954.18	
Hire Charges	3 067.96	
Insurance	1 805.69	
Legal Fees	5 218.25	
Motor Expenses	5 700.95	
Printing & Stationery	1 120.13	
Recruitment Fees	6 960.00	
Bad Debts	3 025.26	
Rent	25 000.00	
Repairs & Office Maintenance	4 454.35	
Salaries & Staff Benefits	173 258.93	
Secretarial Services	500.00	
Depreciation	2 282.02	
Staff & Members Refreshments	2 460.39	
Post & Telecommunications	2 222.42	
Water & Electricity	914.18	
Medical Aid	1 254.50	
Bank Charges	1 297.50	
Consultation Costs	27 000.00	
Stock Difference	620.17	
Less: OPERATING EXPENSES		270 462.50
NET PROFIT		R 62 142.21

Ernst & Young

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Docex 130

JLD003/let/lp

16 March 1990

The Trustees
Business Achievers Foundation
P O Box 2384
PRIMROSE
1416

Dear Sirs

AUDIT PERIOD TO 28 FEBRUARY 1990

We have recently completed an interim audit to 31 October 1989 and reviewed the Trial Balance to 31 January 1990. Arising therefrom are a number of matters which we would like to bring to your attention. These are as follows:

A <u>SYSTEM OF INTERNAL CONTROL</u>

1. CASH PAYMENTS

The system of internal control over cash payments is not satisfactory. Although matters have improved since 1 June 1989, we found the following features unsatisfactory:-

- many invoices in support of payments were missing
- many delivery notes for goods received were also missing
- the filing system where source documents should be filed, was not properly maintained
- there was in most instances no indication that supporting documentation had been checked and authorised prior to payment. Ideally all supporting documentation should be authorised by the cheque signatories (or at least one of these). In most instances this also had not taken place. We request that these basic control features be introduced as soon as possible.

2. PURCHASES

We are concerned that no proper stock control system is in place to record the receipt and issue of purchases. Therefore it is currently impossible to control that those items purchased have been properly issued or are still on hand.

We recommend that such a stock control system be introduced as soon as possible. Regular stock checks of items on hand should be carried out.

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B. AUTHORITY FOR PAYMENTS MADE

We need to obtain authority for payment or for the contractual liability incurred by the Trust of the following items:

1. Other than the Executive Director and the Financial Manager, there are no employment contracts for the other employees. Also salary payments prior to 1 June 1989 appear not to have been authorised.

2. Payments to the Executive Director in respect of medical aid are not paid to any recognised medical aid and have been paid to him directly.

3. Rental for motor vehicles personally used by Mr James and charges for a television set stored at Mr James home

4. Motor car insurance on Mr James personal motor car.

5. Consulting and administration fees paid to W R Consultants.

6. Secretarial fees paid to Mrs James.

7. Telephone accounts for Mr James's personal telephone.

There also appears to be a contradiction in the service agreement of the Executive Director in that he is entitled to claim both a car allowance and "fringe benefits" in the form of 80% of cost of the fuel maintenance and insurance of his own motor vehicle. This needs to be clarified.

We would suggest if you feel that these payments or liabilities are appropriately incurred, that the details thereof and the amounts concerned be authorised by way of trustee minute.

C. OTHER MATTERS

A number of other matters need to be discussed and resolved with you so that they can be appropriately dealt with and disclosed in the financial statements.

1. Loss on operations to 31 May 1989 and certain loan and debtor balances to that date have been recorded in the new set of books as "Research and Development" and reflected in the monthly financial statements as a balance sheet item. We do not believe this amount of R274 000 can be reflected as a balance sheet item particularly as the amount generally speaking, is not recoverable.

We suggest however that one of the following courses of action be followed:-

a. These amount should be excluded from the Business Achievers Foundation altogether and recorded as part of a separate business entity.

or

b. Profit and Loss items should be written off during the current period. Balance sheet debit items should be evaluated to determine their recoverability and any necessary provision for non recovery should be recorded in the financial statements. The full expected liability for credit items must also be brought to account.

2. SOUTHERN SUN DEBTORS
Included in the amount reflected as Research and Development reflected above, are amounts due from Southern Sun Group members - R49 240.83 and P & H Group - R6 955,92. Although it would appear that some of these amounts are recoverable, very little attempt is currently being made to follow up on the outstanding amounts. We believe that an energetic exercise should be made to collect these amounts. In addition, a view must be taken on what is not likely to be recovered and an adequate provision for bad debts made.

3. An amount of R9 154 due from Gonski must also be evaluated to determine it's collectability and if necessary a provision for bad debt be created or written off.

4. Unsecured loans of R77.793,40 is reflected as due to various creditors. We understand that a monitorium has been arranged for the repayment of these amounts. Once the monitorium comes to an end, it is not clear from where the funds will come to repay these balances. In the worst situation, the creditors could ask for the company to be liquidated. Trustees could be sued in their personal capacities on the basis that the debts were incurred prior to the incorporation of the company.

5. Certain unpaid liabilities amounting to R90 000 relate mainly to salaries, rental and secretarial services not paid to Mr James. Based on current funding, it is not clear how and when these amounts will be paid.

C. **FUTURE VIABILITY OF FOUNDATION**

We are extremely concerned taking into account:-

- the limited amount of funding available,
- slow repayment of debts from existing groups in respect of purchases, interest capitalised and subscriptions, and
- large liabilities due to creditors and in respect of unpaid salaries etc.

whether the Foundation is financially viable.

We believe that not sufficient effort is being made to:-

- determine suitability of accepting group members initially
- collecting amount due from group members
- resolving matters so that unsecured liabilities can be repaid

We believe these problems must be urgently addressed.

We are happy to discuss these matters with you and with U S Aid officials in greater detail so as to ensure the future success of this organisation. We suggest action be taken at the earliest opportunity.

Yours faithfully

ANNEX V

MODEL OPERATING CONTROL STATEMENTS

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EXHIBIT 2

HYPOTHETICAL CASH BUDGET

				Alternative 1
	December	January	February	March
Opening Balance	$ 5,000	$ 10,000	$ 10,000	$ 10,000
Cash Receipts				
Cash sales	80,000	80,800	81,600	82,400
Credit sales collections	72,000	96,720	109,680	120,760
Labor charges	20,000	20,200	20,400	20,600
Total inflow	$177,000	$207,720	$221,680	$233,760
Cash Payments				
For purchases	122,400	164,400	164,920	167,600
Expenses	44,800	44,800	44,800	44,800
Total outflow	$167,200	$209,200	$209,720	$212,400
Net Inflow	9,800	(1,480)	11,960	21,360
Desire Minimum	10,000	10,000	10,000	10,000
Borrowings	200	11,480	(1,960)	(11,360)

Assumption: Opening Cash Balance $5,000.

Accounts Payable Pattern - 75% paid in the month subsequent to the purchase and 25% the month after.

Accounts Receivable: 60% of credit sales collected in the month of sales, 20% in the 2nd month, 10% in the 3rd month, and 10% in the 4th month.

Revenues increase 1% every month.

Purchases made two months in advance

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EXHIBIT 3

			Alternative 2	
	December	January	February	March
Opening Cash Balance	$ 5,000	$ 10,000	$ 10,000	$ 10,000
Cash Receipts				
Cash Sales	80,000	80,800	81,600	82,400
Credit Collections	72,000	96,720	109,680	120,760
Labor	20,000	20,200	20,400	20,600
Total Inflow	$177,000	$207,720	$221,680	$233,760
Cash Payments				
For Purchases	130,560	164,480	166,080	169,280
Other Expenses	44,800	44,800	44,800	44,800
	$175,360	$209,280	$210,880	$214,080
Net Inflow	1,640	(1,560)	10,800	19,680
Desired Minimum	10,000	10,000	10,000	10,000
Borrowings	8,360	11,560	(800)	(9,680)

Assumption: Same as in Alternative 1 except for Accounts Payable pattern which is 80% payment in month subsequent to purchase and 20% in the following month.

EXHIBIT 2

WEEKLY[1] SALES REPORT

Item	Size	Quantity	$ Amount
Tires*			
	E-78-14	4	120
Other**		50	600
Total Tires		54	720
Other Items***			
Mech. Service****			
Labor*****			
Tax			
Total		54	720

[1]Same format for daily report

*10 critical items

**Other tire sizes

***Megs, wheels, etc.

****All services excluding tire mounting

*****Tire mounting

EXHIBIT 3

MONTHLY SALES REPORT

Item	Size	Quantity	$ Amount
Tires*			
	E78-14		
Sub Total			
Other Items**			
Mech. Services***			
Labor****			
Total Sales			
Tax			
Total Revenues			

*All sizes

**Megs, wheels, etc.

***Mechanical services excluding tire mounting and balancing

****Tire mounting and balancing

EXHIBIT 4

WEEKLY INVENTORY REPORT

WEEK

Size	Begin. Inv.	Purchases	Outgoing	End. Inv.
E78-14*	300	20	50	270
H78-15	400	30	80	350
Total	700	50	130	620

*Critical sizes (app. 10-20)

EXHIBIT 5

MONTHLY INVENTORY REPORT

Size	Begin. Inv.		Purchases		Check-Out		Ending Inv.	
	Quantity	$ Amount	Quantity	$ Amount	Quantity	$ Amount	Quantity	$ Amount
F78-14	80	$1,000	120	$2,200	90	$1,650	110	$1,550
G78-15	100	1,000	10	100	10	100	100	1,000
Total	180	$2,000	130	$2,300	10	$1,750	210	$2,550

EXHIBIT 8

A/R REPORT

JANUARY

BY ACCOUNT

Account Number	Name	$ Amount
00001	A&B Inc.	$2,700
00002	XYZ	$3,000
Others*		$4,000
Total		$9,700

*For accounts with receivable less than $100 each.

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EXHIBIT 7

A/R REPORT

JANUARY

BY AGE

Age (Days)	Name	$ Amount
Over 90	A&B Inc.	$ 800
	C&D	200
	Others*	
Sub Total		1,000
60-90	XYZ	1,000
	LM	250
	Other*	
Sub Total		1,250
30-60	XYZ	800
	A&B	200
	Other*	100
Sub Total		1,100
Less than 30	A. Anderson	200
	Smith	250
	Other*	80
Sub Total		530
Total A/R		3,880

*For less than $100

EXHIBIT 9

A/P REPORT

JANUARY

BY DATE DUE

Payment Due Week Ending	Name	$ Amount
1/30/79	General	$ 8,000
	Dunlop	$10,000
	D.W.P.	$ 250
Sub Total		
2/24/79	Accounting Ser.	$ 300
	Others*	
Total		$27,000

***For amounts less than $100 each.**

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EXHIBIT 10

A/P REPORT

JANUARY

BY ACCOUNT

Name	$ Amount
Dunlop	$12,000
General	18,000
D.W.P.	350
XY	500
Others*	1,500
Total	$32,350

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ANNEX VI

PROPOSED AMENDMENTS
TO COOPERATIVE AGREEMENT

PROPOSED CHANGES TO BLACK PRIVATE ENTERPRISE DEVELOPMENT PROJECT: BUSINESS ACHIEVERS FOUNDATION COOPERATIVE AGREEMENT

I. Attachment I: Schedule

A. Change reporting requirements under Section VII Reporting and Evaluation Quarterly Reports as follows:

1. Revise subheading vii regarding delinquent loans to require an aging of debtor receivables as current, or over 30, 60, and 90 day delinquent categories broken down into rand balances and percentages. Also, show those accounts being charged against earnings (provision made).

2. Add subheadings viii and ix as follows:

(viii) twelve month cash flow projections to be provided including explanation of where cash shortfalls are to be financed. Underlying assumptions should also be provided.

(ix) twelve month budget including comparison with actual results, reason for the differences, and management's plan to address the differences. Budget should include underlying assumptions used.

B. Consider deleting Section VIIB Evaluation as the present evaluation addresses these issues. However, a progress report/update might be considered for the end of year 2 which updates the work now completed.

C. Budget described as Annexure A to Attachment 1:

Note that this budget already provides for R147,600 in year 1, R161,500 in year 2 and R63,225 in year 3 for Technical Assistance. As the specific components are considered "fungible", this appears to allow for charging services of IQC firm for accounting and auditing as well as other assistance including quality control and marketing. Therefore, no changes appear required to allow hiring the IQC firm for auditing and other financial assistance.

D. Notes and Assumptions to Budget:

Under heading 5, authorization in the budget of R32,000 is included for a light delivery van. This equipment is to be acquired over years 1 and 2. As the van is now expected to be leased for six months, BAF has asked that the savings be used for other operating expenses. This does not appear appropriate since arrangements for use of the van beyond the six months have to be provided for. Therefore, this allowance will simply be drawn against over a longer period of time. If it is used for other expenses, where would funds come from in the following period to cover lease payments or purchase price?

Assuming funding goes for more than six months, BAF will have to extend the lease or buy a van at that time. It is recommended that BAF negotiate a lease that has an attractive purchase option at the end of the term. The terms should allow some of the payments to be applied towards the purchase price (buyout price) of the vehicle.

II. Attachment Two (Program Description)

A. Section IIBI1: Staff Compensation

1. This may ultimately require revision depending on the staff configuration as it evolves. However, no changes currently appear necessary.

2. Section 4: Consultants

Subheading b discusses a major strategy-level study in Agreement year 2 to define sectors of opportunity in black manufacturing. This might best be changed to focus on identifying target markets for increased turnover. It is recommended that BAF not diversify from textiles as it lacks the management capabilities to do so at this time.

Subheading c appears to allow for marketing, quality control and other similar forms of assistance. However, the words "for individual teams" should possibly be deleted or altered since this assistance will probably be applicable to all teams involved in the same industry (textiles).

3. Section II B. III: Evaluation and Audit

In light of the recent evaluation completed, this authorization for a mid-term evaluation should be deleted or changed to be an update to the prior evaluation.

4 Section VI: Implementation Plan

Year 2-a) discusses hiring a Marketing Manager by the end of year 2. This appears unnecessary at present considering the Materials Manager is the person currently designated for that role. If BAF grows, a Marketing Manager may later be hired if necessary.

5 Section VI B 4: Description of Concept

Subheading 4.2 (Bulk Purchases) indicates that "this is the principal service BAF intends to offer the teams from which it also intends to become self-sufficient". This should be changed to add that it also anticipates generating fees or commissions by obtaining orders from corporate and other customers.

ANNEX VII

TIMETABLE FOR INTERIM RESTRUCTURING

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TIMETABLE FOR INTERIM RESTRUCTURING

I. PRIORITIES

A. Improve Income Generation and Cash Flow
B. Reduce Debt Outstanding to Trade Suppliers
C. Resolve Liabilities Owed to Previous Executive Director
D. Collect All Loans from Members Outstanding More Than 90 Days
E. Add Corporate Sponsorships
F. Implement Appropriate Controls and Reporting Systems

II. IMPROVE INCOME GENERATION AND CASH FLOW

A. Develop Marketing Plan to Target Methods of Increased Income Generation (e.g., orders, sub-contracts, retail to non-members, consignment); Plan Should Include Financial and Volume Targets as Benchmarks Consistent With Requirements for Self-Sustainability
End of September

B. Develop Operating Plan to Increase Cash Flow From non-Inventory Sources (e.g., delivery services, membership fees, profit centers)
End of September

C. Sell All Assets From P&H Project, and Allocate to Reserve for Repayment to P&H (Existing Trade Supplier)
End of October

D. Review Income and Cash Flow Generation; If Progress Less Than Projected According to Agreed-To Projections, USAID Should Consider De-Obligating Funding for BAF
End of March

III. REDUCE DEBT OUTSTANDING TO TRADE SUPPLIERS

A. Develop Plan of Action to Eliminate Debts to Trade Suppliers Covered Under Moratorium Ending March 1990
End of October

B. Review Schedule of Repayments; If R77,793 in Outstanding Debts Not Liquidated, USAID Should Consider De-Obligating Funding for BAF
End of March

IV. RESOLVE ISSUE OF LIABILITIES OWED TO PREVIOUS DIRECTOR

A. Obtain Qualified Legal Opinion Concerning Actual Liability and Likely Legal Costs Associated With R86,670 Owed to Previous Executive Director
End of October

B. Based on Results of #A, Develop Plan of Action for Liquidating All Obligations to Previous Director

End of November

C. Review Outstanding Obligations; If R86,670 in Liabilities to Previous Director Not Resolved, USAID Should Consider De-Obligating Funding for BAF

End of March

V. COLLECT LOANS FROM MEMBERS OUTSTANDING MORE THAN 90 DAYS

A. Develop Plan for Collecting 100% of Principal and Interest Owed to BAF From Current Members and Outstanding Greater Than 90 Days; Prepare Report for Distribution as Described in #A

End of October

B. Develop Plan for Collecting a Minimum 70% of Principal and Interest Owed to BAF From "Old" Southern Sun Group; Implement Plan; Finalize Loan Collection and Prepare Report for Retroactive Provision for Loan Losses, Impact on Profitability and Likely Negative Impact on Achieving Financial Targets Based on Marketing Option; Distribute Report to Board and USAID

End of March

C. Review Loan Collection Performance; If #A and #B not Achieved, and Members Not Repaying Principal and Interest to BAF Within 90-Day Cycles, USAID Should Consider De-Obligating Funding for BAF Unless BAF Demonstrates Ability To Generate Income From Alternative Sources

End of March

VI. CORPORATE SPONSORSHIPS

A. Develop Plan with Board of Trustees to Generate a Specified Number of Sponsorships (e.g., goal should be consistent with Marketing Option target of eight)

End of September

B. Prepare Needed Profile and Reports of BAF Objectives and Membership to Facilitate Fund Raising Efforts

End of October

C. Review Number of Corporate Sponsorships Generated; If Less Than Eight, USAID Should Consider De-Obligating Funding for BAF Unless BAF Has Demonstrated Ability to Generate Income and Volume From Alternative Sources

End of March

VII. REPORTING AND CONTROLS

A. Complete Reporting Requirements for USAID as Listed in Section VII of the USAID Agreement "Reporting and Evaluation"; IQC Accounting Firm Selected by USAID Should Monitor and Assist BAF Management in Complying With Agreement Requirements.

End of September,
Ongoing Monthly Basis

B. Implement Corrective Actions (e.g., complete documentation for disbursements, stock controls) Necessary to Comply With Accounting Recommendations Made by Ernst & Young and Pema Lakha (IQC firm).

30 Days After Receipt

C. IQC Accounting Firm to Certify Balance Sheet and Income Statements on a Monthly Basis and Forward to USAID

End of September,
Ongoing Monthly Basis

D. BAF to Prepare Twelve-Month Cash Flow Projections and Operating Budget With Technical Assistance Provided By IQC Accounting Firm

End of September,
Ongoing Monthly Basis

E. BAF to Age Member Loans Into Status of Current (up to 90 days outstanding), Over 30 days, 60 days, and 90 days Delinquent.

End of September
Ongoing Monthly Basis

F. If At Any Point USAID Believes Controls and Reporting Are Unsatisfactory To Protect Against Misuse of Funds, USAID Reserves the Right To Immediately De-obligate Funding To BAF.

Ongoing

ANNEX VIII

PROPOSALS FOR SCOPE OF WORK FOR IQC ACCOUNTING FIRM

SCOPE OF WORK FOR IQC ACCOUNTING FIRM
BUSINESS ACHIEVERS FOUNDATION

A. OBJECTIVE OF THIS SCOPE OF WORK

USAID recently contracted for a mid-term evaluation of the performance and overall viability of the Business Achievers Foundation (BAF). As part of this evaluation, recommendations were made to ensure that BAF complies with the terms and conditions of the Cooperative Agreement entered into between USAID and BAF. Recommendations were also made to enhance the financial reporting and controls of BAF in order to promote more efficient operations. Finally, certain matters pertaining to possible liabilities to the previous Executive Director, shown as R86,670 due to Bernard James, require a full accounting as to the amounts due and supporting documentation.

The IQC firm is expected to monitor the organization for compliance with these requirements and work with financial personnel to assist them as appropriate with the technical aspects of this process.

B. TIMING

During the next six months, the IQC firm is to perform these assignments on a monthly basis. After this interim process is completed, it is expected that this review will be conducted on a quarterly basis.

The dates of these reviews will initially be as of the end of each month. After the interim period, it is expected that the periods will conform to the quarters ending March 31, June 30, September 30, and December 31. It is expected that work will be performed so that the information required is completed within 15 days of the above closing periods.

Note that the review of the liabilities reported to the previous Executive Director are to be reviewed and assessed within 15 days. Preparation of the first 12 month cash projection is also to be completed within 15 days.

C. RESPONSIBILITIES UNDER USAID AGREEMENT

The IQC firm will be responsible for monitoring BAF's compliance with reporting requirements as indicated in Section VII. A. "Quarterly Reports" and "Loan Information". These requirements include providing quarterly reports to USAID summarizing the following:

1. Quarterly Reports

   a. Agreement activities of the previous period

   b. Program activities planned for upcoming quarter

   c. Problems encountered in implementing Agreement activities

   d. BAF's progress in raising sponsorship and other funding

   e. Reports and documents for the period prepared with technical assistance financed or required under the Agreement

   f. Training activity for members conducted during the period

   g. Loan status report including remedial actions taken to address defaults and late payments

2. Loan Information

   a. Total amount of funds disbursed per quarter and since inception, per group

   b. Total number of loans disbursed and average size of loans per quarter and since inception, per group

   c. Total amount of funds due for collection and since inception, per group

   d. Total amount of funds recovered during the quarter and since inception, per group

   e. Recovery rate per quarter and since inception, per group (total recovered as % of total due for recovery)

   f. Present rand value of all loans outstanding, per group

   g. Breakdown of male and female borrowers per quarter and since inception

   h. Aggregation of above loan data into statistics reflecting performance portfolio-wide

3. Program Sustainability

   a. Total amount of interest capitalized from the loan program per quarter and since inception, per group

   b. Total value of bulk purchases which occurred during quarter and since inception, per group

c. Total amount collected for membership fees, service charges, delivery charges, commissions, and other sources of income for the quarter and since inception, per group

d. Aggregation of above program sustainability data into statistics reflecting performance portfolio-wide

4. Conduct audit of disbursements of funds from USAID to BAF for compliance with Section V. B. "Disbursement Procedures"

   a. Review reimbursement requests made during the previous period for description of purpose and amount, compatibility with categories in budget submitted with original USAID Agreement, and complete supporting documentation including original invoices, or other documentary evidence showing funds were expended

   b. Review all disbursements above minimum amount (e.g., R2,000) to determine whether they qualify for USAID reimbursement as detailed in Attachment Two of the USAID Agreement, Section IIB, "Specific Components". Sample remaining disbursements for conformity to Agreement requirements

5. Compile balance sheet and income statement information and present in a form consistent with U.S. generally accepted accounting principles (GAAP).

6. Assist BAF in preparing twelve-month cash projections as well as operating budgets. Evaluate these documents for reasonableness, including planned sources of capital required to cover projected cash shortfalls. For budgets, compare actual to plan for explanation of differences as well as corrective actions to be taken.

7. Age debtor and receivable ledgers into categories: current, over 30 days delinquent, over 60 days delinquent, over 90 days delinquent. After interim period of six months, this process is to be performed by management and reviewed only for adequacy.

8. Review management's progress in collecting delinquent accounts and assess collectibility of remaining outstanding balances.

9. Sample members (approximately 10% per audit) by correspondence or personal visits, if necessary, for agreement between BAF's and members debtor receivable balances owing. For discrepancies, determine correct amounts and have BAF adjust financial records accordingly.

10. Review verifications of inventory conducted by management for adequacy. Sample records to actual inventory and if major discrepancies found, or most recent audit more than 30 days old, perform verification of entire stock of inventory and have adjusting entries made to financial records as required.

11. Based on findings, comment on adequacy of BAF's accounting and controls. Make recommendations for improvements.

12. Comment as to progress made in correcting previously noted deficiencies (e.g., Ernst & Young, prior audits by IQC firm).

13. Review cash receipts and disbursements for period and comment as to extent of reliance on internal versus external sources of funds, percentage of each, BAF's apparent ability to meet obligations from both operating and external sources of funds.

14. Review and assess documentation underlying the R86,670 reported to be owed to the previous Executive Director. Present findings in writing as soon possible to BAF management and USAID.