



PDBBS 358
Embassy of the United States of America

Mr. Mkhusele Jack
Trustee, Eastern Cape
Community Development Trust
P.O. Box 13197
Humewood
Port Elizabeth
6013

**Subject: Black Private Enterprise Development Project
Eastern Cape Community Development Trust
Grant Agreement No 674-0303-G-SS-9063-00**

Dear Mr. Jack,

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter "USAID") hereby enters into this Agreement with the Eastern Cape Community Development Trust (hereinafter "the Trust" or "the Recipient") and obligates the sum of \$115,000 to provide support for a program described in Attachment No. 1, entitled "Schedule", and Attachment No. 2, entitled "Program Description", of this Agreement.

The Agreement is effective and obligation is made as of the date of this letter. The Agreement shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning September 29, 1989 and ending September 30, 1991.

This Agreement is entered into with the Recipient on condition that the funds will be administered in accordance with the terms and conditions set forth in Attachment 1, "the Schedule", Attachment 2, "Program Description", and Attachment 3, "Standard Provisions". This letter, and the three attachments just described, which have been agreed to by your organization, constitutes the Agreement.

Please sign the original and one (1) copy of this letter. Please then return the original to USAID/Pretoria.

Sincerely,



Dennis P. Barrett
Counselor for Development Affairs

ACKNOWLEDGED AND ACCEPTED



By: Mkhuseleli Jack

Title: Trustee, Eastern Cape Community Development Trust

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions
4. Ninety Day Advance (as applicable)

ATTACHMENT NO. I

SCHEDULE

I. OVERVIEW OF AGREEMENT

This Agreement will enable the Eastern Cape Community Development Trust ("the Trust") to launch and implement a highly innovative pilot project in the field of community enterprise development. A more detailed description of the Agreement program is contained in Attachment 2 of this Agreement, entitled "Program Description".

II. PERIOD OF AGREEMENT

The effective date of this Agreement is September 29, 1989. The expiration date is September 30, 1991, meaning that no USAID funds under this Agreement shall be applicable to goods not furnished or services not performed for the program by this date.

III. AGREEMENT FUNDING

USAID hereby obligates the sum of \$115,000 for purposes of this Agreement.

IV. RECIPIENT RESOURCES

The Recipient agrees to provide or cause to be provided for the Agreement program all funds, in addition to funds provided under the Agreement, and all other resources required to carry out the Agreement program effectively and in a timely manner.

V. FINANCIAL MANAGEMENT

A. The Trust shall be responsible for accounting for all funds provided under this Agreement. Reimbursement for expenses incurred shall be in the form of a monthly submission of invoices, checks, payroll sheets, etc. as further described in Part B of this Section. Included in this Agreement, as Attachment 4, is a one-year budget based upon expected expenditures covered by this Agreement. This budget also reflects quarterly cash flow requirements and represents the Trust's request for a 30-day advance. A sufficient advance of funds will be provided to cover expenses for three months of operations. Execution of this Agreement constitutes USAID approval of the advance, and for USAID's internal purposes, earmarks and commits all funds obligated under the Agreement. Any interest earned from funds provided under this Agreement will be returned to USAID.

Appended to such quarterly reports shall be any reports or documents prepared with the aid of technical assistance financed under the Agreement, or otherwise required by the Agreement to be submitted to USAID.

2. Final report

Within forty-five days of the Agreement's conclusion, the Trust shall submit a final report discussing, inter alia, the accomplishments of the Agreement, significant problems/failures encountered in its implementation, and the broad future direction of Agreement-related activities. Additional topics, if any, to be dealt with in the report shall be defined as the Agreement conclusion date approaches.

3. Briefings

At the reasonable request of USAID, the Trust will arrange for face to face consultations with USAID on issues raised in the aforementioned reports and/or any other relevant Agreement matters.

B. Evaluation/Audit

The Recipient agrees to cooperate with, and participate fully in, any interim evaluation or audit instituted at the request of USAID during the term of this Agreement. Any such assessments would be financed by USAID with funds extraneous to the Agreement, and would adhere to scopes of work prepared by USAID in consultation with the Trust.

VIII. OVERHEAD RATE

Not applicable.

IX. TITLE TO PROPERTY

Title to all property purchased under this Agreement shall vest in the Recipient in accordance with the terms of Attachment 3, Additional Standard Provision 19, entitled "Title to and Use of Property".

X. AUTHORIZED GEOGRAPHIC CODE

The authorized geographic code for all procurement with AID funds under the Agreement is the United States and Republic of South Africa, meaning that all goods and services financed by this Agreement shall have, with respect to goods, their source and origin, and with respect to services, their nationality, in the United States or the Republic of South Africa.

XI. LOCAL COST FINANCING

It is hereby specified that the amount of U.S. dollars authorized to be used for local cost financing is up to the entire amount obligated under this Agreement.

XII. SPECIAL PROVISIONS

A. Conditions Precedent to Disbursement

Prior to the disbursement or commitment of any funds in Section II of the official Agreement budget (Section II of Table 2, Annex A to this Attachment), the Trust shall submit, for USAID review and written approval, a detailed business plan for the community enterprise venture to be acquired and operated by the Trust. The plan should describe how the Trust intends to ensure the viability of the pilot venture identified, and should contain, inter alia, the following specific elements:

- (a) a strategy for providing -- through inputs such as staff training, access to technical advisory services, recruitment and promotion policies, Trust oversight, etc. -- the day to day management and office expertise required to ensure a successful business;
- (b) cash flow projections for a two to three year period, including a description of all the material assumptions incorporated therein;
- (c) the planned management/staffing structure of the business;
- (d) the planned marketing strategies for the business' services/products;
- (e) financial accounting and reporting policies for the business;
- (f) quality and cost control procedures for the business;
- (g) procedures for the hiring and firing of the business staff, the establishment of staff and management compensation levels, the resolution of disputes, etc.
- (h) policies and procedures for the Trust's application of surpluses generated by the pilot business venture (e.g. how much to be reinvested into the business, how much to be applied to other community projects, etc.);
- (i) the proposed purchase price of the business, including an independent verification of the fairness and reasonableness of same by market standards;

- (h) a copy of the applicable deed of sale, indicating the terms and conditions of sale.

B. Covenants

1. Procurement

(a) Scope. This provision is applicable to the extent that local cost financing is otherwise authorized by the Agreement. It does not require procurement in South Africa where off-shore procurement could otherwise occur.

(b) Policy. In the procurement of goods and services in South Africa, the Recipient shall, to the maximum extent practicable, award contracts to individuals or organizations which are disadvantaged by apartheid and which are responsive and appropriate providers of goods and services.

(c) Definitions. Individuals and organizations disadvantaged by apartheid shall mean (1) South African individuals of black, "colored" or Asian descent whose principal place of business is in the Republic of South Africa; and (2) private partnerships or commercial firms which are incorporated in or organized under the laws of the Republic of South Africa, whose principal place of business is in the Republic of South Africa, and which are more than 50 percent beneficially owned by South African persons of black, "colored" or Asian descent. The Republic of South Africa includes the so-called "independent" and "self-governing" homelands and, for purposes of implementing this provision, Namibia.

(d) Competition.

Subject to the policy set forth in paragraph (b) of the previous subsection, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, free and open competition.

Where the Trust procures services in excess of R10,000 in value pursuant to this Agreement, USAID will be furnished with a summary (c/1 page) memorandum indicating: i) the identities of a minimum of three suppliers actively considered to provide the requisite services; ii) the identity of the supplier ultimately selected via a competitive process; and iii) the rationale for such selection. Such memorandum shall be provided USAID no later than with the Trust's claim for reimbursement for the services at issue.

2. Selection of Trust coordinator

The Trust agrees to hire the Trust coordinator financed by this Agreement based upon the objective professional requirements of such position. Following selection of the coordinator, the Trust will submit a summary (c/1 page) memorandum to USAID indicating: a) the individual selected, including his/her qualifications; b) the rationale for selection; and c) the salary negotiated for the position (based upon such factors as job responsibilities, qualifications, salary history, etc.).

3. Employment generation/women's participation

In implementing this Agreement, the Trust agrees to make an affirmative and cognizable effort to promote the following important objectives:

- (a) increasing employment opportunities in black communities; and
- (b) expanding the meaningful participation of women at all levels of the South African Economy.

4. Application of surpluses

The Trust confirms that surpluses generated by the pilot business project financed by this Agreement will be employed solely for the following purposes: a) reinvestment in such enterprise; b) application to help defray the (modest) operating expenses of the Trust; c) recirculation into the community via other enterprise ventures and/or community projects.

5. Provision of Trust document

The Trust agrees to make available a copy of the Trust Deed and other relevant documentation upon its final legal registration as a non-profit organization.

6. Limitations on assistance

No funds provided under this Agreement shall be utilized in any way to support the South African government, the governments of the so-called "homelands", or entities controlled by same.

XIII. STANDARD PROVISIONS

The Standard Provisions applicable to this Agreement are contained in Attachment 3, entitled "Standard Provisions".

B. Disbursement Procedures

1. Local currency disbursements from USAID to the Trust will be made through monthly reimbursements for expenses incurred during the previous month. Each reimbursement request will include (a) a summary sheet listing in a format compatible with the budget the purpose and amount of all (individual) expenses incurred with a sub-total for each budget line-item and a grand total; and (b) copies of paid invoices (not pro forma invoices), checks, or other documentary evidence showing that funds were expended and the payee received such funds; e.g. an invoice stamped "paid", a cancelled check, a payroll sheet signed by the employee, etc.

2. It is recognized that an advance of funds is required, as working capital, to carry-out the purposes of this Agreement. Refer to Section V-A of this Attachment, and Attachment 4 which requests such an advance.

(a) As discussed in para B.1 above, monthly expenses are reimbursed. As such, USAID will reimburse the Recipient for recurring expenses financed from the advance, but non-recurring expenses financed from the advance will not be reimbursed. Rather than reimburse non-recurring expenses, the amount of the advance will be reduced by that amount. Consequently, when the Recipient submits its monthly reimbursement request per paragraph B.1, it is most important to include those expenses which will be used to reduce the advance balance.

(b) At the end of the Agreement period, any advance balance will be liquidated through submission of paid invoices and/or cash.

(c) Should there be a need to increase the level of the advance, USAID should be notified in writing at least 90 days before the required increase. USAID will advise, in writing, of any approved increases. Likewise, USAID reserves the right to decrease the level of this advance should expenditures fall below projected levels.

VI. FINANCIAL PLAN

A. The Financial Plan for this Agreement is set forth in Tables 1 and 2 of Annex A to this Schedule. Revisions of this Plan shall be made in accordance with Standard Provision 4 of this Agreement, located in Attachment 3 and entitled "Revision of Agreement Budget". All line-item adjustments must receive prior USAID approval.

ANNEX A TO ATTACHMENT 1

TABLE 1

ILLUSTRATIVE BUDGET (RANDS)

<u>COMPONENT</u>	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>TOTAL</u>
I. Infrastructural Support	40,000	-	40,000
II. Pilot Enterprise Venture	230,000	34,750	264,750
	<u>270,000</u>	<u>34,750</u>	<u>304,750</u>

Notes to Budget

Section I: Assumptions include office rental at c/R500 per month, one coordinator at c/R25,000 per year, and secretarial services at c/R9000 per year. These inputs will be funded by the Agreement for one year only.

Section II: As a discrete business venture has not yet been selected by the Trust, precise cost allocations under this line item must necessarily be less than precise. However, evaluations and projections by both the Mission and the Trust have resulted in the following assumptions, the broad accuracy of which is subscribed to by both parties: R200,000 to the purchase cost of a suitable, employment-generating township business within the management capacities of the Trust; R20,000 for training of the pilot project's staff; and R44,750 for technical assistance to the pilot venture. Training and technical assistance inputs are projected to extend over the full, two-year Agreement term.

ANNEX A TO ATTACHMENT 1

TABLE 2

OFFICIAL AGREEMENT BUDGET (\$U.S.)

<u>COMPONENT</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Total</u>
I. Infrastructural Support	15,094	--	15,094
II. Pilot Enterprise Venture	<u>86,793</u>	<u>13,113</u>	<u>99,906</u>
TOTAL	101,887	13,113	115,000

Notes to Budget

For purposes of arriving at this binding, dollar-denominated Agreement budget, figures in Table 1 have been converted at an exchange rate of R2.65/\$U.S. 1.00.

ATTACHMENT NO. 2

PROGRAM DESCRIPTION

I. SUMMARY

This Agreement will enable the Eastern Cape Community Development Trust ("the Trust") to launch and implement a highly innovative pilot project in the field of community enterprise development. With Agreement monies, the Trust will identify and then acquire a township business in the Port Elizabeth Area, support it with infusions of management and other expertise, and utilize the excess surpluses generated by the venture for other enterprise ventures and/or community projects. Agreement inputs will include financing for technical assistance, training, assets acquisition, and (limited) infrastructural support. Total Agreement funding is projected at \$115,000 over two years.

A. BACKGROUND

The Eastern Cape Community Development Trust was created in 1989 in response to, inter alia, the need in the Eastern Cape for legitimate, community-based development activities. The Trust, populated by several highly-respected community leaders, seeks to generate greater resource flows at the grassroots to black Eastern Cape communities, primarily through the following process:

- * The Trust will acquire income-generating ventures on behalf of the community. Preference will be given to enterprises that spawn significant employment opportunities for, inter alia, ex-detainees and others victimized by apartheid, and that expose township residents to economic and other skills useful for long-term community empowerment. (Businesses in the Port Elizabeth area that have been tentatively identified by the Trust as potential candidates for acquisition include, among others, a dry-cleaning store and a brickmaking factory).
- * The ventures acquired will be run on a wholly professional basis, with the objective of securing their long-term sustainability in the marketplace. The Trust recognizes fully that non-competitive enterprises will act as a liability, rather than an asset, for the empowerment scenarios being pursued.
- * Surpluses flowing from the ventures will be utilized to: a) reinvest, as prudent, in the enterprise itself, to maintain its business viability over time; b) help

defray the (modest) operating costs of the Trust; c) acquire further income-generating projects to expand the scope and reach of the overall initiative; and d) support other projects identified as priorities by the community and possessing a broad range of beneficiaries.

In addition to its firm links with the political leadership in the Eastern Cape, the Trust will benefit from input by local businesspersons, academics, and others who have committed to providing technical support to Trust projects. While it is anticipated that their role will be institutionalized, such advisors will exert no direct control over Trust policy, which will remain the sole prerogative of the community-based Trustees.

Pursuit by the Trust of the path just set forth represents an unprecedented and timely initiative in the broader process of change in South Africa. The residual strength of the apartheid apparatus has confronted legitimate black leadership with the challenge of devising ever more sophisticated means of empowering their communities. While many ideas on appropriate strategies in the economic arena have surfaced, few have been distilled into testable, working models. The efforts of the Trust reflect an important step towards bridging theory with concrete practice, and are thus positioned to contribute not only to the concerns of the present moment but to a future, post-apartheid society.

III. PURPOSE

The purpose of this Agreement is to enable the Eastern Cape Community Development Trust to launch and implement a highly innovative pilot project in the field of community enterprise development. Such purpose will be served by the acquisition, capacitation, and successful operation of a suitable township business by the Trust.

IV. PROGRAM DESCRIPTION

This Agreement will provide the Eastern Cape Community Development Trust with the resources to acquire, capacitate and successfully operate a pilot business venture in the townships of Port Elizabeth. Inputs are anticipated to be provided over a two-year term, as elaborated below. Total projected Agreement financing will be \$115,000.

Following execution of this Agreement, the Trust will proceed with identification of an existing business in the Port Elizabeth township which comports with the Trust's broad enterprise acquisition criteria: manageable in size, capable of offering significant employment to ex-detainees and others, suitable for the transfer of key economic and other skills to township residents, and capable of

generating long-term surpluses for the benefit of the community. (As noted previously, a dry-cleaning store and a brickmaking operation are two prototypical ventures that have been identified by the Trust to date as possible acquisition targets). Upon completing this step, the Trust will develop and submit to USAID a comprehensive business plan for the enterprise, the constituent elements of which are specified in Section XII-A of Attachment 1 to this Agreement, above. Upon USAID review and approval of the technical adequacy of such document, a range of Agreement inputs will, within the budgetary parameters set forth in Tables 1 and 2 of Annex A to Agreement Attachment 1, become available to the Trust to acquire, support, and effectively operate the subject enterprise. Such inputs will include the following:

- * Training. The Agreement will finance, over its full two-year term, the reasonable costs of training the business enterprise's staff to efficiently operate the venture. Eligible forms of training would include, inter alia, operator skills upgrading, maintenance and technical training, and supervisory management training. The Trust should develop a basic training strategy within the aforementioned business plan; delineation of specific training activities will then be developed in consultation with USAID. Summary reports on the progress of training interventions will be provided in those quarterly reports due for submission by the Trust to USAID (see Section VII-A(1) of Agreement Attachment 1).
- * Technical Assistance. The Agreement will finance, over its full two-year term, the reasonable costs of contracted technical expertise where necessary to facilitate rational operation of the business enterprise. Eligible forms of assistance would include, inter alia, the refinement of business plans (including those required by Section XII-A of Agreement Attachment 1), the provision of required financial and accounting advice, the acquisition of critical marketing, management, human resource, quality control, and other relevant forms of expertise, and so on. The Trust will consult with USAID prior to commissioning such services, and, after their delivery, will provide summary quarterly reports thereon to the Mission as specified in Section VII-A(1) of Agreement Attachment 1.
- * Assets acquisition. The Agreement will finance the reasonable costs of acquiring the totality of an existing business venture as the vessel for the pilot project. As noted previously, such acquisition should take place only after USAID review and written approval of the Trust's business plan for the venture. Financing will

be available for the outright, once-off purchase of existing equipment, premises, goodwill, and those other indivisible assets of the enterprise essential to its effective operation pursuant to the business plan. Funds under this category will not be available for use as working capital, or to finance any lease or other credit arrangement, whether short or long-term, entered into by the enterprise.

With the aid of the above inputs and others it may provide on its own, the Trust will operate the acquired business on a wholly professional basis, seeking to ensure its long-term market viability and capacity to generate surpluses for the benefit of the broader community. Where surpluses are attained, they will be applied on a non-profit basis, and in conformity with the specific provisions of Section XII-B(4) of Agreement Attachment 1. As indicated in Section VII-A(1) of Agreement Attachment 1, the Trust will report quarterly to USAID on the financial and business results being attained by the pilot enterprise; information on the distribution of surpluses will be provided both in such periodic reports and, in a more constitutional sense, in the pre-acquisition business plan to be developed by the Trust.

To enhance the Trust's ability effectively to husband the pilot project during its critical, start-up stages, the Agreement will further provide limited infrastructural support to the institution for no more than one year from the Agreement's execution. Within the budgetary parameters set forth in Tables 1 & 2 of Annex A to Agreement Attachment 1, such support will consist of the following:

- * The reasonable compensation package of a "Trust Coordinator", to handle the day-to-day activities of the organization, to monitor and coordinate the Trust's role as owner of the acquired enterprise, and to execute the policy decisions of the Board of Trustees. The incumbent of this position will possess those administrative and management qualifications relevant to the responsibilities just noted, and should have a basic familiarity with business concepts. Selection and employments of the coordinator should take place upon the signing of this Agreement, and must comport with the conditions of Section XII-B(2) of Agreement Attachment 1.
- * The reasonable costs of full or part-time secretarial services, in support of the Trust coordinator position.
- * The reasonable expenses of renting an office for the Trust's day-to-day operations. Such office should simultaneously be adequate for the Trust's business and commensurate with its status as a community-based organization. Ancillary costs such as electricity, water, furniture, etc., will not be compensable under this category.

All other first-year infrastructural expenses will be borne by the Trust, out of other sources of revenue. From year two onwards, the Trust will absorb the above costs as well, which it projects will be amply covered by both operating income and anticipated support from other donors.