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Southern Africa Enterprise Development Fund Implementation Assistance Report

Final Report

U S Agency for International Development

Prepared for USAID/RCSA

Prepared by Dallas F Brown, consultant to Action for Enterprise

Arend Hoogervorst, consultant to Cargill Technical Services

Dennis M Smyth, Coopers & Lybrand L L P

Raymond W Suarez, consultant to Coopers & Lybrand L L P

Paul N Wenger, consultant to Cargill Technical Services

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B

SOUTHERN AFRICA ENTERPRISE DEVELOPMENT FUND

LIST OF ACRONYMS

CEO	Chief Executive Officer
COO	Chief Operating Officer
ENI	Europe and Newly Independent States
GDP	Gross Domestic Product
IFI	Intermediate Financial Institution
KSHL	Kingdom Securities Holdings Limited
LCZ	Leasing Company of Zimbabwe
NAIC	National Association of Investment Companies
NASBIC	National Association of Small Business Investment Companies
NGO	Non-Governmental Organization
NXP	Non-Expendable Property
OPN	Ostrich Production Namibia
RCSA	USAID Regional Center for Southern Africa
RHF	Rural Housing Finance
RTAA	Regional Technical Assistance Activity
SAEDF	Southern Africa Enterprise Development Fund
SME	Small- and Medium-Sized Enterprise
SOE	State-Owned Enterprise
ZSE	Zimbabwe Stock Exchange

C

SOUTHERN AFRICA ENTERPRISE DEVELOPMENT FUND
IMPLEMENTATION ASSISTANCE REPORT

EXECUTIVE SUMMARY

The purpose of the Southern African Enterprise Development Fund (SAEDF) is to create an effective, sustainable mechanism providing financial services to indigenous, previously disadvantaged small and medium-sized enterprises (SMEs) in the Southern Africa region Its purpose is to be accomplished through (i) establishing SAEDF as an independent, sustainable enterprise fund, (ii) providing debt, equity and loan guarantee financing to encourage the creation and expansion of commercially viable enterprises, (iii) directing these financial services to indigenous, previously disadvantaged SMEs throughout the region, and (iv) doing so in a financially responsible and sustainable manner without subsidy to the firms in which SAEDF invests

The first investment funds were disbursed by SAEDF in June 1997 As a result of longer than anticipated preparations building up to the commencement of investment operations, however, the U S Agency for International Development (USAID) and SAEDF's Board shared concerns over the Fund's progress and potential impact

In this consultancy, USAID undertook an independent study to determine how SAEDF may improve upon its start-up experience The results of this study are intended to guide USAID, SAEDF's Board, and its management in making mid-course corrections where appropriate This study will hopefully assist SAEDF in fulfilling its mandate of becoming an effective, sustainable mechanism providing financial services to indigenous, historically disadvantaged SMEs in the Southern African region

Findings and Conclusions

Throughout its startup phase, SAEDF's Board of Directors stressed their fiduciary responsibility in protecting and preserving the Fund's capital Management's subsequent cautious investment pace appears prudent, assessed against the risks involved in learning and understanding Southern Africa's evolving business environment, into which Western-style venture capital was being introduced The implication of such caution is that SAEDF will require funding beyond the initial projections of $8 million to support start-up administrative expenses

Better clarification of SAEDF's mission and priorities in the future will help simplify daily operations and enhance efficiency in SAEDF's core investment functions SAEDF's multiple objectives (profitability, sustainability, capital preservation, investment targets, job creation, specific impact, innovation, demonstration effects), though not mutually exclusive, should be acknowledged as periodically calling for transaction-specific compromises and organizational tradeoffs

USAID sensitivities to the independence, style and culture of this private sector-styled vehicle also need to be examined Similarly, USAID's oversight obligation and objectives can be better understood within SAEDF SAEDF's Board also can play a stronger role in the evolution and continued development of SAEDF's mission and priorities, and in proactively mediating policy level friction

Management was found in this study to have maintained fundamental integrity in its financial reporting and internal control systems despite competing start-up demands and turnover in the finance function The Fund will continue to struggle, however, with dual operating constraints in marketing to eleven developing countries from a single office, and with structural shortages and turnover in professional staff

Single office operation saves SAEDF in administrative costs, but forsakes possible advantages of a U S office, or additional in-region offices As the Fund quickly matures, it must now also take on additional responsibilities in the form of portfolio monitoring, and creating and executing investment exits

Staff hiring and retention has been a challenge, and will continue to be so, given the risk/reward tradeoffs and opportunities available to qualified professionals in the market Professional hiring and training will therefore remain a critical requirement of the Fund's basic operating architecture

A significant obstacle for SAEDF to date has been achieving its desired level of portfolio diversification, and specifically, in identifying or developing sustainable, creditworthy intermediate financial institutions (IFIs) for investment This obstacle hampers SAEDF's effectiveness in reaching both micro and smaller enterprises, and women owned businesses SAEDF would be well served by initiating and sustaining efforts to proactively target, outreach, evaluate and develop IFIs and women-owned direct investments

Competition in the Southern African financial market is growing, and SAEDF will increasingly contest for participation with quality entrepreneurs in quality investments More work will also be required to properly balance policy, global standards, market and financial considerations in the evolving arena of environmental screening, assessment, mitigation and monitoring

An important role will continue to exist for SAEDF in supporting the ambitions of Southern Africa's most capable entrepreneurs SAEDF's first year of active investing has already demonstrated its potential for impact Over the longer term it is likely SAEDF's most significant and enduring impact will be in less obvious demonstration effects within the Southern African economies, most notably in training and developing Southern African managers directors and entrepreneurs in the nuance and impact of entrepreneurism and venture capital

SOUTHERN AFRICA ENTERPRISE DEVELOPMENT FUND
IMPLEMENTATION ASSISTANCE REPORT

I BACKGROUND

Since its inception in March 1995, the Regional Center for Southern Africa (RCSA) has operated under a strategic start-up framework based on USAID's Initiative for Southern Africa The Initiative seeks to promote the development and increased participation of the indigenous private sector in all areas of the Southern Africa regional economy, with a focus on stimulating growth and increasing productivity of small and medium-sized enterprises (SMEs) SMEs in Southern Africa have experienced difficulties acquiring the capital they need to start or expand their businesses for reasons which include (i) inadequate access to bank and other financial institutions, largely because SMEs must compete with other attractive investments offering higher returns and less perceived risk, (ii) poor access to market information and technology, and (iii) relatively weak management and business skills, including lack of experience in preparing proper business plans

The purpose of the Southern African Enterprise Development Fund (SAEDF) is to create an effective, sustainable mechanism providing financial services to indigenous, previously disadvantaged SMEs in the Southern Africa region (Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe) This purpose is to be accomplished by (i) establishing SAEDF as an independent, sustainable enterprise fund, (ii) providing debt, equity and loan guarantee financing to encourage the creation and expansion of commercially viable enterprises, (iii) directing these financial services to indigenous, previously disadvantaged SMEs throughout the region, and (iv) doing so in a financially responsible and sustainable manner without subsidy to the firms in which SAEDF invests

SAEDF's Board is chaired by Ambassador Andrew Young and is comprised of twelve Americans appointed by President Clinton, and six Southern Africans Though the USAID Grant Agreement funding SAEDF at $100 million was signed on April 3, 1995, the Fund did not commence effective operations as early as contemplated in the Project Paper or the Grant A Chief Executive Officer (CEO) was selected by the Board in December 1995 Current headquarters were established in Johannesburg in January 1996 By July 1996, SAEDF had sufficient staff to give serious consideration to prospective clients, and has since reviewed more than 600 investment proposals

The first investment funds were disbursed in June 1997 Through November 1977, SAEDF's Board had approved fifteen investments totaling $12 6 million in seven countries Of this amount, SAEDF had disbursed approximately $3 8 million in four investments a leasing company in Zimbabwe, an asset management/discount house/stockbroking company in Zimbabwe, an intermediate financial institution providing low-income housing loans in South Africa, and a fully integrated ostrich production facility in Namibia

As a result of longer than anticipated preparations building up to the commencement of investment operations, however, SAEDF requested an extension to February 2001 to utilize the $8 million in USAID funds authorized for operating expenses, and the $100 million in USAID funds designated for investment These time periods presently expire on September 30, 1999 According to its investment projections, SAEDF believed no further time extensions would be required, nor would additional USAID funding be requested for operating expenses

Similarly, the Fund requested a seventeen month extension of the so-called "carve out" authority, permitting SAEDF to invest up to twenty percent of its USAID capital commitment outside of the intended target of indigenous, historically disadvantaged Southern Africans This authority, designed to enhance SAEDF's financial sustainability, currently expires in April 1998

USAID and SAEDF's Board shared concerns over SAEDF's progress and the potential impact of the slower than anticipated start on longer term goals and objectives SAEDF's Board expressed concern that (i) SAEDF would not invest the full $100 million by September 30, 1999, (ii) grant funds targeted for administrative expenses would be expended before SAEDF's annual income met annual expenses, and (iii) SAEDF's most recent business plan appeared out-of-date USAID, subsequently, requested SAEDF's Board to conduct and share its assessment of the Fund's status, its projected performance, and any suggestions for improved operations and proposed modifications to the Grant

In this consultancy, USAID has undertaken an independent study to assist in determining how SAEDF may improve upon its start-up experience The results of this study are intended to guide the RCSA, SAEDF's Board and Fund management in making mid-course corrections, as appropriate, to ensure that SAEDF fulfills its mandate of becoming an effective, sustainable mechanism providing financial services to indigenous, historically disadvantaged SMEs in the Southern African region

II PURPOSE AND SPECIFIC OBJECTIVES

The purpose of this consultancy was to provide short-term technical assistance services in the areas of progress and impact monitoring of the SAEDF project The specific objectives of the consultancy were to

- conduct an interim study of SAEDF's progress to date offering recommendations for any necessary mid-course corrections,
- finalize the SAEDF Performance Monitoring Plan, including indicators and performance targets, in the context of the RCSA's new strategy
- collect baseline data for investments approved by the SAEDF Board through September 30, 1997, and
- develop systems and procedures which SAEDF can use to collect baseline and impact data in the future

This interim study of SAEDF's progress was designed to review SAEDF's specific implementation experience to date in

- providing debt, equity and loan guarantee financing in order to encourage the creation and expansion of commercially viable enterprises,
- directing these financial services to indigenous, previously disadvantaged SMEs throughout the region,
- doing so in a financially responsible and sustainable manner, without subsidy to the firms in which it invests,
- establishing and implementing appropriate environmental policies and procedures,
- establishing and implementing appropriate accounting policies, systems and procedures,
- achieving long-term financial sustainability

III METHODS AND PROCEDURES

In accordance with the Scope of Work, the Implementation Assistance Team (The Team)

- reviewed files, papers, policies and procedures, financial statements, reports and other documentation defining SAEDF's origins and operations, both at the USAID Regional Center for Southern Africa (RCSA) in Gaborone, Botswana and at the SAEDF offices in Johannesburg, South Africa,
- met with USAID staff in Washington, DC and with RCSA representatives in Gaborone, Botswana,
- interviewed telephonically or in person four SAEDF Directors, including the Chairman of the Board,
- interviewed SAEDF's CEO, Legal Counsel, senior investment officers, investment and accounting staff,
- conducted site visits and interviews with owners and executive management at each of SAEDF's four closed investments Kingdom Securities Holding Limited (KSHL), Zimbabwe, Leasing Company of Zimbabwe (LCZ), Zimbabwe, Rural Housing Finance (RHF), South Africa, and Ostrich Production Namibia (OPN), Namibia,
- met with USAID bilateral Mission representatives in Zimbabwe, Namibia and the Republic of South Africa,

- interviewed senior management of the Regional Technical Assistance Authority (RTAA) contract field team (The Star Group)

- conducted field research and interviews with investors, co-investors, multinational organizations, non-governmental organizations (NGOs) and technical assistance providers and potential beneficiaries of direct SAEDF investments,

- conducted a Performance Monitoring Workshop in which The Team, along with representatives from RCSA, presented to SAEDF management its preliminary observations, findings and recommendations per Section (C) of the Scope of Work,

- prepared the documentation required under Sections (D), (E) and (F) of the Scope of Work This material is covered in the Performance Monitoring Plan and Data Systems Manual

Appendices A and B provide details of the individuals and resources consulted by The Team

IV PRESENTATION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A <u>SAEDF's Implementation Experience</u>

1 Debt, Equity and Loan Guarantee Financing

Inputs and Approaches

The grant between USAID and SAEDF was signed on April 3, 1995 However, SAEDF did not commence effective operations as early as contemplated in either the Project Paper (1994) or the Grant Agreement

The Fund's slower than projected ramp-up into active investing is believed by most involved to have been a consequence of organizing a start-up operation, made more complex by political and cross-border issues unique to SAEDF and its mission Time elapsed as announcements were made of the Fund's formation (1994), a Board of Directors was selected, organized and cohered into a team, a CEO was sought, selected and retained (December 1995), offices in Johannesburg were located and secured (January 1996), initial staff was retained and trained, corporate, personnel, environmental and financial policies, procedures and systems were developed and approved by USAID (June 1996), and a proposal backlog generated from initial publicity was screened

From these initial activities the first investment funds were disbursed by SAEDF in June 1997, twenty-six months from the time of the Grant's execution This startup cycle-time may compare unfavorably with the experience of USAID's European investment funds where the span from announcement to initial investment averaged eight months SAEDF, however, operated with less autonomy and greater accountability to USAID than the European and Newly Independent States (ENI) Funds SAEDF's Board and management also consciously

exercised a conservative posture to initial investing, emphasizing quality and Fund sustainability over quickness of activity Finally, SAEDF's need to harmonize the legal and documentary requirements of U S , British legacy and African systems in eleven countries represented an incomparable challenge

Outputs and Impact

Through November 1997, SAEDF's Board had approved investments totaling $10 5 million in five countries Of this amount, SAEDF had disbursed approximately $3 8 million in four investments, as follows

Debt	Rural Housing Finance **(RHF)** South Africa, an intermediate financial institution providing low-income housing loans in South Africa, $550,000 in subordinated debentures
Equity	Ostrich Production of Namibia **(OPN)** Namibia, a fully integrated ostrich production facility, $1,000,000 in common shares,
	Kingdom Securities Holding Limited **(KSHL)** Zimbabwe, an asset management/discount house/stockbrokerage company in Zimbabwe, $1,200,000 in convertible preference shares, Leasing Company of Zimbabwe **(LCZ)** Zimbabwe, a commercial leasing company, $1,000,000 in preference shares
Guarantees	None

Since each of the investments above received funding within the last year, the baseline experience upon which extensive empirical measurement may be based is only now being created It is difficult, therefore, at this early stage to quantify outputs and impact beyond the investments themselves However, the potential for positive impact by these investees on the overall economies of their host countries and the region appears to be impressive

KSHL is positioned to make major contributions to the economy of Zimbabwe, serving as a broker, trader, investment advisor and 'market maker' on the Zimbabwe Stock Exchange (ZSE), encouraging retail investment in the ZSE, educating new investors on stock market opportunities, participating in the privatization of State Owned Enterprises (SOEs) in addition to the three KSHL has already assisted, eliciting grassroots participation in SOE privatization, publishing investment guides in local languages, and sponsoring a financial education television program In addition, KSHL's management expressed the belief that their operating capabilities have improved through the self-examination required to respond to SAEDF's due diligence questions

LCZ's leasing programs permit small and medium sized enterprises in Zimbabwe to obtain essential productive equipment difficult to finance from other sources LCZ's Principal also indicated that the analysis required by SAEDF improved his understanding of the importance of liquidity management

RHF provides a source of home mortgage financing otherwise unavailable in South Africa to lower middle class workers and their families RHF management indicated that SAEDF funding was the critical factor in increasing its capitalization to the point where it was able to borrow sufficiently to expand its mortgage operations

OPN provides an excellent example of combining financial soundness with development impact and potential, assisting both small farmer/herders, and the foreign exchange position of the Namibian nation OPN's primary individual shareholder stated that encouragement in the form of SAEDF's support for their project provided co-investors with a vital measure of confidence

In the attached Performance Monitoring Plan, provision is being made to measure outputs and impact as they occur Both Baseline Data and Performance Data will be available when a full-scale evaluation is performed

SAEDF, however, has already helped to create or strengthen four enterprises and 122 jobs They are a presence in the regional financial marketplace, adding directly to its liquidity and dynamism Significantly, in a region lacking ample small scale, risk tolerant venture capital as it is thought of in the U S , the Fund has begun training a cadre of venture capital managers and Directors whose greatest impact in the region may be felt beyond the time of their direct association with SAEDF

Opportunities and Constraints

With its organizational foundation now in place, the Fund is positioned to deliver additional impact throughout its prescribed initial ten year life Political systems in Africa, in general, are stabilizing, and their economies are growing Cultures of commerce and entrepreneurism are expanding, as was evident to The Team in its visits and interviews in South Africa and Zimbabwe

The World Bank summarized economic opportunity in Africa in its 1997 Annual Report

> "Improved policies continued to fuel Africa's economic recovery, strengthening the reform momentum and the resolve of donors and African countries to work together This gives cause for optimism as Africa's agenda moves beyond recovery to focus on development
>
> Sub-Saharan Africa's economic recovery both accelerated and spread to more countries in 1996 In sharp contrast to the early 1990's, the region's gross domestic product (GDP) grew faster than the population for the second year in a row Estimated GDP growth was 4 9 percent in 1996 compared to 3 6 percent in 1995
>
> In most countries, exports rebounded too, and evidence continues to confirm the link between good policies and good economic performance Better policies resulted in a more broad-based recovery than in 1995 Performance benefitted from the stronger ownership of reform programs displayed by a new class of committed leadership in many parts of the continent Africa's recent economic performance has energized both African leaders and donors

> Today there is a cautious optimism about Africa's future, with a new openness to taking risks, trying new ideas, setting bolder targets, and looking beyond the near term The entry of South Africa as an active participant onto the African economic scene contributes to the recent optimism All of this is refreshingly new for Africa "

SAEDF has established itself in the Southern region of an African economic revival, having built relationships in the investment and business communities, staff to execute its investment strategy, systems and documentation to support operations, and a Board to govern, steer policy and provide direction

SAEDF's success, however, is not assured or uncomplicated The World Bank cautions in its Annual Report that

> " improvements [in Africa] are fragile, and the threat of reversal is real in some cases Several countries are mired in strife or civil disorder Social indicators remain below those of other regions, fiscal deficits are high and domestic savings low, aid dependency remains high, private investment and foreign direct investment levels, though beginning to improve, are low, and there is a significant unfinished agenda in areas such as the financial sector, public expenditure management, and privatization "

The Team's experience, observations and research suggest that investing venture capital in Southern Africa will prove to be more difficult than in the U S or Western Europe, and as difficult, if not more so, than in the ENI states Quality, seasoned entrepreneurs are still comparatively scarce, investment opportunities present significantly greater unknowns, unpredictability and risk, and competition for quality deals is increasing The experience of SAEDF staff and The Team demonstrated that bottlenecks and breakdowns in transportation, communication and infrastructure often turn routine investment development and monitoring into costly, time consuming affairs

Given real market constraints, SAEDF's success will still require a dramatic increase in prospects evaluated, processed and closed, and, at the same time, the commencement in earnest of portfolio monitoring responsibilities Other opportunities and constraints related to SAEDF's overall effectiveness are discussed in greater detail elsewhere in this report Three to be discussed in this section are (1) SAEDF's organizational mission, (2) improved collaboration and leveraging with USAID country missions, and (3) SAEDF outreach activities

SAEDF's organizational mission While attempting to establish and grow its basic operations, SAEDF has also sought to satisfy its dual governing objectives of "development" impact in the region, and "financial sustainability" of the Fund SAEDF's determination has been to define development to include commercial enterprises with the capacity to pay a satisfactory rate of return whose activities will, at some time, lead to economic or social development SAEDF further expects to minimize the many risks of attempting to satisfy objectives and multiple mandates (financial, economic, developmental, political, environmental) through intensive due diligence procedures

Discussions between The Team and staff have made it clear that SAEDF is working towards balancing its many purposes In the case of the four investments reviewed by The Team, it appears that staff has succeeded in balancing development and profitability considerations It is equally clear, however, from points raised in the Performance Monitoring Workshop and throughout this study, that maintaining this balance, without greater clarity on SAEDF's mission and priorities, will remain difficult

RCSA, USAID field missions, SAEDF staff and its Board of Directors all agree that profitability and development can and must coexist What has not been agreed to is the definition and parameters of this coexistence The Fund presently operates by addressing issues and conflicts of this kind on a case-by-case basis Governing documentation, internal reports and interviews alternatively referenced SAEDF as

- pursuing a wide spectrum of objectives, spanning poverty reduction, economic and social development, empowerment, to wealth creation,

- primarily concerned with investment and sustainability, with development activities (SMEs, IFIs, social), in turn, being the rationale and objective for the Star Group,

- funding enterprises which become sustainable <u>and</u> increase economic participation on the part of indigenous, historically disadvantaged Southern Africans, therein constituting development,

- funding and guiding enterprises which become sustainable, contributing to wealth creation which, in the Southern African context, constitutes de facto development

While the lack of specificity on goals and priorities increases flexibility for SAEDF management to chart its own course, such flexibility may come at the expense of meeting expectations of external stakeholders, and of efficiency in achieving SAEDF's mission Resolving this lack of specificity in SAEDF's mission lies outside of the scope of this study We believe, however, that the focus and performance of SAEDF's management and staff would only improve should additional clarity and direction be provided them on this fundamental policy issue

Improved collaboration with USAID country missions SAEDF possesses an opportunity in improved collaboration and leveraging of USAID country missions Two of the USAID Missions contacted by The Team (Zimbabwe and Namibia) expressed the belief that they had not been communicated with sufficiently to assist SAEDF in optimizing the objectives of either the Fund or USAID The third (South Africa) felt that Fund contacts with its mission had been satisfactory

It should be noted that steps have been taken by Fund officers to address country missions' perceptions of insufficient contact The Team believes that a continued emphasis on developing and maintaining a working partnership between SAEDF and USAID will contribute to the Fund's objectives, and help equalize some of the competitive advantages enjoyed by investors with more capital, local offices, or longer tenure in the region

Our interviews revealed a need for additional communication between SAEDF and USAID missions in areas which include SAEDF country visits, investment and due diligence processes, return expectations, target investment size and focus, confidentiality requirements and expected goals and impact Where specific investment leads have been provided to SAEDF by USAID, SAEDF communication on investment follow-up and action is warranted

Similarly, country missions, putting aside what resentments or mistrust they may harbor, can assist SAEDFs still-developing staff in understanding broad political and economic conditions across its diverse eleven nation market, individual national priorities which may create or negate entrepreneurship opportunities, and perhaps to some extent, in discovering specific investment opportunities

SAEDF Outreach Activities In seeking out potential investees, co-investors and IFIs, preliminary indications are that SAEDF has yet to maximize its potential to make its availability and willingness known to entrepreneurial prospects Most of the institutions and individuals contacted by The Team said they had heard of SAEDF only in connection with the public announcements attendant with its initial authorization Many of the same (with the exception of actual investees) expressed disappointment in the lack of realized investments flowing from that campaign Virtually all said they had heard little or nothing from or about SAEDF since

SAEDF's management has expressed an appreciation for the need to outreach, and has indicated it is making best efforts to deal with the need One example cited was a series of presentations on investment and co-investment opportunities to several Chambers of Commerce and business organizations in the region by SAEDF's CEO

Management also indicated the low priority placed on publicity has been due to SAEDF's need to complete analysis and due diligence on the backlog of approximately 500 investment proposals submitted subsequent to initial publicity in 1994, and the desire to fully develop staff in number and capabilities to process additional investment applications in an efficient and timely manner Once the Fund is fully staffed (by 1998), however, management expressed its plans to undertake more extensive promotional efforts

Strengths and Weaknesses

As discussed above and in sections to follow, SAEDF's strengths include (1) strong capital backing from the U S government, (2) a diverse, eager and intelligent team of managers and staff, (3) and a conservative, long term fiduciary perspective to investing

SAEDF's weaknesses include (1) lack of clarity in its mission, (2) lack of venture capital experience in its managers and staff, (3) an unclear niche in a dynamic market, and (4) lack of a comprehensive strategic marketing plan

Alternative Approaches and Recommendations

Clarify SAEDF's mission (See *Opportunities and Constraints* above)

Completion of SAEDF's strategic marketing plan SAEDF is anticipating rapid growth which will necessitate changing its tactics and tasks This change will be difficult to achieve or manage without a plan which effectively organizes, maximizes, and leverages SAEDF's markets, customers and staff The Fund's existing business and marketing plans are extensive, and represent a good foundation for further efforts However, management believes these plans to be works-in-progress which are now outdated and incomplete The Team believes SAEDF would enhance its effectiveness towards achieving its investment, profitability and development targets by committing the required resources to completing and maintaining its strategic marketing plan Such a plan should organize and clearly communicate SAEDF's mission and vision, data research and analysis, conclusions and rationales, broad goals and opportunities, detailed objectives, strategies and tactics, potential obstacles and challenges, and options and alternatives (See Appendix D 1)

SAEDF's initial market planning has begun positively It needs to be continued, completed, critiqued, implemented and revisited Input from USAID country missions, Directors resident and working in the region, and investment officer trip reports should be routinely reviewed and incorporated

2 Directing financial services to indigenous, previously disadvantaged SMEs

Inputs and Approaches

SAEDF's investment efforts have focused entirely on indigenous, previously disadvantaged SMEs, in line with their primary mission As discussed below, there has been little conscious effort made to address investments qualifying under the twenty percent allocation for indigenous firms falling outside of the target group (the so-called "carve out" allocation)

In many instances, the Fund has worked to develop a practical, operational definition for "previously disadvantaged" which they believe, in the Southern African context, may not always translate into "black " For example, in formerly planned economic systems where SAEDF believes individuals had been universally deprived of access to capital (e g Angola, Zambia), their approach is that indigenous individuals of any race or ethnicity may have been previously disadvantaged

In all cases, The Team's interviews with SAEDF staff and others in the market registered a distinct preference for the more commonly used term "historically disadvantaged" which The Team has adopted for this report

SAEDF appears to have made attempts at visiting and establishing a presence in each of the eleven nations in its market region South Africa, given its political and economic significance and SAEDF's mandate to target fifty percent of its investments there, has received the most attention Zimbabwe, economically important and comparatively rich in entrepreneurial tradition and potential, has followed closely

Other countries in the region appear to be positioned by SAEDF as more fertile territory in the near term for political (e g Zambia, Mozambique, Malawi) or economic (e g Angola) reasons than others (e g Tanzania, Namibia, Botswana, Lesotho, Swaziland) These countries appear to rank as marketing priorities for SAEDF in approximate proportion to their near term promise as sources for investments

Outputs and Impact

As detailed elsewhere, SAEDF has approved fifteen investments totaling $12 6 million in seven countries, and has disbursed $3 8 million to four companies in two countries In the case of the four investments assessed by The Team, it appears that all met the subject criteria Though only four investments have been closed, the two in Zimbabwe, both in the financial services sector, have had demonstration impact beyond their job creation and direct economic benefits

Of other existing commitments, at least five investments totaling $3 5 million in four countries are expected to close in fiscal 1998, as follows

Debt	Dikangola Water Project Angola, a start-up water bottling plant, $550,000 in subordinated debentures
	Technolab LDA Angola, gravel company, $350,000 in senior debt
Equity	Kahn & Partners South Africa, pathology lab, $1,000,000 in common shares
	La Fleur D'Afrique Ltd Tanzania, rose production, $1,000,000 in common shares
Mixed	Liquified Foods drink manufacturer and distributor, $180,000 term loan, $450,000 in common and preference shares
Guarantees	None

Opportunities and Constraints

An opportunity for SAEDF is the relative absence of broad based marketing subsequent to initial announcements of its founding A well-designed marketing campaign, to which the Fund is prepared to respond with action on investment applications, may result in large numbers of additional qualified investment applicants To avoid raising unfulfillable expectations or burdening the Fund with applications outside of its target, this marketing campaign should clearly set forth the Fund's investment criteria

A constraint to SAEDF implementation has been the market's adverse reaction to the Fund's inability to fulfill in a timely manner the expectations of its initial publicity Another possible constraint, SAEDF's management structure, will be discussed at length in sections which follow These constraints lend importance to the twin requirements that the Fund only seek types of funding requests within its mandate, and that it be prepared to handle those it receives in an expeditious manner

Another constraint to directing financial services to SMEs is the number and availability of capable intermediate financial institutions (IFIs) in the region The Fund projects meeting many of its development objectives through IFIs The scarcity of effective, sustainable IFIs, at least as far as those SAEDF and RTAA have identified and developed to date, places the realization of a portion of SAEDF's mission, i e micro and small-enterprise lending, into question
Now that it has been introduced and established, SAEDF can begin to build momentum throughout the region Another significant constraint, however, will be the existence and growth of regional and local competition for quality entrepreneurs and opportunities

Throughout this study, The Team encountered providers of risk capital active in the market They included commercial banks, insurance companies, merchant banks, institutional joint ventures, country focused private partnerships, empowerment groups, NGOs and multinational organizations Among those identified were Takura Ventures, Hook Ventures Zimbabwe Venture Capital, Zambia Venture Capital, Batanai, NAIL, CDC, IFC, New Africa Advisors, New Africa Opportunities Fund, Africa Growth Fund, Modern Africa Fund, Africa Enterprise Fund, Equator Fund, Commonwealth Fund, Heritage Fund, Zimbabwe Progress Fund, Trust Bank, United Merchant Bank, Citibank and Zimbabwe Development Bank Many of these capital sources operate solely on commercial investment criteria with no consideration of non-economic objectives

In the bigger picture, patient risk-tolerant financing appears to remain scarce in Southern Africa Increasingly, however, it appears that SAEDF is not the only, and often not the preferred, source of venture capital for indigenous, historically disadvantaged SMEs in the region SAEDF's U S origins, approaches and relationships may serve, however, as an example of attributes the Fund may call upon to distinguish itself in what appears to be an increasingly dynamic marketplace

Strengths and Weaknesses

SAEDF's major strength in this area appears to be its staff, which is diverse in composition, is energetic and possessing of significant potential, appears to be committed to the ideal of serving indigenous, previously disadvantaged SMEs throughout the region, and seems sufficiently dedicated given the sacrifices incumbent in this mandate

SAEDF's lack of local presence elsewhere in the region may be a weakness in its ability to cover the entire market SAEDF's single centralized location in Johannesburg has facilitated its operating consistently under budget in expenses outperforming nearly every other USAID-sponsored fund in its ratio of expenses to committed capital The attendant tradeoff however, may be insufficient attention and focus on countries and sub-areas within the Southern African region, inferior market intelligence and knowledge, and less than competitive relationships with quality entrepreneurs and compatible co-investors

These negative effects may be more pronounced in the Southern African context than in the U S or Europe, given the diverse conditions and circumstances of the eleven countries SAEDF serves and the frequency and severity of transportation, communication and logistical

difficulties In comparison, IFC operates in Southern Africa out of three offices in Johannesburg, Harare, and Maputo

SAEDF has considered establishing a second office (most likely in Harare), or retaining consultants to provide an enhanced presence in the region Selecting between these two options necessitates a tradeoff increased travel expenditures and managerial oversight at the expense of local presence, or increased office expenditures and improved local presence with the risks of lessened managerial control and operational consistency A third alternative may be a conscious effort by SAEDF and USAID to duplicate many of the benefits of multiple offices through enhanced collaboration and leveraging with USAID country missions

Alternative Approaches and Recommendations

Completion of SAEDF's strategic marketing plan (As discussed above)

Evaluate and decide on strengthening SAEDF's local presence (As discussed above)

SME definition SAEDF has determined that World Bank definitions constitute an acceptable starting point for defining SMEs However, in light of the focus and requirements of the Fund, staff indicated its preference for retaining maximum flexibility, within the spirit of the SME requirement, to make decisions on a case-by-case basis

The Team surveyed USAID Missions, USAID/W IFC and a number of Southern African business and financial institutions to determine the definitions used in the market It was generally found that SAEDF's need for flexibility was appropriate However, The Team would recommend that the Fund, at a minimum, develop its own standards and criteria which would promote more uniform decision-making by investment officers in SME determinations

Standardize and streamline "historically disadvantaged " As discussed above, consideration has been given to an acceptable definition of "previously" or "historically" disadvantaged This might include any entrepreneur in a formerly socialist nation, or any female in a male dominated society It, however is likely to be perceived commonly as meaning black Africans whose previous opportunities were circumscribed under White minority rule in South Africa and elsewhere

The Fund has managed to operate by making its 'historically disadvantaged' decisions on a country-by-country basis However, the Fund has also recognized that this places a burden on the due diligence process The Team believes that SAEDF's focus and performance would only improve should additional clarity and direction be provided on this policy issue

3 Financial responsibility and sustainability

Inputs and Approaches

SAEDF's Directors and management appear to have placed a premium on financial responsibility and Fund sustainability Despite chronic turnover in its accounting staff, substantial time and resources were invested to retain qualified temporary accountants to establish and maintain SAEDF's financial systems The Team's review of SAEDF's accounting policies, systems and procedures revealed no serious deficiencies or contravention of financial responsibility (see Section IV C)

SAEDF's careful, conservative posture to organizational development, due diligence and investment, in fact, have generated criticism and concern from the market, and from others knowledgeable on Fund matters Financial projections, based on SAEDF's current expense assumptions and The Teams' more conservative investment assumptions, show SAEDF may still achieve its goal of sustainability (i e revenue equal to expenses), though not before 2002 (see Section IV D)

SAEDF has no specific provision for investment or technical assistance subsidies Their investment approach does provide, however, for flexibility with respect to financial returns where investments promise specific development impact (e g , RHF which projects a 14% return) SAEDF's practice of local currency investments may also constitute an indirect subsidy (see Weaknesses below)

Outputs and Impact

At this still early stage, without significant investment portfolio assets, SAEDF remains financially sound, maintains adequate financial controls, operates consistently under-budget, and with a lower expense to capital ratio than USAID's ENI Funds

Opportunities and Constraints

Though responsible and conservative, SAEDF's investment pace has been slower than anticipated or planned Investment disbursements and reflows must be accelerated if SAEDF is to avoid depleting its committed capital, and if it expects to demonstrate staff competence and investment returns sufficient to attract second round financing, thereby providing ultimate sustainability

In this regard, an opportunity for SAEDF lies realizing greater portfolio diversification which they have sought, but have yet to achieve The experience and lessons learned from USAID's ENI Funds suggests that the best performing Funds were more diversified, including direct investments, financial intermediaries, joint bank lending programs, small business lending programs, joint ventures and other investment types in their portfolios SAEDF's progress in developing and closing direct investments, augmented by IFIs, carve-outs, joint ventures and special projects, should broaden and strengthen the Fund's financial base, improve its market presence and enhance its attractiveness to alternative capital sources

Strengths and Weaknesses

SAEDF's primary strength in pursuing sustainability is, again, its staff, which appears committed to the concept of the long term, institutionalization of SAEDF and its presence in the region A further strength for SAEDF is its U S origins, which distinguish it among venture capital sources active in Southern Africa, mostly, though not always, in a positive way

One weakness in SAEDF's pursuit of sustainability may be its practice of investing in local currency SAEDF management has indicated that dollar denominated investments rendered the Fund uncompetitive in the market They found borrowers reluctant to bear the risk of local currency devaluation against the U S dollar, resulting in more expensive dollar-denominated future repayments

SAEDF responded to this market condition with a creative foreign currency arrangement which fixes exchange rate risk, the cost (approximately 10%) to be borne, in effect, by the Fund (see discussion below)

SAEDF's ability and willingness to be market responsive may, in fact, distinguish it in a positive way Team interviews and research found that the IFC and USAID's ENI funds all invest in U S dollars Their general philosophy is to emphasize equity and export oriented investments where exchange risk is more easily borne by investees Otherwise, foreign exchange losses become an expense to investees of doing business

It remains in question, however, whether SAEDF's market responsiveness in this instance will generate additional investments, whether SAEDF will recover its foreign exchange interest expense through higher returns on investments, or whether some combination of the two may prove sufficient to ultimately enhance SAEDF's profitability and sustainability

SAEDF's weaknesses in the areas of financial responsibility, are discussed at length in Section IV C , and include turnover at the Chief Financial Officer position, the potential appearance for conflicts presented by the Deloitte consultancy, USAID/RCSA reporting issues, and timing issues related to drawdowns from USAID and disbursements to investees

Alternative Approaches and Recommendations **(See Section IV D)**

4 Specific Implementation Questions

(i) Improved financial services for small and medium enterprises

SAEDF has contributed to the development of improved financial services for small and medium enterprises

As discussed above, in recent months SAEDF has provided almost $4 million in investments to small and medium enterprises The potential for positive impact of these investments on the overall economies of the host countries, in many cases, appears to be impressive

In at least two cases, The Team visited with investee companies exhibiting early and exceptional entrepreneurism and innovation in creating and delivering products and services to its markets Kingdom Securities of Zimbabwe (Kingdom) acts as "market makers" of Zimbabwe Stock Exchange (ZSE) equity and other debt securities, serving the Zimbabwean broker market (ten companies total including Kingdom), the 65 companies traded on the ZSE, and various issuers of commercial and municipal debt instruments

Notably, Kingdom participated in the privatization of three national parastatal organizations, The Dairy Board, The Cotton Company, and The Commercial Bank of Zimbabwe, and acted as lead advisor on the Commercial Bank of Zimbabwe transaction The company feels it has played a pivotal role in (1) educating new investors to the stock market as a vehicle to grow capital and wealth, (2) eliciting grassroots sponsorship of parastatal privatization, and (3) encouraging retail investment in the ZSE

Kingdom publishes investment guides in local languages (Shona and Ndebele) and sponsors a local television program providing financial education and information, "Making Money Make Sense " In 1997, they led a public offering for the Randalls Company which they indicate achieved a record in terms of indigenous public subscriptions They have also worked to broaden public acceptance of unit trusts through the development of three new products for individual investors, a money market income fund, a capital appreciation wealth fund, and a special situation fund of the fifteen highest performing securities on the ZSE

Leasing Company of Zimbabwe (LCZ) is the first and only one of Zimbabwe's five leasing companies to be black owned, in itself of significant demonstration value to Southern African financial markets The Principal estimates that LCZ has outstanding approximately 400 leases in 300 companies, divided as follows microenterprises-3% (10 companies), small and medium enterprises-67% (200 companies), and large companies-30% (90 companies) In each case, where lease financing goes toward acquiring new or incremental equipment, they believe it results in the creation of at least one new employment position Their belief is that such positions are semi-permanent, beyond the life of the lease, as the equipment continues to be productively employed

The Principal indicated that, as a result of analysis related to the SAEDF transaction, he gained a greater concern for liquidity management, i e matching the timing and terms of time deposits (liabilities) and leases (assets) This greater appreciation he believes has strengthened LCZ's operations Further benefits from innovation, he believes, will become apparent as the relationship matures

(ii) Appropriate financial instruments

The financial instruments developed and offered by SAEDF have been made appropriate to the existing circumstances of the Southern African economy and financial sector, the objectives and policies of SAEDF, and the investment in question Among the many things SAEDF has done well, the tailoring of its investments has been among the best As indicated herein, the four investments made to date have included common shares, preference shares, and subordinated debentures, each appropriate to the individual transaction Fund management has indicated its intention to continue following this flexible policy

Following a beginning period made difficult due to differences between US and British based legal systems, intra-regional differences between target countries, and logistical difficulties due to offshore legal counsel, the Fund appears to have resolved its fundamental documentation obstacles A core set of transaction documents is now in place which should facilitate quicker investment closings in the future

Notably, in the absence of American style venture capital conditions in the region, and consistent with the risk policies and return on investment objectives of SAEDF, management and legal counsel created and gained South African regulatory approval for the use of zero coupon redeemable preference shares These shares permit the fund to participate in equity appreciation in its investments SAEDF management indicates these instruments represent the first such of their kind in the region

(iii) Country-specific definitions of microenterprises and SMEs

SAEDF has not consulted with RCSA or USAID bilateral missions to develop country-specific definitions, and such definitions have yet to be developed SAEDF has indicated an interest in following World Bank guidelines in making these determinations The Fund is in the process of consulting the USAID Missions in the Region on possible further refinement of these definitions

(iv) Stimulating investments by other private companies

SAEDF has stimulated investment by other private companies In each investment reviewed, SAEDF has been a co-investor with private banks, companies or investment trusts The extent of leverage has varied from doubling SAEDF's investment (LCZ) to increasing SAEDF funding fifty-fold (RHF)

(v) Technical assistance

Technical assistance, apart from the routine interaction between SAEDF and investee management, has played a limited role in SAEDF's investment development Where provided, it is treated as an operational expense, and is not allocated as part of the investment on which a financial return is sought More significant technical assistance, as that which may be provided by RTAA, is not presently part of a facility for cost recapture by SAEDF

(vi) Foreign Operations, Export Financing and Related Appropriations Act

No indications were found of violations of Section 547 of the Act Management is fully aware Section 547's provisions, and has made clear in its operational directives its intention to comply fully In addition, in all of its due diligence exercises, SAEDF has placed its potential investees on notice of the need to comply fully with Section 547 Ongoing compliance by investees will be recommended as part of an overall annual monitoring process

(vii) Shareholder/investment agreements and standards

SAEDF has addressed the problem of differing legal standards such that future delays in closing deals should be reduced Following a beginning period made difficult due to differences between US and British based legal systems, intra-regional differences between target countries, and logistical difficulties due to offshore legal counsel, the Fund appears to have resolved its fundamental documentation obstacles A core set of transaction documents is now in place which should facilitate quicker investment closings in the future

For example, consistent with the risk policies and return on investment objectives of SAEDF, and in the absence of American style venture capital conditions in the region, management and legal counsel created and gained South African regulatory approval for the use of zero coupon redeemable preference shares which permit the fund to participate in equity appreciation in its investments

Further, in interviews conducted by the Team, the principals of KSHL indicated they believed themselves to be a better, more sustainable enterprise due to beneficial scrutiny applied by SAEDF in its demanding due diligence and negotiation processes The application of American and international standards and management practices they believe have prepared them for the public scrutiny which they anticipate will come with future growth They also expressed the belief that SAEDF representatives worked to compromise where necessary, and have been educated as to the realities of the African marketplace which will prove beneficial in future investments

(viii) Foreign exchange risk

An interim foreign exchange facility employed by SAEDF has met initial USAID approval Question remains, however, as to whether this facility is optimal, or whether a larger, longer term facility may offer SAEDF better rates and terms

Notably, no other USAID enterprise fund employs any comparable mechanism to insulate investees from foreign exchange fluctuations According to USAID enterprise fund staff, currency risk is hedged in their European enterprise funds with equity investments in companies whose growth in share values is intended to outstrip potential currency depreciation Where loans are made, borrowers are expected to bear the foreign exchange risk This same stance vis-a-vis the local market was taken by the IFC representative in Harare This raises questions as to the prudence and necessity of SAEDF's bearing the current 10% spread between interest received on dollar denominated deposits and interest paid on foreign currency borrowings for the purpose of investing in local currency

The Team recommends that a detailed financial analysis be made by the Fund to determine

- whether the 10% per annum net cost of the experimental facility could be reduced by entering into a substantially larger or longer term facility,

- whether that 10% net cost is recompensed through additional client volume or the ability to charge an increased rate of interest to the IFI, or

- whether the development benefit of providing funds through such a program justifies an indirect subsidy

The Team feels that judgement on this issue should be deferred pending completion of the study

(ix) Investments in non-target indigenous firms

The "carve-out" authorization should be extended through the active investment life of SAEDF Management indicates its priorities during the start-up phase have been to focus on investments directed at SAEDF's primary target, i e indigenous, historically disadvantaged Southern Africans To do otherwise would have caused negative public reaction

Assuming that SAEDF's investment pace accelerates, the fund's "developmental" objectives will be addressed The carve-out authorization maintains its potential to assist SAEDF directly in its sustainability objectives

In addition, carve-out investments potentially impact RCSA's specific intermediate development results, namely broadened participation in regional markets, increased use of financial resources, improved business competencies among indigenous entrepreneurs, and SAEDF's becoming a self-sustaining fund

B <u>SAEDF's progress in establishing and implementing appropriate environmental policies and procedures</u>

1 Analysis of the Fund's overall policies and procedures

Summary

The Fund has not operated long enough or generated a sufficient number of appropriate projects to adequately test the Environmental Guidelines detailed in HQT-96-006 However, experience suggests that there are weaknesses which need to be mitigated so that the Guidelines may function in the manner for which they were originally designed During the course of this study, a number of practical recommendations have been generated which require more discussion by the Fund's Board and staff

On the few occasions that environmental concerns did arise during preliminary investigations, the staff exercised considerable wisdom and foresight in dealing with such matters In the absence of expert guidance, their efforts demonstrated commitment, initiative and creativity from which the Fund continues to benefit

The study identified a series of characteristics, both good and bad, which were commented upon and in some instances, recommendations for improvement and enhancement have been made A series of multi-functional environmental "tools" in the form of checklists, guidelines and explanatory notes have been developed as appendices to this report They may be used by

investment staff in any combination to enhance their evaluation skills for the ultimate benefit of the overall due diligence process A separate manual has been developed which can be used by investment officers, according to their own tastes, preferences and interests, to raise the profile of environmental factors in the overall due diligence examinations

This study further identified that

- informal environmental evaluations have been conducted, but there have been too few "environmental" investments to put the Environmental Guidelines to the test,

- there was a need to protect the Fund's environmental risk profile which was not evident at present, partly due to the lack of empirical data to test risk exposure,

- the review identified the need to tighten environmental guidelines by incorporating the growing experiences of the investment staff with a view towards minimizing environmental risk to the Fund and maximizing market opportunities in supporting "environmental" projects that might not otherwise attract mainstream venture capital,

- it was necessary to enhance and consolidate environmental resources to equip staff with basic skills for performing environmental evaluations during the course of normal due diligence,

- in the absence of clear policy on allocation of environmental evaluation costs, it was appropriate to review implementation options for flexibility and sensitivity to the market

Inputs and Approaches

SAEDF captures its policy and procedures regarding the environmental component of its work in Resolution HQT-96-006 Resolution Concerning Environmental Guidelines for the Southern Africa Enterprise Development Fund to Observe When Making Investments This resolution was approved by SAEDF's Board at its meeting of September 26, 1996 Detailed comments on HQT-96-006 Environmental Guidelines under *"Strengths and Weaknesses"* are organized to correspond with the Guidelines' headings

In view of the short time frame in which SAEDF has functioned, it is difficult to comment upon the overall environmental monitoring and review process It was noted that as with all new organizations, most effort and priority has been put into start-up procedures, systems and operations It is appropriate at this stage however to begin reflection, introspection and review to ensure that policy and operations are moving in the same direction It is also appropriate to test activities and operations for practicality and effectiveness The review within this external study is part of that initiative

Outputs and Impact

In view of the limited number of investments developed by the Fund and the limited environmental component of those investments, it is unfair to pass judgement on the effectiveness of implementation of the environmental guidelines However, it was noted that

there is an element of "shyness" in pushing the Guidelines, possibly due to hesitation that environmental concerns may jeopardize the chances of an investment moving forward Environmental concerns are being considered by Fund staff, but not in the style or format presented by the Guidelines

Opportunities and Constraints

It appears the Fund may be unconsciously avoiding projects with potential environmental factors which might impact on decision-making If the Fund follows through with the environmental guidelines to their full and logical conclusion, it would make good economic sense to develop new capabilities through the new procedures and systems The opportunity lies in creating a market "niche" through active pursuit of "environmental" projects This opportunity is only realized if inherent safeguards, checks, balances and procedures protect the Fund from unacceptable environmental liability Until that occurs, the entire initiative can be seen as a constraint

At this stage, it is premature to evaluate the costs of environmental evaluation and review Clearly, this may become a "deal-making or deal- breaking" issue in the future, particularly if there is competition with other capital sources less ethical or particular in their environmental investigations and requirements Furthermore, where some countries are lacking in national environmental policy or legislation, the tendency could be to go for the funding source with the fewest bureaucratic requirements

It would be invidious to see a situation develop where the Fund's environmental risk is compromised by clients playing one funding source against another on the terms and conditions of environmental review, or where the Fund must discount environmental risk against securing investments A firm, but flexible, environmental policy is required which does not compromise the Fund's competitiveness in the market, but at the same time reflects a responsible attitude and approach to the Southern Africa environment

Strengths and Weaknesses

The strengths of the environmental guidelines are that they are broad and can be implemented and interpreted according to the circumstances of each investment or client

The major weakness of the environmental guidelines is that they are as yet untested The investments closed so far have not progressed the policy beyond the initial screening stage Only one investment has resulted in "yes" responses and the Environmental Review has not yet been completed for that project

General Comments on Implementation of HQT-96-006 Environmental Guidelines

Paragraph A of this opening section says that SAEDF will "encourage the firms in which it invests to be sensitive to the environmental implications of their activities [and will] help them ameliorate over time any negative environmental impacts of such activities " This commitment implies that the Fund will have internal resources to meet these commitments These resources would include internal skills (which might be a base level environmental ability of all staff

dealing with clients) and funding, as well as access to outside expertise to advise the Fund on more specific issues The Fund should have mechanisms in place to ensure that, over time, it is able to meet the commitment made in this section

Paragraph B recognizes that the process of environmental improvement is ongoing and gradual However, to support this policy statement, a plan and set of objectives needs to be in place to raise awareness, skills, and expertise among Fund staff, and to add substance to the policy (See Appendix C 1 for a suggested plan)

Paragraph C sets out a number of far reaching management principles which, by definition, need to be brought to the attention of clients and potential clients at the earliest opportunity They pose issues that may need to be incorporated into companies' official documentation, policies, programs and objectives It is possible that some of the principles may be so onerous as to influence clients against using SAEDF resources This suggests that they should be exposed to the clients at the earliest opportunity and that the Fund should have the resources to reassure clients, offer support and assistance in understanding and complying with the principles

Paragraph D establishes that the Fund "may" arrange briefings "May" should be substituted with "shall on a regular basis"

Paragraph E is a necessary legal provision protecting the Fund from unforeseen liabilities and obligations It needs to be reworded, however, more positively as, at present, it could suggest that the Fund may waive the policy implications if it so desired This could suggest or lead others to think that the policy was merely "greenwash "

Direct Investments

Paragraph A sets out quite clearly that a detailed procedure should be in place which would ensure that appropriate environmental information is collected or submitted on a regular basis to enable the Fund to check that its environmental policy guidelines are being implemented by clients (See Appendix C 2 for a proposed procedure) The paragraph also suggests that there will be on-going review of activities and that the Fund will take an active role in the environmental affairs of its clients

Paragraph B is an incomplete list of activities that might pose environmental risk The choice in this type of listing is to either have no list but broad categories and impacts, or to try and draw up a full and complete list of activities that the Fund feels are of environmental concern (See Appendix C 3 for a proposed revised list of activities) These options need to be discussed in light of Fund planning resources and priorities Guidelines are needed to assist in the development of briefs and the review of environmental assessments

Paragraph C is a crucial element of the guidelines underlining the Fund's commitment to look at mitigation, rather than rejection out of hand, of investments that are more environmentally complex or pose a different risk profile

Paragraph D calls for monitoring environmental performance as part of overall investment monitoring This requires a set of guidelines for implementation (Appendix C 4 contains a proposed set of guidelines for this purpose)

Paragraph E needs to be revisited on the basis of how far the Fund is prepared to go in terms of providing support or technical assistance The current tone of the paragraph is weak and inconsequential It needs to be reinforced with a firm policy direction which indicates the degree and strength of support A strong policy guideline on cost apportionment will help to give this concept more weight and relevance

Paragraph F commits the Fund to maintaining appropriate records As mentioned earlier, records and information are important and need to be maintained as a policy and procedural directive The type of documentation to be kept should be specified and should form a part of the wider evaluation and review process of the Fund (See Appendix C 5 for a some guidelines and ideas to this end)

Loan Programs With Financial Institutions

Paragraph A requires that loan applicants complete the environmental checklist It is important that the completed checklist be included in the review and evaluation process and not left until closing on the investment The environmental checklist could potentially uncover ' fatal environmental flaws" in the investment which information should be available as soon as possible It is also important that there be "yes" answers The availability, type and form of appropriate technical assistance needs to be clarified

As a part of checking for "fatal environmental flaws," it may be useful for investment officers to consult their own, more detailed, personal environmental checklists to cover the perspective of the Fund's potential environmental liability and risk (See Appendix C 6 for a suggested Investment Officer Environmental Checklist, Appendix C 7 for a suggested IFI Environmental Checklist and Appendix C 8 for a suggested Client Environmental Checklist) As part of an environmental manual produced as an Appendix to this report, a number of specialized checklists focusing on sectors have been developed These are modified from guidelines and checklists produced by the Environmental Division of the IFC As a supplement to these checklists, a basic contacts list is included in Appendix C 10 to enable investment officers to "quick check" environmental situations This list is merely a starter It is expected over time that staff will add to the contacts list which will contribute to the Fund's environmental resources base

Paragraph B also needs to be strengthened to cope with follow-up and updates on environmental status and information It is suggested that evaluation and review (as well as checking with financial institutions) form a part of an office's procedural annual review of loans and clients

The record keeping and documentation process referred to in Paragraph C has been mentioned above and is dealt with in Appendix C 5

The principle of the environmental screening form is sound i e , a short questionnaire that quickly identifies broad-based environmental issues which may need addressing However, there would appear to be a reluctance on the part of those involved to complete the form in the early stages when it should be used for optimal effect

Some modification, therefore, to the present format is probably needed It is suggested that, if the investment officers are trained to the level where they have the confidence to assist clients in completing the form, late presentation of completed forms may become redundant A revised Environmental Screening Form is presented in Appendix C 9

Environmental Review

The Environmental Guidelines indicate that, should there be a "yes" response to any of the environmental screening form questions, an Environmental Review must conducted To date, SAEDF has conducted no Environmental Reviews The essence of the requirements for the Review are fundamentally sound However, more detail is required to clarify some of the requirements

Alternative Approaches

Status Quo While there is a good degree of informal environmental evaluation work going on, the levels of structured environmental evaluation and monitoring are limited and against a background of almost non-existent procedures, detailed guidelines, and technical environmental back up The status quo is unsatisfactory and potentially exposes the Fund to significant, but as yet, unquantifiable environmental risk

Policy towards firms that "pose significant risk of environmental harm" If the Fund develops a strong environmental policy and an attendant evaluation and monitoring program, it would be well placed to make informed decisions at the level of "environmental risk/harm" of projects This, in itself, might open a potential niche in the marketplace for new projects This could also create opportunities to build capacity in the vital environmental management sector

Avoidance of projects "posing significant environmental risk" The deliberate avoidance of environmentally sensitive projects would seem to be wasteful, considering the fact that the US Government has a clear stand on the environment and its protection, and that the Board saw fit to include specific guidelines to the Fund on environmental issues Others might treat such environmentally sensitive projects with impunity, thus potentially creating significant damage to the environment It would be better to undertake such projects in an ethical and responsible manner, using the significant infrastructure and backing that the Fund enjoys

Recommendations

Annual Review That a formal annual review of projects be instituted as part of SAEDF policy which will revisit loan conditions environmental guidelines, financial status, etc and include a review of trip reports and other evaluations undertaken during the course of the previous twelve months

Detailed Procedures That more detailed procedures be put in place to augment the general environmental framework of the Environmental Guidelines in Resolution HQT-96-006 which will specifically cover the environmental risk potential the Fund may be exposed to in the future (Appendices C 2 3, 4, 6 and 9 contain tools and suggestions to facilitate this)

Records and Information That efforts be made to record and consolidate environmental information generated from discussions relating to investments such that information is used by others and the "corporate memory" of the Fund is enhanced

Training That specific efforts be devoted to additional environmental training for investment staff, to enable them to assess and manage potential environmental risks so that the Fund may benefit from increased business and decreased risk (Appendix C 1 suggests an approach to dealing with this issue)

Policy Review That as part of the above-mentioned environmental training, investment staff review resolution HQT-96-006, along with this review document, and modify it in the light of environmental field experience, practical operations and market dynamics

Risk Assessment That the list of circumstances posing significant risk of environmental review (HQT-96-006 Environmental Guidelines II B) be critically reviewed with a perspective on selecting categories for investment that involve appropriate and meaningful environmental management inputs and sound environmental impact management methodologies and techniques

Environmental Costs That policy guidelines be established which indicate how the costs of environmental evaluation and review are, or can be, apportioned according to circumstances and market situations (Appendix C 11 presents some options for discussion and evaluation)

Specific Environmental Questions

(i) ***Initial Environmental Reviews*** *Has SAEDF as part of its standard application and proposal evaluation process, reviewed the environmental posture of firms or projects which are being considered for direct investments loans or other financing mechanisms? Has relevant information on each firm or project been gathered through the due diligence review process, including information on applicable environmental laws and regulations? Have the management principles in Section I C of the Environmental Guidelines been discussed with each firm or project?*

The Fund carries out an informal review of the environmental posture of firms and projects against the background of the Environmental Guidelines There have been too few instances to test the effectiveness of the guidelines to date At present, there is no clearly defined document trail that enables any judgements to be made on the effectiveness of current informal procedures It would appear from investigation and discussion that there is no central repository, structured filing system or library of environmental information and laws in the Fund Based upon their particular level of interest, some individuals have collected environmental information

(ii) ***Environmental Assessment of Proposed Investments*** *Has SAEDF assessed whether its investments would finance any of the activities listed in Section II B of the Environmental Guidelines, or other activities which would pose a significant risk of irreparable harm to the environment? If a proposed investment does involve any such activities, has SAEDF undertaken an environmental assessment? Were such assessments performed by qualified experts contracted by SAEDF? Were they appropriate in scope and level of analysis to the size of the project or operations involved? How do such*

assessments compare to those conducted by similar financial institutions in Southern Africa (e g , International Finance Corporation, national development finance institutions?)

It would appear that, to date, the Fund has taken a conservative view on the type of projects listed in Section II B of the Environmental Guidelines One or two potential environmentally sensitive projects have not progressed beyond informal discussion and exploratory phases There is no evidence to suggest that the Fund, itself, has ever conducted any environmental assessments It would appear from a study of the files that no environmental assessments have been required This is stated against a backdrop of it not being necessary to have the expertise or knowledge to know whether an environmental assessment was specifically needed

(iii) ***Mitigation Measures for Environmental Risk*** *If SAEDF has proceeded with a proposed investment involving activities which could pose a significant risk of environmental harm, has SAEDF made every reasonable effort to cause the project or firm in which it invests to develop and implement appropriate mitigation measures?*

It would appear that there is no formal approach to environmental risk by the Fund By default, it is imagined that this would be handled the same way as any other risk factor would be dealt with, provided the environmental information was available

(iv) ***Monitoring of Environmental Performance*** *As part of its overall investment monitoring efforts, has SAEDF monitored the environmental performance or each firm in which it makes a direct investment through site visits discussion with officers of the firm, and/or attendance at Board meetings, as appropriate? Where feasible and necessary to enhance the environmental performance of firms in which it invests has SAEDF arranged for technical assistance from environmental consultants and others knowledgeable about environmental issues? What is the practice of similar financial institutions in Southern Africa?*

The Fund does not appear to have any formal environmental performance monitoring criteria or procedures It is assumed that, should the matter arise, it would be dealt with on a subjective reporting basis

(v) ***Environmental Procedures for IFIs*** *In connection with the provision of financing to financial institutions for loan programs, has SAEDF requested financial institutions to require loan applicants to complete the environmental checklist attached to the Environmental Guidelines?*

Only one Environmental Review has been called for and this is still awaited from the client

(vi) ***Overall Implementation of Environmental Procedures*** *Has SAEDF periodically discussed with financial institutions their experience with implementing the procedures described in Section III A of the Environmental Guidelines? Have environmental reviews been prepared by loan applicants as appropriate? Have the loan applicants agreed to undertake the monitoring and implementation recommendations for mitigation, as appropriate?*

It appears from discussions with Fund investment staff that informal discussions are held on environmental issues There is no evidence from documentation examined that any extensive, in-depth discussions have been held with financial institutions Although this review has not been conducted as an environmental audit with the relevant document trails, it is noted that it is difficult to locate and follow document trails which indicate evidence of environmental discussions Any environmental discussions should be documented or minuted to enter that information into the "corporate memory" of the Fund, thus enabling it to be of use to others

(vii) ***Environmental Records*** *Has SAEDF maintained appropriate records (e g correspondence, file memoranda, reports of environmental reviews) to indicate the manner in which environmental issues are addressed in connection with the review and approval of investment proposals and the monitoring of environmental issues? Is SAEDF maintaining appropriate records to indicate the manner in which environmental issues are addressed in connection with loan programs established with financial institutions?*

No formal environmental conditions have been set at the time of writing of this report No documentation is available on environmental initiatives or monitoring, other than the Environmental Guidelines contained in Resolution HQT-96-006

(viii) ***Briefings on Environmental Issues*** *Has SAEDF management arranged any briefings for its investment staff on environmental issues faced in the Southern African business context (e g , national and local laws mitigation and monitoring methods?*

The Fund has not, prior to this study, given any briefings or training on environmental matters to investment staff

C SAEDF's accounting policies, systems and procedures

1 Analysis of the Fund's Overall Policies, Systems and Procedures

Summary

SAEDF has made good progress toward developing and implementing its management policies, procedures and systems to comply with Grant financial management requirements There are a few areas where the Fund could improve its financial operations to better control payment, accounting and reporting activities Our recommendations for suggested improvements in those areas are contained in the following material

The Fund's *Policies And Procedures Manual* covers basic accounting and internal control systems Since October 1, 1996, the Fund has maintained its financial records on an automated accounting system (AccPac), which was installed and certified by Coopers and Lybrand in compliance with generally accepted accounting principles as well as with Grant requirements

For several months during the middle of Fiscal Year 97, the Fund did not have strong, hands-on leadership in the Finance Office It also did not have a sufficient number of qualified accounting staff to permit adequate separation of functions as required for proper internal controls in all areas of financial management operations

The Finance Office at the time of this study had on board one direct-hire Accounting Clerk, a temporary Acting Chief Financial Officer (the "A/CFO" through December 1997 after which a permanent CFO was placed) and a temporary Accountant Both temporaries are regular employees of Deloitte Touche Tohmatsu International (Deloitte), the accounting firm which has performed all external financial audits of the Fund The temporaries and the Accounting Clerk have worked diligently during the past few months to bring the records current in preparation for the FY1997 audit With the addition of a permanent CFO and one or more qualified accountants, we believe the Finance Office will be able to adequately perform its basic financial management responsibilities

2 Specific Accounting Questions

(i) Finance office procedures

In a letter of September 3, 1996, to the Fund's CEO, the USAID/RCSA Grant Officer approved the Fund's accounting and internal control systems subject to the requirement *inter alia* that the Finance Office develop detailed office procedures, including the flow and storage of documents assigned duties of staff, and other implementing procedures The Fund's *Policies And Procedures Manual* addressed some of the concerns contained in the Grant Officer's letter including the issuance of purchase orders and processing of payments The Fund had no written procedures which detailed the duties of the various staffers, flow of documents or procedures for handling other accounting or related activities within the Finance Office, as requested by the Grant Officer

It appeared that for the previous several months the Finance Office had not retained sufficient numbers of qualified full-time personnel which resulted in some non-compliance with the Fund's financial policies and internal control requirements, as noted below

Control Accounts The prescribed Fixed Asset Register was not current until September 30, 1997, when it was brought up-to-date by the Deloitte temporaries A General Ledger investment control account had not yet been utilized, but the A/CFO planned to install and use the prescribed account starting in November 1997 Although the Payroll Register, prescribed by the *Policies And Procedures Manual,* had not been utilized, the Deloitte temporaries had performed a reconciliation of the payroll to the General Ledger at the end of FY1997 The A/CFO planned to open the required general ledger payroll account in November

Bank and Cash Pre-numbered petty cash vouchers were not being utilized, nor were the prescribed petty cash book being maintained or reconciled to the general ledger or to the cash on hand The prescribed receipts book (cash book) and check received register were not being maintained The manual also required use of pre-numbered and controlled deposit slips which were not being used

Periodic, accurate bank reconciliations and review by the CFO is an obvious key to internal controls which avoid improper fund allocation Accordingly, the Deloitte team had recently initiated a system of periodic reconciliation of cash and the regular use of a check register Since the Fund had no safe, blank checks were kept in a locked file cabinet The Accounting Clerk managed accounts payable, received vendor invoices and initiated check payments, a situation which violated sound internal control principles

Travel Advances The Finance Office treated travel advances as expenses, relying on memory to collect on advances against travelers' vouchers This practice resulted in unnecessary reconciliations to collect outstanding advances The A/CFO planned to regularize the control of travel advances early in FY1998

As noted above, it is our opinion that the lack of sufficient qualified staff in the Finance Office had been the prime factor causing less than full compliance with the Fund's prescribed policies and procedures, and with the weakening of its internal controls

(ii) Finance office duties

At the time of our review, the Finance Office had just three officers on-board two temporary accountants from the Deloitte & Touche staff and a direct-hire Accounting Clerk During the last several months of his incumbency, the previous CFO was alleged to have been negligent in ensuring the adequacy and integrity of the Fund's financial operations We did not examine or attempt to evaluate the cause for these allegations

Due to the absence of strong leadership in the Finance Office, the financial records were not maintained on a current basis, nor were timely financial reports rendered Consequently, the current staff had spent most of its time during October and November 1997, on reconciliation of the Fund's last six months' financial transactions and preparation of reliable financial reports

The Finance Office had no prescribed segregation of duties The Accounting Clerk handled the payment process, data entry, bank liaison and filing The temporary accountant devoted most of her time to reconciliation of accounts payable and fixed assets, while the A/CFO spent his time on general reconciliation of accounts and preparation of financial reports These extensive reconciliation efforts were caused by mis-applied or unidentified payments These were caused by posting errors resulting from the lack of accounting classification on payment documents over approximately half of FY1997 operations

Early in FY1998, the A/CFO began using a voucher coding sheet to indicate the proper account to be charged for each payment With the consistent use of this basic accounting tool, the Finance Office is expected to experience fewer reconciliation problems The A/CFO has also instituted the use of a monthly checklist to help insure that various reconciliation and reporting requirements have been properly completed We believe these fundamental changes will help improve the accuracy of Fund financial records and the timeliness of Fund financial reporting

SAEDF's chart of accounts contained approximately 1,900 accounts, although the FY1997 year-end trial balance included only 242 active accounts The A/CFO indicated he planned to delete up to 50% of the unused accounts from the AccPac system The Finance Office handled about 700 payment transactions annually, excluding payroll and petty cash activities Although the number of current accounting transactions is not excessive, the workload will rise as investment activities and staff increase

To prepare for the anticipated increase in investment workload and to provide for better internal controls, we believe the Fund should add another professional accountant to its current staffing as soon as possible This would permit immediate separation of the petty cash and bank reconciliation process, separation of check preparation and maintenance of accounts payable, and separation of payroll oversight and bank reconciliation

As program activities increase, the Finance Office will need to raise its staffing level to an optimum level of seven, including the CFO, five Accountants (one each for Accounts Payable, Accounts Receivable, Banking/Cash, Investments and Payroll) and a Data Entry Clerk Such staffing levels should permit reasonable separation of duties and better internal controls

It is The Team's understanding that SAEDF hired a CFO in January We believe the Fund should also start immediate recruitment efforts for a qualified accountant to augment the current three-person staff, two of which are scheduled to end their consultancy assignment with the Fund in early in 1998 The Fund should intensify its recruiting efforts to get permanent, qualified staff on board for the Finance Office, especially as the two Deloitte temporaries cost the Fund in excess of $20 000 per month

(iii) Travel, per diem and settling-in allowances

It appears the Finance Office operated at less than full capacity for several months before the consultants were brought in from Deloitte As a result of staff shortage, supporting documentation for payments was not always maintained or properly filed The A/CFO estimated that The Team had found approximately 80% of missing documentation, but that much remained to be located and reconciled to payment documents, including those for travel vouchers

Travel Our review indicated that the Fund generally complied with its written policies and procedures governing official travel However, we believe there are some areas requiring strengthening For example, the policy manual provides for use of business class air accommodations "on international long distance flights" To avoid any confusion or mis-interpretation as to when business class travel can be used, the Fund should amend its manual to define "long distance flights "

Per Diem Although we generally found adequate documentation supporting travel claims, there seems to be some confusion on paying lodging costs The CEO advised that it was Fund policy to reimburse travelers for cost of official travel, based on standard per diem rates set by the U S government He added that the Fund reimbursed travelers for M&IE costs with no receipts required, and for lodging costs when supported by a hotel bill, up to the published U S government rate, and in certain special cases over the lodging limit He added that if lodging costs were less than the stated allowance, the Fund would reimburse traveler for such costs

The Fund's travel reimbursement request (voucher) contained separate columns for Lodging and M&IE expenses However, it appeared the policy on reimbursement for lodging costs had not been consistently applied A casual review revealed one isolated case of an apparent overpayment It does indicate, however, a possible variance between what appears to be Fund policy on reimbursing travel costs and actual practices followed Policy and practice should be reconciled, and resulting travel claims must be carefully pre-audited prior to payment

For M&IE payments, we noted a case where a traveler claimed and was paid for a business lunch, supported by a restaurant bill for two, although the travel voucher indicated the lunch was for just one business person Another traveler claimed reimbursement for several different business meals, which apparently resulting in excessive reimbursement We believe it would be useful for the Fund to amend Section 11 of its policy/procedures manual by deleting "There should also be some reasonable limitation on reimbursement of such business-related meals", and replacing it with a clarifying statement such as "The CEO or his/her designee must approve in advance any claim for reimbursement of business meals in excess of $50"

Settling-In Allowance The Fund had paid seven employees the equivalent of about $38,000 for settling-in allowances However, we could not find evidence of written policies or procedures governing the authorization and payment of Settling-In Allowances The record for the last allowance paid indicates it was based on a 30-day per diem rate for the employee and a half-rate for his dependent, plus $500 for "transportation allowance" We believe the Fund should amend its policy and procedures manual to clearly indicate those conditions under which a settling-in allowance would be authorized and to prescribe the rates for such payments

(iv) Financial reporting requirements

The Fund has not always met the financial reporting requirements contained in the Grant's General Provisions primarily due to Finance Office staffing problems during FY1997 Because of the need to complete excessive reconciliations required prior to closing the FY1997 accounts in preparation for year-end reporting and the annual audit, the Finance Office had not submitted the Federal Cash Transactions Report (SF-272) on a timely basis As of early November 1997, the last SF-272 submission covered August 1997 activity

The Fund intends to fully comply with all financial reporting requirements after it completes reconciliation of, and adjustments to, its accounts preliminary to the annual audit The A/CFO intended to submit the next SF-272 and prescribed supporting reports by mid-November 1997 He presently prepares a Monthly Treasurer's Report which he submits to the Board Treasurer This report shows the accrual aspect of the business, and thus provides a better indication of the financial implementation and activities of the Fund

The A/CFO agreed to include this report in the regular SF-272 submissions starting in mid-November Once the FY1997 year-end reports are prepared and audited, the A/CFO intends to submit the prescribed financial reports to USAID (RCSA in Gaborone) on a timely basis

(v) OMB Circular A-122 compliance

Grant Amendment No 4 states that the Fund's corporate and accounting policies and procedures must comply with OMB Circular A-122 Senior Fund personnel generally are aware of A-122 requirements Other than minor violations of Fund policies and procedures reported above, it appears that the Fund generally complies with the cost principles contained in A-122 We found no evidence that the Fund has used Program Income to cover costs proscribed by A-122 We did identify a few areas that, in order to fully comply with A-122, need attention, as follows

Non-Expendable Property A-122 provides that capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency On July 27, 1996, the Grant Officer authorized the Fund to "incur reasonable capital expenditures for general purpose equipment to carry out the purposes of the grant" This authorization appears to represent a blanket approval for the Fund to procure non-expendable property (NXP) for the life of the project The Fund did not seek nor obtain subsequent USAID approval to procure non-expendable property, and it continued to purchase NXP well into the last quarter of FY1997 The Fund NXP inventory at the end of FY1997 totaled just over $300,000 Since the inventory level should now be considered material, the Fund and USAID should agree on how to comply with the provisions of A-122, Attachment B, paragraph 13

Entertainment The Fund charged amounts to operating expenses which, though immaterial in size (less than $100), appear to be entertainment expenses prohibited by A-122 To preclude the appearance of impropriety, the Fund should collect the appropriate refund from the employee and credit the expense account originally charged

Atlanta Expenses Expenses incurred by the Fund's Atlanta office during FY1996 were not charged by the Atlanta office to the Fund's accounts, nor reviewed for compliance with A-122 principles The Fund asked Deloitte to provide an estimate of its charges to review and report on Atlanta start-up costs As of November 1997, Deloitte had not provided the requested price quote The Team has been informed by the SAEDF/RTAA Activity Manager, however that these expenses were reviewed by Deloitte in their 1997 audit

Hedge Fund Advance The Fund and a South African bank entered into an agreement providing that in return for an initial deposit of $1 million to be held as security, the bank will lend the Fund Rand for re-lending to its investees The agreement provided that the bank will pay the Fund interest at 6 125% per annum in arrears on the $1 million deposit The agreement further provided that the Fund will pay the bank interest, at its Spot Exchange Rate (presently about

17%), to borrow Rand for re-lending to investees The agreement has resulted in unresolved issues as follows

- In anticipation of lending Rand to three specific IFIs, the Fund drew down $1 million from its Letter of Credit with USAID and deposited it in the newly-established account at Nedbank The Fund included the deposit as an asset on its balance sheet, but treated it as an expense for SF-272 reporting purposes since the monies are not available for other purposes However, Grant Amendment No 4 provides that such grant funds must be considered expended by the Fund only when the Rand equivalent is disbursed by the Fund to its borrowers Amendment 4 further provides that monies held in the special account prior to Rand disbursement to Fund borrowers will be considered advances and subject to the same Letter of Credit requirements governing advances

  To solve this anomaly, it appears the Fund should report the advance in the "Remarks Section" on its SF-272 cash reports, support it with a brief narrative describing the transaction, including the anticipated use of the advance for its re-lending activities, and then request an exemption for this particular advance only, from the usual requirement to treat an advance as cash on hand to be netted against the amount of draw under the Letter of Credit The Fund should then strictly adhere to the Letter Of Credit and Grant reporting requirements

- As noted above, the Fund is obligated to pay the bank interest for borrowing Rand for re-lending to its investees However, A-122 provides that costs incurred for interest on borrowed funds are not allowable

  Since Grant Amendment No 4 provides that Program Income is exempt from A-122 requirements, then investee interest payments, and if necessary principal repayments, could be attributed to those interest payments the Fund will make to Nedbank The Fund should establish the necessary accounts and procedures to track future interest payments and their eventual treatment as Program Income

  Alternatively, the Fund might seek a legal opinion that the differential between the cost of borrowing Rand and the income from the $1 million on deposit could be considered as the cost of insurance against devaluation, not passed on to its borrowers, thus representing an allowable cost under A-122 provisions

(vi) OMB Circular A-133 compliance

As noted earlier, a possible conflict of interest had been raised because Deloitte presently provides two consultants, at a cost exceeding $20,000 monthly, as temporary staff in the Fund's Finance Office, and Deloitte was conducting its annual external audit of the Fund's FY1997 statements and financial operations Prior to hiring the Deloitte temporaries, the CEO asked Deloitte for its views on a potential conflict of interest with the external audit team Deloitte responded that the consultants assigned to the Fund were members of its consulting division (Special Services Group), while the external audit team members would be drawn from Deloitte's separate audit division (Financial Institutions Team)

Deloitte pointed out that the consultants assigned to the Finance Office would take instructions from and report to the Fund CEO Deloitte noted that the audit team would conduct its audit in accordance with the firm's audit standards and guidelines Deloitte stated that in some past cases, their audit reports had disclosed that certain accounting assistance had been provided to the clients, and that this disclosure should alleviate any conflict of interest concerns

Deloitte's engagement letter to the Fund outlined the nature and scope of work planned for the 1997 SAEDF audit The engagement letter is quite detailed and included the main provisions of A-133, including testing of the grantee's internal control systems and compliance with Grant provisions We met with the Deloitte representative, who served as partner in charge of the audit, and with the lead auditor on the audit team We discussed those A-133 principles which the Deloitte team has incorporated in their engagement letter Based on the above, we concluded that the scope of work for the FY1997 audit complies with A-133 requirements

(vii) Procurement and property management

The Fund's operating manual incorporates basic procurement policies and procedures which conform to the requirements of 22 CFR 226 During the recent period when Finance Office operations were severely restricted by lack of staff, procurement actions, regularized by the issuance of Purchase Orders, were not always conducted as prescribed by the manual The A/CFO was aware of the need to follow prescribed procurement practices, and since the latter part of FY1997, he had required the issuance of Purchase Orders to cover all but petty cash procurement As noted earlier, however, the Fund had not complied with A-122 requirements of obtaining prior approval from the funding agency for procurement of general purpose equipment The Fund should amend its policies and procedures manual to provide for compliance with this requirement

The Fund's investment policies and guidelines contain certain prohibitions on investments, consistent with the Grant General Provision 8 (Prohibited Transactions) requirements We were advised that in conducting its due diligence procedures, the Fund made reasonable inquiry regarding those prohibited transactions The Fund, however, had not included in its contracts the provisions and certifications required by General Provision 8 (A) and (B) The Fund will include these requirements in its future contracts

The Fund generally complies with 22 CFR 226 property management standards The property records contained all required information except a notation identifying the source of the equipment The Finance Office recently concluded a physical inventory of Fund-owned non-expendable property it continues efforts to reconcile the inventory to those fixed asset control records recently brought current The policies and procedures are in place With baseline information being recently established, the Fund should be able to meet all prescribed non-expendable property management requirements

D SAEDF's long-term financial sustainability

1 Analysis of the Fund's overall sustainability

Inputs and Approaches

SAEDF has laid a foundation for financial sustainability, having invested the better part of two years in organizing and developing its Board, management, office, staff, systems, policies, procedures, market knowledge and presence

In its initial operations and investment activity, SAEDF's Directors and management appear to have placed a premium on fiduciary responsibility, preservation of capital and the Fund's long term sustainability This appears to have translated into a more cautious, conservative approach to financing indigenous, historically disadvantaged SME's in the Southern African region, than that anticipated by the market or others knowledgeable on Fund matters

On a longer term basis, SAEDF's financial sustainability will be determined by its management and staff, Fund profitability and performance, and management's success in marketing these attributes to second round capital sources Staff has undertaken preliminary planning towards raising follow-on funding Key to their eventual success will be SAEDF's ability to maintain a stable nucleus of Directors, managers and staff, and the Fund's medium to long term financial performance

Outputs and Impact

SAEDF has begun to establish itself as a source of risk capital for indigenous, historically disadvantaged SME's in the Southern African region They have achieved some degree of market presence and credibility with their initial four investments, thereby demonstrating to the market that capital is available, albeit selectively, for enterprises meeting their criteria
At this stage, it remains premature to project with any degree of certainty the impact of these early outputs on SAEDFs long term sustainability Interviews and research conducted by The Team suggest, however, that private capital flows into the Southern African region are increasing, and that SAEDF, as an early and active participant in this marketplace, may be well positioned to benefit from growth in volume and scale of SME entrepreneurship activity

Opportunities and Constraints

Research and anecdotal reports point to growing interest on the part of worldwide industrial and financial circles in the markets and economies of post-apartheid Southern Africa Team meetings disclosed a quiet, sustained interest in the region from diverse African, U S , European and multinational sources SAEDF enjoys a unique opportunity in that it has established itself relatively early in this growing market, has attained critical mass in size and presence, has identified and retained a youthful staff with upside potential, and carries with it U S perspectives, style and relationships which appear to be distinctive in the current market

Significant constraints to SAEDF's realization of this opportunity in the form of long-term financial sustainability include (1) the existence and growth of competition for quality SMEs

seeking venture capital, and (2) the relative lack of, and competition for, experienced, market-savvy venture capital staff and financial professionals

Strengths and Weaknesses

SAEDF's most important strength has been staff's willingness to accept constructive criticism and implement changes

Staff turnover A possible weakness, however, is the Fund's difficult experience in attracting and retaining qualified, experienced staff The Southern Africa marketplace is highly competitive for well-educated, highly skilled, experienced indigenous professionals As SAEDF does not offer management or staff investment carry (a percentage participation in the gains or losses of an investment fund) as is customary in private sector venture capital, or the conservative outlook and security of a commercial bank, finding and retaining quality staff has been as critical and difficult to the Fund's operations as identifying investment opportunities

Investment development pace SAEDF's organizational development requirements, long term investment perspective, investment size restrictions, eleven nation marketplace, diversified investment outlook, inexperienced staff, and single office in the disparate Southern African region appear to have combined to contribute to a slower than expected investment pace, which, if not ameliorated, will impede its financial sustainability

Single office operation Unlike another, somewhat comparable investor in the region, the IFC, SAEDF covers Southern African from a single office location In addition, SAEDF operates without a U S office, unlike most of the USAID ENI funds This has contributed to SAEDF's consistently underspending its budget and outperforming its European peers with respect to operating expenses On the other hand, SAEDF may risk long term sustainability in forsaking expenditures which could develop additional regional investments, U S based joint venture opportunities and U S based second round capital sources

Management and staff structure Within the limits of our expertise, The Team sought to determine

- If SAEDF has suitable management, organizational, and supervisory structures with adequate lines of responsibility, accountability and authority, sufficient senior management presence, and satisfactory support systems to compensate for staff absences,
- How well SAEDF's internal operations can be carried out during absences of the CEO for tasks such as due diligence Board meetings of investees, marketing and promotions,
- The degree to which SAEDF's management and staff are prepared to undertake the added functions of portfolio and impact monitoring,
- Whether SAEDF staff at senior and junior levels is satisfactory in number, qualifications and ability,

- If the youth and limited venture capital experience of SAEDF's current staff (accompanied by a dynamism that has been praised by investees and others) should be complemented with additional experience,

- The degree to which SAEDF has institutionalized operating procedures through the development of manuals setting out those procedures, to minimize the negative impacts of staff turnover,

- How well SAEDF has succeeded in efforts to mitigate excessive staff turnover in the competitive Southern Africa employment market

Satisfactory internal operational capability and outreach are key to SAEDF's ability to meet performance targets and become financially self-sustaining The Team discussed with SAEDF's CEO whether the Fund might operate more efficiently and effectively if it were to employ a Chief Operating Officer (COO) to assist in oversight of daily investment operations, permitting the CEO to focus on marketing, outreach and policy matters The CEO indicated that, at the Fund's current size and scope, he believed that

- a single Senior Executive is sufficient to manage all aspects of the Fund's activities,

- delegation of authority during his absences to one or more Vice-Presidents had proven adequate,

- SAEDF's "team" approach (one VP, Associate and Analyst per investment) provided satisfactory back-up in case of absence,

- the new CFO, once in place, may fulfill some COO functions, as did the former CFO, and

- with growth, the Fund may consider augmenting further its Senior Executive structure

The CEO also indicated that SAEDF is making best efforts to remedy staff shortages, both in number and experience, and is confident it will do so in a timely manner The Team noted, however, that new hires at executive levels would reverse SAEDF's stated intent to promote from within, by hiring additional staff (except for the CFO) only at lower level positions This would risk morale problems with current staff or require a budget increase for new VP positions

Environmental exposure The Team developed several questions in the course of this study relating SAEDF's posture and preparedness in environmental management and performance to long-term financial sustainability, among which were

- What is the potential "flow-through" liability to SAEDF from SMEs supported by SAEDF-sponsored IFIs? What level of effort devoted to environmental review is commensurate with the level of risk?

- Does existing language in investment documentation for SAEDF's four closed investments indemnify investees and expose SAEDF to potential environmental

mitigation costs?

These questions have yet to be addressed to The Team's complete satisfaction

Portfolio monitoring Having recently closed on its first investments, SAEDF has yet to be tested in its preparedness and ability to monitor its portfolio Among the experiences and lessons learned by the older USAID ENI funds, timely investment monitoring proved to be both critical to investment performance, and more difficult in developing nations where infrastructure and logistics are poorer, and information is neither timely nor reliable SAEDF has yet to engage this challenge, possesses relatively little experience in venture capital monitoring, and as yet, has few standardized portfolio monitoring procedures

Office plan SAEDF's offices are pleasant and well apportioned Although on a single floor, the staff has grown to a size where it is now physically separated among two distinct areas Executive and financial management enter through one entrance, investment staff through another The Team believes that this configuration hinders, though not critically so, the oversight and supervision of junior staff, and compounds the impact of SAEDF's other human resource challenges

Alternative Approaches and Recommendations

Market strategy and planning Since alternative sources of venture capital are available in the Southern Africa region, SAEDF's ability to find its "niche" was discussed at length The Fund has indicated that as a grant-funded organization, it believes it has a greater degree of flexibility to invest where its developmental, economic and environmental goals are met, than would a commercial venture capital fund seeking to optimize returns for exclusively profit-oriented investors

Additionally, SAEDF (along with others such as IFC) has the ability to offer combinations of debt and equity as needed to meet the unique demands of each investor These Funds also have the rare capability of making long term investments unlike many alternative private sources of capital These characteristics represent potential competitive advantages for SAEDF, but only if they are leveraged effectively

SAEDF's prospects for long term financial sustainability will be enhanced once such factors have been thoroughly organized, analyzed, presented, approved and implemented in the form of a final, comprehensive strategic marketing plan As previously discussed, the foundation for such a plan is in place What remains is building onto that foundation the additional knowledge and insight gained systematic input from those knowledgeable on and involved with SAEDF its market and activities and the plan s completion

Board composition and structure SAEDF's Board of Directors is by all accounts functionally diverse, broad in perspective, significant in capabilities, and substantive in contributions to the Fund The by-laws authorize that SAEDF's Board may consist of up to nineteen members, of which up to ten may serve from the U S , and up to nine may serve from indigenous Southern Africa nations The current board comprises twelve members from the U S , and six from Southern Africa

To improve SAEDF's market knowledge, local presence, investment identification and strategic decision making, The Team recommends that SAEDF enlist additional Directors from indigenous Southern Africa nations, preferably from nations in the region not already participating Should it be deemed that such expansion would result in a Board which is too large and unwieldy to properly govern or exercise its responsibilities, SAEDF might consider an adjunct Advisory Board of Southern African representatives which would counsel and advise Directors and management on regional affairs

Additional indigenous Directors may mitigate the dual tradeoffs of SAEDF's operating from a single office, without adding the expense of multiple locations First, it helps cure any remaining shortcomings in SAEDF's market knowledge, relationships and investment flow resulting from its limited local market presence Second, it frees U S Directors to contribute more in the form of developing U S based joint venture opportunities and second round capital sources In these areas, SAEDF may suffer as, unlike most of its ENI counterparts, SAEDF operates without a U S office

Suggestions were offered during this consultancy regarding Board structure namely, that there be more extensive use of Executive Sessions for Directors only (without staff or observers), and that an Executive or Operating Committee of business-minded Directors take on an expanded role, meeting regularly to advise, assist and support Fund operations The Team concurs with these suggestions

Management structure The Team recommends that SAEDF promote, name or retain a strong #2 executive as COO or Senior Vice President for Investments This position would augment the CEO's management presence, responsibility and accountability for investment performance, and provide executive leadership for staff when the CEO is away from the office This person should preferably be experienced in both management and investment development

Environmental exposure The Team recommends that the questions raised under "Weaknesses" above be further studied and addressed The Team also recommends that SAEDF monitor and align with global standards for environmental management and performance, as practiced by the World Bank and IFC, which emphasize industry screening, selective environmental assessment, systematic monitoring, mitigation where advisable and on-going training (twice annually for IFIs)

Portfolio monitoring The Team has prepared a portfolio monitoring program for adaptation and use by SAEDF (Appendix D) The Team recommends that SAEDF's new CFO undertake as a priority the establishment of a rigorous portfolio monitoring routine

Staff training The Team recommends that SAEDF staff attend U S based classroom training on venture capital practices provided by the National Association of Small Business Investment Companies' (NASBIC) Venture Capital Institute, in conjunction with hands-on rotations through practicing venture capital companies of the National Association of Investment Company (NAIC) This combination will provide an excellent grounding in the fundamentals, distinctive aspects and real world obstacles and practices of venture capital investing

2 Specific sustainability questions

(i) *Financial assumptions*

Based on actual experience and current staffing components, SAEDF's present financial assumptions are aggressive

The Team has analyzed the above requests and statements Our findings are that

- The SAEDF Board of Directors, representing a broad range of key American institutions and individuals, exercised its prerogative of examining Fund objectives and proposed operations with commendable thoroughness,

- Recruitment of the Fund CEO and initial staff were carried out with great care,

- The time and logistical requirements to set up, investigate structure and implement effective operations in Southern Africa had been underestimated by the project planners

A substantial backlog of investment requests had developed during the start-up period, and a considerable time and effort was devoted to evaluate which merited more intensive investigation As an example of the burden imposed by the large number of requests, USAID/Namibia felt compelled to use its own funds to retain a consultant to carry out an initial appraisal of the forty-five investment inquiries (many of them containing insufficient information for full evaluation) received before SAEDF became operational

Because of the unique importance of the initial investments to the future of Fund operations, SAEDF management and Directors examined the viable applications in fullest detail and with eminent prudence to ensure the soundness and nature of the requests The thorough and time-consuming nature of SAEDF's due diligence into the qualifications of proposed investees has been praised by a number of investees themselves as helping them to improve their operations Consideration was also given to the impact of differing legal standards between the U S and Africa, and between nations in Africa, on the time needed to proceed from SAEDF Board approval to closing

SAEDF's most recent financial projections are based on a full complement of six experienced senior investment officers, each generating three investments per year at an average of $1,500,000 per investment These assumptions based on SAEDF's three year experience, are not reasonable given

- the need to factor in time to hire and/or develop additional senior investment officers

- the likelihood of continued senior staff turnover in the competitive Southern African labor market

- the historical productivity of SAEDF investment staff (i e one investment per senior

investment officer),

- the historical size of average SAEDF transaction ($840,000), and
- the low probability of dramatic increases in average transaction size due to Board and USAID targets for developmental objectives

(ii) Investment targets

A longer period will be required to invest all of SAEDF's allotted funding

In its formative stages, SAEDF's management and Board have exercised prudence and emphasized Fund sustainability in its investment development process As a result, the current investment and funding targets are aggressive SAEDF is likely to require at least until the year 2002 to invest all of the funds granted by USAID (see Appendix E)

(iii) Business plan

SAEDF's business plan and marketing strategy remain works-in-process requiring continued development and fine-tuning

Management is continuing to develop and resolve important strategic and tactical questions, including its distinctive competencies, overall marketing approach, country, industry and client focus, and staffing (hiring, training, compensation, etc) strategies Additional questions were raised in this consultancy in the area of management structure

(iv) Administrative expenses

SAEDF's administrative expense budget may need to be increased The timing of such expenditures will likely require extension

Administrative expenses to date have reflected positive budget variances primarily due to lower than projected personnel expenses However, negative revenue variances due to the possible slower pace of investments over a longer time period look to offset expenditure reductions, requiring additional allocations for administrative expenses

The additional allocations appear to be in the range of $3 2-$3 5 million peaking in 2002 before reflows from the sale of equity are returned to SAEDF, replenishing Fund reserves The Fund will require extension to at least the year 2002 to expend the funds under the Grant

Allocations beyond the $3 2-$3 5 million projected in this study will be required, should SAEDF fall short of any of the following targets

- maintenance of 6 fully functioning senior investment professionals,
- increase in investment efficiency to two closed transactions per senior investment professional,

- increase in average investment size to $2 million by 1998,
- effective monitoring and management of a portfolio of approximately 60 companies by 2002,
- identification of exit vehicles returning 30% on equity investments by 2002,
- capital losses of %5

(v) Additional capital

SAEDF has undertaken preliminary planning only towards the development of additional capital from other sources Investments and operations have been the focus of management's attentions to date One professional staff member has now been assigned this task

V CONCLUSIONS AND LESSONS LEARNED

This study examined SAEDF's start-up experience from 1994-1997 in the following areas

- providing debt and equity financing to encourage the creation and expansion of commercially viable enterprises in the eleven country Southern African region,
- directing financial services to indigenous, previously-disadvantaged SMEs throughout the region,
- investing in a financially responsible and sustainable manner,
- establishing and implementing appropriate environmental policies and procedures,
- establishing and implementing appropriate accounting policies, systems and procedures,
- achieving long-term financial sustainability

The detailed observations, interpretations and judgements from the qualitative findings and empirical evidence collected during this study are presented in the conclusions and recommendations throughout the body of this report In this section, some broader conclusions and lessons from this study are summarized and presented

SAEDF began operating under numerous challenges and formidable constraints The Fund sought to profitably invest risk capital across eleven developing countries while satisfying multiple, and at times, countervailing goals The Board of Directors charged with launching SAEDF comprised few if any of the Fund's initial architects or planners The slower than projected start-up can be attributed in part to the difficulties and complexities incumbent in SAEDF's fundamental purpose, the lack of focus to its mission, and optimistic projections by the project's initial planners Given such an ambitious endeavor, more ground level input and greater coordination from project paper to implementation may have better matched SAEDF's business realities with its policy objectives

Throughout its startup phase, SAEDF's Board of Directors stressed their fiduciary responsibility in protecting and preserving the Fund's capital Management's subsequent cautious investment pace appears prudent, assessed against the risks involved in learning and understanding Southern Africa's evolving business environment, into which Western-style venture capital was being introduced

The implication of such caution is that SAEDF will require funding beyond the initial projections of $8 million to support start-up administrative expenses SAEDF's Board and USAID must also revisit their and the original project planners' expectations with respect to size of investments, number of investments, probable returns and employment creation

Better clarification of SAEDF's mission and priorities would simplify daily operations and enhance efficiency in core investment functions (marketing, analysis, due diligence, structuring, monitoring) While SAEDF's multiple objectives (profitability, sustainability, capital preservation, investment targets, job creation, specific impact, innovation, demonstration effects) are not mutually exclusive, they are often fundamentally countervailing, calling for transaction-specific compromises and organizational tradeoffs which should be acknowledged

USAID sensitivities to the independence, style and culture of this private sector-styled vehicle also need to be examined The adverse impact on staff morale and direction can only detract from the achievement of SAEDF's overall goals Similarly, USAID's oversight obligation and objectives can be better understood within SAEDF

The Board can play a stronger role in the evolution and continued development of SAEDF's mission and priorities, and in proactively mediating policy level friction Management will subsequently be provided with greater overall direction and with greater freedom to focus on its primary function--effectively planning and executing operational strategies

Management was found in this study to have maintained fundamental integrity in its financial reporting and internal control systems despite competing start-up demands and turnover in the finance function The Fund will continue to struggle, however, with dual operating constraints in marketing to eleven developing countries from a single office, and with structural shortages and turnover in professional staff

Single office operation saves SAEDF in administrative costs, but forsakes possible advantages of a U S office (providing more ready access to U S joint venture and second round financing sources) or additional in-region offices (providing local marketing and monitoring presence) As the Fund quickly matures, it must now also take on additional responsibilities in the form of portfolio monitoring, and creating and executing investment exits Otherwise its aggressive investment return expectations will not be realized

Staff hiring and retention has been a challenge It will continue to be so, given the risk/reward tradeoffs and opportunities available to qualified professionals in the market Professional hiring and training will remain a critical requirement of the Fund's basic operating architecture The current staff is young and able, and achieved great strides before and during this consultancy with respect to venture capital investing, environmental assessment and impact monitoring Extensive portfolio monitoring, workouts, turnarounds and exits remain, however, as future challenges

SAEDF operates in a high risk environment, and some business failures can be expected to occur The experience of USAID funds in Eastern Europe found portfolio monitoring to be more difficult than in the West Sub-Saharan Africa is likely to be more challenging still Absent dramatic changes in investment amounts, investment pace, and proactive definition of exit vehicles, profitability, even at the slower pace projected in this study, will not occur

Another significant obstacle for SAEDF to date has been the difficulty in achieving desired portfolio diversity, and specifically, in identifying or developing sustainable, creditworthy IFIs for investment This obstacle presents dual consequences in that it hampers SAEDF's effectiveness in reaching micro and smaller enterprises Fewer IFI investments also means that SAEDF will impact fewer women owned businesses, as women owned businesses are disproportionately represented in the informal and microenterprise sectors

Given USAID emphases on both microenterprises and women owned businesses, SAEDF would be well served by initiating and sustaining efforts to proactively target, outreach, evaluate and develop IFIs and women-owned direct investments SAEDF should also encourage direct and IFI investees to make serious efforts to collect on-lending and employment data in disaggregated form by gender wherever possible, so as to heighten awareness of and impact on the conditions which perpetuate gender based disparities

Competition in the Southern African financial market is growing, and SAEDF will increasingly contest for participation with quality entrepreneurs in quality investments More work is also needed to balance adherence to policy, global standards, market and financial considerations in the evolving arena of environmental screening, assessment, mitigation and monitoring

Policy and operating challenges notwithstanding, an important role exists for committed, innovative institutions such as SAEDF They alone have the will and capacity to support the ambitions of many capable entrepreneurs in spite of the risks and uncertainties of Southern Africa's fragile developing economies SAEDF's first year of active investing included innovative companies in basic industries, younger emerging entrepreneurs with aggressive ideas and global perspectives, and a veteran manager breaking ground with the first black-owned company in his industry SAEDF has already demonstrated its potential for impact

Ultimately, SAEDF's broader accomplishments may be manifested more subtly Formal evaluations of the more experienced USAID ENI Funds have supported the idea of venture funds as a model--encouraging development through application of the best of Western free enterprise techniques and approaches By contrast, the concept of enterprise funds as a development panacea--simultaneously creating jobs, providing demonstration effects, and earning market competitive venture capital returns--has ebbed in the face of political and market realities

Over the longer term, it is likely SAEDF's most significant and enduring impact will be in less obvious demonstration effects within the Southern African economies in its introduction, training and development of a corps of managers, directors and entrepreneurs in the nuance and impact of entrepreneurism and venture capital, and in its graduation on or before its nominal ten year life to an independent investment entity

APPENDIX A

LIST OF CONTACTS

Millard W Arnold
Minister Counselor
The Commercial Service of the United States
Southern African Region
15 Chaplin Road
Illovo, Johannesburg, 2196
South Africa
Phone 27-11-442-3571
Fax 27-11-442-3770
Internet MArnold@doc gov

Douglas H Ball
Project Development Officer
Regional Center for Southern Africa
Post Office Box 2427
Gaborone, Botswana
Phone 267-324-449
Fax 267-3240404
Internet dball@usaid gov

Gregory Boyd
Managing Director
Phoenix Venture Partners SA (PTY) Ltd
Wale Street Chambers
33 Church Street
Cape Town 8001
South Africa
Phone 021-261-218
Fax 021-261-382
Internet phoenix@iafrica com

Loren M Braithwaite
Managing Director
Pontso Investment Holdings
Johannesburg, South Africa
Phone 083-267-2768

Gordon Bremer
Managing Director
Star Group
P O Box 2427
Garorone, Botswana
Phone 267-351-530
Fax 267-351-560
Internet gbremer@info bw

Wellington Chadehumbe
Vice President
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630
Fax +27 11-442-9824
Internet wellingtonc@saedf org za

Nigel Chanakira
Chief Executive Officer
Kingdom Securities Holdings Ltd
2nd Floor, Karigamombe Center
Samora Machel Avenue
P O Box CY 3205
Causeway
HARARE
Phone 263-4 749948/54
Fax 263-4 758228
Internet kingsec@harare iafrica comm

Sanjeev Chhugani
Associate Director, Corporate Finance
Coopers & Lybrand
7th Floor udc Centre
First St /Union Ave
P O Box 702
Harare
Zimbabwe
Phone 263 4 756950/8/9
Fax 263 4 757108
Coopers & Lybrand sanjeev_chhugani@za coopers com
Internet sanj@harare iafrica com

Colin Clarke
Legal Counsel
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet cclarke@saedf irg,za

Gary R Cohen
Special Projects Officer
USAID/Namibia
7th Floor, Southern Life Towers
39 Post Street Mall
P/Bag 12028 Ausspannplatz
Windhoek
Namibia
Phone 264-61-225935
Fax 264-61-227006
Internet gacohen@usaid gov

Professor Stephen B Cohen
Georgetown University Law Center
600 New Jersey Avenue, N W
Washington, DC 20001
Phone 202-662-9068

Philip Condon
Senior Investment Officer
International Finance Corp
P O Box 2960
101 Union Avenue, 7th Floor
Union Avenue
Harare
Zimbabwe
Phone 263-4-794860/8/9
Fax 263-4-793805
Telex 22704 WBZ
Internet IFC@AFRICAONLINE Co ZW

50

Mark Dietrechsen
Vice President
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet mdietrechsen@saedf org za

Margot Biegelson Ellis
Director, Private Sector Programs
USAID/South Africa
Sancardia, 9th Floor
524 Church Street
P O Box 55380
Arcadia, Pretoria 0007
Phone 012-323-8869
Fax 012-323-6443
Internet mellis@usaid gov

Valerie Estes
Office of Women in Development
U S Agency for International Development
1300 Pennsylvania Avenue, N W
Washington, DC 20004
Phone 202-739-0103
Internet vestes@devtechsys com

Joseph Freeman, Jr
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet jfreeman@saedf org za

51

Brian Senzo Gama
Investment Officer
International Finance Corporation
Victoria Gate West, Ground Floor
Hyde Park Lane, Hyde Park 2196
P O Box 41283, Craighall 2024
Johannesburg, South Africa
Phone 27-11-325-0720/8
Fax 27-11-325-0582
Telex MCI 248423 WORLDBANK

Hlelo Nc Giyose
Investment Associate
Southern Africa Enterprise Development Fund
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet hgiyose@saedf org za

Doug Hamilton
Director, Operations
Rural Housing Finance
128 Van Beek Street
Doornfontein, Johannesburg
P O Box 665, Johannesburg 2000
Phone 011-404-2405
Fax 011-404-1402

Martin E Hanratti
Chief, Private Enterprise Divison
USAID
1 Pascoe Ave
P O Box 6988
Harare
Zimbabwe
Phone 263-4-720630
Fax 263-4-720722
Internet mhanratty@usaid gov

52

James F Hansley
Senior Venture Capital Advisor
ENI/ED/EF
U S Agency for International Development
1300 Pennsylvania Avenue, N W
Washington, DC 20004
Phone 202-712-4003
Internet jhansley@usaid gov

Russel W Hawkins, Jr
Municipal Finance Advisor, USAID
USAID
P O Box 55380
Pretoria 0007
Sancardia Street, 9th Floor
Pretoria, South Africa
Phone 012-3238869
Fax 012-3236443

Elliot Hayes
Senior Investment Associate
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet ehayes@saedf org za.

Chris Hock
Managing Director
Rural Finance Facility
2nd Floor, Swiss Place, 128 Van Beek Street
P O Box 665 Johannesburg 2000
Doornfontein, South Africa
Phone 011-404-2405
Fax 011-404-1402

Joan C Johnson
Program Officer, *USAID*/Namibia
Private Bag 12028
Ausspannpaltz
Windhoek 9000
Namibia
Phone 264-61-227006
Fax 264-61-225935

Richard Johnson
Office Director, Enterprise Funds Division
U S Agency for International Development
1300 Pennsylvania Avenue, N W
Washington, DC 20523
Phone 202-712-4039

Terry L Jones
President
Syndicated Communications Inc
8401 Colesville Road, Suite 300
Silver Spring, MD 20910
Phone 301-608-3203

Omar Karasapan
Private Sector Development Knowledge Management Specialist
The World Bank
1919 Pennsylvania Avenue, N W
Washington, D C 20433
Phone 202-473-8177

Kenneth A Lanza
Deputy Director, Office of Emerging Markets
Global Bureau USAID
Washington, DC 20520
Phone 202-663-2384
Fax 202-663-2149
Internet Klanza@usaid gov

Patrick Makanza
Financial Executive
Takura Ventures (Pvt) Ltd
4th Floor, 101 Union Avenue
P O Box 3758
Harare
Zimbabwe
Phone +263-4 707313, 707341, 707357
Fax +263-4 707393

Strive Masiyiwa
SAEDF Board Member
EcoNet Cellular
14th Floor, Fidelity Life Tower
Harare
Zimbabwe
Phone 263-4 794-672/4
Fax 263-4 736-609

Bob Miller
Financial Analyst
USAID Regional Center for Southern Africa
Post Office Box 2427
Gaborone, Botswana
Phone 267-324-449
Fax 267-324-404

55

Kermit C Moh
Sr Private Enterprise Officer
Regional Center for Southern Africa
P O Box 2427
Gaborone
Botswana
Phone 267-324-449
Fax 267-324-404
Internet kmoh@usaid gov

Johann Mouton
Deloitte & Touche
Special Services Group
Deloitte & Touche Place
The Woodlands
Woodmead Sandton
Docex 10 Johannesburg
Republic of South Africa
Phone 011-806-5000
Fax 011-806-5117

Brendan Moyo
Legal Advisor
Kingdom Securities Holdings LTD
2nd Floor, Karigamombe Centre
53 Samora Machel Avenue
P O Box CY 3205
Causeway, Harare
Zimbabwe
Phone 263-4-758-857
Fax 263-4-758-228

Mary-Jean Moyo
Senior Investment Associate
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet maryjeanm@saedf org za

56

Jefta Mugweni
Managing Director
Leasing Company of Zimbabwe Ltd
10th Floor
Old Mutual Centre
Cnr Third Str/Jason Moyo Ave
P O Box 5139
Harare
Zimbabwe
Phone 704685/7, 708362, 708660
Fax 708767
Internet leasing@id co zw

P Munemo
Investment Executive
Venture Capital Company of Zimbabwe Ltd
11th Floor, Fidelity Life Tower, Raleigh Street
P O Box 3646
Harare
Zimbabwe
Phone 753364/6/7, 772504, 772696, Telex 26666ZW
Fax 772698

Marcia Musisi-Nkambwe
Project Manager/Private Sector Advisor
USAID/RCSA
Gaborone West, Extension 6
P O Box 2427
Gaborone, Botswana
Phone 267-324449
Fax 267-324404
Internet Nkambwe@USAID GOV

David Noble
Financial Controller
USAID Regional Center for Southern Africa
Post Office Box 2427
Gaborone, Botswana
Phone 267-324-449
Fax 267-324-404

Dan Norell
Regional Manager
MEDA Southern Africa
P O Box 1183
Harare
Zimbabwe
Phone 011-263-4-883064
Internet meda@mango zw

Lucky Nyembe
Analyst
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet nnyembe@saedf org za

Hoze Riruako
Results Specialist
U S Agency for International Development
6th Floor, Southern Life Towers
39 Post Street Mall
Private Bag 12028 Ausspannplatz
Windhoek, Namibia
Phone 264-61-225935
Fax 264-61-227006
Internet hriruako@usaid gov

J Garth Rowland
Partner
Coopers & Lybrand
Debswana House
P O Box 294
Gaborone
Botswana
Phone 267-352011
Fax 267-373901

Tusetso Saul
Analyst
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet tsaul@saedf org za

Lysias Sibanda
C A (Z), Group Finance Director
Kingdom Securities Holdings Ltd
2nd Floor, Karigamombe Center
Samora Machel Avenue
P O Box CY 3205
Harare
Phone 263-4-749948/54
Fax 263-4-758228
Internet kingsec@iafrica comm

Anthony Siwawa
Associate
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet asiwawa@saedf org za

Wendy Stickel
Assistant Director
USAID Regional Center for Southern Africa
Post Office Box 2427
Gaborone, Botswana
Phone 267-324-449
Fax 267-324-404

Robert D Stillman
Vice President for Investment Funds
Overseas Private Investment Corporation
1100 New York Avenue, N W
Washington, DC 20527
Phone 202-336-8762
Fax 202-842-5194

Maurice Templesman
Senior Partner
Leon Templesman and Son
529 5th Avenue, 20th floor
New York, NY 10017
Phone 212-687-6920

Jack Thompson
Director-Project Finance
Star Group
P O Box 2594
Saxonworld 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng 2196
South Africa
Phone 27-11-442-6709
Fax 27-11-442-9824
Internet jackthompson@saedf org za

Steven Weddle
President and Chief Executive Officer
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonwold, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630/1/2/3/4
Fax +27 11-442-9824
Internet sweddle@saedf org za

Julie R. Weeks
Director of Research
The National Foundation for Women Business Owners
1100 Wayne Avenue, Suite 830
Silver Spring, MD 20910-5603
Phone 301-495-4975
Fax 301-495-4979
Internet jweeks@ibm net

Paul E Weisenfeld
Regional Legal Advisor
USAID/South Africa
P O Box 55380, Arcadia 0007
Pretoria, Republic of South Africa
Phone 12-323-8869
Fax 12-323-6443

Darrell A West
Vice President
Southern Africa Enterprise Development Fund
P O Box 2241, Saxonworld, 2132
First Floor, 5 Sturdee Avenue
Rosebank, Gauteng, 2196, RSA
Phone +27 11-283-1630
Fax +27 11-442-9824
Internet dwest@saedf org za

J Eric Wright
Private Equity
Citibank, N A
34 Cradock Avenue
Rosebank, Johannesburg
South Africa
Phone 27 11-280-2200
Fax 27 11-280-2211
Internet eric wright@citicorp com

Ambassador Andrew Young
Chairman
Southern Africa Enterprise Development Fund
Post Office Box 66726
Atlanta, Georgia 30343

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Corporate Policies & Procedures	**Certificate of Incorporation**
Corporate Policies & Procedures	**Statement of Corporate Policies and Procedures**
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Personnel Policies & Procedures	**Human Resources Manual**
Personnel Policies & Procedures	**Personnel Compensation**
Personnel Policies & Procedures	**SAEDF Staff CVs**
Personnel Policies & Procedures	**SAEDF Board Members**

Angola	**Dikangola**
Angola	**Panil (Bread Project)**
Angola	**Technocab LDA**
Botswana	**Sekao**
Botswana	**Tswelelo**
Malawi	**Chemicals & Marketing Co Ltd**
Namibia	**Namibia Investment Trust Fund**
Namibia	**Ostrich Production Namibia (Vol 1)**
Namibia	**Ostrich Production Namibia (Vol 2)**
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South Africa	**Eerste River Medical Centre**
South Africa	**Get Ahead Financial Services**
South Africa	**Grand Finance Company**
South Africa	**Kahn & Partners**
South Africa	**Quality Press Limited**
South Africa	**Rural Finance Facility Housing**
Tanzania	**1st Adili Bancorp Ltd**
Tanzania	**La Fleur d'Afrique Limited**
Zambia	**Agro Supplies Limited**
Zambia	**Liquefield Foods**
Zimbabwe	**Kingdom Securities Holdings**
Zimbabwe	**Kubi Manufacturing**
Zimbabwe	**Leasing Company of Zimbabwe**
Zimbabwe	**Systems Technology Limited**
Zimbabwe	**Yanikai Pharmaceuticals**

APPENDIX C
(APPENDICES RELATED TO ENVIRONMENTAL PROCEDURES)

Appendix 1

A SUGGESTED PLAN AND SET OF OBJECTIVES TO ASSEMBLE ENVIRONMENTAL RESOURCES AND RAISE AWARENESS, SKILLS, AND EXPERTISE AMONGST FUND STAFF TO BE ABLE TO ADD SUBSTANCE TO THE ENVIRONMENTAL POLICY

Objectives

Identify and assemble reference documentation on the environmental policy and legislation in operation in all the countries in which the Fund functions

Undertake a basic environmental training course for all investment staff to enable them to use the environmental checklists optimally and broadly evaluate environmental risk to the Fund when identifying and processing deals

Build an environmental contacts network within the operation area to supplement investment staff environmental skills, awareness and expertise

Put into place an environmental skills framework that can be called upon in the event that specific environmental advice or assistance is required on environmental risk evaluation, Environmental Impact Assessment or for client environmental support

Sensitise clients and IFIs to recognise and report on potential environmental concerns and issues relating to their businesses or operations

Plan

Objective 1- ***Identify and assemble reference documentation on the environmental policy and legislation in operation in all the countries in which the Fund functions***

Consolidate existing information, identify gaps, commission consultants to gather missing information, file data in a retrievable format (preferably electronic but otherwise in a hard copy filing system, appropriately cross-referenced)

Time required - maximum of 6 months

Cost - approx $10,000 00

Objective 2- ***Undertake a basic environmental training course for all investment staff to enable them to use the environmental checklists optimally and broadly evaluate environmental risk to the Fund when identifying and processing deals***

A training course of this nature could be completed in one full day Schedule time for maximum attendance, commission trainer

Time required - one day (dependant upon staff availability)

Cost - approx $3,000 00

Objective 3- ***Build an environmental contacts network within the operation area to supplement investment staff environmental skills, awareness and expertise***

Test environmental contacts network from Study for completeness and identify gaps (approx 3 months), if gaps, commission consultant to fill in gaps and consolidate all information onto electronic network database Ensure information is centrally accessible (network database)

and appoint custodian to manage updating of contact information Review effectiveness of information annually
Time required - between 3 and 6 months
Cost - time of staff to check data, consultant - approx $5,000, plus approx $1,000 for database software, network installation, etc

Objective 4- ***Put into place an environmental skills framework that can be called upon in the event that specific environmental advice or assistance is required on environmental risk evaluation, Environmental Impact Assessment or for client environmental support***
Use the contacts network to establish consultant availability Draw up a simple performance evaluation form for use by investment officers which can include comment from clients on quality of consultants' work File forms centrally to enable other staff to check out performance when choosing consultants Assign custodian to manage and keep a check on file
Time required - minimal to establish Value of checking performance will increase as more forms filled in
Cost - minimal staff time

Objective 5- ***Sensitise clients and IFIs to recognise and report on potential environmental concerns and issues relating to their businesses or operations***
This involves investment officers discussing environmental issues with clients and raising their environmental awareness and interest to a degree where the clients will take interest in looking at environmental concerns themselves This could be carried out at two levels, firstly by investment officers applying skills gained from the results of Objective 2, and secondly, by commissioning a series of simple leaflets and handouts to be passed on to clients and IFIs which would provide basic environmental information and contacts and also discreetely publicise the Fund
Time required Part 1 - on-going reinforcement and environmental communication during the course of deal discussions Part 2 - Probably requires a two part commissioning of an environmental advisor and publications consultant to work together to develop and design a set of leaflets and handouts
Cost - Part 1 - minimal, on-going within existing staff tasks Part 2 - Approx $5,000 plus printing costs

Appendix 2

A PROPOSED PROCEDURE FOR COLLECTION AND EVALUATION OF APPROPRIATE ENVIRONMENTAL INFORMATION

Normally, the collection, management and updating of environmental data is a costly and time-consuming exercise It can often only be carried out by large companies and organisations who have the money and skills to undertake the work or where there is a specific legal requirement for such data and the company or client are obliged to gather the data in order to continue their business Any form of environmental data, formal or informal, creates a basis for decision-making or understanding of the dynamics of environmental concerns relating to an operation or business

The procedure detailed below categorises environmental data into three levels which relate, broadly to the circumstances that might be found, surrounding a loan application It should be noted that the environmental data will form only a part of wider data collected For example, trip reports will probably be made for all projects but the level of environmental data content will vary

LEVEL 1
Original environmental monitoring data such as stack emission data, water quality data, test results and sampling data normally collected by the client

LEVEL 2
Environmental data from other sources, "second-hand" data that does not relate directly to the project/client but is from adjoining areas or is of an area or regional nature, or other forms of related data that is available

LEVEL 3
Subjective information, trip reports, observations, anecdotal information, information from other anecdotal or subjective sources, client reports

Every effort should be made to collect high order environmental data at Level 1 to enable environmental risk or risk assessments to be undertaken as appropriate If that information is not available or "not collectable", the next level down, Level 2 data should be collected The value of that data will be sound but not to the same degree as level 1 Level 2 data will not contribute as significantly to risk assessment exercises and should be treated accordingly Should level 2 data not be available, the final resort is to collect Level 3 data Level 3 data has limited scientific value but is vital in the absence of any other means of making judgements or decisions

Appendix 3

A PROPOSED REVISED LIST OF ACTIVITIES WHICH WILL EVOKE ENVIRONMENTAL SCRUTINY

The following activities or projects could pose significant risk to the environment if they are not managed in a manner which specifically prevents significant negative impacts upon the environment In reviewing the SAEDF's potential funding of these activities, environmental management tools such as environmental impact assessments, strategic environmental assessments, environmental audits and other specialist evaluations will be used to ensure minimal environmental risk and to guide clients in complying with environmental legislation The Fund will not fund projects or activities which are shown to have significant negative environmental impacts which cannot be adequately or appropriately mitigated Activities listed below will be carefully scrutinised to ensure that all resulting negative environmental impacts are managed appropriately

- Manufacture, importation, reformulation, storage, use or disposal of significant quantities of hazardous or toxic materials
- Significant encroachment upon natural habitats of regional, national or international significance
- Conversion of wetlands or natural forest tracts to other land uses
- Actions or activities which may jeopardise threatened and endangered species or adversely modify their habitats
- Clearing or levelling of natural land, or areas undisturbed by human activity, of more than one hectare
- Involuntary or unplanned resettlement of households or communities
- Significant withdrawals from, or discharges to, surface waters or groundwaters
- Procurement or wide area application of agro-chemicals
- All activities that involve bio-technology, biological modification or genetic manipulation
- Any activities which have the ability to significantly disrupt natural ecosystem equilibrium to the extent that it may not be possible to mitigate the negative effects

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Appendix 4

A PROPOSED SET OF GUIDELINES FOR THE MONITORING OF ENVIRONMENTAL PERFORMANCE

Introduction

The degree to which a lending agency gets involved in a client's business can be a delicate and sensitive matter Whilst the lending agency, needs to ensure that its interests and investment are protected, any element of excessive "interference" in the business of the client could cause disruption and disequilibrium Environmental performance, if not carefully defined, could easily fall within this category

In order to ensure that environmental performance monitoring does not become a political issue, it is important to clearly spell out precisely what environmental performance is, in the context of the client's operations, and to clarify precisely what measurement and monitoring of the performance involves and what parameters are used This will, of course, vary from project to project and vary from the upper extreme of a formal environmental audit[1] to simple checks such as a review of the original environmental checklist prepared and a site inspection

As a point of clarification, monitoring of environmental performance involves -

- checking actual environmental performance against projected or planned performance
- evaluating environmental performance for unforeseen environmental eventualities or results
- checking environmental measurements taken (e g chimney stack emissions and effluent quality data) against environmental performance predicted
- checking actual environmental performance against environmental policies and loan conditions and commitments

Environmental Performance Monitoring Checklist

- If environmental conditions formed a part of the loan agreement, have these conditions been adhered to?
- Has it been necessary, at Board level, to agree to any changes of procedure, policy, systems or operation as a result of environmental concerns, impacts or issues?
- Has the client been able to manage environmental circumstances adequately and according to his original plans and predictions?
- Has it been necessary to utilise environmental consultants or experts to deal with environmental matters that have arisen?
- Are there any significant environmental changes since the original site visit? (Only

[1] A management tool comprising a systematic documented periodic and objective evaluation of how well environmental organisation, management, and equipment are performing with the aim of helping to safeguard the environment by (I) facilitating management control of environmental practices and (ii) assessing compliance with company policies which would include meeting regulatory requirements - International Chamber of Commerce

applicable if same investment officer carried out both evaluation and monitoring)

- Do the environmental data from air and water quality measurements indicate any trends that could be cause for concern or are unexplained or unsatisfactorily explained?
- Are the environmental authorities (local, provincial and national) satisfied with the client's compliance to environmental requirements, conditions, laws, ordinances and regulations?

Appendix 5

ENVIRONMENTAL RECORDS AND DOCUMENTATION GUIDELINE

The data list below is an indication of the kind of documents that can provide environmental information which is relevant and useful in assessing environmental risk and performance

- Plant/site Layout*
- Organisation and management structure chart/document*
- Job responsibilities/ job descriptions*
- Schedule of Chemicals (Trade name & chemical description) on site (raw materials, catalysts, etc and finished product)*
- Hazard Data Sheets for ALL chemicals on site*
- Summary & Flow chart(s) of processes on site*
- List of regulations, standards & legislation affecting site*
- Copies of Permits, licences, waivers, relaxations, approvals*
- Legislative compliance statistics
- Company Environmental policies documents
- Company Environmental Policies for Site*
- Company/Site Environmental Objectives
- Company Environmental Standards*
- External or Customer Environmental Standards
- Copies of Environmental or SHE Committee meetings*
- Conditions of operation for contractors & subcontractors*
- Contractor documents and agreements
- Budget for environmental management
- Activities, Operations & Procedures Manuals*
- Plant Modifications Sheet File
- Emergency Plan & Procedures Manuals*
- Emergency Plan & Procedures Practice Schedule
- Emergency Contacts Lists
- Media Contacts Lists
- Training Manuals
- Training Schedules
- Training Records
- Internal & External Environmental information & publicity material
- Emission & Effluent monitoring schedules
- Schedules of internal & external complaints
- Schedule of wastes removed from site (internally and by contractor)*
- Accidental Release/Escape Statistics & reports
- Incident Book/File*
- Control Room activity log*
- Mass Balance Equations for processes
- Plant Audit Schedules
- Plant Audit Protocols
- Environmental Improvement Plans

*indicates recommended, important core documentation

data list - ©Eagle Environmental & Arend Hoogervorst 1992, used with permission

ENVIRONMENTAL RECORD KEEPING

Environmental record keeping involves the storage of environmental data for the purpose of verification of compliance to environmental policy, procedures and principles Data collection requirements will vary according to the particular circumstances of the business under consideration For example, a business that generates liquid effluents which are disposed of to municipal sewers would be expected to maintain records on the quality and content of the effluent, and the sampling and testing thereof Similarly, a factory with a boiler would be expected to keep records on the management of stack emissions from the boiler chimney to ensure that they comply with the law and do not cause a nuisance to surrounding land uses

The documents listed above described the kind of repositories for environmental data that could be expected Whilst the list could be seen as both too long and too short (from the perspective of an SME or a large corporate organisation, respectively), it does provide a broad guide

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Appendix 6

ENVIRONMENTAL CHECKLIST
INVESTMENT OFFICERS

Site

What was the site previously used for?
Is there a documented history for the site?
Were any areas of the site used to dump/dispose or bury solid or liquid waste?
Are you aware of any contamination of the soil or water on site?
Have any boreholes or trenches been dug onsite to check groundwater and potential contamination?
Will adjoining land uses or neighbours affect, or be affected by the project?
Are storage areas on site bunded, concreted/asphalted or in any way sealed to prevent leakage to soil of deleterious liquids?
Is there any evidence that there were storage tanks on site (surface or below ground)? If so detail, type, status, age and contents
Is the site close to any sensitive environmental or human assets and facilities?
Will the addition of site employees to the area cause social or environmental problems?

Raw Materials

Are there any environmental impacts related to raw materials in the project?
Does the transport of raw materials pose an environmental problem?

Water

What arrangements have been made to handle stormwater on site?
Is the site liable to flash floods or heavy rains at any time?
Is water for the project piped in or drawn from borehole or collected and stored from rainfall? If others, detail
Could the project or programme contaminate water on site in any way?
Does the project include water conservation policies and programmes?
Will, or are, nitrates, phosphates, high BOD/COD materials a potential problem to water supplies?

Air

What sources of air emissions are there? (Relating to stacks or vents or chimneys)
Are there any smells or nuisance odours that are related to the project?
Is there a dust problem on site? (Windblown, stacks, etc)
Will the project or programme create a dust problem?

Wastes

Where is the nearest waste disposal/landfill site?
How will the project/programme's wastes be disposed of?
Are there any hazardous or toxic wastes to be disposed of? If so, how will this be done?
Are there any genetic/pathological/metential recycling? How are organic wastes handles? Do they pose a potential pollution threat?
Are there hazardous wastes that are present in small quantities? (E g laboratory wastes)

What arrangements have been made to handle process water or waste water?

Materials
Will materials used in the project be harmful/hazardous or a threat to the environment? How?
What plans are in place to ensure that stored materials do not affect the environment?
What chemicals are to be used? Are there Material Safety Data Sheets available?
Can chemicals be replaced by less hazardous materials?
Is asbestos used anywhere on site? If so detail
Are PCBs part of transformer oils or transformer banks on site? Evidence?

Processes
Are the processes to be used hazardous in any way to the environment? Explain
Has a full and explanatory flow chart of project processes been drawn up?

Administration
Do insurance policies carry sufficient cover for pollution clean-up/remediation?
Do insurance policies have exclusionary clauses for environmental or pollution episodes?
Does the organisation's administration have any environmental files, documentation, or references?

LIST OF POTENTIALLY CONTAMINATIVE USES
When carrying out due diligence checks on potential deals, inspections of connected properties often reveal a great deal of information One clue to possible problems is the nature of previous land uses or businesses of previous land occupiers The following list of uses could indicate the presence of contaminated land to some degree or other Should any of these uses emerge from discussions, it strongly suggests that further investigation is undertaken to ensure that past use or past waste disposal on site did not contaminate the land to a degree that remediation or clean up may be required at some point

- Animal processing works
- Asbestos works
- Brickworks
- Cemeteries
- Chemical works
- Coal mines and coal preparation plants
- Dry cleaners
- Docks
- Electrical equipment manufacturers
- Engineering works
- Food processing or manufacture
- Garages and petrol stations
- Gasworks
- Hospitals
- Heavy engineering installations including shipbuilding and ship breaking
- Land used by the military
- Landfills and waste disposal facilities

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- Metal processing industries (smelters, foundries, iron and steel works)
- Military firing or exercise ranges or grounds
- Mineral workings
- Mineral processing works (brickworks, cement works, tarmac/asphalt plants)
- Munitions production and testing sites
- Oil Refineries, petroleum storage and distribution sites
- Paint manufacturers
- Paper and printing works
- Power stations
- Quarries or mines
- Railways lines
- Radio active materials
- Research laboratories
- Scrap Yards
- Sewage works and water treatment plants
- Tanneries
- Timber treatment works
- Tyre manufacture

Appendix 7
A SUGGESTED IFI ENVIRONMENTAL CHECKLIST

- Will your client's operation cause or contribute to any form of pollution? (Air, water or soil)
- Will your client's operation cause or contribute to any form of nuisance? (E g noise, odours, unsocial or anti-social activities, etc)
- Do your client's activities generate waste which might contribute to increased littering or waste that must be disposed of on landfills or burnt? If so, detail
- Do your client's activities generate any toxic, poisonous or hazardous waste which might be hazardous to health or the environment? If so, detail
- Are there any risks associated with your client's activities? If so, detail
- Would your client be interested in helping to minimise his impact on the environment? If so indicate what type of help or if he requires assistance or advice
- Are any of your client's activities dangerous or hazardous to health? Explain
- Do any of your client's activities involve streams, water courses, rivers, lakes, vleis or other freshwater? Please explain

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Appendix 8

A SUGGESTED CLIENT ENVIRONMENTAL CHECKLIST (BASIC OR FOR IFI CLIENTS)

- Have you thought about the environmental aspects (positive and negative) of your project?
- Will your project cause air, soil or water pollution?
- Will your project cause any nuisance to neighbours or adjoining operations? (Noise, dust, smoke, smells, traffic at unsocial hours, any other unsocial activities)
- Have you made adequate provision to dispose of your waste in a safe and environmentally responsible manner?
- Will you be using any chemicals or substances which could be hazardous to health or the environment?

Appendix 9

ENVIRONMENTAL SCREENING CHECKLIST

The following environmental screening checklist is to assist clients in providing information to the SAEDF which will help them to assess the environmental significance, or otherwise, of loan proposals

The following activities are deemed inappropriate, illegal, environmentally unacceptable The SAEDF is not permitted, by US law, to provide financial support to activities which include or practice any of the following listed below Please ensure that your activities do not fall within these areas

- Production or trade in any product or activity deemed illegal by host country regulations or international law
- Production or trade in weapons and munitions
- Production or trade in tobacco
- Gambling, casinos and equivalent enterprises ("adult leisure" centres)
- Trade in wildlife or wildlife-related products (CITES)
- Trade in radio-active materials or use in unlicensed or illegal activities
- Trade in products containing PCBs
- Trade or use of unbonded asbestos fibres
- Trade in pharmaceuticals subject to international phase-outs or bans
- Trade in pesticides/herbicides subject to international phase-outs or bans
- Trade in ozone depleting compounds subject to international phase out[2]

Revised categories requiring environmental review/assessment[3]
Please indicate if any of the aspects listed below form a part of the activities that are covered by your business or for the financing for which you are applying

- Significant environmental impacts which are likely to affect third parties (e g local community, adjacent landowners, etc)
- Industrial plant production or processing
- River basin or new lands development
- Large scale housing development on "greenfield" locations
- Road building or rehabilitation of roads (primary, secondary or tertiary over 10 kms length and building or rehabilitation of any roads which may pass through or near relatively undergraded forest lands or other sensitive ecological areas
- Substantial piped water supply, water treatment operations or sewage construction
- Major borehole or water point construction, other than small scale water points or

[2]Subject to conditions of the Montreal Protocol governing host country

[3]Note that certain countries, e g South Africa, have now introduced compulsory EIA regulations which will be enforced once the project is ready for legal permitting or licensing

water storage devices which will not affect environmentally sensitive areas or jeopardise threatened species (Note-the concentration of a large number of small scale operations constitutes an impact due to the cumulative effects and should be considered)

- Large scale irrigation
- Dams, impoundments, flood control, or other water diversionary schemes
- Large scale agricultural mechanisation
- Any projects that involve clearance or removal of virgin forest
- Agricultural land levelling
- Agrochemicals (pesticides, herbicides, fertilisers) - production, use, procurement, importing
- Activities that may impact protected natural habitats, areas or high biological diversity, threatened and endangered species or the modification of habitats that support the above
- Impacts upon indigenous peoples

The following are potential issues or impacts that MAY affect environmental risk or decisions relating to the proposal Please indicate if any might apply to your proposal

- Environmental issues subject to local or national permitting/licensing/legal approval
- Workplace health and safety issues
- Emissions to air
- Generation of wastewater
- Generation of solid waste (inert and toxic)
- Significant or nuisance noise levels
- Chemicals (including oil, diesel, paraffin, and petrol) stored or site
- Use of significant volumes of water (cooling, dilution, washing, etc)
- Use of ozone depleting substances
- Fire risk or prevention

The Investment Officer or Vice President handling your application will discuss with you whether an environmental review or assessment is required with this application This will also relate to local environmental legislation requirements, where appropriate

Appendix 10

Contacts List

(Please note that although the numbers below are the latest available, telephone numbers are constantly changing and it may be necessary to consult directory inquiries or "New Numbers" for the very latest details)

Industry Associations/Agencies/advisory bodies

Agricultural and Veterinary Chemicals Association (Agrochemicals)
P O Box 1995
1685 MIDRAND
Tel - (011) 805-2000, Fax - (011) 805-2222 Executive Director Mr Jan Kleynhans

Aerosol Manufacturers' Association (Ozone-friendly label)
P O Box 483
1665 OLIFANTSFONTEIN
Tel - (011) 318-2716, Fax - (011) 318-1698 Executive Director Mr Mike Naude

Chemical and Allied Industries' Association
P O Box 91415
2006 AUCKLAND PARK
Tel - (011) 482-1671/4, Fax - (011) 726-8310 Executive Director Dr Laurraine Lotter

Dept Environment Affairs & Tourism (Directorate Environmental Management/EIAs)
Private Bag X447
0001 PRETORIA
Mr Wynand Fourie, Director Environmental Management - Tel - (012) 310-3703
Mr Jerry Lengoasa, Deputy Director Environmental Management - Tel - (012) 310-3709
Fax - (012) 3222682

Dept Environment Affairs & Tourism (Directorate Montreal Protocol)
Private Bag X447
0001 PRETORIA
Mr Morkel Steyn, Deputy Director Montreal Protocol, Tel -(012) 312-0215

Dept Environment Affairs & Tourism (Directorate Air Pollution Control)
Private Bag X447
0001 PRETORIA
Tel - (012) 312-230, Fax - (012) 221-5392, Chief Air Pollution Control Officer - Mr Martin Lloyd

Dept Environment Affairs & Tourism (Waste Management Policy & Legislation)
Private Bag X447
0001 PRETORIA
Tel - (012) 310-3671, Fax - (012) 3222682, Deputy Director (Waste Management) - Mr Tinus Joubert

Dept Water Affairs & Forestry (Registration of Landfill sites and toxic waste disposal)
Private Bag X313
0001 PRETORIA
Tel - (012) 338-7552 Deputy Director (Waste Management) - Mr Leon Bredenhann

Industrial Environmental Forum
P O Box 1091
2000 JOHANNESBURG
Tel - (011) 800-2687, Fax - (011) 800-4360 Manager - Ms Karin Ireton

Institute of Quarrying
P O Box 940
1876 WALKERVILLE
Tel - (011) 949-1534, Fax - (01) 949-1608 Secretary - Mrs Lynn Montgomery

Fertiliser Society of Southern Africa
P O Box 75510
0040 LYNNWOOD
Tel - (012) 349-1450, Fax - (012) 349-1363 Manager - Mr H Venter

Pharmaceutical Manufacturers Association
P O Box
2000 JOHANNESBURG
Tel - (011) 805-5100, Fax - (011) Chief Executive - Ms Mirryena Deeb,
Cell No - 083-377-1546

Plastics Federation of Southern Africa
Private Bag X68
1685 HALFWAY HOUSE
Tel - (011) 314-4021, Fax - (011) 314-3764 Environmental Officer - Mr Douw Steyn

Provincial Environmental Affairs Departments
(Provincial telephone numbers and departmental responsibilities are constantly changing and the details below may already be out of date)

Eastern Cape
Department of Economic Affairs, Environment & Tourism
Private Bag X0054
5605 BISHO
Tel - (0401) 956-4266, Fax - (0401) 91883 Contact - Director Environmental Affairs

Free State
Director Environmental Affairs
Department of Environmental Affairs & Tourism
P O Box 517
9300 BLOEMFONTEIN

Tel - (051) 405-4443, Fax - (051) 448-1758 Director Environmental Affairs -Mr I Moroe

Gauteng
Directorate Environmental Management
Department of Conservation, Agriculture & Environment
P O Box 8769
2000 JOHANNESBURG
Tel - (011) 333-2106, Contact - Ms Z Budnik

KwaZulu-Natal
Department of Traditional & Environmental Affairs
Private Bag X01
3838 ULUNDI
Tel - (0358) 70-0552, Fax - (0358) 70-0580, Contact - Acting Director Environment

Mpumalanga
Head Environmental Affairs
Mpumalanga Provincial Government
Private Bag X11289
1200 NELSPRUIT
Tel - (013) 759-4000, Fax - (013) 759-4032 Contact - Mr J C Mhlongo

Northern Cape
Health & Welfare and Environmental Affairs
Private Bag X5049
8300 KIMBERLEY
Tel - (0531) 81-4218, Fax - (0531) 3-1925 Contact - Dr M F Matlaopane

Northern Province
Department of Agriculture, Land & Environmental Affairs
Private Bag X9487
0700 PIETERSBURG
Tel - (0152) 295-7090, Fax - (0152) 295-7046 Contact - Administrative Secretary

North West
Department of Agriculture
Private Bag X2039
2735 MMABATHO
Tel - (0140) 875111, Fax - (0140) 84-2679 Contact - Mr O J Tselapedi

Western Cape
Department of Environmental & Cultural Affairs
Private Bag X9086
8000 CAPE TOWN
Tel - (021) 483-4093, Fax - (021) 23-0939 Head - Dr J H Neethling

South African Chamber of Commerce & Industry
P O Box 91267
2006 AUCKLAND PARK
Tel - (011) 358-9700, Fax - (011) 358-9773/4 Infrastructure & Environment Manager

South African Petroleum Industry Association (Environmental Officer)
P O Box 6094
8012 ROGGEBAAI
Tel - (021) 419-8054, Fax - (021) 419-8058 Environmental Officer - Mr Anton Moldan

South African Property Owners Association (Head Office)
P O Box 78544
2146 SANDTON
Tel -(011) 883-0679, Fax - (011) 883-0684 Chief Executive Officer - Mr B Kirchmann

Aggregate & Sand Producers Association of South Africa
Private Bag 34
2006 AUCKLAND PARK
Tel - (011) 726-5300, Fax - (011) 482-2000 Director - Sir Rupert Bromley

Professional Associations or Bodies
Environmental Planning Professions Interdisciplinary Committee (EPPIC)
P O Box 90142
2013 BERTSHAM
Tel/Fax - (011) 942-3450 Secretary - Mrs Yvonne Poole

International Association of Impact Assessment (South African Chapter)
P O Box 44335
7700 CLAREMONT
Tel - (021) 45-1609, Fax - (021) 461-8926 Secretary - Ms Glaudin Kruger

South African Institute of Ecologists & Environmental Scientists
P O Box 36356
7702 GLOSDERRY
Tel/Fax - (021) 788-1153 Secretary - Ms D L Stafford

Environmental NGOs
Endangered Wildlife Trust (TRAFFIC Officer, Southern Africa, CITES)
Private Bag X11
2122 PARKVIEW
Tel - (011) 486-1102, Fax - (011) 486-1506 TRAFFIC Officer - Mr David Newton

Wildlife & Environment Society (Ozone-friendly label)
P O Box 394
3290 HOWICK

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Tel - (0332) 30-3931, Fax - (0332) 30-4576 Director - Mr Malcolm Powell

Environmental Consultants[4]
(Alphabetical order)

All consultants listed are small groups of professionals working together or single consultants This is done in the interest of supporting small entrepreneurial business

African Environmental Solutions (Env Auditing, EIAs, EMSs)
P O Box 53577
7745 KENILWORTH
Tel - (021) 797-8479, Fax - (021) 797-8482 MD - Dr John Raimondo

Agency for Cultural Resource Management (cultural resources, archaeology)
P O Box 159
7306 RIEBEEK WEST
Tel/Fax - (0224) 61-2755 Director - Mr Jonathan Kaplan

CEN Integrated Environmental Management (ecologists, EIA, EMS, biological surveys)
36 River Road
6070 WALMER
Tel/Fax - (041) 51-2983 Director Dr Mike Cohen

Digby Wells & Associates (Mines, Mine rehabilitation, auditing, EMPRs, EMPs)
Private Bag X10046
2125 RANDBURG
Tel - (011) 789-9495, Fax - (011) 789-9498 Contact - Mr Ken van Rooyen

Eagle Environmental (Environmental auditing & training, EIAs, Env Networking)
Private Bag X1
3611 PAVILION
Tel - (031) 701-5315, Fax - (031) 701-5377 Contact - Mr Arend Hoogervorst

Ecoserv (Pty) Ltd (EIAs, Air quality monitoring & modelling, Env Audits, Chem Eng)
P O Box 37945
4067 OVERPORT
Tel - (031) 309-2391, Fax - (0310 319-2952 Director Mr Quentin Hurt

Environmental Management Services (Air quality measurement and modelling)
P O Box 52668
0149 VIERDA PARK

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[4]The author takes no responsibility for standards or quality of the consultants listed At the time of writing, the consultants were undertaking work listed of a standard that could be construed as satisfactory Users are advised to check the credentials of the consultants and satisfy themselves that the service that they provide will meet the needs of the SAEDF

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Tel - (012) 668-1047, Fax - (012) 668-1828 Director Dr Lucien Burger

IDEAS Environmental Consultants (EIAs, Biological & Ecological Surveys)
P O Box 50826
4062 MUSGRAVE ROAD
Tel - (031) 23-5948, Fax - (031) 23-4841 Director Mr Kevin Weerts

Lombard & Associates (Waste Management, Landfill design, Waste Minimisation)
P O Box 115
3652 LINK HILLS
Tel - (031) 763-3222, Fax - (0310 763-3041 Director - Mr Ray Lombard

Mark Wood Consultants (EIAs, Mine & Quarry Planning & rehabilitation, auditing)
P O Box 2963
2040 HONEYDEW
Tel - (011) 958-1920, Fax - (011) 958-1858 Contact - Mr Mark Wood

Walmsley Environmental Consultants (EIAs, Mines, Quarries, Housing)
P O Box 5384
2125 RIVONIA
Tel - (011) 807-1360, Fax - (011) 803-4248 Director - Ms Bryony Walmsley

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Appendix 11

COST APPORTIONMENT OPTIONS FOR ENVIRONMENTAL REVIEW AND EVALUATION

Introduction

Environmental concerns have only been incorporated into feasibility studies, financial risk assessments and other financial review and assessment documents over the past few years It is clear that the evaluation and consideration of such concerns will cost money Fundamental questions are raised which argue that possibly the evaluations may be unnecessary or may be relevant only to certain sectors or groups[5] The questions that arise include the following -
Why carry out the evaluation?
Who pays for the evaluation?
Who benefits from the information?
If there are multiple beneficiaries, should costs be apportioned?
Should there be quality controls on evaluation?
If so, who bears the costs?

It is not within the scope of this study to justify environmental management issues within the business of money lending However, it is of value to include a few simple responses to the questions above to put the environmental tasks into perspective The environmental evaluations are carried out to identify and minimise environmental risk to the Fund and the client The absence of this could expose both to substantial legal, remediation and restitution costs Ideally, the client should pay for the costs as a part of his feasibility studies but it may be in the Fund's interests, and to make them more keenly competitive from a service perspective, to carry part or all of various environmental costs All participants benefit from environmental information from a preventative as well as management point of view Baseline environmental information can often help in saving money, particularly when it comes to water, effluent and emission treatment programmes Once benefits are demonstrated, it becomes easier to apportion environmental evaluation costs The problem is that benefits are not always clearly visible at the early stages of a project development Quality controls are always important and it is in everyone's interests to pursue them However, in view of the financial considerations, it may be a competitive advantage for the Fund to establish its own internal environmental quality controls as a means of optimal management of environmental experts/consultants at optimal cost

Environment Screening

Environmental screening is the cheapest area of environmental evaluation, yet can be the most crucial in terms of identifying potential "fatal environmental flaws" in a possible deal Two stage screening based upon the perspective of the investment officer where deemed necessary in the case of doubt or lack of information Scoping consists of basic desk study

[5]More countries in Southern Africa are beginning to legislate for compulsory Environmental Scoping and Environmental Impact Assessment so this argument may be rendered academic in the short term

work plus a site visit It would be rare that a basic scoping exercise would take more than two days

Environmental Review
The environmental review involves a more detailed examination of the project to ascertain its environmental impacts This would probably take not more than 2-5 days and would either clarify limited or no impact, give basic options to mitigate identified environmental impacts, or recommend that a full EIA is required to test more complex impacts and decide whether mitigating measures can deal with the problem, or if there are fatal environmental flaws which may make the project too high an environmental risk
Environmental Impact Assessment
The need for an environmental impact assessment could be triggered at any one of the above stages Time needed for an EIA could vary from a day to several years in extreme cases

Type and Magnitude of Costs
Environmental Screening costs
Assuming 2 days for the screening, the costs could varying from virtually nil (where the costs are absorbed by the fact that the investment officer must collect the environmental information at the same time as he collects other data) to the cost of consulting an environmental expert which might cost $500 - $1000

Environmental Review Costs
Once again, assuming 2-5 days for the review, one is probably looking at between $1000 and $5000 In this case, it may involve an expert visiting the site, carrying out some research, analysis and preparing a report

Environmental Impact Assessment Costs
It is essentially a very difficult task to estimate the costs of an EIA 1 day to 2 years has been suggested as a possible range with World Bank experiences saying that most African EIAs cost less than $100,000

COST APPORTIONMENT OPTIONS
1 Full cost carried by SAEDF
Advantages
- SAEDF can exert full control over standards, quality and cost control
- Scale of fees and charges can be pre-determined and included in budgets

Disadvantages
- In the absence of legislation in this area, SAEDF could become less competitive and a funding agency
- Clients could resent extra charges
- The Fund has to manage the environmental experts/consultants to protect its financial interests

2 Full cost carried by Client
Advantages
- Less administration for SAEDF

- Less cost for SAEDF
- Management of environmental experts in the hands of the client

Disadvantages

- Could make the SAEDF less attractive and competitive to potential clients

3 Cost split between SAEDF

Advantages

- More equitable sharing of loan assessment costs ("shared pain")
- Both parties have an equal commitment to obtain value for money from the effort

Disadvantages

None

4 Alternative Instruments

4 1 Part of Standing Costs

A set sum could be included in the application fee, commitment fee or the closing fee which could be calculated to cover part or all of the average costs of environmental screening, or environmental review In the case of an Environmental Impact Assessment, the cost could be higher and more variable and if dealt with on a fee basis, would probably need a separate fee structure

4 2 Percentage of Project Value

The costs of environmental impact assessments vary enormously and the World Bank[6] has indicated that " in the Africa region, most EAs (Environmental Assessments) cost less than $100,000 when looking at EA costs as percentage of total project costs the share can be as low as 0 01 or as high as 1 00 per cent " (Page 15) In the case where an EIA is necessary, the Fund may like to consider, if it is to carry the responsibility of EIAs, charging a percentage of the project cost, say one per cent, as a contribution towards the costs

4 3 Delayed Charges

The Fund may consider absorbing the costs of environmental evaluation (including scoping, review and assessment) and adding the costs towards the end of the loan period to enable the client to establish his business and take on the costs at a later stage

[6]Anon (1996) The Impact of Environmental Assessment - The World Bank's Experience - Second Assessment Review", November 1996, 146 pp, Land, Water, and Natural Habitats Division, Environment Department, The World Bank

Operational Directive

Operational Directive 4 00, Annex A Environmental Assessment

Introduction

1 This annex outlines Bank policy and procedures for the environmental assessment (EA) of Bank investment lending operations,[1] and related types of environmental analysis EA is a flexible procedure, which can vary in breadth, depth, and type of analysis, depending on the project It may be carried out at one point in time, stretched over a year to account for seasonal variations, or done in discrete stages

2 For the purpose of this annex, EA covers also project impacts on health, cultural property, and tribal people, and the environmental impact of project-induced resettlement [2] EAs utilize the findings of country environmental studies and action plans which cover nationwide issues, the overall policy framework, legislation, and institutional capabilities in the country

Purpose and Nature of EA

3 The purpose of EA is to ensure that the development options under consideration are environmentally sound and sustainable, and that any environmental consequences are recognized early in the project cycle and taken into account in project design EAs identify ways of improving projects environmentally, and minimizing, mitigating, or compensating for adverse impacts By alerting project designers, implementing agencies, and borrower and Bank staff to issues early, EAs (a) enable them to address environmental issues in a timely and practical fashion, (b) reduce the need for project conditionality, because appropriate steps can be taken in advance or incorporated into project design, and (c) help avoid costs and delays in implementation due to unanticipated environmental problems EAs also provide a formal mechanism for inter-agency coordination and for addressing the concerns of affected groups and local nongovernmental organizations (NGOs) In addition, they can play a major role in building environmental capability in the country

4 Like economic, financial, institutional, and engineering analyses, EA is part of project preparation, and is therefore the borrower's responsibility Close integration of EA with these other aspects of project preparation ensures that (a) environmental considerations are given due weight in project selection, siting, and design decisions, and (b) carrying out EAs does not unduly delay project processing

Types of Environmental Analysis

Project-Specific EAs

5 Project-specific EAs are used to analyze specific investment projects (e g , dams, factories, irrigation systems) with significant environmental issues The detail and sophistication of analysis should be commensurate with the expected impacts A project specific EA should normally cover (a) existing environmental "baseline" conditions, (b) potential environmental

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1 References to the Bank include IBRD and IDA loans include credits Investment lending covers specific and sector investments including rehabilitation loans through financial intermediaries and the investment component of hybrid loans Sector and structural adjustment loans are not covered by this annex but are subject to the general policies in OMS 2 36 *Environmental Aspects of Bank Work* (to be reissued as OD 4 00 *Environmental Policies*) IFC is developing similar procedures for environmental review which reflect the special circumstances of its work Bearing in mind its special circumstances MIGA will cooperate with the Bank to ensure to the extent possible that the objectives of the directive are met in its operations

2 For Bank policies regarding such impacts see (a) OPN 11 03 *Management of Cultural Property in Bank Financed Projects* to be reissued as OD 4 50 *Cultural Property* (b) OMS 2 34 *Tribal People in Bank Financed Projects* to be reissued as OD 4 40 *Tribal People* and (c) OMS 2 33 *Social Issues Associated with Involuntary Resettlement in Bank Financed Projects* and OPN 10 08 *Operations Issues in the Treatment of Involuntary Resettlement in Bank Financed Projects* to be reissued as OD 4 30 *Involuntary Resettlement*

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impacts, direct and indirect,[3] including opportunities for environmental enhancement, (c) systematic environmental comparison of alternative investments, sites, technologies, and designs, (d) preventive, mitigatory, and compensatory measures, generally in the form of an action plan, (e) environmental management and training, and (f) monitoring To the extent possible, capital and recurrent costs, environmental staffing, training, and monitoring requirements, and the benefits of proposed alternatives and mitigation measures, should be quantified Annex A1 gives a sample outline for a project-specific EA report, and Annex A2 is a checklist of specific issues to be covered where relevant

Regional and Sectoral EAs

6 Regional EAs are used where a number of significant development activities with potentially cumulative impacts are planned for a reasonably localized area In such cases, they are generally more efficient than a series of project-specific EAs, and may identify issues that the latter might overlook (e g , interaction among effluents, or competition for water or land) Regional EAs compare alternative development scenarios, and recommend environmentally sustainable growth rates and land use patterns and policies The study area is normally defined on a physical and/or biological basis (e g , airshed, habitat type, river basin), and may sometimes extend across national boundaries, however, regional EAs with an institutional focus might follow administrative boundaries instead

7 Sectoral EAs are used for the design of sector investment programs They are particularly suitable for reviewing (a) sector investment alternatives, (b) the effect of sector policy changes, (c) institutional capacities and requirements for environmental review, implementation, and monitoring at the sectoral level, and (d) the cumulative impacts of many relatively small, similar investments which do not merit individual project-specific EAs

8 In some cases, regional or sectoral EAs cover all the normal requirements of project-specific EAs More often, the latter are still needed for major investments (see para. 14 concerning sector investment loans), but the regional or sectoral EAs will have identified the relevant issues, collected much of the data, and, in general, greatly reduced the work needed in the project-specific EAs

Alternatives to EAs

9 Alternative approaches that focus on a narrower range of issues are acceptable for many types of projects, especially smaller ones and those not in environmentally sensitive areas These approaches may be more effective in integrating environmental concerns into the borrower's planning process Such alternative approaches include

(a) integrated pest management programs for many agricultural projects which do not involve major irrigation or land development,

(b) specific environmental design criteria and pollution standards for small- or medium-scale industrial plants, and

(c) specific environmental design criteria and construction supervision programs for small-scale rural works projects

Other examples of projects for which alternative approaches are generally acceptable are listed in Annex A3, para 3, under "Category B "

Consideration of Global Issues

10 A number of specialized agencies—inside and outside the U N system—carry out scientific investigations of global environmental issues (ozone depletion, global warming, hazardous wastes, etc) The Bank keeps fully abreast of findings, primarily through its Principal Adviser, Science and Technology, and draws upon prevailing views

3 Indirect impacts are the induced consequences of the project which occur later or in another part of the environment eg if a river is channelled or dammed its capacity for self purification may be reduced and the original aquatic ecosystem damaged or destroyed

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in developing its own environmental, economic, and sectoral policies, with a view to minimizing possible adverse impacts on global systems such as the atmosphere and oceans While EAs should collect or refer to the relevant data, the Bank does not normally expect global environmental issues to require separate analysis in project-specific EAs Such issues should, however, be addressed where relevant in policy and sector work

Institutional Aspects of Projects

Inter-Agency Coordination

11 Because environmental issues generally involve national, regional, and local government agencies, and cover a broad range of responsibilities (wildlife, health, water and land use, tourism, etc), coordination among government agencies is crucial This is best achieved through inter-agency meetings at key points in the EA cycle The first meeting, normally held soon after the decision to prepare an EA, identifies the issues, types of analysis required, sources of relevant expertise, responsibilities and schedule for the EA, and mitigating measures to be considered Another meeting should normally be held when the EA report is completed and submitted for final government review

Involvement of Affected Groups and Nongovernmental Organizations

12 The Bank expects the borrower to take the views of affected groups and local NGOs[4] fully into account in project design and implementation, and in particular in the preparation of EAs This is important in order to understand both the nature and extent of any social or environmental impact, and the acceptability of proposed mitigation measures An approach which has proven effective in many countries is to expand the initial inter agency meeting (para 11) into a "forum" or "scoping session" with representatives of affected groups and relevant NGOs Similar consultations after the EA report is completed are also a valuable way to obtain feedback on the report and to increase community cooperation in implementing the recommendations

Strengthening Environmental Capabilities

13 The ultimate success of EA depends upon the development of environmental capability and understanding in the agencies concerned Projects with major potential impacts normally require the establishment or strengthening of in-house environmental units for the project (located or represented on site), the implementing agency and the ministry Involvement of these units throughout the EA process (a) ensures that the agency s/ministry's knowledge and perspective are taken into account in the EA, (b) provides on the job training for the staff, and (c) provides continuity for the implementation of the EA's recommendations Such projects normally need to include an institutional development and training component for such units In addition, to help develop EA capability in the country, the Bank should (a) encourage the use of local expertise in EA preparation (in association with international consultants, where appropriate), and (b) help arrange EA training courses for local specialist staff and consultants

Sector and Financial Intermediary Lending

14 For sector investment loans and loans through financial intermediaries, subproject details may not be known at the time of project appraisal In such cases, the project implementing institutions will need to screen subprojects (see para 18) and carry out environmental analyses consistent with this directive To ensure that this can be done, the Bank should appraise the implementing agencies' capabilities for EA, and strengthen them where necessary The appraisal mission should also indicate the proper division of responsibility for preparing and reviewing EAs between the ultimate borrower, the financial

4 See OD 14 70 *Involving Nongovernmental Organizations in Bank-Supported Activities* for the Bank s overall approach to NGOs

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intermediary or sector agency, and the agencies responsible for environmental regulation

Environmental Advisory Panels

15 For major projects with serious and multidimensional environmental concerns, the Bank should explore with the borrower whether the latter needs to engage an advisory panel of independent, internationally recognized, environmental specialists, to review and advise on, *inter alia*, the terms of reference (TOR) and findings of the EA, the implementation of its recommendations, and the development of environmental capacity in the implementing agency/ministry Such a panel should meet at least once a year until the project is operating routinely and environmental issues have been addressed satisfactorily [5]

EA Procedures

Overview

16 Though EA preparation is the responsibility of the borrower, the task manager (TM) in the Bank assists and monitors the EA process, with support mainly from the Regional environment division (RED) The borrower and the Bank should agree as early as possible on the selection of consultants or borrower staff to prepare the EA, and the EA procedures, schedule, and outline Major steps in the EA process normally include (a) screening, (b) decisions based on the Initial Executive Project Summary (IEPS), (c) notification to the Board through the Monthly Operational Summary (MOS), (d) preparation of TORs for the EA, (e) EA preparation, (f) EA review and incorporation of environmental measures into the project, (g) supervision, and (h) ex post evaluation

17 Since project and country conditions, national legislation, and institutional experience vary among borrowers, both the borrower and the Bank must exercise judgement in using these procedures to design and implement projects which are both environmentally and economically sound, and consistent with the environmental laws, policies, and procedures of the borrower The Environment Department (ENV), Legal Department, and the REDs maintain information on these requirements

Screening

18 Projects/components should be screened at identification by the TM, with advice from the RED, and assigned to one of the following categories based upon the nature, magnitude, and sensitivity of environmental issues

Category A—EA is normally required as the project may have diverse and significant environmental impacts

Category B—More limited environmental analysis is appropriate, as the project may have specific environmental impacts

Category C—Environmental analysis is normally unnecessary

Category D—Environmental projects, for which separate EAs may not be required, as environment would be a major focus of project preparation

Annex 3 gives illustrative lists, to be applied flexibly, of the type of project/component in each category

Initial Executive Project Summary

19 In the IEPS, the TM, in consultation with the RED, should (a) identify key environmental issues, (b) indicate the category (A-D) and the type of environmental analysis recommended, and (c) provide a preliminary EA schedule If an EA is not likely to be available prior to appraisal, the

5 See OD 4 00 Annex B *Environmental Policy for Dam and Reservoir Projects* para. 18, for more details on the selection and functions of the panel.

IEPS should propose special procedures to address the situation The IEPS meeting would confirm the type, timing, and issues of environmental analysis (although in the event of inadequate information, the decision may be deferred)

Monthly Operational Summary

20 The TM should ensure that the MOS, which is used to alert the executive directors to forthcoming projects, contains the following information as soon as available (a) the category assigned (A-D); (b) the main issues to be examined, (c) whether agreement with the borrower has been reached on EA preparation, and (d) the EA schedule The MOS entry should be updated whenever appropriate to reflect the progress of the EA, and the related Bank and borrower decisions

Preparation of TORs for the EA

21 Following the IEPS meeting, the Bank should discuss with the borrower the scope of the EA, and assist the borrower, as necessary, in preparing TORs for the EA For this purpose, a field visit by Bank environmental staff is generally desirable The Bank should ensure that the TORs provide for adequate inter agency coordination (para. 11) and consultation with affected groups and local NGOs (para 12)

EA Preparation

22 An EA for a major project typically takes 6-18 months to prepare and review EA drafts should be available at key points in the project cycle The final EA should be available prior to appraisal, to minimize the risk of project design changes and resultant delays at a late stage

23 In most cases, the EA should form part of the overall feasibility study, so that the EA's findings are directly integrated into project design However, the EA is normally prepared separately by specialists For projects which would have major impacts, such as large dams or projects involving large scale resettlement, it is recommended that the borrower retain independent experts not affiliated with the project Borrowers may request Bank assistance for financing EAs through a Project Preparation Facility (PPF) advance,[6] or from the Technical Assistance Grant Program for the Environment EAs generally account for 5-10 percent of the cost of project preparation

24 For some projects, a full year of baseline data is desirable to capture the seasonal effects of certain environmental phenomena, however, so as not to delay critical project decisions, short-term monitoring should be used to provide conservative estimates of environmental impacts, while longer-term data collection is being undertaken. Since special care in designing the baseline monitoring program is warranted, the borrower should be encouraged to discuss the matter with the Bank

EA Review and Project Appraisal

25 The borrower should submit the final EA report to the Bank prior to Bank appraisal The EA report is the borrower's property, but the Bank encourages the borrower to release relevant information to appropriate interested parties The Final Executive Project Summary should summarize the EA's status and describe how major environmental issues have been resolved or are to be addressed, noting any proposed conditionality The appraisal mission should review both the procedural and substantive elements of the EA with the borrower, resolve any issues, assess the adequacy of the institutions responsible for environmental management in light of the EA's findings, and determine if the EA's recommendations are properly addressed in project design and economic analysis

Loan Documents

26 The EA procedures followed and the EA's main findings should be explained briefly in the text of the Staff Appraisal Report (SAR) and the

6 See OMS 2 15 *Project Preparation Facility* to be reissued as OD 8 00

Memorandum and Recommendation of the President An SAR annex should summarize the EA more fully, covering, *inter alia*, environmental baseline conditions, alternatives considered, mitigating and compensatory actions, capability of environmental units and measures to strengthen them, environmental monitoring arrangements, and the borrower's consultations with affected groups and NGOs These factors will provide the basis for the RED's formal environmental clearance prior to the authorization of negotiations by the Regional vice president Measures critical to sound project implementation may require specific loan conditionality

Supervision

27 EA recommendations provide the basis for supervising the environmental aspects of project implementation Compliance with environmental conditionality, the status of mitigating measures, and the findings of monitoring programs should be part of borrower reporting requirements and project supervision When major issues arise, special supervision missions with adequate environmental expertise may be needed

Ex Post Evaluation

28 The project completion report[7] submitted to the Operations Evaluation Department should evaluate (a) environmental impacts, noting whether they were anticipated in the EA report, and (b) the effectiveness of mitigating measures taken and of institutional development and training

7 See the OPNSV memoranda, *Guidelines for Preparing Project Completion Reports*, June 7 1989 and OMS 3 38 *General Guidelines for Preparing Project Completion Reports* which are to be combined and released as OD 13 55 *Project Completion Reports*

Checklist of Potential Issues for an EA

Where applicable, EAs should address the following issues, which are subject to the Bank policies and guidelines identified below

(a) *Agrochemicals* The Bank promotes the use of integrated pest management (IPM) and the careful selection, application, and disposal of pesticides (see OPN 11 01, *Guidelines for the Selection and Use of Pesticides in Bank Financed Projects and their Procurement when Financed by the Bank*, to be reissued as OD 4 00, Annex C, *Agricultural Pest Management, and Selection and Use of Pesticides*) The use of fertilizers, due to their impacts on surface and groundwater quality, must also be carefully assessed

(b) *Biological Diversity* The Bank promotes conservation of endangered plant and animal species, critical habitats, and protected areas (para. 9b, OMS 2 36, *Environmental Aspects of Bank Work*, and OPN 11 02, *Wildlands Their Protection and Management in Economic Development*, to be reissued as OD 4 00, Annex D, *Wildlands Their Protection and Management*)

(c) *Coastal and Marine Resources Management.* Guidelines are available from the Environmental Department (ENV) on the planning and management of coastal marine resources including coral reefs, mangroves, and wetlands

(d) *Cultural Properties* OPN 11 03, *Management of Cultural Property in Bank-Financed Projects* (to be reissued as OD 4 50, *Cultural Property*), confirms the Bank's commitment to actively protect archaeological sites, historic monuments, and historic settlements

(e) *Dams and Reservoirs* OD 4 00, Annex B, *Environmental Policy for Dam and Reservoir Projects*, provides specific guidance for addressing environmental issues in the planning, implementation, and operation of dam and reservoir projects

(f) *Hazardous and Toxic Materials* Guidelines are available from ENV on the safe manufacture, use, transport, storage, and disposal of hazardous and toxic materials

(g) *Induced Development and Other Socio-Cultural Aspects* Secondary growth of settlements and infrastructure, often referred to as "induced development" or "boomtown" effects, can have major indirect environmental impacts, which relatively weak local governments may have difficulty addressing

(h) *Industrial Hazards* All energy and industry projects should include a formal plan to prevent and manage industrial hazards (See *Techniques of Assessing Industrial Hazards—A Manual*, World Bank Technical Paper No 55)

(i) *International Treaties and Agreements on the Environment and Natural Resources* EAs should review the status and application of such current and pending treaties and agreements, including their notification requirements The Legal Department maintains a list of international treaties and could obtain, whenever required, information on applicable law in individual countries

(j) *International Waterways* OD 7 50, *Projects on International Waterways* provides guidance This OD exempts from notification requirements rehabilitation projects which will not affect the quality or quantity of water flows

(k) *Involuntary Resettlement* OMS 2 33, *Social Issues Associated with Involuntary Resettlement in Bank Financed Projects*, and OPN 10 08 *Operations Issues in the Treatment of Involuntary Resettlement in Bank Financed Projects* (to be reissued as OD 4 30, *Involuntary Resettlement*), provide guidance

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(l) *Land Settlement* Due to the complex physical, biological, socioeconomic, and cultural impacts, land settlement should generally be carefully reviewed (see OD 4 31, *Land Settlement*, to be issued)

(m) *Natural Hazards* EAs should review whether the project may be affected by natural hazards (e g , earthquakes, floods, volcanic activity), and should propose specific measures to address these concerns when appropriate (see OD 8 50, *Emergency Recovery Assistance*, to be issued)

(n) *Occupational Health and Safety* All industry and energy projects, and projects in other sectors where relevant, should include a formal plan to promote occupational health and safety (*Occupational Health and Safety Guidelines*, World Bank, 1988)

(o) *Tribal Peoples* OMS 2 34, *Tribal People in Bank-Financed Projects* (to be reissued as OD 4 40, *Tribal People*), provides specific guidance for addressing the rights of tribal peoples, including traditional land and water rights

(p) *Tropical Forests* The Bank co-authored the Tropical Forest Action Plan (published in 1984), up-to-date information is available from ENV OPN 11 02, *Wildlands Their Protection and Management in Economic Development* (to be reissued as OD 4 00, Annex D), also addresses issues relating to tropical forests

(q) *Watersheds* Bank policy is to promote protection and management of watersheds as an element of lending operations for dams, reservoirs, and irrigation systems (OD 4 00, Annex B, *Environmental Policy for Dam and Reservoir Projects*, para 6)

(r) *Wetlands* The Bank promotes conservation and management of wetlands (e g , estuaries, lakes, mangroves, marshes, and swamps) This is covered by OPN 11 02 on wildlands (see (s) below)

(s) *Wildlands* The Bank is committed to protect wildlands, including through compensatory measures when lending could result in adverse impacts (see OPN 11 02, *Wildlands Their Protection and Management in Economic Development*, to be reissued as OD 4 00, Annex D, *Wildlands Their Protection and Management*)

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Sample Outline of a Project-Specific EA Report

1 EA reports should be concise and limited to significant environmental issues The detail and sophistication of analysis should be commensurate with the potential impacts The target audience should be project designers, implementing agencies, and borrower and Bank staff

2 The EA report should include

(a) *Executive Summary* Concise discussion of significant findings and recommended actions

(b) *Policy, legal, and administrative framework* within which the EA is prepared The environmental requirements of any cofinanciers should be explained

(c) *Project description* in a geographic, ecological, social, and temporal context, including any off site investments that may be required by the project (e g , dedicated pipelines, access roads, power plants, water supply, housing, and raw material and product storage facilities)

(d) *Baseline Data* Dimensions of the study area and description of relevant physical, biological, and socio economic conditions including any changes anticipated before the project commences Current and proposed development activities within the project area (but not directly connected to the project) should also be taken into account

(e) *Environmental Impacts* The positive and negative impacts likely to result from the proposed project should be identified and assessed Mitigation measures and the residual impacts that cannot be mitigated should be identified Opportunities for environmental enhancement should be explored The extent and quality of available data, key data gaps, and uncertainties associated with predictions should be identified/estimated Topics that do not require further attention should be specified

(f) *Analysis of Alternatives* Proposed investment design, site, technology, and operational alternatives should be compared systematically in terms of their potential environmental impacts, capital and recurrent costs, suitability under local conditions, and institutional, training, and monitoring requirements To the extent possible, for each of the alternatives, the environmental costs and benefits should be quantified, and economic values attached where feasible

(g) *Mitigation Plan* Feasible and cost-effective measures which may reduce potentially significant adverse environmental impacts to acceptable levels should be proposed, and the potential environmental impacts, capital and recurrent costs, and institutional and training requirements of those measures estimated The plan (sometimes known as an "action plan" or "environmental management plan") should provide details on proposed work programs and schedules, to ensure that the proposed environmental actions are in phase with engineering activities throughout preparation The plan should consider compensatory measures if mitigation measures are not feasible or cost effective

(h) *Environmental Management and Training* The existence, role and capability of environmental units at the on site, agency and ministry level should be assessed and recommendations made concerning the

establishment and/or expansion of such units, and the training of staff, to the point that EA recommendations can be implemented

(i) *Monitoring Plan* regarding environmental impacts and performance. The plan should specify the type of monitoring, who would do it, how much it would cost, and what other inputs (e.g , training) are necessary

Appendices

(i) *List of EA preparers*—individuals and organizations

(ii) *References*—written materials used in study preparation This is especially important given the large amount of unpublished documentation often used

(iii) *Record of Inter-Agency/Forum Meeting*, including list of both invitees and attendees Where the views of affected groups and local NGOs were obtained by other means, these should be specified.

Operational Directive

Environmental Screening

Introduction

1 The task manager, in consultation with the Regional environment division, is responsible for screening a proposed project to determine the appropriate type of environmental analysis, based on the nature, potential magnitude, and sensitivity of the issues The categories below, based upon prior Bank staff experience, are strictly illustrative Alternatives to EA are acceptable where they are expected to result in an environmentally sound project

2 *Category A Projects/Components Which May Have Diverse and Significant Environmental Impacts—Normally Require EA*[1]

(i) Aquaculture/Mariculture (large scale),

(ii) Dams and Reservoirs,[2]

(iii) Electrical Transmission (large scale),

(iv) Forestry,

(v) Industrial Plants (large scale) and Industrial Estates,

(vi) Irrigation and Drainage (large scale),

(vii) Land Clearance and Leveling;

(viii) Mineral Development (including oil and gas),

(ix) Pipelines (oil, gas, and water),

(x) Port and Harbor Development;

(xi) Reclamation and New Land Development,

(xii) Resettlement,[3]

(xiii) River Basin Development,

(xiv) Rural Roads,

(xv) Thermal and Hydropower Development,

(xvi) Tourism (large scale),

(xvii) Transportation (airports, railways, roads, waterways),

(xviii) Urban Development (large scale),

(xix) Urban Water Supply and Sanitation (large scale),

(xx) Manufacture, Transportation, and Use of Pesticides or other Hazardous and/or Toxic Materials,[4] and

(xxi) Projects which Pose Serious Accident Risks[5]

3 *Category B Projects/Components which may Have Specific Environmental Impacts—More Limited Environmental Analysis Appropriate*

Projects in this category normally require more limited environmental analysis than an EA.

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1 Except generally for projects directed to rehabilitation, improved operation and maintenance and limited upgrading of facilities.

2. See OD 4 00 Annex B *Environmental Policy for Dam and Reservoir Projects*

3 While OMS 2 33 *Social Issues Associated with Involuntary Resettlement in Bank-Financed Projects* (to be reissued as OD 4 30 *Involuntary Resettlement*) covers the social aspects of resettlement, the environmental implications of the resettlement itself can be major

4 In some cases, adherence to existing directives is an acceptable alternative to an EA (e g. OPN 11 01 *Guidelines for the Selection and Use of Pesticides in Bank-Financed Projects and their Procurement when Financed by the Bank*, to be reissued as OD 4 00 Annex C *Agricultural Pest Management, and Selection and Use of Pesticides*) Certain materials (e.g PCBs) are not to be used in Bank projects and other materials (e g. asbestos) are to be used only under extremely restricted conditions. A Restricted Toxic Materials List (RTML) will be available from ENV and updated periodically

5 See *Techniques of Assessing Industrial Hazard—A Manual* World Bank Technical Paper No. 55

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A wide range of environmental guidelines, developed by a number of organizations, are applicable In addition, specific environmental pollution standards or design criteria can be developed for individual projects

(i) Agroindustries (small scale),

(ii) Aquaculture and Mariculture (small scale),

(iii) Electrical Transmission (small scale),

(iv) Industries (small scale),

(v) Irrigation and Drainage (small scale),

(vi) Mini Hydro-Power;

(vii) Public Facilities (hospitals, housing, schools, etc),

(viii) Renewable Energy,

(ix) Rural Electrification,

(x) Telecommunications,

(xi) Tourism (small scale),

(xii) Urban Development (small scale), and

(xiii) Rural Water Supply and Sanitation

4 *Category C Projects/Components which Normally Do Not Result in Significant Environmental Impact—Environmental Analysis Normally Unnecessary*

Opportunities to enhance environmental benefits should be sought in these projects

(i) Education (except school construction),

(ii) Family Planning,

(iii) Health (except hospital construction),

(iv) Nutrition,

(v) Institutional Development, and

(vi) Technical Assistance

5 *Category D Environmental Projects*

Projects with a major environmental focus may not require a separate EA, as environment would be a major part of the project preparation

6 *Emergency Recovery Projects*

Because emergency recovery projects (a) need to be processed rapidly and (b) seek mainly to restore existing facilities, they normally would not require a full EA However, the extent to which the emergency was precipitated and/or exacerbated by inappropriate environmental practices should be determined, and corrective measures built into either the emergency project or a future lending operation [6]

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APPENDIX D

(APPENDICES RELATED TO OPERATIONS)

APPENDIX D
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Appendix 1 Strategic and Market Planning

Mission and Vision

- Identity and purpose
- Values and priorities e g , preservation of capital, profitability/sustainability, broad-based development impact, broad-based job creation, specific development impact

External Data and Analysis

- Regional analysis e g , broad economic, financial, political, legal trends and influences, strategic industries, nature and keys to investment opportunities, role of indigenous SME participation
- Country analysis e g , political climate, economic structure, country risk, growth factors, key sectors, demographics, depth of entrepreneurial talent, capital base for co-investment
- Competitive analysis e g , regional, national and local venture capital, private equity, investment banking and commercial banking

Conclusions and Rationales

- Market opportunities and threats
- SAEDF strengths and weaknesses
- Market niches complementing SAEDF's distinctive competencies

Broad Goals and Approaches

- Investment philosophy e g , company size, ownership composition, size of investment, investment role, venture stage
- Geographic segmentation e g , South Africa and Zimbabwe, other large privatizing, other former South Africa Customs Union, other small agricultural, language clusters
- Industry emphasis e g , tourism, extractive and related industries, agriculture, telecommunications and infrastructure, technology transfer, light industry, banking and financial services, consumer products
- Specialized niches and investment strategies e g , IFIs, joint ventures, empowerment, franchising, export, carve-outs, environmental

Detailed Objectives, Strategies and Tactics

- Individual country objectives, strategies and tactics
- Allocation of personnel, marketing and travel expenses, office or consulting costs, other resources
- Anticipated Results
- Success Criteria

Potential Obstacles and Challenges, e g ,

- Local presence, contacts and representation
- Monitoring and work-outs
- Exit mechanisms

Options and Alternatives, e g ,

- Local offices and consultants
- Small loan programs and syndications
- Secondary markets, refinance options and strategic partners

APPENDIX D
(APPENDICES RELATED TO OPERATIONS)

Appendix 2 Investment Development

Sources for Quality Investments and Entrepreneurs

- Investees and other entrepreneurs
- Other venture capitalists, bankers, lenders and investors
- Accountants, attorneys, auditors, consultants and associates
- Brokers, finders and promoters
- Large companies (spin-offs and joint ventures)
- Meetings, shows and conferences
- Industry, professional and service organizations
- Development organizations, public authorities and chambers of commerce
- General and industry press

Promotional Techniques (Given a tightly focused investment strategy)

- Co-invest
- Cultivate referral networks
- Public speaking
- Targeted advertising
- Tombstones
- Industry directories
- Press and periodical articles
- Association activities
- Venture birthings
- Proactive prospecting and cold calls

Early Pre-Screening Criteria

- Company age and stage
- Sales and sales growth
- Earnings and earnings growth
- Capital needs
- IRR expectations relative to risk
- Probability of timely exit vehicle
- Probability of sufficient input and control relative to investment
- Ownership and management team
    - Integrity
    - Motivation
    - Market orientation
    - Technical and operational skills and experience
    - Business and financial skills and experience
    - Leadership and management skills and experience
    - Problem solving skills and experience
    - Rapport among team and with investors

APPENDIX D
(APPENDICES RELATED TO OPERATIONS)

Appendix 3 Portfolio Monitoring

Goals

- Verify portfolio company financial statements, reporting and performance
- Assure compliance with terms and conditions of investment agreements
- Remedy reporting and documentation deficiencies
- Anticipate potential problems
- Recommend appropriate actions
- Enhance investor/investee relationships
- Identify opportunities
- Share expertise, skills and experience
- Evaluate overall investment and investment company position

Monitoring Options

- Originating investment officer (most knowledgeable and invested)
- Other company professional (more impartial)
- Syndicates and local co-investors (more cost effective)
- Outside consultants (most objective)

Information Sources

- Monthly flash reports (sales, receivables, order backlog, inventory, cash position, bank debt, major purchases, employee levels, summary of progress and condition)
- Quarterly reports (internal or external as appropriate)
- Annual reports (preferably externally audited with an opinion as appropriate)
- Formal meetings (annual board of directors meetings, investor meetings, project reviews, monitoring visits)
- Informal meetings (owners, directors, managers, employees, co-investors)
- Interim communications (telephone, fax, e-mail)
- Industry and market sources (customers, suppliers, competitors, investors)
- Public and community sources

Site Visits

- Performed annually--no exceptions
- Precede with a letter indicating date, time, purpose, documents to be reviewed, meetings to be scheduled and preparations to be made
- Document with memorandum to the files indicating trip purpose, procedures, findings, analyses, conclusions and recommendations
- Follow-up with letter to investee company indicating findings, recommendations and requirements

Key Information Collected and Analyzed in Monitoring Visits

- Revenue and income growth
- Profitability ratios
- Forecasts and projections
- Liquidity ratios
- Solvency ratios
- Turnover ratios
- Payment history and collections
- Reporting requirements
- Other delinquencies and defaults
- Tax and regulatory compliance
- Liens, suits and legal actions
- Review of receipts and disbursements
- Review of records, accounts and systems of internal controls
- Compensation to officers, shareholders, directors or employees
- Loans or advances to officers, shareholders, directors or employees
- Capital expenditures and indebtedness
- Critical events
- Exit interviews (key managers)
- Assessment of industry and market position
- Environmental Assessment Update
- Impact Monitoring Questionnaire(s)

Early Warning Signals

- Negative trends or variances in sales growth, profit margins or selling expenses
- Sharp or persistent declines in cash, current ratio and working capital
- Dramatic increases in receivables and inventories
- Slowed or incomplete financial reporting
- Strong performance by competing companies or products
- Unexpected loss or turnover in customers, financiers, managers or employees

APPENDIX D
(APPENDICES RELATED TO OPERATIONS)

Appendix 4 Workout Investments

Workout Investments

- Workouts are an inevitable consequence of investing risk capital
- Workouts demand decisive management as a key to investment company success
- Workouts are investments which experience financial or operational distress, but offer potential for rehabilitation
- Workouts cannot meet their contractual obligations in the ordinary course of business
- Workouts normally generate investment losses or break-even returns
- Workouts require a readjustment of financial and operational expectations

The Workout Process

- Confront denial of urgency and severity of problems and conditions
- Mitigate urgent and critical problems
- Diagnose underlying problems and conditions
- Identify and assess options and consequences
- Identify and assess available resources
- Analyze risk/reward tradeoffs and payoffs
- Analyze investor position, strengths, weaknesses, allies and adversaries
- Determine workout plan and critical path
- Negotiate temporary cooperation with investees and co-investors
- Implement long term plan
- Review and revise as required

Workout Options

- Turnaround of operations based on investee strengths and opportunities to revitalize earnings' capacity
- Introduction of/expansion to new products or markets
- Price increases and/or expense reductions
- Restructure or settlement of key contracts, liabilities or litigation
- New investors or follow-on financing
- Rightsizing through divestiture of unprofitable operations
- Downsizing through partial disposition of productive assets
- Retention of outside consultants
- Management change
- Merger or acquisition
- Orderly asset sale to competitors, suppliers, creditors, shareholders, investors or others
- Investor takeover
- Liquidation

APPENDIX E

REVISED PROJECTED INVESTMENT FROM USAID FUNDS AND PROGRAM REFLOWS 1997-2005

Appendix A

Revised Projected Investments From USAID Funds and Program Reflows 1997 2005

Year	1994-96	1997	1998	1999	2000	2001	2002	2003	2004	2005
INCOME STATEMENT										
REVENUE										
Return on investments Interest	0 00	35 055	281 610	972 956	1 690 009	2 398 860	2 756 430	2 911 264	2 875 219	2 740 500
Return on investment Dividends	0 00	0	22 420	115,340	323 840	629 840	977 840	1 293 000	1 512 000	1 872 000
Return on investment Capital apprec	0 00	0	0	0	0	0	8 579 706	26 979 003	52 809 964	64 290 391
Total returns on investments	0	35 055	304 030	1 088 296	2 013 849	3 028 700	12 313 976	31 183 267	57 197 183	68 902 891
Operating cost support from USAID	1 036 368	2 500 000	2 500 000	1 963 632	0	0	0	0	0	0
TOTAL REVENUE	1 036 368	2 535 055	2 804 030	3 051 928	2 013 849	3 028 700	12 313 976	31 183 267	57 197 183	68 902 891
Operating expenses	1 307 168	2 178 037	3 122 035	3 356 890	3 556 778	3 769 864	3 997 129	4 239 635	4 498 531	4 775 064
Provision for capital losses	0 00	0 00	0 00	19 475	107 600	222 600	761 000	1 797 600	3 203 125	3 790 000
TOTAL EXPENSES	1 307 168	2 178 037	3 122 035	3 376 365	3 664 378	3 992 464	4 758 129	6 037 235	7 701 656	8 565 064
NET INCOME	(270 800)	357 018	(318 005)	(324 437)	(1 650 529)	(963 764)	7 555 846	25 146 032	49 495 527	60 337 828
Cum Revenue Reserves	(270 800)	86 218	(231 787)	(556 224)	(2 206 753)	(3 170 517)	4 385 329	29 531 361	79 026 887	139 364 715

REVENUE WORK SHEET	RATES	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
Investment target USAID		0 00	3 800 000	14 100 000	23 000 000	24 000 000	24,000 000	12 000 000	0	0	0	100 900 000
Investment target re-flows				0	0	0	0	12 000 000	24,000 000	24,000 000	24,000 000	84,000 000
Total investment target			3 800 000	14 100 000	23 000 000	24 000 000	24,000 000	24,000 000	24,000 000	24,000 000	24,000 000	184,900 000
Cumulative investment		0 00	3 800 000	17 900 000	40 900 000	64,900 000	88 900 000	112 900 000	136 900 000	160 900 000	184,900 000	
FEES												
Commitment fee			38 000	141 000	230 000	240 000	240 000	240 000	240 000			
Closing fee			76 000	282 000	460 000	480 000	480 000	480 000	480 000			
Deal size			950 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000	2 000 000			
Number of deals			4	11	12	12	12	12	12	12	12	98
Average deal per Snr Investment Prof			1	2	2	2	2	2	2	2	2	
Portfolio diversity												
Debt instruments % of target			41%	50%	40%	30%	25%	25%	25%	25%	25%	30%
Equity % of target			59%	50%	60%	70%	75%	75%	75%	75%	75%	70%
Debt instruments made			1 558 000	7 050 000	9 200 000	7 200 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	55 008 000
Equity investments made			2 242 000	7 050 000	13 800 000	16 800 000	18 000 000	18 000 000	18 000 000	18 000 000	18 000 000	129 892 000
Interest from debt instruments	9%											
Loans granted in fiscal 1997			35 055	70 110	131 456	105 165	70 110	35 055	8 764			455 715
Loans granted in fiscal 1998				211 00	634,500	594,844	634,500	475 875	317 250	118 969		2 987 438
Loans granted in fiscal 1999					207 000	828 000	776 250	828 000	621 000	414,000	155 250	3 829 500
Loans granted in fiscal 2000						162 000	648 000	607,500	648 000	486 000	324 000	2 875 500
Loans granted in fiscal 2001							270 000	540 000	506 250	540 000	405 000	2 261 250
Loans granted in fiscal 2002								270 000	540 000	506 250	540 000	1 856 250
Loans granted in fiscal 2003									270 000	540 000	506 250	1 316 250
Loans granted in fiscal 2004										270 000	540 000	810 000 00
Loans granted in fiscal 2005											270,000	270 000
Total interest income		0 00	35 055	281 610	972 956	1 690 009	2 398 860	2 756 430	2 911 264	2 875 219	2 740,500	16 661 903
Dividends from equity instruments	2%											
Investments made in fiscal 1997				22 420	44,840	44,840	44,840	44,840				201 780
Investments made in fiscal 1998					70 500	141 000	141 000	141 000	141 000			634,500
Investments made in fiscal 1999						138 000	276 000	276 000	276 000	276 000	276 000	1 518 000
Investments made in fiscal 2000							168 000	336 000	336 000	336 000	336 000	1 512 000
Investments made in fiscal 2001								180 000	360 000	360 000	360 000	1 260 000
Investments made in fiscal 2002									180 000	360 000	360 000	900 000
Investments made in fiscal 2003										180 000	360 000	540 000
Investments made in fiscal 2004											180 000	180 000
Total dividend income		0 00	0	22 420	115 340	323 840	629 840	977 840	1 293 000	1 512 000	1 872 000	6 746 280
Principal repayments on debt	4											
Loans granted in fiscal 1997					194 750	389 00	389 500	389,500	194,750			1 58 000
Loans granted in fiscal 1998						881 250	1 762 500	1 762 500	1 762 500	881 250		7 050 000
Loans granted in fiscal 1999							1 150 000	2 300 000	2 300 000	2,300 000	1 150 000	9 200 000
Loans granted in fiscal 2000								900 000	1 800 000	1 800 000	1 800 000	6 300 000
Loans granted in fiscal 2001									750 000	1 500 000	1 500 000	3 750 000
Loans granted in fiscal 2002										750 000	1 00 000	2 250 000
Loans granted in fiscal 2003											750 000	750 000
Loans granted in fiscal 2004												
less provision for capital losses	5%				(19 475)	(107 600)	(222 600)	(312 600)	(387 600)	(443 125)	(430 000)	(1 923 000)
Total principal repayments		0	0	0	175 275	1 163 150	3 079 400	5 039 400	6 419 650	6 788 125	6 270 000	28 93 000
Proceeds on sale of equity	30%											
Investments made in fiscal 1997	6							10 821 706				10 8 1 706

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In estments made in fiscal 1998									34,029 003			34,029 003
Investments made in fiscal 1999										66 609 964		66 609 964
Investments made in fiscal 2000											81 090 391	81 090 391
less provision for capital losses	207							(448 400)	(1 410 000)	(2,760 000)	(3 360 000)	(7 978 400)
Total proceeds on sale of equity		0	0	0	0	0	0	10,373 306	32 619 003	63 849 964	77 730 391	184,572 665
less principal redeemed								2 242 000	7 850 000	13 800 000	16 800 000	39 892 000
Capital appreciation on investments		0 00	0 00	0 00	0 00	0 00	0	8 579 706	26 979 003	52 809 964	64 290 391	224,464,665
Total return on investments		0 00	35 055	304,030	1 088 296	2 013 849	3 028 700	12,313 976	31 183 267	57 197 183	68 902 891	247 872 847

OPERATIONAL EXPENSES	1997	1998+	1994-96	1997	1998	1999	2000	2001	2002	2003	2004	2005
Personnel												
Senior Management	2	3										
Salary					231 500	292 163	306 771	322 109	338 215	355 125	372 882	391 526
Benefits					23 150	29 216	30 677	32 211	33 821	35 513	37 288	39 153
Allowances					0	0	0	0	0	0	0	0
Senior Investment Professional Staff	4	6										
Salary					404 000	504 000	529 200	555 660	583 443	612 615	643 246	675 408
Benefits					40 400	50 400	52 920	55 566	58 344	61 262	64 325	67 541
Allowances					0	0	0	0	0	0	0	0
Other Professional Staff	8	11										
Salary					394 056	413 759	434 447	456 169	478 978	502 926	528 073	554 476
Benefits					39 406	41 376	43 445	45 617	47 898	50 293	52 807	55 448
Allowances					0	0	0	0	0	0	0	0
Other Personnel	11	12										
Salary					154 350	185 220	194 481	204 205	214 415	225 136	236 393	248 213
Benefits					15 435	18 52?	19 448	20 421	21 442	22 514	23 639	24 821
Allowances					0	0	0	0	0	0	0	0
Bonus program percentage					25%	25%	25%	25%	25%	25%	25%	25%
Bonus Program					295 977	348 785	366 225	384 536	403 763	423 951	445 148	467 406
Total Personnel Expenses	25	32	776 994	863 874	1 598 273	1 883 441	1 977 613	2 076 494	2 180,318	2 289 334	2 403 801	2 523 991
Business Expenses												
Travel Out of region					16 000	16 800	17 640	18 522	19 448	20 421	21 442	22 514
Travel Within region					263 000	276 150	289 958	304 455	319 678	335 662	352 445	370 067
Other Business expenses					37 440	39 312	41 278	43 341	45 509	47 784	50 173	52 682
Total Business Expenses			341 561	536 764	316 440	332 262	348 875	366 319	384 635	403 867	424 060	445 263
Occupancy Costs												
Rental premises					67 997	81 265	89 391	98 330	108 163	118 980	130 878	143 965
Rental parking					16 500	18 150	19 965	21 962	24 158	26 573	29 231	32 154
Electricity					5 760	6 336	6 970	7 667	8 433	9 277	10 204	11 225
Water					985	1 084	1 192	1 311	1 442	1 586	1 745	1 919
Rates					12 480	13 728	15 101	16 611	18 272	20 099	22 109	24 320
Total Occupancy Costs				see G & A	103 722	1,0 56?	132 618	145 880	160 468	176 515	194 167	213 583
Investment Expenses												
Legal expenses					250 800	260 820	273 861	287 554	301 932	317 028	332 880	349 524
Outside Expenses					379 800	239 505	251 480	264 054	277 257	291 120	305 676	320 960
Total Investment Expenses				403 259	630 600	500 325	525 341	551 608	579 189	608 148	638 556	670 483
Directors' Expenses				see G & A	215 000	236 500	260 150	286 165	314 782	346 260	380 886	418 974
Gen & Administrative expenses			188 613	374 140	258 000	283 800	312 180	343 398	377 738	415 512	457 063	502 769
TOTAL OPERATING EXPENSES			1 307 168	2,178 037	3 122 035	3 356 890	3 556 778	3,769 864	3 997,129	4 239,635	4 498,531	4 775 064

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