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GENERAL MANAGEMENT ASSISTANCE CONTRACT (GMAC)

Contract No: 674-C-00-01-00051-00

Small Entrepreneur Empowerment Drive

Contract or Grantee number: 0141-0204-G-GA43

CHF-CEBI

This report was produced for review by the USAID. It was prepared as a performance milestone under Mega-Tech, Inc.'s prime contract. The contents of this report address activities performed under USAID/South Africa's Strategic Objective No. 9: Increased Market Driven Employment

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Activity Summary and achievements:

In September 2003, CHF International S.A., Community Entrepreneurship and Business Initiative (CEBI) and the Buffalo City Municipality (BCM) decided to embark on an attempt to replicate the concept of CEBI in the township of Mdantsane in East London. CEBI was a programme funded by USAID through CHF International that made provision for entrepreneurs in the Motherwell township, a previously disadvantaged community within the Nelson Mandela Metropole. Entrepreneurs were assisted with business skills training and business support services, and once they had completed the necessary training, the Financial Services Division of CEBI assisted the entrepreneurs with start-up financing. Owing to the successful reception that CEBI experienced in the Motherwell township, the concept was favourably received during negotiations with the Buffalo City Municipality for the Mdantsane township near East London.

This programme involved, among other tasks, creating an awareness of the concept within the community of Mdantsane; establishing an office; conducting training and assisting with the development of, specifically, co-operative businesses, and providing business support services to the entrepreneurs within Mdantsane.

The main objectives of the programme were to:

- Establish an office that would service the Mdantsane community in the area of entrepreneurship development, training and support;
- Develop quality training materials that would cover the aspects of entrepreneurship and the development of co-operative entities;
- Train entrepreneurs, specifically those engaging in co-operative activities;
- Provide support services to the entities regarding business operations, functionality and income generation, e.g. business plan development, assistance with tender submissions, linkages, etc. and
- Provide access to start-up financing.

Refer to the Final Report for a summary of the activities, achievement and the lessons learnt under this grant.

Contents of this report:

- 1) Final Report (Nov. 2005); and
- 2) Narrative Progress Report (FY2005).

GMAC Grantee Close-out Report

Grantee: CHF South Africa

Agreement No.: 0141-0204-G-GA43

PROJECT BACKGROUND

In September 2003, CHF International S.A., Community Entrepreneurship and Business Initiative (CEBI) and the Buffalo City Municipality (BCM) decided to embark on an attempt to replicate the concept of CEBI in the township of Mdantsane in East London. CEBI was a programme funded by USAID through CHF International that made provision for entrepreneurs in the Motherwell township, a previously disadvantaged community within the Nelson Mandela Metropole. Entrepreneurs were assisted with business skills training and business support services, and once they had completed the necessary training, the Financial Services Division of CEBI assisted the entrepreneurs with start-up financing. Owing to the successful reception that CEBI experienced in the Motherwell township, the concept was favourably received during negotiations with the Buffalo City Municipality for the Mdantsane township near East London.

This programme involved, among other tasks, creating an awareness of the concept within the community of Mdantsane; establishing an office; conducting training and assisting with the development of, specifically, co-operative businesses, and providing business support services to the entrepreneurs within Mdantsane.

Owing to the large scope of the project, CHF SA approached Mega-Tech Inc. for funding to assist with some of its costs involved in the implementation of the project plan. Seeing that part of the project plan involved assisting the development and commencement of activities for a local non-profit organization (i.e. CEBI), Mega-Tech Inc. awarded funds to CHF SA, and the project commenced in early March 2004.

The main objectives of the programme were to:

- establish an office that would service the Mdantsane community in the area of entrepreneurship development, training and support;
- develop quality training materials that would cover the aspects of entrepreneurship and the development of co-operative entities;
- train entrepreneurs, specifically those engaging in co-operative activities;
- provide support services to the entities regarding business operations, functionality and income generation, e.g. business plan development, assistance with tender submissions, linkages, etc. and
- provide access to start-up financing.

PROGRAMME ACTIVITIES/TASKS:

Programme Start-up

Partnership between CHF and CEBI

CEBI had been established as a Section 21 Company in September 2003 and in order to become fully functional, the company required a contract or agreement that would assist in the organization becoming operational in the area of entrepreneurship development. As CEBI was once a project of CHF International, CHF planned to engage the services of the newly formed entity by signing an agreement with CEBI for the provision of entrepreneurship development and support services. This partnership between CHF and CEBI took some time in being implemented because the activities of CEBI were underwritten by CHF and CEBI was not yet operational as there were certain setbacks in the activation of the divisions of CEBI.

Once the internal setbacks were solved, an agreement was drawn up between the two parties and signed.

The aim of this was to assist a local (South African) organisation to become fully operational and to obtain its first contract. This aim was not realised owing to unforeseen problems and awkward circumstances arising from the problems CEBI faced regarding staff and operating activities.

This possibly contributed to the staffing problems that arose for the One-Stop Shop as the number of available CEBI staff were insufficient for interim deployment in the One-Stop Shop. Initially, CEBI was only able to deploy one or two staff members at a time in the East London office and this eventually became difficult as the staff reduction placed further pressure on CEBI's ability to continue this. CHF stepped in and sourced temporary staff from the Mdantsane community. These temporary staff manned the office until the Buffalo City Municipality finalized the selection process from their identified candidates.

Office establishment

The Buffalo City Municipality (BCM), a partner in the programme, preferred to source their own staff for the One-Stop Shop in order to accelerate skills transfer. This caused a slight delay as they opted to conduct the sourcing from identifying staff as opposed to utilising the ground work already done by CHF and CEBI. In the interim, CHF placed temporary staff in the office to ensure continuation of the programme, and the permanent staff identified by the BCM underwent orientation and training in Port Elizabeth.

The BCM handled all the initial procurements for the office, such as desks, computers and basic stationery. This formed part of their match to the project and did not have an effect on the budget provided by Mega-Tech Inc.

Although there was no delay in the establishment of the office with regards to equipment, there were challenges faced with regards to staffing. This caused a temporary closure of the office for approximately one month, as there were no staff for the office in Mdantsane. This had a negative impact for the community as they had many queries and sought assistance which was not forthcoming. However, once the staffing challenge was resolved, the members finally received service and were supplied with the information and assistance they needed.

In the future it is recommended that all staffing issues be promptly addressed in order to avoid any direct impact on the provision of services to clients.

Communication instrument & material development

Staff induction & training; marketing documents & tools developed

Early on in the programme, a marketing drive was held at the One-Stop Shop to inform the community of Mdantsane of the new establishment and the services it would be offering to the community. The response and turn-out surpassed expectations and gave rise to many enthusiastic queries.

This positive response underlined the importance of having the One-Stop Shop in the community of Mdantsane because many of the community members had business ideas that they held on to with no means of implementation.

Training documents developed

Aside from the induction training documentation, all other training material had been previously developed by CHF SA: material for Co-operative Development, Business Entrepreneurship, Tendering, Marketing, Bookkeeping and Administration.

Co-operative business development & training

All milestones (10 – 12)

The informal co-operatives underwent assessments for skills and abilities to ensure that they complied with the requirements established for registering a formal entity. The skills assessment assisted in ascertaining the level of training required. Material had been previously developed, and thus training was scheduled to commence soon after the assessments were completed.

The informal co-operatives were further assisted with the registration process. 34 co-operatives were assisted with training and registration; this is beyond the initial requirement for the programme, and in the end the goal for this requirement was surpassed.

At a later stage, areas were identified on behalf of the co-operative members that required clarification. These areas were related to the training, where some of the co-operative members became unsure of certain key points. However, the staff of the One-Stop Shop and CHF were able to provide the necessary information, and the members were able to continue operations, satisfied.

It also transpired that the co-operative members required a little “brush up” information on occasion on what they were and were not able to do as a primary co-operative. This information was more “custom required” and was dealt with on an as needed basis by the One-Stop Shop and CHF staff. The training, however, covered all the necessary requirements by the Registrar of Co-operatives and there were no further problems encountered with the registration process.

Business training, support & linkages

All milestones (13 – 17)

Again, all material had been previously prepared by CHF SA staff and it received a good reception from the trainees. However, it soon became apparent that language was a challenge for the trainees, as the training was conducted in English. Aside from this, the trainees found the content sufficient and they felt it was well prepared (this was as per evaluations done after the final training session). Consequently, CHF undertook to source a second trainer who was able to conduct the training in the mother tongue and this ensured that the trainees were able to obtain a very good understanding of the material.

Support services that were rendered revolved around tender advice and the completion of tenders, and in December 2004, a tendering workshop was held in East London and it was attended by 15 members from different co-operatives. In addition, some co-operatives were assisted with Business Plan development and improvement. There were many queries regarding financing, and this was answered by informing the co-operative members of the plans for commencing the provision of financial services. This received a positive response. On a weekly basis, information on tender opportunities was faxed through to the One-Stop Shop for the co-operatives to review and take steps to commence the tender process.

The assistance provided in identifying and forming linkages for the co-operatives had many forms: linking with in-kind assistance, provision of contacts with suppliers, linking with government departments which yielded grants being provided to a number of the co-operatives, and the provision of information regarding tenders and contracts advertised. Where relevant, the necessary assistance was given in order for them to have a good chance at securing the tender/contract on which they bid. The one home-based care co-operative had a successful linkage with Johnson & Johnson, over 6 co-operatives in different sectors of activity received grants from the Department of Social Development, and one of the craft co-operatives were successfully linked with a bead supplier.

Business support services will be required on an on-going basis as it is anticipated that the entrepreneurs will need guidance in the future as well. The Buffalo City Municipality will be addressing this matter in order to ensure the continuance of such services, as they are keen to remain actively involved in the operations of the One-Stop Shop.

Financing activities of businesses developed

All milestones

Initially, the financing activities were to be undertaken by the Financial Services Division of CEBI. Due to this division not realising its potential, it was dissolved and CHF took on the responsibility of sourcing an external partner to fulfill this obligation under the agreement.

In December 2004, a few small financing options were identified in East London, one being the better option because of location – it was very close to Mdantsane.

Unfortunately, negotiations yielded nothing as the institution wanted all costs covered by matching each R1 given to clients as a loan with R1 for costs. Furthermore, they were not registered with the Micro-Finance Regulatory Council and did not have an adequate screening process, e.g. they wanted to provide loans to entrepreneurs with a previous default record, they were happy to offer financing to entrepreneurs who already had reached their maximum credit limit.

This necessitated further investigations into the financing sector that serviced start-up entrepreneurs in the East London region. By reviewing the Micro-Finance Regulatory Council website, several agencies were identified and contact was made with a number of them. When they were requested to provide an overview of their financial services, entity registration and screening procedures, only one institution came forward with all the information. Speedy Cash Loans, however, was a for-profit organization and CHF International in Washington had a requirement to work with non-profit organizations. This led to approaching the Business Finance Promotion Agency a second time.

In February 2005, a brief meeting with the Executive Director of the Business Finance Promotion Agency yielded a positive interest. Within a week, a draft agreement had been submitted for their review. However, having to take the planned agreement to the Executive Committee of the BFPA caused delays and BFPA had to also submit it to their primary funder, Khula Finance, who vetoed the agreement, despite the Executive Committee supporting the idea of the BFPA engaging in financing activities with other partners. Khula's concerns revolved around the costs that would be incurred by BFPA in terms of manpower, administration and basic supplies related to the agreement as the initial funding was earmarked for loans capital only.

CHF made further attempts to source a partner in this final stage of the programme, but to no avail: either the entities were "for profit" organisations or they didn't have adequate controls in place. After a visit from the Director of Africa Operations from CHF H.Q. and a meeting with the BFPA Executive Director, it was decided that BFPA would utilise the loan capital that they had at their disposal through Khula Finance, and that CHF would provide the funds for all administrative and other direct costs relating to the issuing and monitoring of these loans.

The BFPA provided CHF International in Washington with a brief proposal on how the capital would be utilized, and this was accepted. Much of the funds would be spent on staff salaries and for covering some of the other operational expenditure that was anticipated.

With this having been agreed to by both parties, a formal agreement was drawn up and signed with the roll-out planned for early August 2005. BFPA staff are currently busy in East London on issuing loans to the businesses trained up under this contract, as a list of the co-operatives were provided to them by CHF, and the required operational funds have been transferred to BFPA.

LESSONS LEARNED:

Programme Start-Up

The partnership agreement between CHF and CEBI took longer than was anticipated because of the various problems that CEBI encountered at an internal level. However, once these challenges were

identified, the delay could have been minimized further by utilizing the CHF SA staff contingent to the maximum by employing their abilities in the preparation of the agreement.

What may have been of assistance would have been to separate the programme from the CEBI situation at the time by appointing a project manager for the duration of the Mega-Tech Inc. agreement. The project manager could have been given the mandate to utilise the staff of CEBI that would be required under the programme and continue with operations. This may have assisted to enable the continuation of CEBI operations and possibly the Mega-Tech programme at a later stage.

In order to avoid the temporary closure, it may have been better for CHF to source temporary staff and train them as soon as it became evident that there would be a slight delay with regards to the sourcing and assignation of staff.

Furthermore, it would have been ideal if CHF and the BCM concurred on the appointment of staff members as, in CHF's opinion, it has become apparent that the current staff of the One-Stop Shop are not adequately qualified to deal with the queries and assist the community members to the fullest. By concurring on the appointments, this would have ensured that the staff deployed in the office were able to handle all queries independently.

Communication instruments & material development

There was only one marketing drive held which yielded a tremendous response from the community members. One area for improvement in future projects would be to increase this number of marketing campaigns. Another drive should have been held in order to entrench the concept of the One-Stop Shop in the community and inform more community members seeing that the township of Mdantsane is so vast. It may also have been beneficial if a marketing drive was held around the middle of the project in the other communities around East London in order to broaden the servicing scope of the One-Stop Shop and possibly provide a platform for replication.

Co-operative business development & training

Owing to the fact that there were a number of queries regarding co-operative management, it would have been useful to have conducted a post-training assessment (as was done with the business training) in order to identify areas where the co-operative members were in need of clarification.

A survey could have been conducted to address any issues that may have arisen once the co-operatives commenced trading, and a seminar or workshop held in order to provide the members with a question and answer session. This would have addressed the similar queries that the different co-operative members brought to the One-Stop Shop.

Not all registration documentation was copied for files, especially when it dealt with the postage of the forms. By taking copies of the registered mail slips and filing it with the copies of the forms, the tracking numbers thereon would still be available and this would serve as a backup in case the original slips were mislaid.

Business training, support & linkages

The issue of conducting the training in the home language was effectively dealt with by repeating the training. The cost of this was borne by CHF directly, but this may have been avoided if either the training was conducted in the home language at the outset or if a translator was present. Any questions of clarification could then have been relayed in the home language.

The support services rendered were very valued by the community members and they were impressed with the one-on-one attention that they received from the CHF staff. What was apparent, though, was that at least one other Support Officer was needed as there were many requirements for business support, specifically in the area of tendering and business plan development.

The area of linkages suffered a little through the lack of an on-site officer. Again, CHF staff had to step in, but travelling from Port Elizabeth through to East London was limited due to budgetary

constraints. The East London staff were not equipped to deal with this, thus remote assistance was offered and proved to be insufficient on a few occasions. An experienced member of staff deployed for at least 10 days a month may have assisted the community members in developing linkages properly and consistently. The community needs with regards to linkages was vast and, in the future, may have necessitated a second officer having to be brought onto staff.

Financing activities of businesses developed

Once it became apparent that the CEBI Financial Services Division was not realising its potential and was to be closed, plans should have been made to source a partner that would carry out this task. Notification should have been made early to Mega-Tech in order for there to have been enough time to make adjustments to the grant agreement. However, it was unfortunately never anticipated that CEBI would not be formed and fully functional, and in this respect a quicker response would have been of assistance.

Clarity should also have been obtained from CHF H.Q. as to other options and possibilities regarding the amount that had been set aside for loan capital as this may have averted the delay and it would have precluded BFPA having to take the agreement to Khula Finance as well. This would have enabled and earlier roll-out of the financing activities.

In order to expedite this process, it may also have been a better option to assign a single member of staff to this process so that there was one point of contact and any confusion about requirements, loan capital, etc. may have been avoided.

At the time that the partner was identified, what also would have helped to speed up the process was to have contacted CHF H.Q. so that a draft agreement could have been set up and finalised for when the approval was given by BFPA's Executive Committee. This also would have saved time and expedited the roll-out of the financing activities.

Co-ordination of activities also held small challenges along the way, causing slight delays on occasion. These were effectively dealt with, helping to minimize the time frame.

The need for financing among the businesses developed under this agreement was great, as many cited that all they needed further was financial assistance in order to commence or continue operations. A few of the co-operatives had been working informally for a while and were keen to expand, and for this they required finance. They experienced frustration as, early on in the programme at the time of the co-operative training, they were promised financial assistance, but the delays in rolling out these activities led them to believe that these promises were not going to be fulfilled.

With the involvement of BFPA and the current agreement, the co-operatives will be able to access the finance that they need, and the loan capital will not be a limiting factor, as BFPA will be able to use the capital received from Khula as CHF funds cover operational costs for the provision of these loans.

FINANCIAL NARRATIVE:

Programme Start-up and Office Establishment

The main costs involved under this task was manpower as staff time was utilised in visiting the office location in East London, sourcing potential staff for the One-Stop Shop (which proved to be a moot exercise as the BCM decided to staff the office itself), and undertaking the various trips to bring to conclusion the staffing issues.

Other operational costs at this stage basically involved travel and motor vehicle expenses, with costs such as supplies being minimal.

The match provided by the Buffalo City Municipality was for the initial equipping of the office with computers, desks, and basic supplies. They were also responsible for enabling communications.

Communication instruments & material development, and staff induction & training

Materials had been developed prior to the commencement of the programme under the CEBI banner. However, some of the materials were revised, which involved staff time. Operational costs in the production of the materials developed were mainly office supplies and consumables as there was very little travel in the completion of this task.

The BCM match constituted the costs for travel of the staff they had sourced for the office, and their related accommodation costs, and related costs of some material provided to these staff members.

Co-operative business development and training

Costs for under this task involved the replication of the training materials, costs of travel to East London and staff time (the trainer, assistants, and finance). Operational costs were again the regular such as a portion of the office rental, utilities, etc. and supply costs were relegated to the replication of the material.

The BCM match constituted the provision of the training venue and the staff time to arrange this, costs of catering and other charges related to the venue hire.

Business training, support and linkages

Much of the costs incurred here involved staff time: training, provision of support services, and assistance with linkages. In each instance, there were travel costs involved and vehicle charges incurred. The supply costs involved were for the replication of training materials and materials used to assist with the provision of support and linkage services.

Again, the BCM contributed by way of the staff time in sourcing and providing the training venue, catering costs and other charges involved with the venue hire.

CHF incurred a notable cost (outside of the regular operational costs) of the retraining of the co-operative members in the home language.

Financing activities of businesses developed

Staff time was the main component of the costs incurred under this task, as a partner needed to be sourced, agreements drawn up, and travel conducted. Supply costs only became significant near the end of the task when the agreement was drafted and revised. Throughout this task, the local travel necessitated the use of the vehicle which incurred costs in that respect.

The BCM match mainly involved their staff time in continuing activities such as providing information to the businesses developed, and assisting them with their requirements, e.g. registrations. They preferred to keep their involvement at a low key by leaving the negotiations with the financing partner to CHF SA as CHF had more experience in this aspect.

CONCLUSION

The aim of establishing a One-Stop Shop in the community of Mdantsane was achieved. Although there were challenges faced, each one was effectively dealt with and the office has been serving the community well over the past year.

Further successes of the project included the establishment of co-operatives: registration, training in co-operative principles and business skills, and assistance with business practices. The number originally required by the programme was exceeded, as 34 co-operatives were assisted during the life of this programme.

At present, the One-Stop Shop has undergone some changes regarding staffing as the staff placed during the life of the project were on contract, but the service delivery has continued unabated. On a monthly basis, the office handles queries ranging from business registration, finance and training information through to business support services provided. Mostly co-operative entities are being registered, but there are some sole entrepreneurs making enquiries and seeking assistance.

This bodes well for the future as word of mouth is a great marketing tool and the township of Mdantsane is one of the largest in South Africa. There is much work to be done in assisting entrepreneurs and the One-Stop Shop may soon need to be replicated in one of the other zones of Mdantsane. As the financing activities commence, the One-Stop Shop will soon have further advice to give regarding obtaining finance and will be able to link them with the BFPA office in East London.

GMAC Grantee Narrative Report

Report for the period:

October 1, 2004 through September 30, 2005

Please complete a one-two page narrative summary of your main accomplishments between October 1, 2004 – September 30, 2005. To prevent you from re-inventing the wheel, it is recommended that you work through the two narrative reports that you are required to submit to Mega-Tech for the specified reporting period and capture essential accomplishments related to your milestones.

1. Efforts that CHF/CEBI made to fulfil this component.

Microfinance element is a key to any cooperative business enterprise, as we are working with groups of emerging entrepreneurs. Most of the groups are in early stages of development with very few and /or no assets to show as collateral when borrowing a loan from the lending organizations. Thus we decided to come up with the lending component that will help to kick-start the businesses of these entrepreneurs in Mdantsane. This can only be done by giving them small loans to kick-start their businesses. Ideally we wanted to work with a microfinance institution that will be easily accessible to the cooperative groups in Mdantsane, thus we had discussions with the Eastern Cape Microfinance Enterprise (ECMFE), Uvimba Bank based in King Williamstown and Speedy Loan Finance.

In our search for the microfinance institutions we had some minimal requirements that a successful microfinance institution will have to fulfill before qualifying for the contract with us. One has to be registered with microfinance registration council (MFRC), has to follow policies and procedures prescribed by us in lending loans to cooperatives in Mdantsane i.e. only those cooperative trained by us and in loaning there should be a maximum threshold for loan for other cooperatives to also get the loan.

Unfortunately we could not get agreement signed with any of the services providers like the ECMFE as they were asking us to pay them R1.00 for each R1.00 loan they issue out as loan in Mdantsane. Uvimba Bank was not registered with the MFRC and the Speedy Loan Finance was a close corporation managed and owned by one individual with employees working under him. CHF policy is to have partnerships with organizations that are not for profit. All these three microfinance institutions were within the boundaries of Buffalo City Municipality but have failed to come up to some form of corporation with us.

2. We ourselves were unable to disburse the loans.

After our financial services unit within CEBI failed to realize its business potential, CEBI board members were left with no option but to restructure the financial services unit by phasing out the microfinance element of the unit. This meant that the employees in that unit had to lose their jobs as the unit could no longer have resources to compete their efforts. Thus CHF/CEBI had no other employees to render microfinance except cooperative training linked with business skills training.

3. We identified a local organization that could do the lending.

In our search for microfinance institutions to do lending in Mdantsane we met Business Finance Promotion Agency (BFPA) that is funded by Khula. BFPA was in the stage of expanding their services to other areas of the Eastern Cape Province like having offices in Queenstown, Umtata and East London. The East London areas were the area we wanted them to open an office first. In our negotiations with them we wanted them to share the office space with us in that One-Stop-Shop in Mdantsane, Wax offices. But this failed as BFPA opted to share office space with COMSEC.

We found BFPA to be the most qualifying microfinance institution in that, they are registered with the MFRC, have some two years experience in lending loans to business including businesses in East London. BFPA was more that willing to work with us especially to know that there is a grant funding of R100.000. Buffalo City Municipality Officials, through the councillors in the area of Mdantsane were also willing to meet BFPA with the aim of providing some assistance necessary.

4. We are helping to facilitate their lending activities through the contribution of R100 00.00.

CEBI will contribute an amount of R100.000 to BFPA as a loan capital, to facilitate the disbursement of loans to cooperative groups in Mdantsane. This loan capital will help to kick-start cooperative business in Mdantsane. This will be done by furnishing BFPA with the list of cooperatives that CHF/CEBI has worked with in Mdantsane. This means all those cooperatives that have received cooperative training and cooperative registration through CHF/CEBI. BFPA will use its own criteria in conducting assessment of affordability and issuing the loan to the qualifying cooperative group.

5. We are helping out an agreement with BFPA and we are receiving it.

Terms and reference has been set out for BFPA to comply to, this spells out how to the reports will be done, the monthly reports in terms of how many loan were disbursed, how many cooperative groups qualified to get the loan and how many cooperative groups failed to get the loan, the reasons for failing to get the loans, the challenges found by BFPA and the lessons learnt out of the whole exercise. This contract agreement has been signed between CHF/CEBI and BFPA and the amount of R 100.000 has been transferred to BFPA account for them to start disbursing the loans.

In my capacity as the grantee agent, I hereby certify that to the best of my knowledge, the above information is accurate.

Authorised Signature: _____

Date: _____