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INTERMEDIATE ASSESSMENT

GET AHEAD FOUNDATION COOPERATIVE AGREEMENT
(No. 674-0303-6-SS-7080-00)

Prepared for

USAID/South Africa

by

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Introduction

A. Background

This report is an intermediate assessment of the Get Ahead Foundation's (GAF) implementation of USAID Cooperative Agreement 674-0303-6-SS-7080-00. The agreement, signed in September, 1987, provides a total of U.S.$3,301,345 over five years in support of both direct assistance to black-enterprise development and of GAF's own institutional development.

The agreement provides partial financing for two credit interventions together with components for training and marketing assistance. The credit components include: 1) the stokvel loan program, projected to provide roughly R 19.0 million over five years to group borrowers; and 2) the small-business loan program, which, through a loan guarantee of R 600,000 with Standard Bank, is attempting to leverage up to R 6,000,000 of commercial credit to black enterprises. The stokvel borrowers, mainly women, are at the lower end of the informal sector and currently absorb loans of between R 200-600. Small-business borrowers, still informal but more established, absorb credits of between R 1,000 and 20,000, with R 5,500 the current average.

The marketing program links black enterprises to both local and national markets and, more recently, assists in bulk procurement. The training component provides training to both GAF staff (for skill development) and to SSEs; it also coordinates mentoring services to black enterprises from more established entrepreneurs.

Institutionally, USAID funding is meant to strengthen GAF in a number of ways; i.e., through the acquisition and training of management and field-level staff with business-development skills; the upgrading and expansion of the financial management unit; the installation of credit-administration and management-information (MIS) systems; and, lastly, the creation of a commercial services unit, distinct in structure and operations from the pre-existing social-services unit. The separation of the economic unit (a condition precedent to initial disbursement) has been undertaken both to consolidate business-development activities within a unified management structure and to allow for the development of a potentially sustainable commercial unit within GAF.

B. Purpose and Scope of Work

As outlined in the Cooperative Agreement, the major purpose of this assessment is: 1) to determine the status of the variety of activities initiated to date, with particular emphasis on the credit components; 2) to make appropriate recommendations for changes that may be deemed necessary both within GAF and as regards the cooperative agreement; and 3) to make a formal recommendation to USAID on the planned disbursement of credit funds beyond the level of U.S.$351,000 which is currently approaching.

Equally important, however, is the assessment team's role in providing technical advice and support to GAF in this highly innovative endeavor. Thus, in continuing the high level of cooperation between USAID and GAF in the design and execution of the program, the team has engaged in a lengthy dialogue with GAF management and staff on key issues of methodology and execution, attempting to draw from experience elsewhere as the case may warrant. We are hopeful that this external consultative role proves useful as GAf, like other black organizations, seeks to define its role in this first generation of development-assistance efforts in South Africa.

The assessment itself is based upon: 1) a review of pertinent documentation from both GAF and USAID, including reports and essential correspondence; 2) dialogue and analytical work with GAF senior staff -- including their preparation of cost-center based income-and-expense projections for the two loan components; and 3) field observation and client interviews in Soweto, Mamelodi, Acornhoek, and Port Elizabeth (KwaZakheli, New Brighton and Soweto). A one-week training workshop for stokvel field workers (FWs), Credit-and-Training Officers (CTOs) and regional management personnel was also attended intermittently.

The report comprises two sections, as follows:

I. Program Status and Recommendations
   A. Stokvel Loans
   B. Small-Business Loans
   C. Marketing
   D. Training and Technical Assistance

II. Institutional Status and Recommendations
   A. Financial Management and Management-Information Systems
   B. General Institutional and Management Issues

C. Key Issues

There are a number of key issues guiding the assessment of this important program. The GAF is a highly competent organization implementing experimental but potentially viable credit projects. Thus both the credit interventions and, perhaps more importantly, the institution itself, could prove highly relevant as models in future assistance efforts in South Africa.

The stokvel program, for example, is testing the hypothesis that credit, at higher than commercial rates, can be viably channeled to large numbers of borrowers through existing or adapted informal mechanisms with low overhead and with spin-off effects in employment-and-income generation. At the same time, through the guarantee system with Standard Bank, GAF is attempting to demonstrate that commercial credit can be channeled viably to black enterprises, thus reversing, at least by example, the ongoing outflow of black capital to the dominant white economy through commercial banks.

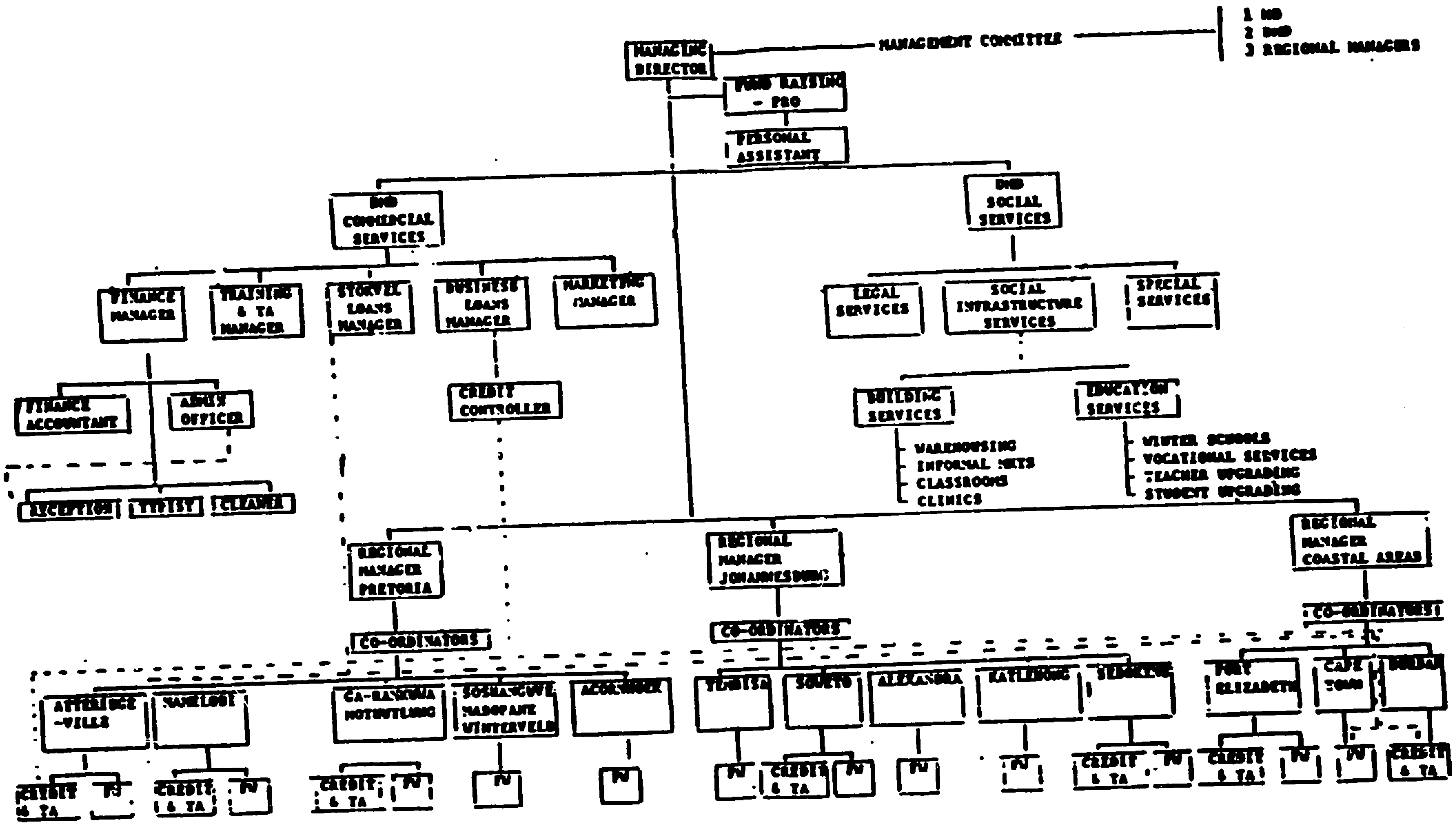
Both schemes are on the cutting edge of credit methodology worldwide, and to the extent that they are successful the lessons learned for future development investments in black South Africa are enormous. The key concern is, of course, whether these programs can render impact within the highly constrained business environment facing black entrepreneurs and, equally, whether they can prove financially sustainable in the medium -to-long term without continued high subsidization.

On the institutional side, in currently crossing the first major threshold of growth and development, GAF holds out the promise of evolving into an authentic center of excellence for black commercial and economic development. But the organization is currently pulled in numerous directions both by the diverse pressures for development in the spate of communities being served and the growing exigencies of fundraising for what is rapidly becoming a larger-scale NGO. Whether GAF can successfully consolidate and streamline its economic activities to achieve its potential as perhaps the key credit and commercial-development innovator for black development in South Africa remains an important concern.

While it is too early to draw meaningful conclusions to these issues, the team is hopeful that both this assessment and the sharing of insights with GAF will lead toward a greater degree of success in implementation and a measured and sustainable build-up of institutional capacity by GAF as it continues in its lead role for black economic development in an independent South Africa.

Lastly, the team wishes to express its sincerest thanks to the management and staff of GAF for their cordiality and cooperation during our visit. We doubt that there is a single issue addressed in the assessment that was not directly raised by GAF personnel; such openness and professionalism in dealing forthrightly with problems is a credit to the institution, and more particularly to its Managing Director who has set the collaborative tone. We fully expect that this attitude will continue in future and will reap great dividends for this young but very impressive organization in future.

GET AHEAD FOUNDATION - ORGANIGRAM



I. Program Status and Recommendations

Stokvel Loan Program

A. Background

In addition to higher-level institutional strengthening, two programmatic objectives are delineated in the USAID/GAF cooperative agreement: 1) establishment of a cost-effective micro-loans program to be characterized primarily by its breadth of coverage at the lower end of the black business size distribution; and 2) a larger loans program for a slightly higher tier of the black enterprise size distribution, with an emphasis on leveraging financial resources (beyond USAID/SA's) from South African banks.

Of these two credit-oriented initiatives, the first, based on the indigenous institution of stokvels, took off immediately. The second program -- breaking considerable new ground in trying to broker unprecedented relationships between commercial banks and small-scale black borrowers -- has understandably taken longer to get up to speed. Both programs have perforce operated in highly experimental modes.

There have been many shared experiences and similar learning and managerial challenges in these two programs, and as will be seen, they can be envisaged as natural complements to one-another. Discussion of these common aspects will take place in the Issues section below. However, this section devotes its attention primarily to the experience of, and prospects for, the stokvel (formerly known as micro-loans) credit program.

B. Accomplishments to Date

GAF has been providing consistent and informative reports to USAID on the development and growth of the stokvel program ever since the program's inception. For this reason it is not necessary to dwell in detail on all its accomplishments to date. General indications of achievement, however, as well as identification of how the program's dynamic evolution has given rise to current challenges to which GAF and USAID/SA must respond, will be presented.

1. Portfolio Indicators. In little more than twenty months of operation, as of 30 September 1989, the stokvel program has disbursed 2088 loans, with a total value of R616,900. The average loan size is just under R300. Since inception, the program has recovered 91.5% of loan payments that have come due. There is substantial variability in recovery rates among the various sites, ranging currently from a low of 59.2% in Soweto to 100% in P.E. and Sebokeng.

2. Beneficiaries. Consistent with agreement covenant B.7 concerning women's participation in the black private sector, 89% of all beneficiaries are women. The large majority of beneficiaries (57.8%) are hawkers, with the remainder divided among other retail (17%), manufacturing (18.5%), and services. Ninety percent of participants finance existing (rather than start-up) businesses with their loans, and the modal age group of borrowers is 30 - 49 years old. New employment generation is not systematically measured. However, in our interviews we determined that some meaningful portion of stokvel loans (say one in five) led to the creation of at least some additional part-time employment.

3. Areas of Operation. In keeping with agreement covenant B.6, decentralization of the program outside the PWV region has been robust. Currently there are ten sites operating the stokvel program, including Cape Town, P.E., Durban, East London and Acornhoek outside the PWV region.

4. Staffing and Management. The program began by establishing competent and dedicated home-office management. This same team has been on the job since the program's inception. It has systematically built up a staff of 12 Field Workers (FW) as primary operatives in the townships, who work in varying degrees of partnership with the larger Get Ahead establishment located in each respective stokvel program site. As required in the agreement, staff training has been an important feature of the build-up of this program, much of it provided through the in-house Training and Technical Assistance program. On the whole, based on our observations and the accounts of others, the field and central staff working on this program are to be commended for their extraordinary levels of commitment and performance excellence in a highly demanding learning and growth situation.

5. Unanticipated Results. Much to the pleasure of Stokvel Program staff, several communities where the program is active have convened workshops or formed groups spontaneously for the purpose of getting other benefits from the program and from their own collective action. For instance, in Acornhoek the community of stokvel loan recipients recently formed the "Get Ahead Hawkers Association", complete with a charter and by-laws. In P.E. in August 1989 some 239 people attended a half-day stokvel members workshop to further their collective interests and forge solidarity. And in Mamelodi, similar group action has lead to the formation of a stokvel participants funded burial program. Although not making a formal recommendation on this matter at this time, we urge stokvel program management and local staff to promote this sort of community mobilization and to investigate means of using such organizations as a resource to assist in disbursement, collection, savings mobilization and other initiatives that will strengthen the stokvel program.

C. Issues and Assessment

It bears noting that the stokvel loan program is technically highly innovative, is constantly required to adjust to changing political and social circumstances unique to South Africa, is embedded in an organization which itself is highly dynamic, and at the same time is obliged to concern itself with achieving a "steady state" of financial sustainability. In addition to all these inward-looking requirements, it also must have some attention left over to look after the output side -- its development impact in and on the black community. Given these difficult and oft-conflicting requirements, it is not surprising that the program has encountered some growing pains. Get Ahead and stokvel program management continue to demonstrate resourcefulness in dealing with these problems, and there is every reason to believe that the issues to be raised in this section will be conscientiously and successfully addressed.

1. Loan Recovery Problems. As was reported to USAID, the program encountered a sharp deterioration in on-time loan recovery during the quarter ending 30 June 1989. Diagnostic and corrective actions were taken immediately the problem was detected, including shutting down new lending in some extreme cases. As the nature and causes of this performance down-turn have become better understood -- e.g., overextended field workers, illness, lack of support from GAF Coordinators and Regional Managers -- systematic corrective actions, including most of those suggested in Hank Jackelen's memorandum of 8 September 1989, are being designed and in some cases implemented.

The good news in all this is that the problem can be isolated in a few townships, leaving the majority still with healthy, and importantly, expanding programs. In fact, according to its report for the quarter ending 30 September 1989, Get Ahead was able to achieve a slight improvement overall in their loan recoveries (from 73.6% for the preceding quarter to 78.1%). In any case, both USAID and GAF ought to be reassured by the knowledge that even with these currently relatively low recuperation rates, the stokvel lending program performance is still better than the vast majority of similar programs elsewhere in the world. And there is every reason to believe that the taking of actions to be recommended below will improve the situation still further.

2. Program Sustainability. Covenant B.10 of the cooperative agreement commits GAF to attempt to achieve financial self-sufficiency in its commercial programs by the conclusion of the USAID agreement. GAF is certainly committed to this objective, which accounts for why there has been so much concern and quick reaction to the recent down-turn in recovery rates. It is well understood that should high arrearages continue to obtain, and worse still, should an undue number of them become terminally uncollectible, there is little chance that the program will become sustainable, even in the limited terms of covering only its internal (direct) costs out of its earnings.

As mentioned above, the stokvel program manager has begun to implement a series of actions to correct this problem, including staff realignments, redesign of procedures, salary structure changes to improve field worker morale and motivation, and wholesale program curtailment in the worst townships. In addition, perhaps most importantly for planning purposes, he has prepared a series of analyses and projections designed to highlight program financial sensitivities and to set performance targets. Based on assumptions that: 1) current repayment problems are correctible and bad debts will not exceed six percent overall; 2) FW case-loads will average 64 stokvels each; 3) inflation will not exceed 20 percent; 4) growth will take place over time in minimum stokvel loan size; and 5) follow-on loan uptake rates will be 60 percent, the following cash flow projections are able to be made:

	Year				
	1990	1991	1992	1993	1994
	(All Figures in S.A. Rands)				
Net Income	152,388	315,041	455,644	615,646	968,565
Direct Exp.	295,867	390,112	468,104	544,757	631,282
Cash flow	(143,479)	(75,071)	(12,460)	70,889	337,283
End-of-year loans outstanding	1,303,352	1,961,598	2,801,022	3,786,493	7,132,164

As can be seen in the above table, the existing procedural, staffing, and cost program now formally planned or in place is capable of covering its internal direct operating costs by early 1993. This judgment does not deal with issues of indirect cost support to the stokvel loans program, which GAF estimates currently to be running at nearly 100 percent again the value of the direct expenses. This issue will be dealt with as a more general problem elsewhere in this paper.

The stokvel loans manager has drawn up several proposals to enhance program performance and assure better control over field operations, some of which will affect this financial calculus. One such recommendation, recently accepted by GAF senior management (and therefore factored into the above cash flow analysis), is to recruit and hire an assistant for the program manager at the junior professional level. Currently, the stokvel loans program manager is averaging more than twenty hours of unreimbursed overtime per week, both fighting operational fires and trying to assure overall coherence in a program that is growing rapidly in a dynamic and difficult political and economic environment. It is our judgment that he should not be called upon to do, nor is he physically capable of doing, both of these demanding tasks and we support GAF's determination to provide this additional management support.

More far-reaching is a proposal to re-establish the original "team leader" concept for direct management of field workers. This proposal is germane to the discussion on span of control immediately below, but is mentioned here as its financial costs, and programmatic performance benefits, will affect the above cash-flow analysis. We accept the logic of the stokvel program manager, however, that the additional quality control and supervision obtainable in the field will yield financial benefits at least as large as the direct financial costs.

3. Span of Control. The original organizational chart for the consolidated commercial services side of GAF left a gap in the reporting lines between field workers and program management in Pretoria. Particularly as the original team leader concept was scrapped, communications between the stokvel loans manager and his (now 12 in number) field workers was technically meant to be carried out indirectly, through the formal reporting line including regional directors and township coordinators.

Operationally, field workers are dependent on regional managers and coordinators for vital support services, many of which are crucial to the satisfactory performance of the loan program. For instance, coordinators are meant to carry out character checks, which may be crucial to stokvel cohesiveness and commitment. Similarly, as respected and influential members of their communities, coordinators and regional managers are expected to lend their weight to assuring repayments by loan recipients. In practice it has been found that regional managers seldom are able to play their appointed roles -- partly due to their remoteness, large areas of coverage, lack of specialized knowledge of credit management, and the competing demands placed upon their time by GAF, particularly for social programs management, with those programs' perceived greater urgency.

Similarly, in most cases, GAF township coordinators have found themselves unable to contribute all the time and support services that are believed to be important to assuring the success of the program. Locations in which recovery rates have been most troublesome are often the ones where the full complement of GAF programs is operational, crowding out coordinators' time availability for the stokvel loans program. On the other hand, locations like P.E., where stokvels are the only action, enjoy substantial support from the local GAF coordinator, and possibly as a consequence, are excellent performers.

The stokvel loans program manager has requested that the original team leader concept be reinstated, with direct reporting lines between himself and the team leaders/field workers, in order to establish the necessary local critical mass and firmer direct control from Pretoria which he believes is crucial to assuring high standards of program performance. We concur that a modified version -- i.e., retaining established healthy coordinator/field worker relationships and getting GAF senior management to commit not to dilute these relationships with new, resource-sapping requirements -- of the stokvel program manager's proposal should be accepted by GAF and funded initially out of the USAID support. It should be monitored carefully to track its benefit:cost ratio in order to ascertain that, as represented, it ultimately becomes a revenue producer, not consumer.

4. Relationship Between Stokvel and Business Loans Programs. By design there is a natural complementarity between the GAF stokvel and business loans programs. This complementarity is both static -- i.e., referring to the generally higher level of entrepreneurial competence among business loans borrowers -- and dynamic, meaning that over time some beneficiaries can be expected to move up and out of the stokvel loan system and onto the commercial bank lending side.

As noted in the chapter of this report on the business loans program, financial unsustainability of that program will remain a problem for the foreseeable future. Among treatments for cost-reduction in that program, graduation of performing stokvel borrowers is an important source of savings in risk buy-down. That is, some stokvel borrowers will have demonstrated their pay-back reliability, will have successfully managed at least credit growth in their progression to larger loan levels in stokvels, and therefore should be considered as proven and strong candidates for business loans. Most importantly, their initial appraisal and subsequent training and after-care requirements -- all of which may be costly to GAF -- should be minimal.

Since it remains early days in the business loans program, thus far coordination in the field between CTOs and field workers anticipating this graduation has been unsystematic. In the interest both of achieving the long-term black business growth objectives underlying GAF's commitment to its commercial programs, and in order to affect desperately needed economies in the operations of the business loans program, the managers of the two programs should begin immediately systematizing the selection and hand-over process for graduating stokvel borrowers into the business loans program. Experimentation in communities where both programs are prospering should also begin immediately.

5. Release of Capital. The projections summarized in the above table show a rapidly growing loan portfolio beginning in 1990. It is clear that existing loan resources, consisting of the original USAID disbursement plus accumulated interest, cannot accommodate this projected rate of growth. It is our view that release of another tranche of credit resources during 1990 for the stokvel program is justified.

D. Recommendations

As signaled above, several of our specific recommendations are more appropriately concurrences in actions already begun by

GAF. Additionally, however, they are designed to signal to USAID/SA our judgments as to compliance, and to inform the drafting of PILs or amendments that USAID will need to negotiate with GAF.

1. Assistance to the stokvel loans program manager. In this dynamic and demanding program it is clear to us that the manager cannot carry out all his appointed functions, at both the operational and policy levels. We therefore recommend that without delay GAF draw up a position description for a junior professional to assist the manager, and upon approval by USAID begin the recruitment process. In keeping with agreement covenant B.5, this person should be from the black community.

2. Because the assumptions of the financial projections model are so crucial to planning for the growth of the program, we recommend that GAF immediately assign staff to research such issues as follow-on loan uptake, field worker load limits, loan delinquencies vs. terminal write-offs, and the impact of inflation on both expenditures and earnings in the program. The manpower to carry out this research can be supplied either from student/volunteer resources or out of the additional level-of-effort to be available from the hiring of a professional assistant for the stokvel loans manager.

3. Anticipating the eventual withdrawal of USAID support for direct expenses, we recommend that GAF establish formal accounting procedures for alloting program earnings against direct, and to the extent feasible, indirect program expenditures. This system should also include the establishment of formal loan loss reserve replenishment and debiting procedures.

4. The stokvel loans manager should redraft his team leader proposal to modify it in the following ways: 1) it should anticipate the retention of effective "teams" based on coordinator/field worker partnerships in those townships in which this arrangement is currently working well; 2) GAF senior management must at the same time provide assurances and instruct regional managers and coordinators that they support this formalization, and moreover must pledge themselves to give priority to preservation of these effective team operations when programmatic adjustments in those townships are contemplated; 3) implementation of the team concept should begin in no more than three sites (at least one being a site which has encountered a fall-off in performance), where, in the best judgment of GAF, this treatment will have the maximum benefit:cost impact; and 4) only upon satisfactory assurances obtained through careful monitoring that it is a cost-effective alternative should further implementation of the team concept take place.

5. In relation to, and complementing, recommendation no. 4 above, GAF should revise its organizational chart to harden the lines of authority directly between the stokvel loans program manager and the coordinator or team-leader supervisors in the field sites. This action will have the effect of

down-playing the role of the regional managers in all cases, and that of the coordinators in townships where team leaders will be installed.

6. The stokvel loans program manager is encouraged to continue experimenting with savings mobilization as a means both of forging group cohesiveness and potentially as a longer-term means of sustaining program growth. Joint savings accounts as used in Mamelodi and P.E., increased requirements for savings as a precondition for enrolling a stokvel in the program, and further discussions with institutions such as the PERM as possible nationwide holders of interest-bearing stokvel savings accounts should be further researched, and assertively promoted as their beneficial impacts are measured.

7. As discussed in Section C.4 above, the stokvel loans program manager and the business loans manager should together draft an explicit strategy for graduating appropriate stokvel borrowers into the business loans program in order to effect savings in the administration of the latter program and to expand further the growth horizons for capable small borrowers. Communication of this strategy to CTOs and field workers -- who will need to cooperate in implementing it -- should be a matter of high priority as soon as the strategy has been approved.

8. USAID/SA should agree to reimbursing GAF for the abovementioned additional staff and related support costs in recognition both of their moderateness and their contribution to overall program quality. Notwithstanding numbers budgeted originally in the cooperative agreement, Get Ahead should be allowed to grow to its full complement of fifteen stokvel field workers, and may hire up to three team leaders in accordance with recommendation no. 4 above, and to be reimbursed by A.I.D. for salaries and associated costs. Any additional hiring beyond these limits will require explicit USAID/SA approval.

9. We further recommend that in view of the high front end investment costs and institutional development costs experienced thus far, approved home office salaries (including an allowance for inflation) should continue to be supported in full through the end of year four of the agreement, and at a fifty percent rate in year five. These additional costs may be financed out of the dollar/rand exchange rate "dividend" which has arisen since the agreement was signed.

10. In accordance with agreement condition precedent A.2(c) we recommend that credit funds in excess of U.S.$ 551,000 for both stokvel and business loans become available for GAF use as necessitated by credit volume growth.

Small-Business Loans

A. Background

The small-loans program was specifically designed as a mechanism to leverage commercial-bank credit for black enterprises. The cooperative agreement makes available R600,000 for a loan guarantee fund with Standard Bank and provides recurrent support costs that are planned to phase out in year four of implementation.

The program was designed in more open-ended fashion than the stokvel program. Entirely new staff, including managers, were to be recruited and a bank-guarantee scheme identified and an agreement drawn. Design, preparation, recruitment and lengthy negotiations with Standard took through February, 1989, with the agreement being signed at that time. The program has thus been operational for roughly seven months, with the placement of local staffing having been staggered. This in large part accounts for the relatively low loan volume to date.

B. Program Status/Accomplishments to Date

1. Staffing and Structure. The program now operates in six sites: Atteridgeville, Mamelodi, Ga Rankhua/Mabopane, Soweto, Sebokeng and Port Elizabeth (the last is non-USAID funded). There are five CTOs who directly report to the loans manager, not to the regional manager, as do the FWs (see organizational chart). In addition there is a loan committee composed of the loans manager, deputy managing director (commerce) and the marketing officer which reviews and approves all loan applications before their submission to the bank.

2. Loan Agreement and Lending Terms. The loan agreement with Standard is based on deposited funds of R600,000 currently earning the prime rate minus 1% in interest (i.e., 20%). In turn, the bank has agreed to build to a ratio of 10:1, lending principal to guarantee, over a five-year period. Outreach, promotion, selection, appraisal, review and follow-up are all GAF's concern. The bank disburses automatically on all loans up to R20,000 after checking on the legal specifics on the loan documents. Disbursement and collection are handled through transfers into the loanees' accounts and standing bank orders for automatic withdrawals at the end of each month.

The loans are made at prime plus 4% (i.e., currently 25% on declining balance of principal) and range from one-to-three years in duration. GAF charges a one-time fee of 5% of principal; if clients do not have sufficient cash on hand, it is added to the loan amount and is paid out at disbursement. This is a quiet arrangement as banks are legally prohibited from lending for payment of fees. In case of default (over 90 days arrearage) Standard can automatically debit the quarantee fund and if defaults average over 20% during any six-month period they are free to suspend the program.

3. Loan Process. The program is promoted largely through word of mouth, with local businesses contacting the CTOs who carry out an interview and submit a loan inquiry form to the loans manager. She reviews the information and carries out an immediate credit-reference check through Kimball's reference bureau. Given approval at this stage, further interviews are held on-site during which a thorough review of the business is carried out.

This more in-depth review includes an analysis of the financial position of the enterprise plus a detailing of six-months' sales information and a projected cash-flow and profit-and-loss statement. An inquiry into the trade area in question is carried out for first loans in each new sub-sector to gain a better understanding of the risks, constraints and opportunities faced by the new borrower. The appraisal information is submitted to the loans manager who reviews it, and normally requests further information. When information is complete, it is reviewed by the loans committee who make the final approval. The documents, with a loan request form, are then channeled to the main branch of Standard Bank, Pretoria, for processing and disbursement. In cases where clients purchase equipment or other hard assets, GAF takes a pledge of security as collateral.

After disbursement, follow-up or "loan after-care" commences with each client. This entails loan monitoring as well as technical advice on marketing, record-keeping, costing and pricing, and banking (cash-flow management). Visits of varying duration are made weekly; it is too early to arrive at averages on visits but an estimate would be 2-3 hours per week on new loanees.

4. Loan Progress to Date. As of September, the program has made 33 loans totalling R181,382 in value. All loans have been to individual enterprises and average R5,496 in size. The recovery rate is to date 100% on-time payment. The loans are fairly will distributed by sub-sectors; i.e., there are 11 loans to manufacturers (30% of total); 7 to retailers (21%); 9 to services (27%); and 6 to hawkers (18%). Spreading out the loans among different sectors should lend good experience for the possible focusing of more sectoral oriented lending at a later date.

While too early in implementation to pinpoint performance trends for the longer term, there does appear to be varying performance by location, with Mamelodi dominating loan production (19 loans or 58% of total). While this is partially explained by the staggered staff placement of CTOs and an exceptional CTO in Mamelodi, different locations may indeed differ in potential -- e.g., Atteridgeville has clearly been slow to develop -- and this will have to be considered in future program development and in possible modifications.

On average, the program has been generating roughtly six loans per month during this initial period. This low volume appears to be due to two factors: the measured pace of start-up normally associated with new lending programs -- especially those involving institutional collaboration -- and GAF's very careful selection process that is meant to avoid a repeat of its earlier high-default problems with small loans.

5. Financial Status. The Table below summarizes the present-and projected income-and-expense position of the program through Sept., 1994. It is abstracted from the more detailed breakdown prepared by GAF staff and is based on the following assumptions: 1) that CTOs will build to eleven in number by 1991 and will generate on average R8,600 per month (3 loans by current loan average and distribution) adjusted upward annually by an inflation factor of 15%; 2) that management fees will remain at the current rate of 5% of loan principal disbursed and interest income on the guarantee deposit will remain at 20%; 3) that defaults over the long-term will average 5% of disbursed capital, with loan-loss reserves being financed through interest earnings on the guarantee fund; and 4) that program costs will also increase by 20% per year on savings.

Table II: Income and Expense, Small-loans

Year	1990	1991	1992	1993	1994
Total Loans*	918,511	2,308,207	4,030,705	6,028,804	8,346,599
Income:					
fees	36,430	69,044	96,124	99,906	115,889
interest	119,194	117,214	114,139	110,949	106,267
(bad debts)	(33,870)	(60,315)	(83,050)	(96,340)	(111,750)
Total:	121,754	125,953	127,213	114,060	110,406
Expenses:	197,202	313,400	382,436	445,682	519,469
Cash Flow:	(75,448)	(187,457)	(255,223)	(330,622)	(409,063)

*Represents cumulative loans

As seen in the Table, the program cannot be rendered sustainable under current terms and lending flows, despite good recovery. There are two key factors determining the negative projections. First, the provision for bad debts increases substantially as a function of the leveraged capital and must be contributed back from interest earnings to maintain the guarantee fund at R600,000. These contributions decrease net earnings substantially as loan volume grows, outstripping total interest earnings by year five and thereafter requiring contributions from other revenues. Second, recurrent program costs increasingly outpace earnings from the 5% management fees, reaching a negative balance of over R400,000 by year five. The key problem financially for the program is not the current subsidy but the increasingly negative trend in net cash flow which would be the reverse in a potentially viable program.

C. Assessment and Recommendations

1. General Considerations. While the program is currently unsustainable, there are a number of factors that could improve the financial picture. The assumptions, for example, are somewhat conservative. Defaults, currently at 0%, could well remain below 5%, thereby lowering loan-loss provisions over time and increasing income on the guarantee fund. Similarly, projections of R8,600/month/CTO are based on current performance and shoud improve considerably, thus increasing fee revenue.

Again, however, if defaults average 5% the loan-loss provisions themselves will equal fee revenues of the same percentage over time and there is no escaping the fact that structural changes would have to be undertaken to render the scheme fully viable financially. GAF staff, to their credit, have raised these concerns. One option presented would simply convert the existing guarantee scheme (including the remaining second tranche of $908,000 in loan-guarantee capital) into a direct revolving loan fund. A second concept would involve GAF borrowing from Standard (utilizing the current fund as an initial guarantee) at a hopefully beneficial rate to on-lend at rates up to 32% (i.e., above the usury limit which currently restricts banks to roughly 25%).

In the first case, the loss of total loan volume in the leveraging agreement would be enormous -- i.e., commercial lending, even under the current conservative assumptions, would cumulatively reach R8.5 million by 1994. The second option retains the leverage effect but, based on conversations with Standard, would probably not be possible as GAF lacks the assets to pledge as security beyond the current R600,000 and in any case the bank would require 1:1 security, thereby resulting in the net effect of "borrowing your own money." At the same time, given the 20% earnings on the credit fund, the risk and administrative burden involved may hardly be worth it to gain a net earnings increase of between 4 and 5%.

At this very early stage of the program, and with considerable recurrent support on hand, it may well be best to continue this potentially important experiment for the next one-to-two years, (i.e., through to the mid-term evaluation) realizing that a heavy price, at least initially, is to be paid to attract commercial credit to the informal sector. If commercial banks were to discover informals as a legitimate market, the price paid would indeed be worth it. At the same time, a number of options (discussed below) can be considered to raise revenues and cut costs within the existing scheme and these should be pursued as stepping stones toward the final definition of the program.

After this next period of implementation and the gaining of more experience, a full series of options should be considered

<u>for the future</u> to maintain the leverage principal without sacrificing GAF's well justified concerns on viability. GAF has created staff positions, has made heavy administrative commitments to the program, and strongly desires to render it sustainable. <u>USAID should be prepared to support measures adopted to render the scheme self-financing</u>. For example, if considerable commercial credit is channeled with high repayment and lowered costs over the next 18-24 months, <u>USAID should consider allocating remaining un-expended second-tranche guarantee funds or a portion thereof toward an endowment investment to allow GAF to internally cross-subsidize its small-business activities with banks</u>.

Other options can be considered as well. These would include the partial use of second-tranche funds for direct loans to realize higher margins; and the switching of the guarantee to another institution, or set of institutions offering better returns -- especially those with potential for offering direct financial intermediation within black communities. If all else fails in terms of potential viability, consideration should be given to converting the entire scheme into a direct lending program. As this would lose leverage and return GAF to its original status as a small direct lender, however, it should at this point not be viewed as the most sanguine of solutions.

2. <u>Revenue-Enhancing Options</u>. In the short term, however, a number of steps should be considered on both the revenue and expense sides of the equation. Regarding revenues, there is little opportunity to enhance income either from the guarantee-fund earnings or through raising service fees to borrowers. This leaves the agreement with Standard where there may be little, but at least some, room to negotiate. Currently, the bank is at no risk and covers none of the costs for outreach, promotion, appraisal and follow-up, and at some point this would have to change if the scheme were to be institutionalized for the longer term. Whether they are actually interested in doing so is an open question, but GAF clearly has leverage: Standard is currently gaining both new accounts from borrowers as well as excellent public relations at no cost (their prodution of a video on this program before even twenty loans were made may say much about their motivation).

In discussions with Bank representatives a number of options were discussed and left open, including a splitting of interest points with GAF and the possibility of a joint-venturing arrangement, converting the guarantee to equity capital in a loan fund to which the bank could also contribute (i.e., similar to the scheme currently under discussion with the PERM and ACHIB). While this option again borders on lending your own money, there could be options for leverage depending upon the bank's degree of aversion to risk. While the bank's response must await higher level discussions, no doors were closed except to the idea of lending directly to GAF. These options should continue to be pursued, and the possibility of a contractual arrangement to reimburse GAF at least partially for its services should also be discussed as the scheme continues to grow. This could be funded out of Standard's social responsibility funds (thereby sharing in subsidizing to the scheme) and a split of interest points to GAF could be converted internally within Standard to fund loan-loss provisions. <u>The principle should be that GAF increasingly push for better financial position as the scheme strengthens and increases in importance to the bank</u>.

3. <u>Cutting Transactions Costs and Increasing Loan Volume</u>. All efforts toward viability on GAF's part will ultimately rest on its ability to gain greater cost efficiences and significantly increase loan volume while maintaining recovery; and <u>for the immediate future this should be the top priority</u>. Clearly, the small-loans unit has laid the basis for an acceleration in lending. The unit is exceptionally well-staffed at the top, and a great deal has been learned over the half-year of operations by CTOs. In addition, to the credit of the loans manager, GAF has avoided the death knell of many new NGO loan schemes: a high default rate which precludes any growth options. (One can imagine what the current relation with Standard would be like with a 25-40% collection problem). At the same time, the program's staff are fully aware of the current challenge and the assessment team has the greatest confidence that significant growth will be achieved over the next one-to-two years.

We outline below some suggestions, already discussed with staff, on how greater internal viability might be achieved. While some of these suggestions may appear to increase risk, we are confident that the loans manager and other senior staff are perfectly capable of assessing risk on a case-by-case basis and are encouraged to treat USAID credit funds under this program as experimental to the extent necessary to achieve longer-term viability. It is clear even at this stage of the program that some changes in approach will have to be tested, and GAF, as in other endeavors, will be approaching a bit of the unknown with USAID support.

a. <u>Cutting Internal Costs</u>. First, GAF must begin to adopt a more "minimalist" approach to appraisal and follow-up. The current appraisal process is definitive and has obviously led both to good predictability and high recovery. It has also served to educate the CTOs in the basics of business assessment. But in future the process will have to be more streamlined if larger loan volumes are to be achieved at current staffing levels. As greater experience is gained by staff, client selection will become somewhat more intuitive, yielding greater efficiency in appraisals. As that happens, however, a conscious attempt should be made to focus appraisals on three vital elements: the character of the client (again this will be somewhat intuitive); the market potential; and projected cash flow. As the program is moving in this direction, we have little doubt that progress will be made on this front.

Second, and perhaps more controversial, is the recommendation that GAF cut its follow-up to the absolute minimum necessary to monitor recovery and give general advice. While there is no doubt that black businesses in South Africa suffer enormously from imposed constraints and lack of experience, it is doubtful that the small-loans program can adequately address these needs while remaining in a lending posture, and it is a very costly exercise. Most attempts to provide integrated credit and technical advice have failed due to confusion of roles leading to repayment problems, and to the simple fact that most advice and on-site training given to informal enterprises is not well adopted. Its presence has not been found to be directly related to credit repayment. Most programs have discovered through costly experience that one-on-one technical advice doesn't pay. (Look at Stokvel performance with no training: are the small-loans clients that different?)

Rather, we would advise the following: 1) examine technical assistance needs in the appraisal and link them into a simple business plan covering the loan period; 2) cite benchmarks to be attained by clients each month or quarter and use these together with repayment, as the basis for monitoring; 3) identify local sources of assistance that the client can purchase (e.g. an accountant or, as cited elsewhere, the marketing officer); and 4) attempt to group clients with the same needs for the receipt of simple assistance. Other than this, GAF should basically desist from providing advice, and certainly on-site advice, except in cases of larger enterprises that demonstrate clearly the capacity to graduate to formal status but are constrained by specific gaps in knowledge and skills.

b. Increasing Loan Volume. To achieve viability GAF will have to move away from individual loans at the current average. This raises a number of options to explore in regard to both larger loans on the one hand, and group loans on the other. Currently there are very few loans at the R20,000 level, and efforts should be made to locate more larger borrowers. From conversations with Standard, there is clearly a large gap between GAF's upper-limit borrowers and the R50,000 borrowers that Standard considers its SSEs. One could deduce that there lurks large unmet demand in this gap, but there could also be a "missing middle" in the enterprise size distribution that appears in many parts of Africa.

As there do not appear to be reliable studies breaking down black enterprises by size, location and trade, it may well be worthwhile to undertake sub-sector analyses in lending areas to better determine both the incidence of enterprises and the dynamics, opportunities and constraints facing various types of businesses. From these analyses a number of loan possibilities could emerge: i.e., larger enterprises could be identified; supplier-credit possibilities could be developed to channel in-kind credit to smaller businesses and break procurement bottle-necks; and, lastly, groups of borrowers in the same trade area could be identified to purchase materials or equipment, receiving either individual loans secured through the goods, or group credits, if cohesion is sufficient to warrant it.

As GAF has already begun its own approach to sub-sector study, USAID could assist in the design and execution of broader analyses with GAF through the S&T Bureau's GEMINI project which offers special skills in this area (as AFR/MDI has a buy-in to the program cost sharing could be considered). This would both assist GAF's broadening of clientele and serve far greater interests in enterprise development. Primary among these interests is some empirical understanding of the nature of demand for credit. Based on field visits, it would appear that there are significant differences in demand in different areas, and the possibility exists that generally it is quite low at present. The ramifications of this are obvious from the program's viewpoint, and the earlier some analyses are done the better.

As to the continued channeling of small credits, GAF, to the extent possible, must find a way to group clients. The sub-sector loans approach is one option but there are others. Women in particular conform well to group-guarantee arrangements and initial attempts should be undertaken to channel bottom-end loans (i.e., R1,000-3,000) on this basis in various locations. As an example, the team met a group of women in Port Elizabeth (two of ten being in the stokvel program) who shared space but ran independent businesses and were quite willing to secure and repay a loan collectively. There may be many such opportunities upon further digging.

Above all, as cited previously, there is the graduation phenomenon from the stokvel program. By repeated enquiry at different sites it would appear that roughly one out of five borrowers could graduate and that many could readily qualify for larger loans. An experiment into grouping these borrowers into second-level stokvels for bank credit should be undertaken. If it works, a financial gold mine will have been discovered. As Standard could well become more restrictive in accepting clients once the R600,000 level is reached, experiments with group loans should be undertaken in the short term.

In a similar vein, GAF has already undertaken steps to wholesale loans as it were through the receipt of guarantees from local membership organizations. The Vaal Chamber of Commerce, for example, has already offered to quarantee loans to members, and GAF is following through. While not an automatic panacea -- it is not clear, for example, what assets the Vaal Chamber has to offer as guarantee -- group pressure is clearly in place through local organizations and this option should be aggressively tested, both with local chambers and emerging or established trade associations identified through the marketing-officer's ongoing efforts in this area.

Lastly is the concept of geographic concentration. Given the emerging differences in dynamics and demand in various townships, GAF should begin to consider reinforcing efforts in fast-moving sites and dropping those with continued lackluster performance. While it is too early to definitively gauge overall demand and performance, trade-off in sites and the concomitant concentration of resources should be kept clearly in sight. In related fashion, GAF should also consider holding off on the hiring and placement of new CTOs until a firmer performance assessment emerges from the current sites. It may, for example, prove more beneficial to add additional CTOs to Mamelodi and Port Elizabeth than to open new sites. Conversely, it may be decided to switch CTOs from, say, Atteridgeville before hiring new staff.

Marketing Assistance

A. Background

GAF's marketing-assistance program was created to address the long legacy of legal and economic constraints that have resulted in black businesses lacking access to markets (both national and local), and to training opportunities in marketing and sales.

The GAF marketing unit is staffed by one professional and is supported by a total of $115,000 from USAID over five years. The activities initiated to date are diverse and focus both at the general market level-- promoting general market entry by black businesses-- and at the enterprise level-- appraising GAF borrowers' and other SSEs' market and sales potential, and linking them to existing local and national markets through sales promotion and sub-contracting to larger firms. Of late, the unit has also undertaken bulk purchasing arrangements on behalf of groups of client enterprises to lower costs and increase competitiveness.

B. Accomplishments to Date.

At the general market level, GAF has concentrated on the following:

1. Trade Fairs. The marketing officer has dedicated considerable effort in organizing trade fairs both in and out of townships. With the objective of opening sales opportunities, he first identifies the most viable trade and production areas and then features them in local exhibits and displays, inviting local consumers (black professionals and civic, church and association representatives with purchasing power) together with outside, usually white, representatives of industry and commerce who are potential buyers, contractors, or bulk suppliers.

These trade fairs, currently averaging one per month, have served to identify the most viable production sub-sectors (at present welders, woodworkers, dressmakers, leatherworkers and florists), to raise awareness of SSE development within local communities, and to establish a broad network of industry and trade contacts. These organizing efforts have also begun to promote the development of local trade organizations, currently at the incipient stage in most townships.

2. Linkages with Other Organizations. Building on the contacts gained through trade fairs and other promotional efforts, the marketing officer has developed sub-contracting and sales-promotion arrangements through a number of entities. These include sub-contracting promotion efforts through Matchmakers, a service specializing in linking larger companies with small producers, and direct sub-contracting

arrangements through Anglo-American and BMW, both of which have adopted systematic sub-contracting programs.

3. Special Projects for Employment Generation and Business Development. GAF participates in a number of special efforts. These include a car-wash enterprise, with Johnson's Wax, which has promoted a series of group car-wash and-polish businesses at taxi stands in Pretoria, and the Employment Opportunities Project, through the University of Witwatersrand, Department of Industrial Psychology. The latter project utilizes students to research companies and associations (e.g., the Building Industries Federation of South Africa) for job opportunities and places unemployed workers through a central registry. The GAF marketing officer plays a coordinating and advisory role in this project.

4. International Trade Promotion. The marketing officer travelled to Malawi in June as part of a black delegation seeking better trade links. GAF's objective was to identify specific markets and/or raw-material supply contacts for GAF borrowers or other SSEs. The outcome was a series of contacts for the possible future supply of African-print cloth and curios; there did not appear to be serious export possibilities given the poor state of the Malawian economy. The marketing officer is currently in the U.S. (U.S.I.S. sponsored) and will pursue any export possibilities.

At the enterprise level, the marketing unit: 1) promotes direct contacts between black enterprises and established firms and associations for sub-contracting; 2) assesses the marketing and sales potential for GAF borrowers as part of the small-loans appraisal process ; and 3)provides marketing-and sales advice to both GAF borrowers and other SSEs either directly (through the marketing officer) or through arranging for mentoring from more established businesses. Advisory and sub-contracting assistance are often combined and currently involve about ten enterprises per month.

C. Assessment and Recommendations

Given the critical need to address the myriad of market distortions constraining the black entrepreneur, and the aggressive, innovative role that GAF has adopted in this area, the marketing unit appears to be a worthwhile investment. A broad range of contacts and interventions has been pursued and a specific knowledge base acquired. The potential for significant contribution in future in this critical area would appear to be high, given the heightened awareness among white firms to support black business, and the costs- - if group-based efforts are favored -- relatively low.

As with other departments however, the marketing unit shows signs of being overstretched. The time may be right to assess the broad range of activities undertaken to date and to pursue consolidation and a further focusing of efforts to achieve greater impact and efficiency.

1) Steps are currently being taken by the marketing officer and other senior staff to better integrate the marketing unit with the loan programs and this should be actively pursued. On the small-business loan side there is clearly a need to provide both procurement and marketing advice if enterprises at this level are to graduate to more formal status. Increasing involvement in appraisal will also be needed, especially if the small-business loans begin to upscale and create more risk in terms of capital per loan.

On the stokvel side, there is the looming potential problem of market saturation among the high proportion of borrowers engaged in petty retailing which in turn can lead to lack of growth and to displacement effects. Specialized marketing assistance may well be needed in identifying trade and production areas suitable for entry by low-skilled, undercapitalized borrowers. This would assist the stokvel program both in advising borrowers on business development and in the selection of trade areas in which to concentrate lending.

2) Like the training unit, the marketing unit currently lacks a monitoring system to evaluate the impact and cost of various activities. GAF would best be advised to undertake a detailed review of current activities to determine the comparative impact of various interventions and to formulate a two-to-three year workplan and a monitoring system on this basis. The review should concentrate on identifying which specific areas of assistance appear to register greater impact among higher numbers of enterprises at the least cost. While the review may conclude that a number of inter-related measures must continue to be undertaken, priorities should emerge, as should indications of areas that should be dropped due to lack of impact or excessive cost. It would appear, for example, that work with trade fairs and the development of local trade associations would rank very high, with mentoring and the development of international trade being lower.

GAF should also conduct the review from the viewpoint of its own comparative advantage as an institution. While the assessment team has not had the opportunity to review what other organizations are doing, there are clearly a number of them involved in this area. Given that the marketing unit cannot cover everything, the review should determine where GAF should best concentrate, and what activities might best be left to other organizations. Experience gained to date should yield such conclusions without great difficulty.

Based on the review, a workplan should be drawn which pinpoints areas of concentration and expected levels of effort. A monitoring system to document ongoing impact and unit cost of efforts should also be developed to lend further discipline in achieving goals.

Lastly, given what appears to be a broad demand for marketing and procurement services, the introduction of revenue-generating measures should be strongly considered.

There are three fee options that appear viable: the charging of small brokerage fees on sub-contracting arrangements; the collection of a percentage on bulk purchasing orders; and the charging of straight fees to enterprises or trade associations for advisory and/or promotional services. Given the low costs of the unit and its potential for servicing significant numbers of enterprises, minimal charges could go a long way toward placing it on a sustainable basis.

Training and Technical Assistance Program

A. Background

The cooperative agreement calls for supporting a training and technical assistance function inside Get Ahead for the full five years of the agreement. Approximately $86,500 (R160,000) for the training manager's salary, plus approximately $142,000 (R262,500) to cover other program implementation costs is anticipated.

The training and technical assistance program is responsible for three distinct functions: 1) training of GAF staff; 2) training support to technical program beneficiaries and other businesspeople; and 3) organization of mentoring. Since beginning to acquire new stokvel field workers and CTOs in 1988, the program has been heavily inward-focused on function number 1, including the design of training materials, the running of numerous in-house courses, and more intensive one-on-one instruction of new staff in special business-related skills.

Training of stokvel and business loan beneficiaries has focused on bookkeeping, pricing, merchandising and similar lower-level business management skills. On occasion such instruction has been offered by the training manager to non-beneficiary groups who have heard about GAF's offerings in this area. A growing area of concentration is the training of stokvel participants about to receive second loans, and responding to special needs for after-care training to business loan borrowers, at the request of the business loan manager.

Mentoring is a longstanding GAF activity. The beneficiaries of this service normally are business loan beneficiaries. Mentors usually come from the (white) private sector, with services offered on a pro bono basis, often driven by a social responsibility concern. In addition, where appropriate matches cannot be made, the training manager himself will serve as a mentor.

B. Accomplishments to Date

Since the very beginning of the GAF agreement, the training and technical assistance program has reported a steady stream of training product development, courses taught, businesses mentored, seminars launched, etc. So far as can be determined, the program enjoys strong support from -- and is highly praised by -- GAF staff, has been thorough in its coverage of new staff technical and institutional awareness training needs, and attracts high demand from outside businesspersons and business groups. The training manager himself, not surprisingly, works long hours, including many Saturdays.

Some "big ticket" initiatives have been undertaken by the training manager, including the October 1989 Credit and

Training Officers' Workshop. This workshop for CTOs and field workers, carried out in conjunction with the U.K.-based Cooperation for Development (CFD), was highly successful. Unlike the original business training at the University of Witwatersrand Business Centre -- judged as rigid and not highly relevant by staff -- the CFD workshop was participatory in its design. It focused discussion specifically on the stokvel and small business loan disbursement processes and utilized sector analysis as the key approach to understanding the constraints and opportunities facing borrowers. The discussions opened the door to badly needed communications among the social and commercial programs' staffs, and clarified inter-relationships. Up to three additional workshops are envisioned involving CFD through June, 1990, to be financed by the U.K. Overseas Development Administration.

Finally, a most effective initiative has been put in place to upgrade the capabilities of lower-skilled and clerical support staff in the field and home offices in order to involve these staff, to the maximum extent feasible, in the substance of GAF operations at their respective locations.

C. Issues and Assessment

As with any dynamic, evolving and growing initiative, the training program is not without its challenges. Several problem areas have been identified which will need attention both by the training program manager and GAF senior staff.

1. Cost recovery. Management is concerned that outside training, which at a zero cost is in excess demand, be rationed by some sort of price mechanism, thereby at once allocating these services and raising revenue to offset their cost. The program manager is aware of this need and has begun charging non-beneficiary participants at least partially for services rendered.

2. Evaluation. There has been no systematic impact assessment done to evaluate cost-effectiveness of training, particularly of outside businesspersons on one-to-one or group bases. Considering the costliness of this training, assessments of impacts and benefit:cost ratios of various alternative training approaches is called for.

3. Mentoring. Doubts have been raised about the effectiveness of mentoring. At the relatively rudimentary level of business operations in the GAF programs, it is reasonable to question the appropriateness of modern sector mentors, whose experience may not be adaptable, who frequently cannot communicate in local languages, and who are reported sometimes to be more input- than output-oriented.

4. Staff capability. Partly because of the pricing phenomenon noted above, the one-person training operation is stretched to its limit. The training manager has requested additional person-power to help satisfy some of the excess demand.

D. Recommendations

1. Cost recovery. As long as USAID support for this function is forthcoming, the program can be expected to contribute valuable human resource development services as a complement to the financial services that are the USAID agreement's main focus. However, in anticipation of an eventual need to begin to replace at least part of the salary of the training manager during year 5 of the agreement, greater attention must be paid to recovering from non-GAF beneficiaries at least part of the costs of services delivered.

2. GAF user charges. Internally, to the extent services are provided in support of, and at the request of, the stokvel and business loans programs, in order to defray costs, appropriate direct debits to GAF programs' budgets should be considered.

3. Evaluation. With respect to the need to monitor the impact and cost-effectiveness of training, GAF should develop a follow-up evaluation system with trainees, both internal and external to the organization. The system should focus specifically on the adoption and utilization of knowledge and skills being transferred, following a consistent format for each training workshop or individual activity. Internally the follow-up should take the form of structured interviews by the training officer on a periodic basis. With clients, field workers, CTOs and coordinators can conduct interviews under the coordination of the training officer. Student volunteers could also be utilized, barring logistical and/or language problems. This evaluation should dove-tail with the larger program impact evaluation capability recommended in the final section of this report.

Given current concerns, special attention also should be given to evaluating clients receiving mentoring. For assistance in the design of the questionnaire a local training consultant could be utilized. An attempt should be made to define unit training costs, both in-house and for clients, to comparatively assess differing approaches and to set fees for clients.

4. Additional training staff. Because of the budgetary implications, unless another secure funding source (e.g., the Mott Foundation) can be identified and cost-recovery becomes more assured than currently appears likely, no new staff should be recruited to this function.

5. Further CFD training. Despite some concerns in GAF about communication style, GAF should go ahead with the full proposed schedule of CFD training offerings. It is our view that this training will contribute to accelerating the learning process among field staff. GAF is further urged, however, to assure communications between CFD and USAID in order to promote consistency in the approaches of the two latter organizations with respect to their complementary programs for institutionally strengthening GAF.

II. Institutional Status and Recommendations

Management Information and Financial Administration Systems

A. Background

The cooperative agreement calls for the design and installation of an appropriate management information system (MIS) for the purpose of providing GAF with two basic capacities:

1) To monitor, on a detailed and continuing basis, the performance of GAF staff as well as lending programs; and

2) To plan, manage, and budget effectively, based on the availability of comprehensive and reliable information.

As part of institutional strengthening, the cooperative agreement allocated R100,000 ($54,054) for the procurement of technical assistance to design and implement these financial and program tracking systems and to train staff in their use. The agreement specifies "satisfactory implementation and competent certification of the manual phase of the system" as a condition precedent to disbursement of funds for main program operations. This CP was subsequently modified and/or met as documented in PILs 6, 7, 9, 10 and 12.

Project Implementation Letter No. 16, referring to the Farbman/O'Regan visit, recommends that the consultant team carry out an independent review of the current system's performance.

B. Accomplishments to Date

The MIS design and implementation process was given focus by Business and Systems Consultants in their September 1988 "Statement of User Requirements." This report called for a system capable of tracking, and in some cases integrating, information from the following activities:

a) business loans repayment system
b) mentoring and tutoring
c) donor support system
d) decision support system
e) micro-loan (stokvel) system
f) marketing services
g) social services
h) general ledger and financial management reporting
i) cash book and creditors systems
j) word processing system
k) security and control

It is important to note that not everything called for was necessarily to be computerized. Rather, the timely availability, accuracy and ability to reconcile the distinct but related parts -- be they manually- or computer-tracked -- were the primary concerns, as was ease of use.

In our discussions with GAF senior managers, program managers and finance/accounting officers, we discovered a sense both of confusion and dissatisfaction as to what the MIS as a whole was intended to add up to, while at the same time perceiving that much progress was being made toward putting in place several of the component pieces. For instance, we reviewed the system specification prepared by Dynasoft for the stokvel program, and found it comprehensive and user-friendly. As an increment beyond the current manual system -- which, while thorough, is exceedingly slow in advising managers about imminent problems -- it appears to be an important and worthwhile advance. If it is implemented by February 1990, as planned, it ought to offer genuine real-time diagnostic and reporting capabilities to stokvel program managers.

Similarly, trials on an automated accounting system have been encouraging, in recent months having been determined to be as accurate as the current manual system. The eventual power of the automated accounting system, especially when linked to other evolving systems such as the stokvel and business loans program tracking systems and the reporting of financial data from the regional offices, will enable much more precise financial control and accountability at the overall organizational level. Good progress appears also to have been made on budgeting systems and in the recording onto automated systems of historic data.

C. Issues and Assessment

As indicated above, in accordance with the grant agreement's requirement, the March and June 1988 reviews conducted by A.I.D.'s Regional Controller certified adequate compliance up to that point, but specified areas where further attention and development would be needed.

Despite the formal certification of MIS design and implementation which USAID has (not incorrectly) accepted, and the few cases of genuine important progress in individual component development noted above, in an operational sense, at the present moment, the MIS as a holistic entity does not yet exist. That is, there is no evidence of a functioning inter-related whole that is greater than the sum of its parts.

The principal frustration voiced by managers arose from the seeming slowness of implementation. There have been many different consultants involved in specification, design, training, etc., virtually none of them delivering their products on time, and some allegedly delivering products of distinctly limited utility. Get Ahead has refused to accept certain products, and has insisted on corrective work by one of them, Brett Schachat.

Oversight of pieces of the process by managers directly dependent on the product has appeared to be superior to supervision of the implementation of the integrated system as a whole. This is not surprising, as immediate problems and decisions that must be made in a particular limited context inevitably crowd out the luxury of higher level, more conceptual concerns such as those having to do with overall systems integration.

With particular regard to financial management, GAF's accounting unit operates a well-documented and well-controlled accounting system. However, the system is not based on fund accounting -- that is, it does not fully allocate revenues into expense centers or specific projects and thus does not readily yield source and application data except for USAID funds which are managed through a separate cash account. In future, with further major donor participation expected, the adoption of a central allocation and expense system for multiple fund accounts will be critical.

At the same time, indirect costs -- e.g., central administration, fund-raising, regional management -- are not calculated as overhead pools and apportioned across direct cost centers to define full operational expenses. The finance unit -- impressively staffed but very busy -- is aware of the need to fully adopt fund accounting and has begun the process through manual cross-referencing of expenditure accounts to cost centers, and, during our visit, taking the first cut at segregating and allocating indirect costs.

Further work will be needed to define the specific criteria for direct versus indirect allocations and to integrate modifications into the current accounting system to yield appropriate management decision-making data. It may be helpful for GAF to acquire the services of an experienced accountant specialized in non-profit financial management for this work, or at least to examine existing fund accounting systems. With this end in mind, a fund accounting manual prepared for NGO grantees of the Rural Enterprise Program in Kenya is being forwarded from Washington. The manual was prepared under the guidance of Mr. Bernard Fisken, a noted expert in this field based in Washington who would be an excellent choice to provide advice in this very important exercise.

D. Recommendations

As a private, grant-driven organization, Get Ahead has no choice but to be deeply concerned about management and fiscal issues such as financial sustainability of programs, accountability for uses of funds, program and personnel performance for incentive payments, budgeting and similar internal financial management, etc. Certain actions now are called for to reevaluate where GAF currently stands in this process; to determine what constitutes the irreducible minimum still required to be done to cross the threshold of usability for the system as a whole; and to devise an action plan outlining specific tasks and a timetable for completing them to reach this usable state.

1. Senior management commitment. Senior management need to reaffirm their commitment to completion of an MIS and to assign to one of their number the "ownership" of the holistic initiative.

2. Management discussion and action plan. Senior GAF management ought to set aside time at their November 1989 management retreat to discuss the MIS' status, achievements, shortcomings and vulnerabilities. This discussion, or a subsequent one to follow immediately with a trusted consultant (whose cost may be chargeable against the A.I.D. agreement), should lead to the issuance of the action plan called for above.

3. Indirect costs. The exercise begun with us to determine and allocate indirect expenses by cost center should be systematized and incorporated as a permanent capability in the revised MIS.

4. Completion of MIS. Completion of specific parts of the MIS should be undertaken immediately -- especially on stokvel performance -- with integration coming at a later date once individual systems are up and running. Responsibility for direct supervision of these tasks should be decentralized to program managers under specific timetables set by senior management.

5. Fund accounting. In view of the dependence of GAF on private fund-raising and the current absence in GAF of a routine fund accounting system that meets many potential donors' needs, we recommend that GAF upgrade its financial management system to incorporate this capability. U.S. PVOs, many of whom face similar fund-raising problems and have similar accountability needs, have standard systems for supporting this function. (It may be suggested that Bernard Fiskin, an oft-used adviser to many U.S. PVOs, be engaged by GAF to design such a system for them. Costs for such external technical assistance may be charged against the USAID cooperative agreement.)

General Institutional and Management Issues

A. Background

It is important to begin this section with a reiteration of the sentiment expressed in the Introduction to this report which calls attention to GAF's openness and professionalism in dealing forthrightly with its own uncertainties, institutional ambitions and vulnerabilities. Without such candor and honest dialogue, outside advice cannot be competently given, and is even less likely to be accepted. We note this point again in attempting to be judicious in the use of the copious information which was shared with us by GAF management and staff. While some comments in this section may be perceived as overly direct and unvarnished, our primary objective has been to requite the high risk behavior of GAF management in being candid with us, and to transform their experiences, visions, conflicts and achievements, so willingly shared, into analysis and advice which may ultimately be useful in guiding the future development of the organization.

B. Issues

By any standard it is impressive to note what GAF has accomplished during its five short years of existence:

- It has acquired, trained and advanced extraordinarily competent staff, nearly all of them black.
- It has spread geographically throughout South Africa, established a national reputation, and become an important (if not <u>the</u> important) development entity in many of the townships in which it is active.
- It has launched experimental and innovative programs -- social and economic -- which have had substantial impacts in their target communities.
- With recognition for the above achievements it has attracted substantial private and international donor and foundation resources.

Having observed all of these fine achievements, we were struck also by what we perceived to be some lurking problems. GAF currently appears to be suffering from some growth pains -- it has expanded very rapidly over the past two years, overlaying a number of new initiatives on a formerly small regional and central support system. It appears constantly to be playing catch-up on fund-raising efforts to support the now large and still growing structure. There are problems in approach and communication among the various elements of GAF, which, if not addressed, could become structural and cause dysfunction. In the following sections we shall highlight several of these areas needing attention.

1. GAF's scope and programmatic focus. There is a flip-side to the dramatic growth and accomplishment noted above. It often is the curse of successful organizations that they are tempted to stray from their areas of demonstrated strength, for example to respond to the siren songs of funders whose attention they newly will attract, or to tackle new areas of urgent need, or even to confuse doing well as an organization with doing good for the people and communities they intend to serve. Get Ahead seems not to have been immune to such pressures from local supporters and external donors for continued expansion. These otherwise beneficial forces appear to have diluted Get Ahead's focus on those few areas of activity which have earned them many of their accolades.

From our perspective it appears crucial that Get Ahead maintain its extraordinary progress in becoming a unique resource in supporting the developmental aspects of black South Africans' struggle for opportunity and equality in anticipation of a post-apartheid society. The constellation of innovative educational, small business and related community development initiatives which form the foundation for Get Ahead's excellence and its welcome in the black townships can only be threatened -- and with it, potentially, Get Ahead's credibility and impact -- to the extent Get Ahead strays far from these demonstrated areas of programmatic dynamism and impact. That is why, while in no way questioning GAF's motives for expanding into new areas, we are moved to remark upon how far from GAF's established developmental platform and their institutional comparative advantage some of the ideas we heard being considered actually were.

We were similarly concerned by the near-breathless pace of expansion with very thin initiatives in many new sites. Quite apart from the overhead and unit cost implications of establishing and controling many small dispersed projects, we wonder if Get Ahead has fully thought out the trade-off between consolidation of existing programs and sites -- a breather of sorts, to build a more secure foundation from which to expand purposively and with strength -- and what appears to us and others to whom we have spoken as something approaching tactical, donor-driven behavior.

The opposite of such an implicitly reactive posture is to be proactive -- to stand behind one's focused and excellent message, to promote it because it is excellent, and because the organization can do it well. Get Ahead is one of the very few South African organizations of which we are aware with a track record and a standing to actually do this -- but only in a limited number of areas. Public and private funders will, we believe, respond to such assertiveness. A.I.D. makes no secret of its desire that Get Ahead become such a competent organization; to the extent Get Ahead builds a track record of achieving its impact objectives, we would strongly recommend A.I.D. be prepared to use its funds to further support such institutional development. Get Ahead should not settle for less in its quest to become primus inter pares in the guaranteed future market for black economic development. To the extent it dilutes its thrust excessively, it will put that future at risk.

2. Devolution of authority. In becoming a large and geographically dispersed organization, decentralization of authority cannot be avoided if the organization's mission is to be achieved. We observed that while Get Ahead has indeed put into place appropriate delegations of authority, and appears to have managers in all departments worthy of their responsibility, the de jure system is not quite de facto. We heard complaints about everything from micro-management of program activities by senior managers, to feelings of impotence among managers in dealing with implementation and financial problems, to wishes to hive off entire programs in order to enjoy adequate management control. While we were seldom close enough or well-informed enough to judge the legitimacy of these complaints -- and we are aware that such complaints occur even in the best-functioning organizations -- that we heard them so frequently, and in such conflicting ways, is in our view symptomatic that something may need repairing.

In discussing autonomy issues, several persons mentioned to us their positive views concerning hiving off pieces of the program and re-establishing them as independent entities. It is our view that Get Ahead is so much greater a whole than the sum of its parts that such a radical treatment to redress autonomy, authority or financial concerns at this point should not be given serious consideration. The reason comes back to the discussion above, that Get Ahead must maintain its critical mass -- albeit a focused critical mass -- if it is to realize its full potential as an important player in the struggle for black economic development and empowerment.

Accordingly, we believe it would be helpful and timely for senior GAF management to address the underlying grievances and causes for some managers even to contemplate so potentially disruptive a move for the organization as a whole. The November management retreat would be an ideal opportunity to consider such matters.

3. Communications. A corollary to the discussion in no. 2 above is the need for managers to assure that information is both shared and seen to be shared by personnel at all levels of the organization. Moreover, room must be made for opinions and information flowing from the lower echelons of the organization, so that Get Ahead does not become or appear to become a top-down organization. Such a perception would be devastating for an organization that identifies with the grassroots and is dependent on their acceptance in order to be effective.

It was our impression that GAF has problems in its communications within and between the center and the field. In many ways the central and field offices operate in different spheres and by separate processes. For example, the head office appears centralized and top-down in structure. The field, on the other hand, appears more participatory, more decentralized into the community, and hence more bottom-up. The structure is comparable to two gears turning and not always meshing. Field staff are not fully aware of what is happening centrally and feel out of touch and often dictated to, whereas they are used to greater dialogue in carrying out their own local management responsibilities.

The linchpins of communication between the two levels, the regional managers, appear overwhelmed by the continuous addition of new efforts, especially on the commercial side, for which they are not necessarily trained. As a consequence, communications on matters concerning these efforts for which they are directly responsible often are inefficiently carried out, and are exacerbated by the indirect lines of reporting by the regional managers to a committee rather than an individual, as specified in the organogram. In the case of the stokvel program, for example, the team leader structure is now being suggested precisely in order to restore direct communications between field operatives and the central program manager, as is de facto now done in the business loans program between CTOs and the Pretoria manager.

If the regional managers are to provide coherent representation and authority on GAF's part locally there will have to be greater consolidation of efforts and a cutback on new programs to allow them to actually manage. Otherwise, their role might better be re-defined as regional representatives, and the central units enhanced to handle more management. The structural dimensions of management and communication should be a priority item on the agenda for the November retreat.

It may also be opportune to discuss at that meeting the possibility of appointing one Assistant Managing Director to run the day-to-day operations of the organization, including direct supervision of both the technical and regional divisions. This would alleviate many of the communications problems, provide a more coherent institutional structure and enhance overall administration of this growing institution. It also would provide the Managing Director with greater liberty to concentrate his efforts on a more limited number of executive and fund-raising tasks in which his impact can be maximized.

Finally, on the subject of communications, it occurred to us that, while GAF is already blessed with ample commitment on the part of staff to its programmatic mission, some types of enhanced communications could be used to forge yet stronger identification. For instance, we profited enormously from having the opportunity to meet with Dr. Motlana, to probe his mind on issues that concerned us, and he to probe ours on issues that concerned him. Yet we are informed that routine meetings of most staff with him, or with other Directors of GAF, is a rare occurrence for all but a few senior managers, and apparently the student volunteers. If this perception and the fact of constrained access is widespread, both ought to be changed.

4. Financial management. We noted elsewhere in this paper the need for further improvement in GAF financial management systems. In particular the fund accounting system should be accorded priority. Get Ahead is obviously dependent on outside public and private funders for its institutional survival and if it is to have the resources required to have an impact in the black community. For this reason, in general, it concerns us that apparently so little control is exercised over where and how general donations are used, and so little ability to account for uses appears to be present.

Closer to home, as the USAID-supported activities are and will to some extent continue to be dependent on cost-sharing with Get Ahead, any vulnerabilities associated with potential donor displeasure will adversely affect GAF's ability to perform in accordance with the cooperative agreement. For this reason we strongly encourage Get Ahead to act on the recommendation elsewhere in this report urging them to establish fund accounting and indirect cost allocation systems so that sources and uses of funds may be more universally and reliably matched.

On a related matter, in our exercise attempting to allocate indirect costs to program areas, we were impressed that Get Ahead's overheads seemed geared to a program that should be far larger in total than the R 3.883 million annual budget they actually support. While we understand that fund-raising, administration and other expenses not directly attributable to specific program cost centers are a fact of life for organizations like GAF -- and possibly they are even exacerbated by South Africa's special political climate -- we urge GAF management to consciously try to hold the line on the growth of these indirect cost centers even as programs and direct program expenses grow. Heavy overhead burdens upon direct expenses -- such as the current estimated 100 percent in GAF's case -- raise red flags among some donors, and GAF is urged to take measures to avoid becoming a victim of this type of financial imbalance.

Also, USAID is urged to consider its interest in long-term financial security for Get Ahead, one of the primary indigenous organizations identified as a partner in achieving its (USAID's) developmental objectives in the South African black community. Now may be the ideal time to prompt Get Ahead to consolidate its focused program by protecting them from the need to subordinate their own programmatic vision for that of possibly short-term financial partners. While recognizing the potentially significant bureaucratic obstacles along such a path, we would recommend that, after a further 1 - 2 years of focused GAF growth, USAID seriously consider the possibility of an endowment or similar long-term funding instrument for the organization.

5. Commercial versus social services. If GAF chooses the vision for itself of becoming a focused center of excellence as opposed to a be-all organization, as we hope it will, it will face some undoubtedly difficult trade-offs, particularly

between the social and commercial sides. While our bias toward commercial initiatives would seem obvious, from any standpoint it would appear that the major, innovative efforts in credit and business development for black communities constitute the most identifiable and viable range of activities for GAF in those local communities. Consolidation and concentration on the commercial program side could reap huge rewards for GAF as a leader in this effort for the medium-to-long-term. And it is doubtful whether the social side, consisting for the most part of discrete projects, not continuing development services, could attain such status. We are not attacking social services here -- there is great need for the social projects being undertaken by GAF in the townships. But the choice to pursue excellence and viability systematically through programs that will create durable and dynamic developmental impact will undoubtedly entail some future focusing of efforts.

As admitted partisans of the commercial side of the house, which we (USAID/SA) largely are supporting, we were, therefore, a bit concerned by the incentives we perceived were abroad in the organization which had the effect of causing commercial services to be subordinated to social. The discussion in this report about stokvel field worker management calls attention to the evidence that commercial programs appear to be treated as the residual Get Ahead activity -- to be dealt with only on a time-available basis -- by coordinators and field workers.

The effective use of A.I.D. resources depends on support both generally at the community level and more directly in support of field workers and CTOs who are at times called upon to perform a somewhat unpopular task in the townships -- collect money. More prominent Get Ahead officers, such as coordinators and regional managers, can play an expediting role in such activities.

Similarly, coordinator and regional manager functions are the locus of transportation capability, a service on which field workers especially may depend if they are to achieve their performance targets. We believe coordinators and regional managers (to a lesser extent) sometimes do not appreciate how useful they might be to FWs and CTOs, and in any case in too many sites are not given the luxury of making an active decision in the matter -- they are perforce preoccupied supporting the social side of the house.

The stokvel loan manager's recommendation to install team leaders for the FWs in some of the more needful townships will go some way toward meeting some of the above-mentioned support shortcomings. However, we believe an intra- rather than an extra-systemic complementary move is also required, which is recommended in the stokvel program section of this report. Once again, we would here urge Get Ahead to implement formal changes in the job descriptions of coordinators and regional managers, making it explicit that especially where scale of operations does not permit installation of a team leader, they will be responsible and held accountable for providing appropriate support and for assuring performance of field workers and CTOs under their nominal direction.

6. Medium-term training. We believe that Get Ahead may now be approaching the point in its, and its staff's, development where the institution of medium-term training for human resource upgrading might pay enormous dividends. At every level, from the Managing Director on down through the program managers, it is easy to envisage Get Ahead profiting from re-investment and refurbishment of intellectual and creative capital.

For example, the DMD for commercial services would no doubt find a 2 - 3 month tour of organizations similar to Get Ahead running similar programs, such as the Grameen Bank in Bangladesh or the Rural Enterprise Program in Kenya, an experience that would enhance his view of the scope and range of possibilities for massifying and improving the cost-effectiveness of commercial programs such as the ones currently under his management. Or the commercial services program managers might find six months (or more) at an American school of business or management an experience which would relieve them from recent years' stress of building their programs, while at the same time strengthening their capabilities to build and expand those programs further upon their return.

Finally, just to complete the vision of all such possibilities, we wish to note our belief that Get Ahead will soon be institutionally strong enough, is developing competent enough senior and program management, and above all is crossing important thresholds of acceptability in most of the communities in which it is working, to contemplate at some point temporarily losing even the Managing Director's services to enable him to replenish his own management and visionary capabilities. In his case, we believe that as long a leave of absence as, say, six months, for example working and absorbing lessons in the highly professional environment of the U.S.-based PVO community, would compensate many times over whatever short-term costs his temporary absence might impose on Get Ahead.

In any case, while opening this matter for discussion in general, we advise caution that such absences for training and human capital development must be programmed carefully, bearing in mind the need to assure program continuity in the absence of key managers. We recommend, therefore, that in due course GAF and USAID explore the possibilities of investing in such a program, and if/when determined to be feasible, USAID agree to finance it under the cooperative agreement, with USAID/SA and/or AID/Washington agreeing to make the appropriate arrangements with cooperating countries.

III. Summary of Recommendations and Implications

Clearly, GAF is an impressive organization that has executed the cooperative agreement to date with competence and dedication. For this reason, the team officially recommends without hesitation that USAID make available to GAF credit funds in excess of the $550,000 to be put toward the stokvel and small-loans programs as needed.

While a number of recommendations have been made in the previous sections, few, if any, constitute additions either in substance or concept to current plans or strategies being considered by GAF management or staff, and there is little need to repeat them here. There are, however, a few considerations regarding the further implementation of the program that should be cited.

First, in regard to coverage of recurrent costs, the team recommends that USAID fully cover currently funded staffing and related support costs at both the field level (both stokvel FWs and small-loans CTOs) and the management level (i.e., management positions in the commercial and financial units) through Year IV of the agreement period. This will allow GAF breathing space financially; and the extra costs, including inflation costs, are adequately covered through adjustments that have taken place in the the Dollar-to-Rand exchange rate. Contribution toward these costs, however, should be cut to fifty percent (50%) in Year V and phased out thereafter. We note here that while the small-loans program is not currently structured to be viable, as cited previously, the mid-term evaluation will consider a full range of options toward rendering it sustainable. For that reason, we have included small-loans personnel in the Year V cutback.

Consistent with this recommendation for further recurrent-cost financing from USAID, however, GAF should exercise caution in staffing build-ups during this period, keeping in mind that the greater the build-up, the greater the costs for self-support. Comparative analysis of demand and performance in different sites to determine potential impact and cost recovery should precede any such decisions.

We also note that given the high demands on staff to date to execute the programs, little has been done to empirically assess the development impact in any of the program areas being supported. Local impact evaluation -- focused on income- and employment generation, enterprise development and local empowerment -- should become a systematic function of GAF as it continues to expand and modify its efforts. It is therefore recommended that GAF either create an in-house evaluation position or (perhaps better for the short term) acquire the services of an experienced consultant to design and execute a series of periodic evaluations. As this would also answer to the evaluation considerations specifically cited in the marketing and training sections, we feel that it should be initiated soon.

In regard to GAF's unique capacities in the complex development environment presented by South Africa, we believe that GAF should give consideration to adopting a more "catalytic" posture in regard to the building up of institutional and development capacities at local levels. Specifically, a few times in this report, we have cited the need to explore, or experiment with, the devolution of responsibilities to local groups -- e.g., the possible "wholesaling of loans" through association guarantees and the further mobilization of savings and possible local administration of credit by evolving stokvel associations. Given the tremendous need in the current situation to promote community control and involvement, together with GAF's unique capacity to introduce and maintain local innovations, we would urge the organization to consider involvement in local organizational development as a major spin-off of its ongoing commercial programs.

While this would require the adoption of a somewhat different approach over time, and the acquisition of new skills in training, local participatory planning, and organizational development, it would not constitute sectoral shifting and would indeed be complementary to ongoing efforts -- both of GAF and local communities. While we would not expect immediate adoption of this recommendation, we would urge its consideration by this uniquely skilled organization.

Lastly, we would note that the continuing dialogue afforded to the program by periodic visits of advisors who are external both to GAF and the USAID Mission appears to be of high value. On the one hand, GAF, which is clearly adept at engaging and integrating advice from outside experts, gains greatly through the receipt of knowledge from endeavors elsewhere; on the other, USAID/South Africa gains from the independent monitoring of both the program and its relation to it. We therefore recommend to both parties that this intermediary advisory function be continued in future with the participation of the same advisors engaged to date.