

Stakeholder Report Fourth Quarter of 2012

The end of 2012 presents the perfect opportunity to reflect upon our successes, challenges, and the future of The Vavaki Group. By all accounts, we have come a long way. There is much further to go, however. Above all, we would like to thank all of those who have contributed to our early growth – our lawyers, bankers, accountants, and local partners, without whose work and advice we would have been unable to start up. These early relationships will stay with us for a lifetime and we look forward to building on them.

The personal sacrifices made have been material. Every member of the core team has

recently left their “safe” corporate jobs, in favor of constant travel or relocation to a developing country. There has been uncertainty in relationships and cash flow. Intense discussions between partners. Difficult choices made in terms of where to focus our work. We have come out of it for the better, however. Stronger today than at any point in our short history.

Please accept this quarterly report – the first of many we hope – as a summary of our recent activities and upcoming work.

Existing Projects

- *Cable Fin (Pvt) Ltd* *Investment Return: 36% IRR*
Harare, Zimbabwe
 Cable Fin is a financial services firm that provides micro-loans to working people whose financial needs are not served by traditional banks. Recognizing the need for financial services and short-term credit among Zimbabwe's large unbanked population, Vavaki provided a 12 month amortising term loan to Cable Fin, which allowed the company to continue its rapid expansion and plan for the future. Vavaki is currently working with Cable Fin on a next round of investment.
- *Ornate Resources (Pvt) Ltd* *Investment Return: TBD*
Bulawayo, Zimbabwe
 The problem of liquidity and capital is widely documented across Southern Africa, particularly where it concerns capital-intensive activities undertaken by small firms. Too many local businesses possess the expertise but lack the financing to execute their plans. Vavaki structured a debt and equity transaction with its partners at Ornate. We purchased capital equipment upfront, entered into a 12 month Hire-Purchase facility with Ornate, and took an equity stake in the company. Ornate now rents this equipment to their customers and engages in joint ventures with local entrepreneurs. In this way, they can truly take their business to the next level and contribute to the economic growth of their community.
- *Joint-Venture Mozambique* *Investment Return: N/A*
Maputo, Mozambique
 Vavaki has begun building a presence in Mozambique, where it seeks compelling trading and investment opportunities in partnership with local entrepreneurs and corporates.
- *Trading & Trade Finance* *Investment Return: N/A*
Johannesburg, South Africa & Global
 Vavaki has established a preliminary trading / trade finance entity in South Africa, which specialises in funding, facilitating, and executing trading assignments that offer long-term potential in underserved markets. The firm operates 3 primary lines of business: (1) Profit-sharing in trading transaction with SME and BEE partners; (2) Principal executing of trading contracts, where we match supply and demand; (3)

Consulting for trading clients. Our intention is to build upon early assignments and relationships in order to develop a fully-fledged operation.

More broadly, Vavaki has seen firsthand how a lack of capital and expertise has severely limited the flow of trade in Africa. Vavaki will tackle local and regional trading assignments on a case-by-case basis, where supply and demand dynamics make sense.

What Has Worked?

- **“Micro-finance 2.0”**: moving beyond the Grameen Bank model (small loans to women in villages), micro finance institutions now provide payday loans to the employees of selected firms. If the lender obtains strict protections from the borrower’s employer, this mitigates credit risk effectively.
- **Mixed-location team**: Vavaki now operates from no fewer than three locations at any one time. This gives us access to mentors, opinion leaders, and fundraising in developed markets without ever leaving our core region of Southern Africa. We find it powerful to interact with our partners from a mix of locations at all times.
- **Invest in relationships**: somewhat cliché but worth repeating. When in this part of the world, always go above and beyond to build relationships slowly over time.

What Lessons Have We Learned?

- **Different incentive structures**: a typical profit-sharing arrangement between a financier and an entrepreneur may not work in an environment where the debtor is not accustomed to large amounts of money, long work hours, or reliable reporting. Marginal utility rules do not apply here. Instead, the financier may be better off charging a fixed amount.
- **Bad news bears**: do not expect to be informed about negative performance early. You need to go out of your way to find out the good and the bad.
- **Size matters in mining**: When dealing with artisanal or small-scale miners, look for “medium-scale operators” with some semblance of a management team rather than transacting directly with informal operators. The larger the mining operation, the easier it will be to transact with.
- **Set expectations early**: amongst team members and business partners. More important in this part of the world than anywhere else.
- **Relationships cut both ways**: if you can rely on old friendships and family connections, terrific. Watch, however, that these cultural ties do not impede the free flow of information.

What Is Next?

We expect to work on the following items this quarter. Some of these opportunities may result in investment opportunities.

- Due diligence on a high-potential, high-growth **insurance company in Zimbabwe**.
- Negotiation of a **second round investment in Cable Fin (Pvt) Ltd**, building upon our existing relationship.
- Exploratory talks on start-up **real estate opportunities in Mozambique**.
- Continued discussions on **SME financing opportunities in South Africa**, with a range of local partners.
- Potential exploratory trips to **Namibia and Malawi in 2013**.
- Due diligence on **agriculture / food plays in the region**.
- Selected **trading or trade finance opportunities**.
- Discussions with **local firms in the invoice discounting (or “factoring” space)**, an emerging financial product for the region.