



**USAID** | **SOUTHERN AFRICA**  
FROM THE AMERICAN PEOPLE

# FINANCIAL SECTOR PROGRAM

**INTERIM WORK PLAN PERFORMANCE REPORT  
JULY - SEPTEMBER 2008**

**October 2008**

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.



# FINANCIAL SECTOR PROGRAM

**INTERIM WORK PLAN PERFORMANCE REPORT  
JULY - SEPTEMBER 2008**

**Contract No. 674-M-00-08-00043-00**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



# CONTENTS

BACKGROUND .....	1
ACCOMPLISHMENTS BY TECHNICAL COMPONENT .....	2
<b>PIR 1: Financial Intermediaries' Capacity to Serve SME Market Improved .....</b>	<b>2</b>
A. KRA: 1.1 Financial Products Improved to Respond to SME Needs.....	3
B. KRA: 1.2 Financial Sector Professionals capacity Enhanced to Deliver SME Financial Services .....	5
C. KRA: 1.3 Use of Loan Guarantee/Special Funds Programs Expanded .....	5
<b>PIR 2: Bankability of SMEs Enhanced .....</b>	<b>6</b>
D. KRA: 2.1 Quality of BDS related to finance improved .....	7
E. KRA: 2.2 SME financial literacy enhanced.....	8
<b>PIR 3: Financial Sector and SME Development Enabling Environment Improved .....</b>	<b>8</b>
F. KRA: 3.1 Financial sector legal and institutional framework for SME finance improved .....	9
G. KRA: 3.2 Regulatory framework stimulating SME development enhanced..	10
<b>PIR 4: SME Finance Knowledge Management System Strengthened .....</b>	<b>10</b>
H. KRA: 4.1 SME finance knowledge management system strengthened.....	10
I. KRA: 4.2 Improved awareness of SME finance best practices.....	11
<b>Annex A – List of indicators .....</b>	<b>12</b>

## Acronyms and Abbreviations

ACP	Association of Credit Providers
BASA	Banking Association of South Africa
BBE	Black Economic Empowerment
BDS	Business Development Services
BDSP	Business Development Services Provider
BFI	Bank Financial Intermediary
CIPRO	Companies and Intellectual Property Registration Office
DCA	Development Credit Authority
DCA ODC	Development Credit Authority/Office of Development Credit
Dti	Department of Trade and Industry
FI	Financial Intermediary
FSP	Financial Sector Program
HDE	Historically Disadvantaged Enterprise
IFC	International Finance Corporation
IOB	Institute of Banks
LOI	Letter of Intent
NBFI	Non-Bank Financial Intermediary
NCR	National Credit Regulator
NRCA	National Register of Credit Agreements
NWU	North West University
CCRD	Consumer and Corporate Regulation Division of dti
OCIPE	Office of Companies and Intellectual Property Enforcement
PMP	Performance Management Plan
SA	South Africa
SAIBL	USAID South Africa International Business Linkages project
SAS	Sizanani Advisory Services
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprise
SOW	Scope of Work
USAID	United States Agency for International Development
USG	United States Government

## BACKGROUND

The Financial Sector Program (FSP) is a 30 month USAID Southern Africa program awarded to the Chemonics consortium<sup>1</sup> on May 22, 2008. FSP seeks to expand access to financial services and lower financing cost for small and medium enterprises (SMEs) through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SMEs in South Africa, thereby expanding SME access to a range of high quality and affordable financial services.

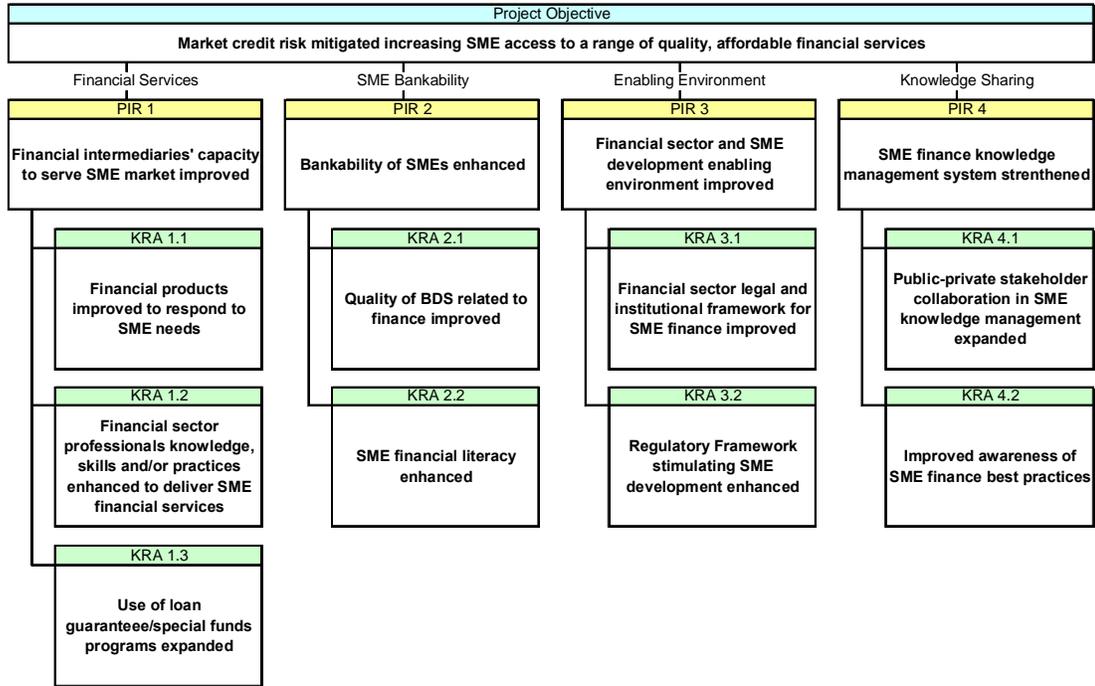
The FSP contract team began to mobilize and engage in activities in July of 2008. With the concurrence of USAID, FSP presented an interim work plan for this start up period with the intention of compiling and assessing a broad range of market forces impacting SMEs access to finance.

During this initial period, one of FSP's primary goals was to complete a thorough needs assessment and inventory of stakeholder and partners in the four project components. In that perspective, the FSP team contracted AfricaScope to conduct a study in the Gauteng province to gather and analyze key information on the four components of the FSP project. The results of this study were the basis for the development of the annual work plan submitted. A desk study was undertaken to assess the demand and supply of financial BDS needs of SMEs and an alternative approach for BASA/Sizanani support to SMEs focusing on the development of an accreditation framework was developed and will be presented to the Sizanani board. A letter of Intent with NCR governed the activity undertaken to begin a consultancy on their business process reengineering and a scope of work for support for the initial stages of the dti new companies' law was completed.

All activities undertaken are driven by the results presented below.

---

<sup>1</sup> The consortium members are as follows: Prime: Chemonics International Inc; Subcontractors: Crimson Capital, ShoreBank Advisory Services, and Khulisa Management Services.



Further, all provision of technical assistance and interventions are targeted to contribute to at least one of the FSP performance measurement indicators listed in Annex A.

This performance report covers the project start-up period July through September, 2008 and details activities undertaken to support the four project components of SME finance, financial business development services (BDS), policy reform and knowledge management. The activities noted hereunder were the elements of the interim work plan presented and approved by USAID for the period presented.

## ACCOMPLISHMENTS BY TECHNICAL COMPONENT

### PIR 1: Financial Intermediaries' Capacity to Serve SME Market Improved

The overall goal of this PIR during the interim phase of the project was primarily to assess the SME market demands and supply of financial services identifying key pilot and demonstration strategies that address critical leverage point for enhancing access to financial services during the first full project operating year (fiscal 2009).

## A. KRA: 1.1 Financial Products Improved to Respond to SME Needs

### Activities:

#### KRA 1.1.1 Tabulate and assess current SME financing product offering and demand for SME financing.

During the first three months of the project FSP interviewed a wide range of FIs to assess the supply for SME finance. South Africa's big four banks (Standard, ABSA, FNB and Nedbank), as well as Sasfin Bank, Wizzit Bank, African Bank, Grofin, Khula Enterprise, Business Partners, IDC, DBSA, Anglo Zimela, Blue Finance, Vuwa Investments, Thembani International Guarantee Fund (TIGF) and FinMark Trust were met in order to determine the array and scope of SME finance products in the country.

In order to better understand the SME finance landscape and accurately design the activities for the first annual work plan, FSP undertook a qualitative and quantitative study on Gauteng SMEs with subcontractor AfricaScope to collect and analyze a broad range of detailed information on the financial needs of BEE SMEs. This work was built on the 2006 FinScope small business survey, which delivered a comprehensive understanding of the small business sector in the Gauteng province. Given FSP focus on BEE SMEs, this study focused on the financial support requirements of SMEs with annual turnover between 200,000 and 20 million Rand classified as BSM (Business Sophistication Measure) 6 and 7s.

For the quantitative analysis, the team reanalyzed the original FinScope data to provide deeper granularity to the study revealing specific tendencies and characteristics of FSPs target audience.

For the qualitative data collection, a sophisticated GPS mapping technology was used to identify area concentration of BSM 6 and 7 SMEs in Gauteng from which focus group areas were selected. A comprehensive discussion guide was developed to steer the group's conversation addressing issues related to access to finance, knowledge of and utilization of financial BDS, understanding of legal, regulatory and compliance issues including understanding of BEE legislation, and ways in which SME gather share information on financial management of their businesses. Eleven focus groups of HD businesspeople (segmented by gender and race) took place throughout the Gauteng province.

#### **Qualitative and Quantitative study on Gauteng SMES generates interesting results:**

##### HD SMES:

- Have a very poor standard of financial literacy
- Have little awareness of the fBDS available to them but are in dire need of it.
- have nearly as much difficulty in accessing fBDS as they do finance itself
- Rarely get access to financing from formal FIs; for external financing instead they must rely on their own savings, severance packages or money from relatives/friends.
- Nevertheless many have ideas about how to expand their businesses if they could get external financing.
- Cannot meet the stringent and rigid documentary, collateral and other requirements of the big four banks.
- Often are not aware of the need and benefits of properly registering their businesses.
- Find government institutions, like the banks, bureaucratic, non-transparent and unresponsive.
- Have little awareness of BEE legislation or its potential benefits to them.
- Are not proficient about sharing information with each other, either through associations or informally.
- Mostly do not utilize IT; they require training in its use.

The basic conclusions of the survey this that the FIs offer a wide range of financing products to SMEs, but the conditions which the big banks in particular impose for approval make it very difficult for HD SMEs actually to access those products. Most focus group participants have ideas about how to expand their businesses, but they are frustrated about their inability to access the necessary finance. There are a number of steps that can be taken to narrow the gap between demand and supply. See text box for key results of the study.

Benchmark 1.1.1	Actual
Report analyzing supply and demand for SME finance	Research and analysis completed, PowerPoint presentation delivered, Report to be completed in November
Roundtable with BASA to disseminate results	Pending presentation next quarter

**KRA 1.1.2: Introduce FSP and new financial product concept to financial intermediaries.**

The basic intention of this activity was to work towards establishment of partner relationships with BASA and the FIs. During the quarter a workshop for the BASA SME committee members was held introducing members to the FSP and its component elements. While an MOU with BASA has not yet been executed, a collaborative relationship is emerging.

Also during this interim work plan period, FSP signed letters of intent with three FIs: Grofin, ABSA and Wizzit. Activities to be undertaken with the LOIs include deposit mining, credit scoring, product development as well as various financial BDS activities and underwriting of USAID DCA facilities.

As FSP research indicated that most of the big four banks already have implemented deposit mining, a change in strategy took place. Instead of a BASA workshop to introduce the concept widely, individual banks that may benefit from the approach will be identified and targeted TA will help them launch the deposit mining concept. Wizzit will launch its pilot in November.



Charles Rowlinson (left) of Wizzit and Terri Kristalsky, FSP COP execute the Letter of Intent under which the first activity will be deposit mining.

Benchmark 1.1.2	Actual
MOU with BASA	In process
Workshop on deposit mining	Strategy change-will present to individual banks beginning next quarter

**B. KRA: 1.2 Financial Sector Professional’s capacity Enhanced to Deliver SME Financial Services**

**Activities:**

**KRA 1.2.1 Evaluate interest and capacity of financial intermediary staff to deliver SME finance**

During interviews with potential FI partners, FSP enquired as to the abilities of loan officers and credit analysts to assess SME finance applications. FSP also gauged the FIs’ interest in SME credit and sales training. Feedback obtained for the most part indicates that FI management is quite confident in their staffs’ credit analysis skills. On the other hand, although the big four banks ‘talk the SME finance talk’, based on the results of the focus groups FSP’s assessment is that they don’t fully understand the financing needs of HE SMEs. Some smaller banks and non-bank FIs such as Sasfin, Grofin and Anglo Zimela do a better job at delivering SME finance that meets the needs of SMEs. During the upcoming quarter FSP will continue to assess the training needs of the FIs looking toward supporting the non-traditional bank needs.

Benchmark 1.2.1	Actual
Briefing note on analysis and recommendations to inform work plan	Briefing note completed

**C. KRA: 1.3 Use of Loan Guarantee/Special Funds Programs Expanded**

**Activities:**

**KRA 1.3.1 Assess environment for loan guarantee schemes and special purpose vehicles with potential FI partners.**

During the reporting period, FSP gathered information on South Africa’s loan indemnity schemes. The largest and most comprehensive of these are offered by a federal government entity, Khula Enterprise. The guarantee schemes of KwaZulu Natal Province, TIGF, Agence Française de Développement (AFD) and USAID DCA were also assessed for their potential in the country’s HD SME space. FSP’s initial finding is that there is not much potential for enhancement of Khula’s indemnity schemes. Khula appears to be changing its focus from an indemnifier to a creditor.

FSP considers that there is considerable scope for DCA guarantee facilities. DCA concept papers from Blue Financial, ABSA bank, Sasfin and Grofin are in process.

Benchmark 1.3.1	Actual
Briefing note on analysis and recommendation to inform annual work plan	Briefing note completed

### **KRA 1.3.2 Support non-bank financial intermediaries targeting SMEs**

The main objective of this activity was to learn about the operations of large South African corporations SME finance funds already established or in process of being established, with a view to exploring FSP TA possibilities. FSP interviewed the oldest and largest of those funds, Anglo Zimela (AZ), and Vuwa Investments. AZ has a well established and successful modus operandi; it does not appear to need assistance but is willing to share its experience and lessons learned. Vuwa provides financing mainly to micro-enterprises and is therefore not a candidate for FSP support.

FSP held four meetings with SAIBL, which has agreed to share its corporate funds contacts and collaborate of support to funds and discussions with funds has begun. By the end of the first quarter, FSP expects to determine the TA needs of potential partner corporate funds, particularly with regard to finance product development. The corporate funds agenda is being developed and will be completed in the first quarter.

Benchmark 1.3.2	Actual
Joint committee with SAIBL set up and policy agenda defined for corporate funds	Discussions held with SAIBL; agenda for corporate funds to be developed during the quarter ended 12/31/08.

### **PIR 2: Bankability of SMEs Enhanced**

The focus of this component during the start up phase was to concentrate primarily on identifying the failures in the market for financial BDS, discover key market actors and possible program partners, and begin to develop a priority list for needed financial BDS for SMEs.

## D. KRA: 2.1 Quality of BDS related to finance improved

### Activities:

#### KRA 2.1.1 Establish a forum of key financial BDS providers

In order to identify potential program partners and understand the supply of business services better, more than 30 business service organizations were approached by telephone to establish their profile in the market (e.g. what type of services they offer, what their complement of individual providers is, etc.). The exercise confirmed how difficult it is to reach some organizations and how user-unfriendly they are in the market; however, the response and responsiveness of others helped to identify which organizations to follow up.

An extensive and in-depth interview process with individual organizations contributed to the development of the PIR 2 strategy for year 1. The strategy involves a dramatic shift in the way Sizanani Advisory Services (SAS) supports the financial BDS markets and proposes an alternative to facilitate the development of an industry wide accreditation system. FSP will present the proposal to the Sizanani board October 1.

The issues highlighted by this phase of activity are the lack of a national framework to inform accreditation and assure quality of financial BDS providers, the dearth in the market of finance related BDS and the opportunity to facilitate partnerships or linkages between financial intermediaries and financial BDS providers, and the need for building capacity of financial BDS providers and the products and services they offer.

Opportunities to collaborate in specific areas with several providers has emerged out of this early phase, however, it is premature to establish a forum of financial providers. As FSP facilitates the interventions proposed for year 1, it is likely that there will be several areas where BDS providers come together to work on a particular issues; it is envisaged that development of a national framework of accreditation might be one such area.

<b>Benchmark 2.1.1</b>	<b>Actual</b>
List of potential financial BDS provider	Database developed for Gauteng market showing supply of BDS providers
Date for forum set	Meeting with Board of Sizanani Advisory Services set for October 1; wider forum still to be established

**E. KRA: 2.2 SME financial literacy enhanced**

**Activities:**

**KRA 2.2.1 Consolidate information on demand for financial BDS by SMEs (for use by banks and providers)**

Various research findings (based on a desk review conducted in this first phase) and including those of AfricaScope study confirm that the demand for financial BDS by SMEs is very weak. FSP research indicates that SMEs tend to prioritize the need for finance, however, the need for support to access finance does not always translate into demand. What is apparent from the research is that levels of financial literacy amongst SMEs remains low with SMEs not necessarily understanding what support they need or where to get it from.

The needs prioritized therefore tend to focus on assistance with planning (business and market plan development), financial management (including book-keeping and accounting assistance), legal advice and IT support.



An important factor in stimulating demand for financial BDS will therefore be the development (or sourcing) and dissemination of financial literacy materials in a way that optimizes reach to the SME community in Gauteng.

<b>Benchmark 2.2.1</b>	<b>Actual</b>
Priority list for needed financial BDS for SMEs	In process

**PIR 3: Financial Sector and SME Development Enabling Environment Improved**

The focus of this component during the start up phase was to collect and analyze salient information, forge strong partnerships and identify real opportunities to improve the enabling environment and rapidly achieve concrete results. Building on studies and research previously conducted by the Supporting Economic Growth and

Analysis II (SEGA II) project, FSP explored possibilities of intervening at different stages of the policy reform process: identification, study, consultation and consensus-building phase, adoption, publication, awareness campaigns and institutional capacity building to impact the development of SME in South Africa.

**F. KRA: 3.1 Financial sector legal and institutional framework for SME finance improved**

**Activities:**

**KRA 3.1.1 Design program to promote the new Financial Sector Code**

The Banking Association recently conducted negotiations with the Government to align the Financial Sector Charter with the DTI Code and create a legal and binding framework for the financial sector. FSP intended to collaborate with the Banking Association to support the promotion, monitoring and evaluation of the new Financial Sector Code. Unfortunately, talks between the Banking Association and the Trade Union, as well as the Communist Party, collapsed at the last minute over the issue of ownership. Therefore the financial sector did not meet the September 1<sup>st</sup> 2008 deadline to transform its Charter into a Code and FSP had no ground to pursue planned activities under KRA 3.1.1. This activity was therefore cancelled

Benchmark 3.1.1	Actual
Promotion Program of Financial Code accepted	Activity cancelled

**KRA 3.1.2 Support the National Credit Regulator (NCR)**

FSP signed a Letter of Intent with the NCR creating a non-binding framework of collaboration to jointly design and implement selected activities. The primary objective of FSP is to support the Business Process Reengineering (BPR) of the NCR and to help the NCR progress toward the establishment of a National Register of Credit Agreements (NRCA), with a strong emphasis on SMEs.

The FSP team worked with the NCR to develop terms of reference and rapidly identify an international consultant to provide technical assistance for the BPR. The benchmark for this activity has been attained.

As far as the NRCA is concerned, one of FSP’s roles was to facilitate a constructive dialogue between NCR and the Banking Association to move ahead with the creation of the national public registry. A workshop was organized by the NCR with the participation of representatives of the major banks, consumer credit providers, and microfinance institutions. All participants bought into the idea of establishing the NRCA and decided to set up a steering committee between key stakeholders, which was one of the benchmarks of the interim work plan.

Benchmark 3.1.2	Actual
Consultancy on BPR initiated	Scope of work for the BPR consultancy completed and consultant identified

#### **G. KRA: 3.2 Regulatory framework stimulating SME development enhanced**

##### **Activities:**

##### **KRA 3.2.1 Work with dti to improve the regulatory framework affecting SME development**

The FSP team worked with the Consumer and Corporate Regulation Division (CCRD) of the dti to improve the regulatory framework affecting the development of SMEs. Interventions were considered on three fronts, the Companies bill, the Consumer bill, and the Regulatory Impact Assessment of selected CCRD activities.

Finally, the CCRD decided that FSP should focus on the business case for the establishment of the new Companies and Intellectual Property Commission that will be created under the new Companies Act. A scope of work was jointly developed between the CCRD and FSP for this important short term assignment that will start in November 2008.

Benchmark 3.2.1	Actual
Consultancy on corporate law initiated	Scope of work for the business case of the Companies Commission completed

#### **PIR 4: SME Finance Knowledge Management System Strengthened**

The focus of this component during the start up phase was to begin to develop a priority list of potential collaborating partners interested in and committed to sharing experiences and practices regarding SME finance activities and explores the opportunity to develop a common forum within which to do so.

#### **H. KRA: 4.1 SME finance knowledge management system strengthened**

##### **Activities:**

##### **KRA 4.1.1 Determine current stakeholders working on best practices compilation and dissemination**

Over the past months, FSP has undertaken research which *inter alia* looked extant methods and techniques of knowledge management and dissemination as regards HD SME financing. Research has revealed that a large number of financial sector stakeholders undertake knowledge product generation activities, but they are not integrated into a knowledge management system accessible to HD SMEs. As such,

FSP is leading a review of current knowledge management systems to assess their viability and accessibility when expanded to HD SMEs. After the review of existing systems, with partners FSP will establish SME finance working group or work through an existing subgroup of an institution and continue outreach activities. This group will design a SME-responsive knowledge management system.

<b>Benchmark 4.1.1</b>	<b>Actual</b>
Initial list of potential collaborating partners for SME finance best practice web-based portal to inform annual work plan	In process

**I. KRA: 4.2 Improved awareness of SME finance best practices**

**Activities:**

**KRA 4.2.1 Determine current methods of best practices compilation and dissemination**

Preliminary findings indicates that implementation of technological tools to facilitate knowledge sharing can be an issue; currently, many financial institutions have developed sophisticated knowledge management systems but such systems face severe challenges ranging from inappropriateness for the HD SME market either as a result of high-tech systems and/or very abstract packaging language. .Activities under this KRA were postponed to fiscal 2009

<b>Benchmark 4.2.1</b>	<b>Actual</b>
Roundtable on best practice dissemination techniques	Activity Postponed

## Annex A – List of indicators

	Indicator name
1	Number of financial agreements concluded
2	Value of finance accessed
3	Number of management processes/practices modified due to USG assistance
4	Days to turnaround SME loan application
5	Number of new or adapted financial products developed as a result of USG assistance
6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance
7	Number of financial sector professionals trained on international standards with USG assistance
8	Number of special fund loans issued
9	Value of the USG supported special loans issued
10	Number of SMEs assisted to access finance
11	Number of financial advisory providers assisted (trained/TA)
12	Number of SMEs assisted by BDS providers
13	Number of 11 core commercial laws and financial reforms put into place as a result of USG assistance
14	Number of applied research activities undertaken by USG implementing partners to inform policies and regulations that affect access to finance for SMEs
15	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance
16	Number of financial sector supervisors trained with USG assistance
17	Number of administrative procedures affecting the operations of SME improved
18	Number of policy reforms analyzed as a result of USG assistance
19	Number of policy reforms presented and/or disseminated for public/private stakeholder presentations as a result of USG assistance
20	Number of policy reforms presented for legislation/decrees as a result of USG assistance
21	Number of inquiries to knowledge management system
22	Number of collaborating partners
23	Number of dissemination events held by knowledge management collaborating partners (workshops, conference, media campaigns, etc.)
24	Number of content submissions to knowledge management system