USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

FINANCIAL SECTOR PROGRAM

ANNUAL PERFORMANCE REPORT OCTOBER 1, 2009 – SEPTEMBER 30, 2010

October 2010

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

FINANCIAL SECTOR PROGRAM

ANNUAL PERFORMANCE REPORT OCTOBER 1, 2009 – SEPTEMBER 30, 2010

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

CONTENTS

ACRONYMS

BA	Banking Association
BDS	Business Development Services
BDSP	Business Development Service Provider
BEE	Black Economic Empowerment
Blue	Blue Financial Services
BPR	Business Process Re-engineering
BSO	Business Service Organisations
CEG	Certified Entrepreneurial Guides
CIDB	Construction Industry Development Board
CIPRO	Companies and Intellectual Properties Registration Office
CPD	Continuous Professional Development
DQA	Data Quality Audit
EDC	Enterprise Development Centres
EAAA	Estate Agents Amendment Act
FABCOS	Foundation for African Business and Consumer Services
FI	Financial Intermediaries
FNB	First National Bank
FSB	Financial
FSC	Financial Sector Charter
FSP	Financial Sector Program
IBA	Institute of Business Advisors
IC	Invoice Clearing
ICSB	International Council for Small Business
IDF	Identity Development Fund
IFRS	International Financial Reporting Standards
KRA	Key Results Area
LOE	Level of Effort
LPG	Loan Portfolio Guarantee
MAS	Mettle Administrative Services
MEG	Master Entrepreneurial Guides
NCA	National Credit Act
NCR	National Credit Regulator
NGO	Non-Government Organization
NPL	Non-Performance Loan
NQF	National Qualifications Framework
NRCA	National Register of Credit Agreements
OCIPE	Office of Companies and Intellectual Properties Enforcement
OMM	Old Mutual Masisizane
PEG	Professional Entrepreneurial Guides
PFMA	Public Finance Management Act
PIR	Project Intermediate Result
PMP	Performance Monitoring Plan
POF	Purchase Order Finance
RGA	Raizcorp Guiding Academy
RIA	Regulatory Impact Assessment
RFF	Royal Fields Fund
S. A.	South Africa
SAIBL	South African International Business Linkages
SAIPA	South African Institute of Professional Accountants
SFEDI	Small Firms Enterprise Development Initiative

SME	Small and Micro Enterprise
SPV	Special Purpose Vehicle
TA	Technical Assistance
TIGF	Thembani International Guarantee Fund
U. S.	United States
U.S.G.	United States Government
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

The Financial Sector Program (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 primarily BEE SME[1]s in South Africa, thereby expanding their access to a range of high quality and affordable financial services.

This annual work plan performance report covers the period of October 1, 2009 through September 30, 2010 and summarizes the activities undertaken to support the four project components – SME finance, financial business development services (BDS), policy reform and knowledge management. The performance management summary for this second year is presented in Annex A.

While hosting the 2010 World Cup gave South Africa's economy a boost of about R9 billion, many market forces continued to work against any dramatic gains in the SME space. Plummeting business confidence levels along with significantly lower money supply saw many banks down scaling operations and constricting credit as a whole and significantly withholding expansion into new products particularly to the SME sector.

Even in light of these market challenges, FSP was able to make significant strides toward program goals. Building on its progress with partner financial intermediaries2 (FIs) during Year 1, FSP continued to expand and deepen its assistance to the FIs to diversify and expand their SME finance portfolios. FSP devised a combination of interventions to stimulate use of innovative and demand-driven products, train credit providers' staff in improved delivery mechanisms and examine options for loan guarantee schemes to stimulate lending in the higher risk SME sector. ABSA Bank and key medium scale financial intermediaries -- such as WIZZIT, Blue Financial Services and Old Mutual Masisizane -- were active FSP partners targeting the SME sector. FSP partner combined have generated over 300 loans to date to SMEs, of which, over 80% were booked during the 2010 fiscal year. FSPs Special Fund partners continue to surpass expectations by exceeding program goal by 500% in number and 600% in value of loans issued to date. FSP provided capacity building efforts, both in workshop settings as well as on the job support to further transform these and other partner FIs into the "go to" pioneer FIs for a more inclusive approach to SME finance emphasizing cash flow as opposed to collateral-only security. In total, 81 financial sector professional have been trained, 37 in this fiscal year.

FSP lead several SME Committee workshops with the Banking Association to identify new product and services needs along with Bankability and Policy hurdles impeding the access to credit for SMEs. FSP continued efforts to expand on the products developed and rolled out in Year 1 and undertook a rapid market assessment to explore applicability and marketing of

[1] For the purposes of this report, BEE SMEs are those SMEs who were previously known as "historically disadvantaged" and can qualify under the South African Government's Black Economic Empowerment (BEE) strategy BEE refers to the economic empowerment of historically disadvantaged persons/businesses defined as all black people (Indians, Africans, Coloureds and Chinese) including women, youth, and people with disabilities and people living in rural areas. A BEE SME is a company y that is more than 25% owned by black people.

[2]Financial Intermediary is defined herein as any organization engaged in the provision of financial services, be it a bank, non-bank credit provider or a private financing fund.

other new financial products, primarily Purchase Order Finance. At the close of the year, FSP had issued a competitive opportunity for interested FIs to submit proposals for technical assistance to launch this SME friendly product beginning in 2011.

In addition, FSP designed and secured the approval for three portable DCA guarantees which could ultimately leverage the Rand equivalent of over $100 million in loans for thousands of SMEs.

Banks and other FIs often complain about the financial acumen of their SME clients and cite it as a significant hindrance to expanding their SME portfolios. In an effort to make SMEs more bankable, FSP piloted several interventions with private sector **business services providers –** including FIs themselves and an SME incubator offering comprehensive business mentoring and capacity development services. To increase the quality of BDS, FSP introduced an industry standards program that will grade business development services providers (BDSPs) thereby assuring SMEs that the advice and consulting services they seek will provide a solid return on their investment. A total of 15 BDSPs were trained in the grading program pilot during the year.

To further link the provision of financial BDS with potential enterprise growth, FSP collaborated with key BDS organizations and FIs to begin to connect Business Development Services with appropriate credit products for SMEs under a new program called *finfind*. By directly correlating the service provision with the FIs' products and due diligence requirements, SMEs will see the inherent value in BDS and gain much needed practical financial management advice and skills. At the same time, FIs will receive finance applications that are well supported and more easily bankable. In Year 1, FSP recognized that many of the historically disadvantaged businesses actually require more information on what financing is available and applicable to enterprises at varying levels of development. Therefore, FSP designed a two pronged approach to SME financial literacy; external guidance as noted above as well as the design of a financial management course for SMEs to help them better manage their internal cash flow particularly after receiving a loan wherein 10 SMEs participated in the piloting of this course during the year.

The private sector can only succeed within an **enabling policy environment** that fosters cost effective delivery of financial services, as well as well-functioning enterprises. The FSP policy component engaged extensively with public and private sector partners to develop solutions to overcome specific policy hurdles. Together FSP and its partners proactively analyzed policies, propose alternatives to existing gaps or constraints, drafted appropriate legislative or regulatory remedies, and helped to build the capacity of key SME advocacy groups to develop these same skills. Ten research activities were undertaken in this regard. With the Department of Trade and Industry (dti), project staff assisted with drafting SME-friendly regulations under the Companies Act, completed the new Commission fee structure and generated a new level of public-private dialogue to ensure a more inclusive legislative process. The Companies Act will impact all formal businesses in South Africa but specifically it will endeavor to minimize the cost and administrative burden implicit in incorporating and maintaining an SME. Through the design of a multi-faceted team, FSP together with the National Treasury embarked upon a process to institutionalize a regulatory impact assessment tool so both public and private sector stakeholders are fully aware of the consequences of proposed or existing regulations. Finally, as a complement to proposing new financial products and services FSP examined the regulatory environment to determine if any legal obstacles or limitations exist that would inhibit overall access to credit as well as undertook a summary analysis of the insolvency framework.

FSP's final component is a cross-cutting intervention to improve the SME finance **knowledge management** of SME data, finance opportunities, successful approaches to SME development, and tools for FIs and BDSPs to use in SME access to finance efforts. FSP designed and launched a web-based access point (www.fsp.org.za/blog) for the dissemination of information, data, research, and tools that bring the shared experiences of SME finance practitioners and clients in South Africa complemented by best practices from around the world. During the period under review, 14 content submissions were made to the knowledge management system generating 744 inquiries. The ultimate goal is to develop a jointly used and maintained home for this information and a portal for accessing it, as such FSP made great strides in developing partnership with collaborating partners like USAID's SAIBL program, the ICSB and the Banking Association. Collaborating with the latter, FSP co-hosted 3 workshops during the year to generate discussion of salient topics and design a forum for SME credit officer networking; over 70 banking professional were in attendance.

SECTION I: BACKGROUND

The Financial Sector Program was originally a 30 month USAID Southern Africa program awarded to the Chemonics consortium[3] on May 22, 2008 with a 30 month extension option which was exercised on June 20, 2010 thereby extending program operations through May 2013. The program was designed to contribute to the U.S. Government's Economic Growth Objective in South Africa. FSP is one of three main vehicles to promote vibrant growth of BEE SMEs and reduce unemployment and poverty — generating rapid, sustained and broad-based economic growth in South Africa.

Building on the successful strategy development and partner identification establish during the first year of program implementation, during year two, FSP began to see many activity begin to generate results. This performance report summarizes the implementation of the activities presented in the second annual work plan for the period October 1, 2009 through September 30, 2010.

South Africa is Africa's largest economy, with strong financial, legal, energy, communications, and manufacturing sectors, abundant natural resources, and a thriving tourism industry. Yet underneath South Africa's developed economy lies a "second economy," comprised mostly of poor, historically-disadvantaged communities. A legacy of Apartheid, this second economy can be seen in the townships and outskirts of South Africa's cities and in rural areas where large numbers of the population live in shacks with little to no access to electricity, transport, or modern water or sewage systems.

FSP actively engages in activities which will help to integrate this second economy of BEE eligible enterprises into South Africa's larger economy and specifically assist SMEs fulfill their critical roles as drivers of the economy.

To that end, FSP employs a demand driven, results oriented four-pronged approach to increase SME access to a range of quality, affordable financial services to facilitate business growth and catalyze increased employment and incomes. The results of FSP activities are targeted to:

1) Improve financial intermediaries' capacity to serve SMEs in South Africa
2) Improve the "bankability" of SMEs
3) Reform the legal and regulatory framework affecting the financial sector and business environment stimulating SME growth
4) Strengthen the SME finance knowledge management system.

FSP has been designed to support the achievement of the U.S. Government Economic Growth Objective in South Africa. This program is contributing to the objective to help improve SME access to a range of quality, affordable financial services. Within the Economic Growth objective, FSP helps to mitigate market credit risk increasing SME access to a range of financial services (see Exhibit 1, Results Framework).

[3] The consortium members are as follows: Prime: Chemonics International Inc; Subcontractors: Crimson Capital, Shorebank Advisory Services, Khulisa Management Services.

The results from each level of the framework support the achievement of the results on the level above – culminating in achieving the Mission Economic Growth objective of increased access to finance by SMEs. For each of the four Project Intermediate Results (PIRs), FSP has elaborated Key Result Areas (KRAs) that are representative of the overall strategies for achieving the intermediate results. These KRAs guided project staff in its year one activity planning and provided the basic structure for performance monitoring, evaluation and reporting. Each KRA has a technical leader, a set of activities, associated tasks, defined resources, and benchmarks. Each PIR and KRA year one activities are summarized in the technical sections to follow and identify the status of the annual benchmarks established.

The overall summary of the Performance Management Plan achievements are included as Annex A.

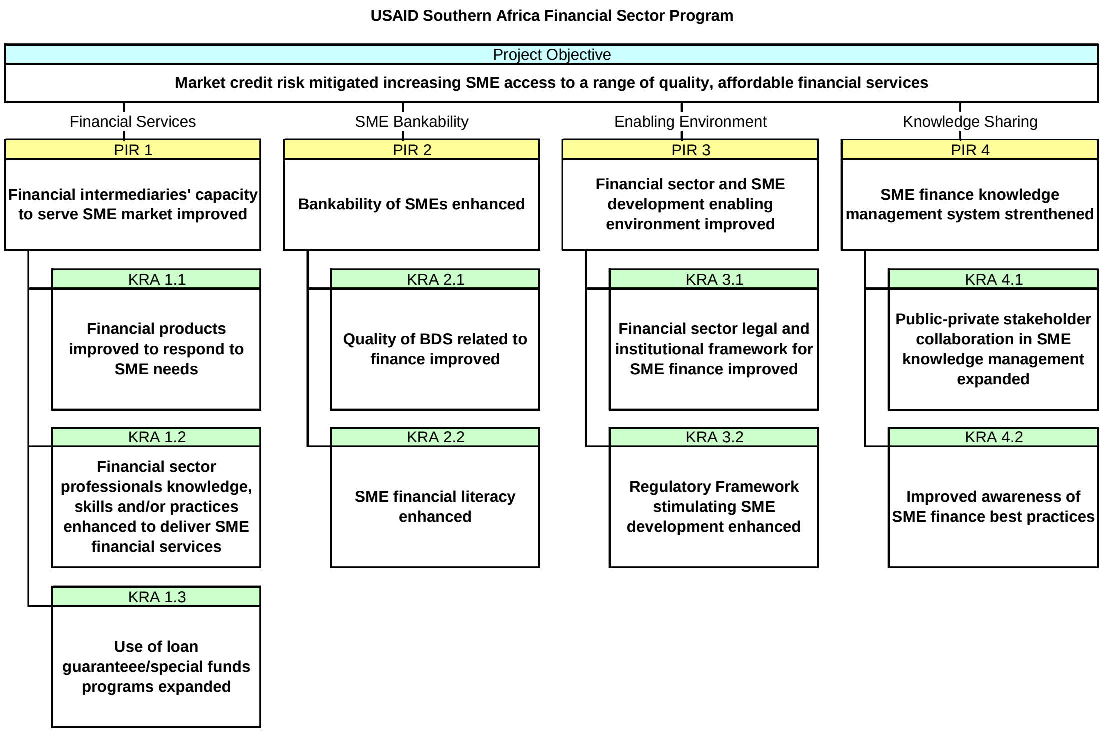


Exhibit 1: Results Framework

SECTION II: ACCOMPLISHMENTS BY TECHNICAL COMPONENT

A. Project Intermediate Result (PIR) 1: Financial Intermediaries' Capacity to Serve SME Market Improved

There remains a significant gap in South Africa in meeting the financing needs of SMEs, particularly in the BEE sector. Further, SMEs in South Africa are more disadvantaged in terms of credit when compared to other peer group countries. A recent World Bank study found that in South Africa there is much larger access to finance gap between large firms and SMEs compared to other middle income countries such as Malaysia, Argentina and Brazil. BEE firms in particular suffer from this deficit.[4]

Although there is significant demand for finance, few SMEs successfully access it. In light of the global finance crisis and economic downturn in the country, South Africa's large banks became much more cautious about granting credit, particularly for SMEs. Additionally, many SMEs lack traditional forms of collateral typically required for finance, often appearing less transparent, with many lacking credible financial statements, having poorly prepared loan applications and limited financial literacy and expertise.

Given these apparent risks, there is an imperative for FIs to develop appropriate financial products and credit policies/procedures and take greater advantage of guarantee schemes designed to reduce credit risks if they want to penetrate the SME credit market. SMEs form a large segment of the business community and tend to be relatively insensitive to loan pricing as well as loyal bank clients. By taking actions to reduce the risk and penetrating the SME segment, FIs can enjoy an often untapped potential for expanded intermediation and higher profits.

FSP through PIR 1 addresses the supply side of finance – the FIs' ability to engage with such businesses, while PIR 2 seeks to enhance the demand side -- the SME's ability to mitigate these deficiencies set out and become credit worthy.

When FSP began, it was envisaged that the finance component would work primarily through the country's Banking Association and with South Africa's big four banks: ABSA, Nedbank, FNB, and Standard Bank. However, FSP was launched as the global financial crisis was unfolding, so the environment for expanded lending – especially to riskier SMEs -- faced resistance within those big banks. The assumptions underpinning the design and implementation plan of FSP's finance component were compromised by the world economic crisis and its impact on SA.

Identity Development Fund Helps Successful Tour Company Expand

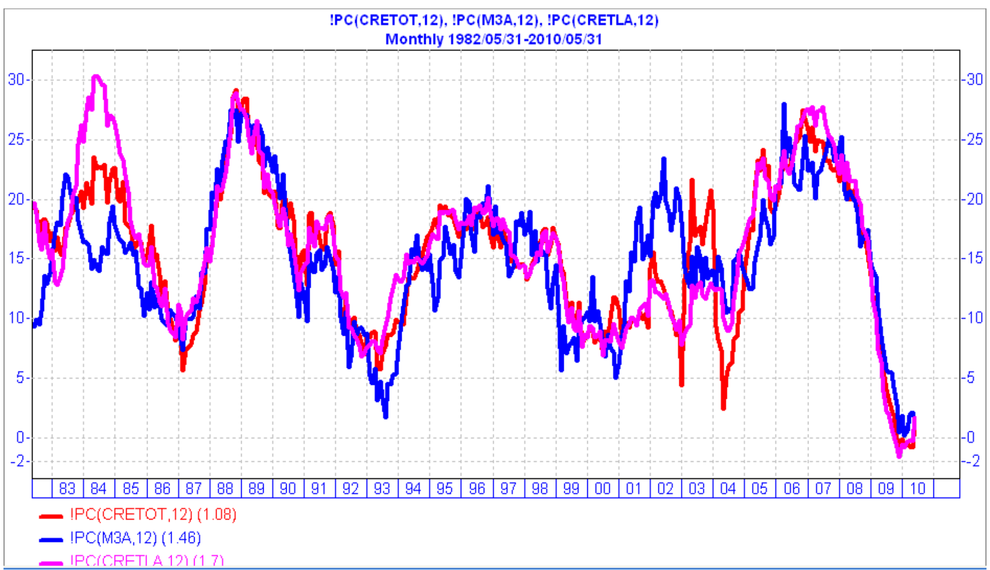
FSP SPV private fund partner, Identity Development Fund (IDF), provides financing only for black women or youth owned SMEs in peri-urban or rural areas and acknowledges that many of its loan review techniques were spurred by the FSP SME Due Diligence and SME Delinquency Management workshops.

Adopting many of the techniques presented in training, IDF provided a R2.9 million, 5 year loan to Tautona Tours to finance the purchase of a new tour bus, enabling this SME potentially to more than double its revenue from activities such as game drives for foreign and local tourists in Pilanesberg and Madikwe National Parks.

[4] Comparative data taken from World Bank Investment Climate.

Instead, during the initial years of FSP, the big banks concentrated primarily on shoring up their balance sheets and restructuring, postponing their SME credit expansion plans. With the exception of ABSA, who worked with FSP in the development and cautious launch of new, contract based loan products for SMEs, FSP found the big banks disinclined to try new approaches to SME finance.

The primary reason driving the big banks' cautious approach to SME lending during the course of 2008 and 2009 was the harmful effects of the recession in South Africa and the subsequent and ongoing weak recovery. GDP declined for two consecutive quarters in 2009 and according to Reserve Bank and Financial Services Board data, extension of all forms of credit in South Africa dropped sharply over the course of 2008 and 2009 (see chart below). It has barely begun to recover in 2010. The decline was the result of lower loan demand because of a lower level of economic activity, de-leveraging by individuals and companies, tighter credit standards imposed by lenders (thereby reducing the supply of credit) and according to some sources, enactment of South Africa's National Credit Act, which resulted in a much more highly regulated credit market, at least for consumers and "juristic persons". The collapse in 2009 of negotiations around the country's Financial Sector Charter[5] (FSC) can be seen as another reason why the big banks have not lent as much to BEE SMEs as they otherwise would have.

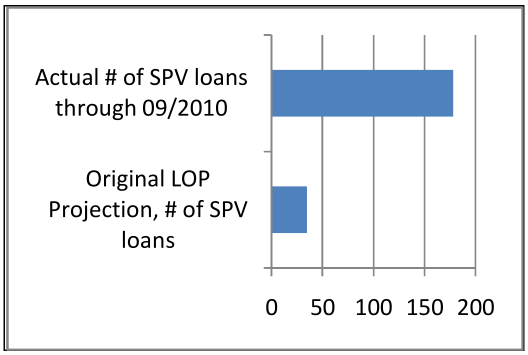


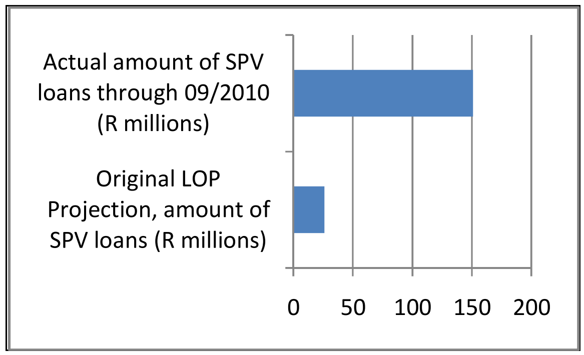
The blue line in the above graph represents the M3 money supply; red represents *total* credit in the South African economy; pink represents *total* loans and advances. The vertical scale shows growth rates. Data shown is through May 2010.
Sources: Reserve Bank, FSB.

Given this difficult macro-economic environment and the big banks' retreat from the SME sector, FSP prioritized the establishment of working relationships with medium sized and small banks, such as WIZZIT and Sasfin Bank, and SPV private funds, some of which were established by South Africa's large corporations, e.g. Old Mutual Masisizane (OMM), Barloworld Siyakhula, Pretoria Portland Cement Ntsika, etc. These FIs maintained their SME lending activities during the recession.

[5] The FSC would incentivize FIs to finance more BEE SMEs.

FSP's private fund partners have a common philosophy in that they are willing to evaluate loan applications primarily from the standpoint of SME viability. Collateral and owner contribution to project cost, unlike traditional banks, are of secondary consideration. FSP concentrated capacity building efforts on the funds to improve their lending techniques, product line and human resource base. While the funds have not reached large numbers of SMEs given their early stage of development, limited capital bases (with the exception of OMM) and small staff, it was expected that they would pave the way for viable SMEs to utilize credit to expand their businesses and through demonstration, lead the market into lending to these emerging BEE SMEs. The aim was to broaden the scope of SMEs eligible for finance, thereby expanding the opportunities for SMEs to access credit. It was also anticipated that once South Africa's credit markets recovered, FSP would resume its work with the big banks. As a result of FSP's efforts with the SPV private funds, actual results achieved thus far have exceeded the original LOP targets (see charts below).





Another reason why FSP concentrated its efforts on the SPV private funds for the first two years of the project is that they finance primarily black owned businesses in rural and peri-urban areas such as the townships. It is precisely these SMEs that suffer from the biggest finance gap. As a result, a significant achievement is that through September 2010 76% by number of the 302 FSP FI partner loans have been to black owned businesses, supporting a key project objective.

Building on the results of the FSP gap analysis survey undertaken with the Banking Association, FSP reviewed the opportunities and interest for new product development. The business case for a purchase order finance product was made and 10 institutions have expressed interest in receiving technical assistance in that regard.

Given the difficult economic conditions in South Africa, FSP also put greater effort into developing USAID DCA guarantee facilities, the rationale being that with credit enhancement financiers would be more willing to provide financing ultimately provided to the SME segment. FSP successfully received approval for three DCA Portable Guarantee facilities during year 2 (for more details see section 3.1.1) which will leverage funds in excess of $65 million for SME lending.

By the end of year 2 the FSP finance component had fourteen partners, which was deemed to be too many with which to carry out effective TA. An analysis was undertaken to rank those partners in terms of SME finance volume and impact (or potential thereof), BEE sector penetration and output up to now compared to FSP's level of effort.[6] An outcome of the analysis is that FSP will henceforth concentrate most of its efforts on 5 of the highest ranked partners and 3 potential partners.

KRA 1.1 Financial products improved to respond to SME needs

Activities:
SME finance approval processes improved. FSP regularly provided ad hoc advice to its financial intermediary partners to build on formal training exercises to improve their financial approval processes and manage delinquencies. FSP also reviewed specific transactions which were ultimately approved helping to increase the volume of financial agreements approved for its SPV partners. During the period, FSP lending partners dramatically increased the loan approvals; over 80% of the financial agreements concluded were during the last twelve months.

Since many SPV partners' staff and management have limited experience in loan finance, FSP reviewed and recommended improvements to their credit policies, processes and procedures. Three significant changes have been recommended with one adopted to date. FSP worked extensively with Thembani International Guarantee Fund (TIGF), a South African guarantee fund owned by a U.S. NGO, Shared Interest, to devise a new overall strategy (particularly with regard to its FI partners and its funders) and assess its guarantee policies and procedures (see 1.3.2). Building on this and workshop training, TIGF adopted FSP's recommended improvements to loan guarantee monitoring procedures, such as the need to put more emphasis on collecting key financial information as opposed to mainly tracking socio-economic indicators. This has better enabled TIGF to make sound loan decisions and detect problems that may be developing in loans it has guaranteed.

Benchmark 1.1.1	Actual
At least 3 FI finance approval processes improved	3 distinct processes recommended; 1 adopted

Two other partners are considering adoption of FSP finance approval process advice. Grofin, a SPV private fund requested input on policies and procedures for construction lending, as some of its investment loans have a construction component. FSP provided Grofin with a construction lending manual, which it intends to incorporate into its written credit policy manual in the coming year.

Additionally, FSP recommended that Royal Field Finance (RFF), revise its payment methods for import clients. Specifically, RFF was intending to utilize a risky payment method, using loan proceeds to pay cash in advance for the imported raw materials one of its clients needed to fulfill contracts. FSP recommended that instead RFF employ the more structured, safer documentary drafts payment method, under which payments are effected through banks. The

[6] FSP compared the number of financial agreements a partner has generated to the days LOE in TA provided. Those partners with higher actual and anticipated ratios will be given higher priority, and vice versa. Potential impact in terms of new product development and other factors were considered, too.

South African importer only pays for the shipped goods when the shipping documents, which confer title, are received by his bank from the exporter's overseas bank. RFF, which provides "bridge" financing exclusively for black owned SMEs, only started its operations in late 2009. They are well positioned to be a strong FSP partner going forward.

FSP continued to monitor the Purchase Order Finance (POF) and invoice clearing (IC) loan products that it had helped ABSA develop in year 1. The introduction and roll out organization-wide of new loan products in a large FI can take 6 – 12 months. Accordingly, ABSA's output of these loans has grown slowly but steadily following a pilot launch at the beginning of year 2. During year 2 it generated a total of 63 POF and IC loans amounting to R 62.3 million. Exponential growth is expected following a nationwide expansion of the products throughout ABSA's branch system, the biggest of any South African bank.

Also during the year, FSP worked extensively to support WIZZIT bank effectively enter the SME credit market. In the first year of the program FSP provided significant support to help WIZZIT design products and procedures to serve the credit needs of SMEs. In this reporting period, FSP and WIZZIT collaboratively developed a strategy and timeline for program implementation. In parallel, IFC, a shareholder of WIZZIT, provided a consultant to ostensibly support the growth of the SME lending program. However, under the IFC consultant framework, a strategic shift occurred and WIZZIT opted to focus on the micro lending sector in both approach and client base, serving primarily home based, informal businesses. As such, the ongoing support from FSP as a SME focused program was suspended until such time as WIZZIT chooses to further explore the formal SME sector.

1.1.1 Develop or refine finance products (including DCA related finance products) Most FI's have a relatively limited offering of financing products and moreover, acknowledge that many of these products are unsuitable for the SME needs. This was confirmed in a "Unlocking SME Credit" workshop FSP held with the SME committee of the Banking Association in May.

With the aim to catalyze the SME credit market, FSP undertook a rapid market assessment to identify areas where the SME lending basis is either non-existent or underutilized. From meetings with numerous SME lending institutions, SME Associations and the Banking Association, various opportunities for new product development were analyzed and prioritized. Initial findings revealed that FIs are extremely interested in the design and launch of Purchase Order Finance products for SMEs, a product not readily available in the marketplace. As such, FSP commenced a competitive process to identify leading partners to collaborate with on this product development. Three of the big four banks and several smaller non-bank institutions expressed significant interest in pursuing this new product opportunity. A request for proposal was sent out to ten pre-qualified institutions and the technical assistant recipients will be identified and supported in the next fiscal year. With several development partners approaching different market segments, thousands of SMEs will soon have a new pathway to access finance to help grow their businesses.

Benchmark 1.1.2	Actual
3 new or refined financing products designed	No financing products designed or refined

At the request of Blue Financial Services FSP provided technical assistance to develop of a construction loan product aimed at SMEs awarded contracts for public works projects. However, it was determined that the Construction Industry Development Board (CIDB), a regulator, was advising municipal and provincial governments not to grant lenders assignments of receivables arising from the construction projects being carried out by the SME contractors. The CIDB also pressures lenders to charge below market interest rates on construction loans to SME contractors, in effect wanting lenders to subsidize that sub-sector. Under the circumstances, FSP advised Blue not to introduce the construction loan product at this time. However, a generic construction lending policy and procedural manual developed by FSP was provided to Blue.

FSP has identified several DCA partners who, under their guarantees, expressed the need for new product development. Mettle Administrative Services hopes to launch an equipment term loan and True Group expects to expand its mezzanine finance options. Both new loan product proposals and will be explored once the guarantees go live in 2011 (see 1.3.1).

KRA 1.2 Financial sector professionals knowledge, skills and/or practices enhanced to deliver SME financial services

Activities:
1.2.1 Expand the use of credit scoring. High quality loan portfolios are created by conducting proper due diligence on loan applications and credit scoring is a good way to "mass produce" small SME loans. That is why FSP planned to offer technical assistance to well seasoned FIs to refine or develop their credit scoring methodologies.

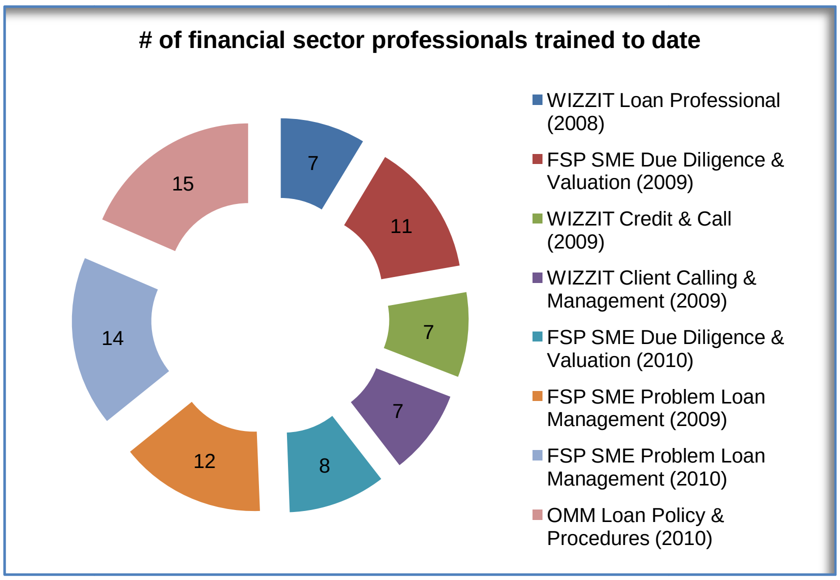
During year 1, the larger banks, all using some form of credit scoring, did not see the need to review these processes to further expand access to their SMEs. Additionally, credit scoring was determined to be an inappropriate approach for FSP's SPV private fund partners as their loans tend to be tailored to individual borrowers needs and they do not have a large enough volume to warrant a credit scoring model.

Both Blue and WIZZIT expressed interest in pursuing this activity but unfortunately, neither was in a position to undertake it. Plans to launch credit scoring have been therefore indefinitely postponed.

Benchmark 1.2.1	Actual
1 credit scoring model developed/enhanced	Activity postponed

1.2.2 Provide capacity building for FIs. Properly trained and experienced staff is a cornerstone for effective lending programs. Many of FSP's partners' staff, particularly those of the nascent SPVs have limited formal credit training and lack experience in a broad range of lending arenas. As such, FSP during this year continued its formal workshop training , augmenting partner operations with in-house training tailored to meet their needs as well as creating a knowledge management system to provide a peer-to-peer forum.

The SPV private funds' philosophy of emphasizing SME viability in appraising loans and their desire and willingness to accept capacity building efforts made them desirable partners for FSP, especially taking into account that the big banks largely had withdrawn from the SME finance segment during the economic downturn. FSP delivered two classroom training programs during year 2 replicating both the well received SME Due Diligence and SME Problem Loan Management courses, each lasting four days. The latter was particularly relevant given South Africa's continuing economic difficulties and resultant build up of non-performing loans in the portfolios of some of its FI partners,[7] Both training sessions had a wide variety of FI partners and work experiences represented. This scenario enabled useful cross-fertilization of ideas and SME lending experiences.



Building upon a review of OMM's loan operations in May of 2009, FSP followed up with a second phase to review, assess and update its risk management process, review non-performing loans and assess the implementation of the loan policies, procedures and organizational changes that were recommended. Unfortunately, OMM implemented policies less stringent than recommended. As a result, many of OMM's policies remain liberal in terms of pricing, target market, equity contribution requirement, collateral and overall portfolio management, and their portfolio at risk is abnormally high. The high delinquency situation was further exacerbated by the absorption of a poorly performing partner portfolio. FSP held an in-house training session with most of the staff of OMM addressing the impact of many of the new policies but subsequent to the consultancy, OMM indicated that it intends to maintain its "development focus" which it views as synonymous with liberal policies. Given its reluctance to adopt many basic "best practices", future work with OMM will be limited. This is unfortunate as OMM had been considered a premier FSP partner given their mandate to serve BEE SMEs, a R 400 million fund earmarked for SME lending and to date, has been one of FSPs more active lenders, contributing 62 loans totaling R 33,268 147 which is 20% and 13% of FSP financial agreements concluded and value of financed accessed respectively.

[7] With the exception of one FI partner, however, the levels of partners' NPLs were not serious enough to threaten their viability.

Benchmark 1.2.2	Actual
Staff of at least 3 FI partners trained	Staff of **10** FI partners trained

Lastly, together with the Banking Association, FSP organized three half day topical workshops well attended by the big four banks, other smaller banks and non-bank FIs. Salient topics covered were construction lending for SME contractors; guarantee schemes features and benefits; and trends in SME loan volume and delinquencies. These workshops were interactive and allowed for lively question and answer sessions and provided a forum for peer-to-peer networking.

During this reporting period ten different financial intermediaries benefited from the capacity building efforts, 37 financial sector professionals were trained on international standards and 70 financial sector professionals attended the three workshops, far exceeding the annual benchmarks established and achieving 90% of the annual target to date.

KRA 1.3 Use of loan guarantees/special funds programs expanded

Activities:

1.3.1 Promote utilization of USAID DCA guarantee facilities. FSP processed action packages and received USAID approval for three portable guarantee facilities during the reporting period: $20 million each for Mettle Administrative Service and True Group (each guaranteed up to a maximum of $10 million by USAID) and $25 million for Spartan Technologies ($12.5 million guaranteed). Simultaneously FSP has worked to refer the three portable guarantee recipients to potential lenders and facilitate discussion between the parties.

Two of the facilities support FIs with good track records in financing SMEs: True Group, which provides long term investment financing for start-ups and early stage expansion for mainly black owned SMES; and Mettle, a factor and parts financier for SME panel beaters (vehicle body shops). The third, Spartan Technology Rentals, had changed its

Panel Beater Sector Opportunity for DCA guarantees for SMEs

FSP developed a proposal for a Portable or Loan Guarantee for Mettle Administrative Services (MAS), an FI that factors the accounts receivable of South African "panel beaters" (vehicle body shops).

To learn more about this unique subsector, FSP carried out a study of South African panel beaters. Industry trade associations and insurance companies were interviewed as well as16 panel beater shops throughout Gauteng and Cape Town.

These key findings support the developmental benefits of a DCA guarantee:

- Working capital financing is the lifeblood of the industry since panel beaters must wait 60 days or more from job completion to get paid by insurers.
- MAS is the leading financier to the industry but cannot maintain or increase its funding without a USAID guarantee.
- The availability of additional funding by MAS to panel beaters for parts and fixed assets can position them for growth, leading to greater employment.
- Sources of funding for panel beaters other than MAS, if available at all, are on very unfavorable terms.

Photo Credit: Mettle Administrative Services strategy from providing IT equipment leases to large companies and government entities to a focus on the SME market. This change in focus made Spartan an attractive FSP partner.

None of these three FIs are banks and therefore do not have access to deposit funding and rely solely on borrowed funds for on-lending. In spite of their successful operations, the tight conditions prevailing in the wholesale credit markets coupled with lenders inherent risk aversion to SME loans resulted in these institutions experiencing difficulties in raising the necessary loan financing for their SME lending activities. While the availability of U.S. Government guarantees increased the possibility of financing, because of continuing caution on the part of the wholesale lenders, even with a DCA guarantee it is still proving to be a challenge to conclude this financing. It is hoped that all three will be able to finalize loans before the end of December 2010, but as stated above, success is contingent upon finding willing wholesale lenders.

The table below summarizes the expected results of the facilities.

DCA Portable Guarantee Partner	Maximum Cumulative Disbursements	# of SMEs expected to benefit	Targeted % of BEE SME borrowers	Additionality
Mettle	$32 million	1,000	40%	New loan product – Equipment term loan
True Group	$20 million	60	65%	Expand new loan product – mezzanine finance
Spartan	$50 million	2,000	30%	SMEs acquiring IT equipment, helping them to grow

It should be pointed out that the number of SMEs reached by True Group is lower due to the type of financing it provides, which is long term, investment finance. The main attraction of True Group is that very few South African FIs offer this type of financing to start up and early stage expansion SMEs. By contrast, the financing that Mettle and Spartan provide is of lower values with shorter maturity and turns over faster allowing for a greater number of SMEs to be served. Considered as a group Mettle, True Group and Spartan offer widely varying types of financing, so the impact will be positive not only in terms of the statistics in the table above, but also in terms of broadening the scope of financing available to SMEs.

Benchmark 1.3.1	**Actual**
4 DCA facility action packages submitted	3 DCA action packages submitted

FSP partner Blue Financial Services was approved for a $5 million DCA Loan Portfolio Guarantee (LPG) in May 2009 and commenced lending in September 2009. It was originally anticipated that during the ten year life of this guarantee, the local currency equivalent of $20 million would be leveraged to provide credit to nearly 500 higher risk BEE SMEs. However, during 2010 Blue was under financial market scrutiny and experienced significant share price losses, senior personnel turnover and sought an external investor to support it ongoing operations as many existing funders, like OPIC, placed a moratorium on loan advances. Blue’s new investor, Mayibuye, is slated to inject R 430 million in loan and equity funding, but it remains to be seen how much of that will be earmarked for the Small Business Division.

Given these challenges, Blue's DCA utilization is slower than expected. Thus far it has approved 30 loans totaling R 28.2 million (about $ 4 million at the current exchange rate) which constitutes 40% utilization. The average loan size to date is double the R430,000 estimated when the facility was approved. This is due to the fact that applications for larger companies with higher credit needs have been of relatively better quality. Over the last 12 months, Blue's loan application volume has declined and quality has deteriorated, especially for smaller loans. To address this problem Blue is taking a more pro-active approach to generating new loan volume in South Africa, by developing working relationships with professionals (accountants, lawyers, realtors, etc.) that work with SMEs and otherwise seeking loan opportunities rather than waiting for applications to come in.

During the reporting period, FSP visited Blue on a monthly basis to stay abreast of its challenges and try to find ways to ensure continued thoughtful utilization of the guarantee facility. If additional funding is made available, Blue should be able to increase the rate of DCA utilization markedly. Still, unless additional funding is secured for the division, utilization of the DCA facility, although steady, will not meet expectations.

1.3.2 Improve/develop other South African guarantee schemes: During the year FSP provided technical assistance to Thembani International Guarantee Fund to help it devise a new strategy and assess its guarantee policies and procedures as TIGF had not been satisfied with results from working with South Africa's big banks. Even with TIGF's up to 75% loan guarantees that in turn are backed up by cash collateralized standby letters of credit from Citibank, TIGF's South African bank partners have more often than not been unwilling to provide loans to the rural, agro-processing, BEE SMEs TIGF aims to support. Additionally, TIGF was frustrated regarding the big banks' disinclination to work with it even though over the past eight years very few calls had had to be made on the loans it guaranteed. FSP recommended that TIGF diversify its FI partnerships by exploring the possibility of working relationships with non-bank FIs, the financing philosophies and objectives of which are more closely aligned with TIGF's. FSP also recommended some changes to TIGF's loan guarantee monitoring procedures; that TIGF diversify its funding sources; and that it hire a Senior Guarantee Manager, i.e. COO, to direct the day to day guarantee operations so that the CEO can focus more on strategy, funding and bank relations.

FSP support to TIGF assists Western Cape Fisherman

Photo Credit: Hands on Fish Farmers

Privately funded Thembani International Guarantee Fund (TIGF) guarantees commercial bank loans to rural, agricultural enterprises and MFIs. As one of FSP's FI partners, TIGF participated in the SME loan application due diligence training and applied techniques learned to better evaluate loan guarantee proposals.

A R3 million TIGF loan guarantee approved supported the working capital needs of 42 SME fish farmers. TIGF is guaranteeing 75% of the ABSA Bank loan to "Hands On Fish Farming", a cooperative in Western Cape Province who will on-lend the funds for the SMEs who previously did not have access to finance.

Benchmark 1.3.2	Actual
Streamline one guarantee scheme process	One guarantee process improved (TIGF)

At the request of the dti, FSP met several times with the South African government's SME agency, Khula Enterprise Finance, to consider whether assistance was warranted to improve its loan guarantee scheme. However, because of Khula's preoccupation with the establishment of a direct lending program[8], the big banks' unwillingness to work further with Khula mainly because its claims procedures are extremely complicated; and frequent turnover of its management, FSP deemed it inopportune to engage with Khula at this time.

B. PIR 2: Bankability of SMEs Enhanced

The main focus of PIR 2, is to build the capacity of business development service providers (BDSPs) **–** both organizations and individuals - so that SMEs are offered a more robust and effective service in helping them to access finance. FSP's bankability interventions are based on the premise that if SMEs want to access finance, they may require access to relevant and affordable business development services and information which will enable them to make informed decisions about their finance needs, as well as meet the requirements of the finance provider.

FSP research has indicated that many SME owners do not meet even the most basic requirements that applications for finance require, and so in order for them to become more bankable, FSP focuses on *improving the quality of service* they receive from BDSPs as well as on *enhancing their financial literacy*, namely their understanding of what financial services and products are available to them, who the market of finance providers are and how to approach them, as well as how to better manage their own finances.

During 2010, FSP achieved most of annual work plan bankability benchmarks: key partners for capacity building initiatives were identified, market driven BDS interventions were designed, a system of grading to professionalize the BDSP sector was completed, the content of a financial literacy product for the market designed and market tested. Additional activities were undertaken including the development of a BDS intervention in partnership with a financial institution and an important survey of financial institutions to identify from *their* perspective, the constraints to SME financing.

FSP's activities undertaken thus far, as well as those going forward into year 3, are consistent with those articulated in its original proposal. FSP's approach to BDS interventions has been to work closely with its partners, and to consult extensively to both FIs and BSOs, and in particular, with the SME Committee of the Banking Association. FSP has faced many implementation challenges leading to a review of initial assumptions underlying both anticipated targets and approach.

[8] Political interference and financial market distortions created by subsidies often result in government lending programs being counterproductive and not fulfilling their objectives.

FSP found the business support sector to be extensively fragmented and as a result, has identified partners who are perceived to be effective in what they are already doing. In the case of FSP's approach to the market, as a facilitator, it has elected to focus primarily on building the capacity of BDSPs – individual and organizational – to offer more effective, efficient and relevant services to the SME market, rather than targeting SMEs directly. In this respect, the activities proposed for year 3 focus on strengthening FSP's partners and their ability to sustain what they are doing to improve SME bankability, as well as developing an effective community of BDS providers.

KRA 2.1 Quality of BDS related to finance improved

Activities:
2.1.1: Build Capacity of BDSPs: During 2009, FSP built key relationships with a wide network of business service organizations (BSOs), with the intention of securing their participation in initiatives to build their capacity of their members, in particular, to facilitate access to finance for their SME clients. Because of these relationships, FSP was able to establish, fairly early on in its second year, which organizations were interested in partnering with FSP in this area.

From an initial 5 key organizations identified at the start of the year, 3 remained committed to promote financial literacy amongst their members, namely,

- the Institute of Business Advisors (IBA), a membership based association of more than 500 members, of whom 25% are considered to be skilled in financial management;
- the South African Institute of Professional Accountants (SAIPA), an organization with approximately 6000 practicing accountants;
- the Foundation for African Business and Consumer Services (FABCOS), an association of 2000 SMEs from predominantly historically disadvantaged backgrounds.

As organizations, they represent diverse competencies and objectives, however, each one demonstrated clear commitment to work with FSP in a program which would strengthen their capacity to offer enhanced advisory services to their SME clients in the area of access to finance.

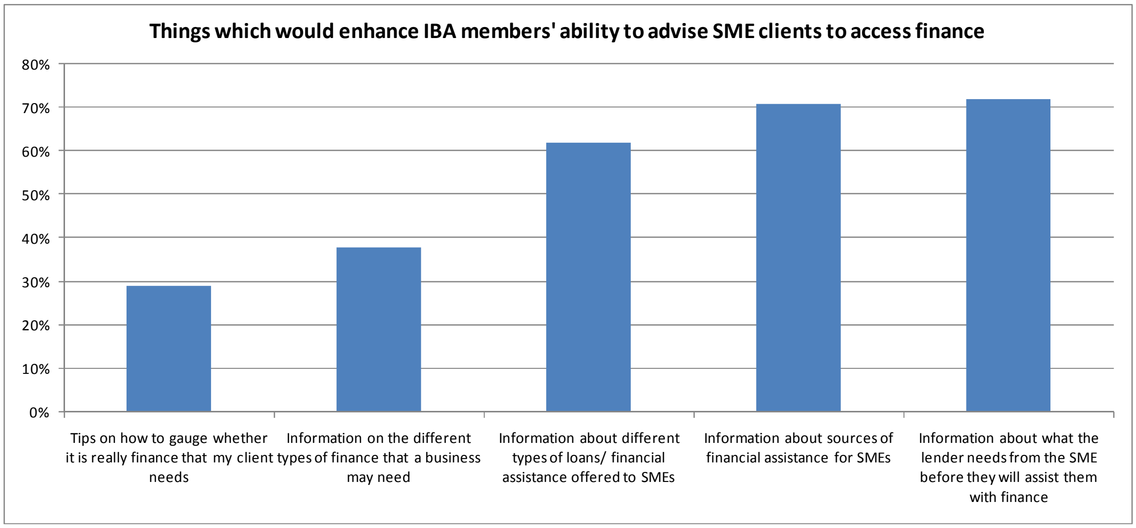
FSP met these organizations individually and as a group to establish the nature and scope of a financial literacy program which would ultimately lead to increased capacity of business development service providers to better serve their SME clients.

FSP built consensus amongst the partners. It was agreed that the program should be web-based in order to be more accessible to their members and that it should be offered in tandem with training. A key point of discussion was whether the program should be targeted at SMEs or at BDS providers (in this instance, business advisors and accountants).

After extensive consultation, it was agreed that it would be more strategic to build the capacity of intermediaries than to make the program widely available to SMEs directly. The reason for this was essentially twofold: firstly, it was felt that SMEs would be less discriminating when making decisions about the finance they required for their businesses, and secondly, it was felt that if SMEs were encouraged to make use of BDS providers in their financing decisions and in accessing finance, SMEs would be more strategic in their applications for finance and therefore be more bankable. In this respect, it was felt that

BDSPs could play a significant role in acting as a filter or screen of applications for finance, thereby providing a valuable service to finance providers.

To substantiate the overall assumptions of BDSP capacity building needs, FSP undertook research with IBA, SAIPA and SAIBL to determine what information would be most useful for SME advisors to help their SME clients' access finance. On average, nearly three quarters of all BDSPs surveyed indicated they would be very interested in a tool which could enhance their ability to assist their SME clients by knowing the types of loan products, providers of products and lenders expectations.[9]



Having identified the partners and agreeing to the concept and approach, FSP began the development of the initiative, summarized under 2.2.

Benchmark 2.1.1	**Actual**
BSO partners identified for capacity building initiative	Achieved

It should be noted that various other stakeholders have expressed interest in participating in this capacity building initiative. As such, FSP anticipates that additional partners may become involved as the program gains momentum in the market. To date, FSP has concentrated its efforts in working with the partners identified and will continue to ensure that this initiative adds value to their organizations and members.

The imperative for FSP under this activity has been to identify partners who recognize the potential for their members to play a significant role in serving the market in this way, and who are keen to grow their service offering to their members, either through continuous professional development (CPD) or through capacity building initiatives.

[9] For the full survey results, visit the FSP Blog at http://www.fsp.org.za/blog/wp-content/uploads/FSP-IBA-Survey-Results-7-7-20101.pdf

2.1.2: Improve finance-related BDS offered through FI partners. FSP collaborated with the Banking Association to undertake a survey to identify the hurdles facing financial institutions in financing SMEs[10]. The survey focused on the overall success rating of SMEs applying for finance, what criteria FI's use when evaluating and financing SMEs, why SMEs fail to access finance, what services they offer to assist SMEs to access finance and what interventions are required on the part of FI's to promote or improve access to finance for SMEs.

Excellent reception for survey identifying hurdles in financing SMEs

Financial Sector Program

	Universe	Sample
Total	2977	683
Executives	115	70
Credit Managers	824	286
Loan Officers	2038	327

Response Rates

Overall 26%

Execs 51%
Credit Managers 19%
Loan Officers 28%

Final Sample Obtained:

179 Respondents

- 36 Execs
- 53 Credit Managers
- 90 Loan Officers

- 144 from Banks
- 19 from Private Funders
- 16 from a Public Funder

USAID | SOUTHERN AFRICA

- 18 banks, private funds and a development finance institution participated in the survey
- 681 online questionnaires were distributed generating an impressive 26% response rate
- Survey results set the stage for the design of FSP interventions to focus on helping SMEs evaluate their own status and make own assessments before approaching a lender

Financial Sector Program

Most Mentioned/ Highest Rank

Rank	Start Up	Less than R500K	R500K-R2.5m	R2.5m-R10m	R10m-R20m
1	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Cash Flow
2	Credit record	Financial Statements	Financial Statements	Financial Statements	Over indebtedness
3	Business skills	Credit record	Collateral	Collateral	Collateral
4	Collateral	Collateral	Over indebtedness	Over indebtedness	Financial Statements
5	Financial Statements	Over indebtedness	Credit record	Credit record	Credit record
6	Business Plan	Business skills	Business skills	Business skills	Business Plan
7	No understanding of financials/ BPlan	Business Plan	Business Plan	Business Plan	Business skills
8	Don't understand their market	Track record	Track record	Track record	Don't understand their market
9	Track record	No understanding of financials/ BPlan	No understanding of financials/ BPlan	Don't understand their market	Costing/Pricing
10	Over Indebtedness	Don't understand their market	Don't understand their market	Costing/Pricing	Inappropriate business

USAID | SOUTHERN AFRICA

The results were disaggregated by the turnover of the SME and provided FSP the opportunity to undertake a gap analysis between SME and FI perceptions of barriers to securing finance. This gap analysis acted as the catalyst for several workshops conducted with the Banking Association's SME Committee addressing market failures in SME lending.

From inception, FSP has worked consistently to build relationships with South Africa's big four banks. Although their uptake of FSP support has not been overwhelming, these workshops paved the way for further dialogue and involvement in added cross-cutting activities.

The interactive sessions held with the SME Committee members covered the following areas:

- Presentation of findings of the FI hurdle survey enabling interrogation of results
- Mapping of survey findings with what SMEs perceive to be the barriers to accessing finance[11]
- Identification of the gaps between FI and SME perception and the opportunities for unlocking access to credit
- Addressing the constraints in access to finance on both sides of the spectrum
- Proposal and prioritization of interventions to take advantage of opportunities to improve access to finance.

[10] See the full survey document at http://www.fsp.org.za/blog/wp-content/uploads/FI-HURDLES-TO-SME-FINANCING-report-final.pdf
[11] Based on FSP's survey of SMEs conducted in 2008 see full report at http://www.fsp.org.za/blog/

In terms of increasing bankability, the highest priority was placed on the need to quality assure BDS providers, to develop the business skills of SMEs (in particular skills of financial management, making decisions and interpreting financial statements and understanding risk) and to build SME bankability across a number of areas such as cash flow, preparation of financial statements, and understanding what FI's require in order to finance SMEs.

The workshop outputs were subsequently presented to the Operations Board of the Banking Association comprised of the senior executives who drive the strategic direction of South Africa's largest banks. From this setting, FSP was able to gain traction for many of the initiatives summarized in this report.

Benchmark 2.1.2	**Actual**
2 BDS interventions designed	Partially achieved – one intervention designed and piloted

While FSP continued to engage with its FI partners throughout the year about possible areas of BDS driven collaboration, many were diverted/hampered by internal restructuring and managing the challenge of the financial crisis. Although discussions have not translated into more agreements to collaborate, FSP's investment in relationship building has paid off in the short term with its partner Blue Financial Services and ABSA bank.

As with many FI's, Blue seeks to mitigate the risk of lending to SMEs by providing BDS to its applicants for finance. FSP developed a training program to help SMEs manage their cash flow, including money coming into their businesses as loans.

Called "*Successful Financial Management for SMEs*" the course has been developed based on several principles:

- It focuses on the flow of money through a business, and thus responds to one of the key concerns given by FI's – the ability of SMEs to repay their loans;
- The methodology of the course is highly practical in nature, having been designed to make extensive use of exercises, case studies and assignments applying the theory learned to participants' own businesses;
- The content of the course is aligned to South Africa's National Qualifications Framework (NQF)[12] and thus makes use of several assessments to gauge understanding and ability to apply the content.

Kudos for FSP *Successful Financial Management for SMEs* training program

Thabo Kheswa, one of the ten small business owners participating in the pilot test said "having the skill (of cash flow management) for the company has given it a big boost … working through the manual was brilliant!"

Mr Kheswa, owner of three year old Pure Hut Events is a client of ABSA bank who runs an event management and safety equipment company

Once the content was developed, it was piloted with a group of ten SMEs and the lessons learned documented so that FSP can consider what works best in an SME environment, how the course could be

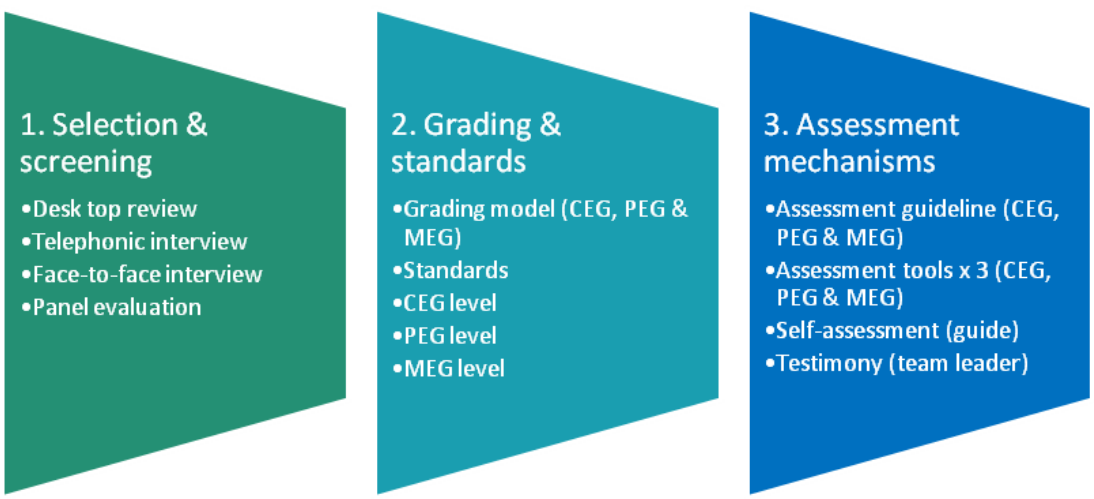
[12] NQF level 4, equivalent to one year post secondary school – or matric – qualification.

adapted to suit its audience further in order to have greater impact and how to expand reach to SMEs through being offered more widely in the market by FI's and even BSO's.

What is clear is that this intervention has great potential to strengthen FI's capacity to assist their SME customers. While the program was developed for Blue, the pilot was conducted exclusively with ABSA customers, under the umbrella of ABSA's Enterprise Development Centres (EDC).

2.1.3: Facilitate implementation of grading of BDSPs Outside of professional qualifications and registration with professional bodies (in the areas of accounting or marketing, for example) there is no recognized national standard or professional qualification for BDS providers offering consulting, mentoring or coaching to SMEs. As a result, the range and quality of what is offered to the market varies greatly. FSP investigated several models internationally and locally to determine what would be most appropriate to the South African market, and with its private sector partner, Raizcorp, designed and developed a system for grading BDSPs.

After several delays in finding a suitably qualified consultant to undertake the design assignment, a local consultant, well versed in South Africa's National Qualification Framework, was appointed to construct a framework for grading, design occupational standards for guiding (based on Raizcorp's approach to successfully assisting SMEs) and define a process of and tools for assessing BDSPs in each step of the professional development process. Three levels, or grades, were agreed to, namely, Certified Entrepreneurial Guides (CEG), Professional Entrepreneurial Guides (PEG) and Master Entrepreneurial Guides (MEG). Criteria of eligibility for development as a guide were developed and, in order to expand relevance to the local context, a process of screening and selection included in the grading framework.



What typically takes six to eight months to design, was completed within two months and piloted with a group of 15 BDSPs, all existing Raizcorp guides. This facilitated a process of learning enabling some of the tools and processes to be refined; however, it meant that a pilot with external BDSPs could not be implemented on schedule. Implementation of grading and assessment is an ambitious and massive undertaking, requiring significant time and resources. The challenge for Raizcorp has been to pilot this in the context of ongoing organizational operations, as well as to anticipate what will be involved in scaling up the activity around the country and the capacity required to do this.

In parallel with the grading development and testing process, FSP developed a strategy for Raizcorp's Guiding Academy (RGA), the grading host, to scale up its grading activities across South Africa. A central element of this work included identifying the opportunities to source individuals who want grading. Additionally, it was critical to assess demand for grading and professional development of BDSPs by FI's and BSOs who, respectively, seek quality assured individuals to assist their SME clients or would like their members graded. Raizcorp, assisted by FSP, started marketing RGA's value proposition during the last quarter of 2010 with presentations to the Gauteng Enterprise Propeller (a government agency), Standard Bank, FNB, the SME Committee of the Banking Association and Gauteng Department of Economic Development. The goal is to form partnerships with these and similar organization to build the pool for BDSPs to be graded.

Benchmark 2.1.3	**Actual**
Framework, standards, and assessment tools designed for BDSP grading	Achieved
Strategy for BDSP grading developed	Achieved

FSP's assessment of the market indicates that demand for grading is significant; however, the challenge of cost recovery and translating demand into "purchase" for such invaluable services is yet to be tested.

"Risks associated with the RGA scale-up were identified and a plan developed for mitigation, elimination or management. Risks assessed included strategic/market risk, operational risk, financial risk and price risk. These risks range from market acceptance of the RGA offering to operational risks associated with the RGA capacity to absorb demand. The key to minimize the risks hinges on the development of a robust communications plan and a marketing and recruitment strategy that clearly articulates the offering's value proposition to the various stakeholders"[13].

The RGA determined that international accreditation was a prerequisite for building credibility in the market and creating demand. During 2010, FSP identified the UK based, Small Firms Development Initiative (SFEDI)

finfind
Business Finance Catalyst

finfind, FSP's South African on-line guide to SME finance, facilitates a step by step process which enables and BDSP better advise their SME clients with regard to the need for and appropriate finance products. Specifically:

- Step 1: Whether finance is what the business really needs
- Step 2: What the finance is needed for
- Step 3: What types of finance are best suited to meet the need
- Step 4: What the institutional sources of different types of finance are
- Step 5: How to approach the financiers to apply for specific types of finance, and
- Step 6: How to deal with the outcome of the

[13] From FSP's report, "*Scale Up Strategy for Grading BDSPs*" (2010)

and facilitated a series of discussion between SFEDI and Raizcorp. As a result, Raizcorp has begun its process of application for accreditation from SFEDI in order to enhance procurement of its grading services.

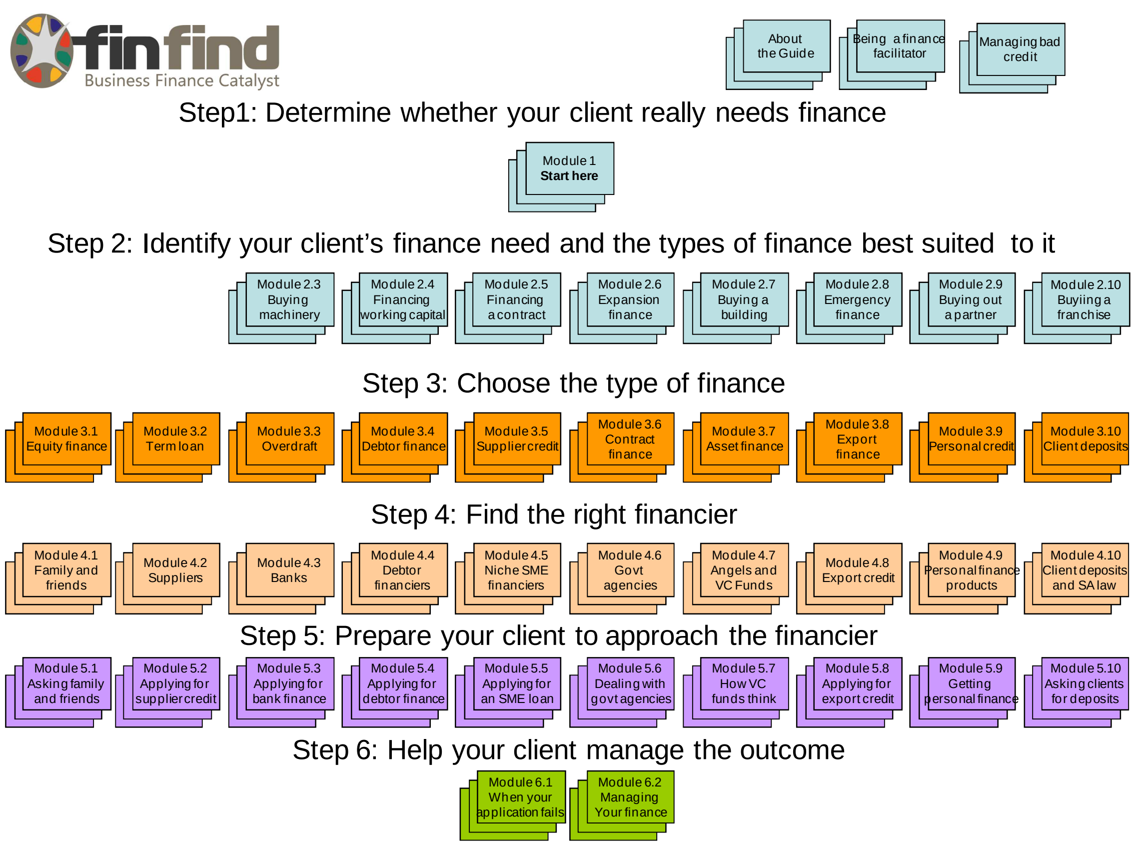
KRA 2.2 SME financial literacy enhanced

Activities:

2.2.1: Develop financial literacy program for SMEs. Based on broad consultation with the BSO sector in general, and with its partners in particular, FSP identified the priorities for a financial literacy program and developed a framework for its content which was approved by the partners. The framework provided a structure for the program and more detailed curriculum outline of what the content should cover. The innovation is to be known as **finfind** - *business finance catalyst.*

Designed for facilitating decision-making with respect to finance, the structure of this on-line program enables a BDSP to take their SME client through a step by step process identifying the appropriate type of financial product to satisfy the business needs and identify potential lenders.

Each step consists of a series of modules, each of which is not more than three pages long, and which addresses a topic specific to that step, and which leads and links to related topics in the next step. Some of the modules are supported by case studies of actual SMEs and provide lessons learned based on their experience, for example, in how they managed to source finance.



Once the framework and content outline was approved, FSP's consultant prepared a set of sample modules in order to confirm what the tone, level of language and complexity of the content should be. It was at this stage that the consultative decision was made with BSO partners to target the product at BDSPs. As a result, the content of this guide to SME finance is written for consultants and business advisors in mind who are seeking to assist their SME clients to access finance.

Once all 52 modules shown above were written, the content underwent a rigorous technical review by a former banker to ensure accuracy and relevance of the content to the SME credit market. It was determined that the material was excellent and would meet an important need in the market. After a thorough process of language review by a professional editor, FSP then identified a partner to build the web-based version of the product to bring the product to life.

Benchmark 2.2.1	**Actual**
Financial Literacy content developed & packaged	Achieved

The development of **finfind** has taken much longer than originally anticipated. The development of this on-line guide involves a highly skilled team of developers and designers. Inherent in **finfind**'s success is the periodic "market testing" which was not originally included in the timeline. Additional elements for consideration have emerged, such as trademark registration, which will contribute to the positioning and sustainability of the product in the market. Additionally, a significant value adding feature of **finfind** is the inclusion of a directory of FI's which will enable BDSPs to refer SME clients to specific financiers. This process of data collection has also been a lengthy one as FSP elected to test and refine its approach to soliciting FI specific product information. The approach adopted for building the directory combines creating awareness and understanding of **finfind** amongst FI's and what it will be used for, and identifying the person in the FI most suited to provide the information needed and authorize its publication.

KRA 2.2.2: Implement a financial literacy program for SME access to finance.

FSP's development of **finfind** has taken far longer than it expected so that this benchmark has not been achieved.

Finfind focus group

Photo Credit:

Ms Gloria Ndinisa of the IBA, (left)speaks to Mr Gregg Ravenscroft, FSP's consultant, about the usefulness of introductory letters which **finfind** will provide as evidence of consultations between **finfind** consultants and their SME clients.

Building on earlier testing of the product with IBA and SAIPA, representatives from these organizations and FABCOS were invited to participate in a focus group discussion to enable FSP to test its assumptions, and where necessary, modify its approach. This was an extremely useful process as the nature of FSP's partners are somewhat mixed[1] and may require adapted approaches depending on who it is being offered to in training, however, a process which confirmed the absolute usefulness to BDSPs of a resource of this nature.

By way of preparing to introduce the product to market however, FSP has begun to engage various role players about their interest in potentially hosting **finfind**. Appointing a local champion will be critical to keeping the product alive and sustaining its growth in the market, so that discussions have focused on what the product can do, what its potential is and how it can add value to an institution that takes custody of it. Ideally, the host should have the requisite footprint in this sector, national outreach, and technical, training and research capacity.

Interest is marked as organizations recognize its potential to meet an unmet need amongst BDSPs and SMEs.

Benchmark 2.2.2	**Actual**
Financial literacy program delivered to market	Not achieved

C. PIR 3: Financial Sector and Business (SME) Development Enabling Environment Improved

FSP's overall objective is to strengthen the capacity of financial sector stakeholders to adapt international standards and best practices thus enhancing access to reasonably priced credit, especially for those previously disadvantaged entrepreneurs. International best practice naturally does not evolve in a vacuum. Each country develops policies and approaches best suited to their needs, culture and especially, the legislative and regulatory framework and the resulting business environment.

South Africa is no different. For a healthy SME business environment to evolve, a series of broad based business environment issues need to be addressed. Specifically, with the complex evolution of government in South Africa and a focus on non-economic issues over the last several decades, significant work needs to be done to re-examine, modernize and adapt the business environment to the new government priorities of economic growth, employment creation and transformation. The SME must be a key element of such a program but cannot be the a single focus – SME's operate within the broader business environment and therefore, any effort to improve the business environment for SMEs will only succeed if it recognizes that this will require a business friendly environment, of which SMEs form part.

Such is in fact the case with the role that FSP plays in this regard – the program addresses a series of key policies, laws and regulations aimed at the business environment of general application. The FSP policy work is however carefully tailored to assure that the specific interests of SMEs are clearly articulated and incorporated in to all policy work.

During the first two years of the program, FSP supported a number of major business environment initiatives. Because of the complex and far reaching nature of proposed legislative changes in the Companies Act, the Companies Regulations, the National Credit Act, Close Corporations Act, "impact" on the specific SME sector may take several years to complete. There is a long lead time for the legislative process to come into effect and impact observed and measured. It is unlikely that any major changes in the business environment assisted by FSP technical assistance will occur until Years 3-5 of the FSP program.

As such, FSP policy work is neither driven by short time lines nor quick results. The work focuses on a fundamental re-examination of some of the technically most difficult and detailed areas of legislation in South Africa. Maximum emphasis is placed on developing skills and policy “habits” among key public and private stakeholders that will create a culture of well researched and carefully designed and drafted legislative documents and implementation strategies. The first impact therefore of FSP technical assistance is public and private sector stakeholders benefitting from accessing international best practice and widely based dialogue as it applies to specific issues under consideration. To date, FSP has been a thought leader in identifying opportunities for a focused view of policy opportunities to benefit the business environment.

As the process progresses during Years 3-5 of FSP, public sector stakeholders will increasingly assume responsibility for performing the analysis, conducting the public-private dialogues and effectively communicating the new policies to the public as part of a natural process.

FSP activities in PIR 3 are consistent with but broadly exceed the objectives outlined in the original FSP proposal and Task Order. Based on discussions with USAID on the Year 2 work plan, it became clear that the intention had been to continue a broader policy and improving business environment strategy not limited to the financial sector or the SME sector activities. The initial proposal also foresaw the Policy component ending in June, 2010. However, given the overall impact and opportunities for critical support the policy efforts of the government, activities under this component will continue.

FSP has played a major role in strengthening dti capacity through the Companies Regulations widely recognized by stakeholders and achieved most of its annual benchmarks. The “results” of much of this work will not be reflected in the Indicators until such time as the laws and regulations we have been so deeply involved in designing and drafting, are finally enacted by Parliament and proclaimed. By way of example, in addition to its work designing policy and drafting Company Regulations, FSP has built on the “Company Rescue” work and turned it into the broader insolvency area “applied research”. This will also overlap with the implementation of the Companies Act as well as the forthcoming revision of the NCA, thus consolidating our work and broadly improve the business environment. FSP has also undertaken a board based policy review to determine what key issues may be a hindrance for the delivery of credit to SMEs.

Together with the impact on a number of Acts and Regulations flowing from the RIA work, major pieces of legislation will be revised and updated impacting the broad business environment – especially BEE and SME enterprises. There will naturally also be a sudden leap of achievements as reflected in the various indicators as Acts and Regulations are finally enacted and are brought into force over the next several quarters of Year 3.

KRA 3.1 Financial sector legal and institutional framework improved

Activities:

3.1.1: Support the National Credit Regulator (NCR) in making the NCA more user friendly and stimulate Access to Credit for SMEs. FSP previously contributed to the design of the National Register of Credit Agreements (NRCA) and the drafting of proposed amendments to the NCA. The Business Plan for the establishment of the NRCA was completed and the required amendments were submitted to the dti for approval and follow up. No legislative action was taken by the dti in Year 2 to deal with NCA Amendments requested by the NCR. Based on this and the approaching 5-year review, it appears that action may likely be taken by FSP once the dti has completed a full and detailed review of the NCA. FSP still considers the eventual approval and implementation of the NRCA key to promoting access to financial services and lowering financing costs for small and medium enterprises and plans to monitor and resume working in support of the NCR in the establishment of NCRA as soon as the review and legislative steps are concluded.

Several other activities, including NCR collecting SMME data under the NCA, follow up of the NCR BPR and a preliminary, internal NCR review of the impact of the NCA were proposed but were not pursued by the NCR this year. The gaps between the NCA and the Companies Act as related to debt renegotiation/debt restructuring provisions for SME juristic persons was undertaken and expanded to include the residual provisions of the Close Corporations Act, the Insolvency Act, proposed amendments thereto. This detailed review was undertaken as "applied research" and undertaken in close cooperation with the dti, the Department of Justice and the SA Law Reform Commission as well as a number of key private sector stakeholders. This work and the resulting Report is described in greater detail below in 3.1.2 below.

Benchmark 3.1.1	**Actual**
Report identifying debt renegotiation/debt restructuring gaps between the NCA and the Companies Act Completed.	Substantially completed. Editing and approval of Report pending.

3.1.2: Applied research on reforms required to enhance SME business environment. A number of applied research activities undertaken were specifically related to and undertaken in support of ongoing activities such as reform of the Companies Act and Regulations, the NCA, the Real Estate Board and bond originator legislative area as well as other related laws and activities. In addition, FSP undertook 3 major, stand alone research activities this year, namely:

a) *Development of an upgraded system for the statistical monitoring of the SME sector in accordance with recommended practices, as outlined by the OECD.* The White Paper addressed a fundamental problem for the South African government, which in the absence of adequate statistics, or even a uniform definition of SMME's, lacks this basic tool for policy review and design. The FSP report was widely distributed within the dti and government. NSBAC, as the champion, intends to convene a stakeholders meeting to coordinate next steps, based on FSP's recommendations. It is likely that FSP will receive a request to support and assist the dti in follow up implementation of this activity.

b) *A review of the financial sector regulatory framework and its impact on access to credit*. This study addressed a number of fundamental issues faced by the South African financial sector, financial supervisors and policy makers. As the Government moves forward on strengthening financial sector stability, in line with the Basel III accords, attention must be paid to the potentially negative impact of such policies on the government's main stated objectives of economic growth, job creation and transformation. The detailed Report has been circulated for comment to stakeholders. Follow up activities, including workshops with financial sector supervisors and public and financial sector stakeholders will be implemented in the next year. Gaps in the technical and analytical skills and tools to measure impact and considering policy alternatives of stakeholders were also identified and will be addressed in a separate, focused two-day workshop.

c) *Review of the Insolvency Policy Framework*. Previous FSP work on the NCA and the design and regulation of the Companies Act and Regulations identified critical "gaps" in the access of juristic SMEs to debt restructuring and insolvency. Preliminary research demonstrated that this problem was broader than initially thought and extended into the broader lack of harmonization of the broader insolvency policy area. Working closely with the dti, the South African Law Reform Commission, the Department of Justice and selected private sector stakeholders FSP conducted a comprehensive review of this critical area of legislation. Insolvency is a key core business climate area and is one of the 11 core areas of law identified in the FSP PMP. The goal is to assure that all aspects of insolvency law and policy are as seamlessly integrated although responsibility for the implementation of component laws, regulations and oversight is distributed among several government departments and agencies. FSP has succeeded in coordinating this work with the World Bank which will likely be involved in follow up and implementation of the research activity. Substantial follow up activities are planned for implementation during the next program year.

Benchmark 3.1.2	**Actual**
Two working papers completed.	10 working papers were completed

KRA 3.2 Regulatory environment stimulating SME development enhanced

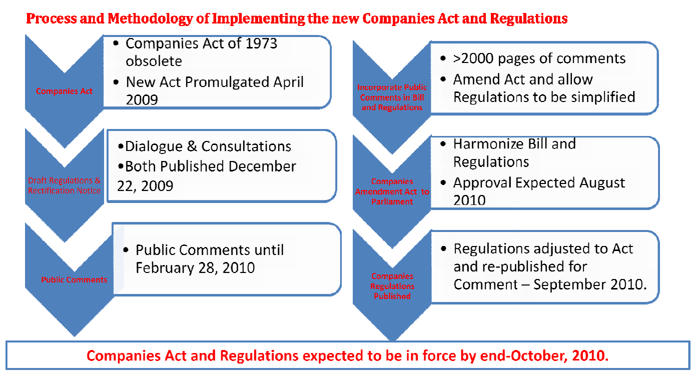
Activities:

3.2.1: Draft regulations for the Companies Act. Government is still indicating that it expects the new Companies Act and Regulations to come into effect "end October or shortly thereafter". However, the Companies Amendment Bill, designed to correct a number of errors in the Companies Act introduced prior to FSP involvement, is currently before Cabinet. This has generated great enthusiasm in stakeholder groups, providing an unexpected final opportunity to amend the Companies Act to their, liking (and in their self interest). The Minister and Cabinet are being pressed into permitting a further round of public comment. Agreement to do so would likely add months to this process. Potential Parliamentary Public Hearings, would further delay the process. FSP will have the Regulations, Forms, Fee

Structure completed (based on the Amendment Bill as currently before Cabinet) by end October, 2010. If additional unforeseen changes are introduced in Cabinet or in Parliament, further updates in the Regulations and Forms will likely be needed. FSP estimates that the Companies Act (as amended) and Regulations will become law in March/April, 2011.
As FSP approaches the completion of the Companies Act (as amended) and the Regulations thereunder, it is important to briefly take stock of what has been achieved with FSP technical assistance. The scope and complexity of this fundamental re-working of all company law is hard to over-estimate – it will truly impact everyone and change the fundamental business environment for decades. The major components and impacts are as follows:

- **The Establishment of the Companies and Intellectual Property Commission** As mentioned earlier. the Commission will replace CIPRO and the Intellectual Property Commission and is established by the Act as an organ of state within the public administration, but outside the public service. The objectives of the Companies and Intellectual Property Commission are the efficient and effective implementation and enforcement of all aspects of the Companies Act. FSP previously has provided technical assistance and helped develop the business case for the establishment of the Commission as well the fee structure included in the Regulations.

- **Governance and Transparency** Since the publication of King III report on corporate governance, it has become imperative to show how King III and the Companies Act interact and that the various duties with which a company now must comply are consistent with best practice as defined in King III. Regulations need to make clear the concept of governance and transparency in South African business as well as the consequences of non-compliance with corporate governance under the new Companies Act. The definition of "Director" and the responsibilities and personal, civil and criminal liability attached thereto, has been significantly broadened.



- **Shareholder and Board Rights and Obligations** The duties of shareholders and directors under the new Companies Act needed to carefully integrate the interaction with Common Law and various professional Codes of Conduct. The Companies Act does not exclude Common Law and the focus of interpretation will be on defining the rights and duties in this dualistic system. The Regulations attempt to provide a framework to assist interpretation wherever possible.

- **Financial Reporting Standards** The Companies Act allows the Minister, following consultation, to set new accounting standards for all companies, including defining the professionals to implement such standards. Regulations also address the responsibilities of auditors and audit committee members, and the responsibilities of directors, as far as the auditing and related corporate governance aspects are concerned. The various professional bodies have lobbied hard to enhance the scope of their members' authority, to the exclusion of other professions. The draft Regulations effectively use existing, standard international accounting standards (IFRS and IFRS for SMEs) and exclude a broad section of generally smaller, owner operated and managed firms. The measure is NOT firm size, but the fiduciary relationship between the firm and its shareholders, in some cases, stakeholders or even the broad public interest. A structured approach by category is established including the development of a process to measure and define "public interest" based on a set of clear criteria.

- **Capitalization of For Profit Companies** The new Act mandates the conversion of all par-value shares to no-par value shares, in a manner to be established by regulation. In other jurisdictions where this was undertaken, (Hong Kong, Singapore, New Zealand), extensive review and public comment led to Government taking very specific policy decisions. In South Africa, little detailed consideration has been given by the various departments of Government which should be involved to date. Considering the potential impact of such a mass conversion, the draft Regulations lay out a proposed framework designed to protect shareholders – current and future- similar in approach to a scheme of arrangement to the holders of its securities, leaving room for review and claw- back in case a proposal causes damage to any group. The Regulations currently propose a five-year period from the effective date for such conversions to be fully completed. This likely will result in a "trickle" of conversions initially and, by providing that the Commission has an opportunity to issue guidelines and practice notes as well as "compliance notices" when needed, will provide valuable "learning" about potential problems before the conversion volume increases. Detailed revisions of the Securities Registration and Transfer provisions also have been undertaken to assure coherence with listing rules and modern processes and terminology.

- **Takeover Regulations and Takeover Panel** Focused on protecting minority shareholders and assuring transparency, the Regulations establish and regulate the role, qualification and actions to be taken by "Independent Experts" who must be employed by offeree regulated companies. These provisions are too complex to summarize here. The Regulations set out a new and detailed framework for a broad range of contemplated takeover transactions and specifies details in terms of confidentiality, the nature of permitted transactions, and step-by-step procedures in anticipation of a broad range of outcomes. A "Takeover Panel" is established to manage and supervise this part of the Act and Regulations. Detailed regulations for the establishment and operation of the Panel are included.

- **Business Rescue (comparable to US Chapter 11)** The new Business Rescue provisions replace the current "judicial management" system with a new system managed by the "Business Rescue Regulatory Board". This Board does NOT replace judicial management; rather, it establishes the standards and overview of the newly established profession of "Business Rescue Practitioners" established under the Act and to be Regulated by the Minister. Since professions can only be regulated by statute, this is an effort to regulate this new profession, at least on an interim basis, by regulation under the Companies Act. Business rescue practices are set out in detail and the role and powers of the business rescue practitioner in individual rescue operations are clearly established, including tariffs and fees for such services. In defining the qualifications of the new "Business Rescue Practitioner" every effort has been made to keep the profession open to entry for qualified individuals. The size and complexity of the firm to be restructured is factored into an evaluation of the qualification required from the proposed Rescue Practitioners.

- **The Establishment of a Companies Tribunal** A new Tribunal is established and regulated to oversee the administration, remedies and enforcement under the Companies Act and Regulations. In addition, an "Alternative Dispute Resolution" mechanism is established. Appeals for resolving conflict lies to the Courts. Guidelines and Practice Notes will need to be developed.

- **Impact on SMEs** The Act and Regulations eliminate the traditional vehicle for SME incorporation – the "Close Corporation". FSP has been key in assuring that the new Companies Act and Regulations are fully "scalable" and designed and implemented in such a manner as to minimize the cost and administrative burden implicit in incorporating and maintaining a corporation for SMEs. It is likely that there will be a near-seamless transition from the processes and fees currently charged under the Close Corporation Act and Regulations to the new Act. A number of other processes in the Close Corporations Act and Regulations, including the use of the "arrangement" provisions of the Regulations will be amended and survive the transition. FSP remains focused on assuring that the Companies Act and Regulations will have a positive impact on the business environment, including small enterprises moving towards formality and becoming subject to credit.

The transition provision of the Act forces an "all or nothing" approach and, upon the coming into force of the new Companies Act and Regulations, all identified prior legislation is abrogated. This means that postponing "difficult policy areas" for later implementation is not an option.

It is anticipated that FSP will be asked to continue to provide technical assistance during the drafting period and likely during the subsequent critical implementation period. Considering the medullar role by FSP to date, it will be essential to remain involved and complete this difficult process. All aspects of the implementation will require close technical monitoring and support. The transformation of problem riddled CIPRO into a new, transparent and efficient Companies and Intellectual Properties Commission – as designed by FSP in the Commission Business Case, will be a key step. In the same manner, the design and preparation of the Tribunals and Special Commissions to be established under the Act will require Guidelines and internal Regulations. The Fee Schedule, Knowledge Management Portal etc will need to be installed and rendered functional. FSP also anticipates problems of interpretation of the Act and Regulations and it is expected that FSP will be called upon to follow up on our previous work and draft supplemental subsidiary Regulations and Guidelines, provide training etc.

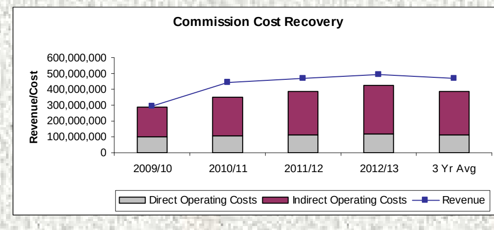
Benchmark 3.2.1	**Actual**
Companies Act Regulations Drafted	The Draft for Publication was presented to the dti in early December 2009. Fully Achieved.
Companies Regulations Published in the Gazette.	The Companies Regulations were published in the Government gazette December 22, 2009. Fully Achieved.

3.2.2: Develop proposed fee structure for the new Companies and Intellectual Property Commission. FSP has been extensively involved in the creation of a new implementation agency which will house all entities created under the Companies Act and already in existence under the Intellectual Property Legislation. FSP during the last year designed a comprehensive "Fee Structure" designed to assure full cost recovery, the achievement of the Commission's "knowledge management" role and to design mechanisms favoring SMEs moving towards formality in an SME friendly business environment under the new Companies Act and Regulations.

The Public Finance Management Act (PFMA), 1999 promotes the effective and efficient use of limited resources of Government through prudent financial management. One of the key responsibilities of accounting officers is to ensure departments do not overspend their budgets and to report financial performance on a monthly and annual basis.

In breaking with CIPRO's past practice where fee adjustments were not implemented, the *Fee Structure Proposal for the Companies and Intellectual Property Commission* report recommended that fees be evaluated on an on-going basis during the fiscal year and adjustments recommended through the National Treasury to ensure fees were aligned to activities and policy objectives.

FSP Commission Cost Recovery Analysis



- ❖ Global and activity-specific assumptions were developed related to product and service volumes, costs and revenue for the full range of the Commission's products
- ❖ Scenarios were also developed based on product/service volumes and fees and their cost recovery potential and evaluated against the fee principles
- ❖ At the Commission level, full cost recovery was deemed to be attainable although cross-subsidization will be required at this stage of the Commission's operations to meet economic growth objectives
- ❖ Due to the uncertainty associated with the uptake of the new Company structure, an over-recovery is estimated which is driven largely by Annual Returns to ensure financial stability
- ❖ Additionally, an increase in Intellectual Property fees is assumed in the fee model although this will require a separate approval process from the Company Regulations

The development of the Commission's fee structure was based on several assumptions and changes to these assumptions present a financial or mission risk to the Commission that will need to be monitored, evaluated and acted upon. While the Commission will be required to be financially self-sustaining, there is potential for over- or under-recovery which implies that adjustments may need to be made.

The *Fee Structure Proposal for the Companies and Intellectual Property Commission* report recommended the establishment of a fee management team to review cost recoverability on a monthly basis and propose corrective measures for managing variances. The responsibilities of this team would include:

- Review of the Commission's monthly reports to identify products or services that generated a profit/loss.
- Research and identify reasons for the variances (actual vs. planned), for example, changes in product/service volumes, direct costs or allocations.

- Track variances and trends and elevate issues where recoverability is below or over a prescribed threshold (for example, 10%)

FSP is currently documenting all work and analysis undertaken to preserve the factual and information basis, as well as assumptions made, in designing the Fee structure. The methodology used in design will also be important for the "Annual Fee Review" for National Treasury in future years. FSP therefore included in the report a brief description of the staff, skills and data the new Commission will need to put in place to comply with the requirements of National Treasury and to enable the Commission to recommend fee adjustments. This will facilitate the establishment of a "baseline cost analysis" when the Commission comes into being and provides the basis for effective updating of the Fee Structure at regular intervals.

Benchmark 3.2.2	**Actual**
Fee Schedule Published	The Fee Structure was published in the Government Gazette, December 22, 2009. Fully Achieved.

3.2.3 Support to the Government of South Africa Regulatory Impact Assessment (RIA) program. Based on a request from National Treasury, FSP is providing support to build capacity in Treasury's Regulatory Impact Assessment (RIA) Program both in the public and private sector. This component was designed to assist the Government of South Africa to implement its' announced RIA policies. The RIA process is designed to identify the likely consequences of proposed regulations, the actual consequences of existing regulations, and assist those engaged in planning, approving and implementing improvements to the regulatory system. At the initial design stage, the request from government had been to undertake a comprehensive base-line review of the Companies Act and Regulations. Because of delays and the decision to amend the Companies Act, that was no longer practical. Based on this, and after consultation with the dti and USAID, National Treasury has decided to initially focus the RIA on the Amendment of the Estate Agents Act (EAAA) and related laws and regulations. The EAAA is important in terms of transformation and because a large number of SMEs formed by previously disadvantaged entrepreneurs operate in this area.

FSP worked closely with Treasury to complete the RIA implementation plan and develop a process to pre-select qualified international and national consultants to undertake the work. The major focus of the RIA technical assistance is to strengthen existing National Treasury and dti capacity. To achieve this the international consultant and national consultants will work directly with National Treasury and the dti and will not replace but rather assist government professionals in this exercise. A leading international consultant and two national consultants were selected and made available to National Treasury. Working closely with the RIA division in National Treasury, Stage 1 has been substantially completed. National Treasury will revise the reports and complete the RIA package to be presented to Cabinet for discussion at the same time as the policy paper and initial legislative draft is presented by the dti. This will enrich the discussion in Cabinet and allow for a broader discussion then currently the practice. The Stage 2 implementation Plan and Schedule is in the hands of National Treasury and the dti and FSP is awaiting feedback.

The dti has made it clear that, when the Companies Act and Regulations come into force that they will be requesting a "baseline RIA". At the time USAID agreed to fund RIA activities the INITIAL: focus was the Companies Act and it must be assumed they would again favorably look at such a request from dti.

Benchmark 3.2.3	Actual
RIA Framework Paper Concluded	The Stage 1 Report, including analysis of the RIA Framework has been substantially completed in September, 2010. Substantially achieved.

3.2.4 Draft Real Estate and Mortgage Agents and Brokers Bill.
In response to a request from the *dti*, FSP provided initial assistance to policy formulation in the reform of legislation pertaining to Real Estate and Mortgage Agents and Brokers. FSP completed one benchmark for this activity when *dti* presented an as yet confidential policy paper, which was approved by the Cabinet in November 2009. This paper now will form the basis for the legislative drafting to follow as well as inform the RIA.

Benchmark 3.2.4	Actual
Policy Paper Presented	Reviewed by Cabinet November, 2009. Fully Achieved.
Real Estate and Mortgage Agents Bill drafted.	In process but without direct FSP TA except through RIA process. Pending.

D. PIR 4: SME Finance Knowledge Management System Strengthened

Both the supply and demand side of finance – FIs and SMEs – operate with a dearth of information on the possibilities SME finance can provide for increased profits and expanded markets. The FSP knowledge management component seeks to strengthen SME finance related knowledge management, share innovative financing options and opportunities; disseminate successful approaches for SME development in collaboration with the private sector and donor and government programs. During this period, FSP officially launched its knowledge management system which included workshops, information distribution as well as the development of a SME finance blog s

KRA 4.1 Public/private stakeholder collaboration in SME knowledge management expanded

Activities:

4.1.1 Facilitate SME financing dialogue. In developing countries like South Africa, financial intermediaries (FIs) and SMEs suffer from market failures owing to insufficient provision for integrated, reliable, relevant and solution oriented business information. Today successes and business worth is much dependent on its intellectual capital. Taking cognizance of this fact, FSP utilized its collaboration with the BA to co-host three knowledge management forums focused on SME credit trends and policy, benefits and features of loan guarantees and the opportunities and pitfalls of SME construction finance globally.

FSP has established formal collaborative working relationships with two partners, the International Council for Small Business (ICSB- South Africa) and one USAID funded complimentary program; the South African International Business Linkages (SAIBL) program. In addition to these, FSP has informal working relationships with other stakeholders like IBA, NCR, FABCOS and SAIPA. Both formal and informal collaborations promote information exchange and dissemination on issues affecting the SME financing community.

FSP has also explored and set the tone for a formal collaborative relationship with NSBC, who host a database of more than 20, 000 SMEs, with the result that FSP and NSBC plan to co-host a workshop in March 2011.

Benchmark 4.1.1	**Actual**
SME financing knowledge management forum piloted	Achieved

KRA 4.2 Improve awareness of SME finance best practices

Activities:

4.2.1 Facilitate access to SME financing information. To facilitate SME finance information sharing and awareness, FSP together with the BA hosted three workshops as noted in KRA 4.1.1. above. All told 70 professionals attended the workshops, generating 64 inquiries to the knowledge management system. FSP international consultants gave overviews of the discussions on these topics followed by vibrant and robust discussions by the group of professionals of diverse backgrounds, adding to the richness of information shared.

The workshops focused on:

- Trends in SME loan volume and non-performing loans,
- Changes in Insolvency Laws and their effects on SMEs,
- Tools to expanding loan portfolios, while reducing risk,
- Working capital loans for SMEs that have been awarded public works or private contract projects.

As a result, some participants felt that they would consider incorporating certain points of discussion into their practices while banks like FNB highlighted interest in establishing guarantee schemes. One participant from the big four banks stated in the evaluation that they will discuss the value proposition with a colleague for possible import into a lending methodology under development for SMEs. Pursuant to the portrayed interest, FSP is making efforts to help FNB revive and utilize its unused USAID DCA loan portfolio guarantee facility.

FIs leveraging knowledge resources can make decisions faster and closer to point of action, mitigating risk, exploiting business opportunities and better understanding the SME finance market signals. To enable FIs keep pace and alignment with the dynamism of knowledge-based economy, FSP successfully developed an integrated knowledge sharing, web based financial sector blog, thus linking all relevant and appropriate national and international information sources for their benefits (FSP Forum). The goal of the blog is to provide all SME financing stakeholders a public platform to discuss and share expert opinions about SME finance. FSP component specialists will contribute to the blog once every month while efforts are being made to call upon all stakeholders to contribute to the blog. Below is a snapshot view of the blog in its current status.

Following the finalization of the blog, FSP received 635 inquiries to knowledge management system from 16 submissions. The interest generated in the initial phase of the blog points to the importance of social media platforms as a conduit for information dissemination.

The blog has also enabled FSP to create links with other USAID funded programs like FS Share and SAIBL to the benefit of FIs and other stakeholders. To date FSP has provided links to these platforms on issues relevant to SME financing both nationally and globally like FS Share's Innovations in Financial Services Delivery.

Benchmark 4.2.1	Actual
Knowledge management system launched	Achieved

SECTION III: ANNEXES

ANNEX A: PERFOMANCE MANAGEMENT PLAN SUMMARY

June 1, 2008-Sept 31, 2010 *This sheet was last updated on 28 October 2010*

#		Unit	June '08 - Sept '09 Actual	Oct '09 - Sept '10 Actual	Cumulative Total to Sept '10	Target through Sept '10 (*)	Actual Variance	Actual % towards target
1	Number of financial agreements concluded	#	54	248	302	1350	-1048	22%
2	Value of finance accessed ('000)	ZAR	R90,924	154,771	R245,695	R562,050	-R316,355	44%
3	Number of management processes/practices modified due to USG assistance	#	2	1	3	4	-1	75%
4	Days to turnaround SME loan application	Indicator No longer tracked						
5	Number of new or adapted financial products developed as a result of USG assistance	#	4	0	4	5	-1	80%
6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance	#	0	2	2	5	-3	40%
7	Number of financial sector professionals trained on international standards with USG assistance	#	44	37	81	90	-9	90%
8	Number of special fund loans issued	#	35	143	178	32	146	556%
9	Value of the USG supported special loans issued ('000)	ZAR	R76,684	73,952	R150,637	R23,625	R127,012	638%
10	Number of DCA guaranteed loans	#	11	19	30	338	-308	9%
11	Amount of private finance mobilized with DCA guarantee ('000)	ZAR	R11,011	17,180	R28,191	168,750	-R140,559	17%
12	Number of SMEs assisted to access finance	#	0	0	0	1296	-1296	0%
13	Number of financial advisory providers assisted (trained/TA)	#	0	15	15	216	-201	7%
14	Number of SMEs assisted by BDS providers	#	0	10	10	2160	-2150	0%
15	Number of SMEs that successfully accessed bank loans or private equity as a result of USG assistance	Indicators no longer tracked						
16	Value of finance accessed through banks, private equity etc by USG assisted SMEs ('000)							
17	Number of 11 core commercial laws and financial reforms put into place as a result of USG assistance	#	0	0	0	2	-2	0%
18	Number of applied research activities undertaken by USG implementing partners to inform policies and regulations that affect access to finance for SMEs	#	11	10	21	5	16	420%
19	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance	#	4	0	4	3	1	133%
20	Number of financial sector supervisors trained with USG assistance	#	21	0	21	36	-15	58%
21	Number of administrative procedures affecting the operations of SME improved	#	1	0	1	3	-2	33%
22	Number of policy reforms analyzed as a result of USG assistance	#	2	1	3	3	0	100%
23	Number of policy reforms presented and/or disseminated for public/private stakeholder presentations as a result of USG assistance	#	1	1	2	3	-1	67%
24	Number of policy reforms presented for legislation/decree as a result of USG assistance	#	0	0	0	3	-3	0%
25	Number of inquiries to knowledge management system	#	0	744	744	270	474	276%
26	Number of collaborating partners	#	0	3	3	4	-1	75%
27	Number of dissemination events held by knowledge management collaborating partners (workshops, conference, media campaigns, etc.)	#	3	4	7	7	0	100%
28	Number of content submissions to knowledge management system	#	2	14	16	5	11	320%
	(*) - Based on base period targets							

Please note that all highlighted indicators are USAID's Operational Indicators

ANNEX B: PERFOMANCE MANAGEMENT PLAN NARRATIVE

This annual report covers the cumulative results of activities undertaken by the Financial Sector Program (FSP) from June 1, 2008 through September 30, 2010 with a particular focus on the 2010 year activities. The project objective, *"market credit risk mitigated increasing SME access to a range of quality, affordable financial services"* is segmented into four program areas and measured by 25 indicators.[14].

In July 2010, FSP conducted a rigorous data quality audit to verify all data to date. As a result, some of the figures reported in earlier project performance reports have been revised. In the tables presenting FSP results below, those modifications have been clearly noted. During the reporting period, FSP also invested in a new dashboard with robust internal quality checks to ensure the highest quality data reporting going forward. For the purposes of this report, all presented targets are based on FSP base period targets. Given that the program has completed 90% of the base period time, the presented targets were determined by taking 90% of the base period LOP targets approved by USAID.

This report provides a summary of the activity outputs, outcomes and impacts as they contribute to the Performance Monitoring Plan (PMP). The four program areas as reflected in the Results Framework are:

- PIR 1: Financial Services
- PIR 2: SME Bankability
- PIR 3: Enabling Environment
- PIR 4: Knowledge Sharing

The context of the global recession, depressed business confidence, as well as fragmented market support has impacted on FSP's capacity to reach its targets. Nonetheless, FSP has made tremendous strides towards its objectives. The activities have been summarized above wherein this document speaks to the actual impacts of those activities.

While the program activities are quite interrelated, the indicators have a logical separation and breakdown per primary PIR contributor below.

PIR 1 Financial Services

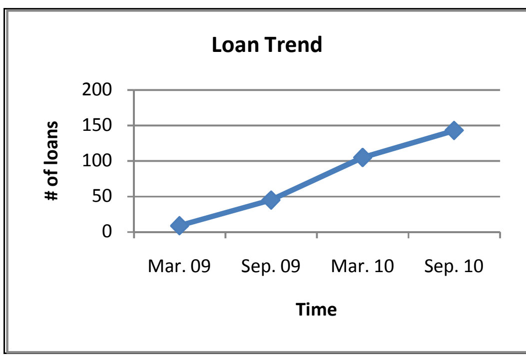
Table 1: FI Partner Results to September 2010

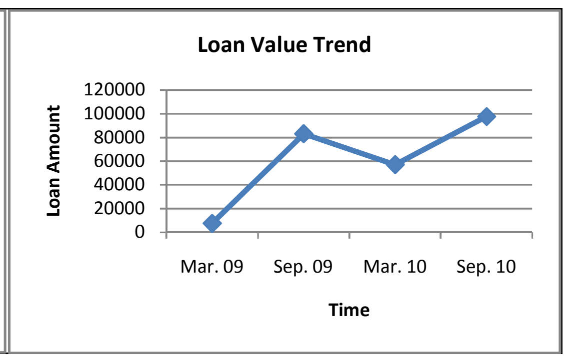
	Indicatory Name	Unit	June 08-Sept 09 Actual	Oct 09 – Sept 10 Actual	Cumulative Total to Sept 2010	Target through Sept 10 (*)	Actual Variance	Actual % toward target
1	Number of financial agreements concluded	#	54**	248	302	1,350	-1,048	22%

[14] Initially comprised of 28 indicators, the project requested and received USAID approval to drop those indicators no longer deemed suitable to measure program impact, namely 4) days to turn around SME loan applications, indicator # 15) number of SMEs that successfully accessed finance and indicator # 16) Value of finance accesses by SMEs.

#	Indicatory Name	Unit	June 08-Sept 09 Actual	Oct 09 – Sept 10 Actual	Cumulative Total to Sept 2010	Target through Sept 10 (*)	Actual Variance	Actual % toward target
2	Value of finance accessed ('000)	ZAR	R90,924	R154,771	R 245,695	R 562,050	-R316,355	44%
8	Number of special fund loans issued	#	35	143	178	32	+146	556%
9	Value of the USG supported special fund loans issued ('000)	ZAR	R76, 684	R73,952	R150,637	R23,625	+R127,012	683%
10	Number of DCA guaranteed loans	#	11	19	30	338	-308	9%
11	Amount of private finance mobilized with DCA guarantee ('000)	ZAR	R11,011	R17,180	R28,191	R168,750	-140,559	17%

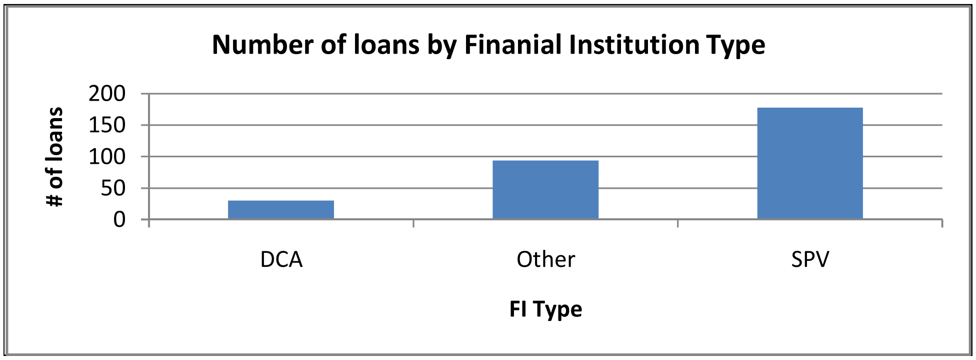
Indicators one and two above are apex indicators for the project. All efforts by the partner Financial Intermediaries (FI) are summarized by these indicators and reported at strategic objective level. These indicators are the summation of the contributions from the traditional lenders, the SPV lenders (Indicators 8 and 9) the DCA partners (Indicators 10 and 11). While FSP has only achieved 22% of its September 2010 target of 1,350 financial agreements concluded (**Indicator 1**), the loan trend is clearly positive as shown in the graphs below. This demonstrates the risk adverse and apprehensive approach of the financial intermediaries in extending loans to SMEs. However, the size of the loans have been larger than originally anticipated further indicating the comfort of lending to SMEs with larger loan needs as shown in the second graph below. To date, FSP has achieved 44% of its goal of value of finance accessed (**Indicator 2**).



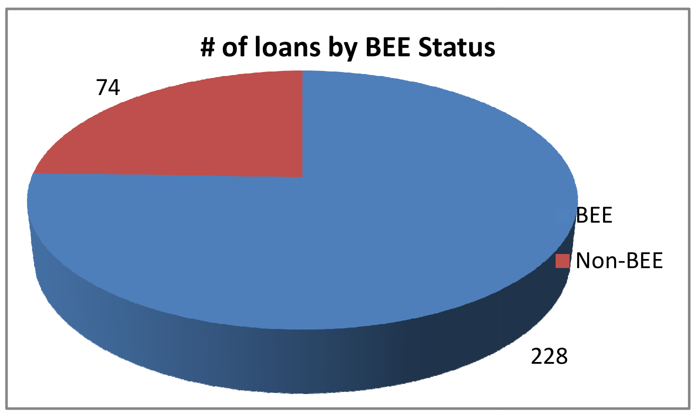


The combination of the economic recession, lenders general risk adverse nature, particularly as it related to new product launches, coupled with the difficult operating market for SMEs, has resulted in slower than originally expected uptake of loans.

Of the total loans issued to SMEs, the Special Purpose Vehicles (SPVs) contributed 178 loans. The more traditional lenders, ABSA and WIZZIT contributed 94 loans and Blue Financial Services, a DCA beneficiary, with 30 loans.

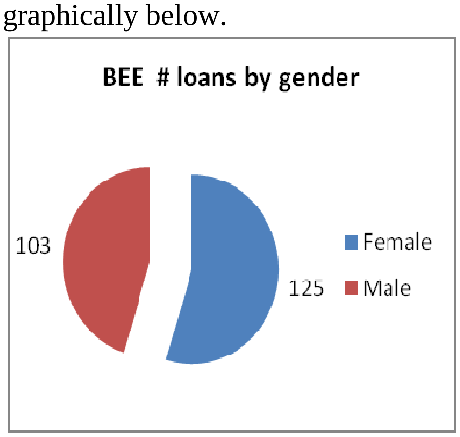


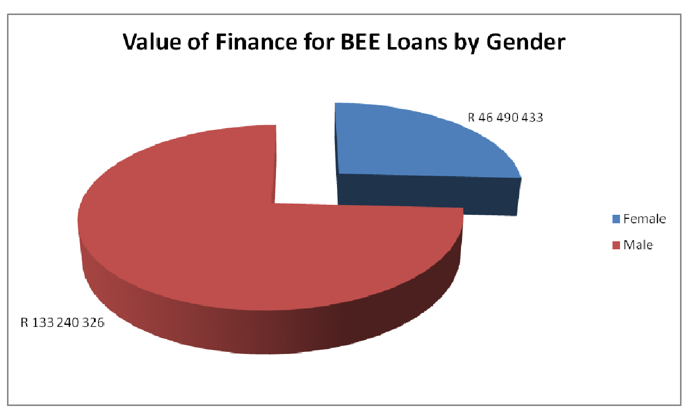
The graph above shows the contribution of each FI type to the total number of loan agreements signed. The SPVs have dramatically exceeded their targets by more than five times and for both the number and value of SME loans (**Indicators 8 and 9**). This concentration shown above is divergent to the initial assumptions that FSP would work with, and gain the greatest market traction and penetration, collaborating with the big four banks (Standard, ABSA, FNB and Nedbank) who would generate the highest number of loans, followed by DCA partners and SPVs providing a limited but necessary market presence. However, given the development objectives of the SPVs to work with primarily BEE SMEs, the macro economic challenges did not inhibit these non-traditional banks' interest in, and desire to, support the credit needs to this higher risk sector. Therefore, FSP took advantage of the opportunity to concentrate technical assistance efforts on this particular segment of the lending sector to stimulate the provision of SME credit while waiting for the anticipated economic turnaround which is expected to spur more traditional lenders back into the market.



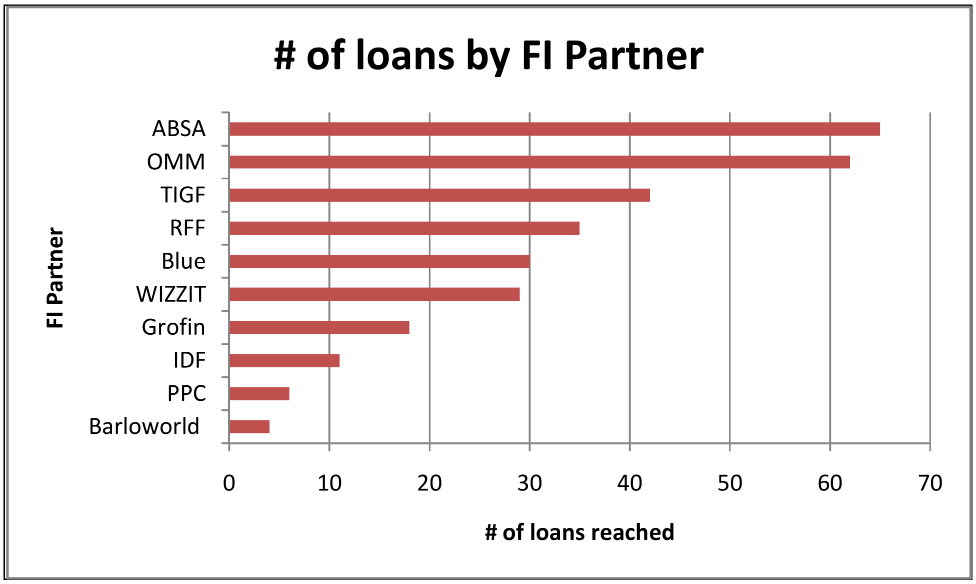
The pie chart to the right shows that FSP support is contributing to lending to historically disadvantaged SMEs. Three quarters or 228 of 302 loans were issued to BEE SMEs.

Of these, 125 were female owned SMEs comprising 55% of all BEE loans made. In contrast, the 45% of BEE male-owned SMEs approved for loans, received 74% of the value of the loans, showing that while men are received fewer loans, their loans are larger. This is shown graphically below.





The graph below shows that ABSA, OMM and, lately, Royal Fields Finance (RFF), are among the major contributors to the number of loans issued to SMEs. As reported in indicator 5 below, as a result of FSP support, ABSA developed and made available the “Purchase Order Finance” and “Invoice Clearing” products to the SME market. These two products contributed a total of 65 loans translating to 21% of the total loans to date, Fifty seven percent of these ABSA loans were booked in the last quarter of 2010 and the growth trend is expected to continue. The initial success of this initiative has already aroused interest in other banks, most notably Standard Bank. Therefore, FSP is undertaking a competitive process to select additional banks to launch these SME specific lending products and thus, expects the number of loans to grow even more significantly.



FSPs efforts to utilize the Development Guarantee Authority (DCA) program to stimulate FI interest in further penetrating the SME credit sector has not yet been reflected in the impact numbers. To date, five DCA guarantees have been approved but only one is currently active. The active DCA partner is Blue Financial Services who, since the DCA lending was commend in September 2009, has made 30 loans to SMEs totaling R 28,191,000 or 40% of the total guarantee fund. Blue, like many of the other partner organizations have, given the market challenges, turned toward the higher end of the SME markets in the loans provided, in this instance, loans averaged approximate R 940,000. While with partner Blue, FSP has achieved only 9% and 17% of the number and value of DCA generated loans respectively **(Indicators 10 and 11**), it is anticipated that the uptake of the three new DCA portable guarantees approved in June and July 2010 intended to raise funding totaling $65 million will dramatically stimulate the growth in SME credit under this US guarantee program.

Table 2: Indicators 3 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
3	Number of management processes/practices modified due to USG assistance	#	2	1	3	4	-1	75%

Working with three partners (WIZZIT, TIGF, OMM), FSP provided assistance to modify their management practices/processes.

Previously FSP worked with WIZZIT to draft and help implement a process by which to determine prequalified SME credit clients and under took assessment of OMM's processes and procedures to improve and accelerate loan processing. During this fiscal year, FSP engaged in a Phase Two analysis with OMM to reinforce the earlier recommendations and review their loan delinquency management practices.

Additionally, in this period, FSP undertook a review of TIGF's policies and procedures, corporate strategy and in consultation with TIGF suggested adjustments to the corporate strategy to expand and streamline where necessary the SME loan guarantee scheme.
The net effect of this re-engineering of these partners' policies, procedures and strategic management is to reduce lending risk, streamline loan processes and reduce loan approval turnaround time. These modified processes/practices mean that the SMEs will receive faster and better service. Against a target of 4, this is a 75% achievement by the project (**Indicator 3**).

Table 3: Indicators 5 & 6 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
5	Number of new or adapted financial products developed as a result of USG assistance	#	4	0	4	5	-1	80%
6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance	#	0	2	2	5	-3	40%

To date, the project worked with ABSA and WIZZIT and helped them develop the following products:

- ABSA Invoice Clearing (IC)

- ABSA Purchase Order Finance (POF)
- WIZZIT short term working capital loan
- WIZZIT equipment term loan

The target for this indicator was 5 new or modified products, thus the project achieved 80% (**Indicator 5**). ABSA is fully utilizing the two products, producing 65 loans to date. As expected, the POF loans are lesser in number and higher in value. Specifically, the 12 POF loans averaged R1,700,000 per transaction and the 53 IC loans averaged R870,000 per transaction. These products offer greater SME market product diversification, thereby increasing SME market choices.

In order to ensure that the SME focused products developed by partner institution meet the needs of target SMEs, FSP encourages its FI partners to hold consultative workshops to vet the appropriateness of loan products. During the last year, FSP and ABSA conducted two consultative processes with SMEs about new loan products developed. This represents a 40% achievement towards a target of 5 consultative processes (**Indicator 6**). The outcome of consultative processes confirmed SME interest in these products.

Table 4: Indicator 7 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
7	Number of financial sector professionals trained on international standards with USG assistance	#	44	37	81	90	-8	90%

In order to build FI partner capacity to assist SMEs, FSP undertook 8 training sessions. Altogether 81 financial sector professionals (40 male and 41 female) participated. The training program provided a myriad of FI partners with basic SME evaluation and delinquency management techniques, both in a generic workshop setting as well as embedded and institution specific training. Many partners, particularly the SPVs, adopted many techniques presented to help better evaluate and manage their SME loan portfolios. FSP achieved 90% of its target with 81 against a target of 90 professionals trained (**Indicator 7**).

PIR 2 SME Bankability.

Table 5: PIR 2 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
12	Number of SMEs assisted to access finance	#	0	0	0	1296	-1296	0%

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
13	Number of financial advisory providers assisted (trained/TA)	#	0	15	15	216	-201	7%
14	Number of SMEs assisted by BDS providers	#	0	10	10	2160	-2150	0%

The purpose of PIR 2 is to capacitate the Business Support Organizations (BSOs) to better serve SMEs. The numbers achieved to date under this PIR, belie the actual progress made in this very difficult environment. Globally, the key challenge for SMEs is an inability to gain access to traditional lending due in part to poor financial literacy. FSP, having been given the mandate to support the needs of SME through BSO providers, has focused efforts on defining and developing initiatives which will enhance the quality and appropriate services Business Development Support Providers (BDSPs) offer to SME to assist them in accessing, managing and securing credit.

The cumulative total through September 2010 shows that FSP has only achieved 15 and 10 of the number of BDSPs trained (**Indicator 13**) and the number of SMEs assisted by BDSPs (**Indicator 14**), a mere fraction of the projected achievement. The BDSPs trained to date participated in the Raizcorp grading exercise. The number of SMEs assisted participated in the SME Successful Financial Management training program. While these figures are far below target, the project has undertaken discernable progress toward strategically positioning itself to support the development of BDSPs. Both these pilots have set the stage for dramatic growth in these indicators in the upcoming years.

Building on innumerable stakeholder meetings, formal and informal surveys to determine market gaps and opportunities the Bankability component of the project identified the highest priority initiatives to pursue, and designed, developed and piloted three initiatives to achieve its goals. These are:

- FinFind- a web-based tool to support BDSPs and guide SMEs toward the appropriate form of finance.
- Successful Financial Management for SMEs- a training program for SMEs to ensure that they properly manage the cash, particularly loan proceeds
- Raizcorp BDSP Grading system- an assessment and grading program for BDSPs which will lead to higher quality BDSPs who will in turn provide greater comfort to FIs regarding the quality of the SMEs they are recommending.

All the above programs are in the process of being piloted and tested. Stakeholder feedback has been very positive to date. Targeting BDSPs for professional development, assessment and training helps to improve the quality of services offered to SMEs. FSP has identified that financial institutions struggle with SMEs that are ill-prepared for the lengthy process of applying for loans. Furthermore entrepreneurs lack information about available business development services. The development of these programs targeted at BDSPs who will in turn help develop SMEs is directed towards actual market needs and will ensure an improved quality of application for loans by SMEs. Improved loan applications from SMEs means less time taken by FIs to approve the loans.

PIR 3 Enabling Environment

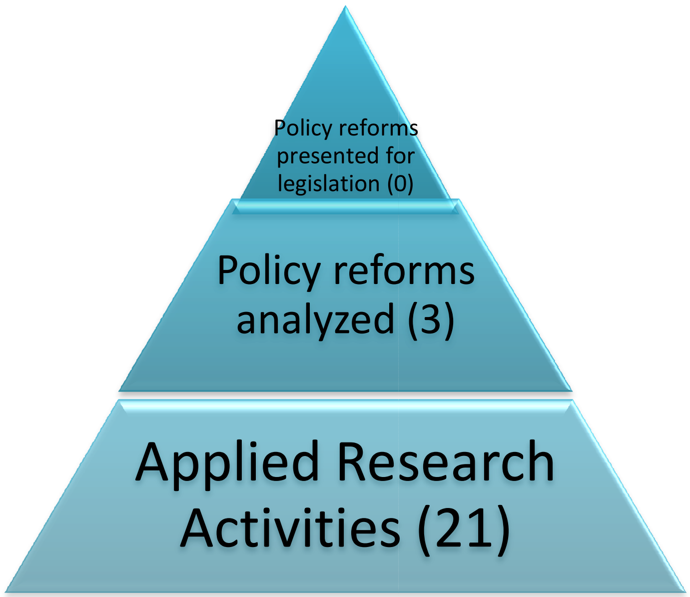
This component supports the development of an improved business environment through enhancing the regulatory, legal and institutional framework. This enabling environment will contribute to expanding access to credit and improving the overall business environment in South Africa.

Table 6: PIR 3 Regulatory Framework Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
17	Number of 11 core commercial laws and financial reforms put into place as a result of USG assistance	#	0	0	0	2	-2	0%
18	Number of applied research activities undertaken by USG implementing partners to inform policies and regulations that affect access to finance for SMEs	#	11	10	21	5	16	420%
22	Number of policy reforms analyzed as a result of USG assistance	#	2	1	3	3	0	100%
23	Number of policy reforms presented and/or disseminated for public/private stakeholder presentations as a result of USG assistance	#	1	1	2	3	-1	67%
24	Number of policy reforms presented for legislation/decree as a result of USG assistance	#	0	0	0	3	-3	0%

FSP regulatory framework efforts are structured in the form of a pyramid where you have extensive and broad research work undertaken on pieces of legislation. The purpose is to build on empirical and sound policy discussions that ultimately result in legislation. The challenge with policy work is that often results are reaped only after the project life, in part because adoption is driven by the pace of governmental policy and legal decisions. The best way to track progress and impact is to follow these demanding and weighty processes progressively.

Setting the stage for broad based policy reforms is the generation of applied research activities which stimulates constructive dialogues and positions government to align its policy goals.To open the way to policy dialogue and reform and stimulate increased participation of stakeholders in policy formation, FSP and interested parties produce research activities that analyze the current policy environment. Such working papers document applicable international best practice for consideration by South African stakeholders and opinion leaders. During the 2010 project year, FSP added an additional 10 such research activities exceeding the target by over 400%. With the proper identified champions within the government to lead the



policy discussions, these analyses help policy makers identify the key reforms for consideration. Specifically, FSP undertook a total of 21 applied research activities which contributed to the ongoing discussion of the Companies Act Regulations, the development of the National Register of Credit Agreements and additionally paved the way for future policy discussion on hurdles preventing SME access to finance and the framework for business insolvency going well beyond the target of 5 **(Indicator18**).

Building upon these research activities, FSP undertook the analysis of three policy reforms related to evaluation and understanding of the BEE benefits to SMEs and most significantly an in-depth study of the Companies Act and associated regulations meeting its annual target **(Indicator22**).

FSP has also taken on an advisory role to assist government in the expansion of public partner dialogues as part of the legislative process. To date, FSP has assisted the government present two policy reforms for discussion **(Indicator23**). The revised BEE legislation and its possible impact was presented early in the program and the pivotal Companies Regulations were presented in numerous forums during the 2010 fiscal year. Over 50 stakeholders contributed to discussion and their comments were summarized in over 200 pages annotated for government review and policy decisions.

Finally at the top of this policy pyramid, are the policy reforms to be presented for legislation **(Indicator24**) and the number of 11 core commercial laws and financial reforms put into place as a result of USG assistance **(Indicator17**). Both of these indicators are the final stage of successful policy interventions and while FSP did not meet its targets in this regard, the program has paved the way to exceed it goals in the next operating year as the Companies Act is expected to be presented for decree in March 2011. The Act and its key regulations are intended to be implemented in such a manner as to minimize the cost and administrative burden implicit in incorporating and maintaining a business. This will further enable SMEs to become platforms for economic growth and enhance their access to credit.

Financial Sector Legal and Institutional Framework Results to September 2010

Table 7: Indicator 19 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
19	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance	#	4	0	4	3	1	133%

The Business Process Re-engineering (BPR) undertaken by FSP is to optimize, streamline and enhance NCR functions to better service the industry resulted in a report identifying improvements to be made to the following areas:

- Document transmission, Storage and Security
- Registration Process Flows
- Credit Providers' Compliance with the Act
- Annual Renewal of Fees

Follow up verification, in writing, by FSP in October 2009 confirmed that parts of the recommendations were implemented in all of the areas highlighted above. Recommendations focused on reducing processing and turnaround time, increasing security and traceability of documents and, most importantly, reducing annual renewal fees, among others. The focus of all these recommendations is to ensure conducive and friendly operating environment for SMEs and business in general. FSP is not only pleased with its 133% achievement against target **(Indicator19**) but that the material improvements implemented contribute significantly to the development of a fair, transparent, competitive, sustainable, responsible, efficient and accessible credit market and industry, and ultimately protect consumers and small businesses as mandated under the NCA. No new material improvements were achieved during the 2010 program year.

Table 8: Indicator 20 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
20	Number of financial sector supervisors trained with USG assistance	#	21	0	21	36	-15	58%

Between December 2008 and March 2009, FSP provided technical assistance to the dti to develop the business case for the new Companies Commission and is expected to contribute to broad macroeconomic goals by simplifying company registration and maintenance processes, enhancing corporate governance and encouraging business management best practices.

Under the Companies Act, the Companies Commission will be the result of merging two existing agencies:

- the Office of Companies and Intellectual Properties Enforcement (OCIPE); and
- the Companies and Intellectual Properties Registration Office (CIPRO).

These bodies will become the new Companies Commission. In that regard, FSP trained financial sector supervisors so that they have a better understanding of serving businesses with special attention to SMEs within this new regulatory and institutional framework and to improve the quality of services enterprises receive from the financial sector. Against a target of 36 financial sector supervisors trained, FSP achieved 21 translating to 58% achievement **(Indicator 20**). Continued capacity development will lead to better supervision and improved financial service techniques furthering access to finance by SMEs.

While during FY 2010, FSP did not add to its number of financial supervisors trained, it has completed the preliminary work to host a number of workshops in fiscal 2011 to train supervisors and regulators. This will follow on from to the FSP sponsored Insolvency Framework Analysis, as well as the Policy Hurdle study. Training in risk management techniques to conform with the Basel Accords will also take place.

Table 9: Indicator 21 Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
21	Number of administrative procedures affecting the operations of SME improved	#	0	0	0	3	-3	0%

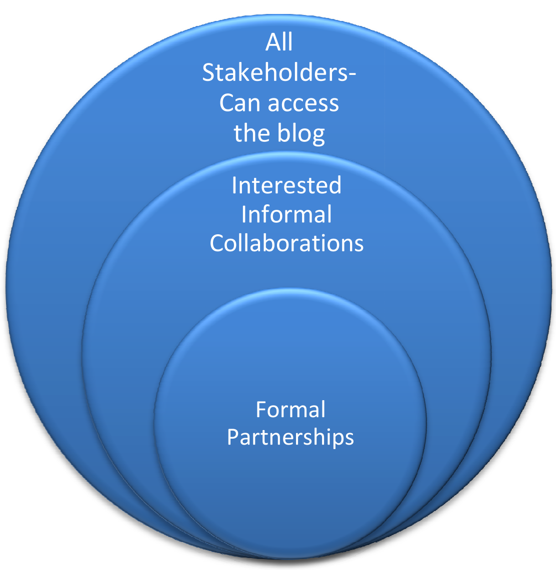
To date, FSP activities have not yet resulted in a change in administrative procedures affecting the operations of businesses **(Indicator21**). However, significant work has been undertaken for the development of streamlined registration procedures under the new Companies Commission as well as proposals for credit reporting under the NCRA which may have a positive impact in the upcoming year.

PIR 4 Knowledge Management

Table 10: Knowledge Management Results to September 2010

#	Indicator Name	Unit	June 08 - Sep' 09 Actual	Oct 09 - Sept. 10 Actual	Cumulative Total to Sept. 10	Target through Sep. 10 (*)	Actual Variance	Actual % towards target
25	Number of inquiries to knowledge management system	#	0	744	744	270	474	276%
26	Number of collaborating partners	#	0	3	3	4	-1	75%
27	Number of dissemination events held by knowledge management collaborating partners	#	3	4	7	7	0	100%
28	Number of content submissions to knowledge management system	#	2	14	16	5	11	320%

FSP's knowledge management concept is built around both formal and informal stakeholders with individuals and organizations that have an interest in improving access to SME finance, building an enabling environment and supporting the development of SMEs. In terms of stakeholders, FSP works very closely with its Financial Institutions partners (such as ABSA, Wizzit, etc.); government bodies that impact on the enabling environment (dti, CIPRO, FSB, etc.) and Business Development Organizations (IBA, RAIZCORP, NSBC, Fabcos etc.). In addition to these informal collaborations, FSP has three formal partnerships with the Banking Association (BA), the ***International Council for Small Business (ICSB)*** and the other complementary USAID-funded program, SAIBL **(Indicator 26**). These partnerships are focussed on knowledge dissemination and management, particularly sharing lessons learned, and in promoting information about the sector. Working with three collaborating partners (BA, ICSB and SAIBL), FSP co-hosted seven dissemination events, exactly meeting our target **(Indicator 27**). Altogether 115 individuals attended these events, which also generated 58 inquiries.



However, the broad realm of all interested stakeholders can access and comment on the blog which may lead to greater information dissemination and dialogue.

There are three strategies used to increase knowledge management outreach:

1. During the last year, FSP has developed its blog, see http://www.fsp.org.za/blog/ to provide all stakeholders with access to much needed information and an opportunity to voice expert opinions, share ideas and provide a budding forum for interaction;
2. FSP also actively disseminated its reports; and

3. Working closely with its knowledge management collaborating partners, held dissemination events that provided collaborative learning opportunities.

To date the blog is fully functional with a total of 16 submissions against a target of 5 (**Indicator 28**).

With the blog coming on line, FSP received 635 inquiries to knowledge management system in addition to 109 requests for additional information stimulated by a number of workshops, reports and surveys totaling 744 inquiries. Against a target of 270 inquiries, this is a 276% achievement by FSP **(Indicator 25**). The project looks forward to more inquiries generated as a result of interesting postings by both component specialists and contributions from collaborating partners. FSP will continue expand the scope of its collaborative partnerships to include knowledge management for the purposes of generating and disseminating more information for its audience.

In this century, knowledge continues to gain importance and FSP intends to continue its focus on disseminating information and collaborating with these key stakeholders. It is expected that an additional collaborating partners will be added during the course of program implementation.

ANNEX C: PERFORMANCE MANAGEMENT PLAN DATA QUALITY AUDIT RESULTS

In July 2010, FSP conducted a rigorous internal data quality audit (DQA) to verify all data to date. As a result, some of the cumulative March 30, 2010 figures reported in earlier project performance reports have been revised.

There were data quality issues with the previous reported figures which are elaborated on below:

1. **Definitional:** The previous M&E officer did not adhere tightly enough to the definitions in the Performance Monitoring Plan (PMP). As a result some of the reported figures have declined while others have increased in Indicators 3, 19, and 21.
2. **Evidence:** When conducting the DQA all evidence was examined carefully. Where there was insufficient evidence, the partner FI was contacted. If there still was insufficient documentation, then the previously reported achievements were reduced. This affected Indicators 1, 2, 8 and 9.
3. **Calculation errors**: There were minor calculation errors, which were corrected for Indicators 1, 2, 7, 8, 9, 11, 20, 27 and 28.
4. **Misallocation:** This is when an achievement was documented against the wrong time period, which affected indicator 6.

The DQA focused on rectifying such errors.

In the tables presenting FSP results below, those modifications have been clearly noted. After conducting this DQA, FSP also invested in a new M&E dashboard with robust internal quality checks to ensure the highest quality data reporting going forward. The current version of the dashboard ensures that indicator results appear only if they adhere to the exact measures that have been outlined in the PMP. Therefore, if an indicator requires a disaggregation by gender and the data is missing gender, it is not included in the dashboard summary sheet.

The planned upgraded version of the dashboard will include an indicator management interface that will list the indicators that do not fully comply with PMP specifications. Thus, the process of identifying incomplete data is more transparent and will also provide FSP with a means to determine preliminary results more accurately.

Indicators 1 and 2

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
1	Number of financial agreements concluded	#	167	159	302
2	Value of finance accessed ('000)	ZAR	R 156,698	R148,162	R245,695

The totals reported, and the actual totals, for indicators 1 and 2 are shown above. The common errors unearthed for these indicators were:

- Insufficient evidence from partners (e.g. a casual email),
- Under or over-counting of both value and number of loans and miscalculation: and/or
- Transcription errors as data moved from one reporting sheet to another.

For the period June 2008 through March 2010, FSP reported a cumulative number of loans of up to 167 with the associated value of R156,698 as opposed to the actual shown in the table above. This error is a result of both over counting and under counting across months and partners as shown by the table below. The table below shows the figures reported cumulatively through March 2010 against the actual figures for that period and the difference calculated by subtracting the reported from the actual. The result will then show the number of loans that were over or under counted. In total, it shows that FSP over reported by eight loans amounting to the value of R8,536,000.

WIZZIT has been the major contributor to the discrepancy in terms of number of loans as some of the loans it made to consumers were inaccurately reported as SME loans. The DQA recommended that these loans not be counted as they cannot be attributed to FSP support.

In June 2010, ABSA retrospectively reported 5 Invoice Clearing loans that they issued using a product developed with FSP assistance. Prior to this, ABSA was only reporting loans made using the Purchase Order Finance (POF) product developed with FSP support. This explains the difference of 5 loans between the actual and reported figures for the period through March 2010 as shown by the table below.

Figures Reported versus Actuals through March 2010

Partner	Figures Reported by March 10	Actual	Difference
ABSA	4	9	5
WIZZIT	33	18	-15
Blue Finance	22	20	-2
Grofin	10	13	3
Identity Development Fund	4	4	0
Old Mutual	41	43	2
Royal Fields Finance	0	0	0
TIGF	42	42	0
PPC Ntsika	7	6	-1
Barloworld	4	4	0
Total Loans	**167**	**159**	**-8**
Total Values ‘000	**R156,698**	**R148,162**	**-R8,536**

Indicator 3

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
3	Number of management processes/practices modified due to USG assistance	#	4	2	3

The major challenge with indicator 3 has been definitional. FSP had counted two products developed for ABSA (Purchase Order Finance- POF and the Invoice Clearing- IC) as "management processes" modified. These were also counted under Indicator 5 "new products developed". To prevent this double counting, Indicator 3 was reduced to 2 management processes/practices.

In addition, FSP has also noted that the PMP doesn't clearly define at what point management processes/practices could be counted as having been modified. There are two points at which this indicator can be counted:

1. when FSP recommends a change in management process/practice; or
2. when the partner adopts the recommended changes.

After detailed consultation internally and with USAID, it was ultimately agreed that, for developmental impact purposes, a management process/practice can only be counted when a partner has adopted the recommendations as shown by either actual implementation or codification in policy and procedures manual.

Indicator 6

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance	#	2	2	2

FSP has assisted ABSA to conduct two consultative processes to date. These took place during the first quarter of the FY 2010, but one was initially reported for FY 2009. This has been corrected to reflect the correct time period of the first quarter of FY 2010.

Indicator 7

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
7	Number of financial sector professionals trained on international standards with USG assistance	#	59	52	81

In July 2009, FSP conducted two different training sessions (WIZZIT Credit and Call training and WIZZIT Client Calling and Management) with a similar group of people from the same partner in two days. These trainings were erroneously counted as one session. This figure has also been rectified in the USAID TrainetWeb database.

Indicator 9

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
9	Value of the USG supported special fund loans issued ('000)	#	R122,339	R120,382	R150,637

There were several issues affecting Indicator 9. These discrepancies also have implications for indicator 2 (which is a sum of indicator 9, 11 and "other"). The value reported through

March 2010 is R122,339,000. The correct amount for the same period is R120,382,000 (an over report of R1,957,000). The adjustment had to be made because:

1. In September 2009, FSP reported R49,000,000 instead of R49,500,000 for partner PPC.
2. During October 2009, FSP reported R5,250,000 for partner PPC. This loan, and its value, could not be substantiated and was therefore removed
3. In January 2010 reported R500,000 for partner Barloworld instead of R1,000,000
4. Also in January, reported R252,990 for partner OMM instead of R2,545,991.40.

The net result, was an overall decline of R1,957,000 which is shown in the table above.

Indicator 11

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
10	Number of DCA guaranteed loans	#	19	20	30
11	Amount of private finance mobilized with DCA guarantee ('000)	#	R28,506	R19,984	R28,191

Like Indicator 9, for Indicator 11, FSP did not report one loan reported by Blue Financial Services during the month of March 2010 (reporting 19 instead of 20 loans). From June 2008 through September 2009, FSP reported R16,516,000 (both value of loans and guarantee amount) instead of only the value of loans amounting to R11,010,000. In October 2009, FSP reported R6,301,000 instead of R4,629,000. Reporting both the value and guarantee amounts in February 2010, resulted in exceeding the actual amount by R327,000. In March 2010, FSP reported R3,864,000 instead of R3,203,000 thus over reporting with R661,000. In total FSP over reported around R8,000,000. Subtracted from the total reported, this will come down close to the actual of R19,984,000. The difference can be explained by rounding.

The challenge encountered on counting Indicator 11 was mainly definitional. There was confusion by the M&E Officer thinking that he should count the <u>sum loan value plus the USAID guaranteed amount</u> instead of just the sum loan value. As a result, this indicator was previously counted using both the value and the guarantee amount thereby over counting loan volume figure by 50%. This will be clearly spelt out in the PMP summary as part of the Standard Operating Procedure and/or data collection process to ensure data reliability.

Therefore, just above R8,000,000 was eliminated from the totals which also directly decreases the amount in Indicator 2.

Indicators 19

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
19	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance	#	1	4	4

The challenge for indicator 19 has been definitional in terms of counting. The error made in this instance was that four independent material improvements were counted as one because they all fall under the NCR re-engineering process carried out by FSP. These four processes are:

- Document transmission, storage and security
- Registration process flows
- Annual renewal of fees
- Credit providers' compliance with the Act.

After the audit, it was decided that these policy processes be counted separately and not as one component of the NCR re-engineering process.

Indicator 20

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
20	Number of financial sector supervisors trained with USG assistance	#	20	21	21

There was a counting error on this indicator. The attendance register had 20 slots and the 21st participant signed on the back of the register, bringing the total to 21 professionals who attended the training. This figure was rectified in the TrainetWeb database.

Indicator 21

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
21	Number of administrative procedures affecting the operations of SMEs improved	#	1	0	0

For Indicator 21, FSP counted the recommendation to "streamline the registration of companies via the introduction of one document" as an administrative procedure improved. However, since the Companies Act (which has incorporated this recommendation) has not yet been promulgated, this should not have been counted. It will be counted as soon as the Companies Regulations are promulgated into law by Cabinet, expected by March 2011.

Indicator 27

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
27	Number of dissemination events held by knowledge management collaborating partners (workshops, conference, media campaigns, etc.)	#	3	4	7

FSP reported 3 dissemination events when counting for this indicator thus under-counting by 1 event, the four events were:

Event	Date
1. BEE Awareness Campaign	2008/11/12
2. FSP_CIPRO Business Commission	2009/02/18
3. BEE Basic Facts and benefits to SMEs	2009/05/30
4. FSP_BA SME Construction Lending for SME Contractors	2010/02/03

Indicator 28

#	Indicator Name	Unit	March 30 cumulative figure reported	March 30 Actual	September 2010 Cumulative reported
28	Number of content submissions to knowledge management system	#	0	2	16

FSP did not count two content submissions:

1. Presentation on Black Economic Empowerment (BEE) - Basic Facts and Benefits for SMEs workshop (undertaken during May 2009); and
2. Presentation on the Companies and Intellectual Property Commission Business case (undertaken during March 2009) training.

All content submissions can be found on FSP blog

Action Plan

Following the July 2010 internal data quality audit, FSP developed and adopted the following action plan to mitigate the identified errors and ensure that these challenges will not be repeated.

Challenge	Description of Action Point	Person Responsible	Timeline	Status to date
Definitional	Revise the PMP's Indicator Protocol Sheets to clarify definitions and, along with the revised, PMP obtain approval from USAID	M&E Specialist	4 November 2010	Under Review.
Changes to the PMP may well result in changes that need to be made to how the dashboard operates. At present the indicator sheets act as a filter on data captured so that only information that comply with the PMP are displayed. The information in these indicator sheets is then displayed in the Summary Sheet.				
Lack of evidence	Conduct quarterly visits to FI partners to conduct data validation and offer more M&E support where required	M&E Specialist	On-going	To immediately begin after annual report is submitted and approved by USAID.
The afore mentioned management tool in the improved dashboard version will help determine where data captured is incomplete. If information is captured on if supported by documentation, missing information should act as a red flag for evidence follow up.				
Calculation errors	Develop an automated dashboard built on an Excel platform	M&E Specialist	30 August 2010	Dashboard completed and populated to date.
Misallocation	Develop an automated dashboard with built in calendar active control checks. All data to be verified together with the COP and the Component Specialist before reported.	M&E Specialist	Ongoing	Dashboard completed and populated to date.

ANNEX D: SUCCESS STORIES

SUCCESS STORY 1: SME DCA HAS $20 MILLION POTENTIAL

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY

SME DCA HAS $20 MILLION POTENTIAL

Blue to utilize USAID DCA Portfolio Guarantee to extend more loans to creditworthy, black owned SMEs

A typical Blue Borrower in Pretoria, where workers prepare carrots and squash for packaging and distribution in South African supermarkets.

Blue Financial Services is the first South African financial institution since the recent financial crisis began that is benefiting from a USAID Development Credit Authority Guarantee Facility.

U.S. Agency for International Development
www.usaid.gov

Blue Financial Services received $5 million USAID DCA Loan Portfolio Guarantee Facility – A focus of USAID's Financial Sector Program is to develop DCA guarantee facilities. Loan guarantees enable more SMEs to gain access to financing from South African financial institutions (FIs), whose collateral requirements are often difficult to meet. DCA guarantees allow FIs to expand the risk profile of their borrowers and therefore approve loans to creditworthy but previously underserved borrowers, focusing on SME viability rather than focusing on collateral. Eventually, the FIs will have sufficient experience with this expanded valuation method and confidently make more SME loans without guarantees.

Blue Financial Services (Blue) was founded in 2001 and has grown into the largest micro-lender in Africa. Historically lending primarily to individuals and microenterprises, Blue began making relatively low risk SME loans in April 2008, requiring that SME clients attend their "Simply Successful Management" course as a prerequisite for loan disbursement.

The $5 million USAID DCA Loan Portfolio Guarantee facility approved in May 2009 will revolve and enable Blue to cumulatively make $20 million loans to creditworthy SMEs that are short of collateral or the normal owner equity contribution requirements but have a strong business model.

There are several attractive developmental features to the guarantee. Firstly, it will enable Blue to lend to viable SMEs who previously did not pass their rigorous credit analysis. Secondly, Blue is increasing its target for black owned SME; committing 60% of the guaranteed loans to previously disadvantaged entrepreneurs. Finally, Blue will aggressively pursue the franchise sector, which presents rich opportunities for a budding entrepreneur.

Blue began using the DCA facility in September 2009. Within the first two weeks, eleven SME loans totaling ZAR 11 million were approved.

During the 10 years of the guarantee, it is expected that over 500 SMEs will benefit from the guarantee program

SUCCESS STORY 2: PUBLIC-PRIVATE DIALOGUE SUCCESS

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY

Public-Private

South Africa drafts complex changes in company laws in a consultative and cooperative manner.

"The Companies Act is one of our most transitional and complex laws under development. The extensive public/private dialogue process made some of the finest legal and business minds in our country feel they were heard, glad they attended and excited about the future. The dti is to be congratulated."

Pieter Stassen, Managing Director (center)
The Contemporary Gazette
Cape Town

U.S. Agency for International Development
www.usaid.gov

South Africa is a country with "two economies" – one world class and rich, another historically excluded and poor. Many laws and regulations pre-date the establishment of democratic governance – the old company laws were enacted in 1973. The law pertaining to all firms, large and small, urgently needed a fundamental overhaul. Such reform needed to be undertaken with specific attention to minimizing the cost and administrative burden, especially for SMEs, many owned and operated by previously disadvantaged persons. However, it is difficult to undertake such radical change without generating major policy conflicts and acrimony.

The USAID Financial Sector Program, working closely with the Department of Trade and Industry (DTI), has undertaken the challenge to draft new Company Regulations. DTI decided to maximize transparency and participation by interviewing key stakeholders in the public and private sectors before starting the drafting process. The preliminary issues and questions raised by stakeholders were then presented in an "issues paper" and extensively debated in a workshop attended by over 50 leading experts in company law and business.

At the conclusion of the workshop, DTI invited further written comments. Business and legal experts addressed some of the more complex issues, providing DTI with valuable advice in an open, cooperative environment. Only then did DTI and USAID/FSP begin a first draft of the new Regulations. The publication of that first draft will lead to further public comment, and DTI will seek additional public-private dialogue before finalizing the draft.

Ms. Zodwa Ntuli, the Deputy Director General of the Consumer & Corporate Regulation Division at DTI, said she received many SMS, emails and calls from stakeholders congratulating DTI for the excellence and transparency of the process and for conducting such extensive public/private dialogue prior to drafting any documents.

The reform process thus far has been a stellar example of democracy in action for excellence and better laws and regulations drafted in a wholly cooperative atmosphere.

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

CASE STUDY

All they needed? Access to

FSP Enhances SME Loan Guarantee Program with Life-Altering Results

Photo: "Hands On Fish Farmers" Cooperative, Western Cape Province

Enabled by an ABSA loan guaranteed by TIGF, members of "Hands On Fish Farmers" pour fingerlings into pond, the first step in growing fish for market and providing income for their families.

CHALLENGE USAID's Financial Sector Program (FSP) is very proud of its support to Thembani International Guarantee Fund (TIGF) to enhance its guarantee processes for bank loans to micro-credit institutions and agricultural cooperatives. Both typically benefit large numbers of SME members, and both have difficulty obtaining credit.

INITIATIVE TIGF has improved the quality of its underwriting, using the techniques acquired from FSP on conducting due diligence on SME loan guarantee applications. Two members of TIGF attended a three-day SME training program on that topic. Afterward, FSP technical staff met frequently with TIGF's CEO to provide additional information on how to approach the evaluation of loan guarantee applications.

RESULTS Armed with the knowledge obtained from FSP, TIGF provided a credit-enhancing 75 percent guarantee to "Hands On Fish Farmers," a cooperative in Western Cape province, resulting in a R3 million loan to the coop from ABSA. The coop then made sub-loans to 42 fish farmers. The coop and fish farmers told FSP that no bank would approve loans for them until TIGF offered its 75 percent guarantee.

"Not even government development banks would consider financing Hands On Fish Farming. I even met with the head of Land Bank, but he would not budge," said Barend Sulvester, chairman of the cooperative.

The fish farmers say the loan has made a huge difference in their lives. "Being a fish farmer for Hands on Fish Farmers," said Anvor Adams, "has provided me with an income and enabled me to provide for my family."

The current loan proceeds are being used to supply inputs for purchasing fingerlings and fish food, The cooperative now plans to add value to its operation by smoking the fish before sending it to market.

U.S. Agency for International Development
www.usaid.gov

SUCCESS STORY 4: A GUARANTEED SUCCESS

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY
A "Guaranteed" Success!

When small and medium enterprises in South Africa cannot gain access to financing, a USAID DCA loan portfolio guarantee makes all the difference.

Photo by: Tebogo Ngubeni of FSP

BEE Bullbars, outside of Johannesburg, has been fully operational for only a few months, but the" start-up" manufacturer already has met its monthly production target and is making a profit.

A USAID loan guarantee enabled two South African entrepreneurs to realize their dream of opening their own small factory. They'd gone to banks seeking credit, but the terms were impossible for them to meet. With the USAID guarantee, the two manufacturers were able to obtain credit and open their factory.

U.S. Agency for International Development
www.usaid.gov

Buks Bantjes and Brewis Lings had everything they needed to build a business - a dream, a good understanding of the competition and market and lots of experience in their industry, manufacturing "bullbars" ("cattle pushers" in the U.S.). They wanted to open their own bullbar factory, thinking they could do it better than what existed in the industry. The men lacked two critical elements - a track record in running a business and access to finance.

Financial institutions make their lending decisions based on risk assessments. That makes it very difficult for new entrepreneurs to get financing for start-up businesses. Buks Bantjes and Brewis Lings ran up against a wall. The lending institutions they approached for credit demanded arduous terms that they simply could not afford.

That is when the U.S. government played a pivotal role in this story. The U.S. Agency for International Development (USAID) partners with South African financial institutions to provide support to small and medium enterprises (SMEs). Blue Financial Services (Blue) has received a $10 Million USAID Development Credit Authority (DCA) guarantee which enables Blue to provide higher risk loans to SMEs in South Africa. Carl Aucamp, who handles Blue's loans to small enterprises, says the two entrepreneurs had a good business plan, but Blue was concerned about their lack of experience in running a business. The issue, as usual, was level of risk.

Brewis Lings put up his house as security and the two men contributed a modest sum for the down payment out of their own funds With the additional comfort of a 50% loan guarantee from USAID, Blue extended the Rand 510,000 (approximately USD 68,000) five year term loan, providing the seed funding and equipment needed to start the business.

Two months later, BEE Bullbars was in business and quickly turned a profit.

SUCCESS STORY 5: MORE THAN A PASSING GRADE

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY
"More Than A Passing Grade!

USAID has developed a "grading system" to assess the competence of business "advisors" in South Africa in order to solve a big problem for small businesses.

Photo: LMF PRODUCTIONS

Katlekgo Kolobe, a life coach for entrepreneurs, says the grading system designed by USAID helped her to "get in touch" with her strengths and weaknesses and should be of great value in her consulting work with small and medium enterprises.

USAID, in partnership with the South African firm called Raizcorp, has implemented a program to assess the skills of business development specialists. The plan is to take the program nationwide in order to give start-up businesses seeking advice some assurance that their "advisors" know what they're doing!

U.S. Agency for International Development
www.usaid.gov

As South Africa celebrated a successful 2010 World Cup, USAID celebrated an important step toward economic empowerment. USAID's Financial Sector Program in South Africa works to help small and medium enterprises gain access to finance. A serious obstacle is that many small enterprises lack business expertise as well as confidence in the so-called business development consultants who offer to help them.

In response, USAID developed an innovative program for evaluating business development consultants. It assesses their skills and actually grades their level of competence. The South African partner in the program is a company called Raizcorp, chosen because of its corporate philosophy that business development specialists should be held to a high standard.

Raizcorp recently piloted the grading system using 15 of its own small business advisors. The business advisors made a series of presentations to a panel of three senior assessors, who rated their skills in different areas. Afterward, Raizcorp management and the employees who underwent the grading process were universally enthusiastic. They said the grading identifies areas in which the business advisors need to upgrade their skills and will be of great value to potential clients

In a recent survey, SME bankers identified that the lack of confidence in business development advisor presents a hurdle to helping to unlock credit for SMEs. They were unanimously supportive of a system by which to assess the quality of the business services offered to less sophisticated potential clients.

Raizcorp, working with the USAID Financial Sector Program, now plans to make the grading system available to business development specialists throughout South Africa. The grading system should give small and medium enterprises confidence that their business "advisors" will help and not hurt their efforts to obtain credit as well as build critical bridges to those offering finance.

SUCCESS STORY 6: A PARACHUTE INTO CASH FLOW BALANCE

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY

A "Parachute" into Cash Flow Balance

ABSA Bank special loan product developed with USAID FSP's assistance solves cash flow problem for biscuit manufacturer


Photo: Tebogo Ngubeni, USAID FSP

K's Kitchen staff weighing and molding cookie dough preparatory to baking "crunchy biscuits". An ABSA "invoice clearing" loan, developed with FSP's help, resolved K's cash flow challenges.

"Crunchy biscuit" (Cookie) manufacturer K's Kitchen faced a challenge that is all too familiar to SMEs who sell to large companies. K's must provide 30 to 60 days credit terms for the biscuits it sells to its big supermarket chain customers. On the other hand it must pay cash to the supplier of its main ingredient, flour, and at best only gets 30 days terms from its other suppliers. This mismatched timing put K's business in a cash crunch.

With USAID Financial Sector Program's (FSP) assistance, ABSA Bank developed an "invoice clearing" loan product designed especially for SMEs in K's situation. When K's ships biscuits and issues invoices to Pick 'N Pay Supermarkets, ABSA immediately provides a loan to K's equivalent to 75% of the invoice value This provides K's with the cash it needs to continue purchasing inputs, pay staff and grow its business. Under its arrangement with the bank, K's can receive up to R 250,000 in invoice clearing loans at a time from ABSA.

K's produces high quality biscuits – they contain no cholesterol (no eggs), trans-fats or preservatives. Only the finest ingredients are used, such as rolled oats imported from Italy and ginger powder. The operation is HACCP certified. Eight employees work an 8:00 a.m. – 4:00 p.m. shift in the bakery. During busy periods, such as the lead up to Christmas, a four hour evening shift is added. Repeated requests from supermarkets have made the Company consider adding a sugarless line of biscuits.

K's Kitchen's owners, Tony and Martha (who has a perfect nickname, "Koekie"!) Odendaal, and their son, Dean, started the business 15 years ago in Martha's kitchen. As sales to the supermarkets grew, the difference in timing between when K's received payments and when it had to pay suppliers resulted in a worsening cash crunch. Tony says that "ABSA's invoice clearing loans have provided us with a parachute out of a cash bind." Improving the cash flow has enabled K's sales to grow. In October 2010 they started fulfilling orders from 24 additional supermarkets.

U.S. Agency for International Development
www.usaid.gov

SUCCESS STORY 7: CASH COMPETENT

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

CASE STUDY

“Cash Competent”

Small businesses in South Africa need training in tracking cash flow to convince lenders they are credit worthy.

Photo: Tebogo Ngubeni

A group of entrepreneurs working together on a cash flow exercise in FSP’s pilot of “Successful Financial Management for SMEs”. From the left: Kgomotso Mpete, Tabussum Shaikh and Juanette Knoetze

U.S. Agency for International Development
www.usaid.gov

CHALLENGE A USAID/Financial Sector Program (FSP) survey of leading South African financial institutions found that one of the biggest hurdles in the ability of small businesses to obtain financing is shoddy accounting practices. Lenders say that many small-medium enterprises (SME’s) lack the skills to manage cash flow. Consequently, lenders are reluctant to assume the risk of extending credit to SMEs, which are one of the few economic empowerment opportunities available to the historically disadvantaged in South Africa.

INITIATIVE FSP, in cooperation with Blue Financial Services, developed a training program to improve SMEs’ cash flow management and mitigate risk from the point of view of finance providers. The trainees are required to take a “pre-test” that assesses their skills in cash flow management. They then attend two days of classes. The sessions emphasize exercises rather than lectures, using actual numbers and examples from the participants’ own businesses. At the end, the participants take the “pre-test” again to assess what they have learned. Over the following month, participants are expected to complete a case study and assignments based on their own businesses, and then take a multiple choice exam. This program results in a “competence” portfolio that includes their classroom work, the case study, post-class assignment and test results.

RESULTS The pilot training took place September 15-16, 2010 at ABSA Bank, Johannesburg. The first trainees numbered 18, two from Blue Financial Services and 16 from ABSA Bank. FSP Consultant Div de Villiers led the exercises, which frequently involved breaking into smaller groups for more concentrated work. It was an intense, but lively process. Small business owners among the trainees were enthused. Elias M. Mlambo has a small steelworks company. He says he acquired valuable tools for improving bookkeeping and tracking stock. The test at the end of the two-day course showed that the participants’ cash flow management skills had improved by an average of eight percentage points. FSP plans to make the training available nationwide.