FINANCIAL SECTOR PROGRAM

ANNUAL PERFORMANCE REPORT OCTOBER 1, 2011 – SEPTEMBER 30, 2012

October 2012

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

October 2012

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, 2011 – SEPTEMBER 30, 2012

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

CONTENTS

ACRONYMS

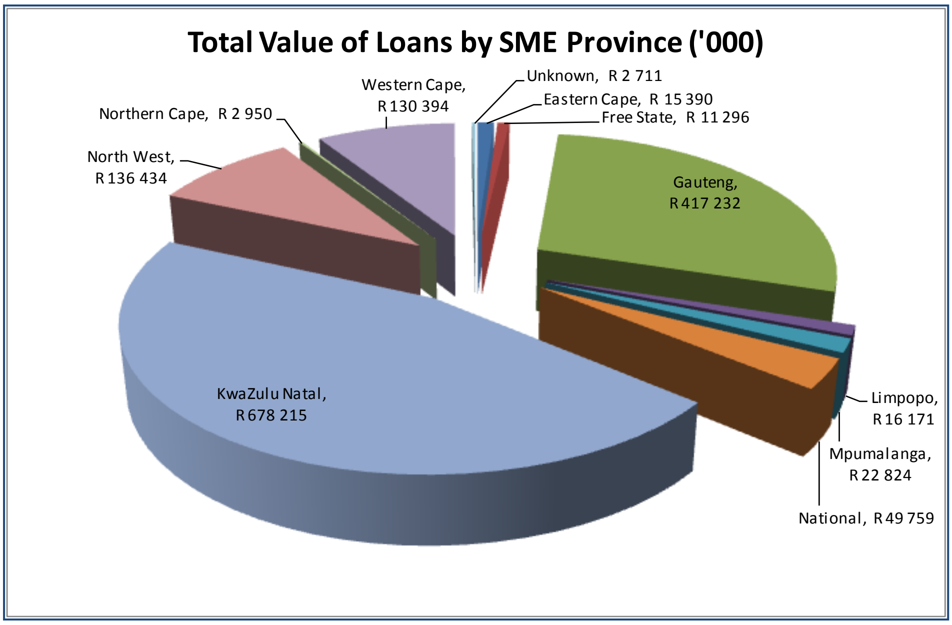
AIPSA	Association of Insolvency Practitioners of South Africa
BA	Banking Association
BDS	Business Development Services
BDSP	Business Development Services Provider
BEE	Black Economic Empowerment
BRP	Business Rescue Practitioners
BSO	Business Support Organization
CIPC	Companies and Intellectual Property Commission
DCA	Development Credit Authority
DOJ	Department of Justice
dti	Department of Trade and Industry
FI	Financial Intermediary
FSP	Financial Sector Program
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
GSA	Government of South Africa
HDE	Historically Disadvantaged Enterprise
IBA	Institute of Business Advisors
ICSB	International Council for Small Business
IFC	International Finance Corporation
IIB	Institute for Independent Business
INSOL	International Association of Restructuring, Insolvency & Bankruptcy Professionals
JSE	Johannesburg Stock Exchange
KM	Knowledge Management
KRA	Key Results Area
LOI	Letter of Intent
NCA	National Credit Act
NCR	National Credit Regulator
NBFI	Non-Bank Financial Institution
NBSC	National Small Business Chamber
NEDLC	National Economic Development Labor Commission
NMBC	Nelson Mandela Bay Consortium
PIR	Project Intermediate Result
POF	Purchase Order Financing
RGA	Raizcorp Guiding Academy
RFF	Royal Fields Finance
SAIBL	USAID South African International Business Linkages project
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SALRC	South Africa Law Reform Commission
SASDC	South Africa Supplier Diversity Council
SECO	Swiss State Secretariat for Economic Affairs
SEDA	Small Enterprise Development Agency
SOW	Scope of Work
SME	Small Medium Enterprise
TMA-SA	Turnaround Management Association of South Africa
USAID	United States Agency for International Development
USG	United States Government

EXECUTIVE SUMMARY

The Financial Sector Program (FSP) seeks to expand access to financial services and lower financing costs for small and medium enterprises[1] (SMEs) through promoting improved SME credit assessment methodologies and financial products, increasing the financial literacy of SMEs to become more bankable, improving the quality of financial business support services, and reforming the legal and regulatory framework affecting the financial sector and business environment thereby improving the commercial viability of lending to historically disadvantaged SMEs in South Africa.

The contract was awarded to the Chemonics consortium on May 22, 2008. This fourth annual performance report covers the period of October 1, 2011 through September 30, 2012 and summarizes activities undertaken to support the four project components–SME finance, SME bankability, business enabling environment and knowledge management. The focus this year was to build on FSP partnerships and put into practice designed innovations to ensure scalability and sustainability of results after FSP concludes in May 2013.

While many economic uncertainties remain inhibiting SMEs and funders from moving into what is perceived as a higher risk credit environment, FSP's 15 FI partners were able to increase overall impact, albeit at a lower rate than last year. Cumulatively, FI partners have concluded nearly 6,500 financial transaction totaling R1.5 billion throughout the country. The greatest concentration of lending is is Kwa Zula Natal at 48% (n=R678 million) followed by Gauteng at 21% (n=R 417 million).



Of the 600 unique SMEs benefiting from program FI activities, 75% are BEE SMEs and 46% are female owned.

Absa continues to be the primary contributor leading program efforts with 70% of total transactions falling under the FSP supported Purchase Order Finance (POF) product. Standard Bank has also finally launched their POF product this year with 6 transactions i/a/o R4.7 million completed.

FI partners continue to receive ad hoc and targeted advice to streamline and improve credit processes and procedures with both Cadiz and WIZZT receiving technical assistance for the development of credit scoring tools during the year. Loan officer capacity building efforts dramatically increased with 143 financial sector professionals trained, being 62% of program

[1] For the purpose of this program, an SME is defined broadly as a business engaged in activities generating annual turnover between R200,000 and R25,000,000. This definition was based on the Financial Sector Charter definition proposed and agreed to by the Banking Association and its members.

total to date (n=231) showing the benefit of the FSP "Training of the Trainer" development and delivery approach.

While FSP continues to generate interest and opportunities for DCA funding, the actual on-lending has not met expectations. Only 51 DCA supported loans i/a/o R33 million have been placed under coverage to date. However, just recently, FSP finalized the development of the SME Debt Fund to stream capital market investments into SME hands. This Cadiz "Protected High Impact Fund" is backed by a DCA variable rate guarantee which will potentially contribute $150 million to the SME sector over 8 years. With the upcoming launch of the Cadiz SME Debt fund overall impact is expected to increase dramatically with nearly 20,000 new jobs targeted.

FSPs thought leadership regarding Energy Efficiency (EE) finance synergized a multitude of key stakeholders and resulted in the development and piloting of an EE finance strategy at Sasfin Bank which is supported by a $10 million IFC loan.

FSP leads the energy efficiency dialogue

Nyadi Simpala of Eskom was one of several stakeholders to present to 70 attendees at the FSP Energy Efficiency workshop. Ms Simpala presented a summary of the Eskom energy efficiency incentives programs.

For more information visit the FSP blog for the presentations:
http://www.fsp.org.za/blog/?attachment_id=1495

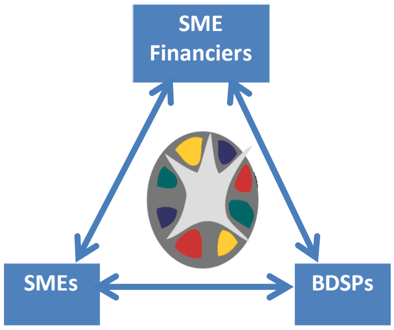
While building the capacity of FIs to make funding available to SMEs, FSP also works with partner BSOs to improve the quality and delivery of SME support services to make the business more bankable. Working in tight collaboration with incubator partners, FSP reported an increase in number of SME financial literacy interactions by a growing number of partner BDSPs. FSP partners have supported nearly 200 BDSP who are working with over two thousand SMEs, of which 41 % (n=891) are in this fiscal year.

	# of SMEs assisted by BDS providers	# of BDSPs as sisted	# of SMEs assisted to access finance
Raizcorp	1,604	47	77
Aurik	349	39	19
finfind	207	107	0
Blue	21		
Total	2,181	193	96

The introduction and promotion of *finfind* contributed greatly to the increased number of BDSPs receiving assistance. Following the formal launch in March, 64 *finfind* consultants were certified through 3 orientation sessions held in 3 provinces and a diverse set of activities to increase the value proposition for the consultants, the participating FIs and ultimately the SMEs were developed and are underway. A complementary set of strategies were developed and implemented with the goal to commercialize *finfind* and transition it to the host institution, Finfind (Pty) Ltd. Work streams covering the business plan and management, BDSP recruiting and retention plan, FI recruitment and retention, module enhancements and overall IT action plans were drafted and implemented resulting in measurable results. Significant pay offs are now being witnessed from private and public strategic partnerships who want to work with *finfind* to help meet the ultimate mutual objective of helping SMEs access appropriate finance to help them grow their businesses and create jobs.

Business Finance Network

Finfind Phenomenon



In order for *finfind* to have the intended success, it is essential to have all three elements of the development equation working in collaboration. Specifically, Finfind (Pty) Ltd must focus on:

- Listing of SME Financiers in **finfind's** Directory
- Recruitment and retention of **finfind** consultants
- Demand by SMEs for **finfind** consulting

Toward this end, FSP supported a multitude of activities to stimulate demand. Results to date include:

- 3 BDSP orientations held in 3 provinces
- 64 BDSPs registered as finfind consultants
- Targeted recruitment and retention of **finfind** consultants
- 3 BDSP seminars held in 3 provinces hosted by various partner FIs
- 30 consultants trained in specific financial products credit criteria and procedures
- Increasing demand by SMEs for **finfind** consulting; 207 SME assisted by finfind consultant to date
- 100 FI visits conducted in 4 provinces
- 23 FI's listed (including 14 listings in the new Directory format)
- R333,200 raised in Enterprise Development funding

Driving much of FSPs work is the premise from FIs that BDSP supported SMEs are inherently more bankable. In addition to the *finfind* model, FSP also worked with partner Aurik to design a business plan to generate investmens from corporate partners to support their value chain SMEs BDS and financing needs. The system proposes tranches of finance to coincide with proven increases in business skills and will be tested in the next fiscal year.

FSPs policy work successfully concluded during the year with several pivotal technical elements completed. Together with the National Treasury, FSP designed and delivered a Regulatory Impact Assessment toolkit and training to over 40 government officials. The works included several assessments of RIAs undertaken and provided a foundation for the Cabinet 2007 decree that RIA must be implemented to promote more effective and transparent reforms that do not place an uneven economic burden of disadvantaged constituents. FSP also completed several research papers and participated in steering committees and workshops addressing reforms required to enhance and harmonization of the insolvency policy framework. FSP also undertook an investigation in to the global experiences and local opportunities to create a niche finance market for distressed businesses. Building on the business rescue professional (BRP) certification framework FSP designed with CIPC, this report identifying obstacles and possible solutions for post commencement finance was delivered to CIPC to become part of a larger dialogue within the BRP community.

FSP had a banner year regarding its knowledge management activities. Fifteen collaborating partners joined sector stakeholders in 20 knowledge dissemination events covering a diverse set of salient topics. Forty new submissions were added to the FSP blog sharing innovations and strengthening SME finance related knowledge. Over 4,000 visits to the blog were seen this year alone bringing the total hits to nearly 11,000.

SECTION I: BACKGROUND

The Financial Sector Program was originally a 30 month USAID Southern Africa program awarded to the Chemonics consortium[2] 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 the 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 established during the first years of the program, FSP saw many activities begin to generate results and reach conclusion. This performance report summarizes the implementation of the activities presented in the fourth annual work plan for the period October 1, 2011 through September 30, 2012

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.

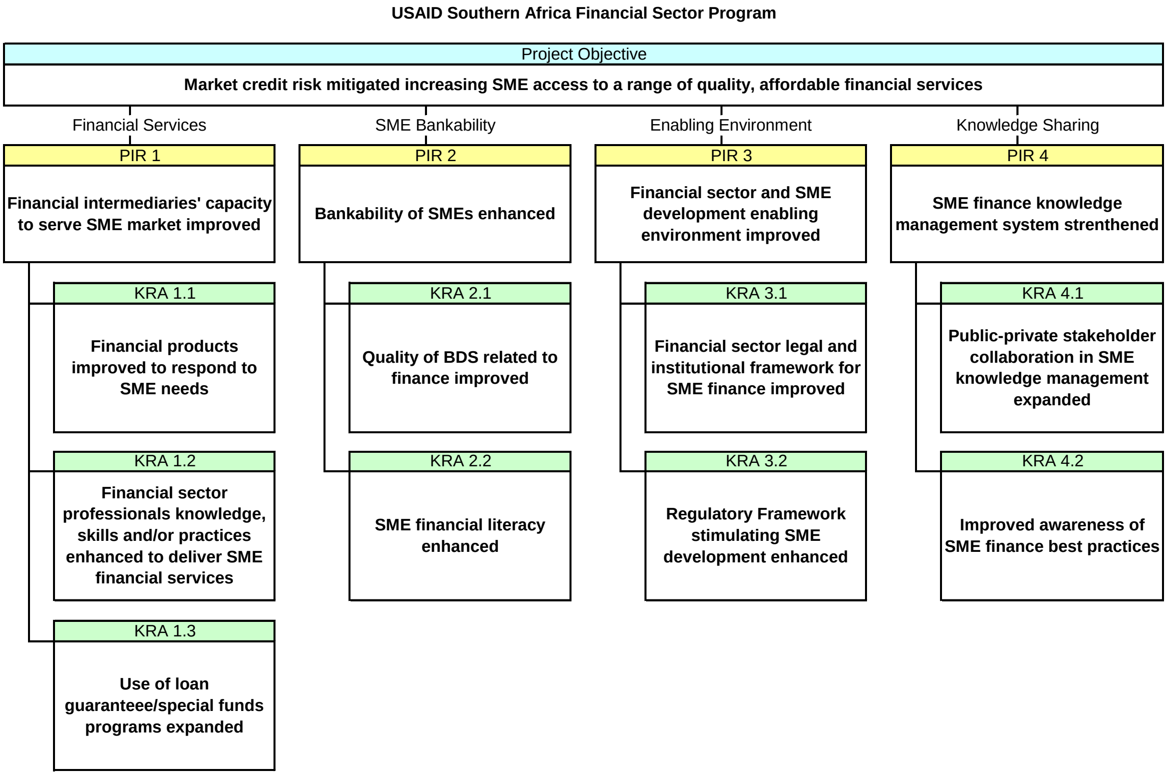
Insofar as FSP contributes to the improvement of SME access to a range of quality, affordable financial services, it is in line with USAID's Economic Growth objective, and FSP helps to mitigate market credit risk increasing SME access to a range of financial services (see Exhibit 1, Results Framework).

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

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

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.



As any project progresses, its operating environment – economic, political, and regulatory realities – continuously evolves, thereby often impacting on planned activities and proposed partnerships. For FSP, each of these realities presents challenges, but also opens up new opportunities. Due to external changes, program assumptions and delivery mechanisms have needed to be swiftly adapted to turn market challenges and obstacles into development opportunities.

This last year has seen events of such magnitude that influences have expanded country wide affecting the way of South African lives and having a negative influence on the global and national perception of the stability of the country. In a recent Economist cover article, it was stated that South Africa "…has made progress since becoming a full democracy in 1994. But a failure of leadership means that in many ways, South Africa is now going backward". The article congratulates economic advances as "between 1996 and 2010 the proportion living on less that $2 a day fell from 12% to 5%. Many more citizens have access to clean water, electricity and the constitution is considered liberal and inspiring." In recent months however, international focus eyed the violence, killings and industrial strife negatively affecting the country. In September, Moody's cut the country's sovereign rating, citing "the decline in government, growing social stresses and worsening conditions for investment", the first such downgrade in nearly two decades.   Business confidence also was experiencing a downward trend and financial institutions were seeing a diminished call for finance.

Although South Africa's financial sector has seen considerable strengthening over the past several years and has weathered the global financial crisis fairly well, vulnerabilities still remain in the financial sector. With an average GDP growth rate in the last five year of 3.5 % per annum, South Africa's economic performance is fairly strong. However, the country's growth has not translated to economic opportunities for the vast majority of the population. The overall unemployment rate stands at 30%, and the situation is even worse for young people. As of early 2012, the unemployment rate for young black South Africans aged 15 -34 stood at around 70%. Job creation is a top priority of the Government of South Africa and the U.S. government is keen to support efforts in this area. Overall economic uncertainty translates into a greater conservatism in the business sector and the financial institutions supporting its growth. FSP has seen its FI partners' portfolios constrict and the optimism of a year ago shrink.

Having said that, FSP targeted efforts identified a number of avenues wherein the expansion of SME credit access was possible. By identifying where opportunities were ripe based on government incentives and market demand (Energy Efficiency Lending), risk mitigation possible for expanded SME credit (SME DCA and Purchase Order Finance products) and the pursuit of a market innovation to leverage on-lending capital for SMEs when traditional markets were reluctant to do so (SME Debt Fund), FSP continued to expand opportunities for eligible SME to access finance.

Underpinning the FSP approach to increasing access to finance for SMEs is the identification of key partnerships in the lending arena as well as business development services sector that support SME growth.

SME Debt Fund is created with DCA guarantee support

*Cadiz CEO, **Frank Cadiz***

"Cadiz Asset Management is strategically committed to promoting and supporting socially responsible investing in South Africa.

The USAID partnership enables Cadiz to access pools of capital that to date were unavailable previously due to the perceived level of risk in this area of investing. The fear of capital loss has been one of the factors limiting capital rising historically, and the mitigation of risk through the introduction of the USAID guarantee will explicitly remove one of the hurdles preventing capital allocation in this area".

FSP's interventions have been proven to be essential to the effectiveness of partner business support organizations (BSOs). However, a number of factors have constrained the growth that BSO partners expected. Externally, the economic climate has impacted the demand by SMEs and their ability to pay for business development services (BDS) and competition for funding to subsidize BDS is such that demand and supply do not always match. FSP has for years been developing a system wherein the links between SMEs and willing SME lenders would be facilitated via qualified BDSPs. This tool, *finfind*, was launched and is showing increasing market appeal from core component partners –SMEs, FIs and BDSP, but also via strategic partnership wherein the underlying value of this on-line tool to business finance is identified.

Supporting an enabling environment to foster the growth of SMEs is a core pillar in FSPs implementation strategy. The bulk of FSPs policy efforts were realized with the promulgation of the Companies Act in 2011. During this last year, FSP was working to build on certain areas under the Act, particularly related to insolvency and business rescue issues. While significant pieces of research were undertaken to inform government policy approaches (Regulatory Impact Assessment, Business Rescue Finance), the continued need for and struggle to identify champions in the government limited the uptake of actionable steps.

Finally, and as important as the technical capacity building efforts is the need to share with financial sector stakeholders FSP's work with an eye to share innovation in financing opportunities, success stories as well as technical documents which may have value for other interested in developing this space. The FSP blog (www.fsp.org.za\blog) is the primary conduit for this knowledge sharing.

The following section provides a summary of the USAID approved work plan for October 1, 2011 through September 30, 2012 detailing activities undertaken, benchmarks realized, and impact and results achieved.

A detailed performance management plan analysis is presented in Annex B.

SECTION II: ACCOMPLISHMENTS BY TECHNICAL COMPONENT

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

The financial sector should play a significant role and catalyst for economic growth, global competitiveness and socio-economic development and more importantly for South Africa – stimulate job creation. FSP has been working with different partners across the sector to help them to overcome the ever changing landscape in which they must operate in these uncertain times. The good news is that financial institutions have remained well-capitalized and liquid, and the banks' non-performing loans have partly recovered from the effects of the financial crisis over the past several years. This has allowed the banks to begin looking to expand their lending to the small business community and focus not only on profitable transactional banking product development, but also on the development impact that comes along with prudent and expanding lending policy.

PIR 1 Highlights

- Total partner portfolios exceed 6,000 financial transactions totaling R 1.5 bn of which 75% is to BEE SMEs
- Standard Bank launches POF pilot program i/a/o R 4.7 m
- Absa POF totals exceed R 1 bn
- Lending under the Absa SME DCA guarantee began with 3 loans i/a/o R 1.3 m
- Energy Efficiency strategy and product developed and implemented with Sasfin Bank
- Absa Bank trained 79 credit officers on POF and DCA.
- Standard Bank trained 60 credit officers on POF.
- Credit rating systems developed for partner institutions; Cadiz Asset Management and WIZZIT Financial
- $150 million DCA supported SME Debt Fund developed and implemented with partner Cadiz Asset Management.

As the landscape has shifted in the sector over the past several years, FSP has been working with many of the top tier and second tier financial institutions as well as special purpose lenders in the marketplace to assist them to prudently move deeper into the SME lending marketplace. The South African financial sector still is a very conservative market and it has been challenging convincing banks to move down market and take more product risk. Banks still have stringent collateral requirements which also hinder lending to the SME market.

FSP has seen good progress with partner institutions such as Standard Bank and Absa Bank. Both banks have introduced the Purchase Order Finance product that FSP has helped to develop. This product is a good example of how the banks can move deeper into the sector without taking undue risk. Although it has been challenging to change the internal culture amongst the big banks in South Africa, introduction and implementation of products that are tailored to the small business community, can help them take that plunge to dramatically expanding SME lending.

Given the challenges identified with working with the larger banks. FSP has also focused a considerable amount of effort identifying alternative channels to increase access to finance for SMEs. FSP led the development of the innovative SME Debt Fund that targets on-lending to non-bank financial intermediaries (NBFIs) and SMEs of up to $150 million. FSP has also been working with second tier institutional partners such as WIZZIT Financial, Grofin, OMM, IDF, Spartan, True Group and other institutions to facilitate better access to capital for SMEs.

KRA 1.1 Financial products improved to respond to SME needs

Activities:

1.1.1. ***Refine, improve and suggest changes to SME policy, procedures, products and approach with partner FI's.*** During the fiscal year 2012, FSP worked with several partners to assist in adapting policy, procedures, products and approach to lending in the SME market. The work included helping FSP partners develop a business case for alternative products such as energy efficiency and purchase order finance. The work also focused on assisting FI's to change policies and streamline procedures to become more efficient in their lending activities which ultimately make lending to the sector more profitable.

FSP worked with Cadiz Asset Management on capacity building efforts to develop a proprietary credit rating model to better understand and rate the risk of unlisted investments. The rating tool provides investors additional comfort for the investments placed in Cadiz's new FSP DCA supported *Protected High Impact Fund*. The tool's main objective is to help Cadiz better understand the risks inherit when lending to NBFIs and SMEs under the new $150 million fund while gaining greater investor confidence (See KRA 1.3.2).

FSP consultants worked with Sasfin Bank to develop an Energy Efficiency (EE) lending strategy that is now being implemented. (See KRA 1.1.2) By engaging with key stakeholders in the energy efficiency market, FSP helped Sasfin develop a holistic product solution to offer to their existing lending portfolio and also to advance a robust pipeline of small businesses that see the benefits of reducing their energy consumption.

FSP designs and launches Cadiz Asset Management Rating Tool

FSP worked with Cadiz to design a proprietary credit rating tool to assess NBFI and SME investments which will also provide investors a standardized rating scale which measures the expected investor loss.

The rating tool uses a limited but comprehensive set of 17 financial factors and 33 non-financial factors to help with the evaluation of unlisted investments.

The work was very well received by Cadiz management team and as Carron Howard recently wrote in her review: "Thank you very much for the excellent work you have put into the model and user guide. It is going to become a fundamental part of our process. I look forward to working with it."

Carron Howard, Cadiz

FSP worked closely with WIZZIT Financial Services loan officers and senior management to undertake a policy and procedure review and recommended 6 practice/policy modifications. (See PMP summary for specific details). FSP also developed and helped implement a credit scoring model to pre-screen potential SME clients. This highly interactive model has forty risk indicators that allow for better understanding of the banks borrowers, their ability to run a small business and their entrepreneurship skills. Given market uncertainties WIZZIT is cautiously entering the SME market with 20 loans approved this fiscal year. WIZZIT indicated that they do have a robust pipeline of transactions, but have slowed lending due to a lack of capital. This is an example of the smaller second tier banks having their growth constricted due to inadequate capitalization. This problem is precisely what the SME Debt

Fund was created to correct. FSP has facilitated discussions between Cadiz and WIZZIT to determine if a possible link for wholesale capital exists.

Benchmark 1.1.1	Actual
4 new or modified products developed	3 new or modified products:
3 management processes modified	7 management processes modified

1.1.2 Develop a new supply/value chain lending approach with FIs and other partners.

Discussions with FSP financial institutional partners in developing alternative market led SME products and services uncovered tremendous interest in energy efficiency finance. Given this interest, FSP commissioned an extensive energy efficiency finance mapping. The study included an analysis into the market sector players and concluded that the conditions for expansion in energy efficiency finance for banks and other FI's in the marketplace in South Africa is very favorable.

As part of the study, FSP consultants assessed the enabling environment for energy efficiency and also identified specific opportunities for financial institutional partners to finance into this sector. The study outlined the key opportunities for EE finance to SMEs, specifically to SME's in the manufacturing sector, the retail sector and to Energy Service Companies (ESCOs).

During the mapping study consultations, it became clear that FSP had an important role to play in representing the SME sector. Most, if not all of the energy work that is currently being done in the country is focused on large scale projects. As such, FSP engaged key stakeholders in an Energy Efficiency Workshop which was held in May 2012 and was attended by more than 70 participants that play a key role in EE work across the country. Organizations such as the National Business Initiative (NBI), SANEDI, National Cleaner Production Center (NCPC), Eskom, the South African Department of Energy (DoE), several private sector ESCO's, the donor community and many of the banks in the market were represented. The event was co-hosted by FSP, the Industrial Development Cooperation (IDC) and the International Finance Corporation (IFC). These key partners and significant stakeholders in the sector presented at this event, outlining the enabling environment for energy efficiency as well as current barriers in the markets. FSP presented the mapping study outlining opportunities for EE finance.

sasfin bank
a partner beyond expectations

Sasfin Energy Efficiency Product Solution

As part of the EE strategy development work done with Sasfin Bank, FSP assisted in the development of a holistic product solution for Sasfin to implement which included:

1. Energy Audits for SME's
2. Implementation of the EE work done by approved ESCO's
3. Finance to be done by Sasfin Bank
4. Measurement and Verification to help the SME to access the tax and savings incentives in the marketplace.

During the workshop, breakout sessions were held to better understand and plan the way forward for the:

1) Role of financing in the energy efficiency market development;
2) Enabling environment necessary for the development of the energy efficiency marketplace and
3) Role of incentives and guarantees for the development of the energy efficiency marketplace.

Significant outcomes and opportunities for partnerships were identified during the workshop. Several banks approached FSP requesting assistance in developing tools and products to help them move into the EE finance space.

Sasfin Bank, which had just recently signed a $10 million long term credit facility with IFC and the Canada Climate Change Program specifically targeting EE lending, asked FSP to assist with the development of their new EE strategy. Sasfin presented a unique opportunity as it already targets the SME market and has a lending/leasing model which is similar to ESCO led financing models common to energy efficiency finance. Most importantly, Sasfin management is committed to the development of a strong energy efficiency finance offering.

FSP began working on the development of an energy efficiency strategy for Sasfin in July 2012 and completed the work in September. The strategy entails leveraging each of Sasfin's different units to create a multi-dimensional offering for the efficiency marketplace. A holistic offering was developed that allows for the SME that wants to become more efficient to have a 'one-stop shop' which includes finance along with basic energy services.

IDC Industrial Development Corporation

Strategic Partnerships enhance energy efficiency impact

As part of the EE sector work completed over the last year, several valuable partnerships have been developed for further potential collaboration.

One such partnership is with the IDC. IDC is currently working with large corporates (mining and manufacturing sectors) that provide assistance to their employees to access solar geysers. IDC is looking for support with this project and would like to discuss a potential USAID DCA guarantee to the smaller 2nd tier financial intermediary partners that would finance the projects at the employee levels. This and two similar initiatives present excellent basis for a potential collaboration.

As part of the strategy, FSP recommended that Sasfin do the following:

- Appoint an energy manager to coordinate cross-departmental efforts and lead the processing of each deal
- Research the EE marketplace to more strategically understand the technologies, players and models so that Sasfin can target specific sectors and technologies.
- Work with existing clients; determine EE levels in existing rental portfolios so that expansion into the EE areas of the book can be easily introduced to this client segment.
- Identify the best partnering opportunities in the ESCO space. There are many ESCO's working in the market, but only a handful are reputable.

FSP completed and handed over the strategy and FSP partner IFC is providing a short term energy manager to help Sasfin implement the strategy. Sasfin and IFC are also looking to identify longer term solutions for the implementation of the EE strategy which will take this important work forward. With these resources, Sasfin should be well placed to implement a successful strategy.

Additionally, FSP has collaborated with Absa on a variety of product development and process and procedural improvement initiatives including energy efficiency, agriculture and other products. FSP has been working with Absa on the development of the bank's Bulk Acquisition strategy which encompasses the implementation of their purchase order finance products as well as the DCA products. The Bulk Acquisition strategy focuses on working directly with the Bank's corporate clients and assisting the supply chain/value chain businesses that provide products and services to larger corporate customers of Absa. The idea is to fund into these chains based on purchase orders and other vendor agreements. This type of lending benefits the large corporate client of the bank by providing finance to their producers creating a stable and reliable supply chain and benefits Absa by building a solid, safe lending space by having the assurance of a contract with their existing large corporate customer. ABSA requested that FSP review the bulk acquisition strategy and recommend changes to help with the introduction of new products to facilitate bulk acquisition and utilization of the USAID guarantee. FSP drafted a SOW and received USAID approval for a consultant to undertake an in-depth assessment of this strategy in November. However, this review has been delayed as the banks principle owner, Barclay's is reviewing all products being offered at Absa to ensure that they fit into the internal systems of Barclay's group IT structure. Absa has told FSP that they anticipate this process will take 2 – 3 months. In the meantime, most products are on hold – this includes POF, but not the DCA product.

Benchmark 1.1.2	Actual
New value chain product introduced at 2 partner FIs	New value chain products introduced at 3 FIs

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

1.2.1 Improve capacity of loan officers to promote and increase utilization of Purchase Order Finance (POF). FSP has worked with three banks in implementing the POF product launch in the market; Blue Financial, Standard Bank and Absa Bank. Blue has been going through reorganization over the past 18 months and their uptake and new lending has been limited. As a result, during this year, FSP focused on Absa and Standard to promote the roll out of the POF product.

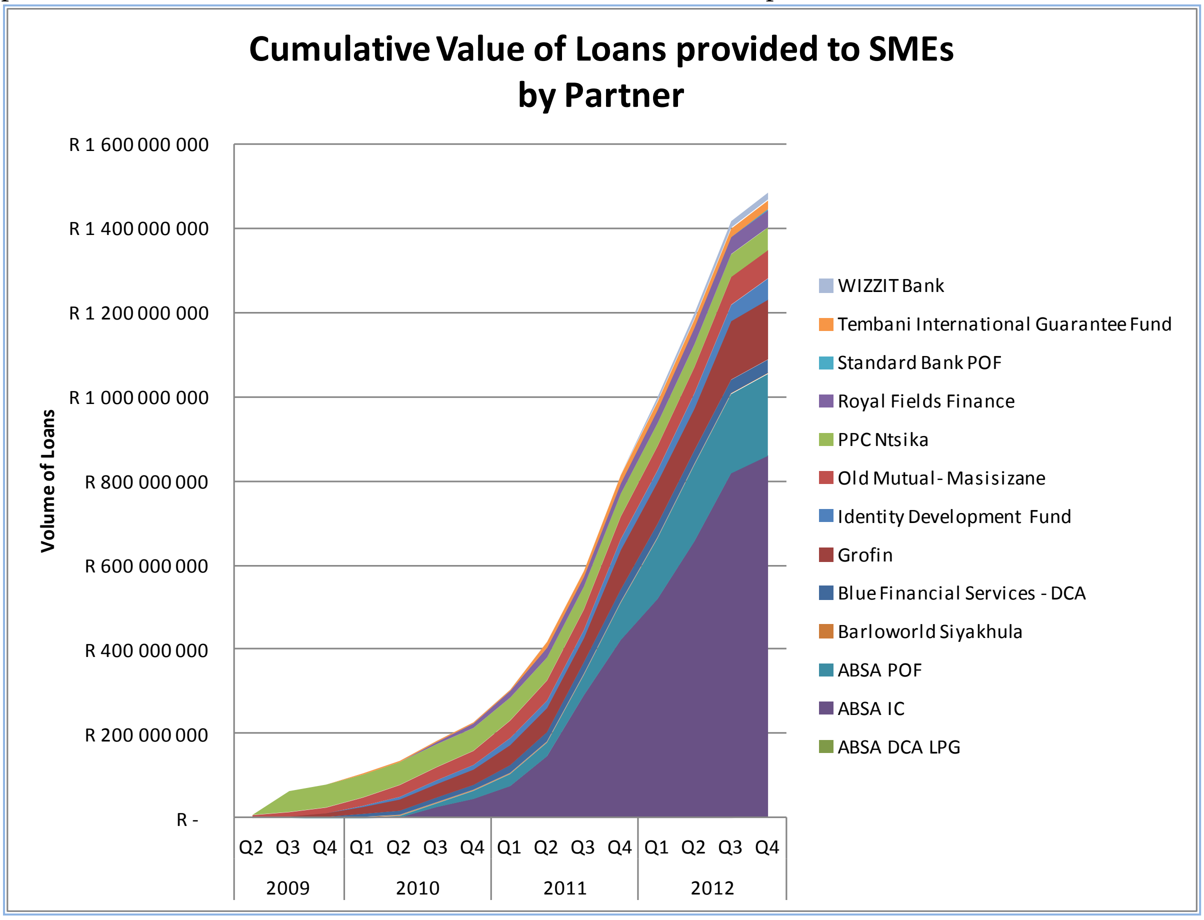
Absa Bank has been very active in POF lending with their vendor finance and invoice clearing products since the pilot in 2009. Throughout this year, FSP has actively engaged with Absa to support the expansion of its POF portfolio and invited Absa to present the POF product at the South Africa Supplier Diversity Council (SASDC) workshop. Absa's POF portfolio has recently topped the R1billion mark which shows the success that can be hand lending to SMEs with the right products designed specifically for the SME market.

FSP began working with Standard Bank in late 2009 to develop a POF lending product. As to be expected, the bureaucratic processes required to secure approval to launch POF within Standard Bank were arduous. To conquer these hurdles, numerous consultancies have taken place over the past several years. FSP has provided on-site POF support to senior bank management, credit officers, and front line sales staff as well as held meetings directly with Standard bank clients to present POF features and benefits. With FSP support, the bank officially kicked off the pilot project in Kwa Zulu Natal in March 2012.

As part of the pilot launch, FSP trained 60 Standard Bank staff on POF policies and procedures. FSP also delivered a detailed train the trainer course and materials to bank management so that they can begin rolling out the training internally on a broad basis.

Seeing positive momentum from KZN, Standard recently approved the expansion of its POF pilot project into the Northern Cape and Eastern Cape provinces. FSP will provide additional training and product dissemination information to senior management, credit managers and front line sales staff to gain increased product support and successfully expand the POF lending activities. Although the uptake of POF has been slow thus far, the Bank has allocated R100 million to lend by the end of the calendar year. To date, Standard has approved 6 transactions totaling R4.7 million.

FSP POF implementing partners completed 2,175 POF loans in FY12 to small businesses. To date, collectively, they have concluded nearly 5,500 financial transactions to 60 SMEs exceeding R1 billion. This comprises over 70% of the SME funding provided by FSP partner FIs clearly demonstrating the significant market needs for this type of working capital product. Of loan value, 76% has been to black owned enterprises and 26% to females.



Benchmark 1.2.1	Actual
300 new POF loans	2,175 new POF loans

1.2.2 Build capacity of loan officers to promote and increase utilization of SME targeted products. During the year, FSP continued to promote Absa Bank's uptake of the SME lending modules previously developed. Absa has trained 79 back office and front line sales staff across four provinces that are supporting the promotion of both POF and DCA products across the Absa Bank network. It is expected that over 600 financial sector professionals from Absa will eventually be trained as part of this process.

Benchmark 1.2.2	Actual
100 financial sector professionals trained	143 financial sector professionals trained

As part of FSP efforts to provide technical capacity building to FI partners to promote and increase utilization of SME targeted products, FSP held and/or presented at several workshops and conferences that outlined products and services that would benefit FI's in their product development, process and policy enhancements.

FSP held a financial institution partner workshop to present "New Trends in Investing and Financing for Social Impact and SME Development" in March. Nineteen FSP partners discussed the development of and need for social impact investing and reporting and multiple opportunities to do so. Several of FSPs' partners presented at this event. The Cadiz Protected High Impact Fund, energy efficiency finance opportunities, purchase order finance and other SME related developments were presented.

Coming from this workshop, discussions were held bi-laterally with several tier two partners on what specific needs they might need to help them more effectively invest in the SME sector. Areas mentioned were credit rating/scoring systems, problem loan training, development of M&E platforms, new sector/product development. FSP subsequently engaged with two partners on the development of credit rating systems with work completed with WIZZIT and with Cadiz Asset Management in this area. (See KRA 1.1.1) Four WIZZIT lenders participated in the credit scoring training to improve credit assessment which provided a firm foundation for improved decision making in credit assessment, approvals and pricing.

FSP continues to provide ad hoc support to the special purpose vehicle partners (SPV's) as they continue to provide valuable funding to the SME market where the larger banks will typically not lend. Although the lending impact is not significant, they are consistently reaching out to SME's, especially black owned business owners who need finance. .

Partners such as Old Mutual Masisizane (OMM), Identity Development Fund (IDF), Royal Fields Finance (RFF), and Grofin, have managed to continue to provide niche lending. OMM has seen management change which has slowed their growth a bit and for IDF, it has been a challenge finding bankable SME's which fit their narrow target. RFF is a relatively small niche player using POF as their main product. These partners have collectively approved 493 financial transactions totaling over R376 million in credit for SMEs, and like the larger FSP FI partners, have seen lending decline year on year. In the case of Grofin, they have done well and are far outpacing the other SPV partners with 51 financial transactions totaling R142,491,686. Grofin also continue to use the South Africa products and procedures as a learning ground for their expansion across the Sub Saharan region.

Although we have seen modest results with most of FSP's SPV partners, Tembani International Guarantee Fund has now stopped lending and is working through management changes. As a result, FSP does not anticipate additional impact from this partner.

Further engaging of SME lenders in the market, FSP recently met with the government's Small Enterprise Finance Agency (sefa) which was recently created to provide finance and related services to SMEs. The discussion centered on how FSP may be able to assist sefa with their mandate of providing finance to small businesses and job creation. A strategic planning workshop with senior management has been scheduled for later in the year to discuss areas of potential cooperation to include product development, loan officer training and assessing their guarantee scheme.

KRA 1.3 Use of loan guarantees/special funds programs expanded

1.3.1 Facilitate/Promote Utilization of DCA Guarantee Facilities in South Africa. FSP has tried to encourage the use of credit risk mitigating guarantees to encourage lenders to support SME credit needs. To date the following Development Credit Authority (DCA) guarantees have been approved.

DCA Guarantee Partner	Maximum Cumulative Disbursements	# of SMEs expected to benefit	Targeted % of BEE SME borrowers	Additionality
Absa Bank	$28.6 million	1000	60%	Finance those SMEs who do not qualify under the strict SME collateral requirements
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
Blue Financial	$20 million	100	60%	Startup businesses and franchises
Mettle	$32 million	1,200	40%	Triple current factoring to panel beaters and provide access to long-term asset based finance
Cadiz Asset	$150 million	300	50%	Accessing institutional investors and NBFI lending

Absa Bank formally signed a DCA guarantee in September 2011 to support BEE SMEs. This $28.6 million DCA guarantee helps ABSA move deeper into the SME marketplace by assisting it to mitigate credit risk. FSP has been providing ongoing technical support to encourage the use of this facility but lending supported by the DCA has been light. To date Absa has placed only two loans totaling R1,300,000 under coverage but numerous other transactions are in the pipeline. While not significant, as was agreed in the DCA legal agreement, Absa had a relatively small target of R10 million for the first year as they build internal capacity to lend under the newly signed DCA. Of the R200 million facility, Absa estimates that they will be able to utilize the R10 million by end of calendar year 2012. The targets increase to R30 million in Year 2, R60 million each in Years 3 and 4, and R40 million in Year 5.

FSP has been engaging with other partners to help Absa build a pipeline of DCA deals in important sectors such as agriculture. FSP has also been working with John Deere on potentially utilizing the Absa DCA guarantee to finance smallholder farmer program in South Africa. Absa and John Deere have a strategic partnership agreement in place identifying Absa as the lender of choice for John Deere tractors. And FSP facilitated the introduction of the appropriate people at Absa to enable smallholder lending to John Deere clients. FSP also attended the John Deere regional product launch wherein John Deere showcased the new products and implements covering their important market segments which included small holders. The overall theme of the launch focused on value chain farming solutions an area where the Absa DCA support loans could have multi level benefits. Unfortunately, these efforts have not yet yielded tangible results but remain ongoing.

What Value does Mechanization bring to farmers?

John Deere Boksburg staff welcome a delivery of new farming equipment

- Sustainable increase in yields and cropping intensity – Maize yields 3 to 4 fold higher.
- Increased income of farmers, agricultural workers and community.
- Worker friendly environment - reduce the drudgery of human beings and draught animals.
- Conservation of land and water resources.
- More efficient use of inputs like seed, chemicals, fertilizers and energy.
- Reduced agriculture produce loss, both in quality and quantity, through timely operations and improvement in process and techniques

In 2010, USAID approved three portable guarantees for NBFIs. Mettle Administrative Services, True Group and Spartan Technologies. Throughout this year, FSP continued to work with Spartan and True Group to help them facilitate financing supported by the DCA guarantees. Both Spartan and True Group were introduced to several of the asset managers that FSP has been working with as part of the development activities for the DCA SME Debt Fund as well as a number of commercial banks To date, neither has been able to obtain financing due to several factors. Cadiz Asset Management is still in discussion with both and has given positive feedback to potentially funding both. Additionally, Mettle’s portable guarantee expired in March as their internal organizational challenges resulted in a credit risk assessment that prevented funding even with the 50% guarantee.

Blue Financial Services continues to have an internal loan moratorium and only placed 3 loans under DCA coverage this year bringing their use to 49 loans totaling R 31,347,761. Blue Financial has been going through a reorganization and clean-up process of their loan portfolio since their change in ownership in early February 2011. As part of the turnaround efforts, Blue suspended all lending and has been reassessing all transactions placed under the DCA guarantee. FSP have been working with Blue to clarify what this means for the loans that are now under coverage. Although Blue has indicated that they have no claims at this time, they do anticipate claims in future. FSP will continue to work with Blue on this process of restructuring and cleaning the portfolio. Once the clean-up process has been completed, a review of Blues' policy and procedures may allow Blue to resume lending in 2012.

Also, as part of FSP efforts to expand use of DCA guarantees to promote SME credit, the team has been in discussions with several partners regarding potential guarantees. Opportunities have been discussed around supporting business rescue and energy efficiency finance.

FSP consultants completed a study on the opportunities for business rescue finance (see KRA 3.2.3) and identified the need for and opportunities to fund businesses in distress. FSP met with Quasar Capital to discuss the creation of a fund to assist companies in distress utilizing a DCA guarantee to mitigate risk and help to raise seed capital. The proposal was for approximately $10 million in partnership with an asset manager.

EE partner IDC has several exciting projects in their energy efficiency pipeline. They are currently engaging with large corporates (mining and manufacturing sectors) to fund their employee energy efficiency needs. FSP have discussed the possibility of seeking a DCA guarantee to support the smaller second tier financial intermediary partners that would finance the projects at the employee levels. A similar initiative is being discussed in Cape Town helping public sector hospitals to become more energy efficient and IDC would like to discuss this project further with USAID to see if a partnership could be established.

FSP has also been working with Nedbank to structure a DCA guarantee to support their ambitious energy lending program. Nedbank has expressed their interest in a $100 million EE DCA facility. The portfolio guarantee would enhance the credit quality of established ESCOs and SME's who previously did not qualify for traditional funding and also reduce the cost of funding of Corporates in order to incentivize them to invest in Energy Efficient technology.

Sasfin Bank has also expressed an interest in exploring a technology based performance guarantees to mitigate the risk in their EE lending implementation. This would complement the Sasfin EE Finance Strategy developed by FSP. (See KRA

Benchmark 1.3.1	**Actual**
1 new DCA signed	1 DCA signed
500 DCA loans extended	5 DCA loans extended

There seems to be a multitude of opportunities to place DCA guarantees in the market to help to mobilize untapped liquidity in the banking sector and to complement technical assistance and policy reform that FSP has been working on. With the many opportunities in the Business Rescue and Energy Efficiency market, the DCA is a wonderful market demonstration effect and catalyst for growth in the South Africa credit markets.

1.3.2 Create an SME Debt Fund for use in downscaling to SME's. The SME Debt Fund was created to test the hypothesis that capital market assets could be leveraged to fund SMEs when the traditional conservative credit markets were reluctant to do so. SMEs are the backbone of economic activity but the financing gap limits the growth and opportunity in the sector. Private-sector led jobs creation (one of the important South African government objectives) has been limited by the lack of financing. By mobilizing private capital to support intermediaries that are lending to SMEs, the SME Debt Fund was designed to directly address this constraint. FSP led the design and implementation of SME Debt Fund to be managed by an asset manager and supported by a DCA guarantee. The USAID DCA guarantee will help raise capital through institutional investors and to also hedge the risk of lending to the SME sector. This approach capitalizes on the unique opportunity created by a recent change to Regulation 28 of the South African Pension Funds Act that now allows for greater flexibility in the allocation of assets from pension and institutional investors into unclassified assets.

SME Debt Fund gets VIP kudos during the 2012 South Africa-United States Strategic Dialogue

Secretary of State Hillary Rodham Clinton

"..[The United States and South Africa] already have strong two-way trade, but we can and must do better for both of our nations and people. That's why the United States is committed to helping South Africa grow your economy, and I'm pleased that our Export-Import Bank and South Africa's Industrial Development Corporation have signed a $2 billion agreement to provide credit guarantees to stimulate the growth of South Africa's renewable energy sector and renewable energy sector.

And a new partnership between USAID and the South African-based firm Cadiz will make up to $150 million available to small-and-medium-sized businesses in South Africa with the hope of creating more than 20,000 jobs…"

Over the past two years, FSP investigated various aspects of structuring a fund and undertook a study to understand the market demand that would bring private and public sector investment capital to on-lend to SMEs. It was determined that investment capital greatly exceeded investment opportunities and numerous fund managers were supportive of participating in the development of such a fund. FSP issued a RFP and 8 fund managers competed for the opportunity to work with FSP to set up this SME Debt Fund.

Ultimately, Cadiz Asset Management was identified as the preeminent partner to pilot this SME Debt Fund. Cadiz has a deep and diverse pipeline of Non-Bank Financial Institutions (NBFIs) that are on-lending to SMEs and individual SMEs built over several years and is well placed to test this hypothesis. As a development partner, Cadiz is unique in that they have a partnership with the non-for-profit GreaterGood South Africa (GGSA), one of South Africa's largest and best recognized impact investment and corporate social responsibility advisory firms. GreaterGood will assist with the reporting on the lending done under the fund, drilling deep into the social impact of the fund and will report on a multitude of indicators that are IRIS certified.

Benchmark 1.3.2	Actual
2 completed DCA concept papers approved	2 DCA concept papers approved
SME debt fund launched	Benchmark Achieved

In late August 2012, USAID and Cadiz signed the final agreement to begin lending under the newly created Cadiz *Protected High Impact Fund*. With the backing of the DCA agreement, a structured variable rate loan portfolio guarantee will enable Cadiz to raise up to $150 million of private capital from pension funds and larger domestic and international institutional investors. The proceeds raised will be used to finance (NBFIs) lending to SMEs and in some cases, directly to SME's. The DCA credit guarantee is promoting private-sector jobs by increasing access to finance to SMEs, in particular black-empowered SMEs. As part of the agreement, at least 50% of the proposed fund will target black-empowered SMEs and the fund is expected to reach over 300 SMEs and create over 20,000 jobs. A fund launch hosted by the US Embassy is planned for October and lending will begin in early FY13.

1.3.3 Expand opportunities for partner NBFIs to extend credit to SMEs. FSP continues to work with the DCA portable guarantee holders with the goal of assisting them to obtain finance to grow their businesses. With the launch of the Cadiz Protected High Impact Fund, it is anticipated that they will have a deeper look at the below NBFI's for funding opportunities. Each has already been referred to Cadiz and specific updates are outlined below.

- **Spartan:** As part of the DCA backed SME Debt Fund, FSP presented Spartan to Cadiz Asset Management for a financing opportunity. Cadiz has presented to their credit committee a R 10 mil line for Spartan. The feedback from Carron Howard, Credit Analyst at Cadiz indicated that she is comfortable with Spartan and is recommending approval. The transaction has subsequently been put on hold pending additional document requests from Cadiz. Spartan is in the process of collecting the data.
- **True Group:** Cadiz also is continuing to talk with True Group and is interested in engaging on a 'deal by deal' basis. They have talked about several transactions and are looking for the right fit. Cadiz is very interested in the fact that True Group has a 50% DCA guarantee and will continue to pursue.
- **WIZZIT:** WIZZIT is looking for funding and has been referred to Cadiz as well. Cadiz has now received the financials from WIZZIT and will be meeting with WIZZIT management in the near term to discuss financing opportunities.

Benchmark 1.3.3	Actual
5 NBFI's receive funding	0 NBFIs received funding

B. PIR 2: Bankability of SMEs Enhanced

To raise the quality of finance-related BDS and enhance SME financial literacy, FSP has focused during the past year on assisting FSP's BSO partners to scale up initiatives piloted earlier in the program in order to expand their outreach and impact. FSP also supported selected capacity building efforts that link SMEs to finance as well as concentrated efforts to transfer and launch *finfind* as a sustainable and scalable model which enhances SME financial literacy and access to finance.

Specific efforts have been directed at

- Evaluating and assessing FSP's interventions with its partners in order to identify what additional support is needed to ensure the intended impacts;
- Supporting sector initiatives to introduce new BDSP capacity interventions
- Supporting the newly appointed host institution of www.finfind.biz to take transfer and ownership of *finfind* and
- Ensuring that the newly formed Finfind (Pty) Ltd is equipped to implement multiple work streams in order to see *finfind* effectively launched and embedded in the market.

Following on from FSP's technical assistance to its BSO partners in previous years, the expectation was that, with the requisite tools and methodologies in place, they would be in a position to grow their operations and achieve greater impact during this recent year. With both Aurik and Raizcorp, two of South Africa's leading private sector incubators, FSP's interventions have been proven to be essential to their effectiveness as business support organizations (BSOs). However, a number of factors have constrained the growth that both BSOs expected. Externally, the economic climate has impacted the demand by SMEs and their ability to pay for business development services (BDS) and competition for funding to subsidize BDS is such that demand and supply do not always match.

PIR 2 Highlights

- 51 BDSPs assisted by FSP's BSO partners
- 2 new BDSP capacity interventions introduced
- Beta version of finfind complete
- Finfind host institution appointed
- Finfind host action plan complete
- 94 finfind consultants assisted
- Finfind Directory of SME Financiers updated
- IT action plan for finfind completed
- 891 SMEs assisted by BDSPs of whom 4% applied for finance
- 71% of SMEs assisted by BDSPs are BEE

FSP has been able to support its partners to address some of these constraints. In the case of Raizcorp, FSP reviewed the gaps and bottlenecks in its BDSP recruitment process, and in the case of Aurik, FSP addressed the opportunity to link BDS and access to finance.

This year kicked off with the appointment of the Nelson Mandela Bay Consortium (NMBC) to host *finfind*. Registered as Finfind (Pty) Ltd (Finfind), FSP has worked closely with them to plan and implement *finfind* in the market. In addition to building the host capacity of *finfind*, significant capacity of BDSPs has been built through their selection and participation in *finfind* orientations and capacity building seminars to introduce them to Financial Institutions and their SME products.

Finfind, with FSP support, has established strategic links and partnerships which it has leveraged for a number of purposes, namely: promotion of *finfind*, recruitment of BDSPs as *finfind* consultants, cooption of FIs to list in its Directory of SME Financiers, and delivery of FI seminars. Not only has this raised *finfind*'s profile in the market and generated substantial interest, but it has increased the client portfolio of *finfind* consultants.

For *finfind* to be sustainable, the business case based on its ability to generate revenue has yet to be fully tested and proven. During the year, fee based orientations were introduced, however, this is only one of several streams of revenue proposed by Finfind. As with other BSOs, Finfind's capacity to impact the market optimally will be determined in future by its ability to prove the value proposition to its user segments (SMEs, *finfind* consultants and SME Financiers), generate revenue and source additional funding.

One of the biggest hurdles for *finfind* consultants will be SME preparedness to pay for their services – as much a factor of the economic environment as the consequence of crowding out of private sector based service provision and internal constraints experienced by many small businesses.

As with any start up, the challenge for Finfind is to stimulate and match demand for its value-adding services. All indications from the market are that this tool is essential for assisting SMEs to access finance and will address a great gap between supply and demand for finance.

KRA 2.1 Quality of BDS related to finance improved

Activities:

2.1.1: Enhance capacity of BSO partners to scale up delivery through BDSPs. Based on the constraint experienced by Raizcorp in identifying suitable BDSPs for its incubators, FSP assisted Raizcorp by re-evaluating the efficiency and effectiveness of its Guide (BDSP) selection and recruitment process. The assignment demonstrated the veracity of the process designed by FSP and exposed where the gaps and opportunities were for improvement in implementation. As a result of this intervention, Raizcorp has been able to process an increased number of applications and have succeeded in appointing 22 Guides during this past year, reaching 88% of their annual goal and exceeding the number of BDSPs assisted in all years under reviews.

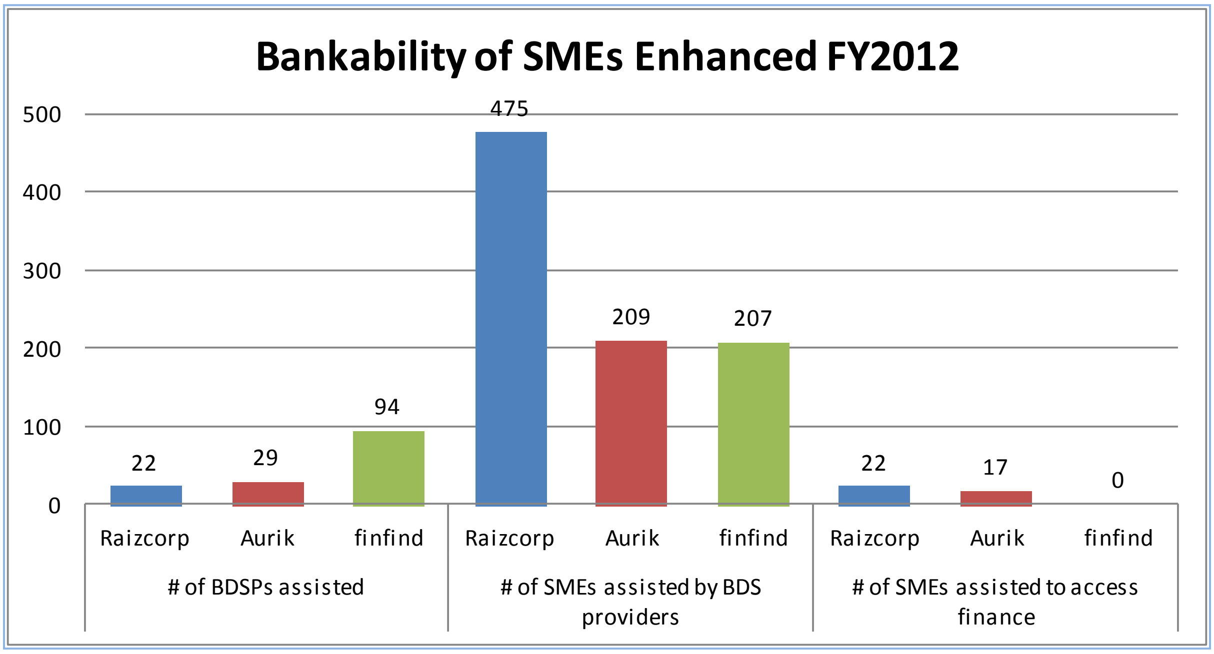
Benchmark 2.1.1	Actual
60 new BDSPs graded/trained by BSO partners	51 BDSPs graded/trained by BSO partners

The Raizcorp model is based on providing Guides in a number of "prosperators" throughout the country. With this increased number of Guides, they opened their seventh prosperator to support the growth of SMEs.

FSP partner, Aurik Business Incubator has recruited and assisted BDSPs aggressively during the year, building on the Training of Facilitator course, incubation tools and Diagnostic Tool developed with FSP assistance. During the year, 29 Facilitators and Analysts were assisted using these tools. This dramatic growth has led them to develop a scheduling system which enables them to manage the increase and complexity in SME support sessions as well as to create a Senior Facilitator role which oversees the process of quality BDS provision ensuring increase services offered to the SME.

Additionally, FSP drafted a Scope of Work and appointed a consultant to design and develop a Loan Fund for Aurik, based on an identified need to provide – and link - incremental funding to SMEs receiving business support from Aurik. Several Corporates have expressed interest in their Enterprise Development funds[3] being used for SME financing and business support. This FSP assisted assignment will be carried over into the next financial year and will assess the feasibility of Aurik managing such a Fund on behalf of its Corporate clients

The following figure illustrates the breakdown of BDSPs and SMEs assisted by service provider, viz. Aurik, Raizcorp and *finfind* as well as the number of SMEs assisted to access finance for this past year.



During 2012, 143 BDSPs received assistance who, in turn, assisted 891 SMEs. Of these SMEs, 71% are BEE. The number of BDSPs assisted during this past year was just over four times the number assisted during 2011, with 94 of these being *finfind* consultants.

In total, 2,181 SMEs have been assisted during the Life of Project, consisting of 41% in this fiscal year showing dramatic uptake in FSP supported efforts. Raizcorp provided the bulk of the contribution (74%) and the largest number of SMEs assisted to access finance (80%). *finfind* contributed 56% to LOP targets of BDSPs assisted.

Of the total number of SMEs assisted, 4% have applied for finance.

2.1.2: Enhance the capacity of BDSPs to assist SME clients to access finance. Over the life of project, FSP has worked with a number of organizations in an attempt to design strategies and interventions to help BDSPs improve access to finance for SMEs. As a result of its

[3] A statutory regulation requiring Corporate entities to contribute 3% or more of Net Profit After Tax to SMME development.

thought leadership in the promotion of appropriate, targeted BDS, FSP was approached by several organizations during this past year to collaborate in a variety of initiatives.

The invitation to FSP to collaborate with J P Morgan has enabled it to contribute significantly to the “SME Catalyst Programme” which seeks to promote delivery of quality assured BDS. By assessing the socio-economic impact of BDS on SMEs, and in particular on their ability to access finance, JP Morgan intends to benchmark good practice as a way of informing investment in BSOs. FSP’s expertise in finance related BDS informed the design of the monitoring and evaluation framework, and as such, influenced the way that BDS impact is defined. FSP participated as a panel member presenting SME challenges at the official launch of their program which will assess the impact of BDS on twenty SMEs supported by Aurik and Raizcorp, including impact on access to finance. FSP’s ongoing participation with JP Morgan is focused on leveraging the Framework to conduct a baseline survey with *finfind* assisted SMEs as a way to assess the impact of *finfind* as a BDS on SMEs. With the conclusion of this analysis, JP Morgan will present a summary report reflecting what constitutes “good BDS”.

FSP’s expertise in BDS and quality assurance was leveraged when it was invited by the Institute of Business Advisors (IBA), a collaborating partner with FSP on *finfind*, to participate in a think tank of the large banks to conceptualize a way to quality assure business advisors. FSP developed a proposal for the think tank which provided strategic direction for how to quality assure business advisors to make them eligible as service providers to the banks. The approach advocated is one which identifies what BDS are required in response to what FI’s require when assisting their SME clients.

Benchmark 2.1.2	**Actual**
1 BDS capacity building intervention introduced	2 BDS capacity building interventions introduced

During the year, significant effort was made to establish some kind of collaboration with Government, in particular the newly merged Small Enterprise Finance Agency (SEFA) of the Department of Economic Development (DED) and the Small Enterprise Development Agency (seda) of the Department of Trade and Industry (dti). Several meetings were initiated with each and the proposal mooted for *finfind* to act as a catalyst between SEDA and SEFA in which *finfind* consultants would provide business support to SMEs seeking financial assistance from SEFA. A workshop to flesh this proposal out with both parties was scheduled several times however did not come about. What emerged from these discussions was a collaborative partnership with SEFA which led to their sponsorship of the seminars held with *finfind* consultants to introduce them to SEFA’s financial products.

KRA 2.2 SME financial literacy enhanced

Activities:

2.2.1: Complete finfind modifications based on pilot. This benchmark was met early in the year with the completion of several modifications to *finfind* in order to enhance its value. The modifications were based on feedback which emerged from testing the product during the previous year, and addressed aspects such as the content of *finfind*, its tools, design, functionality and Directory of SME Financiers. (see KRA 2.2.6).

The website's design was updated to reflect the byline of *finfind* which has been registered as a Trademark, namely, "business finance network", and the tools and templates modified accordingly.

Over and above this, Finfind (Pty) Ltd, undertook additional areas of improvement to *finfind* which have greatly enhanced its impact in the market. Of note is the design of their online application form for BDSPs registering as *finfind* consultants. Scoring of selection criteria embedded in the application ensure that only BDSPs equivalent to a level 3 or 4 IBA grade are eligible to use *finfind*. This approach has been tested in each of the three provinces where *finfind* is operational and been found to be a reliable method for selecting applicants of the highest quality.

In parallel to this, Finfind enhanced the database of *finfind* consultants in order to showcase them to SMEs seeking assistance with access to finance. Using the in-depth information gathered through the application process, *finfind* consultants are profiled in the database so that SMEs can select who they wish to approach based, for example, on their location, years of expertise in consulting to SMEs, areas and sectors of specialization, and whether they work with startup and/or existing businesses. The database display is a key piece in promoting *finfind* consultants and securing new business for them via the *finfind* website.

Benchmark 2.2.1	Actual
Modification of piloted version of finfind complete	Benchmark Achieved

2.2.2: Finalize hosting strategy, business plan and management plan for finfind host.

One of the most critical pieces of securing *finfind*'s sustainability has been managing the transition of *finfind* to the host institution, Finfind (Pty) Ltd. This has been done in a number of ways, including the design of a business model consisting of several streams of revenue, anticipated to make *finfind* commercially viable. The formalization of a Concession Agreement defining the working relationship between FSP and Finfind (Pty) Ltd was an essential step in which measurable performance targets were agreed to as final markers for handing over ownership of *finfind* to the host.

In lieu of a formal strategy document, Finfind, with FSP, developed a management plan and detailed work streams designed to ensure effective implementation of *finfind*. These included orientation of BDSPs as *finfind* consultants, consolidation and enhancement of the Directory of SME Financiers, maintenance and management of the IT system, enhancement of the *finfind* content and tools and marketing of *finfind* to its various user segments.

Each work stream has been managed through an action plan with specific milestones and targets and with clear delineation of roles and responsibilities within the Finfind team. During the course of the year, FSP has played an active role in project managing the various work streams and in supporting Finfind as it refines its business plan and activities within the scope of the funding it has access to. As with any start up business, ongoing modification to the original assumptions and implementation were required. The formalization and implementation of these action plans lead to measurable results.

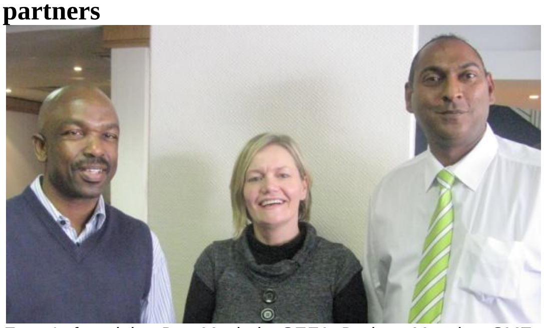
Benchmark 2.2.2	Actual
finfind host action plan completed	Benchmark achieved

2.2.3: Implement finfind training plan. The successful implementation of *finfind* required that a highly qualified group of BDSPs were selected and inducted into the use of *finfind*.

During the year, a rigorous process of selection was designed and put into place. As such, Finfind has succeeded in establishing an orientation program which is sought after by BDSPs from a number of different business support organizations (BSOs). The orientation program schedule was finalized and promoted to BDSPs via collaborating partners such as the IBA and South African Institute of Professional Accountants (SAIPA). Designed as a program to orientate the BDSPs in how to navigate and use *finfind*, it was piloted in the Eastern Cape and Gauteng and subsequently implemented on a registration fee basis in the Western Cape. In total, 64 BDSPs have been identified as qualified *finfind* users and will begin to pay utilization fees early next years to further ensure *finfind* sustainability.

finfind
Business Finance Network

Finfind's success enhanced through strategic partners



From Left to right: Don Mashele, SEFA, Darlene Menzies, SMEasy, Shan Moodley Absa Bank

To enhance the capacity of the more than 60 finfind consultants, seminar with collaborating partners such as SEFA (the Department of Economic Development), banks (ABSA and Standard Bank) and SMEasy were organized.

In highly interactive events held in each of the three provinces where findfind has consultants, strategic partners shared information and provided training on products, credit criteria and application process to begin to build stronger links between finfind consultants and the FIs who support SME credit needs.

Finfind is finalizing the details of a mutually beneficial partnership with SMEasy, an on-line business and financial management tool for SMEs, to not only increase SME financial literacy and generate client traffic but increase revenues.

Having successfully recruited and registered BDSPs as *finfind* consultants, the challenge has been to retain them as regular users of the tool. This has been achieved through the introduction of regular information and training seminars held collaboratively with strategic partners. Thirty *finfind* BDSPs have participated in these regular seminars.

Capacity building *finfind* consultants in this way has proved to be extremely effective, particularly in terms of building a community of practitioners.

Benchmark 2.2.3	Actual
100 finfind BDSPs trained	94 finfind BDSPs trained

Additionally, FSP and Finfind solicited feedback from the BDSPs using a online survey which indicated, in part, that the tool was working properly but SMEs requests were not coming in as expected.

2.2.4: Expand FI directory listing.

Prior to this year, a Directory was established of 36 SME Financiers. The focus during this past year has been to enhance the quality and depth of information available from the Financiers and to update and expand the listings in the Directory.

First, Finfind improved the data gathering template and method. Where the original listing was based on a questionnaire managed by impersonal email exchanges, the new method personally invites Financiers to complete and update their information online. This new system is more efficient and enables Financiers to provide far more information using a checkbox approach.

To complement this, extensive follow up of Financiers has been undertaken by FSP and the Finfind team. Nearly a hundred face to face meetings have been conducted in order to demonstrate how *finfind* works and to promote the value proposition to the Financier. The response has been unreservedly positive in that Financiers recognize the value of increasing their pipeline of bankable SMEs. However, this has not always translated into prompt completion of the online questionnaire requiring repeated follow up and chivying.

Benchmark 2.2.4	Actual
20 additional FIs added to the finfind directory	6 additional FIs added to the finfind directory and 9 committed to list

During this extensive follow up and invitation to Financiers to update their Directory information, several listings have fallen by the way side. These include Financiers who have folded during the past year, or have shifted their focus or whose products are no longer in alignment with *finfind*'s SME target market.

While the new Directory is far more comprehensive than the previous one, it does not contain as many listings as before, although the updated data indicates a level of commitment and interest from Financiers who, it is hoped, will continue to list even once listing fees are introduced.

2.2.5: Implement IT solutions for finfind maintenance and development. The IT action plan for *finfind* was completed and the website management was transferred to Finfind's IT manager. A plan for maintaining and managing the website was designed and put in place. This system ensures daily backups of the site, full accessibility and uptime of the site.

Benchmark 2.2.5	Actual
IT action plan for finfind completed	Benchmark achieved and IT maintenance transferred

Over this year, developments to the site have resulted in the following significant enhancements:

- Introduction of the online application form, selection criteria and scoring for BDSPs
- Creation of a database of registered *finfind* consultants
- Design and implementation of an online email link and questionnaire for use by SME Financiers to update their Directory information
- Introduction of an enhanced layout and comprehensive representation of SME Financier information.

finfind Business Finance Network

Distribution of finfind consultants by BSO

BSO	E. Cape	Gauteng	W. Cape	TOTAL
BBSDP (the dti)	0	3	3	**6**
DEDAT	0	0	2	**2**
ECDC	1	0	0	**1**
GEP	0	4	0	**4**
IBA	9	7	5	**21**
ICF	0	0	1	**1**
IIB	1	2	1	**4**
IMM	0	1	0	**1**
NEF	0	0	1	**1**
NYDA	1	1	0	**2**
SAICA	0	0	2	**2**
SAIPA	1	4	0	**5**
SATSA	0	0	1	**1**
SEDA (the dti)	6	1	6	**13**
TOTAL	**19**	**23**	**22**	**64**

2.2.6: Expand and enhance finfind modules and tools.

Expansion and enhancement of *finfind*'s modules and tools focused on a few key areas, partly based on feedback from the product testing / pilot phase of testing. One of these addressed the way the modules are presented, the others addressed the enhancement of the information itself, as well as introduction of several key tools.

In terms of presentation, the 52 modules of which *finfind* was initially composed were modified to include summaries, thereby enabling *finfind* consultants to work with the simple synopsis once they have mastered the content of the detailed modules. This simplification of the presentation of the content has enabled consultants to focus on the decision making process and use of tools leading to a far more streamlined process, without compromising on their ability to access the expanded modular content when they need it.

Additionally, five modules were enhanced by expanding and updating the information in them, including for example, modules on import and export finance, and 7 new modules were developed ensuring that *finfind* consultants have access to information which is both current and relevant. Because of the inter-connectedness of modules in each step of the decision-making process, enhancements to one module require related modules in subsequent steps to be reviewed and enhanced.

In addition to the enhancements made to other aspects of *finfind* (see 2.2.5 above) a new tool - a Non Disclosure Agreement and Consent to Conduct a Credit Check - was integrated into *finfind* which further professionalizes the service of the *finfind* consultant and protects the integrity and confidentiality of the SME client.

Benchmark 2.2.6	**Actual**
10 new or modified modules added to finfind	7 new or and 57 modified modules for finfind

The proposal to design and integrate a blog site into *finfind* to support the creation of an interactive community of practice was explored and postponed to the following financial year, pending development of a more comprehensive strategy and ability to sustain frequent and regular content delivery.

2.2.7: Promote finfind marketing. *finfind* was officially launched at the National Small Business Chamber (NSBC) Expo in March which was attended by well over a thousand SMEs.

Relationship based marketing targeting the three *finfind* segments – SMEs, BDSPs, and FIs --was undertaken in earnest. Initiatives have focused on winning and securing these segments as regular users of *finfind* primarily focused on:

- Business Support Organizations as sources of BDSPs for *finfind* orientation
- *finfind* consultants in three provinces
- SME Financiers (including banks, niche lenders, government agencies, debtor financiers, trade financiers)
- And SME Agencies/BSOs as sources of SMEs requiring assistance to access finance.

The primary method for building relationships has been face to face marketing, use of email communication, and promoting awareness and visibility of *finfind* through the use of posters and brochures. While this has been effective in terms of BDSPs, *finfind* consultants and SME Financiers, it has been inadequate in

finfind
Business Finance Network

A registered finfind consultant assists SMEs to reflect on their need for finance

Neszette Wilson, a registered finfind consultant

In continuing to identify additional ways to increase the business proposition for *finfind* consultants, FSP selected Neszette Wilson, one of the 64 registered *finfind* consultants, to join in a presentation for nearly150 SMEs at the Tshwane Business Club. She explained the nuances of trying to secure finance and described the *finfind* process of linking SMEs with skilled business advisors, allowing SMEs access to financial products that they might not otherwise have had.

By facilitating access to SMEs and providing opportunities for finfind consultants to explain finfind, more SMEs are assisted to become financially literate and consultants increase their client portfolio.

terms of driving SMEs to the website. In response, FSP drafted and sourced a SOW to undertake an extensive on-line marketing strategy to drive more SMEs to the site to ensure that all elements of making *finfind* work are in place.

Supplementing these marketing efforts, FSP worked extensively with Finfind to classify and identify strategic partners, including, though not limited to third party vendors who offer additional tools for improving SME bankability and potential for added market exposure. One such partnership has been with SMEasy which represents not only a complement to what *finfind* offers to SMEs but potential for additional revenue.

Benchmark 2.2.7	**Actual**
finfind launch completed	Benchmark achieved

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

To achieve South African government objectives of economic growth, employment creation and transformation, an improved business environment is essential – especially for previously disadvantaged entrepreneurs. An improved business environment is also critical in signaling to potential investors that South Africa is open for business through empirically sound and globally accepted comparative rankings. FSP has been involved with many layers of government support over the past four years and are winding up the policy initiatives.

PIR 3 Highlights

- 41 Government Officals attend RIA training
- The RIA report and training tool kit was accepted by National Treasury
- Business Finance Rescue case study presented to dti
- FSP supported the design of a certification and regulatory framework for business rescue practitioners
- 2 applied research papers on insolvency topics in support of new insolvency bill (DOJ/SALRC)

KRA 3.1 Financial sector legal and institutional framework improved

Activities:

3.1.1: Support to the Government of South Africa Regulatory Impact Assessment Program. South Africa has tried for several years to find the right formula for implementing Regulatory Impact Assessment (RIA), an internationally endorsed "smart regulatory" tool to assist governments make difficult choices and do more with fewer resources. In 2007, the South African government decided that RIA was relevant to its needs, and that it should be widely implemented after a period of pilot testing.

FSP assisted National Treasury to build capacity within the government to carry out Regulatory Impact Assessments (RIAs). FSP's work has focused on intensive training and capacity building with the ultimate objectives of: (1) taking stock of the local experience with RIAs based on a handful of important pieces of legislation; and (2) strengthening institutionalization of the RIA program based on a three- to five-year implementation strategy that includes development of a RIA Toolkit for use in training Ministry staff involved in RIA policy development and implementation.

Benchmark 3.1.1	Actual
RIA Framework completed	RIA framework and tool kit completed
30 GSA supervisors trained	51 GSA supervisors trained

FSP organized two training events. The first event was attended by 10 high-level government officials specially selected based on their potential to serve as RIA government trainers. The second event involved a two-day introductory workshop on RIA for 41 government directors and deputy directors from 20 departments to strengthen awareness and understanding of the RIA process.

FSP and National Treasury colloborate on RIA workshops

FSP RIA Specialist Scott Jacobs (left) and Fundi Tshazibana, DDG Economic Policy Division National treasury at the government workshop in Pretoria

Over 40 Government policy makers from 20 departments participated in a two-day introductory workshop on RIA in South Africa. Acquainting participants with the recognized 9-step RIA program, the workshop drew on lessons learned from South Africa, while comparing this with RIA experience in other countries. The training was carried out by FSP's RIA policy expert, Scott Jacobs, who has worked in the field for 25 years, in more than 75 countries.

The final report and RIA tool kit underwent numerous consultative revisions and Treasury issued its final approval in August. USAID and Treasury have had strategy discussions which included the possible next steps with regard to RIA institutionalization. Prior to receiving additional support for the initiative a clear RIA strategy and influential champion in government is needed.

3.1.2: Applied research on reforms required to enhance the insolvency policy framework.

FSP completed two applied research papers on insolvency topics. The first paper, entitled "Insolvency Systems in South Africa – Comparative Review of Employee Claims Treatment", examined policy considerations related to the treatment and balancing of employee claims relative to the claims of other creditors and parties, approaches adopted by other countries to protect employee entitlements in the event of an employer's insolvency, and the current position in South Africa on treatment of worker claims. Based on the comparative review, the paper identifies the four predominant models in use for protecting worker claims and rights and makes a number of policy recommendations on how worker claims might be best treated in the context of South Africa. The second paper, "Comparative Review of Liquidator Remuneration Costs", follows a similar approach in identifying the various remuneration schemes adopted by countries for compensating liquidators and administrators in the context of insolvency, while addressing policies aimed at creating incentives to maximize value of the bankruptcy estate and to promote efficient liquidation proceedings. As a next step, FSP will continue its dialogue with DOJ and SALRC as to the research and its possible application in helping to shape the way these issues are addressed in the new insolvency bill. With the delivery of these two papers, FSP has successfully concluded the benchmark for this activity.

Closely related to its work on insolvency (though not part of the 2012 work plan), FSP was invited by the South African Reserve Bank to participate in and present at a high level international seminar on financial regulation. Under the auspices of the Financial Regulatory Reform Steering Committee (FRRSC), the South African Reserve Bank, the Financial Services Board and the National Treasury organized a two day international seminar in Pretoria, South Africa on 1-2 November 2011, to deliberate on and share ideas on the way forward in implementing the "twin peaks" model of regulation in South Africa. FSP was invited to make a presentation on the topic of Failure Resolution, addressing the framework, features and regulatory tools available to regulators in connection with financially distressed or insolvent banks, and the broader legal and regulatory infrastructure that underpins an effective system of credit risk management and resolution and recovery of troubled assets. FSP's presentation was complemented by presentations and discussions of other panel members on the topics of (1) the South African legal framework for bank resolution and insolvency, (2) treatment of Systemically Important Financial Institutions (SIFIs), and (3) Depositor Protection through resolution funds and depositor protection schemes. The panel emphasized the important link between prudential supervision and effective regulation by having a proper resolution framework and legal infrastructure in place, well before a crisis occurs. The panel also had an opportunity to discuss recent and proposed insolvency reforms.

Benchmark 3.1.2	Actual
2 papers recommending policy options to support a bill on unified insolvency law submitted	2 papers on insolvency policy presented

KRA 3.2 Regulatory environment stimulating business (SME) development enhanced

Activities:

3.2.1 Support dti/CIPC in implementation of select areas of new Companies Act, including business rescue procedure. The new "business rescue" provisions in Chapter 6 of the new Companies Act replace the former "judicial management" system with a new system managed by the "Business Rescue Regulatory Board" with authority to establish the standards and regulatory framework for a newly established profession of "Business Rescue Practitioners". In view of the current regulatory gap, CIPC has been approving BRPs on an *ad hoc* basis on application of professionals nominated in a specific Business Rescue proceeding who demonstrate their qualifications, skills and experience in the field of business rescue and turnaround. As of end December 2011, over 300 applications for business rescue had been filed, and over 200 license certificates for business rescue professionals had been granted (in some cases multiple certificates being granted to the same practitioner on different cases). While this interim approach is practical and necessary, it does not allow for the pre-qualification of BRPs nor provide the certainty needed to grow and sustain the profession based on a set of clearly defined criteria consistently applied to applicants. Moreover, a key focus of the permanent framework will be to facilitate mentoring of previously disadvantaged practitioners to ensure that the Business Rescue profession serves as a model for inclusion, training and development of skills to meet the demands of the South African economy.

FSP has been supporting CIPC in the development of a certification accreditation model and regulatory framework governing a new profession of business rescue practitioners. During the first quarter, FSP met with CIPC on multiple occasions to outline the key features and requirements for a regulatory framework, and to develop an action plan for implementation. FSP was also invited to participate as a member of a special CIPC Liaison Committee on Business Rescue Accreditation Model along with a small group of business rescue professionals, including representation from SALRC, to advise on aspects of the design of the accreditation standards, model and regulatory framework. CIPC convened the first meeting of the Liaison Committee on November 15, which included a review of regulatory framework issues prepared by FSP. The Liaison Committee allocated various tasks among the members and will share the results in the next meeting when Government returns in February. CIPC now anticipates having a new business rescue accreditation model and regulatory framework ready in the second half of 2012.

Based on specific interest expressed by CIPC in the UK model of insolvency professionals regulation, FSP reviewed and prepared a short synopsis of the key findings and conclusions of a recent report from the UK's Office of Fair Trading on the Market for Corporate Insolvency Professionals. FSP also assisted CIPC in establishing contact with its counterpart agency in the UK (Department of Trade and Industry, Insolvency Service) and various heads of self-regulatory insolvency professional bodies to arrange meetings between such agencies and organizations with an official CIPC delegation. The visit took place in late November and FSP was informed that the meetings were highly informative and useful to CIPC's work.

Benchmark 3.2.1	**Actual**
Final framework to certify, license and regulate business rescue professional completed	Framework presented to government of consideration

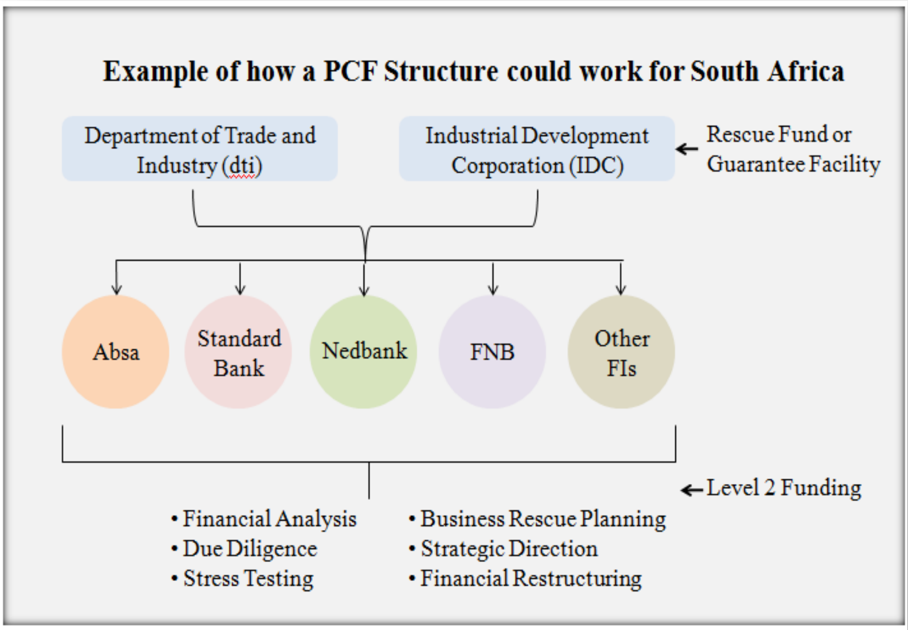
3.2.2 Follow up on insolvency policy framework harmonization and legislative reform. The Government has placed priority on modernizing the insolvency framework. In addition to FSP's assistance to DOJ and SALRC in conducting applied research on issues of concern raised by NEDLC, FSP has been invited to participate in an inter-agency Steering Committee tasked with providing feedback to Treasury on an insolvency and creditor rights framework assessment undertaken by the World Bank with the view of recommending changes to a number of legal systems, including insolvency, to bring them into compliance with international best practice, and to provide feedback on the draft insolvency bill from the perspective of other affected public and private sector stakeholders. A final copy of the World Bank's report was reviewed and commented on by FSP in the first quarter, and subsequently submitted by the World Bank to National Treasury. At this stage, no further activity is expected until a preliminary draft of the insolvency bill is circulated for review and comment by the Steering Committee.

Benchmark 3.2.2	Actual
Policy recommendations report on unified insolvency bill submitted	Benchmark completed

3.2.3 Support to PIR 1 in exploring new financial products for SMEs undergoing business rescue. With South Africa's enactment of a new Companies Act in May of 2011, and the availability of a new business rescue procedure, distressed businesses in the country are now attempting to take advantage of the new law's promise for rescue. Unfortunately, some of the provisions and protections that are found in enterprise rehabilitation laws in other countries are not found in South Africa, making it extremely difficult for companies to access finance. Moreover, South Africa has no secondary market for distressed debt.

To identify some of the advantages of distressed financing (aka post-commencement financing "PCF"), and find ways in which to manage the all-too-obvious risks with the hope of promoting a dialogue on how to develop the distressed financing market in South Africa, FSP drafted a Business Rescue Financing business case.

FSP consultants concluded the investigation into business rescue finance activities locally and internationally by presenting the business rescue finance paper to dti. The paper outlines the need for funding to assist businesses in distress. Specifically, the creation of a fund to assist companies in distress utilizing a DCA guarantee to mitigate risk and help to raise seed capital. Companies often require additional capital resources to successfully implement their reorganization plans, they cannot obtain the necessary funding from third party lenders and their existing lenders are often actively working to reduce exposure to the affected company. The prospect of rescuing a business is highly dependent on the successful raising of emergency



funding to enable the business in distress to continue operating during the period of the business rescue proceedings.

Benchmark 3.2.3	Actual
Business case to determine feasibility of promoting financing for distressed SMEs completed	Business case completed and delivered to CIPC for comment

There is interest in pursuing financing of this niche market with possible reliance on a DCA guarantee (See KRA 1.3.1)

D. PIR 4: SME Knowledge Management System Strenghtened

PIR 4 Highlights

- 36 knowledge dissemination events
- 84 content submissions to the blog; nine contributed by collaborating partners
- 15 collaborating partners
- 10,817 inquires to the knowledge management system
- Identified FABCOS SMEs as potential source for baseline M&E survey and case studies for the SME Catalyst Growth Program in collaboration with JP Morgan Philanthropy
- Publication of FSP work in university textbook

Knowledge Management is a cross-cutting intervention which aims to improve SME finance opportunities and highlight successful approaches to SME development as well as tools for FIs and BDSPs to use in SME capacity building efforts.

Three data sources comprise the knowledge management system: a Visual Basic (VB) dashboard which collects and analyses data, the financial sector blog and the *finfind* website. Each has a part to play in strengthening knowledge management and knowledge dissemination. FSP maximized information in the VB dashboard by meeting with partners to assess FSP's impact on their work and on SMEs specifically. Further, both the blog and the *finfind* website continued to gain importance and traction with increased focus on new communications and the transition of the blog.

Credit providers and advisors such as FIs, BSOs and BDSPs are the main target audience of the FSP blog to ensure that they are well equipped to support SMEs. The second target audience is the SMEs (ultimate beneficiaries) so that they can be informed consumers of financial services and know the best options to help grow their businesses.

Therefore the FSP Knowledge Management component seeks to:

- Strengthen SME finance related knowledge management,
- Share innovations in financing options and opportunities in fresh, new ways,
- Disseminate stories of impact for SME development in collaboration with private, government and other donor programs, and
- Review, assess and communicate overall project impact, successes and lessons learned to stakeholders.

FSP aimed to address major constraints in the SME sector, namely, problems in accessing finance and a general lack of coordinated information on the SME finance market through the blog and facilitating knowledge dissemination events. FY2011 has seen an increase in the productivity of nearly all PIR 4 Indicators whereby the year has been the most successful year for FSP in terms of the number of content submissions to the blog, the number of new collaborating partners and the number of dissemination events. Although the number of blog hits was less for 2012 than 2011, FSP is confident that revamping the blog with multi-media content will draw more traffic in the final year of the project. Additionally, the FSP led Financial Sector Blog (www.fsp.org.za/blog) continued to serve as a key medium for the sharing of industry experiences and lessons learned. Knowledge dissemination efforts encouraged the exchange of information on FSP, matters relating to SME development and new products.

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

***Activities**:*

4.1.1 Facilitate integration of the FSP blog to NMBC. FSP has been working with Finfind (Pty) Ltd, formerly the Nelson Mandela Bay Consortium, the hosts of *finfind*, to develop the blog section of the *finfind* website: www.finfind.biz. Content and design meetings were initiated in the 1st quarter of 2012. FSP continued to work with Finfind (Pty) Ltd and generated an action plan and a navigation tree to address the blog's style, content, branding requirements, contributors, and monthly feature sections. Additional meetings in the 3rd quarter further refined the planned blog's content to include:

- A monthly theme on one of the finance products available in the market
- FIs describing specific finance products
- A profile on one of the *finfind* consultants
- Frequently Asked Questions (FAQs) – input from both consultants and SMEs
- Monthly alerts on upcoming events across SA relating to SME finance, and
- A regular feature section based on SME practical information, Step 3 of *finfind* process

Through meetings and correspondence, it was established that the target audience of the *finfind* blog will be primarily for *finfind* consultants and SMEs, and secondarily for FIs. While FSP intended to complete the blog development and migration in this fiscal year, the activity was postponed to allow for a concentrated effort to drive user traffic to the website. The next step will be working with Finfind to identify the blog developer.

Benchmark 4.1.1	Actual
Transfer of FSP blog to NMBC	Activity postponed

4.1.2 Build collaborative relationships for knowledge dissemination. Over the past year, FSP has collaborated with the following ten partners who are now part of the development of the SME community of practice:

Recently, FSP met with Dalberg to finalize collaboration plans for executing the **SME Catalyst for Growth Program**. Dalberg has since completed a baseline assessment of 20 SMEs (10 for Aurik and 10 for Raizcorp). Dalberg has shared link to the online survey with FSP. In the coming quarter, FSP will conduct the baseline survey with ideally 20 SMEs identified through *finfind*. It is anticipated that *finfind* consultants will be able to guide SMEs through the baselines assessment. Further, FSP is hopeful this process will help to identify SMEs for which case studies can be investigated. Lessons learned will be shared with Dalberg and presented at the lessons learned symposium planned for May 2013.

Collaboration Space	2012 New Collaborating Partners	What
SME Catalyst for Growth Facility	Dalberg JP Morgan	FSP has met with Dalberg on several occasions to collaborate on their project, the SME Catalyst for growth Facility which is an assessment of BDS results of 2 incubators: Aurik and Raizcorp.
South African Energy Efficiency Workshop	Department of Energy Energy Cybernetics Eskom International Finance Corporation Industrial Development Corporation	FSP collaborated with the IFC and the IDC to host the South African Energy Efficiency Workshop. Collaborating partners presented at the event which sought to identify the potential supports that can be delivered to the SME sector through energy finance.
New Trends in Business Workshop	GreaterCapital	Presentation of Social Impact Investing and the Case study of SRI Fund
FSP Blog	Nexii	FSP collaborated with Nexii on one content submission to the FSP blog
FI Information Sessions	sefa	Sefa organized and hosted 3 FI Information Sessions with Absa Bank

Partners established as a result of the EE workshop have become strong KM contributors. Both the IFC and IDC have provided data that was posted to the FSP blog. From discussions at the **South African Energy Efficiency Workshop**, FSP has since begun working with financial institution partners to explore new products and services that would stimulate the market for Energy Services Companies (ESCO) and other small and medium sized businesses that are active in the energy efficiency space. As such, in September, the IDC published an ESCO market study on the blog.

This brings the total number of collaborating partners to date to fifteen against the LOP target of ten. The target of three collaborating partners for 2012 has been achieved.

In addition to new partnerships, FSP has an ongoing collaboration with the Institute of Business Advisers in its **IBA Banking Think Tank** with monthly meetings to establish how to quality assure BDS to the banking sector and to evolve an action plan for doing so. FSP also collaborated with the **International Small Business Council** in preparation for the ISBC Congress which was hosted for the first time in Africa during September.The ISBC presented approaches and case studies on policies and programs which effectively integrate SMEs into all sectors of the economy, and which attract a wide array of participants from, not only South Africa, but around the world. FSP's expertise in BDS was drawn on in a number of ways: it was invited to publish in Enterprise, a magazine with a national footprint, it participated in a committee to review submissions for congress papers, it moderated a panel discussion as well as being given a platform for the exclusive use of promoting *finfind* as an example of an innovative financial and non financial solution fostering SME growth.

FSP was also invited to speak on the panel of the South African Network for Impact Investing (SAII) which was hosted in Johannesburg with over 120 participants from around the globe in attendance. The workshop, entitled "Investing for Inclusive Growth: Opportunities, Risks and Rewards" gave FSP the opportunity to outline the developments in the impact investing sector locally, regionally and globally and also allowed FSP to summarize what we have been doing in South Africa in the impact investing space.

Lastly, FSP also was asked to present at the first Annual South African Supplier Diversity Council (SASDC) Conference and Business Opportunity Fair in which we presented the benefits of purchase order finance. FSP partner Absa Bank also presented the benefits of POF and the work that FSP has done in helping them develop and implement the product as part of their SME product offering.

Benchmark 4.1.2	**Actual**
5 new collaborating partners identified	10 new collaborating partners identified
20 knowledge management content submissions distributed	40 knowledge management content submissions distributed

With over 4,000 hits to the blog in FY2012, the FSP blog continues to serve the SME community of practice for those active in the arena. The FSP blog also serves as an archive to publish FSP research and activities.

New visitors in 2012 to the FSP blog comprised 67% of all visits to the site. Additionally, while the overwhelming percent of visitors type in the direct blog web address or use a search engine, a growing number of hits are referrals from partner sites such as: finfind.biz, nsbc.org.za, southafrica.smetoolkit.org and business-rescuse.co.za. Over the last year, 40 articles have been posted on the blog, with eight being posted in the last quarter bringing the total to 84 for the program to date which is 84% of the LOP target.

Posts to the FSP blog between July, August and September 2012
Blog Post: Absa Bank approves first loan with USAID DCA guarantee
Blog Post: DCA leverages pension funds for SMEs
Blog Post: *finfind* mobilization with SEFA
Blog Post: Take the survey: Launch of Monitor's Accelerating Entrepreneurship in SA Initiative
Blog Post: Nexii - The road ahead for impact investing
Blog Post: Leveraging SME finance for energy efficiency + EE Finance Report (Sasfin) Sep 2012

KRA 4.2 Improve awareness of SME finance best practices

Activity:
4.2.1 Promote timely and wide distribution of best practices and stories of impact. In FY2012, FSP has disseminated salient information and lessons learned with collaborating partners in workshops and presentations, on 20 occasions namely:

- FSP presented on Failure Resolution to the SA Reserve Bank
- FSP presented to CIPC on financing opportunities for business rescue (Ch. 6 of the Companies Act)
- NMBC tested its proposed strategy on training *finfind* consultants with eight BDSPs
- FSP hosted a workshop on RIA with government officials
- FSP participated on a panel discussion re: SME challenges, at the launch of JP Morgan's SME catalyst for Growth Program
- *finfind* was promoted and demonstrated to stall visitors at the National Small Business Chamber (NSBC) Expo
- 2 *finfind* orientations – one in Gauteng and one in Port Elizabeth
- 3 presentations at the New Trends in Business Workshop convened by FSP: GreaterCapital presented on Social Impact Investing at the; JP Morgan presented its SME Catalyst for Growth Program; and Dalberg presented on IRIS indicators
- FSP presented at the South Africa Energy Efficiency Workshop
- FSP participated in a workshop to promote impact investment rating opportunities in practice at the South African social impact investing conference (SAII) to over 100 participants
- *finfind* orientation conducted in Cape Town
- FSP presented POF and *finfind* at the The South African Supplier Diversity Council (SASDC) 1st Annual Conference and Business Opportunity Fair & Workshop
- FSP met with the IBA and the big four banks twice for the IBA Banking Think Tank
- 3 sefa FI information sessions in collaboration with Absa Bank. Sessions were conducted in Cape Town, Port Elizabeth and Johannesburg with 29 SMEs in attendance
- Presentation of *finfind* to the Tshwane Business Club to 144 SMEs

FSP and *finfind* present to 200+ SMEs at the Tshwane Business Club

Presentations assisted SMEs in determining whether finance is really what their business needs as well as addressing common pitfalls in applying for finance. Such direct contact with SMEs is rare and not only raises brand awareness of *finfind*, but will drive traffic to the site and generate requests for assistance from finfind consultants, leading to increased support to SMEs in their quest to find finance for their businesses.

Benchmark 4.2.1	Actual
12 knowledge dissemination presentations	20 knowledge dissemination presentations

SECTION III: ANNEXES

ANNEX A: PERFORMANCE MANAGEMENT PLAN SUMMARY

				FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		Cumulative			
USAID Indicator Ref. #	#	Indicator Name	Unit	2009 Target	2009 Actual	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual	2013 Target	2013 Actual	Actual to Date	% towards 2012 Target	% Achieved Towards LOP	LOP Target
	1	Number of financial agreements concluded	#	500	43	850	1249	4200	2472	7000	2328	3050	0	6092	33%	39%	15600
	1a	Number of SMEs assisted with loans			43		168		243		146		0	600			0
	2	Value of finance accessed ('000)	ZAR	R 124 500	R 79 562	R 437 550	R 147 980	R 525 000	R 587 318	R 2 800 000	R 668 515	R 2 400 000	R 0	R 1 483 376	24%	24%	R 6 287 050
	3	Number of management processes/practices modified due to USG assistance	#	2	2	2	1	5	3	5	8	1	0	14	160%	93%	15
	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.	#	3	4	2	0	3	2	2	2	0	0	8	100%	80%	10
	6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance	#	3	0	2	2	6	3	4	0	0	0	5	0%	33%	15
	7	Number of financial sector professionals trained on international standards with USG assistance	#	50	44	40	37	60	7	40	143	20	0	231	358%	110%	210
	8	Number of special fund loans issued	#	10	35	22	144	250	186	175	128	125	0	493	73%	85%	582
	9	Value of the USG supported special loans issued ('000)	ZAR	R 7 500	R 76 685	R 16 125	R 74 042	R 175 000	R 123 754	R 119 000	R 102 049	R 85 000	R 0	R 376 530	86%	94%	R 402 625
	10	Number of DCA guaranteed loans	#	125	1	213	17	100	28	2800	5	2100	0	51	0%	1%	5338
	11	Amount of private finance mobilized with DCA guarantee ('000)	ZAR	R 62 500	R 1 249	R 106 250	R 10 308	R 43 200	R 17 483	R 1 210 000	R 3 607	R 840 000	R 0	R 32 648	0%	1%	R 2 261 950
	12	Number of SMEs assisted to access finance	#	600	0	696	0	1880	57	2390	39	1434	0	96	2%	1%	7000
	13	Number of financial advisory providers assisted (trained/TA)	#	100	0	116	15	290	33	370	145	224	0	193	39%	18%	1100
	14	Number of SMEs assisted by BDS providers	#	1000	0	1160	10	3235	1280	4080	891	2400	0	2181	22%	18%	11875
	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	#	1	0	1	0	12	19	6	0	0	0	19	0%	95%	20
	18	Number of applied research activities undertaken by USG implementing partners to inform policies and regulations that affect access to finance for SMEs	#	3	11	2	9	30	17	20	6	0	0	43	30%	78%	55
	19	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance	#	2	4	1	0	0	2	1	0	0	0	6	0%	150%	4
	20	Number of financial sector supervisors trained with USG assistance	#	20	21	16	0	22	0	22	54	0	0	75	245%	94%	80
	21	Number of administrative procedures affecting the operations of SME improved	#	2	1	1	0	2	15	2	0	0	0	16	0%	229%	7
	22	Number of policy reforms analysed as a result of USG assistance	#	2	2	1	1	3	6	2	2	0	0	11	100%	138%	8
	23	Number of policy reforms presented and/or disseminated for public/private stakeholder presentations as a result of USG assistance	#	2	1	1	1	8	4	4	1	0	0	7	25%	47%	15
	24	Number of policy reforms presented for legislation/decree as a result of USG assistance	#	2	0	1	0	0	3	1	0	0	0	3	0%	75%	4
	25	Number of inquiries to knowledge management system	#	0	0	270	742	570	6023	730	4052	430	0	10817	555%	541%	2000
	26	Number of collaborating partners	#	0	0	4	3	3	2	3	10	0	0	15	333%	150%	10
	27	Number of dissemination events held by knowledge management collaborating partners (workshops, conference, media campaigns, etc.)	#	4	3	3	5	12	8	12	20	4	0	36	167%	103%	35
	28	Number of content submissions to knowledge management system	#	0	2	5	14	30	28	40	40	25	0	84	100%	84%	100

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

ANNEX B: PERFORMANCE 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, 2012 with a focus on FY12 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.[4] Additionally, in January, 2012 USAID presented a new series of indicators for program consideration. Of these, seven were identified as relevant indicators to FSP and are detailed at the end of the PMP. These indicators will be tracked from October 1, 2011 through the end of the project.

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

FSP data for these indicators is collected on a monthly and quarterly basis from partners (FIs, BSOs, and other stakeholders in the policy arena). This data is collated in a Visual Basic for Application excel dashboard with electronic reporting templates, based on partner data entry forms submitted, or outputs generated by specialists stored in a filing cabinet which reduces the possibility of error and allows for easier data quality audits. The dashboard has an audit trail which documents what changes have been made and provides for interesting comparative charts and graphs permitting more comprehensive and interesting analysis. To further verify key pieces of data before inserting it into the dashboard, the M&E specialist regularly meets with the Chief of Party to discuss data to ensure it conforms to the interpretation of the PMP definitions. This is particularly relevant for the policy aspect of the program since the definitions and concepts are continually evolving and are often abstract.

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

PIR 1 Financial Services

Indicators 1 and 2 below are apex indicators for the project. 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**) and illustrates an aggregated number and value of loans for all FSP's FI partner support activities.

[4] Initially comprise d 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 accessed by SMEs.

Table 1: FI partner results to September 2012[5]

	Indicator	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% to LOP Target
1	Number of financial agreements concluded	43	1,249	2,472	2,328	7,000	6,092	12,550	-6,458	39%
1a[6]	*Number of SMEs issued with loans*	43	168	243	146	*N/A*	*600*	*N/A*	*N/A*	*N/A*
2	Value of finance accessed in Rand (‘000)	79,562	147,980	587,318	668,515	2,800,000	1,483,376	3,887,050	-2,403,674	24%
8	Number of special fund loans issued	35	144	186	128	175	493	457	36	85%
9	Value of the USG supported special fund loans issued in Rand (‘000)	76,685	74,042	123,754	102,049	119,000	376,530	317,625	58,905	94%
10	Number of DCA guaranteed loans	1	17	28	5	2,800	51	3,238	3,187	1%
11	Amount of private finance mobilized with DCA guarantee in Rand (‘000)	1,249	10,308	17,483	3,607	1,210,000	32,648	1,421,950	-1,389,302	1%

An internal audit was carried out on all indicators in July – August of 2012. The audit corrected 34 errors for a net change of R-38,7M to the value of finance accessed. Therefore historical figures from the 2012 PMP may differ from the 2011 PMP.

Indicator 1 reflects the total number of financial agreements concluded, while Indicator 1a refers to the number of unique SMEs provided with loans which is not part of the contractual reporting requirements. This distinction has been introduced because it has become clear that one SME may receive numerous “financial transactions” to support their business needs particularly under the Purchase Order Finance product FSP designed with Absa Bank and Standard Bank. Thus the total value of POF loans is R 1,058,149,273 via 5,492 total transactions with the average size of the invoice cleared being R 192,671. Of the total value of POF loans, Absa IC has contributed 81%. POF in FY2012 alone accounts for 51.7% of the total value of POF to date (R 547,085,314) and 2,175 transactions.

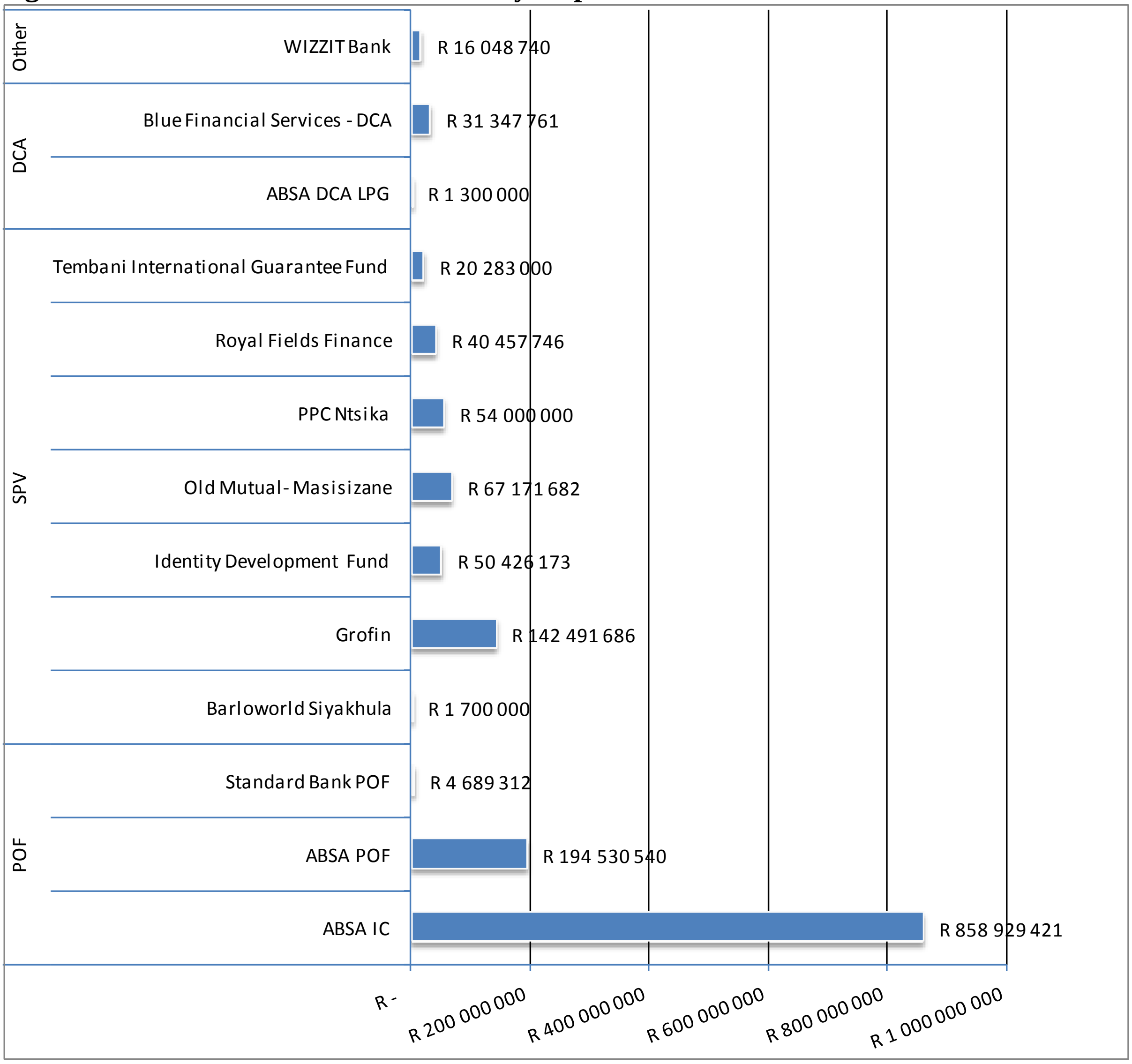
[5] An internal data quality audit was conducted July-August, 2012 which uncovered and corrected irregularities in the data. Therefore, some previously reported figures have changed.

[6] This is an additional data point to review not only the number of financial transactions completed by the number of SMEs benefitting from increased access to finance activities. This figure has been revised based on the internal data quality audit.

Overall, FSP partners have approved R 1,483,376,061 in loans to 600 SMEs since program inception. The value represents 6,092 financial transactions. 71% of the total is attributable to Absa POF which includes vendor finance and invoice clearing followed by Grofin at 10%.

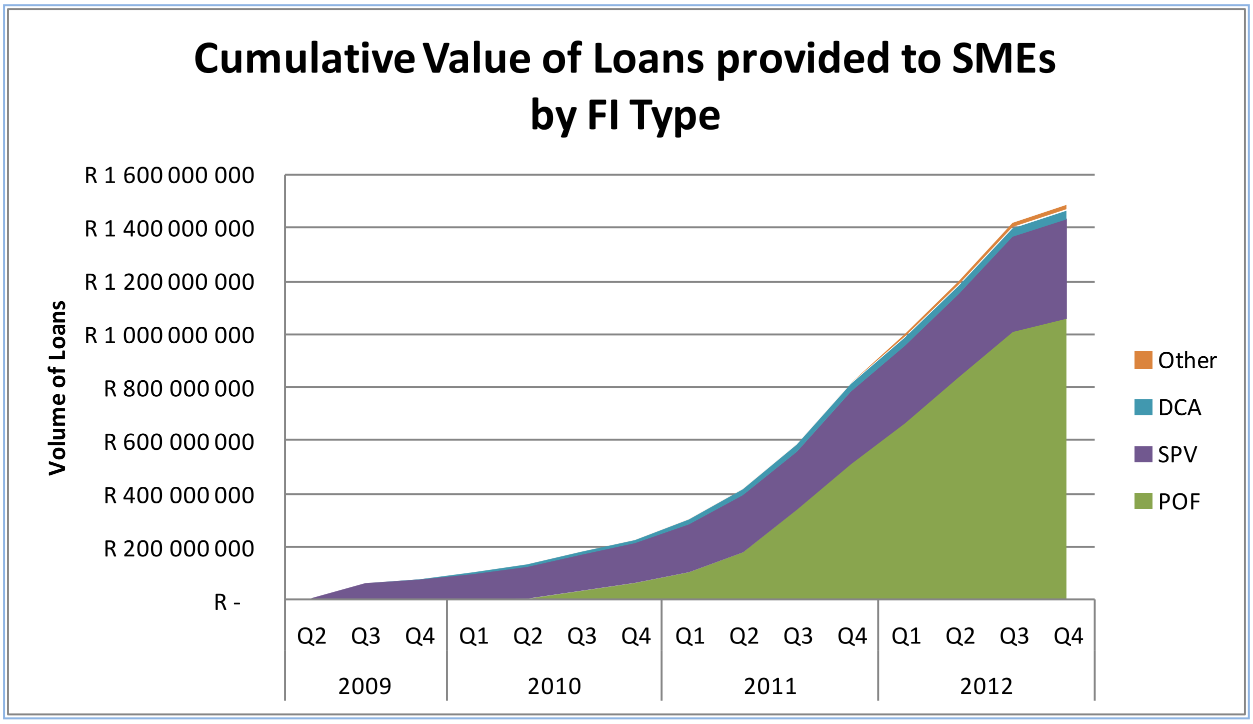
The figure below depicts the total loan value contributions made by each FI partner to date. Taking a step back, and looking at contributions per FI type, POF has contributed 71% to total loan value, SPV partners 25%, DCA 2% and other 1% (WIZZIT).

Figure 1: Total value of loans accessed by FI partner



Looking at FY2012, FSP has achieved 24% of the fiscal year target in regard to the overall value of finance accessed. However, FSP has achieved 73% of fiscal targets for the number of special value loans issued (**Indicator 8**) and 86% of the value of special loans issued (**Indicator 9**). The success of SPV partners is also a success story for FSP. To date, 493 loans have been issued against a target of 582. SPV partners average approximately 28 loans per quarter which will bring FSP very close to meeting or possibly exceeding the LOP target for Indicator 8. With regard to the value of SPV loans issued, to date FSP has reached 94% of the LOP target. With added emphasis on Tier 2 partnerships, FSP is confident this target will be reached.

Figure 2: Cumulative value of loans provide to SMEs by FI type



Looking at **Indicators 10 and 11**, the DCA partners have been underutilizing the guarantees. To date, 51 DCA loans (49 from Blue Financial Services and 2 from Absa) have been issued against the LOP target of 5,338 (or 1%). In the 4th quarter of FY2012, FSP worked very closely with Blue Financial services as they audited their DCA portfolio. The reconciliation process affected both the number of DCA loans booked as well as the total value of loans. These figures were revised down as Blue amended original loan amounts and removed, settled and/or withdrew loans from the reporting template. Final results indicated that Blue has used 40% of the guarantee facility with an outstanding portfolio of R 31,347,761.

Overall, the catalyst effect of the DCA guarantees have not met expectations. This is due to the fact that the portable guarantees were not funded with partners such as Spartan and True Group; Blue Financial placed a moratorium on lending and despite progress in training and product development, and Absa's DCA uptake has been slow. However, although it is not anticipated that FSP will reach LOP targets for the number of financial transactions concluded nor the value of finance accessed, several new partnerships which have occurred this fiscal year are going to leave a lasting impact on the SME marketplace.

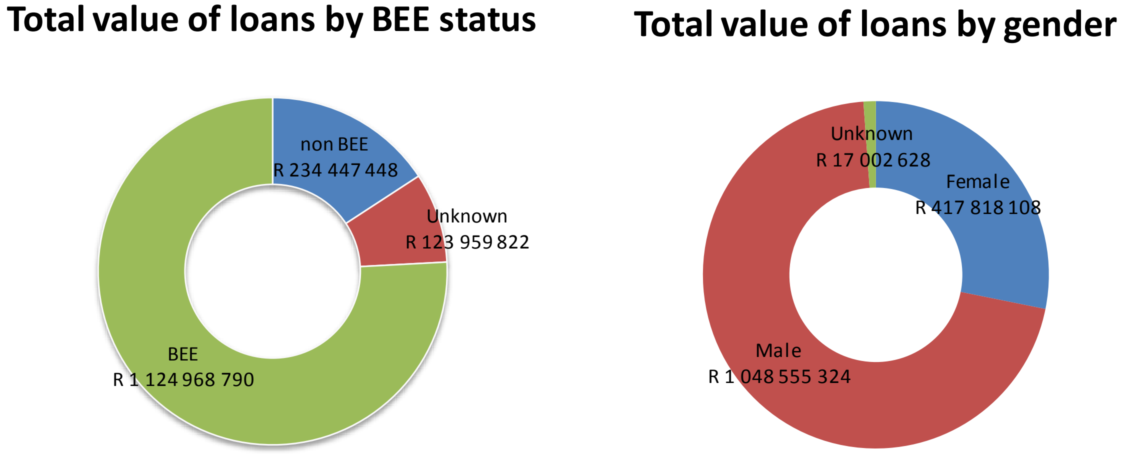
Several new products have emerged/become active that will continue to contribute to achieving targets specifically, Standard Bank POF, Absa DCA and the CADIZ DCA. With new efforts concentrated on promoting these loans, it is anticipated that there will be sharp rise in loans issued during FY2013.

In the 4th quarter alone, Standard Bank has issued R 4,7m in loans and the Absa DCA has contributed R1,3m. With the launch of the CADIZ DCA on 16 October, 2012 it is anticipated that a number of loans will be issued bringing FSP closer to R1,5bn in loans approved over the life of the project. Continued efforts will be made to boost the DCA usage and the related SME Debt Fund and through new products developed for FI partners.

To date, 600 unique SMEs have been assisted with loans, of these, 46% are female owned businesses and 75% are BEE.

The graphs below show that FSP support is primarily contributing to lending to historically disadvantaged SMEs, with 76% of total loan value going to BEE SMEs. Additionally, the concentration of borrowers tends to be men who have accessed 71% of total loan value. However, when looking at the gender ownership of SMEs, FSP has assisted 275 (46%) female owed businesses and 321 male owned businesses (53%) which indicate that male entrepreneurs typically access larger loans than their female counterparts.

Figure 3: Total loans disaggregated by BEE status and gender



While the ultimate goal of FSP is to facilitate access to finance for SMEs, this is not enough if it is not exercised with due diligence in terms of the processes that bring about that finance. There is need to ensure that both FIs and SMEs are knowledgeable about all financial transactions and that they are well positioned in signing the deals.

FSP also helps FIs modify their management practices/process **(Indicator 3).**

Table 2: Indicator 3 results to September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
3	Number of management processes/practices modified due to USG assistance	2	1	3	8	5	14	14	0	93%

In FY12, FSP has exceeded targets for the number of management processes/practices modified by 60%; additionally FY12 is the most productive year to date with 8 management processes/practices modified. FSP worked closely with WIZZIT Financial Services loan officers and senior management to undertake a policy and procedure review. FSP recommended 6 practice/policy modifications for three FIs:

- WIZZIT
    1. Simplified loan memoranda
    2. Simplified loan application forms
    3. Post-disbursement monitoring plans
    4. Modified loan guidelines (marketing and sector analysis)
    5. Introduced individual loan authorities
    6. Strengthened and significantly expanded the credit scoring methodology
- CADIZ
    7. Developed the credit risk model
- Grofin
    8. Developed collateral management guidelines and policy procedures

Overall, FSP has reached 93% of LOP targets with only one more practice or policy modification required in FY2013 to meet LOP target of 15.

Table 3: Indicators 5 & 6 Results to September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
5	Number of new or adapted financial products developed as a result of USG assistance	4	0	2	2	2	8	10	-2	80%
6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance	0	2	3	0	4	5	15	-10	33%

One way of encouraging FIs to lend to SMEs is through the development of new financial products to better suit the needs of SMEs while mitigating the credit risk for the lender (**Indicator 5**). FSP has fully achieved the FY12 target of two new or adapted financial products developed; and reached 80% of the LOP target. Under the sasfin Energy Efficiency Strategic Plan, FSP designed a new financial product which is a holistic EE finance offering. FSP also piloted Purchase Order Finance (POF) with Standard Bank. Standard Bank's first POF loans were approved mid-April 2012.To date Standard Bank has utilized the POF mechanism for six financial transactions totaling R 4 69m and has a growing pipeline of applications.

The following eight SME credit products were developed with FSP support:

- Energy Efficiency holistic finance solution (2012)
- Standard Bank POF (2012)
- Absa DCA (2011)
- Blue POF (2011)
- Absa Invoice Clearing (IC) (2009)
- Absa Vendor Finance (VF) (2009)
- WIZZIT short term working capital loan (2009)
- WIZZIT equipment term loan (2009)

With two additional products in the pipeline (i.e. the CADIZ DCA product launch and the Aurik SME Debt Fund), FSP foresees meeting LOP targets by May 2013.
In order to ensure that the SME focused products developed by partner institutions meet the needs of target SMEs, FSP encourages its FI partners to hold consultative workshops to vet the appropriateness of loan products (**Indicator 6**). However, during the last year, FSP has not facilitated any consultative processes between FIs and SMEs as such cumulative program achievements remain 33% of LOP target. However, a great opportunity exists to capitalize on a number of consultative processes as a direct result of the two new products introduced at the end of the fiscal year.

Table 4: Indicator 7 results to September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
7	Number of financial sector professionals trained on international standards with USG assistance	44	37	7	143	40	231	190	41	110%

Indicator 7 monitors the enhancement of financial sector professionals' knowledge, skills, and practices to deliver SME financial services. This indicator is achieved through training. For FY12 the program is 83% above yearly target and has achieved 110% of the LOP target. The success of this indicator is attributable to the success of FSP's "train the trainer" methodology. Case in point, FSP trained seven Absa professionals who are now training front line professionals to promote the nascent SME DCA guarantee product. To date, Absa has conducted training of 79 financial sector professionals in four provinces: Mpumalanga, Kwa-Zulu Natal, Western Cape and Gauteng. Absa anticipates training an additional 520 professionals in the following year which will greatly exceed program expectations. The first Absa DCA loans were issued in August and total R 1.3m. Absa has also expressed to FSP their intention to train up to 600 professionals on the DCA and FSP foresees the Absa DCA gaining traction.

Standard Bank's FSP led POF training reached an 60 individuals in FY12 and with the Training of the Trainer modules refined and delivered, this figure should increase exponentially as Standard Bank anticipates training in the next quarter on the POF pilot in Gauteng and the Western Cape.

FSP also provided training as well as four individuals on the WIZZIT credit scoring model.

PIR 2 SME Bankability

The purpose of PIR 2 is to improve SME bankability, making them more eligible, and therefore, more likely, to access finance. FSP's focus is on:

1. Building the capacity of Business Service Organizations (BSOs) and ensuring that quality Business Development Services (BDS) are offered to SMEs, and

2. Improving the financial literacy of SMEs through facilitating knowledge and understanding of the SME financial sector, for example, who the providers of SME finance are, what they require from SMEs, and where to find them.

This PIR, with three indicators, continues to perform below expectation. The global economic crisis has pushed many SMEs into financial survival mode and their ability to seek outside BDS support is limited as is their access to credit.

Despite low levels of progress against LOP targets, Table 5 shows that significant progress is being made in improving the literacy and ultimate bankability of SMEs. *finfind* is becoming a large contributor to the number of BDSPs assisted; to date *finfind* has contributed 56% of the total number through events such as information sessions and orientations. This indicates a high degree of demand from consultants for a tool like *finfind* to enhance business support in assisting SMEs to access finance. Even thought the rigorous selection process of consultants raises the barrier to entry, the fact that there has been no direct costs for orientations or seminars until recently has made *finfind* is very accessible to BDSPs. A future concern is the introduction of fees will serve to further raise the barriers to entry.

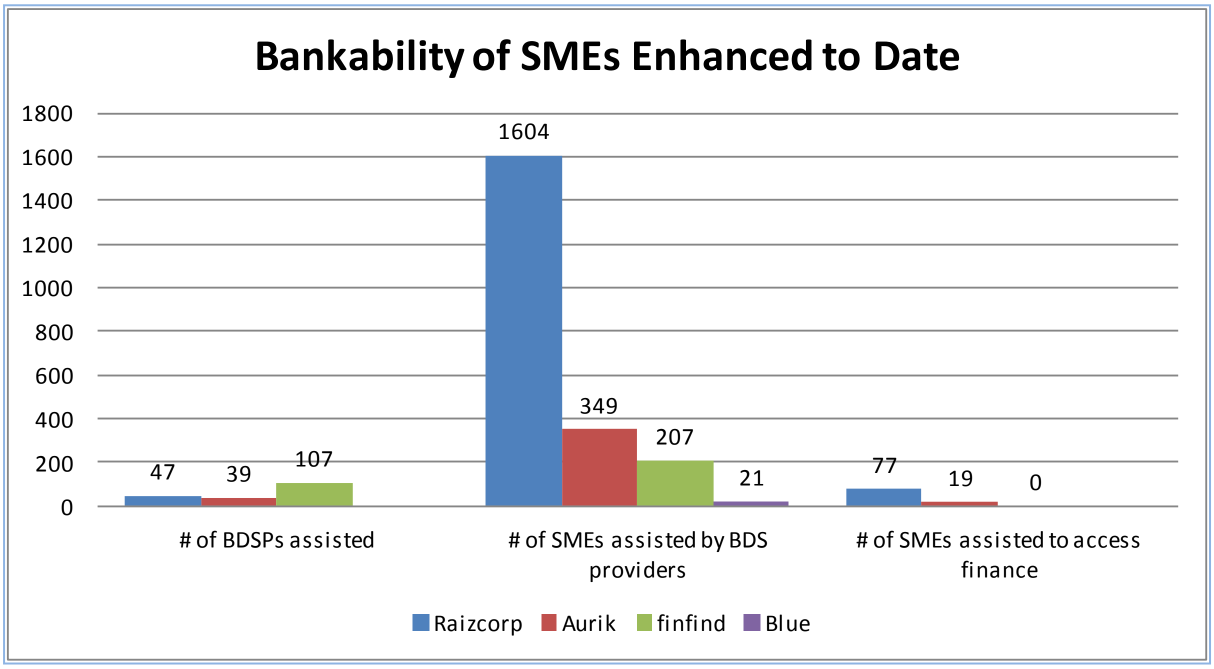
Table 5: PIR 2 results to September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
12	Number of SMEs assisted to access finance	0	0	57	39	2,390	96	5,566	-5,470	1%
13	Number of financial advisory providers assisted (trained/TA)	0	15	33	145	370	193	876	-683	18%
14	Number of SMEs assisted by BDS providers	0	10	1,280	891	4,080	2,181	9,475	-7,291	18%

FSP supports SMEs through intermediary institutions, who in turn train or support Business Development Service Providers (BDSPs) who in turn support SMEs. Indicator 12, the number of SMEs assisted to access finance is a subset of Indicator 14 the number of SMEs assisted by BDSPs.[7] Logically, Indicator 13, the number of BDSPs trained flows into Indicator 14, the number of SMEs assisted and finally, the number of SMEs assisted to access finance (Indicator 12).

To date, four key programs have contributed to PIR 2: business incubators, Aurik and Raizcorp, and *finfind* and Blue.

Figure 4: PIR 2 achievements to date



Indicator 13 measures the number of financial advisory providers assisted/trained. To date, a total of 193 Raizcorp guides, Aurik facilitators and *finfind* consultants have been trained. Of these, 145 were trained in FY2012 (75%). Despite only achieving 39% of the fiscal year target and 18% of LOP target, this large increase in FY12 is indicative of a growing trend which FSP aims to maintain through the end of the project. The driver behind the number in BDSPs trained is *finfind* which contributed 65% (n=94) to the FY2012 total through SEFA FI information sessions hosted in three provinces: Eastern Cape, Gauteng and the Western Cape. The FI information sessions provide ongoing technical capacity building and a platform to discuss and present new and/or complementary products to SMEs. Future FI information sessions will include presentations by up to ten financial institutions in the three provinces where *finfind* consultants are located.

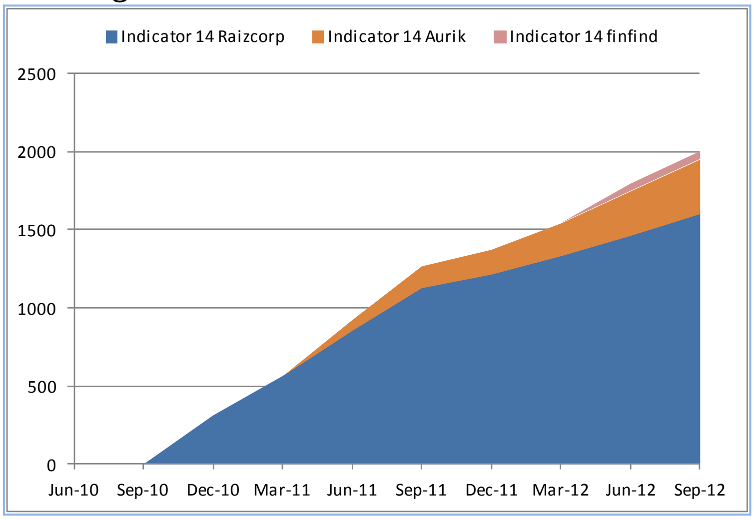
The number of SMEs assisted by BDS providers is tracked by **Indicator 14**. FY2012 contributed 41% to the overall number of SMEs assisted bringing the total number to 2,181. Of these, 71% of SMEs are BEE owned and 36% are female owned. To date, Raizcorp has assisted the most SMEs with 1,604 SMEs assisted (or 74%) however, with the initiation of *finfind* in 2012, the tool has already assisted 207 SMEs. A major success was the opportunity for a *finfind* consultant to train 144 Tshwane Business Club SMEs. As the graph below shows, Indicator 14 is finally gaining significant traction. Reflecting on the apparent

---

[7] In 2010, FSP received formal USAID approval to delete Indicators 15 (number of SMEs successfully accessed bank loans or private equity) and 16 (value of loans accessed) as these were completely out of the control of both FSP and its partners.

difference in outcomes for Indicator 14 for Aurik, in the tough economic climate BDS is not a priority for SMEs and competition for ED subsidies has increased making it more difficult to access ED funding.

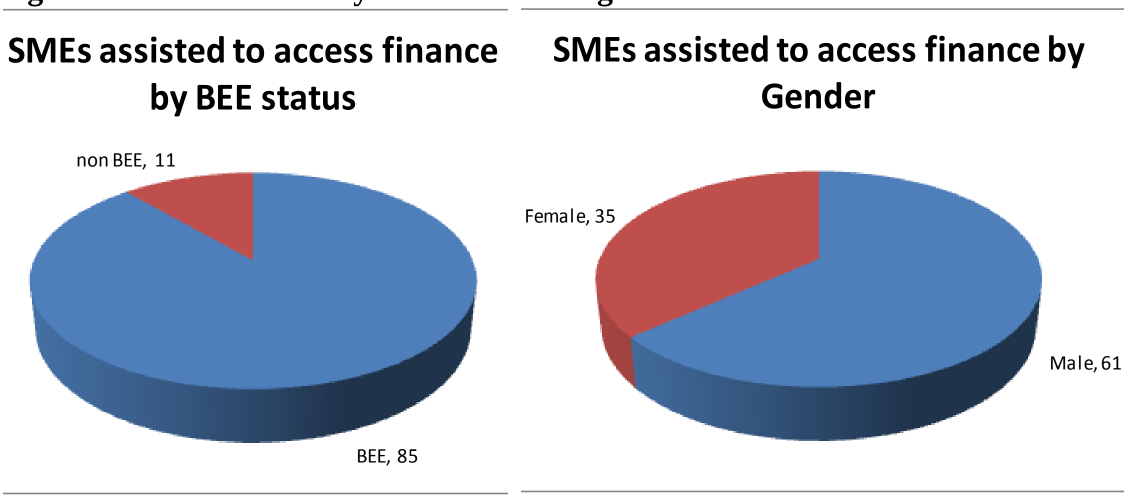
Figure 5: Number of SMEs assisted to date



Indicator 12 measures the number of SMEs assisted to access finance. To date only 96 SMEs have been assisted to access finance via FSP supported BDSPs. Of these, 89% are BEE owned businesses and 36% are female owned. Raizcorp has contributed 77 total SMEs assisted to access finance with Aurik assisting 19. *finfind* has yet to contribute to this number, but expectations are high for remainder of the project term.

In FY2011, 57 SMEs accessed finance and FY2012 contributed an additional 39 SMEs.

Figure 6: SMEs assisted by BEE status and gender



Although the total number of SMEs assisted to access finance is not as high as expected, understanding the context provides insight as to why. Through talking to BDS providers, a combination of factors are at work. Primarily BDS is having the desired impact to improve business efficiency, and thus mitigating the need for SME finance. Secondly, fewer SMEs are applying for finance which is in line with national trends and FSP PIR 1 results that indicates SMEs are simply not borrowing in this current environment.

PIR 3 Enabling Environment

This component supports the development of an improved business environment through enhancing the regulatory, legal and institutional framework affecting the financial sector. Since June 2008, FSP has engaged in a myriad of research activities aimed at understanding the South African business environment, particularly those sections that apply to improving SMEs. This research provided insight into the policy reforms needed to facilitate a business law framework that boosts SME development. There is a logical chain of events, results and changes introduced by FSPs policy related work in relation to the final goal of instituting policy reforms. As such, Indicators 17, 18, 22, 23 and 24 are logically linked as they all address regulatory framework results and are best understood together. As the majority of this component's activities concluded in early 2011, only Indicator 18 and 22 saw progress against targets take place in FY12. Given the consistent government changes and absence of champions for remaining FSP efforts, it is unlikely that any additional impact in policy reform will be seen before May 2013.

Table 6: PIR 3 regulatory framework results to September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
17	Number of 11 core commercial laws and financial reforms put into place as a result of USG assistance	0	0	19	0	6	19	20	-1	95%
18	Number of applied research activities undertaken by USG implementing partners to inform policies and regulations that affect access to finance for SMEs	11	9	17	6	20	43	55	-12	78%
22	Number of policy reforms analyzed as a result of USG assistance	2	1	6	2	2	11	8	3	138%
23	Number of policy reforms presented and/or disseminated for public/private stakeholder presentations as a result of USG assistance	1	4	2	0	4	7	15	-8	47%
24	Number of policy reforms presented for legislation/decree as a result of USG assistance	0	0	3	0	1	3	4	-1	75%

FSP's research activities inform the discussion of policies which are fundamentally important to South Africa's business environment in which SMEs operate. Investigations of this nature document applicable international best practice for consideration by South African stakeholders and opinion leaders. With the proper identified champions within the government to lead the policy discussions, these analyses help policy makers identify the key reforms for review and consideration.

Applied research activities (**Indicator 18**) are the foundation for analysis of policy reforms, which to date encompasses 11 important reforms being presented and/or disseminated for public/private stakeholder presentations (**Indicator 22**). Of these policies analyzed, seven were presented for stakeholder review (**Indicator 23**). The final step in the process of changing the regulatory framework is to present the proposed reforms for legislation. In this regard, FSP's efforts with its government partners achieved its target of three legislative reforms presented for decree (**Indicator 24**): The Companies Act Regulations, The Companies Act (as amended), and the Close Corporations Act in April 2011. As a result of these proposed policy and regulatory reforms, 19 core commercial laws and financial reforms were reformed as a result of USG assistance (**Indicator 17**).

FSP's policy efforts are visualized below:

Figure 7: Total policy activities to date

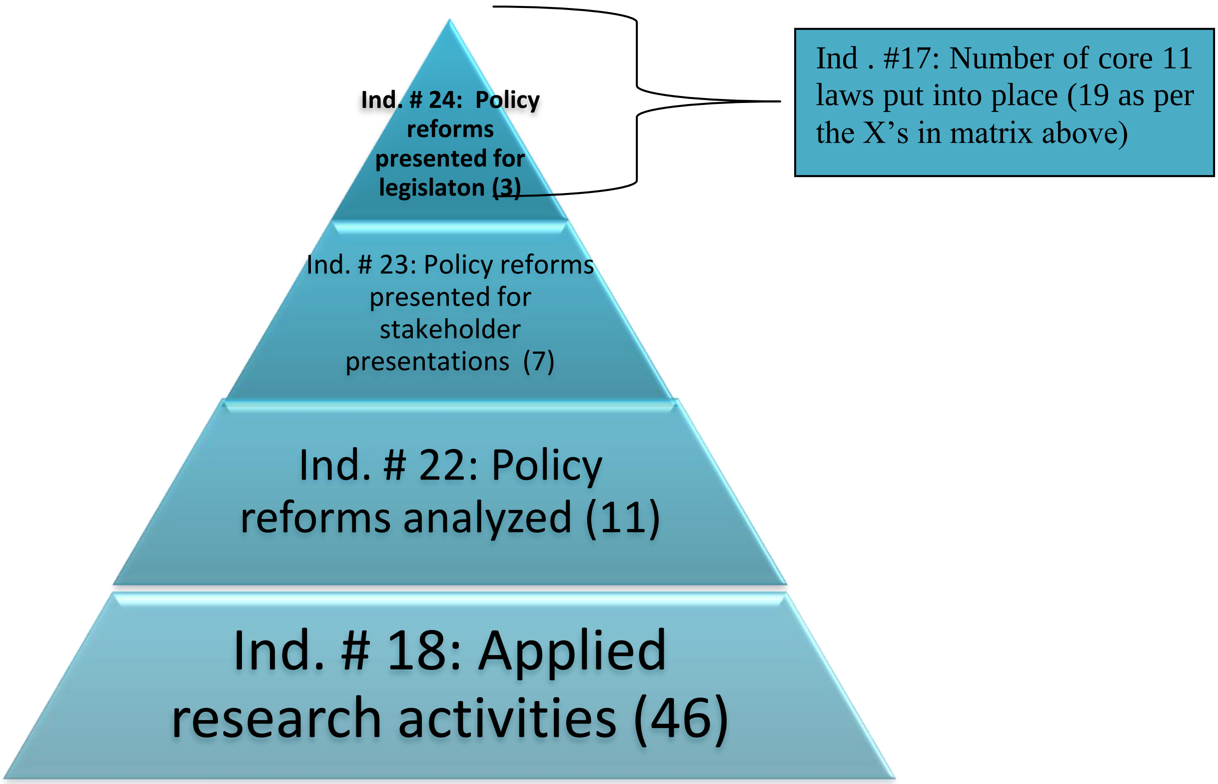


Table 7: SA policy reforms analyzed in relation to 11 core US laws

	11 SA Policy Reforms Analyzed (Indicator 22)										
	Companies Act (as amended) 2008*^	**Companies Act Regulations* ^**	**Close Corp. Act*^**	**Insolvency Act***	**National Credit Act***	**Magistrates Court Act 32 1944***	**Companies Act 1973**	**Tax Law**	**Banking Law**	**RIA**	**BEE***
11 US Laws											
Companies Law	X	X	X								X
Contract Law & Enforcement	X	X									
Real Property										X	
Mortgage Law											
Secured Transaction Law											
Bankruptcy	X	X	X	X	X	X		X	X		
Competition Policy	X	X									
Commercial Dispute Resolution	X	X	X					X	X		
FDI	X	X	X								
Corporate Governance	X	X	X								
International Trade Law											

LEGEND
Eleven SA policy reforms analyzed
*Seven policy reforms presented for public/private stakeholder review (**Indicator 23**)
^ Three policy reforms presented for legislation /decree (**Indicator 24**)
X 19 core commercial laws and financial reforms put into place (**Indicator 17**)

To date, 43 research activities have been undertaken focusing on policy reforms pertaining to commercial laws six of which occurred in FY12 (Indicator 18):

1. A review of a paper for presentation at the Reserve Bank International Symposium, entitled "From Crisis to Financial Stability - Turkey Experience"
2. A reviewed of "Twin Peaks" model of prudential regulation and supervision for banks that SA is planning to adopt, so as to prepare a presentation for experts at the Reserve Bank Symposium
3. Comparative Review of Liquidator Remuneration Costs
4. Insolvency Systems in South Africa - comparative review of employee claims treatment
5. Business Rescue White Paper (SA Experience)
6. Post commencement finance research for presentation to CIPC - International component

In turn, these research papers influenced discussions on 11 total policy reforms (**Indicator 22**) of which two occurred in FY12: the review of the "Twin Peaks" model for a presentation to experts at the Reserve Bank Symposium and secondly, the Three Pillar Approach to Insolvency Report was presented to the Opinion Leader Round Table, at the University of Pretoria.
In the remaining year of the project it is not anticipated that any more research activities will be undertaken this year. Thus the FSP project will have achieved 78% of LOP target with 43 of 55 applied research activities undertaken. However, Indicator 22 will have exceeded LOP

targets by three policy reforms analyzed as a direct result of seven policy pieces being presented for discussion in 2011. FY12 saw no additional activity against Indicators 23 and 24 and there are no additional plans for the remainder of the project. FSP will have achieved 33% against LOP target for Indicator 23 and 75% against Indicator 24.

Indicator 19 measures the improvements implemented to effect changes and improvements to the bodies that govern and control the business environment as it relates to companies. In 2009, efforts concentrated on business process re-engineering, yielding four pivotal changes: the annual renewal of fees; credit providers' compliance with the Act; document transmission, storage and security and registration process flows. In 2011, there were two overall changes:

1) Merger of Office of Companies and Intellectual Property Enforcement (OCIPE) and Companies and Intellectual Property Registration Office (CIPRO)
2) Companies Act (as amended) and Regulations

In 2012, however, no additional changes or improvements occurred. Thus, reaching an achievement of six material improvements for Indicator 19 FSP has surpassed the target of 4 with 150% LOP achievement.

Table 8: Indicator 19 results to 30 September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
19	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance	4	0	2	0	0	6	4	2	150%

Indicator 20 measures the number of financial supervisory staff trained in policy reform requirements to enable SME business development.

Table 9: Indicator 20 results to 30 September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
20	Number of financial sector supervisors trained with USG assistance	21	0	0	54	22	75	80	-5	94%

In preparation for the merger of OCIPE and CIPRO toward the end of March 2009, FSP trained 21 financial sector supervisors. In the first quarter of 2012, 10 financial sector supervisors were engaged in a two day, “Train-the-Trainer” RIA training exercise and an additional 41 were trained on RIA systems. In June 2012, an additional three financial sector supervisors were trained on business rescue procedures at CIPC. To date, 75 financial sector supervisors have been trained which is 95% of LOP target.

Indicator 21 measures the number of administrative procedures modified to overcome regulatory obstacles.

Table 10: Indicator 21 results to 30 September 2012

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
21	Number of administrative procedures affecting the operations of SME improved	1	0	15	0	2	16	7	9	229%

While FSP's ultimate goal is to ensure access to finance by SMEs, it is equally important to streamline and improve the operational environment in which SMEs operate. To this end, FSP has had a cumulative total of 16 administrative procedures **(Indicator 21)** which enhance the operation of businesses in general and SMEs in particular. The target for LOP is seven and thus FSP has achieved 229% of the LOP target.

All 16 of these administrative procedures were recommended and implemented in the process of FSP advising the Government of SA on how to change the Companies Act. The focus was on business rescue, corporate and personal insolvency, and the regulatory framework, with an overall goal of preserving employment and promoting business and/or economic growth in an environment that seeks to redress the imbalances of the past. The following administrative procedures were improved:

Administrative procedures enhanced – simplification and clarification of:			
1.	Annual returns	9.	Incorporation process (Notice of Incorporation)
2.	Business case; companies and intellectual property	10.	Merger, acquisition and access to capital disclosures
3.	Business rescue; insolvency process	11.	Transparent monitoring e.g. notice to show cause respecting reckless trading
4.	Contract clarity and certainty e.g. bankability	12.	Corporate name selection
5.	Enforceable contracts and alternate conflict resolutions	13.	Process of incorporation (long and short standard forms for profit and non-profit companies)
6.	Corporate governance rules	14.	Security holder notice to company
7.	Foreign corporation treatment	15.	Capital structure and adequacy rules
8.	Including or excluding assets in new corporations	16.	SME registration process

PIR 4 Knowledge Management

FSP's KM component cuts across several component activities and integrates the outputs of other components for knowledge sharing purposes. A strong thrust of the activities is to foster partnerships to promote information about the sector, disseminate knowledge and to share experiences and lessons learned.

Working with FI, BSO, NGO and government partners, FSP aims to disseminate best practices and success stories emerging out of the FSP linked products, while also drawing on the experiences of partners' knowledge. In this way, FSP is contributing to building an enabling environment for supporting SMEs. FSP's institutional knowledge is conveyed to key stakeholders in the sector, and through such exchanges, FSP has an opportunity to reflect on the experiences of those implementing the changes.

Table 11: Knowledge management results to 30 September 2011

#	Indicator Name	FY 09 Actual	FY 10 Actual	FY 11 Actual	FY 12 Actual	Target 2012	Actual to Date	Target to Date	Variance	% Toward LOP Target
25	Number of inquirie to knowledg management system	0	742	6,023	4,052	730	10,817	1,570	9,247	541%
26	Number o collaborating partners*	0	3	2	10	3	15	10	5	150%
27	Number o dissemination event held by knowledg management collaborating partner	3	5	8	20	12	36	31	5	103%
28	Number of conter submissions t knowledge management system	2	14	28	40	40	84	75	9	84%

The program blog remains to be the primary source for increased knowledge management activities via promotion of program reports, opportunities and topics of SME finance. A key way of disseminating information is through the FSP blog and, in order to measure the effectiveness of the blog, Google Analytics reports are used to track the number of inquiries recorded on the system per month **(Indicator 25)**. A total of 4,052 inquiries were recorded in fiscal year 2012 bringing the total to date to 10,817 or 541% of LOP targets. This exceeded the annual target of 730, by 455%.

The number of collaborating partners has grown steadily year on year; culminating in ten additional collaborating partners identified in FY2012 (**Indicator 26**). FSP exceeding the FY2012 target by 7 collaborating partners and has exceeding the LOP target by 50% (n=5). To date FSP has established collaborating partnerships with the following organizations:

Table 12: Number of collaborating partners

Banking Association of South Africa	2010
International Council for Small Business (ICSB- SA)	2010
South African International Business Linkages (SAIBL)	2010
Business Partners	2011
USAID FS Share	2011
Dalberg Global Development Advisors	2012
Department of Energy	2012
Energy Cybernetics	2012
Eskom	2012
Greater Capital	2012
IFC	2012
Industrial Development Corporation	2012
JP Morgan	2012
Nexii	2012
sefa	2012

Indicator 27 tracks the number of dissemination events related to improved access to finance. To date, FSP and partners (AIPSA, Banking Association, Dalberg, IBA, ICSB-SA, Old Mutual and sefa) have hosted 36 dissemination events surpassing the LOP target of 35. Furthermore, the FY2012 target of 12 dissemination events was surpassed by 20 events being held in FY2012. Contributions include 3 *finfind* orientation sessions, 3 sefa information sessions, presentations at conferences/workshops (e.g. SAII, the NSBC Expo, the SASDC 1st annual conference and Business Opportunity Workshop, South African Energy Efficiency Workshop, New Trends in Business Workshop (3 presentations by various partners), the IBA Banking Think Tank and the RIA workshop) as well as presentations to the SA Reserve Bank, JP Morgan, CIPC, the Tshwane Business Club as well as BDSPs.

Another knowledge e dissemination tool is the FSP blog www.fsp.org.za/blog. The blog is designed as a platform for taking SME banking and legal information and circulating it between industry leaders for discussion and comment. It has been a useful tool for promoting the *finfind* blog, sharing information on events and symposiums in the SME sector, and publicizing research results of both FSP and partners. The number of content submissions to the knowledge management system is tracked by **Indicator 28**. Content submissions total 84 which is 84% of the LOP target of 100 content submissions. Content submissions have been growing year on year as a direct result of FSP's activity. The number of content submissions in FY2012 was 43% more than FY2011 (n=12) and met the FY2012 target of 40 content submissions. FSP foresees meeting or exceeding this indicator. FY2012, more than any other year, leveraged collaborating partners for content generation. As such, nine content submissions were authored collaboratively with our partners: Nexii, JP Morgan, Monitor, CSIS, Dalberg (2), Absa, OSIBI and GreaterCapital.

ANNEX C: NEW INDICATORS

Table 1: New indicators

New Indicator No.	Linked to current indicator	Indicator Name	Actual '12	Target '12	Variance	LOP Target	% Towards LOP Target
4.3.1.11	**20**	Person Hours of training completed by financial sector supervisors supported by USG assistance	0	40	-40	40	0%
4.3.1.12	**n/a**	Number of days of USG funded technical assistance in financial sector enabling environment provided to counterparts or stakeholders	88.5	26	62.5	26	240%
4.3.2.6	**11**	Amount of private sector financing mobilized with DCA guarantees ('000).	R 4,909	R 1,210,000	R 1,210,000	R 2,050,000	0%
4.3.2.7	**n/a**	Number of financial institutions receiving USG assistance in extending services to micro and small businesses	15	10	5	17	88%
4.3.2.8	**7**	Person hours of training completed by financial sector professionals on international standards supported by USG assistance	627	640	-13	960	65%
4.3.2.9	**n/a**	Number of days of USG funded technical assistance in financial sector capacity provided to counterparts or stakeholders	113.25	125	-11.75	175	65%
4.6.1.16	**20**	Person hours of training completed in business enabling environment supported by USG assistance	816	640	176	640	128%

Indicator 4.3.1.11
FSP has been trying to work with CIPC to hold workshops and present training opportunities to introduce the opportunities and global experiences presented in the FSP Business Rescue Finance study completed this year. While many events had been scheduled, each one was canceled by CIPC. FSP will continue to try to gain interest from CIPC who is the ultimate regulator of business rescue professionals.

Indicator 4.3.1.12
A total of 88.5 days of USG funded technical assistance in financial sector enabling environment was provided to counterparts or stakeholders in FY2012. This was conducted through the work of six consultants commissioned to provide technical assistance in insolvency research and framework development, the CIPC BRP framework, international and South African business rescue research and business case development as well as RIA. FSP has exceeded FY2012 and LOP targets by 240%.

Indicator 4.3.2.6
This indicator monitors the amount of private sector financing mobilized with DCA guarantees. In FY2012, five DCAs loans were issued. Before the moratorium on lending, Blue Financial issued 3 DCAs in the first quarter of 2012 to the amount of R 2 309 291. Additionally, Absa began lending against the DCA guarantee in the fourth quarter of 2012. Absa has booked 2 DCAs to the amount of R 1 300 000. FSP is hopeful that Blue will begin to lend again and is excited about Absa use of the new DCA product, however, FSP does not expect to meet neither the FY2012 or LOP target which are in excess of 1 billion rand.

Indicator 4.3.2.7
This indicator tracks the number of financial institutions receiving USG assistance in extending services to micro and small businesses. For this indicator FSP counts the number of physical meetings held with FIs to promote the extension of services. In FY2012, 15 FIs have received assistance.

Table 2: FIs receiving USG assistance

Financial Institution	Frequency
1) CADIZ Asset Management	Weekly
2) Absa Bank	Weekly
3) Standard Bank	Weekly
4) OMM	Quarterly
5) Grofin	Quarterly
6) TIGF	Biannual
7) IDF	Biannual
8) WIZZIT	Monthly
9) Blue Financials	Monthly
10) Sasfin	Monthly
11) IDC	Quarterly
12) Nedbank	Monthly
13) IFC	Monthly
14) Future Growth	Quarterly
15) RFF	Biannual

In FY2012, FSP has exceeding the target of 10 FIs. Additionally, FSP has achieved 88% of the LOP target of 17 FIs. FSP is confident that two additional FIs will be assisted in the final year of the project especially due to the launch of newly developed products and processes such as the CADIZ Protected High Impact Fund and FSP's Energy Efficiency work.

Indicator 4.3.2.8
The number of person hours of training completed by financial sector professionals on international standards supported by USG assistance is tracked by Indicator 4.3.2.8. This indicator is directly linked to Indicator 7. By multiplying the number of individuals trained under Indicator 7 by the number training hours arrives at this indicator.

To date, FSP is short 13 hours against the FY2012 target of 640 hours. However, FSP is confident the LOP target of 960 hours will be exceeded due to the estimated 500+ additional

Absa financial sector professional that will be trained in 2013 on the Absa DCA product. Currently, FSP has achieved 65% of the LOP target.

Table 3: Training in international standards

Activity Description	Male	Female	Total	Hours	Total Person Hours
Standard Bank POF Training	20	40	60	5*	291
WIZZIT Credit Scoring Training	4	0	4	5	20
Absa DCA Fund Training	29	50	79	4	316
Total					**627**

*Nine individuals received four hours of training rather than five.

Indicator 4.3.2.9

Indicator 4.3.2.9 monitors the number of days of USG funded technical assistance in financial sector capacity provided to counterparts or stakeholders. FSP has achieved 91% of the FY2012 target (125 hours) and 65% of the LOP target (175 hours). To date, FSP has provided 113.25 days of technical assistance. This support has been commissioned through five consultants as represented in the table below. FSP supported technical assistance to develop Energy Efficiency Finance Mapping study, South African and International Energy Efficiency strategy, the Absa, Standard and Blue POF product, CADIZ DCA product and WIZZT credit scoring training. FSP does not expect to meet the LOP target of 175 days because the project is entering its final year.

Table 4: Technical assistance in financial sector capacity

USG Funded Technical Assistance FY2012	Days
WIZZIT	15
EE Local (SA)	41.5
EE International	32.75
POF	15
CADIZ	9
Total	**113.25**

Indicator 4.6.1.16

This indicator tracks the number of person hours of training completed in business enabling environment and supported by USG assistance. This indicator is directly linked to Indicator 20. Two training events under Indicator 20 qualify as training completed in a business enabling environment: Regulatory Impact Assessment Training Workshop and the RIA Trainer session.

Table 5: Training in the business enabling environment

Activity Description	Male	Female	Total	Hours	Total Person Hours
Regulatory Impact Assessment Training	22	19	41	16	656
RIA Trainer Session	10	0	10	16	160
Total	**32**	**19**	**51**	**4**	**816**

With 816 hours of training completed, FSP exceeded the FY2012 and LOP target of 640 hours by 28%.

ANNEX D: SUCCESS STORIES

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY
Energy Efficient Partnerships

FSP's EE finance mapping study has far reaching impact

Photo: IFC

From left: Leslie Marbury, USAID; Roland Sassoon CEO Sasfin;, H. E. Christian Meuwly, Ambassador, Embassy of Switzerland in RSA; *David Crush IFC,*

Strategic partnerships are fundamental to the FSP approach. The energy efficiency market has proven to be a drawcard for key partnerships in the SME lending and business development services sector.

Sasfin has demonstrated its commitment to developing EE into a new line of business by signing a $10 million long term credit facility for EE lending and launching a pilot with a pipeline of 25 projects.

October, 2012

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

Small businesses across the globe are increasingly interested in energy efficiency (EE). In South Africa, where electricity prices have risen sharply in the last few years and are expected to continue to increase, the national government has responded by providing leadership, incentives, and policy supportive of energy efficiency. Banks too have started to gravitate toward EE lending and are looking for products and delivery models to serve the SME market. With this enormous interest as the backdrop, and to better understand the EE financing landscape, FSP conducted an EE finance mapping study, the reach of which has extended farther than anyone expected.

The awareness generated through the mapping exercise resulted in an EE conference held in May 2012 and co-hosted by FSP, the Industrial Development Corporation (IDC) and the International Finance Corporation (IFC). Attendees represented organizations from Energy Service Companies (ESCO's), the private and public sectors, the donor community and several banks, including Sasfin, a South African financial institution serving the SME market.

The market for EE projects is largely untapped and is rapidly developing. Sasfin has been one of the "first movers" into the EE sector. As a result of several collaborative efforts, a partnership between Sasfin, FSP, and the IFC resulted in FSP assisting Sasfin to develop an EE lending strategy. The strategy initially targets existing clients and includes the identification of technically accredited ESCOs and other partners and suppliers to invest in, and ensures consistency in requirements for technical information to support finance applications.

Sasfin is now moving ahead with implementation of the FSP designed strategy and has a robust pipeline of 25 EE projects. FSP's will participate in monthly steering committee meetings to review implementation and review and adapt the product and strategy as needed.

It has been rewarding for FSP to trace the origins of the Sasfin pilot to what was initially target market research. The unforeseen outcome was the generation of significant market interest, synergized partnerships which led to the launch of a $10 million EE finance pilot.

SUCCESS STORY
64 consultants join the *finfind* fold

finfind gains market momentum as user numbers grow and over 200 SMEs have been assisted by finfind consultants

Photo: FSP

"This program is a great way to change the mindset of access to finance in our country." said Thakadu Makgene of BSO FABCOS.at a finfind consultant briefing.

Defining systems to access finance. Providing tools. Setting standards for best practice. Professionalizing the SME business support service sector.

October, 2012

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

Business development service providers (BDSPs) are not hard to find in South Africa. But the SME finance landscape is ill-defined and this has hindered the efforts of BDSPs to assist SMEs to access needed finance. To help professionalize the sector, FSP has designed *finfind* to define and clarify the who's who in SME lending, set quality standards, offer supporting tools and move financial assistance towards becoming a specialized discipline.

Access to finance in the world of SMEs is not a unique offering, but until now, the assistance that SMEs have received has largely been a patchwork of cut and paste advice. One of *finfind's* contributions to the field has been to define the avenues for SMEs to access finance and to make the support service explicit and discrete.

To orientate BDSPs to this specialized area of client support, FSP began by spreading the word via Business Support Organizations (BSOs), including SAIPA, IBA, and SEDA, and invited interested BDSPs to apply online. This was followed by a rigorous selection process, the scoring for which was based on level and relevance of educational qualifications; number of years and track record with assisting SMEs to access finance; and number of years running their own business. For individuals who met the criteria, orientation sessions were held in 3 provinces with the purpose of helping consultants to understand and practice navigating through the *finfind* system. Dynamic role plays were used to help the BDSPs become comfortable using the embedded content and decision making process. They were also asked to sign a Code of Ethics.

Ultimately, 64 BDSPs from 14 different BSOs were registered as *finfind* consultants and enrolled on the portal which allows them to connect with SMEs who visit the site, access tools and materials and view the directory of FIs serving SMEs. The consultants reported that the orientation improved their own financial literacy and that it opened new doors to SME financial services and clients.

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY

Courier company's turnover doubles

A key benefit of *finfind* for consultants is the guidance on how to identify and secure different sources of finance

Photo: TEBOGO NGUBENI, FSP

Muzi Twalo and business partner Johan de Klerk with their new 8 ton truck. "Through Darryl we got approved…for small businesses it is the only way to go."

Where SMEs typically fall short of the criteria for lending is poor accounting records and lack of surety.

October 2012

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

For three years Muzi Twalo had tried in vain to secure financing to grow his small business, Courier IT. The company, which rents its premises and vehicles, did not have any assets to borrow against. Finance applications to four banks had been declined for this reason. Muzi was frustrated, "how are you supposed to grow if you can't get a chance from the bank?"

Muzi reached out to *finfind* consultant Darryl McEwen for help. Darryl is an enthusiastic proponent of the *finfind* process. His long time ambition has been to help SMEs to grow. "*finfind* is the methodology I had been looking for to crystallize my efforts…SMEs need all the help they can get," he says. Although Darryl has been at the helm of a successful consultancy for the last 16 years, his experience of *finfind* is that "it is a better approach."

After an on-site consultation with Muzi, Darryl identified accounting records as their barrier to financing. A lack of consistent accounting records is a common hurdle for many SMEs seeking finance. In Muzi's case, the financial statements, supporting documents and cash flow projections were not up to standard – something that Muzi was unaware of. They had a bookkeeper but did not know that the records were deficient. Darryl advised Muzi that he would need to address the 14 month backlog of accounting records before he could approach the bank. With the help of an accountant, this took Muzi several months. Once all the papers were in order, it took only a few days for his finance application to be approved.

The application carried extra gravity after Darryl visited the bank in person to recommend Muzi. "Darryl motivated our application…if you go through him you will be approvable" says Muzi. "If you go to a bank on your own you will fail."

Muzi's new 8 ton truck means that they no longer have to lease their vehicles which will enable them to double their turnover.

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY
Culture Shift at Standard Bank

Institutionalizing Purchase Order Finance (POF) signals a culture shift at Standard Bank

The spread of the POF pilot from one to three provinces is an example of how FSP is building on successes to ensure scalability and sustainability.

Despite initial reluctance, Standard Bank was so impressed with the success and momentum of the POF pilot in KZN, that they have now expanded the pilot to two additional provinces.

October, 2012

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

Attracting risk-adverse institutions like Standard Bank to the SME lending space is not a straightforward task. After much effort in negotiations, consultations, capacity-building and on-site support to senior bank management, credit officers, front line sales staff as well as Standard Bank clients, FSP has started to see success of a Purchase Order Finance (POF) product rollout at Standard Bank.

POF is a unique product that is very useful for small businesses trying to grow their businesses. A short-term contract-based finance product, it's a good example of a product that banks can use to move deeper into the SME sector without excessive risk.

FSP has worked with the Standard to identify new market sectors to target with the newly designed POF product. The work entailed the design, develop and introduction of this new short-term working capital finance loan product and extensive training of Standard Bank staff. FSP has also recently reviewed the product launch and has advised Standard on how best to utilize POF within value chain financing.

With the support from FSP, in March 2012 the bank launched a pilot to test the new POF pilot product launch in Kwa-Zulu Natal. The desire for Standard management to increase their lending into the SME sector has recently resulted in POF becoming a priority for the bank, which is now expanding the POF pilot to two additional provinces, Western Cape and Gauteng. To prepare for this, FSP has trained over 60 credit officers, developed a product manual and provided a *train the trainer* course to the bank to enable further roll out of internal training on a larger scale.

Standard Banks's first POF loans were approved mid-April 2012. To date, Standard has approved 6 transactions totaling R4.7 million, and has allocated R100 million to lend by the end of the year.

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

SUCCESS STORY

Tshwane Business Club Hosts *finfind*

finfind consultant takes center stage

Photo: KIIRSTEN KENNEDY, FSP

What should business owners think about when applying for finance? What pitfalls should they be aware of? Neszette Wilson, one of finfind's 64 certified consultants, addresses an audience of 144 SMEs at the Tshwane Business Club in early October 2012.

SMEs learn how to access tailor-made business finance products through finfind partnerships.

FSP was honored to be invited by the City of Tshwane to present *finfind's* services at a meeting of their Business Club. *finfind* is South Africa's on-line guide to SME finance. Broad exposure at events like this builds brand awareness and drives traffic to the on-line portal. It also gave Neszette Wilson, a *finfind* consultant, a chance to add new clients to her portfolio.

Neszette is one of 64 registered *finfind* consultants. Her many years of experience in successfully assisting both startup and existing SMEs across a wide range of sectors qualified her as a candidate for the program. As the MD of her own company, she has firsthand experience in the SME landscape. She is also a member of one of *finfind's* partner organizations, The South African Institute of Professional Accountants (SAIPA), which is how she first learned of the *finfind* opportunity.

Neszette gave a dynamic presentation on *finfind* services, explaining how SMEs go about identifying a consultant on www.finfind.biz, what to expect from the partnership and how it can help grow their businesses. She described the *finfind* process of linking SMEs with skilled business advisors, allowing SMEs access to financial products that they might not otherwise have had.

She encouraged the audience with a story of one of her SME clients, which she called, "*The Power of Persistence*." She told how the SME had applied no fewer than nine times before their mining technology business loan was finally granted.

SMEs gained a better understanding of their own needs for finance and a new knowledge of how to identify opportunities, and Neszette gained two new clients.

October, 2012

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