SWAZI BUSINESS GROWTH TRUST

A LONG-RANGE PLAN
TO ACHIEVE INSTITUTIONAL SUSTANABILITY

Submitted to the Board of Trustees
and USAID/Swaziland

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1. Introduction

The Swazi Business Growth Trust was established in 1991 by USAID, with the objective of promoting small business development in Swaziland This objective was viewed as an important contribution to the larger goal of generating new employment and increasing incomes for the citizens of the country The Trust operates as a non-profit organization and provides training, marketing, and business planning services to its client enterprises Through a wholly-owned subsidiary, the Growth Trust Corporation (GTC) it supplies credit to these businesses and to Swaziland's affordable housing market [1]

As the Founder and principal source of funds in the startup period, USAID has made clear its intention to put the Trust on a **managerially and financially sustainable basis**, and to transfer effective ownership to the people of Swaziland, whose interests are represented by a Board of Trustees To accomplish this, the Trust must evolve from being a donor-funded project to a permanent, self-reliant institution This long-term change process is only just beginning As of mid-1994, the Trust is characterized by experimentation, rapid growth of its programs, and a buildup of staff in its operating units The next generation of challenges calls for the Trust to

- o Complete the **hiring and training of core staff and the installation of systems and procedures,** so that the market testing and refinement of GTC and SBGT programs can continue to progress on an ongoing basis,

- o Locate, train and install a **new executive management team,**

- o Execute a **financial strategy** that (a) strengthens the subsidiary credit institution and (b) expands the revenue stream to support SBGT's non-financial services in the period after the current USAID project expires, and

- o Strengthen the **governance structure** so that the Board can effectively perform its oversight and policy making responsibilities

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[1] In this document the term "GTC" is used to describe the organization's credit program, and "SBGT" is used to describe the training and advisory services wing The term "Trust" refers to the organization as a whole

It is important to recognize that the Trust is a very young organization, and that these tasks are incremental - they require continuous effort and attention They are also highly interdependent if one piece is missing, the others will be more difficult to accomplish If the execution of these important tasks is rushed, or superficial, the result may be to weaken rather than strengthen the organization over the long run

Moving from a donor-financed project to a permanent, self-reliant institution is a daunting challenge There are not many successful models, either in Swaziland or in other countries, that the Trust can emulate Yet the prospects for the Trust are bright, if its resources and priorities are combined in a sound long-term plan for the organization While no formal planning document can anticipate all eventualities, the process of anticipatory planning can identify key decisions, possible alternatives, and the sequence of critical steps It will also ensure that the critical actors in the process of change - including management, staff, the Founder, and the Trustees - are working in reasonable harmony toward a common goal

2. Sustainability and Organizational Change

Defining a common goal - reaching agreement on what ***sustainability*** really means for the Trust - is absolutely essential before the details of long-range planning can be worked out Thus this Plan begins by laying out an operational meaning of the concept that reflects the special mandate and characteristics of the Trust It then addresses the question of how long it will take the Trust to reach the desired status of a permanent, self-reliant institution

For long-range planning purposes, there are four critical dimensions of sustainability that the Trust must address these are examined in Sections 3 through 6 of this Plan The most quantifiable, and thus easiest to measure, is **financial sustainability** Given the nature of the Trust and the size of the market that it serves, this may also be the single most difficult part of the sustainability puzzle to solve Looking at the Trust as a whole, financial sustainability will be reached when the revenue that is generated from interest, fees, and permanent income sources fully covers all core program and administrative costs A development organization which has reached this stage "pays its own way", and its survival does not depend on annual infusions of funds from outside sources to cover operating expenses

The Trust is moving gradually in this direction Its operating wings, GTC and SBGT, have been designed to reinforce one another, but their financial structure and prospects differ markedly Looking ahead over the next few years, the GTC has the potential to earn healthy profits from its various credit programs, as its portfolio (Loan Book) expands into housing acquisition and improvement lending The SBGT is unlikely to become fully self-financing It faces constraints in expanding the volume of advisory and training services, due to the limited size of Swaziland's small business market, yet if it raises fee levels for its services, there is a risk that its current client base would shrink The fact that one wing can generate a surplus, while the other operates at a deficit, poses important policy and strategy choices for the Trust Each requires a stable source of external financing, but the arrangements and terms (loans and equity for GTC vs grants and/or endowment funds for SBGT) will reflect these differences, Section 3 of this Sustainability Plan deals with financial goals and strategy in more depth

Three other aspects of the Trust's movement toward long-term institutional sustainability will involve both near-term actions and ongoing attention from both the Board of Trustees and Management over the next several years These are

- o **Stability and effectiveness of managerial leadership** to succeed the current technical assistance team which established the organization during its first two years, with a key step being the recruitment and retention of a permanent chief executive (see Section 4),

- o **Successful operation of programs and services** which respond to market demands, are efficiently managed and continuously improved, and rely on competent staff who understand clients' needs (see Section 5), and

- o **Strong accountability to an actively engaged Board of Trustees** which exercises governance over policy, closely monitors the organization's performance, and guides it successfully to achieve its goals (see Section 6)

In all of these areas, the Trust will need to "change gears" and adjust priorities in order to lay the groundwork for the future At present, the organization is beginning to emerge from an intense period of growth and experimentation which can be characterized as its ***Establishment Phase*** This phase began in 1991, when the USAID project design process was completed, and the Trust was formally registered

During the Establishment Phase the Trust has had many of the traditional features of a donor-financed development project, and it has followed reporting requirements and guidelines set by the agency which has been paying the bills The DAI technical assistance team has had direct management authority over internal operations, although many decisions have been subject to USAID review, and the Board of Trustees has not played a very active oversight role However, roles and responsibilities in the Trust now need to be reexamined since the December 1995 Project Assistance Completion Date is approaching, at which time USAID financial support and oversight will be terminated

The 18-month period between July 1994 and December 1995 will mark an important ***Transition Phase*** for the Trust This is a phase when Management, the Trustees, and the Founder must prepare the organization for a new, post-project identity As stated above, this adjusting priorities and gradually adapting a new management style in a fast-moving organization, and shifting everyone's attention to the realities that will confront the Trust in January 1996 and beyond Those realities involve (1) a fundamental change in the revenue base, (2) the need to replace the current senior management team, either with permanent new leadership or some new form of contractual arrangement, and (3) and the progressive strengthening of Board members' capacity to exercise functions that have been the Founder's prerogative up until now

Most of the material in this Plan is geared to the decisions and action steps that will occur during the next 18 months Section 3 describes the financial strategy for this period, which has been clearly mapped out, and Section 5, entitled "Routinizing Internal Operations" describes the principal improvements that will made in the Trust's staffing, systems and procedures during this period

The principal uncertainties - and therefore, the important choices that face the Board of Trustees during the Transition Phase - involve the approaches that will be taken to succession planning at the senior management level (Section 4) and to the process of developing the Board itself as an entity capable of governing the Trust and charting its course in the future (Section 6)

As of January 1996, the Trust will enter a ***Consolidation Phase*** that is likely to run for about five years[2] The major variable governing the length of this phase is likely to be the degree of success in executing the financial strategies adopted for GTC and SBGT The size of GTC's Loan Book is expected to be large enough by 1996/97, and repayment rates sufficiently robust, to generate positive earnings for GTC But as a fast-growing financial institution, GTC must carefully monitor its debt/equity ratio and other financial indicators As a result, during the Consolidation Phase, it probably will not be able to pay significant dividends to the Trust for use by SBGT Without access to this type of internal subsidy, SBGT will continue to depend on external sources of finance A principal objective will be to secure a stable source of income that does not require annual fund-raising or grant applications Throughout this period, SBGT must continuously evaluate the cost-effectiveness of its development services, and keep its cost structure relatively lean

Successful execution of the Trust's Sustainability Plan will involve several types of performance measures As indicated above, closing the revenue/expenditure gap will be a central concern It can be expected that external finance institutions and donors will be interested in gradually phasing down their financial commitments as that gap is narrowed A second key element will involve the timing and success of the final transition in the Trust's executive leadership If there is a contract arrangement for the General Manager position in the early part of the period, the identification of a permanent GM and a carefully managed handover process will also be important milestones bringing the Consolidation Phase to a successful conclusion

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2 For illustrative purposes, December 2000 is used in this document to denote the endpoint of the Consolidation Phase

3. Financial Goals and Strategy

The Trust comprises two distinct but highly interdependent business units They have different revenue-earning potential and cost structures, because they offer different types of products and services Long-term financial health requires steady progress toward clear viability goals for both parts of the organization These goals require distinct strategies which, if successful, will be mutually reinforcing Following the time-phased approach, this part of the Plan looks at each part of the Trust and describes goals and strategy both for the 18-month Transition Phase and the five-year Consolidation Phase

GTC Goals and Prospects

Over the next several years, the asset base of the Growth Trust Corporation (GTC) is expected to grow very rapidly, with more than tenfold growth in its Loan Book from the mid-1994 base of E 2 million A portion of that growth will be in the form of direct loans to small businesses, however, roughly two-thirds of the total portfolio is expected to derive from housing loans By the Year 2000, business loans would amount to E 6 5 million in the portfolio, while housing loans would amount to E 16 million

Now that it possesses a Financial Institutions License, GTC has the needed flexibility to price its loan products appropriately in relation to its cost of funds It is also in a position to attract additional capital from outside sources, including the Development Bank of Southern Africa (DBSA) and the European Investment Bank (EIB) These resources will be essential to support the planned growth of the Loan Book The cost of this external capital varies, depending on the source DBSA's interest rate is 10 percent, whereas the EIB offers long-term debt at rates in a range of 3 to 7 percent, with the added possibility of taking an equity stake in GTC

The foundation for most of GTC's loan products has been put in place, mainly as a result of the careful methods used in introducing and supervising the small business program over the past year GTC has set itself a much higher target for loan repayments than other credit institutions in Swaziland that serve the same clientele[3] - but thus far it has met its 95 percent goal Careful training and supervision of loan officers, backed by the state-of-the art Smart Card system which generates real-time reports on every loan in the portfolio, are key elements that distinguish GTC's credit programs USAID grant support during the 1991-94 Establishment Phase has paid for this necessary infrastructure GTC is faced with the need to grow rapidly in order to justify the investment already made It needs a much larger Loan Book to achieve economies of scale from the systems that have been created, because those systems have a high fixed cost

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[3] However, this objective is consistent with the results achieved by successful small business and microenterprise credit programs in other countries, e g Bolivia, Indonesia, and Bangladesh

GTC has its own Board of Directors, since it has a separate legal identity, even though it is wholly owned by the Trust This Board, as well as the Trustees of SBGT and external lenders and donors, will want to use a set of standard financial measures to assess two aspects of organizational performance These are displayed in Table 1 on the next page, with indicative targets for each indicator The targets come from a financial forecast, shown in ***Annex A*** to this Plan, which Management has developed for the next seven years of GTC operations Staff of the Development Bank of Southern Africa (DBSA) made valuable contributions to the financial plan The principal assumptions that shaped this forecast are listed in the Annex These demonstrate the importance of attracting reasonably priced external capital during the period when the GTC's Loan Book will be expanding rapidly

TABLE 1: FINANCIAL GOALS FOR GTC

GTC Financial Indicators	**December 1995· End of Transition Phase**	**December 2000. End of Consolidation Phase**
Repayment rate	Minimum level of 95%	Minimum level of 95%
Net Earnings and Cash Flow	Breakeven or small loss, with positive cash flow of E 1 million	Earnings of E 1 million and positive cash flow of E 3 million
Debt/Equity Ratio	Probable range 60-80%	Target range 40-50 %
Return on Assets	Between 0% and -2%	Positive between 4% and 6%

The first pair of measures deals with **operational performance**, and at any given time, will provide a clear picture of whether the corporation is meeting or exceeding important targets agreed to by its Board and the Management team

- Loan repayment rates this is a critical performance measure, because all of the forecasts that have been developed for GTC depend on a high rate of success in timely collection of loans, and

- Cash flow and net earnings when it reaches a mature stage, GTC should be capable of generating sufficient income and cash flow to offer dividends to prospective equity investors, and/or to support the developmental activities undertaken by SBGT itself

The second pair of measures addresses the **long-term financial health** of GTC as a credit institution These basic indicators must be carefully monitored at regular periods, so that trends can be detected showing improvement or deterioration Particularly during the

Consolidation Phase (1996-2000), these should reflect stability and gradual improvement

- o Debt/equity ratio this ratio will rise in the immediate future (1994-96) as GTC uses DBSA loan funds, but it should decline over time as a result of retained earnings and possible infusion of additional equity, and

- o Return on assets GTC's flexibility in pricing and capacity to build its Loan Book should produce a stable, positive ROA that will compare favorably with that of commercial banks and other traditional financial institutions

There are three main elements to the strategy that GTC is following in pursuit of these long-term goals The basic approach appears sound for the period through 2000, while the GTC gradually builds its own financial sustainability

- o The first element is the design and delivery of specialized credit products that meet the needs of underserved market segments within Swaziland Experience over the past year has led GTC to develop a new line of housing finance products, in part because it appears to have already fully penetrated the market for viable small business lending,

- o The second part of the strategy is a businesslike, systematic approach to the process of loan appraisal, lending, and collections which keeps GTC very close to its customer base, and

- o The third part of the GTC financial strategy involves Management's aggressive search for affordable loan capital This achieved early success with DBSA, whose cost of funds is too high to provide GTC with the necessary spread, and resultant earnings, to achieve its long-term financial goals Concessional loan terms and/or direct equity investments must be obtained from other institutions

Building the organization's capital base is likely to remain a major preoccupation for both GTC Management and the Board The commitment and personal credibility of the General Manager and the manager in charge of credit operations will be important criteria to motivate (and reassure) external lenders and investors Similarly, the active involvement of the Board in guiding and monitoring GTC's financial strategy will be an asset in any negotiations with outside institutions For this reason, the clarity, accuracy, and integrity of GTC's financial reporting are absolutely critical for successful execution of the strategy

SBGT Goals and Prospects

The current and future financial situation facing SBGT is dramatically different This wing of the Trust is performing a developmental function when it delivers services to small companies and microenterprises This clientele has responded positively to the fee-for-services requirements that SBGT has built into all of its programs Each of the three departments (Marketing, Business Advisory Services, and Construction Assistance) continues to experiment with pricing so as to gauge the elasticity of demand for the programs being offered Each department has a business plan with revenue (sales) targets, and is subject to monthly monitoring and quarterly performance reviews by Trust Management An explicit goal in each of these business plans is to increase the level of cost-coverage as a measure of the department's future viability

It is conceivable that at some future date, the SBGT could earn enough in fees to match total departmental costs plus its share of the Trust's general administrative overhead But this equilibrium level will be extremely difficult to reach Not only is the potential client base in Swaziland's small business sector small (a population of about 2,000 firms), but the firms themselves are generally small and have limited amounts available to spend on consulting advice and training SBGT's imaginative outreach and publicity efforts have achieved a high degree of market penetration and created a reservoir of good will based on client satisfaction Given the conditions, its long-term goals of growing revenues at 20-25 percent a year, while holding cost growth to 10 percent, appear optimistic

TABLE 2: FINANCIAL GOALS FOR SBGT

SBGT Financial Indicators	**December 1995 End of Transition Phase**	**December 2000 End of Consolidation Phase**
Cost Coverage for Services to Clients	Target ranges at department level Marketing 40% Construction Assistance 40% Business Advisory 60%	Target ranges at department level Marketing 60% Construction Assistance 60% Business Advisory 80%
Revenue Growth Rates for Each Type of Service	Average growth of 25% over levels achieved in mid-1994	Stable growth in revenues 2 x rate of increases in SBGT costs
Net Earnings	Loss of E 300,000 after accounting for grant revenue of E 1 million	Break-even or positive total SBGT revenues (fees plus regular income) match or exceed SBGT's total costs
Degree of Dependence on External Financial Support	SBGT must solicit grants and donations from multiple sources in order to cover an annual operating deficit With USAID funding at an end, a serious revenue/cost gap must be closed	SBGT has a stable revenue stream with permanent (e g endowment) income of about E 1 1 million, which covers the gap between fee revenues and SBGT costs

Table 2 provides a summary of financial indicators for SBGT matched against the ending dates of the Transition and Consolidation Phases The estimates in this table match the forecasts in ***Annex A***, which were based on SBGT's own business plans In this scenario, by December 1995 SBGT is assumed to incur a deficit which must be covered by annual grants and contributions from various sources By the end of the Consolidation Phase, the revenue/cost gap has been closed because SBGT enjoys a permanent stream of income to supplement its earned fees

How realistic is this forecast? It may appear conservative in projecting future fees from clients, but experience thus far indicates this approach is sound In terms of outside income, it depends on the assumption that in the medium term (18 months), Management and the Board can patch together enough grant revenue and donations to continue SBGT operations after December 1995 This will undoubtedly be difficult If the amount raised falls short of the target, SBGT will have to cut back on some of its programs Management acknowledges this possibility, and the Board, reflecting the business backgrounds of its members, can be expected to support any such decision, however painful

The prospect of continuing uncertainty - or at a minimum, strenuous annual fund-raising efforts - during the Consolidation Phase highlights the need to identify a permanent source of income to supplement client fees SBGT operates like a business and uses this public image to attract and motivate clients On an ongoing basis, the burden of fund-raising on a scale of several million Emalangeni per year will absorb large amounts of time from Management, and undoubtedly from the Board

The recent USAID evaluation endorsed Management's proposal to build an endowment to finance SBGT Given the opportunity cost of annual fund-raising and its diminishing potential over time, this is a very attractive concept, but it is unlikely to materialize in a single package An early decision by USAID (requiring approval from Washington) would give momentum and potentially motivate other organizations to make endowment gifts Realistically, SBGT should aim to get a mix of external funds during the Consolidation Phase, gradually building up permanent (endowment) sources and reducing its reliance on annual grants It should strive to complete this process by the Year 2000

4. Executive Leadership and Succession Planning

The selection of an organization's executive management team is the one area where a Board of Trustees (or Directors) has a very clear operational role in the organization's affairs Numerous organizations either thrive or decline, based on the leadership choices made by their Boards In the case of the Trust, replacing two highly respected, competent, and dedicated expatriate managers is understandably seen by the Trustees as a very difficult assignment The two DAI staff (General Manager and Deputy GM) function exceptionally well as a team with interchangeable and overlapping responsibilities Each of them is intimately involved in both the financial (GTC) and non-financial (SBGT) activities of the organization Moreover, they are scheduled to leave at the same time, less than 12 months from now

In conversations with Management and the authors of this document, and in a day-long Retreat held on 28 May 1994, various Trustees expressed doubt that an executive recruitment process - whether aimed at Swaziland, or the larger Southern African region - would turn up candidates with similar profiles and operating styles who would match the current structure and pattern of shared responsibilities at the Management level of the Trust

Taking a long-term view of the Trust, the concept of successive phases in its life (Establishment/Transition/Consolidation) suggests that the current top management structure may not be ideal for ongoing operations in the future Because the credit and business services programs are inherently different, the expertise and methods needed to operate them should probably be treated as functionally distinct This indicates that instead of searching for a General Manager and one "alter ego" Deputy GM with a very similar profile, there would be an advantage in redefining the Deputy GM post solely to fit the operational management responsibilities for GTC Future recruitment for the Deputy would therefore take clear aim at someone with a financial background

This approach raises questions about the way that SBGT (non-financial) operations would be managed An ideal solution would involve creating a second Deputy GM position to oversee the SBGT, under this model, the General Manager would have a strong deputy in each wing, and could concentrate on policy and strategy Unfortunately, SBGT does not appear to be in a position to support the additional overhead costs that would arise, consequently, the financial forecast for SBGT does not include this second deputy post Oversight of the SBGT will thus remain with the General Manager, although the latter will probably delegate day-to-day coordination to one of the three Departmental Managers within SBGT

The Board of Trustees discussed a functional division of responsibilities at the Board Retreat held on 28 May 1994 There was a general consensus that this would clarify managerial responsibilities and facilitate the executive recruitment process[4]

An exchange of views also occurred on the timing of the executive search effort specifically, which jobs should the Trust try to fill during the 18-month Transition Phase? On the one hand, several Trustees voiced concern about (a) the quality of candidates that might be found in Swaziland or neighboring countries for the key post of General Manager, and (b) the risks involved in hiring someone possessing paper credentials, but no track record in a job of comparable responsibility On the other hand, there was a shared concern about the dangers of leaving the post vacant when the current General Manager departs next May, and this led several people to advocate an accelerated search process designed to fill both of the top positions (General Manager and Deputy GM to GTC) at the earliest possible date

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[4] A two-deputy model received favorable comments from Trustees during the Retreat However, Management's updated financial analysis, completed subsequent to the Retreat, demonstrates that this position would overburden SBGT's cost structure

In a situation of this kind, there is no obvious choice between a right answer and a wrong one, because there are many factors to consider Having experienced, high quality management in place may be a necessary prerequisite for attracting additional funds from banks and investors From a different vantage point, however, recruitment of an experienced chief executive may prove much more difficult if the organization does not yet appear to be financially secure

Consequently, Table 3 displays two scenarios for the introduction of a new, permanent senior management team at the Trust The key difference involves the timing of employment for a permanent General Manager

TABLE 3: SCENARIOS FOR THE MANAGEMENT TRANSITION

Scenarios to Find and Phase in New Trust Management	**December 1995 End of Transition Phase**	**December 2000 End of Consolidation Phase**
OPTION # 1 Gradual search process which focuses on filling key second-tier position (Deputy GM for GTC) during the Transition Phase Anticipates using a contract to fill top position in first part of Consolidation Phase	One Deputy GM has been hired and trained to manage the credit wing of the Trust Trustees have signed a management services contract to engage a new General Manager, who has full operational authority, while search for permanent General Manager continues	Permanent General Manager has been hired, and has received substantial on-the-job training during a period of overlap with his predecessor Management contract has been phased out before end of this phase
OPTION # 2 Immediate executive search campaign involving heavy time commitment from Board members Goal is to fill permanently both top management posts (replacing current DAI personnel) prior to May 1995	A new and relatively untested senior management team is in place, probably receiving support from Advisors ' who do not have direct operational authority General Manager has been on board since early 1995, and Deputy GM for credit (GTC) has also been hired	An experienced senior management team is in place If all has gone according to plan, it should no longer require the assistance of on-site "Advisors'

The executive succession process involves considerably more than simply interviewing applicants and selecting the one who is ranked at the top of the list This process is intimately related both to where the Trust is in its own development, and to the evolving role of the Board itself Establishment of a formal Search Committee at Board level is a necessary step and should be undertaken with care in order to obtain the desired end results ***Annex B-1*** contains draft terms of reference for a search committee (an earlier version was presented at the Retreat), and could form the basis for moving ahead

The keys to a successful search campaign are a clear understanding of the needs and fundamental character of the organization, and clarity with respect to personal and professional qualifications The staff of the Trust can be extremely helpful in supporting the Board with these tasks, but it will be ultimately the responsibility of the Board to make the final, critical choices and decisions

The Board faces an important choice, and needs to act soon There may indeed be other alternatives beyond the two options displayed above, possibly this Plan will stimulate further thought and lead to a different approach If the choice does boil down to Option # 1 or # 2, the main factors to be weighed would seem to be (1) a judgment as to the **Board's readiness to mount and manage the type of aggressive** campaign shown under Option # 2, and (2) assessment of the market prospects for really making Option # 2 succeed Section 6 considers the implications of this choice for the Board's own long-term development as an entity charged with governance for the Trust The second issue merits further debate and discussion among the Trustees themselves, given their knowledge of the market in Swaziland and the region

5. Routinizing Internal Operations

The principal concerns of the Board of Trustees relate to financial strategy, executive leadership, and the changing role of the Board itself in the governance and guidance of the Trust Within the organization, however, a set internal processes form an equally important part of the Sustainability Plan Now that the basic programmatic structure of the SBGT and GTC has been designed, the full complement of staff to operate the programs must be hired and trained, and the necessary internal systems and procedures must be put in place to support them Responsibility for doing these things rests directly with the current management team provided under the DAI contract For many specific assignments, the two resident senior managers have drawn on specialist short-term consultants who have come from within Swaziland, the Southern African region, or the United States

In terms of staffing, and department-level management, the Trust is still at a formative stage In the immediate future (June-September) a number of open positions will be filled, the most crucial of these being for managers of departments within both the SBGT and GTC Management has given this recruitment exercise personal attention and very high priority, which is appropriate As new staff join the organization, there is an explicit commitment to provide them with orientation and training that helps them adapt quickly to their new roles

Table 4 provides a summary of the major areas where ongoing internal improvements are underway All of these efforts are geared to the timetable of the Transition Phase, the next 18-months, recognizing that the Trust must be operationally mature, and fully staffed with trained personnel, by the time that USAID financial support terminates This approach is a sound one, since it maximizes the value of the resources available under the USAID grant and the DAI technical assistance contract

The Management Information System and the Trust's internal financial analysis capacity are both very critical elements in the organization's strategy for long-term sustainability These merit special attention during the Transition Phase to ensure that the Trust's own permanent employees have full ownership and command of these tools

TABLE 4: INTERNAL OPERATIONAL IMPROVEMENTS

Refinement of Internal Operations & Systems	**December 1995 End of Transition Phase**	**December 2000 End of Consolidation Phase**
Management Staff Hired to Run Each Department of GTC and SBGT	All Department Manager positions are filled by December 1994 External training resources are used to accelerate new staff's entry into these roles All units except Construction Assistance Program have Swazi nationals as managers	Trust follows principle of promotion from within, based on merit As positions open up (e g at Deputy GM level) personnel with proven capacity can move up in the management structure
GTC Credit Programs and Products Tailored to the Swazi Marketplace	Housing loans (HAIL 180 and HAIL-Plus) will be fully operational with fast-growing Loan Book Business loan portfolio grows at a slower pace GTC staff receive regular in-service training to improve loan appraisal and monitoring skills	GTC continues to develop new products and credit facilities based on availability of capital and growing expertise of its staff
SBGT Programs Refined and Made More Cost-Effective	Ongoing evaluation of revenue/cost ratio for each unit of SBGT If warranted overhead costs will be cut back and units combined in order to improve ratio and reduce SBGT,s operating deficit	SBGT continues to evaluate clients' needs, and seeks opportunities to diversify its mix of services Cost-coverage and potential size of market remain key criteria in managing these programs
Improved Management Information System Capabilities	MIS will be capable of delivering more complete real-time information to managers on status of loans, clients' requirements, etc Swazi staff maintain system and handle programming enhancements	MIS will undergo continuing upgrades as programs evolve and technology changes Budget forecasts for this phase anticipate a modest level of additional capital investment
Timely Financial Analysis and Reports Keyed to the Trust's Long-Range Goals	General Manager Controller, and Board will be able to monitor operational performance and long-term financial health as described in Section 3 of this Plan	Financial reporting system will be improved and adapted to fit the Trust's changing needs

6. Enhancing the Role of the Board of Trustees

Since the Trust's inception, acting in its capacity as Founder, USAID has carried out a number of policy making and oversight responsibilities These have included standardized reporting requirements and the overlay of procurement, personnel, and related operating systems USAID led the process of selecting a contractor, since then, it has relied on the contract team to manage the Trust and to furnish information on progress toward project objectives Perhaps most importantly, USAID's involvement has imposed a framework of program principles to ensure that Trust maintains a focus on core objectives during its Establishment Phase

With the transition in the USAID relationship from one of donor to prospective partner - assuming that there is at least some possibility of financial support after 1995 - the Board of Trustees must be equipped to substitute its own systems and procedures, and to design an oversight process that meets its own requirements This offers an opportunity to shed controls and procedures that may be perceived as overly bureaucratic, but this change should be undertaken with caution The Board's oversight task will be much easier if the basic principle of accountability remains intact in any new systems that are introduced

This shift in "ownership" will place additional demands on the time of the Trustees While the process will be gradual, it is a process that must begin now Indeed, the dialogue and contributions made by participants at the 28 May Retreat signal that the process has already started This event marked a turning point in the relationship between Management and the Board, precisely because it focused attention on long-range planning issues and spotlighted the areas where the Board's responsibilities will grow significantly

The Retreat was particularly useful in demonstrating that many members of the Board feel a need to understand both the goals and operational activities of the Trust in greater depth than they do now To state this is merely to reflect the type of interaction that the Trustees have had with the organization up to this point Although individual Trustees have devoted considerable time to specific issues, working closely with the General Manager, the Board as a group has been convened roughly once a quarter for evening meetings that average about two hours in length

Against this background, decisions regarding an enlarged workload for the Trustees, and their direct personal involvement in tasks such as executive recruitment or fund-raising contacts with prospective donors, deserve careful thought and frank discussion This Plan has shown that the Trust needs to attack and solve some complex, interrelated problems in order to achieve the sustainability goal The Board will be an important factor in finding solutions In order to play this role, however, the Board needs time to develop its own capacities and gain more direct experience with governance

TABLE 5: AN AGENDA FOR BOARD DEVELOPMENT

	Planning for Sustainability: Critical Questions Affecting the Role of the Board
1	**Understanding the Company** What is the mission of the Trust? What basic values guide the management and operation of the Trust? How does the program of the Trust reflect these basic values?
2	**Governance Structure** What type of governance suits this unique organization? What constituencies should the Directors represent, and what skills should they possess? How should the Board approach the election process, terms of office and designation of committees?
3	**The Board's Role in Financial Oversight** When does the Board become involved in financial matters? What financial questions should the Board be asking? What financial documents should the Board approve? How much does the Board need to know about financial operations?
4	**Managing the Company** Who manages the Company? What is the difference between policy and operations? Who sets objectives, and who measures performance?
5	**Board Operations** What instruments and resources should the Board have at its disposal to perform its functions? What are the most effective communication channels between the Board and staff?
6	**Development and Fund Raising** What role does fund-raising play in the financial strategy? What role should the Board play with respect to fund raising? How do Board and staff split responsibilities? What works and what does not?

The results of the recent Retreat show that it is difficult, if not impossible, to address many operational issues - for example, the details of an executive recruitment campaign - if the Board as a whole has not yet seized the reins of ownership, and if individual Trustees are not yet familiar with all the implications of pursuing sustainability as a long-range goal There is the risk of frustration and disappointment if anxiety about the Trust's future after current management leaves should overwhelm, or interrupt, an essential learning process that is just getting underway within the Board

Just as the Trust's programs will continue to evolve and grow, so too will the Board

Table 5 provides a condensed outline of an agenda that the Board might use to define its internal needs This outline lists general questions under six major headings While some of the questions might appear quite basic, not all of the answers are necessarily clear to the current group of Trustees, and this would naturally limit their potential contributions as the Board's responsibilities increase Providing answers to these questions will be even more essential in seeking out new Trustees in the future, and in providing them with adequate orientation for their roles on the Board

Most of the current Trustees are completing their three-year terms, and most of this group appear committed to continue serving on the Board, but are awaiting a clear signal from USAID on this matter Sooner or later, however, additional Trustees will need to be identified and nominated ***Annex B-2*** contains draft terms of reference for a Nominations Committee these emphasize the need to base selection of new Trustees on the organization's evolving needs An annual assessment of the Board's strengths and weaknesses relative to those needs is recommended as a regular function of this committee

Over the next 18 months, within the Board it will be important to find a balance between continuity and experience, and opportunities to add new types of expertise Continuity will be quite important in the short run, in order to sustain momentum from the Retreat The immediate priority should be reappointment - with USAID approval - of all the current Trustees who are willing to serve Then, at the next scheduled meeting in late July, the Board should create a Nominations Committee, having adopted or modified the terms of reference found in Annex B-2

Management and the Board should also decide if they want to follow a structured capacity-building agenda over the next 12 to 18 months, addressing the issues listed in Table 5 From comments made a the retreat, there would appear to be considerable interest in doing this It would probably involve some degree of outside consultation, using resources under the DAI contract, and it should follow a sequence (the one shown in Table 5 may be the best one) that deliberately builds the Board's knowledge, commitment, and "feel" for the organization and its mission Some items on the agenda can be woven directly into regularly scheduled meetings, since those will become more frequent (at a minimum, six per year), but realistically, several subjects will require longer amounts of time - for example, an in-depth treatment of financial goals and strategy Thus it would be advisable to set aside time during the next year for three or four half-day sessions as key parts of the board development process

The Board of Trustees has a unique role and responsibility in building a healthy future for the Swazi Business Growth Trust More than any other investment that the Trust makes during the Transition Phase, the enhancement of the Board's ability to govern and its identity as the organization's fiduciary owner will pay very large returns in the future It is impossible to imagine a successful, self-reliant Trust in the 21st century without a strong, experienced Board standing behind it This Sustainability Plan has been prepared with a vision of a healthy, dynamic organization that will enjoy such support The Plan's utility should be judged by the progress that is made toward this end during the Transition Phase and the years that follow

ANNEX A:

Financial Forecasts for

Growth Trust Corporation (GTC)

and

Swazi Business Growth Trust (SBGT)

SUMMARY BALANCE SHEET - BOTH WINGS OF SBGT

12 Jul 94
11 58 AM

	Jun 94	Sep 94	Sep 95	Sep 96	Sep 97	Sep 98	Sep 99	Sep 2000	Sep 2001
GROWTH TRUST CORPORATION									
LOAN BOOK	982 992	2 138 407	9 278 280	17 216 783	17 702 117	18 253 781	18 878 407	19 583 293	20 376 463
FIXED ASSETS	2 191 712	1 756 196	1 342 579	896 163	534 580	679 550	818 100	896 850	919 000
OTHER ASSETS	1 457 277	1 940 835	1 550 176	1 494 863	1 939 866	1 631 167	1 719 822	1 860 476	1 516 146
TOTAL ASSETS	4,631 981	5,835,437	12,171,035	19,607,809	20,176,563	20,564,498	21,416,329	22,340,619	22,811,609
SHAREHOLDERS EQUITY	4 302 658	5 003 614	7 539 211	11 075 986	11 631 739	12 647 674	13 768 506	14 985 296	15 279 785
LONG TERM LIABILITIES	300 000	800 000	4 600 000	8 500 000	8 513 000	7 885 000	7 616 000	7 323 500	7 500 000
CURRENT LIABILITIES	29 324	31 824	31 824	31 824	31 824	31 824	31 824	31 824	31 824
TOTAL EQUITY AND LIABILITIES	4,631,981	5,835,438	12,171,035	19,607,809	20,176,563	20,564,498	21,416,330	22,340,619	22,811,609
DEBT/EQUITY RATIO	7 0%	16 0%	61 0%	76 7%	73 2%	62 3%	55 3%	48 9%	49 1%
SWAZI BUSINESS GROWTH TRUST									
FIXED ASSETS	1 116 162	932 867	768 971	563 526	382 080	383 550	438 850	468 350	480 250
CURRENT ASSETS	127 896	404 109	258 297	232 370	225 150	185 520	232 863	257 458	277 500
TOTAL ASSETS	1,244,058	1,336,976	1,027,268	795,896	607,230	569,070	671,713	725,808	757,750
SHAREHOLDERS EQUITY	1 214 735	1 303 152	993 445	762 072	573 407	535 246	637 889	691 984	723 927
LONG TERM LIABILITIES	0	0	0	0	0	0	0	0	0
CURRENT LIABILITIES	29 324	33 824	33 824	33 824	33 824	33 824	33 824	33 824	33 824
TOTAL EQUITY AND LIABILITIES	1,244,058	1,336 976	1,027,268	795,896	607,230	569,070	671,713	725,808	757,750

NOTE Because the Trust s fiscal year currently ends on 30 September the above financial projections use this date to mark year end However Management is considering a change to a 1 January 31 December fiscal year

ASSUMPTIONS

FOR GTC

1	Bad debt ratio in GTC loan book	5 0%	constant over 7 year period		
2	Maximum borrowing under DBSA loan	5 000 000	fully paid off 2000 interest rate	10 0%
3	EIB equity investment in GTC	5 000 000	recd in 1995 96 interest rate	2 0%
4	EIB secondary long term loan	5 000 000	recd in 1995 1998 interest rate	7 0%
5	GOS equity investment in GTC	0	recd in 1996 97 interest rate	0 0%
6	Commercial long term debt of	2 500 000	recd in 2000 interest rate	13 0%
7	GTC share of GM/Admin/Finance costs	70 0%	of total group salary cost	

FOR SBGT

1	Annual grant contributions to SBGT	1 000 000	starting in 1996
2	Annual cost increases for services	10 0%	constant over full period
3	Crowth rate for services revenue	20 0%	steady state as of 1998
7	SBGT share of GM/Admin/Finance osts	3^ 0%	^ otal g o.ıp salary cost

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SUMMARY INCOME STATEMENT - BOTH WINGS OF SBGT

12-Jul 94
12 07 PM

	Jun 94	Sep 94	Sep 95	Sep 96	Sep 97	Sep 98	Sep 99	Sep 2000	Sep 2001
GROWTH TRUST CORPORATION									
REVENUE	667 350	2 427 284	3 467 720	5 490 513	5 526 314	5 978 494	6 447 007	7 025 107	7 703 908
COST OF SALES	12 265	148 653	493 512	876 395	930 942	915 486	918 973	947 737	1 060 301
GROSS PROFIT	655 085	2 278 632	2 974 208	4 614 118	4 595 373	5 063 009	5 528 034	6 077 370	6 643 607
OPERATING COSTS	1 862 338	2 784 929	2 938 611	3 577 343	4 039 619	4 047 074	4 407 202	4 860 581	5 349 118
NET EARNINGS	(1,207,253)	(506,287)	35,597	1,036,775	555,754	1,015,935	1,120,832	1,216,790	1,294,490
CASH FLOW	0	1 292 719	1 024 308	2 469 228	2 235 994	2 467 692	2 673 186	2 937 038	3 189 241
GRANT REQUIRED FOR OPERATIONS	408 984	1 939 803	842 839	406 010	0	0	0	0	0
CAPITAL INFUSION REQUIRED FOR LENDING	0	1 158 661	7 486 968	8 670 540	1 473 992	1 621 391	1 783 530	1 961 883	2 158 071
RETURN ON ASSETS	26 1%	-8 7%	0 3%	5 3%	2 8%	4 9%	5 2%	5 4%	5 7%
SWAZI BUSINESS GROWTH TRUST									
REVENUE	127,265	1,029,946	1,591,102	1,722,378	1,972,016	2,137,529	2,433,018	2,623,138	2,857,740
COST OF SALES	20 323	176 640	229 265	252 191	277 411	305 152	335 667	369 233	406 157
GROSS PROFIT	106 942	853 306	1 361 837	1 470 187	1 694 605	1 832 377	2 097 351	2 253 904	2 451 583
OPERATING COSTS	3 807 915	4 465 862	1 671 544	1 701 559	1 883 271	1 870 538	1 994 708	2 199 809	2 419 640
NET EARNINGS	(3,700,973)	(3,612,556)	(309,708)	(231,373)	(188,665)	(38,160)	102,643	54,095	31,943
CASH FLOW	0	374 713	12 188	123 073	212 780	202 370	304 343	281 595	282 043
EXTRA INCOME OR GRANT REQUIREMENT	0	780 819	992 839	1 000 000	1 100 000	1 100 000	1 200 000	1 150 000	1 100 000

NOTE Because the Trust s fiscal year currently ends on 30 September the above financial projections use this date to mark year-end However Management is considering a change to a 1 January 31 December fiscal year

ASSUMPTIONS FOR GTC

1	Bad debt ratio in GTC loan book	5 0%	constant over 7 year period		
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7	GTC share of GM/Admin/Finance costs	70 0%	of total group salary cost		

FOR SBGT

1	Annual grant contributions to SBGT	1 000 000	starting in 1996
2	Annual cost incr ase for services	10 0%	constant o er full period
3	Growth rate for services revenue	20 0%	steady state as of 1988
4	SBGT share of GM/Admin/F nance costs	30 0%	o tota g ouo alary cost

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ANNEX B:

Draft Terms of Reference

for

Board of Trustees Committees

Annex B-1
Draft Terms of Reference for Search Committee

PURPOSE		To design and implement an effective transition which brings new, permanent executive leadership to the Trust
FUNCTIONS	1	Establish parameters which position(s) to fill, and on what schedule?
	2	Formulate selection criteria and job descriptions
	3	Design compensation package(s) and secure Board approval
	4	Develop a search strategy based on target population and method of search (public advertisement or confidential private effort)
	5	Manage the search process, rank candidates, and perform interviews and background checks on top-ranked candidates
	6	Select preferred candidate, finalize negotiations, and obtain acceptance of formal employment offer
	7	Monitor the transition and advise staff and Management as necessary
REPORTING		Provide full Board with a status report at every meeting
TIMETABLE		See Sections 4 and 6 of Plan There is an important choice between "gradual" and "fast" tracks for selection of permanent GM, this choice also has implications for the pace at which governance and oversight functions are developed within the Board itself Under OPTION # 1, Board would form search committee to appoint a Deputy GM/Credit (for GTC) by early 1995, would negotiate management services contract for GM to extend into Consolidation Phase (1996/97), and would undertake search for permanent GM during Consolidation Phase OPTION # 2 calls for immediate executive search process leading to employment of complete, permanent management team (both GM and Deputy) by early 1995
REQUIREMENTS	1	Search committee must reflect a clear consensus of the Board with respect to management needs, characteristics and criteria
	2	Committee members need to have a good "feel" for organization's needs and its operating culture
	3	Committee must focus on designing a workable management system - and avoid a preoccupation with replacing individuals who possess valued attributes

Annex B-2
Draft Terms of Reference for a Nominations Committee

PURPOSE		The nominations committee is responsible for maintaining and strengthening the health and vitality of the Board of Trustees Its task is to ensure that the Board is composed of individuals whose range of skills, experience and external contacts reflect the governance needs of the organization
FUNCTIONS	1	Annually assess strengths and weaknesses of Board in context of changing nature of SBGT and GTC programs
	2	Prepare a profile of Board needs based on this assessment
	3	Maintain a data base of prospective board members, with assistance from Trust Management
	4	Ascertain interest/commitment of prospective members
	5	Submit Trustee nominations to full Board
	6	Oversee new Trustees' training and orientation
	7	OPTIONAL (a) Review and update By-Laws, and (b) recommend Board committee assignments to Chair
REPORTING	1	Once a year to full Board, giving an assessment of needs based on changing nature of the Trust's program and mission
	2	Once a year to full Board presenting nominations
	3	On as-needed basis re general Board strengthening and renewal
COMPOSITION		Limited to members of current Board, typically headed by Vice Chair or another member designated by Chair General Manager participates in advisory capacity
REQUIREMENTS	1	Members must stay abreast of changes in the organization's mission, goals, and strategy
	2	Nominations should be carefully matched with assessment of what the Board needs
	3	Data base of potential nominees should be systematically expanded in order to avoid having only a narrow set of choices