



# FINANCIAL SECTOR PROGRAM

**ANNUAL PERFORMANCE REPORT OCTOBER 1, 2010 –  
SEPTEMBER 30, 2011**

**October 2011**

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# 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
EAAA	Estate Agency Affairs Act
EDC	Enterprise Development Centre of ABSA bank
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



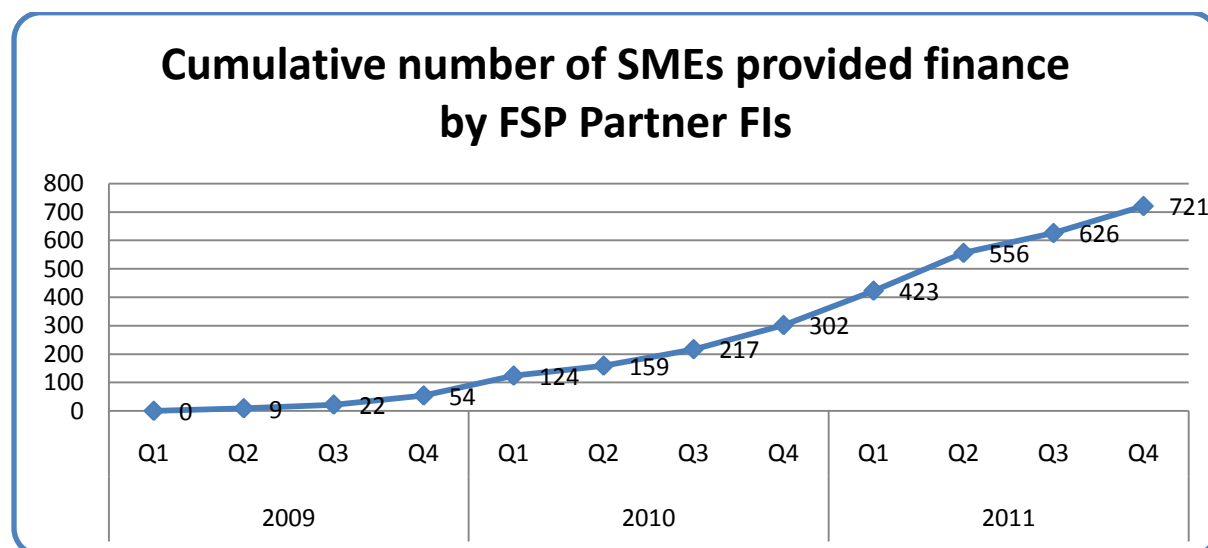


## EXECUTIVE SUMMARY

The Financial Sector Program (FSP) seeks to expand access to financial services and lower financing costs for small and medium enterprises<sup>1</sup> (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 work plan covers the period of October 1, 2010 through September 30, 2011 and details planned activities to support the four project components – SME finance, SME bankability, business enabling environment and knowledge management. The focus throughout the work plan is to build on FSP successes to ensure scalability and sustainability of results.

After riding the rather tumultuous waves of the global financial crisis and combating financial intermediary reluctance to enter what is perceived to be the higher risk SME credit market, FSP partner intermediaries have finally begun to dramatically increase their lending to BEE SMEs. Taking advantage of FSPs capacity building efforts and new product development, partner FIs have to date concluded over 3,700 financial transactions to over 700 SMEs, of which 73% are BEE SMES.



The product leader in this expansion of SME credit is the FSP POF loan product. To date, FSP partners ABSA Bank, Blue Financial Services and Standard Bank have all been beneficiaries of technical assistance to design and launch these loan products to satisfy the working capital needs of small businesses in a manner to mitigate high lending risks. The ABSA Bank POF portfolio doubled this year alone and is expected to continue to expand. Blue has provided a POF loan in conjunction with its DCA portfolio guarantee (having utilized at 80% of the \$10 million facility) and ABSA Bank was recently approved for a

<sup>1</sup> 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 member.

\$28.6 million SME DCA portfolio guarantee facility which will further expand their penetration into the SME credit market. FSP provided technical support to ABSA for the design of the new DCA supported loan product and also undertook a training of the trainer approach for product launch whereby seven ABSA professionals are now capacitated to train the 600 front line, small business relationship managers who will market this product. While the three portable DCA guarantee holders continued to struggle to find external credit facilities to support their on-lending needs to SMEs, FSP designed an alternative approach to access capital market funding. The DCA will be used to leverage these funds and two asset management firms have been identified as qualified candidates to support NBFi financing needs for SME credit.

To date, FSP partner financial institutions have served a total of 721 SMEs of which nearly 40% are women.

To improve bankability of SMEs and better position them to access finance, FSP employed a two-prong approach: building the capacity of Business Service Organizations (BSOs) ensuring that quality Business Development Services (BDS) are offered to SMEs, and by improving the financial literacy of SMEs. FSP worked closely with two private sector business incubators to promote provision of affordable appropriate BDS – one via a grading and guiding system for their BDSPs and another to build upon their business diagnostic tools to provide a ‘training of the Facilitators course’, convert their on-line diagnostic platform to improve services delivery and finally to improve the overall usability and functionality of the tools used to consult with SMEs to better position them to access finance. Both partners anticipated greater growth in the past year than actually realized. The expansion of the grading system was impeded by a lack of qualified BDSPs and the other BDSO suffered from a relatively stagnant market whereby the services required from SMEs was diminished reflecting the downturn in the economy. SMEs were not prioritizing purchase of BDS. However, having said that however, the impact results were respectable. To date, 44 FSP trained BDSPs supported the BDS needs of 1,268 SMEs of which 84 went on to seek business loans.

In the area of financial literacy, **finfind**, FSP’s South African on-line guide to SME finance, has contributed to assistance of 13 BDSPs who participated in a product test of **finfind**, and so learned how to navigate and use the tool. Based on the product test feedback, further modifications were made to enhance the tool and a competitive process was undertaken to identify the host institution to bring the product to market. This host is a well balanced diversified group of BDS providers and financiers who will facilitate links with financiers,

**Aurik pilots FSP supported “Train the Facilitator” program**



Five new facilitators recruited by Aurik participated in the pilot, three from Gauteng, and two from the Western Cape. The pilot was highly successful requiring only minor modifications to the material based on the lessons learned from the training and enabling a seamless transition by facilitators to mastering additional modules.

BDSPs and the ultimate beneficiary, the SME. To date, 32 financiers have registered to be listed on finfind.

During 2011, FSP also made significant progress in key policy areas. The long anticipated Companies Act 2008 (as amended) and the underlying Regulations were signed into law. This law will fundamentally and permanently changes many aspects of the business environment for decades to come. FSP was instrumental in supporting dti's drafting team in developing Amendments and Regulations to the Act and ensured that the Act and Regulations were fully scalable and designed and implemented in such a manner as to minimize the cost and administrative burden implicit in incorporating and maintaining a corporation for SMEs. With FSPs support the public-private dialogue for open and transparent discussions were improved. Finally, FSP worked closely with the dti to draft the fee structure and the business model for the newly formed Companies and Intellectual Properties commission (CIPC).

FSP's comprehensive study on insolvency systems, designed to complement the work on the new Companies Act, helped foster dialogue with the Department of Justice (DOJ), National Treasury, dti and others to revisit previously proposed reforms to unify the insolvency laws. Also FSP completed Stage One of FSP's assistance to National Treasury and dti on a Regulatory Impact Assessment (RIA) of proposed amendments to the Estate Agency Affairs Act (EAAA), and designed and initiated Stage Two of the assistance, which is focused on strengthening institutional capacity in the Government to conduct RIAs.

FSPs knowledge management activities dovetail with the other components by raising the profile of their work so as to improve awareness of SME best practices. This is done by engaging in knowledge sharing events as well as through dissemination of best practices through the FSP blog ([www.fsp.org.za/blog](http://www.fsp.org.za/blog)). The blog, in conjunction with collaborative events, are the foundation of the communication strategy which aims to cultivate a "community of practice" to allow FIs and SMEs to find solutions by networking with like-minded people. Eight dissemination events on new products and policy learning's were held in the past year, amounting to 67% of the annual goal. These events also provided the opportunity to forge collaborations and identify partnerships that work for the good of SMEs as well as the chance to provide speakers on FSP's important products and tools. This tactic is yielding results as the FSP blog has grown in both figures and stakeholder interest: the number of inquires to the knowledge management system (or blog) of 6167 exceeded the annual target of 570 by far! Knowledge management duties also comprised visits to partners as part of routine systems strengthening plans to enhance the accuracy and reliability of reporting data.

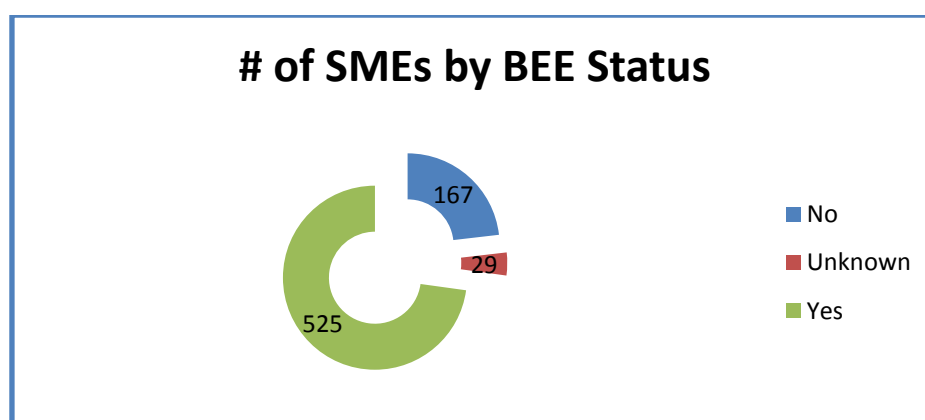
## PMP SUMMARY

The Financial Sector Program was designed to contribute to the U.S. Government's Economic Growth Objective to promote vibrant growth of BEE SMEs and reduce unemployment and poverty, thereby generating rapid, sustained and broad-based economic growth in South Africa. The program's overlapping components (financial intermediary capacity building, improved SME advisory support, enhanced enabling environment and expanded knowledge management) are helping to build the bridge between financial services providers and SMEs served by better advisors.

Significant achievements were attained during the period. **The number of financial agreements concluded** increased to 2,456 for a total of Rand 597,029,000 (~USD 75 million), exceeding the annual target for **value of finance accessed** by 15%. This dramatic increase was primarily attributable to the USAID-supported new finance product (purchase order finance) that one of FSP's bank partners' implemented country wide. These transactions represent a total of 419 SMEs being served, amounting to a 67% increase over the previous year.

It is anticipated the program rollout of this highly effective working capital loan product with other program partners will dramatically increase overall financial agreements concluded and SMEs served in the remaining 18 months of program. In light of the slight rebound of the overall economic conditions which have previously held back SME lending, it is envisioned that program partners, especially our larger financial partners, will become more involved in the provision of credit to SMEs.

Unfortunately, the program lagged seriously behind the annual target of 10,300 financial agreements concluded due to the inability to access financing for one of FSP's portable DCA partners which was anticipated to generate between 8,000 and 10,000 financial agreements this year. As this DCA partner will likely not be funded, the future targets must be significantly reduced.



To date, 73% of all SMEs served by FSP partners are BEE SMEs meeting program goals to target historically disadvantaged SMEs.

Underlying these apex indicators above are the targets for special fund loans wherein the program achieved approximately 65% of annual targets for both **number of special fund loans** (162) and **value of special fund loans** Rand 111,175,000 (or USD 14 million). The overall DCA performance was particularly weak as only one of four approved DCA guarantee facilities is currently being used. However, that financial intermediary has funded Rand 61,000,000 (USD 7.6 million) or 76% of its portfolio facility total. 67 SMEs to date have been served under this DCA portfolio guarantee program, 55% in this current reporting period.

Additionally, the **number of financial advisory providers assisted** (44) and the **number of SMEs assisted by BDS providers** (1,268) improved exponentially this year due to program enhancements to provide BDS accreditation and standardization, diagnostic enhancement and improved SME evaluation efficiencies with program small business incubator partners. While these indicators lagged behind annual target by 75% and 61% respectively, they increased by 52% and 1258% over the previous year's achievements, indicating that the first two year's work in this regard involved foundational activities that are process oriented and cannot be quantified according to the indicators, but that will however yield actual numbers in the future.

The policy component was able to meet its to date target of **policy reforms presented for legislation /decree** as three USG supported policy reforms were signed into effect. The program guided the government legislative drafting team, designed the implementing commission business case and fee structure, improved public-private dialogue and ensured that the laws were fully scalable and minimized the cost and administrative burden for SMEs. This comprehensive, omnibus-type Companies Act, its Regulations and resultant changes to the Close Corporations Act will fundamentally and permanently change many aspects of the business environment for decades to come and the overall impact may not be measurable or fully attributable to USG assistance. FSP's 38 research papers to date have significantly influenced policy discussions. However, the Government of South Africa experienced significant staffing changes which negatively impacted the program's ability to meet a number of targets. In the absence of government champions for four policy activities, they were cancelled or postponed. This specifically affected the program's ability to affect the financial sector enabling environment.

The program blog was utilized as the primary source for increased knowledge management activities via promotion of program reports, opportunities and topics of SME finance. The **number of inquires to the knowledge management system** of 6,167 exceeded the annual target of 570, significantly exceeding expectations. Analysis of web traffic activity has provided information that will inform the design of **finfind** and assist with the transition of the blog of the **finfind** host. Eight dissemination events on new products and policy lessons achieved 67% of annual goal and FSP has exceeded its target for collaborating knowledge management partners by 150%.

## SECTION I: BACKGROUND

The Financial Sector Program was originally a 30-month USAID Southern Africa program awarded to the Chemonics consortium<sup>2</sup> on May 22, 2008 with a 30 month extension option which was exercised on June 20, 2010 thereby extending program operations through to May 2013. The program was designed to contribute to the U.S. Government's Economic Growth Objective in South Africa. FSP is one of three main vehicles to promote vibrant growth of BEE SMEs and reduce unemployment and poverty — generating rapid, sustained and broad-based economic growth in South Africa

Building on the successful strategy development and partner identification established during the first years of the program, FSP saw many activities begin to generate results. This performance report summarizes the implementation of the activities presented in the third annual work plan for the period October 1, 2010 through September 30, 2011.

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

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<sup>2</sup> 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.

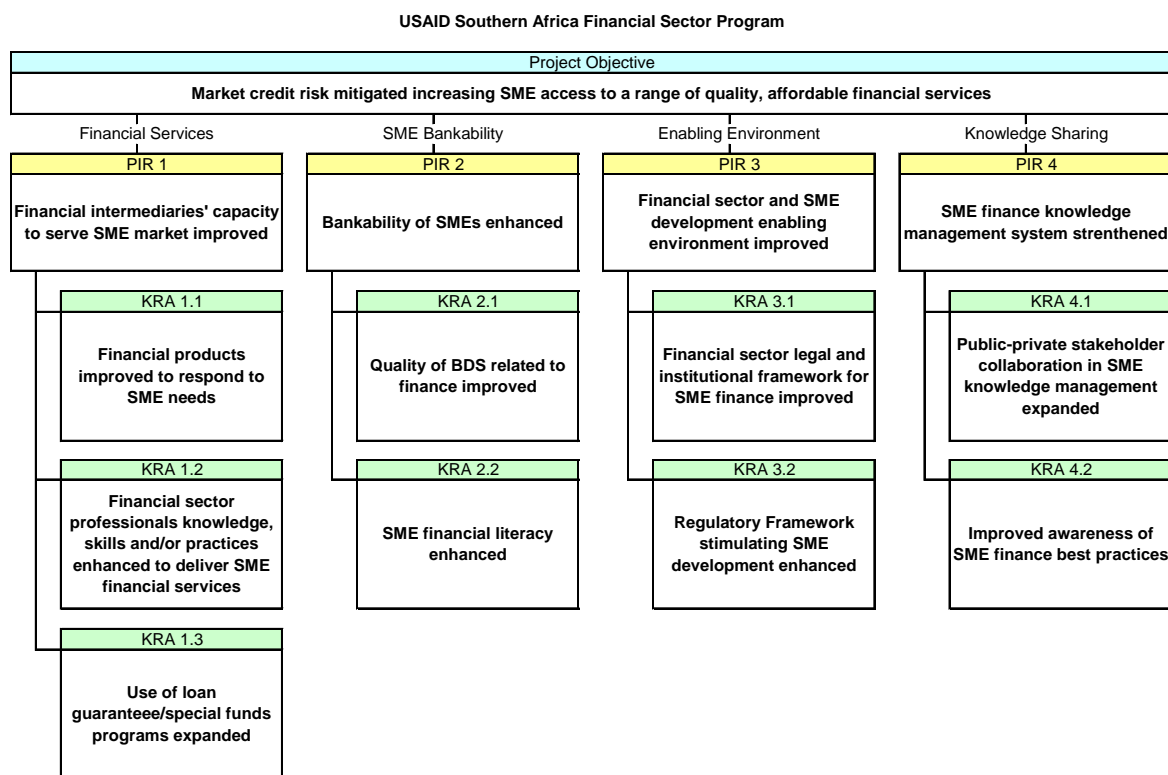
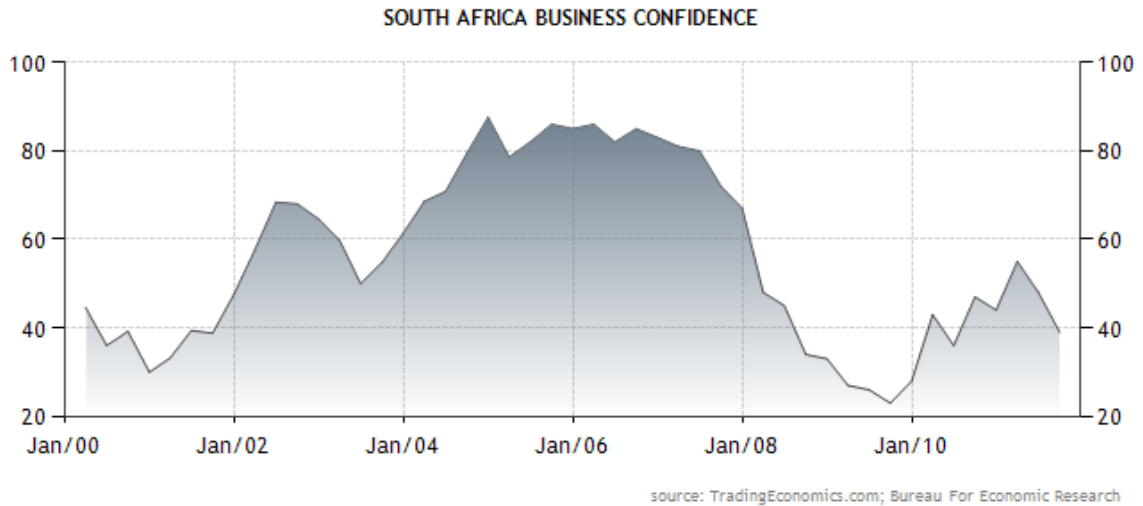


Exhibit 1: Results Framework

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.

Present global events are negatively affecting the South African economy resulting in the economic growth forecast for 2011 being adjusted downward in September. Further pressure is expected on the Rand and acceleration of inflation therefore seems imminent. It is also expected that the budget deficit will increase as revenue is under pressure due to economic performance being lower than expected.<sup>3</sup>

<sup>3</sup> SACCI Business Confidence Index – September 2011



Reversing what was seen as a positive trend beginning in January 2010 above, South African business confidence unfortunately deteriorated to 39 in the third quarter of 2011 from 48 in the second of 2011. The RMB/BER (Rand Merchant Bank/Bureau for Economic Research) Business Confidence Index measures the level of optimism that senior executives in the companies have about current and expected developments regarding sales, orders, employment, inventories, selling prices etc. Questionnaires are sent to 1400 business people in the building sectors, 1400 in the trade sectors and 1000 in manufacturing. The response rate is about 50%. The BER measures business confidence on a scale of 0 to 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100 extreme confidence. The current score of 39 is disheartening.

As the GDP chart for South Africa below shows, it's been a bumpy ride in terms of economic growth in South Africa since the FSP was established in 2008. Reflecting the tumult of the global economy, the South African economy had a severe dip in economic activity from the late stages of 2008, through mid-2010.



FSP was established to foster better access to finance to SMEs. The strategy for nurturing this growth from the inception of the program was to work with the larger banks in South Africa to help them move further into the SME sector. Given the economic downturn in 2008, the program saw little desire from the big banks to move into a risky sector in uncertain times.



FSP adapted to the environment by initially working with second tier financial institutions, but as economic indicators began to improve, it reinvigorated the banks' appetite to look at SMEs as a profitable business line. The challenges to launching an SME access to credit program and expecting immediate results in such an environment are obvious, but by testing new products and approaches with the second tier FIs, FSP was well-equipped to respond when the big banks were ready. As a result, during this fiscal year, FSP was able to nurture to fruition technical assistance relationships with two of the big four banks, namely ABSA and Standard. While both received different targeted assistance, the goal was the same: to help open the credit flow and deliver banking services to SMEs across South Africa. However, a key challenge for these and other lending institutions is regularly stated to be the poor pipeline of "creditworthy" SMEs.

South Africa is considered by most to have a low level of entrepreneurial activity compared to other developing countries. The Government has identified the need to help support small business activity and many private sector programs are also well underway to try to stimulate this somewhat languid sector. In a recent editorial of *The Star*, Cyril Ramaphosa, the deputy chairman of the National Planning Commission,<sup>4</sup> cited the following elements as the main factors inhibiting SMME Growth:

- **Education and training:** South Africa has a low overall quality of primary and secondary education. Research has shown a link between education and entrepreneurial activity. Young people in particular lack the necessary skills, experience and expertise to start and successfully sustain a small business.
- **Government policies and regulations:** excessive bureaucracy and cumbersome application processes, offices that are only open on weekdays and protracted, inefficient decision making has compounded the issue. The cost of compliance is very high and this places an unnecessary burden on small businesses.
- **Access to finance:** lack of access to financial support as well as the lack of financial management and other business skills are some of the major problems facing entrepreneurs in South Africa.
- **Cultural challenges:** fear of failure is a major barrier inhibiting entrepreneurial behavior. Society has also created an environment where it is believed that it is better to get a job in order to be secure rather than to take the risk of starting a business.

The above factors combine to create a failure of market confidence for business expansion and fuel reluctance on the part of lenders to accept increased credit risks. Compounding these macro-economic constraints restricting credit expansion for SMEs, are cultural factors inhibiting SME growth and entrepreneurial activity. This combination of a reluctant lending force and a limited number of "bankable" SMEs presented challenges to identify creative ways to stimulate increased access to finance for SMEs. In response, FSP has identified an opportunity to build links between willing SME lenders and qualified SMEs through the development of the **finfind** tool. **Finfind** is an online tool to help BDSPs guide SMEs toward the right lenders. This innovative tool will be launched in March/April next year and will hopefully help create a bankable pipeline of worthy SMEs.

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<sup>4</sup> The National Planning Commission was established in May 2010 under presidential mandate to "take an independent and critical view of South African reality and, based on the evidence available, to develop a vision for South Africa in 2030 and draft a National Development Plan.

## SECTION II: ACCOMPLISHMENTS BY TECHNICAL COMPONENT

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

South Africa's financial services sector is backed by a sound regulatory and legal framework with dozens of domestic and foreign institutions providing a full range of services - commercial, retail and merchant banking, mortgage lending, insurance and investment. Over the last several years, the local financial industry has experienced significant starts and stops with regard to its penetration into the SME credit market for reasons showcased above. FSP has followed those inclinations shifting strategies to try to align its activities with market players willing to work within the SME credit space.

Early in the program, a conscious shift was undertaken away from support to the big four banks as originally conceived in the program plan. The reason being that during the FSP launch and early stages, ABSA, Nedbank, FNB and Standard Bank were primarily focused on balance sheet protection, staff downscaling and had a limited interest in exploring opportunities in the SME credit space given the financial crisis. As a result, FSP began working with nimble

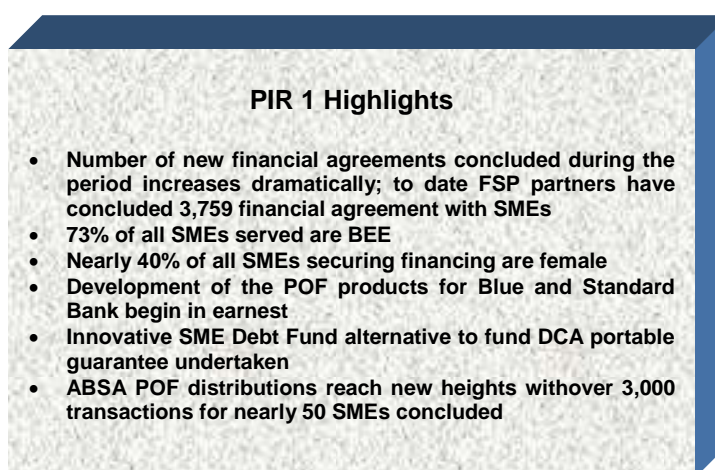
second tier banks and special purpose funds emerging to meet the credit needs of SMEs. While this diverse group did not generate a significant number of loans, FSP was able to make progress in the capacity building of personnel and development of modified practices to move these nascent SME lenders into a model more closely reflecting global best practices. Eventually, as the impact of the crisis reached a plateau, FSP was able to resuscitate the work originally scheduled for the banking leaders and activities with both ABSA and Standard Bank began in earnest. During this fiscal year, the concentration of the support to the smaller tier financial intermediaries was redirected toward organizations with a larger national footprint and efforts to leverage the capital markets (in contrast to credit streams) were intensified.

SME's that are in need of financing often lack the ability to produce the formal documentation that the banks and other financial institutions require in their current underwriting procedures. They are in many cases lacking the collateral that is required as well. With this in mind, FSP focused on new product development and DCA guarantee support that helped to overcome these hurdles.

#### KRA 1.1 Financial products improved to respond to SME needs

##### *Activities:*

**1.1.1 Improve ABSA's purchase order finance and invoice clearing loan product.** During 2009, FSP helped ABSA bank to develop two purchase order finance loan products, Vendor Finance (VF) and Invoice Clearing (IC). ABSA piloted these products in September 2009 and then rolled them out nationwide a year later. During the course of this year, FSP regularly



**PIR 1 Highlights**

- Number of new financial agreements concluded during the period increases dramatically; to date FSP partners have concluded 3,759 financial agreement with SMEs
- 73% of all SMEs served are BEE
- Nearly 40% of all SMEs securing financing are female
- Development of the POF products for Blue and Standard Bank begin in earnest
- Innovative SME Debt Fund alternative to fund DCA portable guarantee undertaken
- ABSA POF distributions reach new heights with over 3,000 transactions for nearly 50 SMEs concluded

met with ABSA's National Manager: Procurement Finance to provide ad hoc advice to ensure expanded product uptake. Since the time of product launch, ABSA has made over 3,000 loans to nearly 50 SMEs totaling in excess of R393,430,046, of which 67% of the transactions were concluded in the last year. Supporting this exponential growth this year was the bank's Executive Committee approval for the launch of the products in its middle market division. While the product had been developed with and for the small banking division, seeing its market value and high demand from a broad range of SMEs, ABSA received executive approval to expand this product availability into another division of the bank. POF loans vary in size supporting the large commercial contractor as well as the small cookie manufacturer, and the average size of the invoice cleared was approximately R193,142.

Benchmark 1.1.1	Actual
ABSA review process undertaken	Ad hoc reviews completed

Furthermore, ABSA hosted over a thousand SMEs who participated in a POF presentation at the Emperors Palace (a conference venue). In small group sessions, ABSA further engaged in consultative discussion to ensure the adequacy of the product.

**1.1.2 Develop purchase order finance and invoice clearing loan products with FI.** At the end of fiscal year 2010, FSP carried out a rapid market assessment to identify the new products with the highest potential for both lenders and SMEs. Working capital products, specifically purchase order finance was the clear leader. FSP undertook a competitive process to identify the lenders with the greatest potential for rapid and broad product launch. Standard Bank (Standard) and Blue Financial Services (Blue) were selected for the one-year long product development and launch support. During this year, FSP provided extensive consultative support, on site as well as virtually, to both financial intermediaries. These partners have received tailored support to train loan officers (workshops and on-the-job training), draft policy and procedure manuals and design loan products suited to their target markets.

#### WHY POF?

Working capital is essential for the successful financial management of a small business. SMEs need working capital on a daily basis in order to meet cash-flow needs and maintain their businesses. Working Capital loan products should have lower collateral requirements, often omitting real estate, and have tenors that match the product/service cycle of the SME, so that the loans are transaction based, self-liquidating, and only bear interest for the exact number of days the SME needs the money. Purchase Order Finance (POF) products address these issues.

POF is effectively an advance by the lender to the borrower for working capital secured by a verified purchase order or sales contract. POF is a demand-driven, value chain and transaction-based form of working capital finance that allows SMEs to fill more frequent and/or larger orders for its products or services, and thereby grow and become more profitable. It can be applied across most sectors and provides risk mitigants for the lender. It is a financial product that meets the requirements of both the FI and the SME, creating a win-win for economic growth in South Africa.

Blue received its executive approval to launch the product in March and Standard's final committee approval was received in August. Targeting franchisee clients, Blue made its first POF loan of R1.3 million for a franchisor to purchase 80 small stitching machines at a discounted price given the volume purchase. This loan was placed under the USAID DCA guarantee which allows Blue to better serve the needs of SMEs.

Standard Bank has targeted two provinces, KwaZulu-Natal and the Free State, where it began its yearlong pilot in October 2011. Both institutions will continue to receive FSP technical assistance as they ramp up and reach greater scale with these lending products.

Benchmark 1.1.2	Actual
4 new or refined financing products designed	1 new POF financing products designed for Blue (Standard will go live in 2012)  1 new DCA SME product developed

**1.1.3. Develop equipment term loan product for Mettle (DCA partner).** In June of 2010, a \$20 million USAID Development Credit Authority (DCA) Portable Guarantee facility was approved for Mettle Administrative Services (Mettle), a factor for panel beaters (vehicle body shops). The core of Mettle's financing volume consisted of factoring panel beaters' receivables due from auto insurance companies. Once this DCA facility was funded, it was expected that Mettle, with FSPs technical assistance, could also expand its product base to include new equipment term loan product. However, Mettle, like the two other Portable Guarantee holders, has been unsuccessful in securing funding against the guarantee. As such, all new product development was put on hold until six months after the funding had been secured (see KRA 1.3.1)

Benchmark 1.1.3	Actual
Mettle equipment term loan designed	Postponed until Mettle is able to secure financing.

**1.1.4. Develop or refine other new finance products.** A consultancy exploring innovative future product opportunities identified a number of interesting initiatives. One new product possibility identified was a green lending initiative. This loan would identify energy efficient systems installations that would generate adequate savings to repay a loan. Additionally, it was recommended that the Entrepreneurial Finance Lab (EFL) psychometric testing tool could be supported as ABSA and Standard Banks are undertaking a pilot at this time. This low-cost screening tool scores the borrower's entrepreneurial tendencies as well as their predisposition to repay a loan. While the ABSA and Standard pilots are too immature to test impact, pilots in East Africa has yielded very positive results.

FSP has also recognized that with the large lending institutions beginning to regain an interest in developing a diversified SME lending portfolio, so too is the opportunity to present a business case for value chain finance. This lending approach provides a critical input to the increased competitiveness of an economic sector by helping an industry expand and compete more effectively. Many businesses, often with important supporting roles in processing and other important areas throughout the value chain, are considered very risky by banks and other financial institutions. However, without access to finance these businesses are stifled and the sector can lose opportunities to compete and grow. These opportunities will be explored during the implementation of the 2012 work plan.

Benchmark 1.1.4	Actual
1 new product opportunity identified	3 opportunities identified

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

**1.2.1 Improve SME finance approval processes of smaller FI partners.** Building on formal training exercises, FSP regularly provided ad hoc advice to its financial intermediary partners to improve their financial approval processes and to better manage delinquencies. FSP reviewed specific loan transactions that were ultimately approved helping to increase the volume of financial agreements approved for its SPV and other partners. During the year, FSP lending partners were able to streamline loan processes and increase the number of loan approvals.

Old Mutual Masisizane, (OMM) FSP's largest SPV SME loan fund partner, has experienced serious loan portfolio quality problems mainly due to unduly liberal lending practices. In response to an FSP in-depth consultancy, OMM implemented several FSP recommendations which should result in a higher performing portfolio. These included:

### FSP Helps to Improve Royal Field's Loan Processes

FSP made two specific recommendations to contract financier, Royal Fields Finance (RFF), both of which were implemented during the period.

FSP worked to ensure that the customers of RFF's SME borrowers pay into bank accounts over which both RFF and the borrower have authority. This is to ensure that loan repayment is received when invoices are paid.

Additionally, FSP suggested that that RFF require its borrowers to use internet banking services, alleviating the need for RFF staff to waste valuable time going to bank branches in person to carry out transactions relating to its borrowers.

These process modifications will lead to a lower risk profile and streamlining of RFF lending activities.

- the establishment of a more structured loan monitoring system,
- disallowing grace periods for interest (OMM had been extending grace periods for both principal and interest) and
- requiring some type of collateral for all loans.



FI partner, Grofin, requested input on collateral management. FSP provided detailed material and suggestions regarding this aspect of credit risk management, specifically suggesting appropriate lending margins for different types of collateral and how frequently collateral should be inspected and valued. Grofin has subsequently incorporated these approaches into its credit policy manual.

### KRA 1.3 Use of loan guarantees/special funds programs expanded

*Activities:*

**1.3.1 Facilitate/Promote Utilization of DCA Guarantee facilities:** During the fiscal year there was considerable effort made to facilitate funding for the three USAID DCA portable guarantee holders (shown below). Beginning well before the DCA Credit Review Board (CRB) approvals in mid-2010, the three partners have approached a wide variety of lenders, including large and medium-sized banks, insurance companies and specialized lenders. However, none have succeeded in securing loans because of tight credit market conditions in South Africa and a general reluctance of local banks to assume the risk in its balance sheet, despite the offer of a U.S. government 50% guarantee.

## USAID ‘Portable’ DCA Guarantee Facilities

<u>Mettle Administrative Services</u>	<u>Spartan Technology</u>	<u>True Group Investments Holding</u>
<ul style="list-style-type: none"> <li>• \$20 million; Pari-passu; 50% guarantee facility</li> <li>• Forty percent (40%) of benefitting SMEs will be South African ‘black empowered small and medium enterprises’</li> <li>• increase by 67% the number of panel beating SMEs financed by Mettle</li> <li>• Potential to access reasonably priced, long-term, stable funding</li> </ul>	<ul style="list-style-type: none"> <li>• \$25 million; Pari-passu; 50% guarantee facility</li> <li>• New target - number of black owned SMEs in its lease portfolio to increase from approximately 8% to 35%</li> <li>• Shift its operational focus from corporate and government entities to SMEs with over 683 SME’s reached by 2015.</li> <li>• Guarantee will also enable Spartan to more than triple the value of its funding for SME leases</li> </ul>	<ul style="list-style-type: none"> <li>• \$20 million; Pari-passu; 50% guarantee facility</li> <li>• Facilitate financing for 60 SMEs - (65%) of the portfolio to black owned SME’s</li> <li>• Introduction of asset-based financing, mezzanine finance, and invoice discounting</li> <li>• To provide start-up funding, expansion capital, working capital finance, equity finance, asset based finance, mezzanine finance, and invoice discounting to start-up and early stage small and medium enterprises.</li> </ul>

Access to financing remains one of the key constraints of SME Non-Bank Financial Institutions (NBFIs)<sup>5</sup>, and tight credit market conditions are likely to continue limiting access

<sup>5</sup> An NBFIs is defined as institutions which generally only do lending and are not deposit taking entities. They are dependent on external funding sources for all their on-lending activities.

in the medium-term. With the inability to raise capital from traditional credit markets, FSP together with the USAID mission determined that an alternative solution was needed and the SME Debt Fund was born.

The SME Debt Fund is an innovative approach to funding non-bank financial institutions as well as SMEs individually. The plan is to leverage the capital markets as opposed to relying on the more conservative credit markets. FSP has been working on developing the fund that would work with private sector partners to raise capital on the back of a USAID DCA guarantee that would be focused on the SME marketplace. As most private and institutional capital are averse to excessive risk, especially in risky SME sector, the DCA guarantee is designed to share this risk and open up the bottleneck of funding from the larger funders both internationally and locally.

The process for developing the SME Debt Fund over the past year included a broad-based study to look at various aspects of structuring a fund and understanding the market demand that would potentially bring private and public sector money into the market to then on-lend to SMEs.

In order to explore the options and appetite for this action, the FSP commissioned a body of research which looked at:

- the appetite for a debt fund amongst fund managers;
- the appetite for credit amongst NBFIs and
- the nature of the structure that could most effectively address the barriers to credit and investment capital flows for NBFIs to on-lend to SMEs.

Beyond the results shown in the box on the right, the work defined the criteria for fund managers, provided a rough assessment of possible fund managers, presented an overall market assessment of the regulatory environment as well as hurdles and opportunities in the development of a NBFI/SME Debt Fund. The research reinforced FSP's experience that there is a definite and critical need for access to affordable capital amongst NBFIs and SMEs. Indeed, the fact that the small sample of NBFIs can absorb more than R2 billion within 12 months would suggest that there is a significant market for capital allocation.

**SME Debt Fund Study generates encouraging results**

- Investment capital well exceeds bond issues available
- Experienced fund managers support the idea of this type of SME fund
- Opportunities exist to work with several fund managers
- NBFIs respondents indicated annual capital needs of R 2 billion

As part of the research process, a call for expressions of interest was disseminated to the fund management community and a total of 8 fund managers responded with submissions. Whilst the thinking at the start of this research was that it was perhaps a single asset manager who should be identified to manage the fund, this analysis together with various other inputs from the field suggests that, in fact, for maximum impact and future potential to grow SME lending, the recommended approach may be to appoint a number of asset managers and commit to building a market demonstration effect that could provide significant support to subsequent investment activity.

After the research study and subsequent meetings with the asset firms, the FSP team, together with the USAID mission, determined that the best approach will be to work with two asset firms in the structuring of the SME Debt Fund initially. The two firms, Cadiz Capital and FutureGrowth Asset Management, will be participating in the SME Debt Fund and have begun to draft the Action Packages for the DCA guarantee approval. It is envisioned that the fund will be in the \$1200 million range and could increase in future.

Given the encouraging results, FSP identified the need to better understand the demand side of the market and designed a NBFIs mapping study currently underway to get a better understanding of:

- Market-size and demand for capital amongst NBFIs and/or SMEs to on-lend,
- What is the absorptive capacity of the targeted market?
- What are the key features of the market size and nature of demand (term; interest rate etc.)?
- What are the credit risk selection criteria for the targeted borrowers?

As part of the process in designing and approving the SME Debt Fund concept, one of the main drivers is to promote alternative channels to delivery of SME finance to the market. Given the inability of the larger commercial banks in South Africa to meet the SME demand for credit, the SME Debt Fund is meant to be a catalyst with a demonstrative effect to the market that although SMEs are perceived as riskier, good rates of return and good development impact can be had.

Another participant in and beneficiary of a DCA portfolio guarantee is Blue Financial Services. Blue received a \$10 million DCA Portfolio guarantee to help with the expansion of its SME portfolio in 2009. Although Blue has experienced significant operational challenges, it has been able to utilize the DCA guarantee and has provided over R61 million to 67 SMEs. Unfortunately, the new investor has currently placed a moratorium on all lending activities. FSP will carefully monitor this situation as it evolves and will only consider renewing support for Blue once it resumes lending and shows interest in scaling up its outreach.

Benchmark 1.3.1	Actual
Financing for all 3 DCA Portable Guarantee facility recipients achieved	Zero funding took place – alternative and innovative solutions were pursued

**1.3.2 Develop new DCA loan portfolio guarantee facilities.** During the fiscal year, FSP supported the development of a DCA guarantee facility for ABSA Bank. The team prepared the action package together with the bank and packaged and presented to USAID Credit Review Board (CRB) for approval in September. The \$28.6 million portfolio guarantee will address the supply side market imperfections by providing a collateral substitute to allow lending to SMEs that cannot meet ABSA’s usual collateral requirements, and by demonstrating the viability of cash flow-based SME lending to ABSA and other banks in South Africa.



To best position ABSA to launch a successful SME loan product under the guarantee, FSP conducted extensive technical support which included the following:

- FSP has conducted a ‘train the trainer’ workshop in which 7 ABSA staff members were trained on the DCA product. The selected group of new trainers will cascade training to approximately 600 front line business and relationship managers throughout ABSA’s South African footprint.
- The team reviewed promotional and product information language of the Bank’s guarantees programs, specifically around how guarantees are presented to the general banking client base. The goal of this review was to advise the bank on the best language for the loan applications and marketing of ‘guarantee’ products. The perception of ‘loan guarantee’ runs the risk of implying that there is no need to repay the loan. FSP advised ABSA not to use this language in future with the DCA guarantee; a suggestion that was adopted.
- Furthermore, recommendations on how to implement the new DCA guarantee product were presented. The loan approval and administration process of the ABSA DCA guaranteed loans will be a manual process, not the “business as usual” automated process that ABSA employs for most of its small business loans. Close monitoring and administration of these loans have been a significant part of the improvement in the bank’s Khula<sup>6</sup> guarantee loan portfolio since 2009 and should be employed for the ABSA DCA guarantee program.

Also, specific recommendations were made regarding ABSA’s credit policy and procedures:

The recommendations below are meant to improve the loan underwriting and monitoring of ABSA DCA guaranteed loans. Some of the recommendations might have application to SME lending overall.

1. *Consider the use of covenants in the loan agreement.* ABSA to consider the use of loan covenants to influence appropriate borrower behavior and provide an early warning of potential problems, prior to payment default. Covenants should include items such as: borrower to provide quarterly management records and borrower to provide evidence of rent or utility payment.
2. *Require site visits of all ABSA DCA loan applicants.* A fundamental premise of sound underwriting practice is to know the borrower. Business loans should require that the bank know the business that is taking the loan.

#### **ABSA Bank receives a \$28.6 million SME DCA Portfolio Guarantee**

The DCA CRB approved a SME guarantee facility in September in order for ABSA to “bank” its presently un-bankable SMEs.

The guarantee will provide for:

- 60% BEE SME lending
- Non-sector specific
- 10% to be start up loans
- Average loan size planned at \$30,000 with maximum loans of \$375,000 per transaction
- Nearly 1000 SMEs to be financed
- 600 financial sector professionals will be trained as part of the technical support

<sup>6</sup> Khula is the South African government small lending guarantee program

3. *Require startup companies to provide a portion of their “own capital”.* The ABSA DCA guarantee program will allow the financing of start-up companies. This is a significant differentiating feature of the program. It is well acknowledged that debt-financing start-ups are among the most risky types of transactions. It is critical that *ABSA should require that the owners of start-up companies invest their own capital (non-leveraged) and evidence of all investments made in the company.* The amount of capital should be a judged on a case-by-case basis. In some cases, a 10%-15% of the value of the loan will be appropriate and in other cases an amount commensurate with the owner’s personal net worth will be appropriate. In all cases, equity or “skin in the game” is necessary, making a decision by a borrower to simply abandon a company in trouble a difficult and painful one.

Benchmark 1.3.2	Actual
1 completed DCA concept paper submitted to EGAT ODC	1 completed and approved

## B. PIR 2: Bankability of SMEs Enhanced

To raise the quality of finance-related BDS and enhance SME financial literacy, the focus of PIR 2 during year three was on several key initiatives:

- Promoting the grading and assessment of BDS providers (BDSPs) in South Africa
- Scaling up the capacity of business support organizations (BSOs) to deliver tried and tested BDS
- Developing the skills and capacity of BDSPs so that they, in turn would be better equipped to facilitate access to finance more effectively
- Alpha testing and introduction to the market of the **finfind** product
- Identification of host institution to adopt **finfind**

Having succeeded in identifying partners with whom to actively collaborate, FSP focused on building their capacity and assisting them to scale up their activities to expand their reach and deepen their impact in the market place. As quality assurance of BDSPs and delivery of effective BDS remains a central concern, FSP’s initiative to support two leading private sector incubators has borne fruit. This is evidenced by demand in several areas:

**PIR 2 Highlights**

- ❖ 14 new BDSPs graded by Raizcorp
- ❖ 2 new incubators launched by Raizcorp during the year
- ❖ Raizcorp internationally accredited by SFEDI
- ❖ Train the facilitator program designed and piloted with Aurik
- ❖ 10 BDSP facilitators trained by Aurik
- ❖ Diagnostic evaluation tool converted to online platform
- ❖ Aurik’s toolkit of 68 tools upgraded and made more user friendly for facilitators
- ❖ Finfind product tested by 4 BSOs, 13 BDSPs
- ❖ More than 1100 SMEs assisted by BDSPs of whom 7% applied for finance
- ❖ 84% of SMEs assisted by BDSPs are BEE
- ❖ 36 entries submitted to the finfind directory of FI’s
- ❖ An institution to host finfind identified

- the increased number of BDSPs applying for grading by Raizcorp,
- the growing interest by SMEs in receiving BDS from Aurik, and
- the expanded Enterprise Development support and interest that both institutions receive from corporate organizations.

Collaboration with FIs to offer BDS has been more challenging, despite FIs continuing to express interest in FSP's expertise and assistance to develop strategies and deliver BDS to the SME market. This expression of interest has not translated into tangible demand for support with the consequence being that FSP has focused its PIR 2 support on the BDSP/BSO market rather than FIs directly.

The greatest traction with FIs has been in soliciting their interest in and support for **finfind**, evidenced by the number of FI's that have submitted their entries for listing in the finfind directory which has the potential to increase the flow of bankable deals for SME financing.

At the same time, interest in **finfind** by BSOs was evidenced by the number that expressed interest in and submitted proposals to host finfind. The benchmarks related to **finfind** have been mostly achieved, although not to the anticipated extent, primarily because of the type of feedback received from the product test and the length of time it has taken to ensure that the product will fully meet market requirements.

## KRA 2.1 Quality of BDS related to finance improved

### *Activities:*

**2.1.1 Facilitate scale up of grading and professional development of BDSPs.** The previous year saw the design and testing of a comprehensive system for grading of BDSPs by Raizcorp, a private sector incubator with a reputation in the market for their success in assisting SMEs to grow and develop. The figure below illustrates the key elements of an effective quality assurance system for BDSPs, the model which was used by FSP to facilitate the design and (internal) testing of a framework of standards, as well as tools for screening, selection, grading, assessing and professionally developing Guides (BDSPs) for Raizcorp.

FSP assistance contributed significantly to Raizcorp receiving international accreditation as a Centre of Excellence by SFEDI, the UK-based Small Firms Enterprise Development Initiative. This status, conferred in South Africa exclusively to Raizcorp for a period of three years, has enabled them to secure partnerships with corporates at local and multinational level, thereby stimulating demand for Raizcorp to provide assistance to SMEs.



**finfind**, South Africa's on-line guide to SME finance, will, through trained BDSPs, generate a cadre of SMEs able to make informed decisions about their business finance needs. Through **finfind** consultants, SME owners will be assisted to address the following questions:

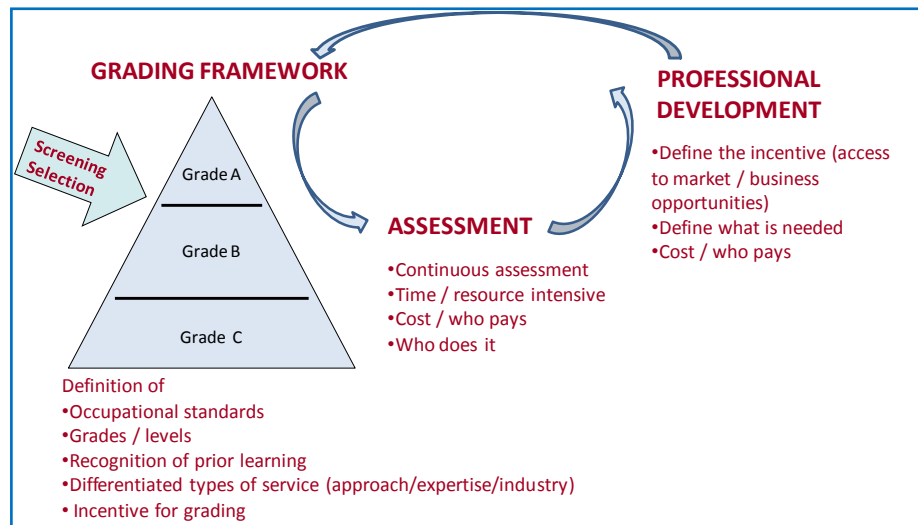
- Is finance a real need for the business?
- If so, what type of finance is needed?
- What financial product best suits the need?
- What finance providers offer those products?
- What is the best way to approach the provider?
- How should the relationship with the finance provider be managed?

Based on the directory of finance providers embedded in **finfind**, SMEs will be informed about the most suitable financing options for their business, where to obtain the relevant products, how to interact with confidence with the suppliers of these products and with consultant assistance, be enabled to submit more bankable applications.

FSP also undertook an assessment of demand in the market for quality assured BDS providers (BDSPs) and developed a strategy for Raizcorp’s Guiding Academy (RGA) to scale up grading activities across South Africa. Since piloting this approach, Raizcorp has grown its base of Guides by actively recruiting and selecting BDSPs from the market that meet their minimum standards. To date, Raizcorp has increased its number of prosperators (incubators) around the country to seven. The two prosperators added to the complement during this past year in the North West Province and Eastern Cape have brought to six the number of provinces served in South Africa by Raizcorp.

In the past year, the RGA has screened in excess of 80 applicants and of those, appointed 14 new BDSPs as Guides. Although

lower than the RGA would have liked, they have nevertheless graded 21 Guides during the year, including new and existing Guides, results that clearly exceed the benchmark for 2011 and contribute significantly to the more than 1000 SMEs assisted by Raizcorp with BDS, 7% of whom went on to apply for finance.



Benchmark 2.1.1	Actual
15 new BDSPs graded	21BDSPs graded (of whom 14 were new)

Going forward, FSP will be reviewing with Raizcorp ways to improve the ratio of BDSPs recruited and graded versus the number of applicants screened so that more high quality Guides are available to serve the growing number of SMEs requesting their support.

**2.1.2 Build capacity of BDSPs to assist SME clients to manage cash flow.** Research continues to indicate that the skills most needed by SMEs are financial in nature – ability to manage cash flow, keep records, interpret and analyze financial accounts. FSP’s response was to design a program for “*Successful financial management for SMEs*” in partnership with Blue Financial Services, to be offered to its SME clients as well as SMEs referred by other financial institutions. (See 2.2.3.)

Benchmark 2.1.2	Actual
100 BDSPs trained in how to deliver SME cash flow management program	Not achieved

FSP met with several business service organizations to gauge their interest and appetite for capacity building of BDSPs to assist SME clients to manage cash flow. This has not translated into an effective intervention as yet, primarily because demand by BDSPs for capacity building appears to be at an all time low according to FSP partners. This is symptomatic of the slowdown in the economy and general reluctance to spend unless tied to market/business opportunities.

FSP will continue to monitor trends and demand for professional development by BDSPs and to seek opportunities where the “*Successful financial management for SMEs*” can be used to extend this much needed service and skill in the market.

**2.1.3 Build BSO capacity to deliver-finance related BDS.** FSP has worked with Aurik throughout the year to build their capacity to expand delivery to additional provinces. FSP capacity building has focused on three areas:

- *Design and implementation of a Train the Facilitator program* to improve and assure the quality of BDS provided to SMEs. FSP’s intervention made it possible for Aurik to reduce their training time from approximately 10 weeks to 4 days, dramatically improving their ability to scale up and ensure systematic delivery of BDS in its virtual centers.

**AURIK**  
business incubator

**PEOPLE  
IDEAS  
ACTION**

Aurik Business Incubator, in operation since 2002, has provided support to more than 143 businesses. Their approach is primarily focused on enabling entrepreneurs to manage and gain control over their business through the development of systems leading to improved overall business performance.

As a prominent private sector provider of BDS, Aurik’s growth has been driven by the demands of financial institutions (with a national footprint), VC-Funds (who wish to distribute funds across geographic regions) and large corporates (who have facilities in dispersed locations).

- *Conversion to an online platform of their Diagnostic Evaluation Tool* which is used by Aurik business analysts to assess the level of risk of an SME to gauge its readiness for finance. Ability to use the Tool offsite and in remote locations has made the process of identifying what BDS is needed in order to make the SME more bankable far more efficient.

- *Improvement of the functionality and usability of the 68 tools* which form the basis of the BDS provided by Aurik’s facilitators (BDSPs) to their SME clients thereby assuring the quality of BDS received by Aurik clients.

All three interventions were completed in the current year, enabling a total of ten facilitators to be trained in the modules and materials developed with FSP assistance. Use of the Diagnostic Evaluation Tool has resulted in a drastic improvement in turnaround time for



producing a diagnosis, shortening the time-period to prepare a diagnostic evaluation report from an average of 3 weeks to only 5 days). In total, 140 SMEs have received assistance through Aurik.

FSP will continue to support Aurik in the coming year particularly as they face new opportunities for growth and demand for their services.

Benchmark 2.1.3	Actual
Strategy developed and accepted by a BSO	Three interventions designed for and implemented by a BSO

As can be seen from the chart below, the majority (84%) of SMEs assisted by FSP supported BDSPs are black-owned, thereby fulfilling the program goal of facilitating broad-based black economic empowerment.

**KRA 2.2 SME financial literacy enhanced**

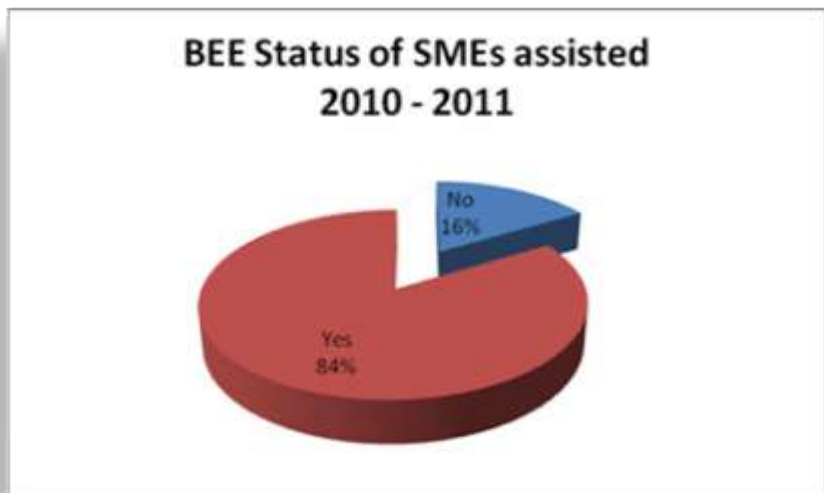
*Activities:*

**2.2.1 Finalize development of finfind.**

March 2011 saw the completion of the development of **finfind** and implementation of product testing with a group of 13 BDSPs representing four different

types of business service organization, including the Institute of Business Advisors (IBA), FSP’s partner The South African International Business Linkages (SAIBL – another USAID program), the South African Institute of Professional Accountants (SAIPA) and the Institute for Independent Business Advisors (the IIB). The product was very well received with an overwhelming message to FSP about its readiness to take to market. The participants were very keen to identify areas for improvement, which FSP distinguished between immediate changes (quick and easy to make), shorter term changes and changes which could be undertaken in a subsequent version by a host institution.

FSP completed the immediate changes which consisted primarily of minor technical improvements and cosmetic changes, and in order to enhance the tool even further, has undertaken short term changes. These are significant in so far as they are designed to improve the usefulness of the tool by providing summaries of the modules contained in **finfind** (useful for repeat users) as well as additional tools and functionalities. The changes are being



undertaken in consultation with the team that has been appointed to host **finfind** (see next section) and will not delay the launch of **finfind**.

Feedback from the product test recommended that **finfind** be launched without field testing, a recommendation that FSP adopted. FSP has concentrated on the short term changes recommended from the product test, and promoting **finfind** to FSP’s FI partners. To date, finfind has 36 FIs in the directory which finfind consultants will use to help their SME clients identify appropriate sources of finance.

Completion of the web-based version of **finfind** included the finalization of “**finfind development specifications**” (a document for use by the host) and an Administrator Manual (for back end support of the product) as well as preparation of various technical manuals for use by the host.

Benchmark 2.2.1	Actual
Web-based version of <b>finfind</b> completed and field tested	Achieved although ongoing modifications under construction; Product testing complete.

**2.2.2 Build BSO capacity to rollout finfind across the country.** This past year concluded with the identification of an institution to host **finfind**. Although the intention was to appoint a host earlier in the year, the technical development of **finfind** took longer than anticipated so that the product was not ready for testing until March 2011. FSP appointed a consultant to, amongst other things, prepare a framework for selecting a host, as well as a Request for Proposal (RFP), timeframe and scorecard for managing the process.

So as not to limit FSP’s options to its known partners, an advertisement was placed in *The Sunday Times*, a national newspaper. The advertisement invited organizations which may be interested in hosting **finfind** to refer to FSP’s blog in order to access the RFP and get more information about **finfind**. In response to this advertisement, traffic to the blog peaked dramatically. FSP received expressions of interest from organizations both known and unknown to FSP. A total of sixteen individuals attended the bidders’ conference and seven organizations (two consortia and five companies) submitted proposals to host **finfind**. Proposals were submitted from as far afield as Durban, Cape Town, Rustenburg, Polokwane, Nelson Mandela Bay and Johannesburg, indicating the widespread interest in the product. After a rigorous process of evaluation and in depth interviews with the two highest scorers by the panel of evaluators, a final selection was made.

Criteria for selection focused on the bidder’s :

- *Technical approach:* including their staffing plan and organizational structure, plans for training new finfind users, marketing and outreach, facilitating market linkages, regular updating of content, extent to which the business plan will protect, enhance and promote the **finfind** brand, complementary services or revenue streams, sustainability of the business plan, breadth of geographic reach once business plan is fully realized

and appropriateness of information technology management plan for meeting **finfind** hosting needs,

- *Organizational capability*: including a demonstrated organizational understanding of and/or experience with business advisory services and relevant SME financing mechanisms, understanding of and/or experience with the South African SME sector and capacity to implement new initiatives or distinct projects within the organization,
- *Personnel*: including relevance of the proposed finfind manager’s experience.

The organization which most closely met these criteria is the Nelson Mandela Bay Consortium (NMBC). Based in the Eastern Cape but with a national network, this group brings with it experience and expertise in SME and private sector development, BDS delivery, SME consulting and financing, as well as management and hosting of web-based solutions.

FSP will work closely with NMBC over the next year to ensure they receive adequate support to help launch **finfind** and grow it into a sustainable product and service to BDSPs, FIs and SMEs. With their passion and vision for what **finfind** can accomplish, FSP is confident that **finfind** will achieve the impact intended by its design and origination in the market.

Benchmark 2.2.2	Actual
finfind host identified	Achieved

**2.2.3 Improve finance related BDS offered through FI partners.** FSP assisted Blue Financial Services to modify the program, “Successful Financial Management for SMEs” so that it could better suit the needs of its client and potential client base. The modifications were based on the pilot conducted during the previous financial year, and were tested with very positive feedback with Blue’s SME clients, however, no further training was offered by Blue during the period under review and they were not in a position to offer training to the SME members of the National Small Business Chamber or care of other financial institutions as they were constrained by their own operational and funding challenges, internal restructuring and diminished loan demand.

Benchmark 2.2.3	Actual
100 SMEs trained in cash flow management	11% achieved

**2.2.4 Facilitate market links between FIs and BSOs.** FSP’s main intervention in this area was to support the National Small Business Chamber (NSBC’s) “Access to Finance” Expo held in March 2011.



FSP assisted the NSBC by referring several financial institutions to attend the event, including some of FSP’s own FI partners. In addition, FSP organized several information sessions including a panel discussion with senior executives from Aurik, Business Partners, Royal Fields Finance and Old Mutual Masisizane. The question they were invited to address was “Why are SMEs not successful in their funding applications and what do they need to do to secure a ‘yes’?!” This stimulated significant discussion with the audience and interest in further discussions of this type.

At the same event, FSP was given the opportunity to showcase **finfind**, generating significant interest from business advisors visiting the Expo as well as SMEs seeking assistance to access finance.

Through its network, FSP also facilitated introductions between Softline Pastel (and its accounting software for SMEs as well as its BEE scorecard software) and some of FSP’s BSO partners, such as Aurik, the Enterprise Room, SAIBL and Raizcorp in order to highlight the opportunity for these BSOs to potentially add value to their SME clients.

Additionally, FSP catalysed introductions between the NSBC and, for example, Blue Financial Services, Aurik and Dynamus Technologies, the purpose of this being to assist FSP partners with additional sources of potential SME clients.

FSP also provided input to Standard Bank’s survey of BDS provision giving extensive feedback on the survey instrument, comment on the approach to identifying potential BDS providers and introduced Standard Bank to more than twenty BSOs in Gauteng. The purpose of the survey was to enable Standard Bank to map the universe of BSOs in South Africa from which they could then identify partners to provide BDS to their SME clients.

In addition to this, FSP introduced Sasfin to Retmil Financial Services (a non-bank financial intermediary that finances and supports SMEs) leading to the exploration between these two parties of a joint venture to finance SMEs.

<b>Benchmark 2.2.4</b>	<b>Actual</b>
3 informal partnerships formed between FI's and BSO's	Exceeded. More than three FI BSO linkages made and 1 partnership formed

### **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 SMEs which operate within the context of the broader business environment. To support this objective, FSP addresses a series of key policies, laws and regulations aimed at the business environment of general application, yet carefully tailored to assure that the specific interests of SMEs are clearly articulated and incorporated into all policy work.

During the first two years of the program, FSP supported a number of major business environment initiatives, recognizing that the complex and far reaching nature of proposed legislative changes in the Companies Act, the Companies Regulations, the National Credit Act, and the Close Corporations Act would take several years to complete. FSP policy work is neither driven by short time lines nor quick results. Rather, the work focuses on a fundamental re-examination of technically complex and detailed areas of legislation in South Africa. Maximum emphasis is placed on imbedding sound policy development skills — habits among key public and private stakeholders that create a culture of well researched, carefully designed and drafted legislative documents and effective implementation strategies.

One impact of FSP technical assistance has been public and private sector stakeholders benefitting from accessing international best practice through a widely based dialogue as it applies to specific issues under consideration. To date, FSP has served as a thought leader in identifying opportunities for a focused view of policy opportunities to benefit the business environment.

**PIR 3 Highlights**

- Three policy reforms presented for decree as a result of USG assistance
- Companies Act 2008 Amendments Bill and Regulations completed, signed into law and effective May 1, 2011.
- New Companies Commission (CIPC) and its Fee Structure, designed with significant FSP TA, launched in May 2011 to serve as regulator of and implement the new Companies Act and Regulations.
- FSP technical assistance to CIPC initiated to develop a certification program and regulatory framework for business rescue practitioners.
- Phase 1 of the Regulatory Impact Assessment (RIA) and report completed and Final Phase 2 to build government capacity designed and commenced.
- Comprehensive Review of interaction between Companies Act, National Credit Act and Insolvency Act completed
- “*Review of the Insolvency Policy Framework*” completed and widely disseminated.
- A total of 38 research activities have been undertaken to date supporting 11 policy reforms under analysis.

FSP’s efforts were rewarded in May of 2011, when the new Companies Act (as amended) and the underlying Regulations were signed into law and became effective, marking a monumental achievement by the Government in modernizing its business environment with direct benefits for businesses generally and SMEs as well. With the launch of the new Companies and Intellectual Properties Commission (CIPC), FSP has continued to provide policy support in key areas, such as implementation of the new Business Rescue procedure (Ch. 6 of the new Companies Act) and design and development of a certification and regulatory framework for business rescue practitioners.

FSP’s approach is to identify policy initiatives and identify champions with whom to draft strategies, identify technical support opportunities and provide support to meet government’s objectives. As possible, FSP continues to work with its key government partners to continue to move forward the SME enabling policy agenda. Key relationships with National Treasury, dti, the NCR, Department of Justice, the South African Law Research Commission (SALRC), the National Small Business Advisory Council along with a cadre of private sector stakeholders continue to ensure an ongoing dialogue for an enhanced business environment in South Africa.

However, over the past year, FSP encountered several setbacks in its policy activities due to leadership changes within dti and NCR. In December 2010, the National Credit Regulator (NCR) resigned his position, which remains unfilled nearly a year later. The lack of leadership at NCR leaves FSP without a Government counterpart to pursue expanded access to SME finance through the establishment of the National Register of Credit Agreements (NRCA), and support to dti/NCR on an internal review of the National Credit Act (NCA) in

preparation for the five year review mandated by Parliament, to occur starting in 2012. The transition of the two chief Directors at *dti* for the Consumer and Corporate Regulation Division (CCRD) and the National Small Business Advisory Council (NSBAC) also stifled FSP efforts to achieve several important benchmarks related to development of a statistical monitoring system for the SME sector, and technical assistance to develop policy reforms to improve the financial sector regulatory framework to facilitate access to credit for SMEs. Efforts to engage Statistics South Africa as an alternative champion have been thwarted due to Statistics SA's current pre-occupation with census activities. Planned research related to competition policy for developing a level playing field impacting SME access to markets was placed on hold due to an inability to reach agreement with the Competition Commission on agreed parameters of a study that could lead to near term results.



On the whole, 2011 represented the culmination of many of FSP's policy activities, which will have longstanding positive impacts on the business environment for SMEs.

### **KRA 3.1 Financial sector legal and institutional framework improved**

**3.1.1: Support the *dti*/ NCR to make the NCA more conducive to stimulate access to credit for SMEs.** In 2011, FSP undertook a number of activities to stimulate access to credit for SMEs through support to *dti*/National Credit Regulator (NCR). FSP completed a comprehensive review of the South African insolvency law and policy, including the provisions of the NCA, the implementation strategy of the NCR and the debt counseling framework with the objective of identifying ways to improve harmonization and consistency of credit regulation and resolution policies across the NCA, Insolvency Act, new Companies Act and Close Corporations Act. Special attention was paid to policies which respect sanctity of contract, establish clear creditor priorities, simplify and accelerate procedures and rehabilitate debtors. As described in KRA 3.2.3 below, this work has helped to promote dialogue on the need to assure harmonization of debt restructuring mechanisms to deal with consumer and juristic person over-indebtedness and eventual insolvency and contributes to FSP's assistance to the Department of Justice in efforts to develop new uniform insolvency legislation. FSP has been collaborating with the World Bank as part of this research activity.

The NCR has yet to replace the CEO who played the leading role in policy formation. Work programmed for this year related to the forthcoming review of the National Credit Act and the initiatives to expand access to SME finance through the establishment of the NRCA are delayed until both NCR and the *dti* appoint new senior officials who can focus on these essential areas and collaborate with FSP to advance these important areas.

Benchmark 3.1.1	Actual
Overview of effects of National Credit Act on SMEs completed	Activity Postponed

**3.1.2: Follow up activity on applied research for the establishment of a modern statistical monitoring system for the SME sector.** In March 2010, FSP presented the National Small Business Advisory Council (NSBAC)/*dti* with a White Paper outlining policy issues and potential approaches for the establishment of an upgraded system for the statistical monitoring of the SME sector in accordance with OECD practices and policy. The White Paper addressed the absence of adequate statistics on the small, micro and medium sized enterprise (SMME) sectors making it difficult for government to design and implement appropriate policies for this critical sector. The FSP White Paper was widely distributed within the *dti* and among private sector stakeholders. The NSBAC indicated its intention to convene a stakeholders' meeting to coordinate next steps, based on FSP's recommendations. However, drastic changes in government affected FSP main partners in *dti* including the interlocutors on the statistical monitoring system and to date no replacement has been appointed. Given the magnitude of this undertaking, FSP will cancel its lead of this activity, but remains supportive of the need to develop a modern statistical monitoring system for the SME sector and may join efforts with a champion in future.

Benchmark 3.1.2	Actual
Interpretive summary identifying steps required to implement a comprehensive system for statistical monitoring of the SME sector submitted to <i>dti</i>	Activity Cancelled

**3.1.3: Applied research on reforms required to enhance the insolvency policy framework.** The insolvency/bankruptcy reform falls within a critical developmental area and is one of the 11 core areas of law identified by USAID as fundamental to a sound business environment essential for economic growth. In 2011, FSP completed its comprehensive review of the "*Insolvency Systems in South Africa: Strengthening the Regulatory Framework*" designed to build up previous FSP work *inter alia* on the Companies Act and Regulations and the National Credit Act (NCA) and assist cooperative work across various departments of Government to improve the business environment. A key goal of the study was to assure that all aspects of insolvency law and policy are seamlessly integrated even though responsibility for the implementation of component laws, regulations and oversight are distributed among several government departments and agencies. A link to the full report is contained in the text box below.

Benchmark 3.1.3	Actual
Report analyzing debt-insolvency harmonization issues submitted to dti and Department of Justice	Fully Achieved

Following the dissemination of the study, FSP and the University of Pretoria Law Faculty sponsored a roundtable with leading public and private sector experts to discuss and take feedback on FSP’s insolvency review findings and conclusions, and to identify important policy objectives for insolvency reform. The Roundtable provided a forum for more in-depth discussion of South Africa specific experience on all aspects of insolvency law and practice and to convert the “global best practice” vision of the FSP Report into a truly South African policy overview. Discussion focused on three key areas: 1) The National Credit Act and Consumer Insolvency; 2) Business Rescue Mechanisms; and 3) Strengthening of the Regulatory Framework. To promote further dialogue on this subject, FSP prepared an Interpretive Summary, to concisely and accurately convey the key findings, conclusions and policy recommendations of the report. Both the main insolvency report and the “Interpretative Summary” have been posted on FSP’s Blog [www.fsp.org.za/blog](http://www.fsp.org.za/blog).

FSP’s work on insolvency led to a series of meetings with key Government stakeholders in the Department of Justice, the South African Law Reform Commission (SALRC), National Treasury and dti to discuss measures for moving forward and prospective assistance on insolvency reforms, now that the new Companies Act with its newly designed Business Rescue procedure had been completed. These discussions led to a request from the Department of Justice and SALRC for assistance in addressing several additional applied research topics that would contribute

to the formation of policy on key issues of concern identified by the National Economic Development and Labor Commission (NEDLC) in connection with prior reforms. Specifically, 1) a comparative study on the treatment of and priority accorded to worker claims in the context of an employer’s insolvency; and 2) suitable rate structures to

#### FSP champions the insolvency framework discussion



Effective insolvency and creditor rights systems promote financial sector stability, expand credit access, and enhance job preservation prospects. Following its extensive involvement advising government on the completion of the Companies Act, FSP expanded on a key feature of this Act, namely Chapter 6, Business Rescue.

FSP conducted a comprehensive review of the insolvency systems in South Africa to better integrate a framework that currently involves a multitude of disparate, frequently dysfunctional procedures administered by various agencies without coordination. Undertaken last year, this work laid out a roadmap for reform that has served as a springboard for dialogue on the urgent need to modernize, harmonize and unify the insolvency framework. To tackle the problem, government convened an inter-agency steering committee, inviting FSP’s participation, to develop policy recommendations and provide inputs on a unified insolvency bill that can be presented to the government on an expedited basis for consideration in 2012.

The full report can be viewed at <http://www.fsp.org.za/blog/wp-content/uploads/SOUTH-AFRICA-INSOLVENCY-SYSTEMS1.pdf>

remunerate liquidators. Both research papers will be completed in the first quarter of next year.

As described in KRA 3.2.3 below, FSP’s research is intended to inform policy decisions in the design of a new unified insolvency bill planned for submission to the Government at the end of 2011 or in 2012.

**3.1.4 Applied research on financial sector regulatory framework and its impact on access to credit for SMEs.** South Africa prides itself on managing a world class and stringent regulatory system so as to ensure ultimate banking stability. Naturally, a healthy financial sector must always be a trade-off between “ultimate stability” (not lending) and “liberal growth” (opening the lending tap) which implies greater risks and greater prudential risk in the financial sector. Therefore, proposed measures to “strengthen the banking sector” if applied rigidly could seriously undermine the government’s policies of economic growth and employment creation. FSP’s study on the financial sector framework addressed a number of fundamental issues facing the financial sector and the financial sector supervisory agencies at a time when fundamental changes in international financial architecture were actively being considered.

<b>Benchmark 3.1.4</b>	<b>Actual</b>
Final report completed	Phase I completed, report generated

The report demonstrated clearly that neither the government nor the private sectors appear to have adequate quantitative skills and tools to measure the impact of such proposed measures and consider policy alternatives. However, the changes in senior management positions in Government impacted the main FSP interlocutors in *dti* for this work and consequently the momentum for Phase Two disappeared. FSP explored alternative champions to take this important work forward, as with all FSP research activities; a “champion” is needed to conclude the final stage of this work. While stakeholders agree to the importance of this activity, a champion was not identified. Therefore, phases two and three of this activity were cancelled.

**3.1.5 Applied research on competition policy and the level playing field impacting SME access to markets.** In 2011, preliminary discussions were conducted with the Competition Commission, which expressed little interest in cooperating in a “study”. The Commission preferred to explore a scoping study setting the internationally comparative framework, leading to a comprehensive market survey and extensive interviews and data collection by a recognized and experienced South African group, focusing on a specific product and market the Commission considers potentially demonstrates elements of abuse of dominance. The product and market discussed lends itself to new entry SMEs and as such would be interesting to explore. However, a significant level of effort would be required to have any measurable impact in this area and other risks of becoming involved in litigation are present. As a result, this activity has been cancelled.



Benchmark 3.1.5	Actual
Interpretive summary outlining status of competition policy completed	Activity cancelled

### KRA 3.2 Regulatory environment stimulating business (SME) development enhanced

**3.2.1: Draft regulations for the Companies Act and Companies Amendment Bill.** The long anticipated Companies Act 2008 (as amended) was signed into law by the Presidency and published in the Government Gazette April 26, 2011. The same day the final Companies Regulations were also published in the Gazette by the Minister of Trade and Industry and the Companies Act and Regulations were officially proclaimed to come into force May 1, 2011. This comprehensive, omnibus-type Companies Act and Regulations fundamentally and permanently changes many aspects of the business environment for decades to come.

FSP was instrumental in supporting *dti*'s drafting team in developing Amendments and Regulations to the Act approved by Parliament in April 2011. FSP also ensured that the Act and Regulations were fully scalable and designed and implemented in such a manner as to minimize the cost and administrative burden implicit in incorporating and maintaining a corporation for SMEs.

With the launch of the Companies and Intellectual Property Commission (CIPC) on April 1, 2011, FSP began discussions to determine what if any areas of future collaboration might be possible. CIPC expressed an initial need in having FSP's assistance in the design and development of a certification accreditation and regulatory framework governing a new profession of business rescue practitioners.

#### The dti Releases Companies Regulations, 2011

The Minister of Trade and Industry, Dr Rob Davies, signed and approved the Companies Regulations, 2011 on April 26<sup>th</sup>. The Regulations, deal with the functions of the Companies Commission, Takeover Regulation Panel and Companies Tribunal, and other matters relating to the regulation of companies.

President Zuma signed into law the Companies Amendment Act, 2011 on April 19<sup>th</sup> and approved the Proclamation and President's Minute that put into legal force the Companies Act 2008 on 1 May 2011.

To view the regulations in full, visit here: [http://www.dti.gov.za/news2011/companies\\_regulations\\_final.pdf](http://www.dti.gov.za/news2011/companies_regulations_final.pdf)

Benchmark 3.2.1	Actual
Final Companies Act (as amended) regulation drafted and submitted	Fully Achieved

Following the effective date of the Act, FSP has been providing technical support to CIPC to develop an accreditation and regulatory model for BRPs, where the need is urgent. Under the new Business Rescue process, a business rescue procedure may not be opened unless the parties have designated a qualified BRP to oversee the case. Since May 1, 2011, approximately 175 applications have been filed to commence business rescue proceedings.

Despite replacing the formal “judicial management” procedure, none of the regulations governing certification of “insolvency” practitioners appointed in formal court proceedings applies in the context of Business Rescue proceedings. As such, no framework exists to qualify BRPs. To address this gap in the regulatory framework, 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 business rescue and turnaround

FSP has been providing support to the new CIPC on implementation matters related to the new Business Rescue Procedure. FSP met with CIPC to follow-up on earlier policy recommendations and options for developing a certification accreditation and regulatory framework governing the new profession of business rescue practitioners. It was agreed that the way forward should include formation of a special Business Rescue Advisory Committee (BRAC) comprised of CIPC staff and relevant private sector stakeholders to advise on the design and substance of the accreditation program. It was also agreed that the regulatory framework would be well-served by a CIPC Certification Governance Board, with subcommittees to address standards, ongoing education requirements, regulation and administrative procedures, and statistics and knowledge management. As part of this framework, FSP emphasized and CIPC strongly endorsed the need to ensure an appropriate mentoring program facilitated through law societies, accountancy firms and other professional organizations to promote training and experience among previously disadvantaged practitioners. CIPC hopes to have the details of the framework ready by end January 2012 and ready to roll out as part of the permanent framework by March 2012.

#### **Designing a “Business Rescue Practitioner” accreditation and regulatory framework.**

The new Business Rescue provisions under Chapter 6 of the New Companies Act replace the former “judicial management” system with a new system managed by the “Business Rescue Regulatory Board”. This Board is invested with authority to establish the standards and oversee the newly established profession of “Business Rescue Practitioners” established under the Act and to be regulated by the Minister.

Since professions can only be regulated by statute, CIPC intends to regulate this new profession, at least on an interim basis, by regulation under the Companies Act.

FSP has provided CIPC a framework for BRP accreditation and governing regulations. A steering committee has been established to identify the best way forward.

**3.2.2: Develop proposed fee structure for the new Companies and Intellectual Property Commission.** FSP played a pivotal role in the design of the CIPC and its fee structure. During the last two years, FSP completed the comprehensive fee structure for the Commission designed to assure full cost recovery in 2011. The FSP Report provided the *dti* management team with sufficient information on costs and revenues reasonably anticipated



when the new Act and Regulations came into effect, for dti policy makers to agree on the draft Fee Structure as included in the final Companies Act and Regulations.

Benchmark 3.2.2	Actual
Revised Commission Fee Schedule Completed	Fully Achieved

The CIPC and the *dti* have requested that FSP assist in documenting the impact of the final Fee Schedule on the adequacy of cost recovery and to lay the ground work for compliance for Annual Reviews and fee adjustments with the approval of National Treasury. As it was anticipated that this work should be conducted no earlier than six months after CIPC commences operations, the work has been scheduled to be undertaken as part of the 2012 annual work plan.

**3.2.3: Follow up work on insolvency policy framework harmonization and legislative reform.** Based on the successful completion of the tasks described in KRA 3.1.3 above, FSP remained involved in the evolution of this important business environment initiative.

Given the progress made and traction for change achieved across institutional boundaries, together with the forthcoming report by the World Bank assessing the effectiveness of South Africa’s insolvency and creditor right systems against international standards, it was decided that a brief, more forward looking document be prepared focused on stimulating the interest of a broader base of institutional, academic and professional stakeholders to consider and support a more integrated approach to the advancement of a harmonized insolvency policy and structure for South Africa.

The need exists to strengthen the political will for the development of such a unified and cooperative policy approach. An informal “round table” was convened in early January 2011 among public sector, academic and professional “opinion leaders” to consider how best to support progress

made. It was decided that the Interpretative Summary should contain information in content and tone similar to cabinet documents, briefly outlining issues, possible solutions and focus

**Working Together on Insolvency Policy**



Photo: Ozius Dewa, FSP

South Africa based World Bank staff participated actively in FSP’s insolvency discussions.

FSP wishes to acknowledge the coordination of this work with work previously undertaken by the World Bank/IMF under the 2003-2004 Regulatory Observance of Standards and Codes (ROSC). This work was widely referred to by GoSA officials and formed an important benchmark for the FSP work. FSP was informed that the Minister of Finance requested an update of the World Bank’s Insolvency and Creditor Rights ROSC, which will be delivered in a final report in late 2011. FSP was invited to participate on an inter-governmental Steering Committee organized by National Treasury to provide feedback on the ROSC and to provide input on prospective unified insolvency reforms and potential policy recommendations for strengthening other parts of the creditor rights framework.

on how to implement such comprehensive change. The Interpretative Summary was re-drafted accordingly and has since been placed on the FSP Blog.

<b>Benchmark 3.2.3</b>	<b>Actual</b>
Status update report submitted to Law Reform Commission/Department of Justice	Fully Achieved

In addition to the assistance FSP is providing in the form of applied research on issues raised by NEDLC, which must be addressed in the updated insolvency bill, FSP has been invited to participate in an inter-agency Steering Committee tasked with providing feedback to National Treasury on an updated 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. FSP provided feedback on the World Bank’s ROSC, which is expected to be delivered as a final report in October 2011. FSP also anticipates reviewing a copy of the draft insolvency bill when ready and will be submitting policy recommendations in the form of a report to the Government.

**3.2.4 Support to the Government of South Africa Regulatory Impact Assessment (RIA) program.** South Africa’s legislative reform process has been relatively slow, inefficient and disjointed compared to reforms of neighboring countries and comparable markets among the BRICS countries. A study commissioned by the South Africa Foundation in 2003 found that small businesses often carry a disproportionate burden of regulatory costs because of their limited administrative resources and occasionally uncertain cash flows, and this should be borne in mind when new regulations are being drafted. In February 2007, Cabinet decided that RIA must be implemented in South Africa to promote more effective and transparent reforms that do not place an uneven economic burden on disadvantaged constituents.

<b>Benchmark 3.2.4</b>	<b>Actual</b>
RIA framework completed	Not achieved

Since its introduction, the RIA program has had difficulty gaining institutional acceptance, which is critical to achieving the economic benefits that it offers. Under the current RIA framework approach adopted in South Africa, National Treasury serves as one of the central supervisors and monitors of the programs implementation. Under its mandate, National Treasury requested FSP to provide support to help build capacity in Treasury based on a two-phase program designed to assist the Government of South Africa to implement its announced RIA policies. Phase 1 of the assistance focused on the review of Estate Agents Policy by piloting an assessment of the Estate Agency Affairs Act (EAAA), which was completed in late 2010.

Based on recommendations from Phase 1 and after discussions between National Treasury and FSP, planning for Phase 2 of this activity was launched in May 2011 and work began in September 2011. The focus of Phase 2 is on 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 (i.e., the Land Use Management Act, the Intellectual Property Act, the Labor Act and the EAAA) to identify important lessons learned that will enable FSP to recommend policies and steps for improving the RIA process; and (2) strengthening institutionalization of the RIA program in South Africa based on a 3-5 year implementation strategy, and development of a RIA Toolkit for use in training Ministry staff involved in RIA policy development and implementation, who will serve as trainers for other Government staff. The process will result in delivery of a final report identifying experience, lessons learned and containing policy recommendations, hosting of a government training workshop for 20-30 government policy specialists from different departments and conducting several training sessions with a small group of staff from National Treasury and the President's Office to prepare them as trainers for other government staff. Training activities under Phase 2 and delivery of the RIA Report and Toolkit will occur in November 2011.

#### **D. PIR 4: SME Knowledge Management System Strengthened**

The primary goal for this PIR is strengthen SME finance-related knowledge management, share innovative financing options and opportunities and disseminate successful approaches for SME development in collaboration with private, government and donor programs.

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

*Activities:*

##### ***4.1.1 Consolidate and utilize current collaborating partnerships.***

Through collaborative efforts with other organisations and partners interested in the development of SMEs, FSP works towards

the building of a community of practice on the blog with an emphasis on sharing information with others. While expanding its networks to the private sector partners, FSP has also worked with other USAID-supported complementary programs like SAIBL to exchange of information. The virtual links exchanged with partners increased the flow of traffic to the FSP blog and ensured that people have access to much needed information for informed decision making. About 48% of the referred visitors to the FSP blog came from FSP partners and stakeholders like NSBC, SAIBL, SME Toolkit SA, SME South Africa, ICSB and USAID South Africa. These are partners FSP has worked with and it shows the reach and extent of utilization of information FSP has generated over a short period of time since the launch of the blog as the main conduit of information dissemination.

In addition to exchanging virtual links, FSP supported the ICSB in hosting two meetings at the University of Johannesburg (UJ). The focus of the meetings was to review progress made with the development of SMEs as outlined the 1995 White Paper that identified SMEs as key drivers of economic growth, and to share possible ways in which the situation of SMEs can

**PIR 4 Highlights**

- Inquiries to the KM system exceeded the 2011 annual target by 5452%
- FSP received a request to use information on our blog in a book to be published by Oxford University Press Southern Africa
- FSP hosted USAID Mission Director (Jeff Borns) on a visit to one of FSP's ultimate POF beneficiaries (a successful female black entrepreneur)

be improved. To this end, the meetings covered issues such as entrepreneurship and innovation development and other important aspects of quality business development service provision. In attendance were most FSP partners like Raizcorp, Business Partners Gauteng Enterprise Propeller (GEP) and IBA inter alia.

Besides information sharing activities, FSP visited Raizcorp, Aurik, Blue and Mettle to assist them with in-house systems strengthening that form the basis of knowledge generation that is sound, valid and reliable so as to inform program design, implementation and review. Their systems were harmonized with those of FSP.

The challenges identified in the SME finance market stem from both the supply (FIs) and demand (SMEs) side. The FIs state that often SMEs do not meet the requirements for credit while the SMEs do not have information on the products available to them and FI's requirements for such funding. To remediate this impasse, FSP endorsed and supported the NSBC to host an 'Access to Finance Expo' that attracted more than 3000 participants which brought both the SMEs and FIs together under one roof. FSP took this opportunity to make several presentations:

- Purchase Order Finance and how it meets the immediate need for SME working capital
- How the new changes to the Companies Act will affect small businesses
- FSP FI and BDS partners participated in a panel to address how best to get credit providers to say YES to credit.

After the expo, FSP had a stakeholder consultative meeting with the BA to present the *finfind* concept and to gauge ways for improving it and assess its suitability as an online business finance networking tool in the market. This also covered possible challenges that could be faced in implementing the tool. Subsequent to this, FSP had a breakfast meeting with Business Partners to draw attention to financing products like POF and to promote it as a model for financing best practice.

In an attempt to assess the value and impact of its interventions and support, FSP engaged both ABSA and FS Share to conduct impact analysis studies and documentation. The granting of an extension to the FS Share project by USAID presents FSP with an opportunity to pursue a comparative analysis of the usage and impact of POF using a case study of three FIs in the coming financial year.

#### FSP showcases finfind at the NSBC "Access to Finance" Expo



*FSP SME Business Services Specialist Kirsten Kennedy greets NSBC member to discuss the opportunities finfind presents promoting access to finance for SMEs*

During the NSBC expo in March, hundreds of SME visited the FSP booth to collect information about purchase order finance, the effect that the new Companies Act will have on SME and be treated to a dry run of the *finfind* on-line tool that will assist business development services providers identify the appropriate financial products for their SME clients and the creditors who offer such support.

With these extensive efforts to consolidate and utilize collaborative partnerships, FSP has fully achieved its benchmark 3 partners contributing to its blog on areas around closed corporations, SME fora and POF.

Benchmark 4.1.1	Actual
3 FSP Partners contribute to FSP knowledge management system	Achieved

**4.1.2 Identify new collaborating partners.** While it is important to identify new collaborating partners in order to expand reach and influence towards access to finance by SMEs, FSP’s efforts have thus far focused on consolidating partnerships that were built up since the program inception in 2008. During the period under review, FSP identified two (FS Share and Business Partners) knowledge management partners. Some ground work has already been laid that contributes towards collaboration with both partners – see above.

Under this key result area, FSP identified a few more strategic partners like the Global Impact Investing Network (GIIN- [www.thegiin.org](http://www.thegiin.org)) particularly its Impact Reporting and Investment Standards (IRIS). The rationale of pursuing this collaboration will be to focus much on establishing and documenting program successes for the purposes of showing the impact of funds invested. This will help inform future program designs for greatest impact. The other collaborations to pursue would be with the Financial Intermediaries Association of Southern Africa (FIA- [www.fia.org.za](http://www.fia.org.za)), SME Survey ([www.smesurvey.co.za](http://www.smesurvey.co.za)), SME Forum South Africa ([www.smesa.co.za](http://www.smesa.co.za)).

Benchmark 4.1.2	Actual
2 new collaborating partners identified	Achieved

#### **KRA 4.2 Improve awareness of SME finance best practices**

*Activity:*

**4.2.1 Finalize communication strategy to support knowledge management strategy success.** FSP’s communication strategy has been developed and approved by USAID. The purpose of the strategy is to improve knowledge management processes in order to share information internally and externally about FSP objectives, activities and accomplishments, and to increase understanding of SME financing challenges, methods and benefits among stakeholders in the sector. The strategy is already being implemented in various ways by different FSP components. Under the knowledge management component and in line with the communication strategy, FSP reviewed and revised communication material including brochures, banners, flyers and email signatures to ensure that there is some established



congruency and consistency in all communication carried out on behalf of the program. These will be augmented by a range of success story and educational documentaries in future.

Benchmark 4.2.1	Actual
Communication strategy approved by USAID and implemented	Achieved

**4.2.2 Effectively manage financial sector blog as a knowledge management tool.** The FSP blog has remained the main conduit of all external communication with partners. In order to ensure its relevancy and appropriateness during the program and beyond, FSP has invested significant effort in managing it. Since its launch a year ago, FSP has focused on optimizing the blog for search engines so that it appears on first pages of any Google searches related to SME access to finance. The successful optimization has increased the number of visitors coming to the blog significantly. While a majority of visitors to the blog have been accessing it directly, an encouraging percentage of about 48% came from referring sites of FSP partners. This shows how effective collaborations can be in terms of disseminating information.

To ensure that the blog remains a sustainable instrument of information on SME financing, FSP intends to have the blog taken over by an institution that will host **finfind**.

One of the challenges faced by the blog is that there have been very few external contributors commenting on the content of the postings or making contributions through writing articles. For the year of 2011 there were 6022 'hits' on the blog, which exceeded the 2011 annual target of 570 inquiries by 5452%, but this figure is deceptive. While there are many inquiries and 'hits' on the blog, there are very few comments and the vast majority of comments are spam which means that measuring the number of inquiries is not a sufficient indicator of the blog's success, nor can one correlate visits to the blog with proof of interactive engagement via comments. It is recommended that a strategic review of the blog's functioning be undertaken to maximize its use and to inform the design of **finfind** into which the blog will be incorporated. One way this can be achieved is to embark on a more detailed analysis of results on web traffic as provided by Google Analytics which will reveal precisely which sections of the blog are popular by showing how much time is spent on each section. This can inform content

**Purchase Order Finance in Action**



USAID Mission Director Jeff Borna (Right) enjoys Anna Phosa's story of her ability to grow her business using purchase order finance from ABSA bank.

With a R14.5 million loan, Anna was able to buy a new farm which exponentially increased her stock limits, offers fields to grow feed with an abattoir for processing on site. These business enhancements will allow Anna to meet the growing orders from Pick-n-Pay on time, and with improved profitability. Refer to success story in appendix A.

Click below for the site visit video:

<http://www.youtube.com/watch?v=i8ahaV6G6-M&feature=autoshare>

development. Similarly a re-assessment of the blog's intended audience in the light of **finfind's** target market of SME owners is required in order to provide guidelines for desirable content, accessibility, and stimulation of discussion via interactive forums. Other ideas for improvement include the insertion of more links with other SME websites, even if they are not collaborating partners as such, and possibly even a section which features guest writers to submit content.

Finally, FSP will undertake effectiveness survey of the blog. The results of the survey and recommendations will then be provided to the hosting institution for further improvement of the blog for greatest impact. A scope of work has already been developed and will be implemented in the coming quarter.

<b>Benchmark 4.2.2</b>	<b>Actual</b>
Post 32 content contributions to the blog	28 contributions were made to the blog during 2011





**SECTION III: ANNEXES**  
**ANNEX A: PERFORMANCE MANAGEMENT PLAN SUMMARY**



Replace this page with PMP summary page



## 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, 2011 with a particular focus on the FY 2011 year activities. The project objective, "*market credit risk mitigated increasing SME access to a range of quality, affordable financial services*" is segmented into four program areas and measured by 25 indicators.<sup>7</sup>

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

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.

In addition to this data collation system, FSP has, during this reporting period, visited a number of partners like Raizcorp, Mettle, Aurik and Blue to help them build systems that will allow them to collect, collate, analyze, manage and make use of data generated from their operations. These visits also involved setting up reporting timelines to coordinate information and keep it uniform and consistent.

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.

Indicator 1 reflects the total number of financial agreements concluded, while Indicator 1a refers to the number of SMEs provided with loans which is not part of the approved 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 Invoice Clearing Purchase Order Finance product FSP designed in cooperation with ABSA bank.

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<sup>7</sup> Initially comprised of 28 indicators, the project requested and received USAID approval to drop those indicators no longer deemed suitable to measure program impact, namely: # 4) days to turn around SME loan applications, indicator # 15) number of SMEs that successfully accessed finance and indicator # 16) Value of finance accessed by SMEs.

**Table 1: FI Partner Results to September 2011**

	Indicator Name	Unit	Jun. '08- Sept. '09 Actual	Oct. '09 – Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Target 2011	Cumulative Actual to Date	Cumulative Target to Sept. '11	Actual Variance	Actual % towards LOP target
1	Number of financial agreements concluded	#	54	1249 <sup>8</sup>	2456	10300	3759	11650	-7891	9%
1a <sup>9</sup>	Number of SMEs issued with loans	#	54	248	419	N/A	721	N/A	N/A	N/A
2	Value of finance accessed ('000)	ZAR	R90,924	R154,771	R597,030	525,000	R842,946	R1,087,050	-R244,104	31%
8	Number of special fund loans issued	#	35	143	162	250	340	282	58	42%
9	Value of the USG supported special fund loans issued ('000)	ZAR	R76,684	R73,952	R111,175	175,000	R261,812	R198,625	R63,186	51%
10	Number of DCA guaranteed loans	#	11	19	37	48	67	386	-319	1%
11	Amount of private finance mobilized with DCA guarantee ('000)	ZAR	R11,011	R17,100	R32,981	43200	R61,092	R211,950	-R150,858	6%

Prior to this reporting period, the true volume of transaction was being under reported, so further elaboration of this indicator was needed. So while FSP reported for the year 2010, a total of 248 financial agreements concluded, this in fact represented only the number of SMEs who accessed finance. Of those SMEs, 13 ABSA IC clients in fact benefited from 1,001 financial agreements. As such, the total for indicator 1 for 2010 should have been 1,249 transactions. Similarly, for 2011 and beyond, this distinction must be made. Specifically in 2011, it was found that of the 419 clients accessing finance, 41 were IC clients who concluded 2,001 financial transactions. The 3,759 financial agreements concluded to date represent 32% of the cumulative 2011 number of transactions target but 78% of anticipated volume cumulatively to date, indicating that the borrowers are taking larger than anticipated loans overall.

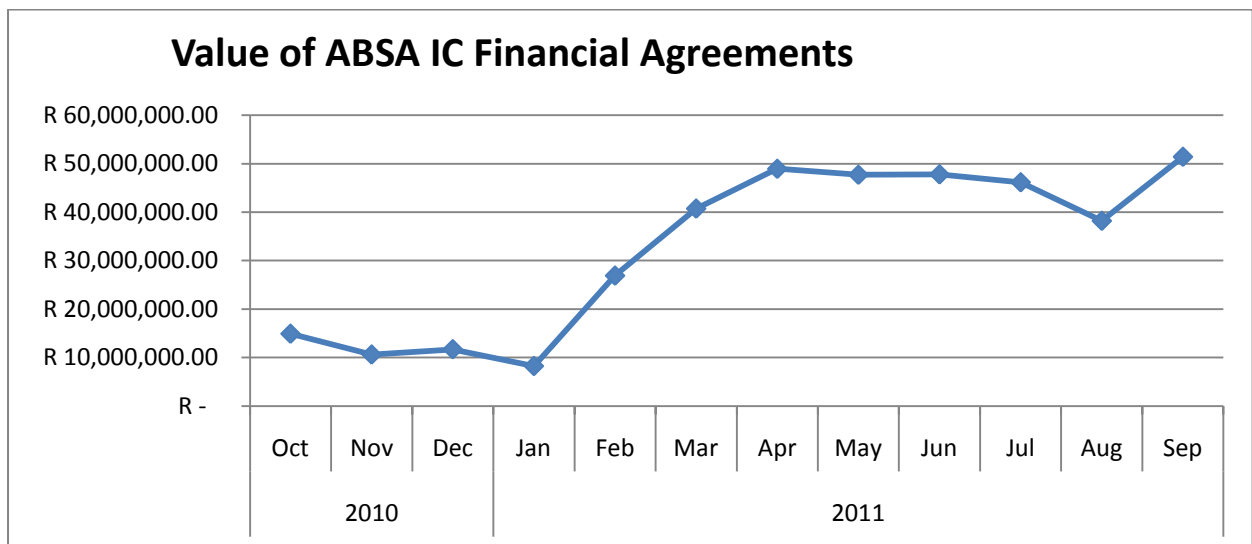
<sup>8</sup> In previous reports, this figure was reported as 248. However, due to the complexities of the Invoice Clearing product, whereby several financial transactions are concluded each month for an SME, this product impact was under-reported in previous year as these underlying financial transactions were not identified until a 2011 data audit. Instead what was being reported was the number of SMEs receiving numerous IC transactions. The 2010 and 2011 figures have been amended to reflect this differentiation.

<sup>9</sup> 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.

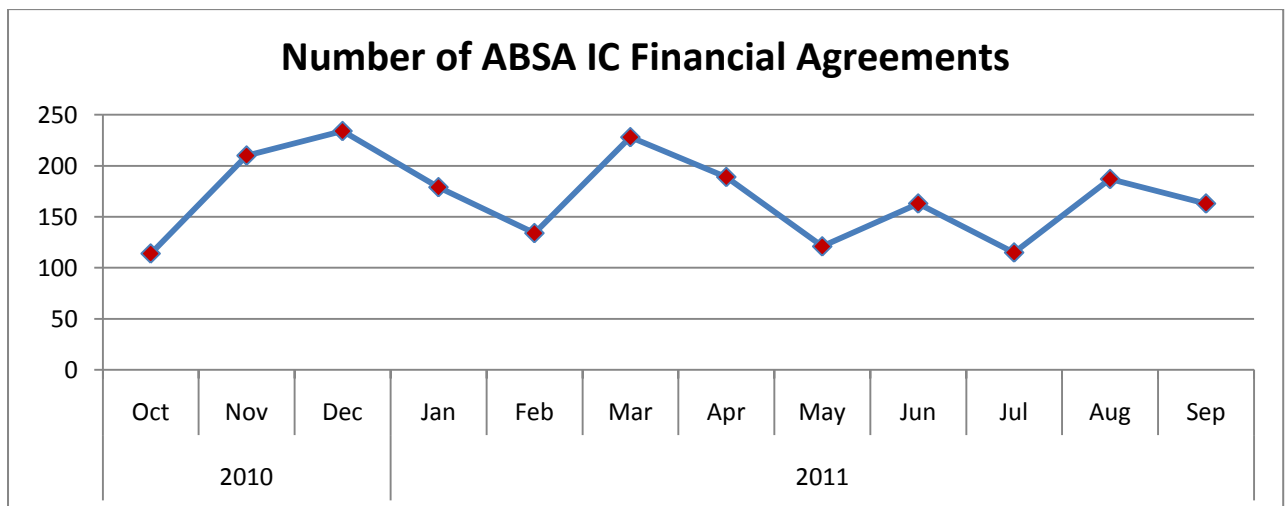
This distinction captures the fact that ABSA will finance numerous invoices for one SME client in one month, and thus in order to ascertain the average loan size, it is important to take into account the number of financial agreements concluded rather than the number of SMEs covered. Thus the total value of IC loans is R393,430,046 with an average size of the invoice cleared being R193,142.

The following two graphs show the utility of the Invoice Clearing product. A comparison of the two graphs reveals that the value of the invoices cleared is rising, while the number of agreements is declining, indicating that the SMEs are using the invoice clearing product for invoices of increasing values.

**Graph 1: Value of ABSA IC Financial Agreements**



**Graph 2: Number of ABSA IC Financial Agreements**



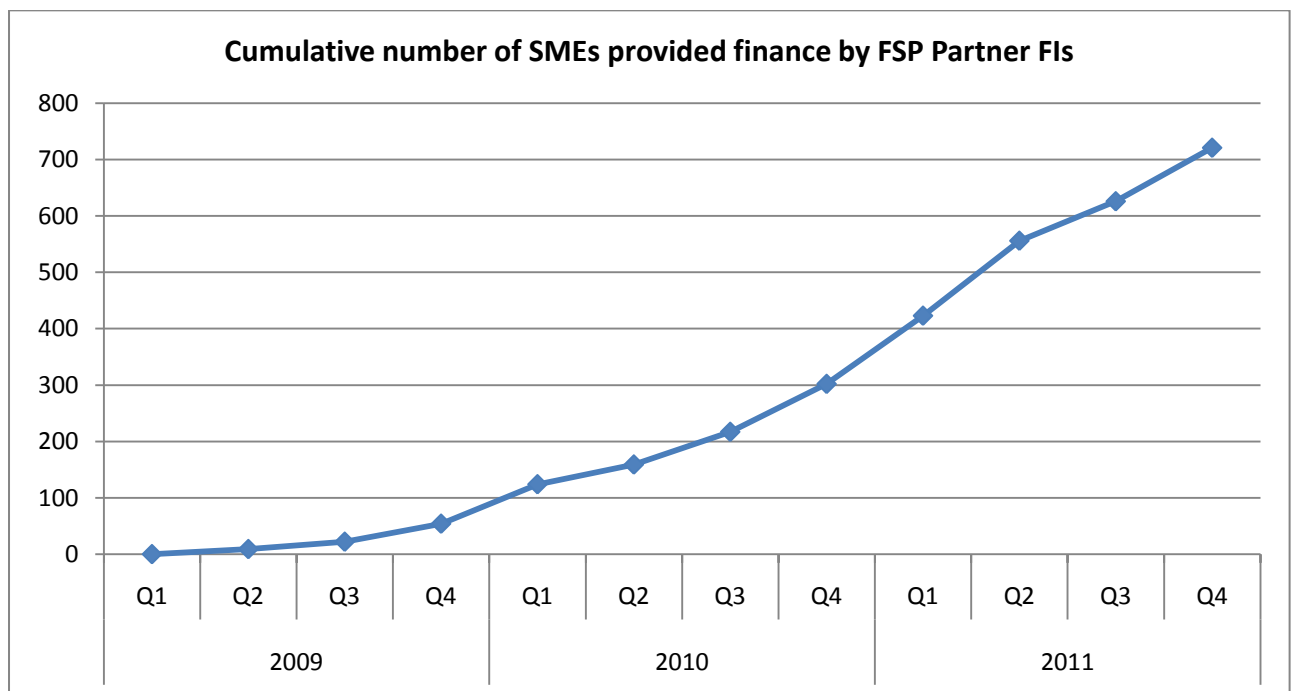
FSP has additionally introduced the POF product to both Blue and Standard Bank. During the year, Blue approved one POF loans for R1.3 million, and as of October 2011, Standard is conducting a pilot of the product in KwaZulu-Natal and Free State provinces anticipating 150

transactions. FSP will advise on a monthly basis to make sure the transactions are structured correctly and underwritten properly, with the assistance of consortium member Crimson Capital. FSP will also provide training for loan officers to be incorporated into larger training across Standard Bank nationally. FSP will provide technical assistance to introduce a range of other cash-flow based products too.

With new efforts concentrated on promoting POF and DCA loans, it is anticipated that there will be sharp rise in loans issued during 2012. Efforts will be made to boost the DCA usage and the related SME Debt Fund and through new products developed for FI partners. Two partners have been identified as suitable for the Debt Fund, and FSP is facilitating a financial due diligence of these partners in January 2012.

Thus the loan trend remains positive, as can be seen by the steady increase in SMEs supported depicted in Graph 3 below. While FSP’s three DCA portable guarantee holders failed to secure funding, FSP’s new efforts to promote other DCA loans, POF, and the SME Debt Fund will contribute to the target significantly going forward.

**Graph 3: Cumulative number of loans from June 08 – Sept. 11**

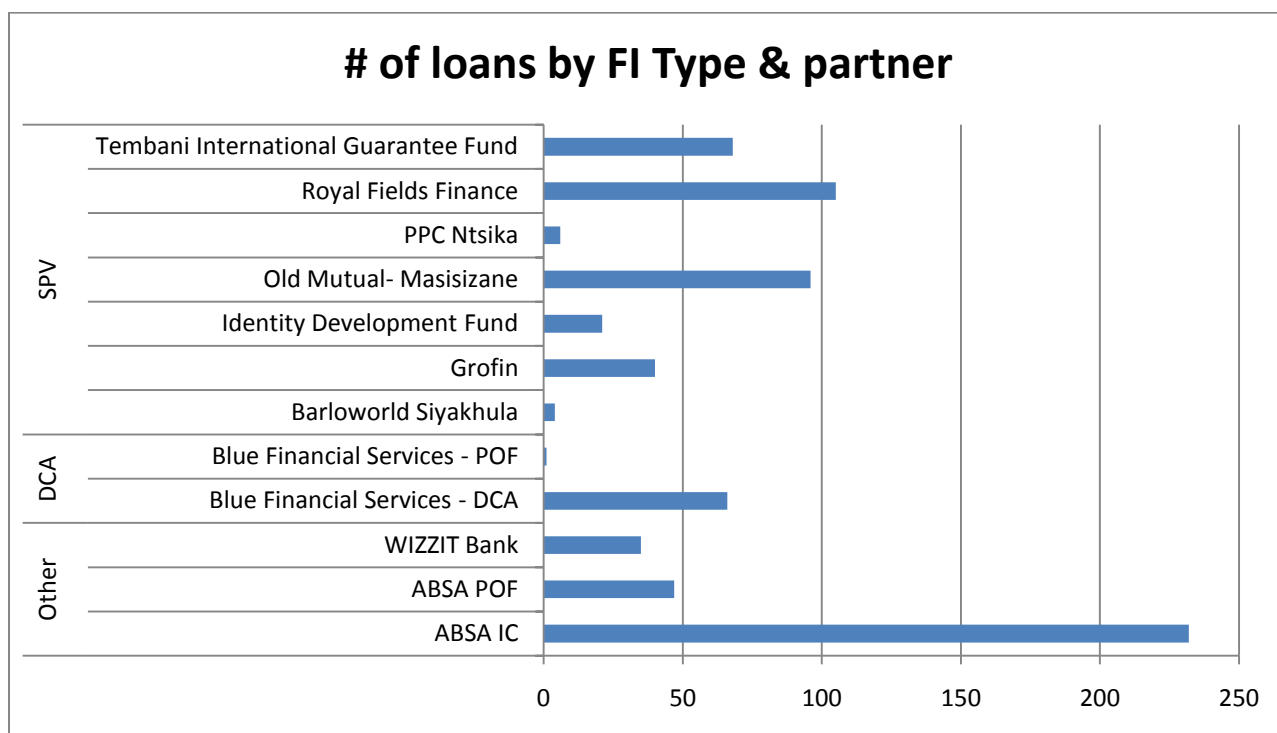


The knowledge management component will assist these efforts through the promotion of the products for more utilization, as will the policy component in its new drives to increase funding for distressed SMEs and to streamline the legal and regulatory environment in which they operate.

In Graph 4 below, the number of loans issued is disaggregated to illustrate individual partner contributions towards achievements by FI type, which is in turn categorized by partner.



**Graph 4: Number of loans by FI type and partner from June 08 – Sept. 11**



Of the total loans issued to SMEs, there were 67 DCA loans issued through Blue Financial Services and WIZZIT issued 34 loans.

While the DCA contributed 3% of the total number of financial agreements concluded for the 2011 cumulative target, this is anticipated to rise significantly since there is great potential with recently approved ABSA bank’s R200 million facility and the upcoming SME Debt fund.

While figures for Tembani International Guarantee Fund (TIGF) are impressively high, it must be noted that this reflects money disbursed to a wide range of SMEs in amounts bordering the bottom of the annual turnover range used to define SMEs. In total, 69 TIGF loans were issued.

Royal Fields Finance (RFF) contributions are the third-highest despite the fact that it stopped reporting in March 2011, having only submitted data for nine months, yet contributing a total of 104 loans. Hence its contribution to the number of loans could be much higher as its average number of loans per month is about 10 loans.

To date, Old Mutual Masisizane (OMM) has issued 96 loans, while Grofin has issued 34 loans, Of these , 21 (16%) of which were issued in the past financial year. The IDF has issued 21 loans, 6 of which were issued in the past financial year. WIZZIT reported 34 SME loans prior to December of 2010, when they decided to interrupt their SME lending in favor of loans to micro-entrepreneurs.

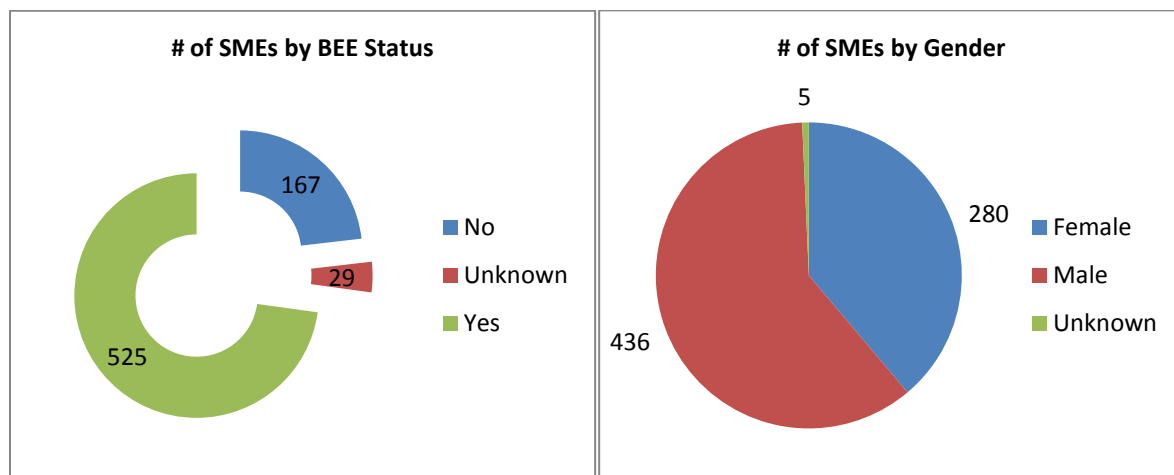
Overall volume of lending in the SPVs has slowed down and a key reporting partner, RFF, has stopped reporting citing work load conflicts. FSP is working on re-cultivating this partner and has succeeded in securing a meeting appointment. Similarly, IDF reported very little in the past year since it has been restructuring and fundraising and it is about to re-

launch with new premises and a new strategy. Overall, the limited national footprint of these partners means they issue very few loans and they resist reporting since FSP's work with them has also diminished. They are strong candidates for **finfind** assistance, and this could form the foundation for future work with them as there is resistance to reporting to FSP since there is an impression that it offers little in exchange; there is an expectation of financial assistance. However, WIZZIT's SME practice was recently reactivated and it is expected that it will again become a positive contributor to FSP impacts.

As stated previously and reflected in graph 4, ABSA Vendor Finance (POF) and IC loans make up the bulk of the loans. This reiterates the fact that the IC product is an effective way of financing the working capital needs of SMEs.

The graphs below show that FSP support is contributing to lending to historically disadvantaged SMEs, with 525 (or 73%) SME loan recipients have been BEE SMEs. Additionally, the concentration of borrowers tends to be men as only 280 female-owned SMEs received loans which comprise 39% of the total number of loans.

**Graph 5: Number of 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.

The development of new products normally calls for the training of financial sector professionals in the understanding of the new product as well as consultative processes between FIs and SMEs. The development of a new DCA product for ABSA presented an opportunity for training of seven financial sector professionals from that institution, of which three were men and four were women. It is envisaged that these seven trained professionals will proceed to train 600 more ABSA professionals across the country. This will deepen an understanding of the DCA scheme among loan processing professionals and thereby increase the number of loans accessed by SMEs.

FSP is engaged in promoting these SME-lending products to other financial institutions and banks and expects the loans to grow considerably.

One way of doing so is to help FIs modify their management practices/process (**Indicator 3**) for their benefit and that of SMEs. Working with three partners (WIZZIT, TIGF, OMM), FSP provided assistance to modify their management practices/processes achieving three changes in total, which represents 33% towards the cumulative target for 2011.

During the period under review, FSP visited RFF with the aim of gaining a better understanding of its loan processing procedures and policies. After a thorough review of the policies and procedures, two recommendations that were ultimately adopted by RFF were made. These suggested that RFF revert to the safer practice of having customers of its borrowers pay the amounts they owe the borrowers into an account jointly controlled by the borrower and RFF. This was made to avert the risk of losing control over what happens to the proceeds of those arrears being paid to RFF. Furthermore, FSP recommended to RFF that it installs internet banking facilities so that money transfers can be done virtually by computer instead of visiting bank branches, which is very time-consuming for short-staffed FIs like RFF.

**Table 2: Indicator 3 Results to September 2011**

#	Indicator Name	Unit	Jun. '08 – Sept. '09 Actual	Oct. '09 - Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. '11	Actual Variance	Actual % towards LOP target
3	Number of management processes/practices modified due to USG assistance	#	2	1	3	6	9	-3	40%

In the last quarter of 2010, Grofin requested assistance from FSP for input on collateral management. FSP provided detailed material and suggestions regarding this aspect of credit risk management, specifically suggesting appropriate lending margins for different types of collateral and how frequently collateral should be inspected and valued. Grofin has incorporated some of the information and recommendations as risk guidelines in its policy/guidelines.

In a similar initiative, FSP assisted OMM with the development of a client monitoring system to reduce the default rate. Since 2008 to date 40% of this indicator has been achieved against the LOP target. This includes previous work done with such partners as TIGF and WIZZIT.

It is anticipated that ongoing ad hoc support to existing and new partners will enable FSP to reach its target for this component. For instance, in 2012, FSP will be making recommendations for the modification of management practices of WIZZIT, Standard Bank and ABSA, introducing processes and procedures for credit scoring (WIZZIT), for the bulk acquisition strategy – including new product risk assessment and channels for delivery (ABSA) – and a review of all loans under the POF pilot of Standard Bank to make adjustments to the processes and systems.

One way of encouraging FIs to lend to SMEs is through the development of new financial products to better suit the needs of SMEs (**Indicator 5**). To this end, FSP conducted in-depth analysis of market opportunities for SMEs and working capital products were in greatest demand. Blue, ABSA and Standard Bank have all received technical assistance which culminated in the development of a new product, namely, Purchase Order Finance (POF).

ABSA was also supported in the design of a new SME product to be supported under the DCA which will be launched in 2012.

**Table 3: Indicators 5 & 6 Results to September 2011**

#	Indicator Name	Unit	Jun. '08 – Sept. '09 Actual	Oct. '09 – Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. '11	Actual Variance	Actual % towards LOP target
5	Number of new or adapted financial products developed as a result of USG assistance	#	4	0	2	6	8	-2	60%
6	Number of consultative processes between financial intermediaries and SMEs as a result of USG assistance	#	0	2	3	5	11	-6	33%

While Blue has had its first POF loan approved, Standard will only begin its POF pilot in 2012. Hopes are high that ABSA's DCA is going to provide for a sizeable number of financial agreements for SMEs especially those that lack bank requirements for lending, like collateral. All told, FSP has achieved 60% of its LOP target, when the other products developed for ABSA, Blue and WIZZIT are included. Standard will join these ranks in early 2012 once it finalizes POF product and the evolution of the SME debt fund will also provide new product opportunities.

The following six products have been developed thus far:

- 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)

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.

During the last year, FSP and ABSA conducted one consultative process with over a thousand SMEs about the POF product. In addition, the program assisted Blue Financial to take its POF product to SMEs to assess its feasibility in the market place by holding extensive meetings with two potential POF clients to inform the product design. All three consultative processes yielded much interest and a positive response thereby confirming SME interest in these products.

These three consultative processes raise the cumulative program achievements to a 33% achievement towards an LOP target of 15 consultative processes (**Indicator 6**).

During the initial stages of the program given the poor economic climate and limited interest in building SME portfolios in the big four banks, FSP worked closely with an alternative group of relatively unsophisticated SPVs to help initiate proper method of SME portfolio evaluation techniques. Altogether, 88 financial sector professionals (43 men and 45 women) have been trained to date. (**Indicator 7**).

The training early in the program provided a myriad of FI partners with basic SME evaluation and delinquency management techniques, both in a generic workshop setting as well as embedded and institution-specific training. This concentrated training is reflected in the table below.

**Table 4: Indicator 7 Results to September 2011**

#	Indicator Name	Unit	Jun. '08 – Sept. '09 Actual	Oct. '09 - Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. '11	Actual Variance	Actual % towards LOP target
7	Number of financial sector professionals trained on international standards with USG assistance	#	44	37	7	88	150	-62	42%

With the improving economic climate during this year, FSP narrowed its partner focus and undertook a “training of the trainer” course wherein seven ABSA professional have been capacitated to train front line professionals to promote the nascent SME DCA guarantee product during this year. So while the program has only reached 42% of its LOP target of 210, ABSA’s trainers may train up to an additional 600 financial sector professionals which will greatly exceed program expectations.

## **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 survival mode and their ability to seek outside BDS support is limited as is their access to credit. While financial institutions engage in rhetoric about supporting SMEs, they demand particularly high levels of financial literacy. While this context is somewhat bleak, Table 5 shows that significant progress is being made in improving the literacy and ultimate bankability of SMEs.

**Table 5: PIR 2 Results to September 2011**

#	Indicator Name	Unit	Jun. '08 – Sept. '09 Actual	Oct 09 - Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. '11	Actual Variance	Actual % towards LOP target
12	Number of SMEs assisted to access finance	#	0	0	84	84	3176	-3092	1%
13	Number of financial advisory providers assisted (trained/TA)	#	0	15	44	59	506	-447	5%
14	Number of SMEs assisted by BDS providers	#	0	10	1268	1278	5395	-4117	11%

FSP does not directly support SMEs but instead helps intermediary institutions, who in turn train or support Business Development Service Providers (BDSPs) who in their 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.<sup>10</sup>

There are several programs contributing to these results:

BSO Programs	# of BDSPs applied for training	Indicator 13 # of BDSPs trained	# of BDSPs contributing to Indicator 12 & 13	Indicator 14 # of SMEs assisted	Indicator 12 # of SMEs assisted to access finance
Raizcorp	87	21	24	1117	82
Aurik	10	10	10	140	2
Blue	0	0	0	11	0
Finfind	13	13	0	0	0
<b>Total</b>	<b>110</b>	<b>44</b>	<b>34</b>	<b>1268</b>	<b>84</b>

The Raizcorp program is focused on grading BDSPs, essentially a process which ensures that quality BDS is offered to their SME clients. The program kicked off during FY11 and two issues are notable:

- Of those that apply, fewer meet the entry-level standard of grading than originally predicted;
- There is lower demand than originally predicted, partly because, Raizcorp would argue, the program has until recently not had international recognition.

Thus, as shown in the table above, while 87 individuals have applied for grading, only 24% made the program grade. BDSP support does not always lead to an SME accessing finance from financial institutions. Thus, although Raizcorp BDSPs are supporting 1,117 SMEs, only

<sup>10</sup> 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.

82 or 7% have been assisted to access finance. This could perhaps be the subject of further research to ascertain what is inhibiting SMEs from trying to apply for finance.

Raizcorp's new accreditation with the UK Small Firms Enterprise Development Initiative (SFEDI) stimulated three independent BDSPs (i.e. not affiliated to Raizcorp) to be graded thereby improving the outreach of Raizcorp's guides. Additionally, during the reporting period, Raizcorp founded two new 'prosperators' (or SME incubators). As such, there are now seven prosperators around the country. Only graded BDSPs qualify to work as Raizcorp Guides in these centers and with the steady increase in Guide applications and grading, more SMEs will have access to appropriate affordable business services. This will increase their business operations, improve financial literacy and ultimately lead to more loans.

Aurik, with FSP support, has developed a program to train BDSPs (or "facilitators" in their terminology) to offer streamlined BDS to its SME clients. In addition to this, FSP assisted Aurik to improve the functionality of the Aurik diagnostic tool used to examine the overall health of SMEs by converting it to an online platform which will make the assessment of the SME much more efficient. The turnaround time for preparing a diagnosis improved dramatically shortening the time period from 3 weeks to only 5 days, leading to several organizations inviting Aurik to conduct diagnoses on their behalf. While the immediate results were limited with only 140 SMEs receiving assistance this year, it is expected that the impact will increase exponentially in years to come.

Aurik has agreements with Business Partners, Endeavor, and the National Empowerment Fund to conduct screening of their SME clients using the diagnostic tool, converted to a more efficient platform with FSP assistance. Going forward, FSP will explore with Aurik other ways of institutionalizing the tool by, for example, licensing and training BDSPs to use the diagnostic tool themselves.

Building on the successful experience of the diagnostic tool with Aurik's partners, FSP will introduce some of its own FI partners to Aurik to assist Aurik expand its footprint even further.

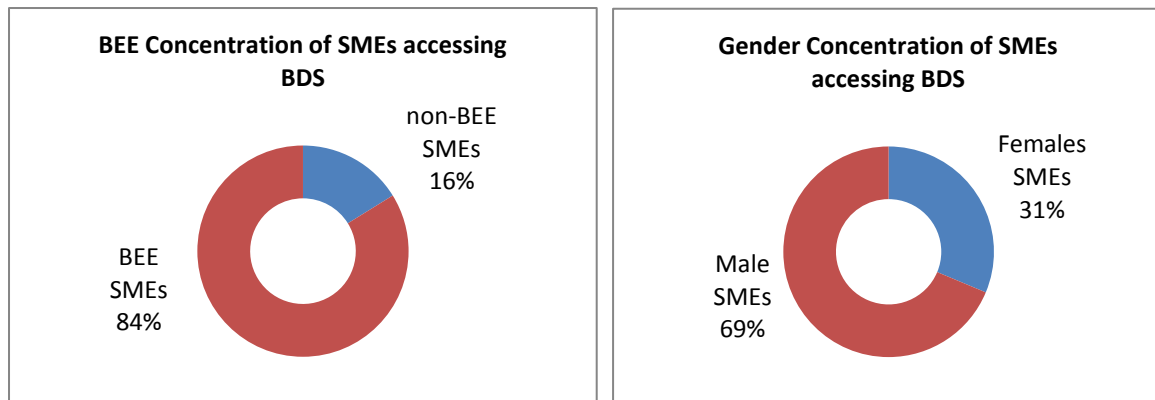
In the area of financial literacy, **finfind**, FSP's South African web-based guide to SME finance, was pretested with 13 BDSPs. In order to guarantee sustainability, FSP conducted a full request for proposal process. 16 potential host partners attended the bidders' conference, some of whom had come from as far as Cape Town and Port Elizabeth, and others closer to home from Pretoria and Johannesburg; seven completed the full requisite proposal. These were shortlisted to three finalists who were subject to an FSP evaluation (particularly their IT skills and abilities as well as their motivation/management skills). In September 2011, with concurrence from USAID/Southern Africa, the Nelson Mandela Bay Consortium (NMBC) was selected. The launch will take place in the second quarter of FY12 and thereafter, **finfind** will start to contribute to these indicators. In addition, the FSP blog will become one of the finfind tools and will gradually transition to being a portal for **finfind**, thereby transferring the lessons learned in running the blog and retaining some of its loyal readers.

**Indicator 12** measures "assistance" for SMEs to access finance. Many SMEs received numerous types of assistance from a variety of BDSPs and clearly cross-referrals are occurring. During FY11, 1,268 SMEs were assisted by four unique BSOs, within which 44 BDSPs were supported by FSP training activities. Nevertheless only 84 (7%). As can be seen



in graph 6 below, significantly more BEE SMEs were assisted than non-BEE, while male entrepreneurs exceed females nearly 2:1.

**Graph 6: BDS Assistance by SMEs' BEE status and gender**



### 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 in South Africa. Since June 2008, FSP 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.

To date, 38 research activities have been undertaken focusing on policy reforms pertaining to commercial laws (**Indicator 18**). In turn, these research papers influenced discussions on 11 policy reforms (**Indicator 22**). Of these policy reforms discussed, seven have been presented and/or disseminated to public/private stakeholder presentations (**Indicator 23**). Of these, three have been presented for legislation/decreed (**Indicator 24**).

The following 18 research activities informed the policy reform process during 2011:

1. Anticipating the review of the Five-Year Review of the National Credit Act
2. Business Rescue Mechanisms
3. Company Exit Mechanisms: Winding-up and liquidation
4. Improving the regulatory framework
5. Interaction Between Policy and SME/Economic Growth- Material Review and Random Thoughts
6. Publication of Companies Regulations prior to Parliamentary Approval of Companies Amendment Bill
7. Regulatory Impact Assessment- Policy Analysis
8. RIA Methods and Methodology
9. Roadmap For Insolvency Reform in South Africa
10. Socio-economic impact of insolvency on entrepreneurship of SMEs
11. The Contemporary Gazette: An overview of the FSP report 'Insolvency systems in SA'
12. The National Credit Act

13. Towards sound data and statistics on SMEs in SA
14. Why Insolvency Systems Matter- The Developmental Dimension
15. Winding up and liquidation of businesses
16. Reforming the Insolvency System in SA – interpretive summary
17. Concept Design for the CIPC Business Rescue Practitioner Certification and Regulatory Framework
18. A Review and Summary of the UK Office of Fair Trading Report on the Market for Corporate Insolvency Practitioners June 2010 for discussion with CIPC staff

Targets were designed based on the expectation that the identified champions in the government would have a source and need for research activities. With the departure of numerous key FSP counterparts, the needs and audience for the papers also diminished. These papers are the basis for stimulating dialogue with champions and help to establish the policy agenda. It is anticipated that only 3-5 more papers will be conducted in the remaining time of FSP and the LOP target will not be met. This is not significant at this stage in the program since the laws that have been decreed were supported and identified by FSP, and thus the overall objective has been achieved. As it is expected that the Insolvency Law will be presented for decree in the next six months, and hence the target for the pinnacle **Indicator 24** will be met.

The USAID measurement for commercial laws and reforms identifies 11 core commercial laws and financial reforms as segmented below in the first column of Table 6. South African laws do not clearly mirror this segmentation and as a result, most South African laws and policies influencing those laws, cross over several of the 11 key areas identified by the USG. Specifically, as in the case of the Companies Act Regulations, there is one SA policy reform that was presented for decree (and contributes to Indicator 24) but it touches on elements of seven of the 11 core laws identified in the USG legal structure. The result is that from this one South African reform put into place, seven of the 11 laws were also “counted”. Table 6, below, reflects this data accumulation.

Similar counting was applied for the Companies Act (as amended), whereby this one reform touches on seven of the 11 core laws and finally, the modification of the Close Corporation Act touched on five of the 11 core law thereby totaling 19. The target was exceeded, and this was caused by unanticipated changes in the Close Corporation Act, generated by the changes recommended in relation to the Companies Act by FSP.

While the impacts of these policy reforms might only be visible in a few years’ time once these laws have been institutionalized, nevertheless 2011 represented the culmination of many of FSP’s policy activities which will have far-reaching positive impacts on the business environment for SMEs. The targets for the out years are probably greater than will be achieved given the turnover of the high government officials FSP was partnering with for the re-evaluation of the National Credit Act. While we may impact one core law with the Insolvency Law, it is probable that FSP will not meet its LOP target.

There is a logical chain of events, results and ultimate changes introduced by FSPs policy related work in relation to the final goal of instituting policy reforms. This complex series of activities is summarized in the table below.

**Table 6: SA Policy Reforms analyzed in relation to 11 Core US Laws (indicator 17)**

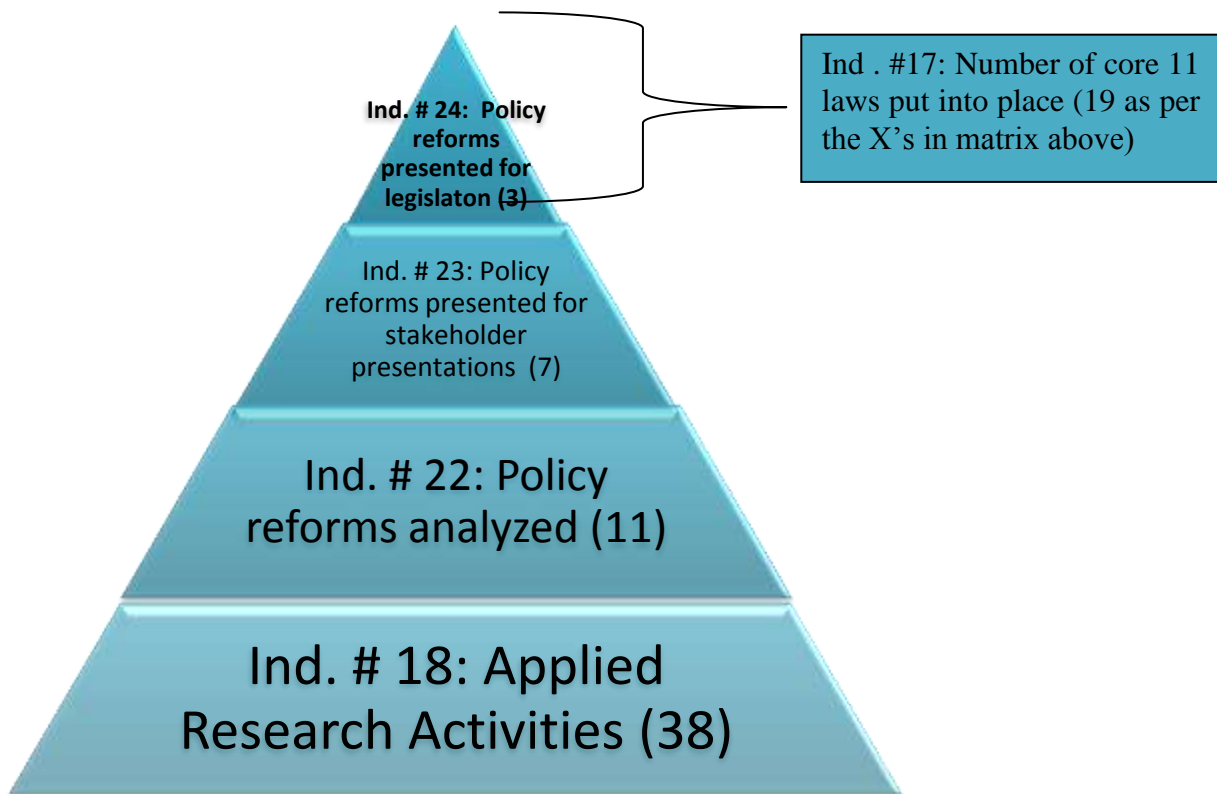
	SA Policy Reforms Analyzed (indicator 22)										
	Companies Act (as amended) 2008	Companies Act Regulations	Close Corp. Act	Insolvency Act	National Credit Act	Magistrates Court Act 32 1944	Companies Act 1973	Tax Law	Banking Law	RIA	BEE
<b>11 US Laws</b>											
Companies Law	X	X	X								X
Contract 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											
<b>LEGEND</b>											
Policy reforms presented for public/private stakeholder review ( <b>Indicator 23</b> )											
Policy Reforms presented for legislation /decree ( <b>Indicator 24</b> ) and Number of 11 core commercial laws and financial reforms put into place ( <b>Indicator 17</b> )											

FSP’s research activities informed the discussion of policies that 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.

The applied research was the foundation for analysis of policy reforms, which to date encompassed 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 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. Seen visually, the flow of FSP policy efforts can be summarized as below:

**Chart 7: Total Policy Activities June '08 – Sept. '11**



On 1st May, 2011, the new Companies Act (as amended) and the underlying Regulations were passed. FSP was instrumental in supporting the dti drafting team in developing the Regulations and the amendments to the Act approved by Parliament. FSP ensured that the Act and Regulations are fully scalable and designed and implemented in such a manner as to minimize the cost and administrative burden implicit in incorporating and maintaining a corporation for SMEs.

FSP's involvement in the drafting of the Companies Act Regulations was intensive and consistent to the extent that the program can claim attribution notwithstanding the valuable contribution of both public and private sector partners.

These reforms have many benefits for the business environment (SMEs): it provides enhanced protection for minority shareholders, particularly those BEE shareholders that are often ignored by majority shareholders and even directors of companies. This helps them exercise their rights fully since they are informed. Reforms also enable the early turnaround of companies in distress which will save a lot of jobs as well as ensuring fewer processes for registering a company which will in turn encourage participation by all in the economy. There are also improved enforcement powers that will detect early any attempts to hijack or clone companies.

To ensure a wide and robust deliberation on policies that affect the business environment and SMEs that employ more than 50% of South Africa's workforce, FSP's report on insolvency systems was presented at a roundtable hosted by the Department of Justice and the SA Law Reform Commission, which led to the development of a comprehensive strategy, incorporated into a preliminary report. The issues raised in this report were then present at a full-day roundtable of leading academics on the subject hosted by the Department of Justice and the

University of Pretoria. Based on these discussions and comments, another public sector round table for academic and professional opinion leaders to deliberate on the adjusted policies was held, leading to a “consensus report” and the drafting of a “three pillar” approach by FSP. The final and amended consensus report was distributed and an ‘interpretive summary’ is being distributed to provide a uniform vocabulary for discussion and to outline the way in which this research can be taken forward and assist the government of South Africa to achieve comprehensive insolvency policy reform.

**Table 7: PIR 3 Regulatory Framework Results to 30 September 2011**

#	Indicator Name	Jun. '08 – Sept. '09 Actual	Oct. '09 – Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulativ e Total to Sept. '11	Cumulativ e Target to Sept. '11	Actual Variance	Actual % towards LOP target
17	Number of 11 core commercial laws and financial reforms put into place as a result of USG assistance	0	0	19	19	14	5	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	18	38	35	3	69%
22	Number of policy reforms analyzed as a result of USG assistance	2	1	7	11	6	5	138%
23	Number of policy reforms presented and/or disseminated for public/private stakeholder presentations as a result of USG assistance	1	3	3	7	11	-4	47%
24	Number of policy reforms presented for legislation/decrees as a result of USG assistance	0	0	3	3	3	0	75%

As reflected in the table above, total of seven additional policy pieces were presented for discussion in 2011, bringing the total policy reforms analyzed to date to 11 (**Indicator 22**) against a 2011 cumulative target of six. FSP has been informed that insolvency has been added to the legislative calendar for 2011, with a cabinet date of October 2011 and a presentation to parliament in December 2011.

Going forward, ongoing research in areas around the RIA and Insolvency Law will present other opportunities for public-private stakeholder discussions on such important policies. The final step in the process of changing the regulatory framework is to present the proposed policy reforms for legislation. In this regard, FSP achieved its 2011 target of 3 legislative reforms (**Indicator 24**) namely:

- Close Corporations Act
- Companies Act Amendments
- Companies Act Regulations



As a result of these proposed policy and regulatory reforms, FSP contributed to reforming 19 aspects of these three laws (refer to highlighted areas of Table 6). The 2011 target for **Indicator 17** was 12, and hence this has been exceeded by 7 or 158%.

This process of reform can be encapsulated as follows, in relation to the 11 core laws specified:

- To address the issue of bankruptcy, the Companies Act, Chapter 6 (Business Rescue) of the Companies Act Regulations was harmonized with Insolvency Act, National Credit Act and Close Corporations Act.
- Commercial dispute resolution was developed that enables a Companies Tribunal to adjudicate disputes between shareholders and in the application and enforcement of the companies act.
- In terms of Company law, FSP provided comprehensive technical assistance to GoSA in developing policy, drafting regulations, drafting the Amendment act, designing 108 forms, procedures & codes, designing the structure and business case of CIPC, and developing a cost recovery fee structure.
- Under the Contract law and Enforcement, the Companies Act/Regulations provide greater reliance on pre-incorporation contracts, regulate acceptance and implementation of takeover agreements and provide protection of minority shareholders in agreements through greater transparency.
- Corporate Governance provisions were updated in line with King III requirements and a code of conduct was developed for corporate directors. Corporate governance rules and transparency requirements were extended to state-owned enterprises, for-profit and not-for-profit, private and public firms.
- Concerning Foreign Direct Investment, the status of foreign companies in SA was clarified and amendments were drafted that limit the "capture" of foreign firms as South African for minimal transactions.

**Table 7: Indicator 19 Results to 30 September 2011**

#	Indicator Name	Unit	Jun. '08 – Sept. '09 Actual	Oct. '09 – Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. '11	Actual Variance	Actual % towards target
19	Number of material improvements in the infrastructure that reduce market risk made this year with USG assistance	#	4	0	2	6	3	3	150%

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. In **2011**, there were two overall changes:

- I. Merger of Office of Companies and Intellectual Property Enforcement (OCIPE) and Companies and Intellectual Property Registration Office (CIPRO)
- II. Companies Act (as amended) and Regulations

The enactment of the Companies Act in May 2011 had ripple effects on a number of legislative pieces that affect the way business organizations and/or companies operate. This includes the merger of OCIPE and CIPRO to reduce risks associated with corporate governance rules and the takeover of companies, such as happened to Deloitte and Kalahari when they were hijacked in August 2010. Parts of the improvements introduced by the Companies Regulations include informing the board of directors of any changes before they are implemented. This ensures transparency in any mergers and acquisitions and prevents such takeovers. A process change designed by FSP that enhanced the security of information for the new Companies Regulations was implemented by the CIPRO drafting team for provisions of the new Companies Regulations to create greater transparency to avoid hijacking of companies, by creating provisions that ensure: clear form and rules; transparent posting online of such changes; communication of such change to existing directors.

Thus, with a target of four material improvements (**Indicator 19**) cumulatively for the LOP, FSP achieved six, marking a 150% LOP achievement.

**Indicator 20** measures the number of financial supervisory staff trained in policy reform requirements to enable SME business development. In preparation for the merger of OCIPE and CIPRO towards the end of March 2009, FSP trained 21 financial sector supervisors which represents 26% of the LOP target. While this achievement is still below the target, FSP is optimistic that it will meet its LOP target soon with its scheduled trainings on the RIA during October and November 2011 and further plans to train more people on the regulatory framework in the coming calendar year. In the first quarter of 2012, 10 government policy makers were involved in a training of the trainer exercise and another 41 were engaged in a two day, RIA training exercise. So while the 2011 target was not achieved, the 2012 and LOP targets have now been exceeded.

**Table 8: Indicator 20 Results to 30 September 2011**

#	Indicator Name	Unit	Jun. '08 - Sept. '09 Actual	Oct. '09 - Sept. '10 Actual	Oct. '10 - Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. 11	Actual Variance	Actual % towards LOP target
20	Number of financial sector supervisors trained with USG assistance	#	21	0	0	21	58	-37	26%



Targets included the planned training of RIA professional and risk managers involved with bank supervision and regulation. The former exceeded expectation and the government support for the latter diminished but the net result was success.

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

**Table 9: Indicator 21 Results to 30 September 2011**

#	Indicator Name	Unit	Jun. '08 - Sept. '09 Actual	Oct. '09 - Sept. '10 Actual	Oct. '10 - Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. 11	Actual Variance	Actual % towards LOP target
21	Number of administrative procedures affecting the operations of SME improved	#	1	0	11	12	5	7	171%

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 11 administrative procedures (**Indicator 21**) which enhance the operation of businesses in general and SMEs in particular. The target for LOP is seven and thus 171% towards this has been achieved.

All 11 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 promote business and/or economic growth in an environment that seeks to redress the imbalances of the past. The following administrative procedures were improved: annual returns were simplified and made more transparent, contract clarity and certainty was enhanced, contracts were rendered more easily enforceable with alternate conflict resolution options, firmer corporate governance rules were introduced, the clarification and simplification of the treatment of foreign corporations was outlined, clearer ways to include or exclude assets were introduced, there was a simplification of merger, acquisitions and access to capital disclosures, there is more transparent monitoring concerning the notice to show cause respecting reckless trading, corporate name selection was simplification, as was capital structure and rules, and secure holder notice to companies.

## **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 10: Knowledge Management Results to 30 September 2011**

#	Indicator Name	Unit	Jun. '08 – Sept. '09 Actual	Oct. '09 - Sept. '10 Actual	Oct. '10 – Sept. '11 Actual	Cumulative Total to Sept. '11	Target through Sept. 11	Actual Variance	Actual % LOP towards target
25	Number of inquiries to knowledge management system	#	0	744	6167	6911	570	6341	346%
26	Number of collaborating partners*	#	0	5	10	15	7	8	150%
27	Number of dissemination events held by knowledge management collaborating partners	#	3	4	9	16	19	-3	46%
28	Number of content submissions to knowledge management system	#	2	14	28	44	35	9	44%

The program blog was utilized as 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**). 6167 inquiries were recorded in fiscal year 2011 bringing the total to date to 6,766 or 338% of LOP targets. This exceeded the annual target of 570, exceeding expectations by nearly 1000%. Analysis of web traffic activity has provided information that will inform the design of **finfind** and assist with the transition of the blog of the **finfind** host. Eight dissemination events on new products and policy learning's achieved only 67% of annual goal.

FSP partners are engaged through either a formal or informal arrangement. Examples include universities, FI partners and organized small business. In the course of 2011, FSP worked with 10 collaborating partners, thereby having met the LOP target of 10:

1. Banking Association (BA),
2. International Council for Small Business (ICSB),
3. FS Share a world-wide USAID project,
4. Business Partners, and
5. South Africa International Business Linkages (SAIBL) project funded by USAID
6. Old Mutual
7. International Council for Small Business (ICSB)
8. National Small Business Council (NSBC)
9. University of Pretoria
10. University of Johannesburg

Several potential partners have already been identified for future collaboration including Wealthwise Magazine, SME Survey, Financial Intermediaries Association of SA, Small Business Project, SME South Africa Forum, SMME Incentives and the Global Impact Investing Network (GIIN).

A total of 16 dissemination events (**Indicator 27**) have been held, halfway to the LOP target of 35. During FY 2011, FSP held eight dissemination events. These were:

PIR	Collaborating Partner	Event
1	FIs	USAID SME Debt Fund Briefing Session. In order to support the capital needs of NBFIs serving SMEs using the DCA, FSP hosted a briefing session to present to <b>15 interested fund managers</b> .
1, 3	Old Mutual; SA National Editor's Forum	Old Mutual hosted a workshop attended by <b>17 print and television media on Business and Finance Reporting</b> at which FSP made a presentation on <i>"Unpacking Complex Policy and Economic Stories: A closer look at Current Issues and their impact on Local Economies"</i> .
2	ICSB	SMME Kopano – A forum for academics, SMME practitioners and other interested partners meet to discuss matters of interest pertaining to SMMEs. The first SMME Kopano event focused on entrepreneurship in South Africa since 1995 and identified future developments under the theme of <i>'taking stock and looking ahead'</i> . <b>Approximately 40 academics, SMME practitioners and other interested partners attended.</b>
2	ICSB	The second SMME Kopano event focused on professionalizing business development service provision. <b>32 academics, SMME practitioners and other interested partners attended.</b>
2	N/A	finfind Bidders Conference was provided to brief interested parties on the hosting of finfind. This tender conference was attended by <b>15 individuals</b> representing <b>14 organizations</b> .
1, 2, 3	NSBC	FSP/NSBC Access to Finance Expo aimed to bring together financiers and SMEs under one roof to exchange information. FSP made three presentations: one on POF; CC Act; a member of FSP staff participated in a panel discussion on issues pertaining to SME development. This was also an opportunity to present finfind to the market and potential users. More than <b>3000 people attended the Expo</b> .
3	University of Pretoria	FSP facilitated a Conference on Insolvency and Business Rescue Legislation & Practice and made a presentation focused on educating participants on the impact of such legislation on small business. <b>26 Representatives from Universities, Government, the Private Sector and FSP attended.</b>
3	University of Johannesburg	<i>"The New Companies Law: How was this World Class Law Developed by South Africa"</i> presented by FSP at a workshop hosted by the Faculty of Economic and Financial Services. <b>41 Representatives from Universities, Government, the Private Sector and FSP attended</b>

Another knowledge dissemination tool is the FSP blog [www.fsp.org.za/blog](http://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. Analysis of the traffic to the blog over the past year has proved to be a useful tool for gauging the feedback to the content and this information will be conveyed to the new **finfind** host as part of the strategy development for **finfind**.

**Chart 8: Visits to the Site, 1 Oct. '10 to 30 Sep. 2011**

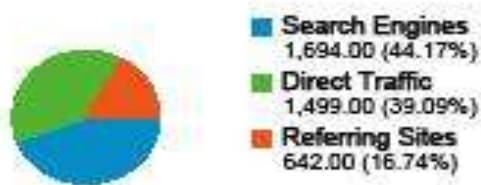


Over the past year, 2392 absolute unique visitors (first time visits) visited the blog. In total, over the past financial year, there were 3835 visits, which include return visits. There was a peak in web traffic to the site during the month July, which can be attributed to the announcement of the **finfind** bidders' conference that took place on July 26<sup>th</sup>. Following the announcement many people visited the site to download information on how to bid for the **finfind** hosting. This bodes well for the planned transition from the blog to finfind as it already has a following and dedicated audience. It is also an indication that the site needs to be promoted at public events and other visible forums, rather than just relying on traffic to find the site. Marketing of the site through the creation of more links with other websites, through development of a subscriber base by invitation on the site, and through frequently changing content that is announced through a mailing list or other forum could prove beneficial and boost traffic.

Visitors to the site were also prompted by the publication of information on business rescue and the new Close Corporation Act.

Each absolute unique visitor spends an average of 4 minutes on the site, and visited 3 pages. 61% of these visitors were on the blog for the first time, and 39% of visits were direct traffic, meaning the visitors used the blog URL address rather than being re-directed from a search engine. These statistics could be interpreted as people visiting the site specifically for new information based on a referral, as opposed to general web browsers surfing from link to link. As can be seen from the chart below, most of the referral visits were from search engines, and interestingly, the 92 visits were referred by SAIBL, indicating that it would be worthwhile to cultivate such relationships further.

**Chart 9: Source of Traffic, 1 Oct. '10 to 30 Sep. 2011**



The visit referrals can be broken down as follows:

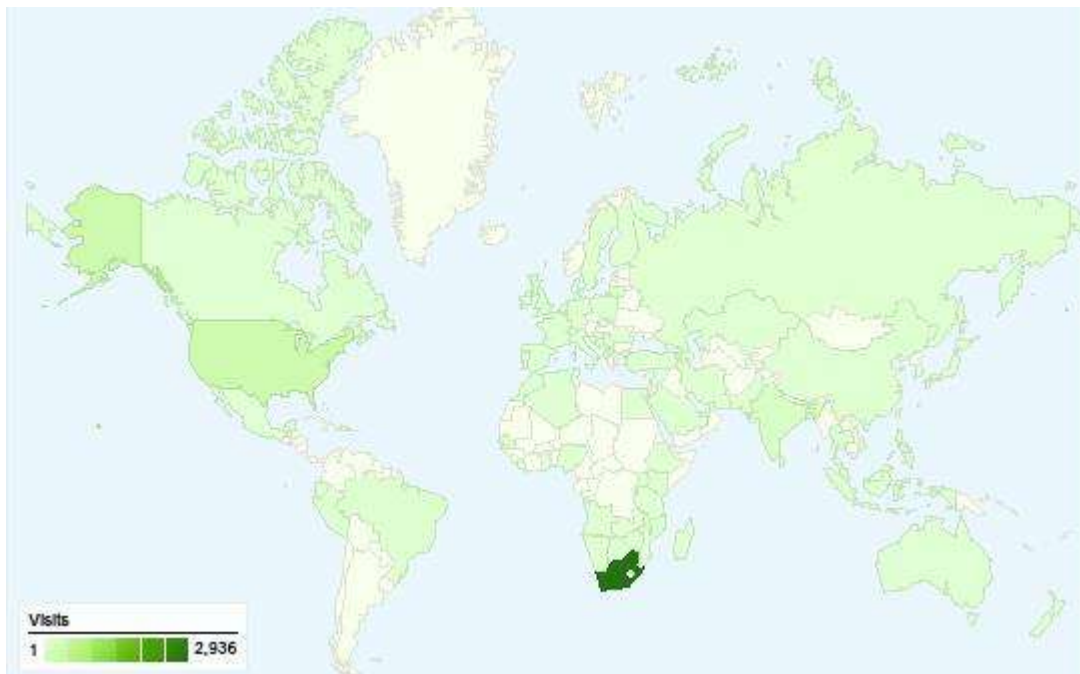
Sources	Visits	% Visits
<b>Direct</b>	1499	39%
<b>Google</b>	1493	39%
<b>Yahoo</b>	109	3%
<b>Saibl.co.za</b>	92	2,5%
<b>Mybusinesssexpo.co.za</b>	88	2,3%

The most common keywords used that drove traffic to the site were:

- Finfind (47 visits)
- Close Corporation Act 2011 (35 visits)
- Business Rescue (31 visits)

The above table indicates that Search Engine Optimization efforts should concentrate on Google and Yahoo. The most common browsers used to find the site were Internet Explorer (65%); Firefox (17%) and Chrome (12%); Safari (4%).

**Table 11: Location of Visitors to the FSP Blog, 1 Oct. 2010 to 30 Sep. 2011**



Country / Territory	Visits	Pages per visit
<b>South Africa</b>	2936	3
<b>United States</b>	332	3
<b>India</b>	113	2
<b>United Kingdom</b>	70	2
<b>Brazil</b>	29	2
<b>Kenya</b>	25	3
<b>Germany</b>	17	2
<b>Russia</b>	15	1

While visitors to the Blog came from 87 countries / territories, the majority came from South Africa, United States, India, United Kingdom, Brazil, Kenya, Germany and Russia. While some comments have been posted to articles on the Blog, currently most of the posts to date have been submitted by FSP staff. A few posts have been made by partners such as Crimson Capitol, the ICSB and the Contemporary Gazette. The cumulative number of submissions posted to the blog is 44 which exceed the target of 35 by nine or 126% (**Indicator 28**) for the life of the project. During the FY11, 28 postings were made.

## Proposed Revised Targets

### FSP Revised Targets through 2013

FSP was initially scheduled to end in December 2010, with an option of extending the program with another 30 months to May 2013. In February 2009, a new PMP through May 2013 was requested by USAID. In the preparation for the extension, FSP conducted a workshop to set targets to cover the extended period from October 2012 until May 2013.

Based on developments over the past year, FSP recommends a revision of indicator targets (Numbers 1, 2, 10 and 11). Table 1 below depicts both the initial and the revised targets, reflecting a marked change. The main reason for the change in targets is a lack of funding on the part of one DCA partner, namely Mettle which, if funded, would have generated 10,000-15,000 financial transactions annually, but it now appears it may longer be eligible for external funding.

**Table 1: Proposed Revision of Targets**

Indicator No.	Indicator Name	FY 2011		FY 2012		FY 2013		Life of Project	
		2011 Initial Target	2011 Revised Targets	2012 Initial Targets	2012 Revised Targets	2013 Initial Targets	2013 Revised Targets	LOP Initial Targets	LOP Revised Targets
1	Number of financial agreements concluded	10,300	4,200	18,400	7,000	12,950	3,050	43,000	15,600
2	Value of finance accessed ('000)	R 525,000	R 525,000	R 950,000	R 2,800,000	R 662,950	R 2,400,000	R 2,700,000	R 6,287,050
10	Number of DCA guaranteed loans	10,000	100	18,000	2,800	12,662	2,100	41,000	5,338
11	Amount of private finance mobilized with DCA guarantee ('000)	R 200,000	R 43,200	R 350,000	R 1,210,000	R 281,250	R 840,000	R 1,000,000	R 2,261,950
8	Number of SPV loans ('000)	250	N/A	300	175	218	125	820	582
9	Value of SPV loans ('000)	R 175,000	N/A	R 210,000	R 119,000	R 101,375	R 85,000	R 510,000	R 402,625

During the course of the project, the USG granted a DCA portable guarantee to Mettle, a firm that provides finance to panel beaters, primarily SMEs. When Mettle's projected contribution to the Number of DCA guaranteed loans is taken out, it reduces the overall target for Indicator 10 and 11 and has a knock on effect on the cumulative indicators 1 and 2.

The revised targets above also reflect the expected DCA contribution to indicators 1 and 2 from the evolution of the SME debt fund. Approximately 75% of anticipated volume is expected from this initiative.

Additionally, given the programmatic shift from low impact SPVs toward the FI's with a larger national footprint and capability for greater and sustained impact, it is recommended targets 8 and 9 are also reduced.





## **ANNEX C: SUCCESS STORIES**