



Small Enterprise Finance Agency

Accessible Development Finance

Briefing on the **sefa** funding model and the use of Intermediaries

Portfolio Committee for Economic Development
Parliament
24 February 2015

- Profile of SMME Sector
- SMME Financing Gap
- Mandate of **sefa**
- **sefa**'s Target Market
- **sefa**'s Delivery Model
- **sefa**'s Distribution Model
- **sefa**'s Footprint
- Key Policy Decisions in Facilitating Access to Finance Pre-Merger
- Key Lessons Learnt from Khula and samaf SMME Programmes
- Post Merger Experiences of **sefa**
- Analysis of **sefa** Lending Activities
- Loan Pricing
- Key Principle for Reducing the Cost to End Users
- **sefa**'s Future Strategic Direction in Facilitating Access to Finance for SMMEs
- Pilot Initiatives to increase access to micro enterprises

Profile of SMME Sector



Business Size Class of the SMME Sector

SMME Segment	Number of Enterprises
Survivalist	3,348,966
Micro	1,676,053
Small	275,872
Medium	278,878
Total Size of SMME sector	<u>5,579,769</u>

Sectorial Distribution of SMME Sector

Sector	Survivalist	Micro	Small	Medium
Trading	2,312,914	1,080,364	139,656	85,955
Service	519,811	340,192	136,216	192,923
Manufacturing	183,548	65,342	10,233	25,097
Agriculture	808,786	452,150	46,440	21,464

Source: Finscope, 2010

SSMME Financing Gap



Description	Number of SMEs - Finscope (2010)
Total SSMMEs	5 979 510
Registered SMEs (Formal):	1 034 455
Those who receive funds after successful application: 9.06%	93 759
Financing gap (Formal): 90.94%	940 696
Registered SSMEs (Informal):	2 334 349
Less: Those who receive funds after successful application: 15.3%	357 169
Financing gap (Informal): 84.7%	1 977 180
Total financing gap SMEs of registered SSMMEs	2 917 876

Source: NCR 2011

- Between 45%-48% of SMMEs in South Africa do not have access to formal financial market
- To address the financing gap for SMMEs requires a public-private sector partnership to increase access and reduce the death rate of SMMEs

*** Remainder are unregistered SSMMEs = 2 610 706

To be the leading catalyst in South Africa for the development of sustainable Survivalist, Micro, Small and Medium enterprises (SSMMEs) through the provision of finance in an efficient and sustainable manner by:

- Providing loans to SSMMEs
- Providing credit guarantees to SMMEs;
- creating strategic partnerships with a range of institutions for sustainable SMMEs development and support;
- developing (through partnerships) innovative finance products, tools and channels to speed up increased market participation in the provision of affordable finance.

sefa's Target Market



Targeted Groups

- ❖ women,
- ❖ black people,
- ❖ youth,
- ❖ people in rural communities and,
- ❖ people living with disabilities.

sefa funds in the following sectors

- ❖ services (including retail, wholesale, IT and tourism);
- ❖ manufacturing (including agro-processing);
- ❖ agriculture (specifically land reform beneficiaries and micro-farming activities);

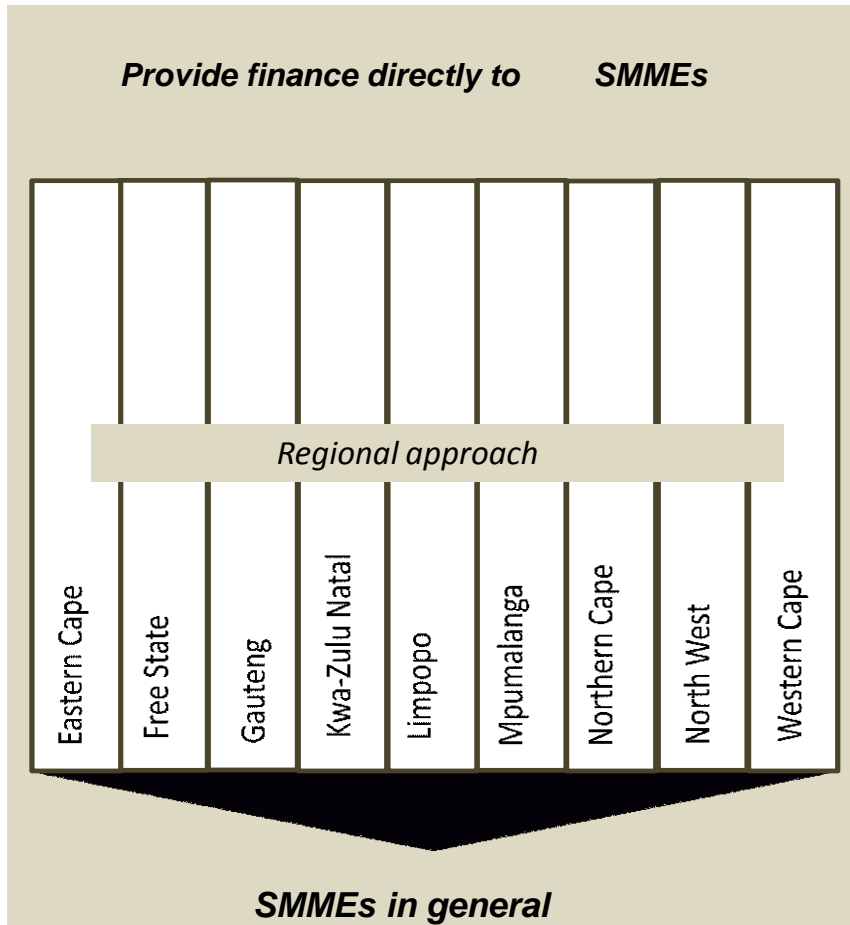
- ❖ construction (small construction contractors);
- ❖ Mining (specifically small miners);
- ❖ green industries (renewable energy, waste and recycling management).

Lending policy is informed by government's economic policy - NGP, IPAP, NDP

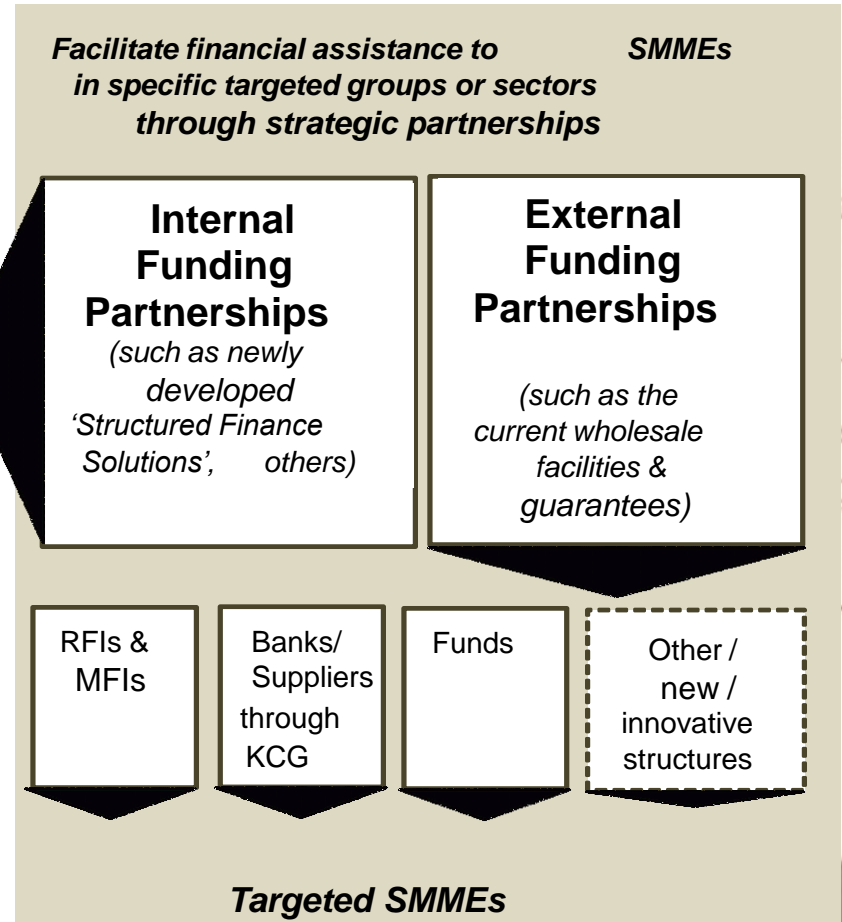
sefa's Delivery Model



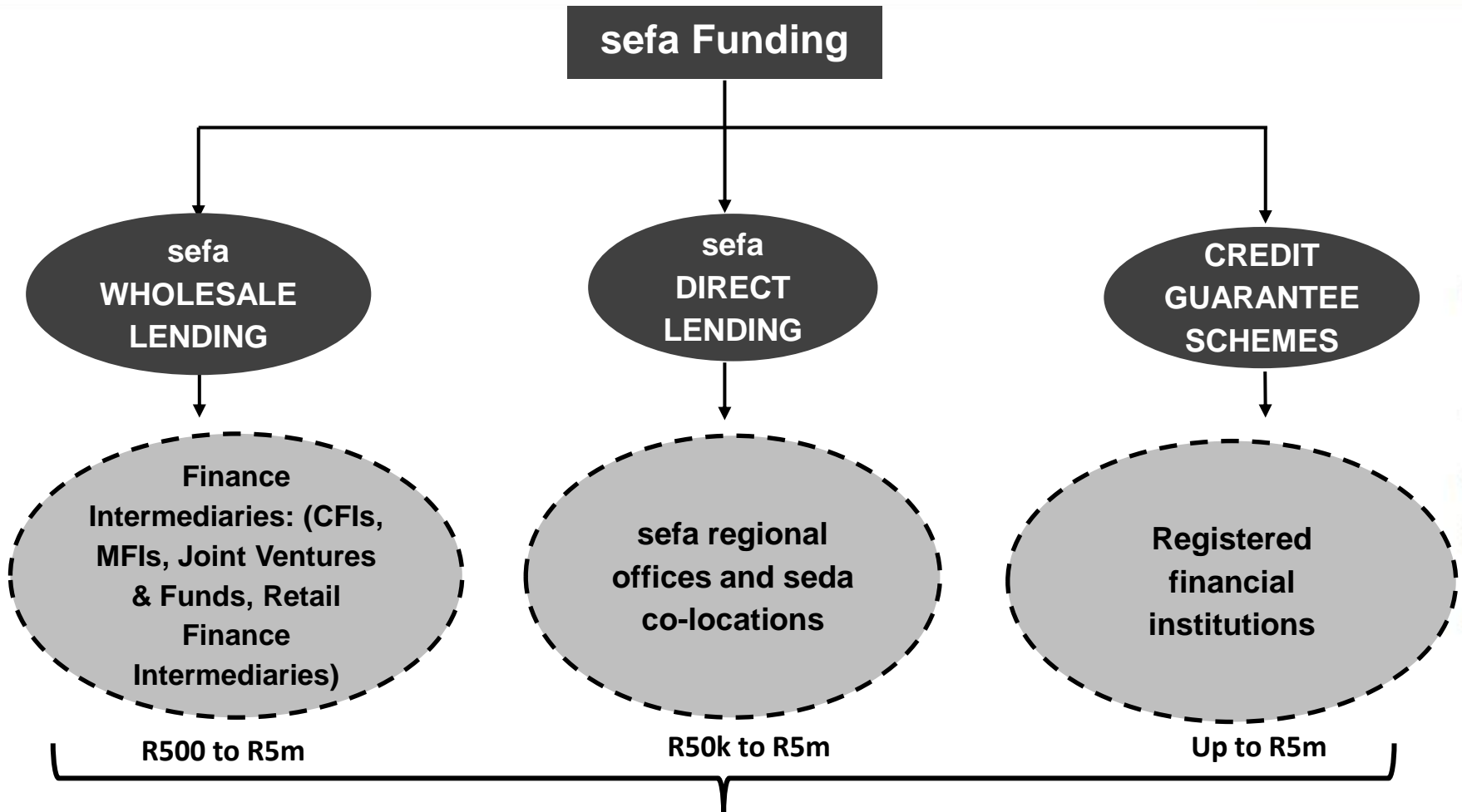
Direct Lending



Wholesale Lending



sefa's distribution model



Accessible Development Finance

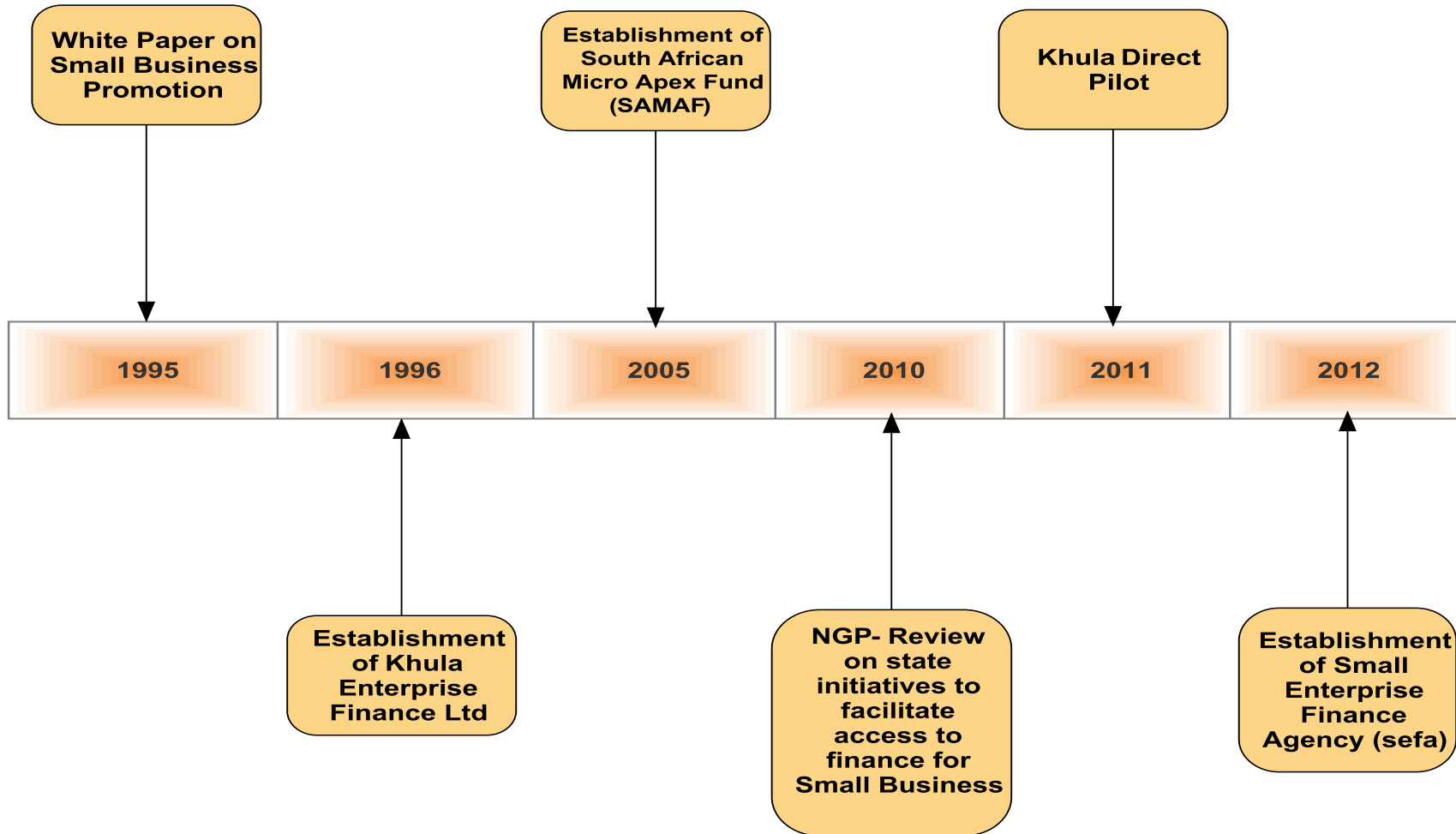
SMMEs can access sefa funding solutions through any of the above channels

sefa's Footprint

- 9 sefa Regional Offices
- 6 sefa Branch Offices
- ◆ 10 Co-operative Financial Institutions
- ▲ 11 Active Micro-Finance Institutions
- 6 Retail Finance Intermediaries
- ∞ 25 sefa Co-locations Referral Offices
- * 8 Specialised Funds & Joint Ventures



Key Policy Decisions in Facilitating Access to Finance Pre-Merger



Key Policy Decisions in Facilitating Access to Finance Pre-Merger (cont.)



Period	Strategic Programme Initiative
1995	<ul style="list-style-type: none"> • White Paper on Small Business Development • Wholesale Approach <ul style="list-style-type: none"> ○ Tap on the existing financial infrastructure ○ Bank Infrastructure – footprint, financial resources, and expertise ○ NGO sector to service the micro enterprise sector (Donor Funded) • State Resources were to enable the private sector to lend to SMME market
1996 - 2012	<p>Khula Enterprise Finance Limited</p> <ul style="list-style-type: none"> • Facilitation of finance to SMMEs via financial intermediation (banks, MFIs, RFIs, etc..) • Guarantee Programme to enable the banking sector to lend to Small Business • Establishment of Wholesale Programme – Joint Venture Funds, Lending to SMMEs Retail Financial Intermediaries (RFIs) and Micro Finance Institutions (MFIs) • Strategic focus was to build intermediaries that can be profitable and sustainable
2005 - 2012	<p>South African Micro Finance Apex Fund (SAMAF)</p> <ul style="list-style-type: none"> • Expand micro enterprise finance to the economy • Focus on institutional grants and capacity building • Establishing MFIs and Financial Service Co-operatives • Khula transferred MFI loan book to SAMAF

Key Policy Decisions in Facilitating Access to Finance Pre-Merger (cont.)



Period	Strategic Programme Initiative
2008 - 2010	<p>Khula Direct</p> <ul style="list-style-type: none">• Cabinet Decision (2008)• National Treasury R55m pilot approval<ul style="list-style-type: none">○ R50m on-lend facility○ R5m Capacity building programme• Pilot Direct Lending programme implemented (2011) in Pretoria, Johannesburg and East London
2010	<p>New Growth Path (NGP)</p> <ul style="list-style-type: none">• Identified enterprise development as a key priority, with the aim of promoting small business and entrepreneurship• Articulated need to support labour intensive sectors. These include the following sectors:-<ul style="list-style-type: none">○ Services (repairs, cleaning, tourism, small construction contractors);○ Manufacturing (including agro-processing);○ Agriculture (specifically land reform beneficiaries and micro-farming activities);○ Mining (specifically small miners);○ Commercial (retail and wholesale);○ Construction; and○ Green economy.

Key Policy Decisions in Facilitating Access to Finance Pre-Merger (cont.)



Period	Strategic Programme Initiative
2012	<p data-bbox="330 344 929 379">Small Enterprise Finance Agency (sefa)</p> <ul data-bbox="330 405 1750 905" style="list-style-type: none"><li data-bbox="330 405 1586 441">• Government resolved to streamline provision and access to finance for SMMEs<li data-bbox="330 469 1750 572">• The establishment of sefa was therefore conceived to radically increase the provision and access to finance to SMME's<li data-bbox="330 605 1750 708">• Cabinet Decision - Establishment of a new wholly owned subsidiary of the IDC combining Khula, SAMAF and IDC's small business activities<li data-bbox="330 741 1750 905">• Mandate of the Agency – IDC Act<ul data-bbox="417 805 1750 905" style="list-style-type: none"><li data-bbox="417 805 1750 841">○ 3(d) to foster the development of small and medium enterprises and co-operatives<li data-bbox="417 872 1045 905">○ Schedule 2 company under the PFMA

Key Lessons Learnt from Khula and samaf SMME Programmes



SMME Segment	Key Institutional Lessons Learnt in serving the target market
Survivalist and Micro Enterprises	<ul style="list-style-type: none">• MFIs end-user pricing is excessive• Government subsidy support to MFIs does not have the desired flow-through benefit to micro enterprises (subsidizing the institutional operations of MFIs and not the actual micro enterprise)
Small and Medium Enterprises	<ul style="list-style-type: none">• The high failure rate of small business requires tailored post investment skills in terms of business and technical skills to sustain the business beyond the growth phase (1 to 3 years)• The internal institutional capacity relating to due diligence and approvals requires a more efficient back-end operation to reduce turnaround times• The development of sector specific products that addresses sector-specific financing needs of SMMEs (especially those identified in government policy e.g. NGP, IPAP, NDP)

Key Lessons Learnt from Khula and samaf Programmes (cont.)



- Not all intermediaries are effective in delivering on government's development objective in the provision of access to finance
 - Tension between the profit and sustainability objective of intermediaries and the provision of affordable pricing of loans to end users
 - Some of the intermediaries are 100% reliant on state funding and grants, especially in micro finance
- The administrative cost of making starting small loans operations is much higher than partnering with those who already offer that service
- Extending sector specific small business financing requires sector specific knowledge and expertise that enables effective credit assessment, business support and post investment loan management
- Intermediaries are located closer to the small businesses and therefore can be more effective and efficient in providing the business support required

First years focussed on the consolidation of the merged organisations in terms of:

- Human Resources
 - People integration into a new entity – Labour Relations Act provisions in terms of harmonisation of remuneration and benefit
 - Placement of staff and staff of the new organisation
 - New **sefa** culture
- Policy and systems development
 - New HR policies, financial management policies, risk and credit management and corporate governance management systems
 - Integration of loan management systems of former Khula and SAMAF

Analysis of sefa Lending Activities



Loan Programme	2013/14		2014/15 Ytd		No of SMMEs	% Contribution	Amount (R'000)
	No of SMMEs	Amount (R'000)	No of SMMEs	Amount (R'000)			
Credit Indemnities	21	R 13 000	4	R 2 291	25	0.03%	R 15 291
sefa Direct Lending	209	R 224 800	237	R 334 266	446	0.45%	R 559 066
Co-operative Financial Institutions	1 439	R 28 820	486	R 3 855	1 925	1.96%	R 32 675
Joint Venture Funds	315	R 100 755	479	R 104 204	794	0.81%	R 204 959
MFIs	44 151	R 199 996	50 469	R 151 670	94 620	96.23%	R 351 666
RFIs	272	R 253 249	245	R 294 159	517	0.53%	R 547 408
Total	46 407	R 820 620	51 920	R 890 445	98 327	100.00%	R 1 711 065

Loan Pricing



	Loan Size	Annualised all in cost to SMMEs
Cooperatives Finance Institutions (No. of institutions = 4)	R500-R50k	35%-90% pa
Micro Finance Institutions (No. of institutions =11)	R500-R50k	52%-102% pa
Retail Finance Institutions (No. of institutions = 5)	R50k-R3m	14.5%-30% pa
Joint Venture Funds (No. of institutions = 8)	R50k-R5m	10%-13% pa
Direct Lending (sefa)	R50k-R5m	12.45%-17.55% pa

Loan pricing is regulated by the National Credit Act, includes interest rate, initiation fees and administration fees per annum

Key Principle for Reducing the Cost to End Users



Cap the effective interest rate (including initiation and administration fees) charged to the end user in line with the level of government/**sefa** subsidy

sefa's Future Strategic Direction in Facilitating Access to Finance for SMMEs



Expansion of the direct lending loan book

- Building strategic alliances with chambers of commerce to expand footprint
- Enhancing investment officers' due diligence capacity
- Building capacity of regional offices enabling decentralisation of approvals
- Building of a technology platform to extend direct lending loans

Enhanced support to Cooperative Financial Institutions especially those located in rural and peri-urban institutions

- Building institutional capacity of CFIs to expand their enterprise lending activities

Building relationships with other community organisations to extend loans and business support

- Establish relationships with traditional authorities, churches, women's groups, etc.
- Local small business membership organisations

Micro Enterprise Finance Institutions

- Financing micro enterprises through MFIs is not sustainable
- sefa will limit and exit its support to MFIs while building alternative delivery channels

Pilot Initiatives to increase access to micro enterprises



- **Fresh Produce Markets**

Majority of informal traders buy fresh produce from municipal markets
18 municipal Fresh Products markets in SA and 30%-40% of buyers are informal traders

Pilot programme initiated with Durban and Mangaung Fresh Produce Markets

Short-term credit facilities with a 20% interest rate cap

- **Supplier Credit Programme**

Indemnifying suppliers of input goods to SMMEs against possible default

Short term trade credit facilities (30 day, zero interest)

Pilot initiative in the Construction and Steel Sectors

- **Encourage branches of MFIs to establish CFIs**

Encourage responsible lending and circulation of money within local economies

Foster the savings culture

- **Structured Finance Solutions**

Partner with large corporates on their enterprise development initiatives and supply chain



Thank You!