EVALUATION OF THE FINANCIAL SECTOR PROGRAM

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Implemented by:
Development & Training Services, Inc. (dTS)
4600 North Fairfax Drive, Suite 304
Arlington, VA 22203

Phone: +1 703-465-9388
Fax: +1 703-465-9344
www.onlinedts.com

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ACRONYMS

BA	Banking Association
BDS	Business Development Services
BDSP	Business Development Service Provider
BDSO	Business Development Services Organizations
BEE	Black Economic Empowerment
Blue	Blue Financial Services
BPR	Business Process Re-engineering
BSO	Business Service Organizations
CIPRO	Companies and Intellectual Properties Registration Office
dti	Department of Trade and Industry
FI	Financial Intermediaries
FSC	Financial Sector Charter
FSP	Financial Sector Program
GoSA	Government of South Africa
IBA	Institute of Business Advisors
IC	Invoice Clearing
ICSB	International Council for Small Business
KRA	Key Results Area
LOP	Life of Program
MTE	Mid-Term Evaluation
MFI	Microfinance Institution
NBFI	Non-Bank Financial Institution
NCA	National Credit Act
NCR	National Credit Regulator
NGO	Non-Government Organization
NRCA	National Register of Credit Agreements
NSBC	National Small Businesses Chamber
OCIPE	Office of Companies and Intellectual Properties Enforcement
OECD	Organisation for Economic Cooperation and Development
OMM	Old Mutual Masisizane
PIR	Project Intermediate Result
PMP	Performance Monitoring Plan
POF	Purchase Order Finance
RGA	Raizcorp Guiding Academy
S. A.	South Africa
SAIBL	South African International Business Linkages Program
SAIPA	South African Institute of Professional Accountants
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
SOW	Scope of Work
TA	Technical Assistance
TIGF	Thembani International Guarantee Fund
ToT	Training of Trainers

USAID	United States Agency for International Development
Tier 1 FIs	ABSA Bank, Standard Bank, Nedbank, First National Bank
Tier 2 FIs- SA	African Bank Ltd; Bidvest Bank Ltd; Capitec Bank Ltd; Grindrod Bank Limited; Investec Bank Ltd; Ithala Limited; MEEG Bank Ltd; Mercantile Bank Ltd; Sasfin Bank Ltd; The SA Bank of Athens Ltd; Teba Bank Ltd
Tier 2 FIs-Int	ABN Amro bank N.V.; Albaraka Bank Ltd; Bank of Baroda; Bank of China Johannesburg Branch; Bank of Taiwan (SA); Calyon Corporate & Investment Bank; Citibank N.A.; Commerzbank AG; Deutsche Bank AG Johannesburg Branch; GBS Mutual Bank Ltd; Habib Overseas Bank Ltd; HBZ Bank Limited; HSBC Bank PLC; Imperial Bank Ltd; JPMorgan Chase Bank; Société Générale JHB Branch; Standard Chartered Bank Johannesburg; State Bank of India; VBS Mutual Bank
Tier 3 FIs	Non-Bank Financial Institutions or Special Purpose Vehicles
TOR	Terms of Reference
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

Introduction: South Africa is Africa's largest economy, with strong financial, legal, energy, communications, and manufacturing sectors, abundant natural resources, and a thriving tourism industry. In South Africa 'two economies' co-exist in one country. The 'first economy' is advanced, sophisticated, based on skilled labor, and becoming more globally competitive. The 'second economy' is mainly informal, marginalized, unskilled and populated by the unemployed and those who lack the qualifications to work in the formal sector. The Financial Sector Program was designed to contribute to the U.S. Government's Economic Growth Objective in South Africa. The Financial Sector Program (FSP) is one of three main vehicles to reduce unemployment and promote vibrant growth of black-owned small and medium enterprises (SMEs). The historic incapacity of large banks to deal with small savers and borrowers, and the relative dearth of sound credit and savings options through other providers, is a major constraint for emerging small business in the country.

Program Objective: To expand SME access to a range of high quality and affordable financial services and lower their financing cost by reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SMEs in South Africa.

Structure and Framework: FSP includes four components aimed at increasing SME access to a range of high quality and affordable financial services to facilitate business growth and catalyze increased employment and incomes:

1. Improve financial intermediaries' capacity to serve SMEs in South Africa through the development of new products and the introduction of existing products from other international sources to the South African market.

2. Improve the bankability of SMEs by improving the quality of business services provision to SMEs working with a range of business development service providers (BDSPs) and/or their host business service organizations (BSOs).

3. Reform the legal and regulatory framework affecting the financial sector and business environment to stimulate SME growth. FSP works to support the development of an enabling environment for SMEs and the implementation of legal, regulatory and institutional reforms that will contribute to expanding credit access for SMEs, especially historically disadvantaged black-owned enterprises.

4. Strengthen the SME finance knowledge management system by working with multiple stakeholders to capture, codify, and share information about access to finance to historically-disadvantaged black-owned SMEs.

Objectives of the Mid-term Evaluation (MTE): The objective of the MTE is to assess the success of FSP in meeting targeted objectives and to propose concrete recommendations for adjusting program structure and strategy during the program extension and option period. The evaluation sought to determine as systematically and objectively as possible the effectiveness of the FSP in achieving its objectives. It provides pertinent information, statistics, and judgments that will help USAID and implementing agencies better understand program results, derive lessons learned, and develop recommendations for future USAID programming.

MAJOR FINDINGS

Overall, the program has lagged behind on most of its key indicators (see Appendix A). With two years remaining and most indicator targets below 50% achievement, the program can possibly still reach all or most of its targets, subject to informed, timely decisions made in conjunction with key stakeholders.

Overall, the program logic is still relevant in the current context given that access to finance, especially for historically disadvantaged BEE SMEs, remains a challenge. The program has demonstrated a clear perception of impediments to SME access to finance along with clearly defined program goals and objectives and steps needed to achieve them. Since its inception, however, FSP has faced a number of serious challenges that have stalled its objective to expand SME lending in SA. These challenges have included structural issues within the SA financial sector, which to-date remains conservative and set in its ways, the global economic and financial crisis that coincided with program launch, and the program's own struggles to find suitable implementing partners capable of taking interventions to scale.

In dealing with these challenges, program management has displayed a significant degree of flexibility and ingenuity in searching for solutions to implementation challenges inhibiting SMEs' access to finance. Since its inception, the program has tried a number of practical and innovative approaches and worked with a variety of partners, including the GoSA, FIs, NBFIs, BSOs, BDSPs, and academic institutions. When one approach has not worked, the program has tried another approach. Rather than move in a linear fashion from problem to solution, the program has moved in a more non-linear and iterative fashion, sometimes taking a step or two backward but done with an eye toward achieving its objectives. For example, FSP continues to search for solutions on issues stalling progress on the DCA guarantees including the possibility of a bond fund in lieu of or to complement the DCA guarantees. The future of the bond fund (like the DCA guarantee) is uncertain, although it does demonstrate once again FSP's willingness to try new and innovative approaches to get around obstacles blocking its path.

The MTE team appreciates the complex and dynamic environment in which FSP operates and the fact that programs of this nature rarely play out as depicted in the program logframe. Success in these environments is often determined by the program's flexibility and ability to innovate. In this sense, the MTE finds that the program has been successful in navigating its way around the SA financial landscape to identify and to innovate potential solutions.

Nonetheless, the program lags behind in several important performance indicators. Most prominently, the program has lagged far behind its SME lending targets owing largely to lack of engagement by the Big 4 banks, including a reluctance to lending under the DCA guarantees, and the limited outreach (actual and potential) among the SPVs that have been among the primary recipients of program assistance to date. The potential to achieve or even exceed lending targets over the life of the program still exists, however, given FSP's more recent success in brining ABSA and Standard Bank into the program to develop and launch the POF instrument.

The program has also faced challenges in defining clear approaches to achieve its objectives in the Bankability and Knowledge Management Components. Limited success has been achieved under the Bankability Component where the program has struggled to find appropriate implementing partners. At times the program has invested in significant technical assistance without correspondingly significant returns to date, whether in terms of an increased BDSP services to SMEs or increased SME access to finance. FinFind has substantial potential to achieve its objectives, but like the BDSP grading system and blog, its final success will depend heavily on selecting the right implementing partner. The Knowledge Management blog, like many other blogs or learning communities, risks insignificance in the broader context of the internet information supply, and in such a case, would struggle to contribute significantly to the information base of black-owned SMEs who are likely to have lower levels of internet access and computer literacy.

Notwithstanding, the Bankability and Knowledge Management Components are works in progress, and their end objectives may yet be achieved. The interventions in these components are sound in principle but (as previously noted) have been hindered in practice by problems with implementing partners. Time remains for the program to find the right partners who are both willing and able to implement the interventions and take them to scale, but it will need to move fairly quickly.

The area where the program has achieved a high level of success is in the Enabling Environment Component. Here there was a very well defined need and the technical support offered by the program was effective in delivering the required support. The clout that comes with the Mission as an arm of the USG gave the program a comparative advantage in pushing forward its proposals. Although policy development is long term and may run beyond the program time frame, this is an area in which the MTE feels the Mission can accomplish a lot in changing and influencing the SA financial sector if the opportunity presents itself.

While FSP has collaborated with its sister USAID program (SAIBL) on things such as the development of FinFind and the POF launch, it may have missed other opportunities for greater cross-program collaboration in areas such BDSP recruitment and training, technical assistance to SMEs or potential integration into the South African Supplier Diversity Council (SASDC).

LESSONS LEARNED

- Selection of suitable implementation partners is critical to project success. This has been particularly noted in the Bankability component, which is yet to deliver significant results.
- Implementation partner capacity is critical to the success of the projects. Partners who do not have significant outreach potential, such as Raizcorp and the SPVs, are unlikely to assist FSP with national rollouts of its products and solutions and are thus unlikely to have a significant impact on the market.
- Establishing effective regulatory systems is a first step to improving access to finance. GoSA has a fundamental role to play in regulating and directing support to SME developing especially in bringing equity for the historical disadvantaged BEE-SMEs. There is great demand for technical support from the GoSA in developing and streamlining such policies.
- To enhance collaboration between programs, USAID must be build mechanisms within the design of its programs. Programs tend to focus on their own objectives, and in turn avoid interacting with each other in a significant way. Unless it becomes a measurable activity, and a de facto need exists, significant interaction is unlikely to occur.

RECOMMENDATIONS

Drawing on the information in this report, this section presents a list of recommendations for FSP and USAID Southern Africa to consider for the remaining life of the program and/or for future programming decisions. Some of the recommendations may already be under consideration by FSP and the Mission. Recommendations are organized by component and include also general recommendations that cut across components and/or apply to future USAID programming.

ACCESS TO FINANCE

- While South Africa's financial sector is generally sound, it lacks diversification. The dominance of the financial sector by the 4 Big banks inhibits competition and innovation. The MTE therefore recommends that the program investigate all Tier 2 FIs as potential partners for scaling up SME lending. The Tier 2 FIs-SA represents a large opportunity to make a difference in the SME market, as they have reasonable capacity in respect of geographic presence, human capital, and financial capital. Tier 2 FIs (both South African and international) also have much greater potential to take SME lending to scale than the SPVs.

- FSP should also consider approaching some Tier 2 FIs-Int and assess their appetite for DCA Guarantees, as their home offices may well be interested. Tier 2 FIs-Int may also have had the exposure to the poorly conceived and managed Khula Guarantee and may therefore be more prepared to consider this opportunity.

- FSP should investigate the possibility of working with established and market-oriented MFIs that might be interested in moving up-market, or that may also already include SME loans in their portfolios.

- FSP should intensify its engagement with the five DCA Guarantee holders to address some of their misconceptions about the guarantee and to allay any fears the lenders may have in dealing with the DCA guaranties.

- FSP should study the issue further and ensure that bond financing is suitable to the business models of the intended borrowers (DCA guarantee holders).

- FSP should continue to work with the Big 4 banks to bring the remaining two banks into the program and to develop and launch the POF and other new financial products.

- FSP should facilitate more forums and expos such as the one done jointly with NSBC to give the SMEs an opportunity to explore other options of financing, and financiers the opportunity to sell their products/services to SMEs.

SME BANKABILITY

- Both Aurik and Raizcorp experiences have left FSP without a clear implementation strategy for the BDSP tools developed with them. Although some impact will be generated from these interventions, this may not be to the expected level. Although USAID regulations give room for engagement with private sector partners, FSP may also want to consider partnerships with Civil Society Organizations.

- USAID should review with FSP and SAIBL how they can coordinate their respective efforts to produce a mutually acceptable BDSP grading/rating system.

- FSP needs to finalize and launch FinFind as soon as possible to avoid losing the goodwill and momentum it has gained on the market.

- FSP should investigate knowledge management potential of FinFind and consider integrating the blog into it.

- Since the credibility of FinFind will be dependent on the quality of its users (BSOs/BDSPs), FSP should develop a credible vetting process for admission as a FinFind accredited BDSP.

- Since its users (BSOs/BDSPs) will ultimately determine the credibility of FinFind, there should be a credible vetting process for admission as a FinFind accredited BDSP.

- FSP should consider integrating FinFind and the blog in a single host institution. While work on FinFind and the blog has so far focused on content and functionality, sustainability planning should soon move to center stage.

- With regard to a potential exit strategy, the MTR recommends that FSP investigate the possibility of working with SAIPA to host the BDSP grading program and FinFind on condition that it absorbs and uses the skills housed in IBA. Partnering with SAIPA and IBA offers a number of advantages. To begin with, they have a combined membership base of around 6,700 BDSPs that are linked in turn to approximately 1,400,000 SMEs. Second, they are already a regulatory body that does not need government approval to function as such. Third, partnering with FSP would only require an expansion of their current mandate, which is much easier to do than creating a new regulatory body. Finally, both organizations have indicated their willingness to talk to FSP about taking on this role.

KNOWLEDGE MANAGEMENT

- FSP should investigate the possibility of working with SAIPA to host the BDSP grading program and FinFind on condition that it absorbs and uses the skills housed in IBA. The two have a combined membership base of around 6,700 BDSPs that are linked in turn to approximately 1,400,000 SMEs. Second, they are already a regulatory body that does not need government approval to function as such.

- While still searching for a host, FSP should expand discussions on the blog for more informed and varied discussion. As with FinFind, FSP should quickly move to identify an appropriate host for the tool and use the remaining program period to transition the tool to them.

ENABLING ENVIRONMENT

- In view of the high demand for FSP/USAID support from the GoSA in the area of policy development/analysis, this is an area of comparative advantage that should be scrutinized to find other windows of opportunity, not only during the limited remaining timeframe of FSP but also for future Mission programming.

GENERAL

- The MTE is concerned that the program's achievements are not significant within the context of the broader South Africa economy and the millions of SMEs that operate there. Therefore during the two more years remaining to the program, the MTE recommends that FSP focus its efforts on implementing partners that have sufficient capacity to take tools and products to market and achieve significant scale, whether during the life of the program or after the life of the program. More generally, the MTE questions the return-on-investment for any intervention with a low likelihood of achieving significant scale, and it recommends that scalability be a primary criterion for all USAID interventions.

- Related to the previous recommendation, the MTE believes that Mission and project strategy should be guided by a more explicit consideration of cost-benefit tradeoffs. While the MTE understands the reasons why FSP chose to invest as much time and resources in the SPVs, Raizcorp, and blog as it did, none of these interventions, with the possible exception of the blog, had much chance to achieve significant scale within the market relative to the size of the market, regardless of whether they achieved their specific PMP targets. (The MTE did not encounter much if any evidence suggesting a possible demonstration effect resulting from its work with the SPVs.) Moving forward if the projected scale of an intervention is not significant relative to the size of the problem, then USAID should consider whether the return on the intervention justifies its initial or ongoing support.

- Under the Bankability and Knowledge Management Components, FSP developed FinFind and the blog first and then looked for a suitable organization to host them. An alternative to this approach would have been to select a host institution up front which then actively participated in developing and refining the product. If this had been done with FinFind and the blog, FSP might not be looking for a host at this stage but instead working on rolling out the products and disseminating their benefit nationally. The second of these approaches strikes the MTE team as more preferable, all else equal, both in the specific context of FSP and applied broadly to other USAID programs. Moving forward, therefore, FSP and the Mission should consider both approaches and select the one that is best for the situation.
- USAID should review with FSP and SAIBL their respective roles to determine how they can better integrate their efforts to address the issues of inadequate SME credit.
- Immediate steps should be taken to promote collaboration between SAIBL2 and FSP, including encouraging SAIBL2 clients to apply for credit at FSP-assisted FIs and developing FinFind to include BDSPs serving both projects.
- FSP should intensify talks with the South Africa Supplier Diversity Council (SASDC) about possible linkages. The SASDC will be one of the few primary formal mechanisms by which SMEs will be linked to corporate South Africa. Working with the SASDC will also provide an excellent opportunity for FSP to engage in meaningful collaboration with its sister USAID-funded project SABIL.

INTRODUCTION

Although the impression created of South Africa is that it has a strong and wealthy economy, underneath its developed economy a 'second economy exists consisting mostly of poor, historically disadvantaged black communities, which are a legacy of Apartheid. The second economy is informal and marginalized, and is populated by the under-skilled and under-served.

South Africa has one of the highest rates of unemployment in the world with 26% of South Africans unemployed based on the official narrow definition of unemployment and an estimated 50+% unemployed based on the broader definition of unemployment. It is estimated that more that 34% of South Africans still live on less than U.S. $2 a day and approximately one-half of the population lives below the national poverty line. Adding to the above outcomes historically disadvantaged black firms, and in particular small and medium enterprises (SMEs), lack access to capital, technology, productive inputs, business development services, and access to markets necessary to be competitive and create employment.

Within this context, USAID/Southern Africa launched the Financial Sector Program (FSP) aimed at increasing access to finance by historically disadvantaged black SMEs. The FSP seeks to expand access to financial services and lower financing cost for SMEs through reforming the legal and regulatory framework affecting the financial sector and business environment, and improving the commercial viability of lending to primarily black-owned SMEs in South Africa, thereby expanding their access to a range of high quality and affordable financial services. The FSP is being implemented alongside its sister USAID program, the South African International Business Linkages Program (SAIBL), which seeks to develop SMEs capacity and link them to domestic and international corporations.

Three years into the implementation of FSP, USAID/Southern Africa has commissioned dTS to conduct a formative, mid-term evaluation (MTE) of the program. The objective of the MTE is to assess the success of FSP in meeting targeted objectives, and to propose concrete recommendations for adjustments to program strategy and structure for implementation during the program extension and option period. The evaluation will attempt to determine as systematically and objectively as possible the effectiveness of the FSP in achieving its objectives. It will provide pertinent information, statistics, and judgments that will help USAID and implementing agencies better understand program results, derive lessons learned, and develop recommendations for future USAID programming. The findings of the Mid-Term Evaluation will inform the design of the FSP Annual Work Plans during the extension and option period.

The MTE will investigate, among others, the following questions:

1. Has the program increased access to finance among the historically disadvantaged black-owned SMEs? Have the key program objectives/results been met to date?
2. What were the critical assumptions on which the program was based? Have these assumptions remained valid throughout the program period?
3. What are the key obstacles to increasing SMEs access to finance as a result of program interventions? How did the program address them and with what result?

EVALUATION PURPOSE AND METHODOLOGY

The FSP MTE was carried out during the time period of April 3-21. The MTE will use a combination of qualitative and quantitative methods including: examination of program documents, monitoring and evaluation (M&E) data, other secondary data, and key informant interviews with program staff, implementing partners, government officials, and financial institutions. (For a comprehensive list of documents reviewed and persons interviewed, see Appendix B and C). The organizations and persons interviewed were determined through consultation with USAID/Southern Africa and program management taking into account the limited timeframe allowed for this evaluation. FSP management and staff also helped to facilitate all interviews and technical issues and provided assistance with scheduling meetings and appointments, as well as field visits with the selected stakeholders.

It is important to note that the evaluation SOW and timeframe imposed a number of constraints on the evaluation design, which in turn affected the conclusions we were realistically able to draw. The entire evaluation—including desk review, research design, field visit, and report preparation—took place during a compressed time period covering the beginning April to mid-May. There was not, consequently, sufficient time to design and implement a comprehensive and representative mixed-method (quantitative and qualitative) evaluation that would have allowed the MTE team to address questions of 'attribution' (e.g., were observed results 'caused' by the program). Instead the rapid and largely qualitative research design reflected a pragmatic concession by the MTE team that this was the best that could realistically be accomplished within the timeframe and resources allotted by the SOW.

While the MTE team attempted to visit as many key stakeholders as possible during the field visit, we were not able to interview all of them, and we were only able to interview a relatively small, non-representative sample of program beneficiaries. As might be expected, moreover, different stakeholders had different perspectives on the same issues. Sorting through all of these different perspectives was challenging. Where we could bring in hard data, such as secondary data or data from the project's performance monitoring system, or the local knowledge and expertise of team members, we did so.

It should be recognized, however, that the rapid and largely qualitative research design used is not capable of producing a comprehensive assessment of the program's achievements. It is rather a snap shot of program performance at the time of the evaluation based on a reasonably comprehensive, but nonetheless incomplete, survey of USAID, program staff, government officials, and implementing partners; a limited and non-representative survey of program beneficiaries; and the informed judgments of the MTE team members."

A further description of the evaluation methodology used for the FSP mid-term evaluation is provided below.

1. Desk review of background documentation and materials, including operational documents and reports, monitoring and evaluation reports, annual implementation work plans, quarterly and annual progress reports, evaluation and internal progress evaluation reports, etc. to familiarize evaluators with the program and to determine its implementation status.

2. Structured face-to-face interviews with key informants, including USAID/Southern Africa, program staff, implementing partners, government officials, financial institutions, and other stakeholders.

The evaluation team sought to determine the implementation status of the program and determine whether the expected results have been or are likely to be achieved and the chances of sustaining these results. Evaluators also sought information to identify and assess the validity and continuing relevance of key program assumptions, to assess the quality of program management and the technical effectiveness of program activities, to identify factors internal and external to the program that have affected its implementation and results, and to identify the challenges and risks to the full attainment of intended program results.

Through the methods described above, the evaluation team sought information related to program design and structure, relevance, efficiency and effectiveness, outcomes and impacts, sustainability, and lessons learned, as follows.

Program Design and Structure: The MTE sought to answer the following questions:

1. Is the program meeting targeted objectives?

2. Is the intervention logic coherent given the prevailing conditions?

3. What is the level of involvement of beneficiaries in terms of both government and other key stakeholders, and in terms of gender in the various stages of the project cycle?

4. Does the program need to be re-oriented, e.g., should some components/activities be discontinued or new ones included?

5. If the program is not delivering planned inputs, outputs and meeting targeted objectives, are internal factors (e.g., program component and design) and/or external factors (e.g., economic, political, social environment) preventing the achievement of these?

Relevance: The MTE sought to determine the value of FSP interventions in relation to government priorities, USAID/Southern Africa strategies, stakeholders' needs, and market conditions. The MTE evaluated both the processes through which results have been achieved and the results themselves whether intended or unintended, in addition to the validity and continued relevance of underlying program assumptions.

Efficiency and Effectiveness: The MTE evaluated the efficiency and effectiveness of the program's technical components. Toward this end, the MTE asked the following:

1. Are program implementers delivering planned inputs and whether planned outputs have been achieved as a result?

2. Is the program using the resources at its disposal in the most economical, efficient and effective manner to achieve its objectives?

3. Are activities being implemented achieving satisfactory results in relation to their stated objectives?

4. What are constraints and bottlenecks related to the program implementation and obstacles to the achievement of the intended results?

5. Are program activities the most efficient or effective way of achieving desired results?

6. Should program components be modified in order to improve program efficiency and effectiveness and if so how?

Outcomes and Impacts: The MTE sought to determine the results of program activities by asking the following:

1. Has the program generated results, either positive or negative, in addition to targeted results?

2. What made successful activities work well and unsuccessful activities not work well?

3. What political, social, cultural and economic obstacles have had to be overcome in order to achieve the success identifies in this evaluation? How were they overcome?

Sustainability and Reliability: The MTE sought to assess the long-term sustainability of program interventions by asking whether the activities and their impact are likely to continue when external support is withdrawn and/or whether they are likely to be replicated or adapted by other entities.

Lessons Learned: The MTE sought to identify lessons learned based on the implementation experience of FSP and the findings of the MTE.

OVERVIEW OF FINANCIAL SECTOR PROGRAM

Although South Africa's financial sector is generally recognized as world class in terms of its workforce; capital resources; infrastructure and technology; and operating, regulatory and supervisory environment, it has not effectively provided credit to SMEs, particularly black-owned enterprises. The lack of access to finance, along with the quality and cost of financial services, are among the greatest challenges to the development, expansion, and economic integration of historically disadvantaged SMEs in South Africa.

To address this issue, USAID/Southern Africa created the Financial Sector Program (FSP). FSP engages in activities designed to help integrate South Africa's second economy of historically-disadvantaged groups into South Africa's larger economy, and specifically assist SMEs fulfill their critical roles as drivers of the economy. FSP supports the accomplishment of the U.S. Government's Economic Growth Objective in South Africa and falls within strategic context of USAID/Southern Africa Economic Growth Programs, which are tailored to support the Government of South Africa (GSA) priorities.

The FSP was awarded to Chemonics International on May 22, 2008 under the GSA Contract GS-23F-0127P and USAID Blanket Purchasing Agreement EEM-E-00-05-00006-00. The original award had a base period of 30 months with an option period for 30 months, which was exercised on June 22, 2010. The program will now conclude on May 21, 2013. The total cost of the contract is $14,497,997. The program goals, objectives, and operational framework and structure are described in greater depth below.

Program Goal: The overall program goal is to generate rapid, sustained and broad-based economic growth in South Africa.

Program Objective: The objective of FSP is to expand access to financial services and lower financing costs for SMEs through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically-disadvantaged SMEs in South Africa, thereby expanding SME access to a range of high quality and affordable financial services. FSP specifically seeks to enhance the development of a well-functioning, equitable financial sector able to fulfill the critical roles in financial intermediation for emerging and existing SMEs. Success of the program will be measured by the acceleration of the increase in new SME lending and by the reduction in intermediation margin to this market segment.

Operational Framework and Structure: FSP's activities are designed to improve access to finance for SMEs by developing new SME finance products with FIs (financial intermediaries), extending credit via Development Credit Authority (DCA) guarantees, supporting the enabling environment and assisting in improving the bankability of SMEs via improved financial literacy and the provision of more appropriate financial business development services (BDS). To that end, FSP has established working partnerships with both private and public stakeholders collaborating to strengthen and support the credit access systems for SMEs, especially black-owned enterprises.

FSP includes four components aimed at increasing SME access to a range of high quality and affordable financial services to facilitate business growth and catalyze increased employment and incomes:

1. Improve financial intermediaries' capacity to serve SMEs in South Africa through the development of new products and the introduction of existing products from other international sources to the South African market.

2. Improve the bankability of SMEs by improving the quality of business services provision to SMEs working with a range of business development service providers (BDSPs) and/or their host business service organizations (BSOs).

3. Reform the legal and regulatory framework affecting the financial sector and business environment to stimulate SME growth. FSP works to support the development of an enabling environment for SMEs and the implementation of legal, regulatory and institutional reforms that will contribute to expanding credit access for SMEs, especially historically disadvantaged black-owned enterprises.

4. Strengthen the SME finance knowledge management system by working with multiple stakeholders to capture, codify, and share information about access to finance to historically-disadvantaged black-owned SMEs.

MAJOR FINDINGS

PROGRAM LOGIC

Critical assumptions on which the program was based under each of the four components were as follows:

- **Improved Financial Services**: a) FIs, including the Big 4 banks, lacked the capacity and/or were unwilling to invest in the development of suitable products that would improve SMEs' access to finance; and b) DCA guarantees and special fund programs would accelerate SMEs' access to finance through the expansion and innovation of financial products targeted to SMEs.

- **SME Bankability**: SMEs needed the assistance of BDSPs and BDOs to improve their bankability.
- **Enabling Environment** (Legal Framework): Reforming legal and regulatory framework affecting the financial sector was needed to stimulate increased SME lending.
- **Knowledge Management**: There was a need for information regarding the SME sector and access to financial services to be collated into a single reference source or point of access in order to provide improved access to information that is relevant and useful to SMEs and BDSPs.

Overall, the above assumptions are still relevant in the current context, if not more so given that unemployment remains extremely high in South Africa (SA) and economic growth remains flat despite low interest rates, low inflation and an over-valued currency. The majority of South Africans (predominantly the historically-disadvantaged blacks) still live in townships on the outskirts of major South African cities and rural areas on less than US$2 a day and remains disenfranchised from full economic participation. The development of SMEs to counter years of the marginalization within these communities is as critical ingredient to the government's economic development policies and agenda. SMEs account for a large share of the national output and employment, and are especially important to the strategic objective of overcoming poverty.

Lack of access to finance continues to be one of the major constraints to the development and growth of SMES in SA, particularly among the so-called Black Economic Empowerment (BEE) SMEs. The high cost of borrowing, stringent loan conditions and heavy reliance by FIs on collateral and historical performance are cited by SMEs as some of the major impediments limiting their ability to borrow. The dominance of the financial sector by the Big 4 major banks has created an oligopolistic market situation crowding out other financial players and further limiting access to finance. There is still a big gap in financial services between microfinance and corporate finance that leaves SMEs unserved.

On the other hand, FIs and the Big 4 banks complain about the financial acumen of SMEs (especially black owned SMEs) as a significant hindrance to expanding their SME portfolios. Hence, SMEs need the assistance of BDSPs and BDOs to improve their bankability. Some FIs have sought to limit their credit risk exposure by adapting their evaluation criteria to emphasize the entrepreneurial skills of SME owners. This is further expected to preclude many start-up SMEs from accessing loans, particularly those from the historically-disadvantaged black communities with weak entrepreneurial skills.

In summary, the critical assumptions underlying program selection and design remain as much, if not more, relevant today as there were at the program's inception.

PROGRAM IMPACT

Judging from the FSP Task Order, USAID/Southern Africa had a clear perception of the impediments to SME access to finance, and the steps needed to ameliorate them. The program is implementing its third work plan, which runs from October 2010 to September 2011 (2010/11). The program ends in two years' time (May 2013). Performance under each of the program's major results areas is reviewed below:

Major Result Area 1: Financial Intermediaries' Capacity to Serve the SME Market Improved

Initially the program had expected to work closely with the Big 4 banks (ABSA, FNB, Nedbank and Standard Bank) to develop or adapt financial products for SMEs. By their sheer size, the Big 4 banks have the capacity to have a significant impact on SME lending within the shortest time. Program performance targets reflect this expectation.

The program was launched as the global financial crisis was unfolding, and the SA financial sector was contracting. The big banks were at the time concentrated primarily on shoring up their balance sheets and thus postponed their SME credit expansion plans. At the same time, loan demand was falling caused by a lower level of economic activity, de-leveraging by individuals and companies and, according to some sources, enactment of South Africa's National Credit Act, which resulted in a much more highly regulated credit market. Given this difficult macro-economic environment and the Big 4's retreat from the SME sector, any attempt by FSP to promote expansion of lending in the prevailing environment was bound to face significant resistance.

Within this uncertain economic climate, the Big 4 banks initially demonstrated little inclination to work with FSP on increasing their SME lending. This in turn has meant that FSP has been unable to achieve its SME lending targets to date.

To counter this lack of interest by the Big 4 banks, FSP refocused its approach changed its approach to work with Tier 2-SA FIs, such as WIZZIT and Sasfin Bank, and Tier 3 special purpose vehicles (SPVs), such as Mettle, True Group, Spartan, and Old Mutual Masisizane (OMM). Switching the focus to Tier 2-SA FIs and SPVs was a pragmatic tactical move that offered a number of advantages. These FIs maintained their SME lending activities even during the recession, and their primary clients were black-owned SMEs in rural and peri-urban areas, including townships. Although these FIs had limited outreach relative to the Big 4, they would, nonetheless, help move FSP closer to achieving its lending targets, while potentially creating a demonstration effect that would lead to a more broad-based extension of SME lending within the country.

The disadvantage of working with these smaller FIs, however, is that they a scarce geographic presence, limited human and financial capital, and shallow market outreach. For example, Blue Financial Services currently has only eight staff managing its SME portfolio for the whole of South Africa, all of whom are based in Pretoria. Similarly, True has only one staff person in Pretoria, and the rest are in East London, which is a small regional town. At the time of the MTE, OMM had only 60 loans outstanding. Thus while working with the SPVs may help the program achieve its lending targets, it is highly unlikely to have a significant impact in terms of increased SME lending, at least relative to the size of the market.

Indicators 1-11 in Appendix A measure performance under this component. Performance highlights are summarized below.

1. **Product development:** FSP targeted to develop and/or refine eight financial products by 2011, of which four products (50% of target) had been developed by MTE. In May 2009 on request from ABSA Bank, FSP fielded an international trade finance consultant to assist ABSA Bank to develop two new SME loan products: the Purchase Order Finance (POF) and Invoice Clearing (IC) loan instruments. Other products developed with support from FSP include the construction loan with Blue Finance and a short-term loan and an investment term loan with WIZZIT. By end of the 1st quarter of 2010/11 work plan, ABSA had provided 115 POF and IC loans to SMEs with a value of R107,126,000.

   The Blue construction loan product was later abandoned on advice from the FSP consultant as it was found to be heavily dependent to the inefficient government and municipality procurement processes. The most disappointing outcome was with WIZZIT where the FSP spent months carrying out data mining during which over 500 pre-qualified loan prospects were identified by the FSP consultant from the WIZZIT loan book. WIZZIT, however, decided not to continue with the deposit mining approach and two products saying that it did not have a critical mass of SMEs in its book to scale-up up a profitable SME loan product, effectively terminating any further collaboration with FSP. WIZZIT however informed the MTE team that it will return to the SME market at a later date. It is currently focused on the lower end SME market with support from International Finance Corporation (IFC).

Fortunately, FSP's efforts to cultivate the Big 4 banks are now paying off. First ABSA agreed to work with the program on the POF and IC; now, Standard Bank and Blue Financial have also agreed to work with FSP on developing the POF. In the opinion of the MTE team, the POF has good potential to achieve significant outreach to SMEs, as it will reduce the need for other capital forms that require collateral, in particular among newer businesses and black-owned SMEs. It is important to note, however, that both ABSA and Standard Bank insist that they would have developed and launched the POF even without FSP's assistance. Both banks agree, however, that FSP's assistance has been instrumental in helping them reduce development costs, navigating the internal review and approval process, and speeding the time to product launch.

The uptake of the POF by ABSA, Standard Bank, and Blue Financial has thus significantly increased the odds of taking the POF to scale and meeting or exceeding the program's LOP lending targets. If the program can make similar inroads among Tier 2 FIs, or recruit other FIs with significant SME outreach, the likelihood of meeting or exceeding program lending targets will be that much greater.

2. **Professional's knowledge, skills and/or practices enhanced to deliver SME financial service:** FSP had targeted to train 150 professionals during 2009-2011 and 210 over the life of the program. By the MTE it had trained 81 professional including 37 professionals trained in international standards and 70 trained over the course of three workshops. Of the 81 professionals receiving training, 41 were female and 40 were male. FIs that participated in the training uniformly expressed a high level of satisfaction with the quality and content. In addition to formal training activities, FSP also regularly provided ad hoc consultations to its FI partners in areas such as financial approval processes and delinquency management.

   FSP had targeted to modify nine management processes/practices and carry out 11 consultative processes with FIs and SMEs during 2009-2011 compared to its LOP targets of 15 and 15. By the MTE it had modified six management processes/practices and carried out 11 consultative processes equal to 67% and 45%, respectively of its LOP targets (Appendix A). Efforts to introduce a generic credit scoring systems by FSP among its partner FIs did not materialize due to the divergent borrower assessment systems and approaches used by each of the FIs. The program did conduct some training in this area, which FIs like royal Fields Finance found valuable, but it was with too small a number of FIs to have had a meaningful impact on the sector.

3. **Special Funds Loans**: FSP had target 800 special fund loans over the life of the program. At the time of the MTE, program-supported SPVs had generated a combined total of 309 loans exceeding the target of 285 loans set for the 2009-2011 period and totaling 28.6% of its LOP target (see appendix A). Around 76% of the SMEs that received loans from program-supported SPVs are black-owned businesses, supporting a key program objective. However, against a market segment of 2,100,000 SMEs (CIPC 2011), the large majority of whom meet these same criteria, it is a far less significant contribution, particularly in the context of the FSP program budget. Thus relative to the size of the SME sector, the program cannot be said to have had any substantive impact on historically disadvantaged SME in terms of improved access and lower financing costs.

   While the SPVs have not reached large numbers of SMEs given their early stage of development, limited capital base, small staff, and relatively shallow outreach, an aim of working with the SPVs was to create a demonstration effect that would facilitate the entrance of larger FIs with greater outreach into the SME sector, while at the same time broadening the scope of SMEs eligible for finance, thereby expanding the opportunities for other SMEs to access credit. It was also anticipated that once South Africa's credit markets recovered, FSP would resume its work with the big banks, which it has done.

4. **DCA guarantees:** Given the difficult economic conditions in South Africa, FSP also put significant effort into developing USAID DCA guarantee facilities with the aim of enticing otherwise reluctant FIs increase their SME lending by providing an up to 50% loan guarantee. The FSP LOP target was 41,000 DCA-backed loans, including 10,338 during 2009-2011. Five DCA guarantees have been approved, however, only the $5,000,000 guarantee for Blue Finance approved in May 2009 is operational. This guarantee will enable Blue to make a cumulative $20 million in loans to creditworthy SMEs that are short of collateral or the normal owner equity contribution requirements but have a strong business model. During the 10 years of the guarantee, is the program expects over 500 SMEs will benefit from the guarantee. In the nearly two years since its approval, Blue Finance has made only 53 loans under its DCA guarantee.

   Contrary to what was anticipated, operationalizing the DCA guarantee instrument has faced many challenges. Blue Finance has had to deal with its own internal restructuring issues. Sasfin Bank, one of the few Tier 2 FIs visited by FSP, has postponed signing the DCA Commitment Agreement pending review as to whether the guarantee is still needed to obtain additional funding. The other three DCA holders (Spartan, True Group and Mettle) like Blue Finance, have no access to deposit funding and have to rely solely on borrowed funds for on-lending. Meanwhile, the Tier 1 FIs so far have not been prepared to lend against the DCA Guarantee citing concerns about the contracts being subject to USA law and the failure of the Khula Guarantee scheme. The MTE also learned the Big 4 banks insist on conducting due diligence of the individual SME clients covered by the DCA guarantee. All of the above factors have stymied lending under the DCA guarantees and help explain the program's lack of progress toward its targets in this area.

   To address the problems of operationalizing the DCA guarantees, FSP and the Mission have initiated discussions on the possibility of establishing a bond facility that could accommodate funding of the three portable guarantee facilities, in addition to other SME lenders. The MTE team discussions with Tier 3 FIs (e.g. Mettle, True Group, and Spartan) indicated cautious optimism about the bond fund. Among the Tier 3 FIs the understanding of the bond facility was that the full amount would be available on closing of the bond issue, if successful. Their perception was that, while this sounds attractive, it is unlikely to deliver a solution for FIs like Spartan whose business model does not require much funding all at the same time.

   It should be noted, however, these FIs see the guarantee primarily as an opportunity to mitigate their own risk and less as an opportunity to increase lending to BEE-SMEs. In this regard, although the DCA guarantees are likely to increase lending to SMEs, many of them may not be among the more historically-disadvantaged population targeted by the program.

Major Result Area 2: Improve the Bankability of SMEs

Indicators 12-16 in Appendix A measure performance under this component. (Note: the program no longer tracks indicators 15 and 16.) A key factor explaining the inability of SMEs to access finance is the SMEs themselves, namely their inherent lack of sophistication, limited financial literacy, and general lack of business acumen and understanding of FIs' loan requirements. Thus the purpose of the Bankability Component is to help SMEs develop this financial acumen and thereby increase their access to credit.

FSP has faced many implementation challenges in this component leading it to reconsider the initial assumptions underlying both anticipated targets and approach. FSP has found the business support sector to be extensively fragmented and consequently has had difficulties identifying effective partners willing and capable of taking interventions to scale. In addition to its role as a facilitator, the program sought to build the capacity of BDSPs and BSOs to offer more effective, efficient and relevant services to the SME market. FSP piloted several interventions with private sector business development service (BDS) providers, including FIs and an SME incubator offering comprehensive business mentoring and capacity development services. FSP abandoned its attempt to provide capacity building to FI partners offering BDS, such as GroFin, Old Mutual Masisizane, and PPC Ntsika, because these organizations did not effectively utilize the outputs from these capacity building interventions.

Under this component, FSP built key relationships with a wide network of BSOs individually and as a group to pursue a variety of initiatives designed to increase the capacity of BDSPs to serve their SME clients. FSP has also collaborated with other partners like the National Small Businesses Chamber (NSBC) on expos and forums to encourage SME lenders to exhibit and engage with SMEs. Such expos and forums have been very successful communicating to SMEs alternative financing options apart from the formal banking system. Key initiatives and outcomes under this result area/component are summarized below.

1. **Aurik Business Incubator:** Aurik's core business is the provision of BDS to small and early-stage entrepreneurs through programs that mirror the entrepreneurship life cycle. FSP provided Aurik technical assistance to design and implement a train-the-trainer (ToT) program for Aurik's BDS facilitators so as to improve the usability and accessibility of the facilitation tools and to design a system to facilitate off-site capture of data, which is used to evaluate the system-related risk underlying SMEs' funding applications. Citing intellectual capital issues Aurik declined to speak to the MTE team on its methodologies and tools. It is hence difficult to determine if FSP's investment will have the intended impact in terms of improving and scaling-up BDS to SMEs, although Aurik did state that FSP made a valuable contribution to its business. The MTE's review of Aurik's client base (www.aurik.co.za/entrepreneur-profiles/) revealed that Aurik works largely with high-end SMEs, which are unlikely to include many BEE-SMEs. At present, Aurik's clients include 57 white and 9 black entrepreneurs.

2. **Raizcorp's Guiding Academy (RGA):** Raizcorp offers business development services to some 200 SMEs enrolled in their incubators. FSP provided support to Raizcorp to design and develop a grading system for BDSPs, construct a framework for designing occupational standards for BDSPs (based on Raizcorp's approach to assisting SMEs), and define a process of and tools for assessing BDSPs in each step of the professional development process. FSP also helped Raizcorp develop a strategy to scale up its grading activities across South Africa. To enhance the procurement of its RGA's grading services, FSP initiated discussions with the UK-based Small Firms Development Initiative (SFEDI) to facilitate Raizcorp's application for accreditation from SFEDI. It was expected that Raizcorp would not only use this framework to assess its current BDSPs but would also offer this as a service to the wider market, so that the number of graded BDS providers offering quality services in the market increases.

   Raizcorp trained a total of 15 BDSPs during the grading program pilot and an additional seven since the pilot, for a total of 22 BDSPs trained. During discussions with Raizcorp, the MTE learned that all of the trained BDSPs have been absorbed into RGA. RGA also admitted that it did not have the capacity to roll out the BDSP grading tool nationwide. The high price tag attached to each of the three grading levels, coupled with the 3-4 years duration of the program, makes the grading program out of reach for most BDSPs and will be a major deterrent to the tools scale-up and impact. The MTE also learned that RGA is pursuing accreditation to a UK-based institution. This is anticipated to have negative ramifications with the South African academic regulatory bodies, which require all training institutions to have their programs accredited locally. If the certification is UK-based, the South African authorities will not accredit it until it has been through the local processes, and there is no guarantee that it will be approved. FSP acknowledges the flaws in the Raizcorp business model and has made the tactical decision to withdraw its support. FSP's withdrawal, however, still leaves Raizcorp as the owners of the intellectual property related to the BDSP grading tool.

As an alternative to RGA, the MTE recommends that FSP explore a grading solution with the Institute of Business Advisors (IBA). IBA is a recognized professional body in South Africa responsible for the assessment, accreditation, and continuing professional development of business advisers, business counselors and mentors assisting small businesses. IBA has 600+ members, and is working in partnership with the South African Institute of Professional Accountants (SAIPA), which has an additional 6,800+ member each servicing about 200 SMEs. IBA and SAIPA jointly have the capacity to undertake a national rollout of a BDSP grading tool within remaining two years of the program. During discussions with the MTE, both organization expressed disappointment that they were not considered as hosts for the grading tool considering their client base. They however expressed willingness to play a key role in supporting the BDSP grading system (if invited to), with SAIPA taking the lead and IBA providing assistance.

3. **Blue Financial Services**: FSP developed a training program called "Successful Financial Management for SMEs" for Blue Financial Services that helps SMEs manage their cash flow, including cash flow related to loans. The program was piloted with 18 trainees, two from Blue and 16 from ABSA Bank. FSP is currently looking for BSOs to modify the program and train BDSPs in cash flow management. Uptake has been slow primarily because most FIs have their own internal criteria for evaluating SMEs and would not be willing to adopt a new approach.

4. **FinFind**: FSP identified the priorities for a financial literacy program and developed a framework known as FinFind- business finance catalyst. The tool is an online guide for BDSPs and Business Development Service Organizations (BDSOs) to help them improve their assistance to SMEs on assessing financing and selecting the appropriate financial products. Among the two major initiatives in the Bankability Component (BDSP Grading tool and FinFind), FinFind has the more significant potential, although it has suffered a number of setbacks and missed a number of deadlines. The MTE notes that FinFind also has intriguing potential as a knowledge management tool, although the program so far has not approached it in this light.

   FSP has pilot tested and refined FinFind, but the rollout has been delayed while FSP seeks to identify an appropriate host institution. There have been challenges related to identifying an implementation partner for FinFind, which FSP is working to resolve. Partner institutions interviewed by the MTE team expressed satisfaction with the capabilities of the tool and were eager to have it launched and made operational. Although FinFind has been well received and expectations are high, it has missed a number of launch deadlines. At the time of the MTE, it was still not ready to go to the market.

Major Result Area 3: Reform the Legal and Regulatory Framework Affecting the Financial Sector and Business Environment Stimulating SME Growth

Under the Enabling Environment Component, FSP worked extensively and productively with various GoSA departments to reform the SA enabling environment for SME finance. Key results under this component include the following:

- FSP collaborated with the Department of Trade and Industry (dti) to develop the business case for the newly created Companies and Intellectual Property Commission established under the Companies Act.
- FSP supported the publication of the regulations under the Companies Act (as amended), including the revisions to the Close Corporations Act. The Act, which was due to be launched on May 1, 2011, will impact all formal businesses in South Africa, and it is particularly expected to minimize the cost and administrative burden implicit in incorporating and maintaining an SME. The impact by the new Companies Amendment Act and Regulations is expected to generate dozens of simplified processes and more transparent agencies, will limit the potential for fraud, will establish internal administrative review and alternative conflict resolution mechanisms. The act has been hailed as a landmark reform in South Africa that will impact on every sphere of business.
- FSP also worked with the National Credit Regulator (NCR) to undertaken a multi-phased business process reengineering activity that resulted in material improvements to the NCR Registrations Department. FSP provided an Interim Project Manager (Deloitte) to work closely with the Steering Committee and to oversee the development of the business plan for NCRA.
- FSP assisted the National Treasury to develop regulatory impact assessment guidelines and standards and support the development of an Estate and Mortgage Broker and Agent policy reform and bill.
- FSP sponsored the South African delegation at the March OECD Round Table organized to recommend policy measures to assist SMEs to overcome the current credit crunch.
- FSP steered discussions on the development of a framework for insolvency policy harmonization and legislative reform. The insolvency/bankruptcy reform falls within a critical developmental area and is one of the 11 core areas of law identified by USAID as essential for an improved business environment. FSP is committed to continuing to assist the GoSA in addressing comprehensive insolvency reform, including the rescue and liquidation of insolvent firms as well as personal insolvency and the rehabilitation of debtors.

Overall, this has been most successful component to date. FSP's approach, in which international and national consultants did not replace but rather assisted government professionals to build local capacity, has had a very positive impact, as ownership of the process has remained with the respective institutions. FSP and its partners proactively analyzed policies, proposed alternatives to existing gaps or constraints, drafted appropriate legislative or regulatory remedies, and helped to build the capacity of key SME advocacy groups to develop these same skills. The FSP policy component also engaged extensively with private sector partners to develop solutions for specific policy hurdles.

Feedback received by the MTE team on FSP's contribution to enabling environment reform was uniformly positive. The GoSA officials interviewed, moreover, expressed support for USAID continuing to work with the GoSA to develop and refine its policies and impact assessment capacity. This definitely is an area in which USAID has a comparative advantage, and its input has a good likelihood of having far reaching impact. Its actual impact in this case, however, cannot be known until the legal and regulatory reforms supported by the program begin to work their way through the economy, which may not be observable until after program termination.

Notwithstanding the important accomplishments cited above, FSP has yet to reach many of its performance targets under this component (Appendix A). FSP, however, expects to begin making more progress towards meeting its targets now that the Companies Act, Companies Amendment Act, and other Amendments and Regulations have been implemented.

Major Result Area 4: Strengthen the SME Finance Knowledge Management System

The Knowledge Management Component is a cross-cutting intervention aiming to improve the knowledge management of SME finance data, finance opportunities, successful approaches to SME development, donor and government programs, and tools for FIs and BDSPs to use in SME capacity building efforts. Lack of knowledge is an important factor hindering SME access to finance, and a well-functioning knowledge management system can be a useful tool to help SMEs and FIs locate each other and that increases intermediation efficiency and lowers transaction costs.

Under this component, FSP hired a literacy specialist who undertook a gap analysis of financial literacy materials available on the market for SMEs and who found that most literacy materials were directed to consumers or addressed specific products on the market but none targeted SMEs. At the same time, SMEs typically deal with credit officers whose lending guidelines are designed for large companies or individual consumers and not appropriate to the needs of SMEs.

Given the fragmented flow of information on the market, FSP opted to work with the Banking Association (BA) of South Africa to champion, host and lead the knowledge management initiative. Through its collaboration with the BA, FSP co-hosted three knowledge management forums focused on SME credit trends and policy, benefits and features of loan guarantees and the opportunities and pitfalls of SME construction finance. Overall, FSP achieved 12 of the 19 knowledge management events and collaborations targeted for the end of September 2011. FSP also established formal collaborative working relationships with two partners, the International Council for Small Business (ICSB) and the USAID-funded South African International Business Linkages (SAIBL) program.

In March 2011 FSP co-hosted a workshop with NSBC, which houses a database of more than 26,000 SMEs. The program has also engaged FS Share, a USAID funded program mandated to develop effective and efficient financial sector programs that increase access to financial services and develop well-functioning markets worldwide. FSP/FS Share collaborations will focus on various issues for knowledge generation, dissemination and sharing. These will range from sharing electronic links to conducting case studies as a way of gathering best practices that can be replicated by other USAID programs worldwide for greatest impact.

Utilizing social media platforms for a wider dissemination and information sharing, FSP designed and launched a web-based access point, or blog (www.fsp.org.za/blog), for the dissemination of information, data, research, and tools that bring the shared experiences of SME lenders and SMEs in South Africa complemented by best practices from around the world. To date the blog has generated around 2,773 hits exceeding its LOP target by 330%, which represents a notable short-term success for the program. At the same time, however, FSP component leaders have contributed most of the posts to the blog. Thus indicators of the blog's success to date are mixed.

The blog's potential to reach a large enough share of the market to make a significant difference certainly exists, but given the mixed success rates of other USAID-funded blogs and learning communities, the long-term success of the blog is by no means assured, regardless of whether it has exceeded its LOP targets. For the blog to have a significant impact on the market, it will need to increase its user rate significantly and to expand the range of discussions considering that there are around 2,100,000 SMEs in South Africa. FSP and SAIBL have as part of their collaboration efforts established virtual links on their blogs to ensure extensive access to useful information by FIs and SMEs on how best they can access finance and expand their view of the SME market. A critical factor in determining the long-term success of the blog is deciding who will host the blog at the end of the project. FSP is currently assessing different hosting options but has yet to settle on a host institution.

TECHNICAL EFFECTIVENESS

FSP sought to utilize innovative yet practical approaches to ensure that program activities delivered the expected results. Despite this, mid-way through the program the adoption and scale-up of program interventions lags behind targets (Appendix A). To its credit, FSP has been very active and has undoubtedly created a presence in the SA financial and business development support communities. It has been very effective in liaising with and providing assistance to a wide variety of government entities, financial institutions, BDSPs, BSOs, and other program partners. (The program does not work directly with SMEs.)

FSP has effectively responded to some of the implementation challenges encountered under the Access to Finance Component. It switched its approach from focusing on the Big 4 banks to focus on Tier 2 and Tier 3 FIs in order to forge ahead with program activities. Nonetheless, the program's work with Tier 2-SA and Tier 3 FIs, however has not led so far to a significant expansion of SME lending due to constraints related to internal policies, lack of capacity and weak funding, not to mention the unexpectedly cool reception of the DCA guarantee. Due to their initial reluctance to engage in the SME space, Tier 1 FIs have not played the key role they were expected to play in the program and as a result, their impact to date has been minimal. The impending launch of the POF at ABSA and Standard Bank, however, portends well for a significant upturn in SME lending, while the problems surrounding the DCA guarantee may yet be resolve. (The DCA's success in other African contexts makes a reasonable case for optimism.)

Although FSP has spent a considerable amount of time working with Tier 3 FIs, it has spent very little time working with the Tier 2 FIs, despite their capacity to make a more significant impact on SME lending. Some of the Tier 2 FIs-International may also bring with them experience from working with DCA Guarantees in their home countries and thus may be prepared to honor the guarantees and solve the current impasse the Tier 3 FIs are experiencing in raising funding against the DCA Guarantees.

FSP was quite effective in delivering high quality technical support, training, and other assistance to implementing partners and stakeholders through Expos and workshop forums. Several FIs, for example, acknowledged FSP's significant contribution in product fine-tuning and in speeding up product development time. The quality and content of FSP trainings was very good and addressing the needs of the FIs.

FSP and its implementing partners have not been effective in taking the BDSP grading system to market. This has been due to a conflict in development strategies between FSP and the selected implementing partner. As a for-profit partner, Raizcorp's potential to scale-up the grading tool and contribute to program objectives is constrained by its desire to protect its intellectual capital. Multiple delays in rolling out FinFind, albeit attributable to implementing partners, have reduced confidence in some partners that the product will ever be delivered. While there is still time to roll out this product and achieve program objectives, a host institution needs to be finalized as a matter of urgency.

FSP has been effective in delivering services under the enabling environment component. All beneficiary government departments visited by the MTE team expressed high levels of satisfaction with the quality of technical support received from FSP. There has been an effective flow of information, ideas and exchanges between FSP and the various government departments who unanimously consider the program activities to have been effective. More generally, feedback from FSP's implementing partners consistently gives high marks to the quality and content of FSP assistance.

FSP had no specific strategies with respect to HIV/AIDS and gender. Largely this is because the FSP mandate did not include direct interaction with the end beneficiaries - SMEs. Nor does FSP have the ability to influence such strategies within its partner organizations. The MTE notes, however, that all FSP partners report on gender and BEE status. Where FSP is most likely to have an impact on gender or BEE issues is under the training programs/workshops that come directly under its mandate or through the DCA agreements where it can exercise some influence over the BEE and gender composition of loans.

PROGRAM MANAGEMENT

The FSP team began to mobilize and engage in start-up and research activities in June of 2008 setting the stage for the first annual work plan covering October 2008 to September 2009. Program activities fall under the four major components (Project Intermediate Results, or PIRs), which are broken down further into Key Result Areas (KRAs) that are representative of the overall strategies for achieving the intermediate results. These KRAs guide the program staff in activity planning and provide 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. Based on observations and discussions held with FSP, the MTE finds that there is good collaboration between departmental heads, but integration within the program components in certain cases is simply not possible for very practical reasons.

FSP was also expected to collaborate and partner with other USAID/Southern Africa economic growth programs and implementers. FSP and SAIBL have collaborated, but this collaboration has not effectively filtered down to the level of their staff and SME partners. The MTE found that SAIBL management, field staff, and associated SMEs and BDSPs seem to have very little knowledge about FSP and the products and services it is developing or have already developed. Admittedly the two programs have been at different stages of implementation, which has made it difficult to link their activities. They have however missed opportunities to integrate their work, especially in linking SAIBL SMEs to FSP partner FIs, and vice versa, and in developing BDSPs.

Within the framework of establishing the level of donor coordination between the program and other donors, the MTE team met with a DfID staff member who also functions as the Southern African regional donor coordinator. The advisor had no knowledge of FSP or SAIBL programs. While this may not suggest a general lack of donor coordination, it does suggest a need to intensify the donor coordination mechanism. Subsequent discussions with the dti also highlighted a lack of donor coordination mechanism particularly in coordinating the use of funds from donor agencies on the dti side.

SUSTAINABILITY

FSP made a significant contribution to the most far-reaching overhaul of business law in decades: the review of the Companies Amendment Act by Parliament and the publication of the Regulations under the Companies Act. The legal and regulatory framework support provided by FSP to the South African Treasury, NCR and CIPRO will no doubt remain long after the end of the program.

The BDSP, FinFind, and blog initiatives may fail to gain traction as a result of a failure to select suitable implementing partners capable of establishing them and reaching the target markets. The BDSP grading program has the capacity to remain after program conclusion, on condition that FSP finds a suitable implementing partner and expands the tool to other BDOs. FinFind needs a good host organization that will ensure its continuous upgrading and extensive use. The sustainability of FinFind will also depend on the usefulness of its information.

The sustainability of the blog is likewise uncertain. Its success will depend on the ability of the hosting organization to keep the flow of topical discussions going and in attracting both viewers and participants. While work on the blog and FinFind has so far focused on content and functionality, sustainability planning should soon move to center stage.

The POF will undoubtedly be an integral product in the FIs' SME lending portfolios in South Africa. While there appears to be genuine interest at ABSA and Standard Bank in rolling out and scaling up the POF, if they fail to expand their SME lending, the long-term impact of the program will remain limited. Similarly, if Tier 2 FIs remain outside the program and do not target the SME sector, the program's outreach and impact will be less than it might have been. The sustainability of the DCA guarantee in turn is threatened by the challenges faced by DCA holders to leverage funding from the Tier 1 lenders.

FSP has initiated talks with the South Africa Supplier Diversity Council (SASDC) about possible linkages, although these talks have not yet resulted in any kind of formal or informal collaboration.

CONCLUSIONS, LESSONS LEARNED & RECOMMENDATIONS

CONCLUSIONS

Overall, the program logic is still relevant in the current context given that access to finance, especially for historically disadvantaged BEE SMEs, remains a challenge. The program has demonstrated a clear perception of impediments to SME access to finance along with clearly defined program goals and objectives and steps needed to achieve them. Since its inception, however, FSP has faced a number of serious challenges that have stalled its objective to expand SME lending in SA. These challenges have included structural issues within the SA financial sector, which to-date remains conservative and set in its ways, the global economic and financial crisis that coincided with program launch, and the program's own struggles to find suitable implementing partners capable of taking interventions to scale.

In dealing with these challenges, program management has displayed a significant degree of flexibility and ingenuity in searching for solutions to implementation challenges inhibiting SMEs' access to finance. Since its inception, the program has tried a number of practical and innovative approaches and worked with a variety of partners, including the GoSA, FIs, NBFIs, BSOs, BDSPs, and academic institutions. When one approach has not worked, the program has tried another approach. Rather than move in a linear fashion from problem to solution, the program has moved in a more non-linear and iterative fashion, sometimes taking a step or two backward but done with an eye toward achieving its objectives. For example, FSP continues to search for solutions on issues stalling progress on the DCA guarantees including the possibility of a bond fund in lieu of or to complement the DCA guarantees. The future of the bond fund (like the DCA guarantee) is uncertain, although it does demonstrate once again FSP's willingness to try new and innovative approaches to get around obstacles blocking its path.

The MTE team appreciates the complex and dynamic environment in which FSP operates and the fact that programs of this nature rarely play out as depicted in the program logframe. Success in these environments is often determined by the program's flexibility and ability to innovate. In this sense, the MTE finds that the program has been successful in navigating its way around the SA financial landscape to identify and innovate potential solutions.

Nonetheless, the program lags behind in several important performance indicators. Most prominently, the program has lagged far behind its SME lending targets owing largely to lack of engagement by the Big 4 banks, including a reluctance to lending under the DCA guarantees, and the limited outreach (actual and potential) among the SPVs that have been among the primary recipients of program assistance to date. The potential to achieve or even exceed lending targets over the life of the program still exists, however, given FSP's more recent success in brining ABSA and Standard Bank into the program to develop and launch the POF instrument.

The program has also faced challenges in defining clear approaches to achieve its objectives in the Bankability and Knowledge Management Components. Limited success has been achieved under the Bankability Component where the program has struggled to find appropriate implementing partners. At times the program has invested in significant technical assistance without correspondingly significant returns to date, whether in terms of an increased BDSP services to SMEs or increased SME access to finance. FinFind has substantial potential to achieve its objectives, but like the BDSP grading system and blog, its final success will depend heavily on selecting the right implementing partner. The Knowledge Management blog, like many other blogs or learning communities, risks insignificance in the broader context of the internet information supply, and in such a case, would struggle to contribute significantly to the information base of black-owned SMEs who are likely to have lower levels of internet access and computer literacy.

Notwithstanding, the Bankability and Knowledge Management Components are works in progress, and their end objectives may yet be achieved. The interventions in these components are sound in principle but (as previously noted) have been hindered in practice by problems with implementing partners. Time remains for the program to find the right partners who are both willing and able to implement the interventions and take them to scale, but it will need to move fairly quickly.

The area where the program has achieved a high level of success is in the Enabling Environment Component. Here there was a very well defined need and the technical support offered by the program was effective in delivering the required support. The clout that comes with the Mission as an arm of the USG gave the program a comparative advantage in pushing forward its proposals. Although policy development is long term and may run beyond the program time frame, this is an area in which the MTE feels the Mission can accomplish a lot in changing and influencing the SA financial sector if the opportunity presents itself.

LESSONS LEARNED

This section summarizes the primary lessons learned emanating from the MTE.

- Selection of suitable implementation partners is critical to project success. This has been particularly noted in the Bankability component, which is yet to deliver significant results.
- Implementation partner capacity is critical to the success of the projects. Partners who do not have significant outreach potential, such as Raizcorp and the SPVs, are unlikely to assist FSP with national rollouts of its products and solutions and are thus unlikely to have a significant impact on the market.
- Establishing effective regulatory systems is a first step to improving access to finance. GoSA has a fundamental role to play in regulating and directing support to SME developing especially in bringing equity for the historical disadvantaged BEE-SMEs. There is great demand for technical support from the GoSA in developing and streamlining such policies.
- To enhance collaboration between programs, USAID must be build mechanisms within the design of its programs. Programs tend to focus on their own objectives, and in turn avoid interacting with each other in a

significant way. Unless it becomes a measurable activity, and a de facto need exists, significant interaction is unlikely to occur.

RECOMMENDATIONS

Drawing on the information in this report, this section presents a list of recommendations for FSP and USAID Southern Africa to consider for the remaining life of the program and/or for future programming decisions. Some of the recommendations may already be under consideration by FSP and the Mission. Recommendations are organized by component and include also general recommendations that cut across components and/or apply to future USAID programming.

ACCESS TO FINANCE

- While South Africa's financial sector is generally sound, it lacks diversification. The dominance of the financial sector by the 4 big banks inhibits competition and innovation. The MTE therefore recommends that the program investigate all Tier 2 FIs as potential partners for scaling up SME lending. The Tier 2 FIs-SA represents a large opportunity to make a difference in the SME market, as they have reasonable capacity in respect of geographic presence, human capital, and financial capital. Tier 2 FIs (both South African and international) also have much greater potential to take SME lending to scale than the SPVs.

- FSP should also consider approaching some Tier 2 FIs-Int and assess their appetite for DCA Guarantees, as their home offices may well be interested. Tier 2 FIs-Int may also have had the exposure to the poorly conceived and managed Khula Guarantee and may therefore be more prepared to consider this opportunity.

- FSP should investigate the possibility of working with established and market-oriented MFIs that might be interested in moving up-market, or that may also already include SME loans in their portfolios.

- FSP should intensify its engagement with the five DCA Guarantee holders to address some of their misconceptions about the guarantee and to allay any fears the lenders may have in dealing with the DCA guaranties.

- FSP should study the issue further and ensure that bond financing is suitable to the business models of the intended borrowers (DCA guarantee holders).

- FSP should continue to work with the Big 4 banks to bring the remaining two banks into the program and to develop and launch the POF and other new financial products.

- FSP should facilitate more forums and expos such as the one done jointly with NSBC to give the SMEs an opportunity to explore other options of financing, and financiers the opportunity to sell their products/services to SMEs.

BANKABILITY

- Both Aurik and Raizcorp experiences have left FSP without a clear implementation strategy for the BDSP tools developed with them. Although some impact will be generated from these interventions, this may not be to the expected level. Although USAID regulations give room for engagement with private sector partners, FSP may also want to consider partnerships with Civil Society Organizations.

- USAID should review with FSP and SAIBL how they can coordinate their respective efforts to produce a mutually acceptable BDSP grading/rating system.

- FSP needs to finalize and launch FinFind as soon as possible to avoid losing the goodwill and momentum it has gained on the market.
- FSP should investigate knowledge management potential of FinFind and consider integrating the blog into it.
- Since the credibility of FinFind will be dependent on the quality of its users (BSOs/BDSPs), FSP should develop a credible vetting process for admission as a FinFind accredited BDSP.
- Since its users (BSOs/BDSPs) will ultimately determine the credibility of FinFind, there should be a credible vetting process for admission as a FinFind accredited BDSP.
- FSP should consider integrating FinFind and the blog in a single host institution. While work on FinFind and the blog has so far focused on content and functionality, sustainability planning should soon move to center stage.
- With regard to a potential exit strategy, the MTR recommends that FSP investigate the possibility of working with SAIPA to host the BDSP grading program and FinFind on condition that it absorbs and uses the skills housed in IBA. Partnering with SAIPA and IBA offers a number of advantages. To begin with, they have a combined membership base of around 6,700 BDSPs that are linked in turn to approximately 1,400,000 SMEs. Second, they are already a regulatory body that does not need government approval to function as such. Third, partnering with FSP would only require an expansion of their current mandate, which is much easier to do than creating a new regulatory body. Finally, both organizations have indicated their willingness to talk to FSP about taking on this role.

KNOWLEDGE MANAGEMENT

- FSP should investigate the possibility of working with SAIPA to host the BDSP grading program and FinFind on condition that it absorbs and uses the skills housed in IBA. The two have a combined membership base of around 6,700 BDSPs that are linked in turn to approximately 1,400,000 SMEs. Second, they are already a regulatory body that does not need government approval to function as such.
- While still searching for a host, FSP should expand discussions on the blog for more informed and varied discussion. As with FinFind, FSP should quickly move to identify an appropriate host for the tool and use the remaining program period to transition the tool to them.

ENABLING ENVIRONMENT

- In view of the high demand for FSP/USAID support from the GoSA in the area of policy development/analysis, this is an area of comparative advantage that should be scrutinized to find other windows of opportunity, not only during the limited remaining timeframe of FSP but also for future Mission programming.

GENERAL

- The MTE is concerned that the program's achievements are not significant within the context of the broader South Africa economy and the millions of SMEs that operate there. Therefore during the two more years remaining to the program, the MTE recommends that FSP focus its efforts on implementing partners that have sufficient capacity to take tools and products to market and achieve significant scale, whether during the life of the program or after the life of the program.
- Related to the previous recommendation, the MTE believes that Mission and project strategy should be guided by a more explicit consideration of cost-benefit tradeoffs. While the MTE understands the reasons

why FSP chose to invest as much time and resources in the SPVs, Raizcorp, and blog as it did, none of these interventions, with the possible exception of the blog, had much chance to achieve significant scale within the market relative to the size of the market, regardless of whether they achieved their specific PMP targets. (The MTE did not encounter much if any evidence suggesting a possible demonstration effect resulting from its work with the SPVs.) Moving forward if the projected scale of an intervention is not significant relative to the size of the problem, then USAID should consider whether the return on the intervention justifies its initial or ongoing support.

- Under the Bankability and Knowledge Management Components, FSP developed FinFind and the blog first and then looked for a suitable organization to host them. An alternative to this approach would have been to select a host institution up front which then actively participated in developing and refining the product. If this had been done with FinFind and the blog, FSP might not be looking for a host at this stage but instead working on rolling out the products and disseminating their benefit nationally. The second of these approaches strikes the MTE team as more preferable, all else equal, both in the specific context of FSP and applied broadly to other USAID programs. In the future, therefore, FSP and the Mission should consider both approaches and select the one that is best for the situation.
- USAID should review with FSP and SAIBL their respective roles to determine how they can better integrate their efforts to address the issues of inadequate SME credit.
- Immediate steps should be taken to promote collaboration between SAIBL2 and FSP, including encouraging SAIBL2 clients to apply for credit at FSP-assisted FIs and developing FinFind to include BDSPs serving both projects.
- FSP should intensify talks with the South Africa Supplier Diversity Council (SASDC) about possible linkages. The SASDC will be one of the few primary formal mechanisms by which SMEs will be linked to corporate South Africa. Working with the SASDC will also provide an excellent opportunity for FSP to engage in meaningful collaboration with its sister USAID-funded project SABIL.

APPENDIX A. SUMMARY OF INDICATOR PERFORMANCE

Indicator #	Key Indicator	LOP Targets	2009-2011 Targets	2009-2011 Achieved	Variance	% Achieved	LOP Variance	% LOP Achieved
PIR 1: Financial Intermediaries' Capacity to Serve the SME Market Improved								
1	Number of Financial Agreements concluded	43000	11,650	556	11,094	5	42,444	1
2	Value of Finance accessed ('000)	2,700,000.00	1,087,050.00	436,032.32	651,017.68	40	2,263,967.68	16
3	No. of management processes modified/verified	15	9	6	3	67	9.00	40
4	Days to turnaround SME loan application	INDICATOR NO LONGER TRACKED						
5	No. of new financial products developed /adopted	10	8	4	4	50	6.00	40
6	No. of Consultative processes developed	15	11	5	6	45	10.00	33
7	No. of Financial Sector professional trained in good standards	210	150	81	69	54	129.00	39
8	No. of Special Fund Loans Issued	800	282	309	-27	110	491.00	39
9	Value of special loans issued	500000	198625	205415.79	-6790.79	103	294,584.21	41
10	No. of DCA guarantee loans issued	41000	10338	53	10285	1	40,947.00	0
11	Amount of private funding mobilized with DCA guarantees	1000000	368750	48572.86	320177.14	13	951,427.14	5
PIR 2: Improve the Bankability of SMEs								
12	No. of SMEs assisted to access finance	7000	3176	75	3101	2	6,925.00	1
13	No. of advisory service providers /TOT trained	1100	506	44	462	9	1,056.00	4
14	No. of SMEs assisted by BDS providers	11875	5395	585	4810	11	11,290.00	5
15	Number of SMEs that successfully accessed bank loans or private equity as a result of USG assistance	INDICATOR NO LONGER TRACKED						

Indicator #	Key Indicator	LOP Targets	2009-2011 Targets	2009-2011 Achieved	Variance	% Achieved	LOP Variance	% LOP Achieved
16	Value of finance accessed through banks, private equity etc. by USG assisted SMEs ('000)	INDICATOR NO LONGER TRACKED						
PIR 3: Reform The Legal and Regulatory Framework Affecting the Financial Sector and Business Environment Stimulating SME Growth								
17	No. of commercial laws and reforms put in place	20	14	0	14	-	20.00	-
18	No. of researches put in place	55	35	25	10	71	30.00	45
19	No. of materials improved in the infrastructure to reduce risk	0	3	5	-2	167	(5.00)	-
20	No. of financial sector supervisors trained	80	58	21	37	36	59.00	26
21	No. of admin. Procedures affecting SME operations improved	7	5	1	4	20	6.00	14
22	No. of policy reforms analyzed	8	6	3	3	50	5.00	38
23	No. of policy reforms analyzed	15	11	3	8	27	12.00	20
24	No. of policy regulation presented for reform	0	3	0	3	-	-	-
PIR 4: Strengthen the SME Finance Knowledge Management System								
25	No. of enquiries to knowledge management system	-1459	840	2773	-1933	330	(4,232.00)	(190)
26	No. of collaborating partners	10	7	4	3	57	6.00	40
27	No. of dissemination events in Knowledge management held	35	19	12	7	63	23.00	34
28	No. of submissions to knowledge management system					-	-	-
		100	35	34	1	97	66.00	34

Source: FSP

APPENDIX B. LIST OF DOCUMENTS CONSULTED

AfriScope. (October 2008). "SME Finance Needs Assessment Qualitative and Quantitative Study in Gauteng Province-Final Report."

Chemonics International Inc. (April 2008). "USAID/Southern Africa Financial Sector Program: A Task Order under the Financial Services Blanket Purchase Agreement." Competitive Range. Technical Response,

RFTOP No. 674-08-001.

Chemonics International Inc. (September 2008). "Financial Sector Program Annual Work Plan: October 2008 - September 2009."

Chemonics International Inc. (December 2008). "Financial Services Program Performance Management Plan."

Chemonics International Inc. (September 2009). "Financial Sector Program Annual Work plan: October 2009 - September 2010."

Chemonics International Inc. (October 2009). "Financial Sector Program Annual Work Plan Performance Report: October 1, 2008 – September 30, 2009."

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Chemonics International Inc. (October 2010). "Financial Sector Program Annual Performance Report: October 1, 2009 – September 30, 2010."

Chemonics International Inc. (January 2011). "Financial Sector Program Quarterly Report: October – December 2010."

Hanney, Peter. (November 2008). "National Credit Regulator Business Process Reengineering – Phase I

Final Report."

Khulisa Management Services. "Financial Sector Program Supply/Demand for Financial Business Services – Gauteng."

Piprek, Gerda. (April 2009). "Development of Strategy Options for SME Financial Literacy Final Report."

Tulchin, Drew. (March 2009.) "Models Of Financial Business Services Case Studies And Lessons Learned From Financial Intermediaries."

USAID. (May 2008). "FSP Task Order."

APPENDIX C. LIST OF PERSONS INTERVIEWED

ABSA
Jan de Kock, National Manager Procurement Finance / ABSA Business Bank

Sisa Ntshona, General Manager ABSA Business Bank

Aurik Incubator
Carien Engelbrecht, Director

Blue Financial Services
Kenneth Fisher, General Manager Small Business Division

Companies and Intellectual Property Registration Office (CIPRO)
Rory Voller, Legal Council

Consumer & Corporate Regulation Division (CCRD)
Zodwa Ntuli, Deputy Director General

McDonald Netshitenzhe, Director Commercial Law and Policy

Department for International Development (DfID)
Graham Symons, Economic Advisor

Department of Trade and Industry
Cas Weber, Director of Donor Funding

Debbie Blanchard

Financial Services Program (FSP)
Terri Kristalsky, Chief of Party

Kristen Kennedy, SME Advisor

Ozius Dewa, M&E Expert

Gerry Meyerman, Policy Specialist

Institute of Business Advisors (IBA)
Martin Theron, Chief Executive Officer

National Small Business Chamber (NSBC)
Mike Anderson, Chief Executive Officer

National Treasury
Yolande Smit, Director Regulatory and Impact Assessment

National Credit Regulator (NCR)
TS Pather, Chief Financial Officer

Nomsa Motshegare, Chief Operations Officer

Old Mutual Masisizane (OMM)
Charmaine Groves, Chief Executive Officer

Raizcorp
Linda Hart, Head of Raizcorp Guiding Academy

Royal Fields Finance
Mncedisi Xego, Chief Executive Officer

South African International Business Linkages Program (SAIBL)
John James, Chief of Party

John Chintsa, Deputy Chief of Party

Lawrence Bilikwana, Program Manager BMOs & BSPs

South African Institute of Professional Accountants (SAIPA)
Shahied Daniels, Chief Executive Officer

Navin Lalsab, Accreditation, Compliance & Development Executive

Spartan
Jaco Louw, Chief Financial Officer

Sanjay Soni, Project Manager

Standard Bank
Mark Seland, Head Debtor Finance

Busisiwe Silwanyana, Director Business Lending

True Group
John Postmus, Manager

USAID Southern Africa
Allan Hackner, Financial Sector Program Manager

Cindy Hattingh, Program Manager Assistant

Charles Mandivenyi, Senior Monitoring and Evaluation Specialist

Leslie Marbury, Deputy Director

Elikana Maroge, Economist

Likza Iglesias, Auditor

Wizzit
Ephan Bosman, Financial Managing Director

APPENDIX D. EVALUATION STATEMENT OF WORK

SECTION C - DESCRIPTION / SPECIFICATIONS/STATEMENT OF WORK

C.1 BACKGROUND

South Africa has achieved impressive economic growth since its emergence as a representative democracy in 1994. In fact, between 2004 and 2007 the country was achieving a consistent GDP growth rate of 5% per year (though, as was the case globally, the rate retreated significantly in 2008 and in fact was negative in 2009 due to the global financial crisis). However, the positive macroeconomic trends of the past two decades mask under1ying challenges that threaten the country's long term stability. The official unemployment rate in South Africa remains stubbornly high at 25.2%, and when including discouraged job seekers (i.e. those that voluntarily give up looking for work) rises to 35.4%. Furthermore, the unemployment rate is double among the youth population (i.e. those aged 18-24). It is estimated that approximately one-half of the population of South Africa lives below the national poverty line. And, income inequality is among the highest in the world. In fact, South Africa's Gini Coefficient, a simple measure of the distribution of income within a country is second highest only to Namibia, meaning that it is one of the most unequal societies in the world. The economic challenges are quite clear. Wealth is concentrated in the hands of too few. Historically-disadvantaged black firms, and in particular small and medium enterprises (SMEs), lack access to the capita l, the technology and the supply chains in order to be competitive, access markets and generate jobs. The workforce, and in particular its youngest members lacks the skills necessary to meet the needs of a dynamic economy.

USA1D/Southern Africa's economic growth programs work to address these issues. Programs are tailored to support South Africa Government (SAG) priorities. Specifically, USAID implements three separate yet complementary programs aimed at addressing SME competitiveness, SME financial product access and workforce skills development. This SOW requests proposals to analyze two of these programs, the South Africa International Business Linkages Program (SAIBL) and the Financial Sector Program (FSP). However, while the evaluations will consider SAIBL and FSP individually, they should also consider the interrelationship of all economic growth programs in the USAID/Southern Africa portfolio, particularly as they relate to the efforts of the SAG and other development actors working in South Africa and within the context of the overall needs of the country.

C.2 OBJECTIVES

This Statement of Work (SOW) solicits proposals for conducting two formative, mid-term evaluations for the USAID/Southern Africa Regional Economic Growth Office. These evaluations will separately consider the following programs: 1) the South Africa International Business Linkages Program (SAIBL); and 2) the Financial Sector Program (FSP), Each mid-term evaluation will assess the success of the individual program in meeting targeted objectives, and, more importantly, propose concrete recommendations for adjustments to program strategy and structure for implementation during the program extension and option period for SAIBL and FSP respectively.

The mid-term evaluation reports will provide crucial guidance for USAID and the SAIBL and FSP implementing partners. Offerors should consider these groups as the report's audience. Each evaluation must provide pertinent information, statistics and judgments that will help USAID and implementing partners better understand the initial results and contributions of the projects, and to identify lessons learned from the programs that can be used to guide the design of appropriate interventions in support of the program objectives. The evaluations will identify key accomplishments, as well as challenges that may have impeded the accomplishment of targeted outputs and higher-level objectives. Evaluators should consider program impact disaggregated by gender, as well as the integration of gender into program activities throughout the evaluation process.

The findings of the mid-term evaluations will inform the design of follow-on activities for SAIBL and the Annual Work-Plans for FSP during their extension and option periods (if exercised) respectively.

C.3 SCOPE OF WORK

South African International Business Linkages Program (SAIBL). SAIBL is a USAID/Southern Africa-financed program awarded through a cooperative agreement to the Corporate Council on Africa (CCA) and implemented in partnership with ECI Africa Consulting (Pty) Ltd and the National Business Initiative (NBI). Awarded on April 1, 2008 SAIBL supports the U.S. Government's Economic Growth Functional Objective in South Africa, aimed at generating rapid, sustained and broad-based economic growth. More specifically, SAIBL supports the Program Area Private Sector Competitiveness and the Program Element Private Sector Productivity. To achieve this SAIBL works to improve the competitiveness of historically disadvantaged black businesses to integrate into domestic and international markets through improved productivity, corporate governance and the development and application of modern technology and marketing practices. SAIBL also supports the Program Area Agriculture and the Program Element Agriculture Sector Productivity, and more specifically the Sub-Element Markets and Trade Capacity.

SAIBL aims to improve the competitiveness of historically-disadvantaged black-owned SMEs. To achieve this SAIBL works to increase SMEs' ability to access quality business services and link into marketing and supply chains. SAIBL includes three program components. First, under the component SMEs, Employment and Sales, SAIBL works to improve the governance and competitiveness of black enterprises through conducting company diagnostics, followed up by focused enterprise level and group interventions to address gaps and weaknesses in the areas of strategic management, leadership, marketing , production and technology, quality management, and human and financial resource management. Under this component SAIBL also works to facilitate networking, matchmaking and linkages for SMEs to business opportunities in the local and international markets. Finally, SAIBL facilitates solutions and support to black enterprises in dealing with the business and health risks of HIV and AIDS. Under the program component Corporations and Linkages, SAIBL conducts sector and value chain analyses to identify areas of growth and opportunity for black enterprises. SAIBL also works with large corporations to improve their policies, practices and outreach to black enterprises in providing advice, technical assistance, training, and procurement opportunities. For example, currently SAIBL is helping to facilitate the creation of the South Africa Supplier Diversity Council (SASDC). SASDC is a membership organization composed of large corporations that commit to increase opportunities for black-owned enterprises to become a part of their supply chains. SASDC will certify identified black suppliers, and where appropriate invest in their development.

Finally, under the program component Associations and Business Development Services, SAIBL works to strengthen the governance and member services of business member organizations and the capacity and number of business service providers (BSPs) offering affordable, quality services to black enterprises. SAIBL also markets service providers to its partners and clients.

Financial Sector Program (FSP)

FSP was designed to support the accomplishment of the U.S. Government's Economic Growth Objective in South Africa. This program is one of three main vehicles to promote vibrant growth of historically-disadvantaged SMEs and reduce unemployment and poverty - generating rapid, sustained and broad-based economic growth in South Africa.

The objective of FSP is to expand access to financial services and lower financing costs for SMEs through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SMEs in South Africa. The ultimate aim is to mitigate market credit risk leading to increased SME access to a range of quality, affordable financial services. More specifically, FSP works in four distinct yet related areas. First, FSP works to improve the capacity of financial intermediaries to provide financial services to SMEs in an efficient, innovative and cost effective manner in response to market needs. Second, FSP works to improve the quality of business service provision to SMEs in a way that will promote access to finance, and to enhance the financial literacy of SMEs by working with a range of BSPs and or their host organizations (BSOs). Third, FSP works to support the development of an enabling environment for SMEs and implementation of legal, regulatory and institutional reforms that will contribute to expanding access to credit for SMEs, especially historically-disadvantaged black-owned SMEs. Finally, FSP works to strengthen SME finance knowledge management systems through working with multiple stakeholders to capture, codify, and share information about access to finance by historically-disadvantaged SMEs.

Deliverables for Each Evaluation Team

The Contractor shall provide the following Deliverables for each mid-term evaluation:

- **Evaluation Plan/Methodology:** The evaluation teams will each submit a draft Evaluation Plan to be approved by USAID/Southern Africa within ten (10) days after the awarding of the Task Order. The plan should describe the methodology to be used, sampling techniques, site selection, information sources, interview protocols, etc. The methodology should describe how the team will work with USAID/Southern Africa staff, implementing partners, program clients, and South African government, civil society and private sector stakeholders in order to solicit feedback on the Evaluation Plan, conduct the evaluation, develop the draft reports and the final debriefings. Upon the evaluation teams' arrival in South Africa, the draft Evaluation Plan/Methodology will be discussed with USAID/Southern Africa and implementing partner representatives and revised accordingly prior to implementation.

- **Work Plan:** The evaluation teams will each submit a draft Work Plan (Operations Plan/Gantt Chart) to be approved by USAID/Southern Africa within ten (10) days after the awarding of the Task Order. Upon the evaluation teams' arrival in South Africa, the draft Work Plan will be discussed with USAID/Southern Africa and implementing partner representatives and revised accordingly prior to implementation.

- **Discussion of Draft Preliminary Final Report:** The evaluation teams will each submit a rough draft of the Final Report to the program COTR two (2) days prior to the Debriefing with USAID/Southern Africa staff. The COTR will provide preliminary comments prior to the final Mission debriefing. This will facilitate preparation of the Preliminary Final Report which will be left with the Mission upon the evaluation teams' departure.

- **Debriefing with USAID:** The evaluation teams will present the major findings of the evaluation to USAID/Southern Africa through a PowerPoint presentation after submission of the Preliminary Final Report and before the teams' departure from country. The debriefing will include a discussion of program achievements and issues as well as any recommendations the team has for possible modifications to the respective project approaches, activities or results. The teams will consider USAID comments and revise the draft Preliminary Final Reports accordingly and as appropriate.

- **Debriefing with Partners:** The evaluation teams will present the major findings of each evaluation to USAID implementing partners (as appropriate and as defined by USAID) through a PowerPoint presentation prior to the teams' departure from country. The debriefing will include a discussion of achievements and activities ONLY, with no recommendations for possible modifications to project approaches, activities or results. The teams will consider partner comments and revise the draft Preliminary Final Reports accordingly and as appropriate.

- **Preliminary Final Report:** The evaluation teams will each submit separate Preliminary Final Reports to the respective program AOTR (SAIBL) and COTR (FSP) prior to the Team Leader's departure from South Africa (n.b. The date of the Team Leader's departure is flexible however the Contractor should plan on a maximum of 20-25 working days for the completion of the entire evaluation, including submission of the Final Report). The written report must clearly describe findings, conclusions, and recommendations. USAID will provide comments on the draft reports within two weeks of its submission. The reports must be submitted electronically and written in English.

- **Final Report:** The evaluation team will each submit separate Final Reports (not more than 20 pages each) not more than five days after USAID/Southern Africa provides written comments on the teams' Preliminary Final Reports (see above). The reports must include the evaluation teams' responses to Mission comments and suggestions. The format must include an executive summary, table of contents, methodology, findings, conclusions and recommendations. The reports must be submitted electronically and written in English.

Final Reports

The Contractor shall submit the Final Report of each evaluation team no later than six weeks after the evaluation start date. USAID/Southern Africa anticipates that both the SAIBL and FSP mid-term evaluations will be completed within a six-week period beginning approximately February 22. 2011. This includes preparation days, in-country work in South Africa, and report writing and finalization.

Logistics

The Contractor will be responsible for organizing all international and in country travel and transportation (including airport pickup) and lodging. USAID/Southern Africa will provide key documents and assistance with scheduling meetings and appointments. Once in country, the evaluation teams can schedule additional meetings as appropriate. USAID Southern Africa will be available to the teams for consultations regarding sources and technical issues before and during the mid-term evaluation process.

C. 4. IMPLEMENTATION AND MANAGEMENT PLAN

The Contractor shall provide contract management necessary to fulfill all the requirements of this Task Order. This includes cost and quality control under this contract.

C.S PERFORMANCE MONITORING PLAN

The Contractor's performance shall be evaluated based on the completion of specific tasks and deliverables as outlined in the Task Order, adherence to the work plan, and reports submitted to the AOTR (SAIBL) and COTR (FSP) respectively.

END OF SECTION C