



Small Enterprise Finance Agency

Accessible Development Finance

Financial Inclusion – Best Policy Practices & Guidelines for SMMEs

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July 2017

Presentation Outline



1. Overview of **sefa**
2. The Role of SMMEs & Co-operatives in addressing Policy Imperatives & financial inclusion
3. sefa operations
4. Developmental impact



Overview of sefa

Background to sefa's establishment



White Paper
on Small
Business
Promotion

1995

Wholesale approach, utilization of existing private sector infrastructure & NGOs for micro-finance

Establishment of
**Khula
Enterprise
Finance**

1996

Facilitation of finance via financial intermediaries through wholesale lending and guarantees

Establishment of
the South
African Micro
Apex Fund
(SAMAF)

2005

Focus on the establishment and support of Micro Finance Institutions and Financial Service Co-operatives

NGP review on
state initiatives
to facilitate
access to finance
for Small
Business

2010

Findings

- *High operating / overhead costs*
- *Duplication of services*
- *Poor market visibility amongst small businesses, and*
- *Poor uptake of the products available*

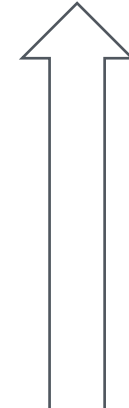
Khula Direct
Pilot (R55m
facility)

2011

*Khula & SAMAF
combined
disbursement =
R143m (2011/12)*

Establishment of
**Small Enterprise
Finance Agency**
(merger of Khula &
SAMAF)

2012



Findings from the sefa Business Case (2011)

- Government support programs are not reaching the sector effectively
- Private sector does not adequately address the SMME funding gap
- Limited number of financial intermediaries requires a focus on direct lending
- SMME development is not a core focus for many DFI's
- Inefficiencies exist in the lending system - product duplication, lack of product enhancement / development, and limited market visibility
- The roll-out of direct lending operations was supported to ensure that the state is closer to its target market as opposed to relying only on wholesale intermediaries

Introducing sefa



Established	April 2012 (merged entity)
Corporate Type	State-owned Company registered in terms of the Companies Act
Executive Authority	Department of Small Business Development (DSBD) (MoU between EDD & DSBD)
Shareholding	100% owned by the Industrial Development Corporation Limited (IDC)
Major Funding Sources	SA Government & IDC
Mandate	To be the leading catalyst for development of sustainable SMMEs and Cooperatives through the provision of finance
Number of employees	239
Governance	Schedule 2 under the PFMA, similar to the shareholder's, the IDC.
	Follows normal company policies and procedures in compliance with the PFMA & the Companies Act, amongst others
	Unqualified audit opinion since establishment

Legislative Framework



sefa derives its legislative mandate from the IDC Act of 1940 (as amended 2001).

Governance and Financial Legislation

- National Credit Act
- Public Finance Management Act
- Companies Act
- Financial Intelligence Centre Act
- Preferential Procurement Act
- Promotion of Administrative Justice Act
- Consumer Protection Act
- Short-term Insurance Act
- Cooperatives Banks Act

Information Legislation

- Promotion of Access to Information Act
- Protection of Personal Information Act
- Protected Disclosures Act
- Electronic Communications and Transactions Act
- National Archives Act
- Copyright Act

Employment and Human Resources Legislation

- Basic Conditions of Employment Act
- Labour Relations Act
- Occupational Health and Safety Act
- Compensation for Occupational Injuries & Diseases Act
- Skills Development Act
- Skills Development Levies Act
- Employment Equity Act
- Unemployment Insurance Act
- Unemployment Contribution Act
- Promotion of Equality and Prevention of Unfair Discrimination Act
- Pension Fund Act



Role of SMMEs and Co-operatives in addressing Policy Imperatives & financial inclusion

SMMEs - important policy instrument



1. National Development Plan (2012)

- NDP target to create 11 million jobs by 2030.
- SMMEs to create 90% of job opportunities.
- Public and private procurement to stimulate demand for SMMEs products and services

2. Industrial Policy Action Plan (2015/16 – 2017/18)

- Prioritisation of labour intensive sectors with the view to increase job opportunities; increasing their participation in global value chains and broadening economic participation.

3. Nine Point Plan (2015)

- Unlock the potential of SMMEs and Cooperatives, township and rural enterprises (Point 7).
 - Support to the informal sector
 - 30% set-aside policy to support SMMEs and cooperatives.

4. 14-Point Economic Recovery Plan (2017)

- In an endeavor to promote an inclusive growth and achieve NDP's Vision 2030, the government proposed 14 interventions across various economic sectors and **more collaboration between the state and the private sector.**



SMMEs policy implementation is informed by the White Paper (1995), National Small Business Act (1996) & the Integrated Small Business Development Strategy.

sefa objectives and SMME Challenges



sefa was established to:

- provide access to finance in an efficient and sustainable manner to the local SMMEs,
- provide wholesale lending to financial intermediaries & direct lending to SMMEs & Co-operatives,
- provide credit guarantee(s) to financial institutions & suppliers that issue funding to SMMEs & Co-operatives,
- facilitate, promote, guide & assist in the financing of:
 - new & existing SMMEs
 - Schemes for the expansion, better organisation & modernisation of the more efficient undertaking of operations in existing SMMEs & Co-operatives,
- promote economic empowerment of the historically disadvantaged communities & persons, and
- encourage the creation and growth of new knowledge-based SMMEs & Co-operation

Challenges faced by SMME's

- ✓ Access to finance and credit
- ✓ Poor physical infrastructure
- ✓ Low levels of research & development
- ✓ Weak linkages between small and larger firms
- ✓ Onerous labour laws
- ✓ Inadequate educated workforce
- ✓ Ineffective government bureaucracy
- ✓ High level of crime
- ✓ Lack of access to markets

The majority of South Africa's SMMEs rarely survive beyond their nascent phases, lasting for an average of less than 3.5 years.



sefa operations

Strategic & operational principles



Market Failure

Catalytic & unlocking latent potential

Transformative & inclusive

Partnership

Target most vulnerable

Targeted ownership groups:

	<i>Targeted % of disbursements</i>
• black entrepreneurs	70%
• women	45%
• Youth	30%
• people in rural communities and townships	45%
• people living with disabilities	2%

In the followings strategic sectors of the economy:

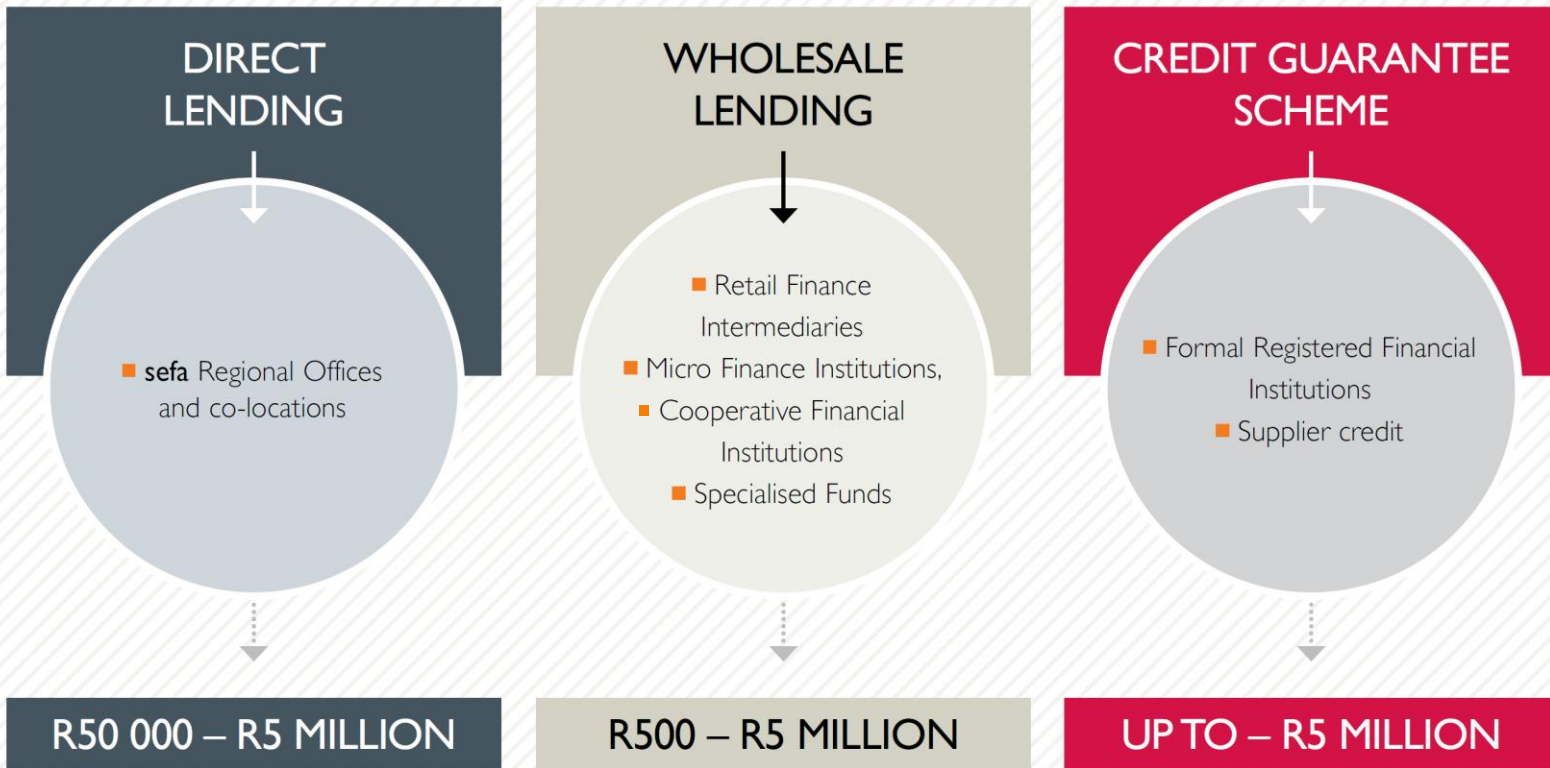
Services (including retail, wholesale and tourism)
Manufacturing (including agro-processing)
Agriculture (especially land reform beneficiaries and contract-farming activities)
Construction (small construction contractors)
Mining (specifically small miners)
Green industries (renewable energy, waste and recycling management)

Strategic differentiation



- High **tolerance for risk** in exchange for high developmental impact
- Provision of capital and/or interest **moratorium** up to 12 months (for term loans)
- Financing SMMEs including **start up businesses** that are often perceived as high risk
- Addressing the financing gap for loans **below R500k**
- Provision of pre and post loan **business support**
- Provision of funding to entrepreneurs with **adverse credit records** provided they can demonstrate active remedy of their indebtedness
- Lending not solely based on **security** backing
- Specific focus on **targeted** groups
- Own **contribution** dependent on entrepreneurs financial ability

Lending model



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

Products & Services

DIRECT LENDING

through **sefa** main offices,
co-locations and SFSs

- Asset Finance
- Bridging Loans
- Revolving Loans
- Term Loans

R50 000 – R5 MILLION

WHOLESALE LENDING

through MFIs, CFIs,
Commercial Banks and
Strategic Partnerships

- Credit Guarantees
- Revolving Loans
- Structured Finance Solutions
- Term Loans
- Equity
- Fund Management Services

R500 – R5 MILLION

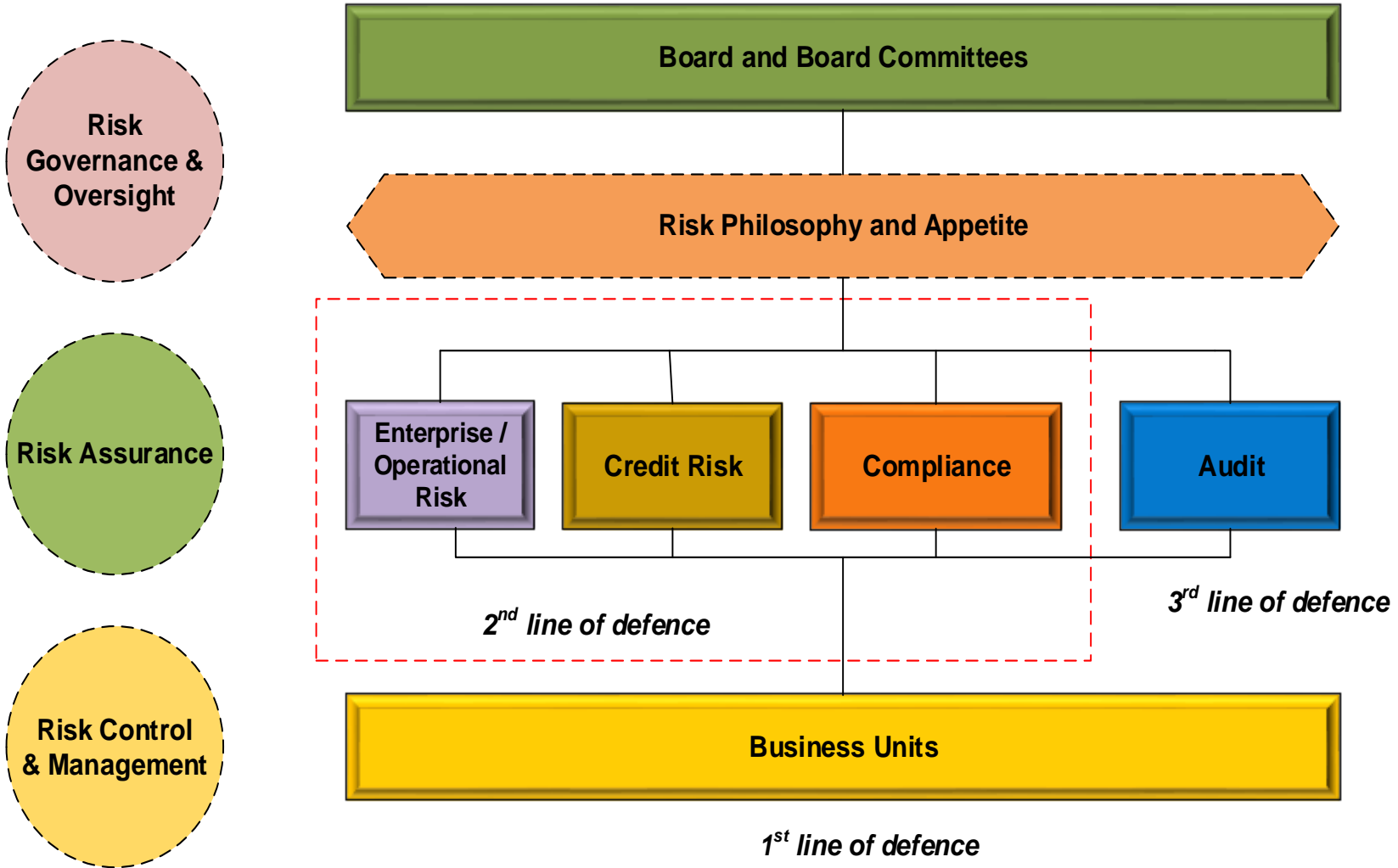
NON-FINANCIAL SUPPORT

through **sefa** main offices

- Post Loan Mentoring
- Institutional Strengthening
- Management and Technical Support
- Board Representation
- Commercial and Industrial Properties

PRODUCT PORTFOLIO

Enterprise Risk Management





Developmental Impact

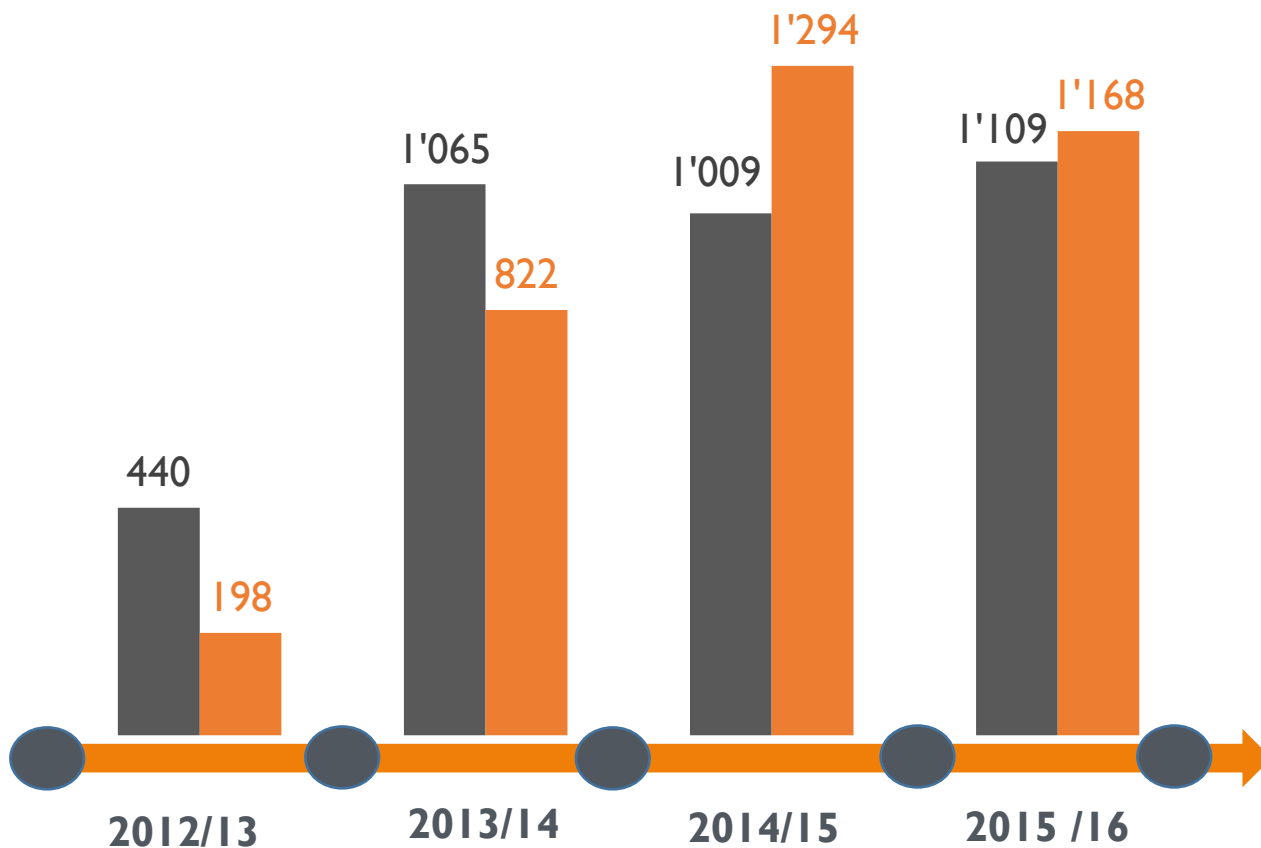
Funding activities



Approvals & Disbursements (R'million)

Cumulative Approvals – R3,6 bn (USD 277 mn)

Cumulative disbursements – R3,4 bn (USD 262 mn)

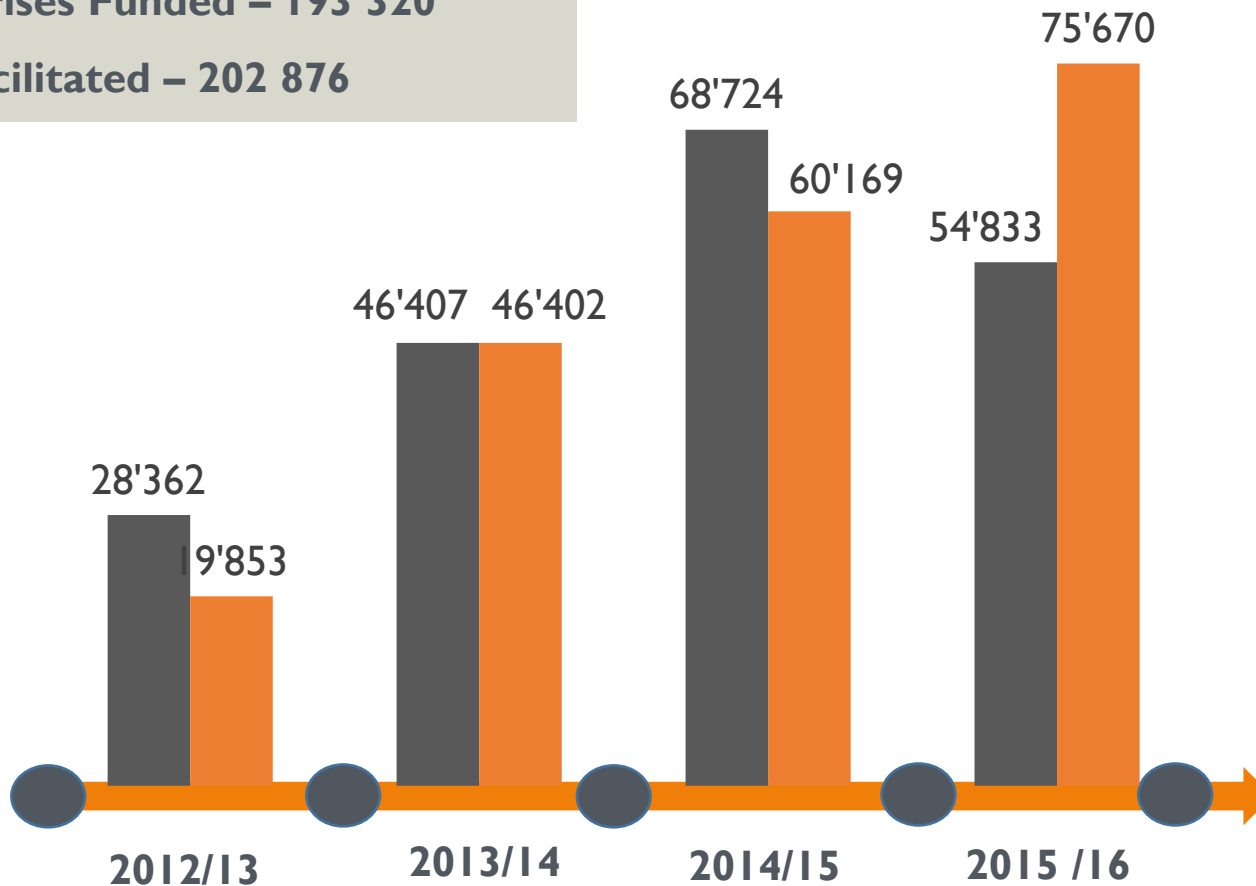


Development impact



Enterprises funded & Jobs facilitated

- Enterprises Funded – 193 320
- Jobs Facilitated – 202 876



Accessible Development Finance

Development impact (% of disbursements)



	2013	2014	2015	2016	
Youth-owned enterprises	16%	21%	23%	24%	R275m US\$21m
Women-owned businesses	39%	49%	37%	41%	R474m US\$36m
Black-owned businesses	78%	81%	74%	79%	R923m US\$71m
Facilities less than R250K	45%	34%	21%	24%	R281m US\$22m
Enterprises owned by People with Disabilities	<i>Not measured</i>		0%	1%	R8.5m US\$0.65m

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Thank you