

Thina Sinako Provincial LED Support Programme
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LED Learning Encounter: Finance for enterprises & LED
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Elizabeth

Record of proceedings

Prepared by:
Programme Coordination Unit
Thina Sinako Provincial LED Support Programme
E-mail: pcu@thinasinako.co.za
Tel: 040 609 5615
Fax: 040 635 0008
Website: www.thinasinako.co.za

1 Presentations

1.1 Introduction to the LED Learning Encounters

Mr John Reynolds, Thina Sinako Programme Coordination Unit

1.2 Presentation on the approach to the development of micro-finance institutions and micro-finance networks that has been followed by the Thina Sinako Provincial LED Support Programme to date

Mr Tomasz Kilianski, Ms Zanele Zeka & Ms Fezeka Maqwati of the Thina Sinako Programme Coordination Unit

1.3 Presentation on experiences in the development of village banks in South Africa

Ms Wezi Ximiya, Sakhubukumkani Cooperative Ltd

1.4 Presentation on the role of microfinance in LED, as well as microfinance availability and challenges

Prof Gerhard Coetzee, Head: Micro Enterprise Finance, ABSA, and Director: Centre for Microfinance, University of Pretoria

2 Points raised during discussions:

The following points were raised during discussions after presentations and during the final discussion session:

- There are many examples of attempts, half-attempts, half-successes & failures – what works? Achievement of project sustainability of 3-5 years is good in the international context, but is this time frame realistic here?
- During the development of the village banks, it was decided to start with something that could be fine-tuned along the way rather than waiting for the perfect model. So far, the village bank experience has shown that poor people can save and can run these institutions. A key factor in the success of an institution such as a village bank is that it must complement successes on the ground.
- A 20% default rate for a microfinance institution is acceptable only in the first year; thereafter the default rate has to improve for sustainability to be possible.
- In response to a question of whether the requirements of the National Credit Regulator have been taken into account in the formation of microfinance institutions such as the ones funded by Thina Sinako, it was noted that the Matatiele Financial Services was registered with the National Credit Regulator. The legislation has a developmental component that gives advantages to development finance institutions.
- When we look at the sustainability of microfinance institutions, we should look beyond “community”. To reach the critical mass to achieve financial sustainability (e.g. cover running costs, etc.) and make a developmental impact, microfinance institutions should look at covering more than 1 or 2 villages – coverage of an area the size of a local municipality would be more appropriate. The area of coverage need not coincide with that of a local municipality – in general, we tend to see political and economic boundaries as the same when they are often not.
- All cooperatives have a financial component; the proportion of this component in relation to the other activities of a particular cooperative would depend on the focus of that cooperative.
- “Going legal” is a challenge with regard to microfinance institutions – do we burden them with regulations, and do we give enough start-up capital?
- The Motswedi Village Bank (the case study presented by Ms Ximiya) is not having much success with loans. The board is very conservative in its approach and is not approving loan applications.
- A loan portfolio of R2.5m to R2.8m is the critical mass for a successful microfinance institution (MFI), with 1000-1300 loans per year – this is the model that the Thina Sinako Programme has been promoting.
- Can MFIs be sustainable if they just give loans without mobilising savings? The National Credit Act makes it very difficult for MFIs to mobilise savings.
- SAMAF and MAFISA arose out of the failures of Khula and the Land Bank – are they doing much better?
- An MFI should focus on the full range of financial services, including credit, savings, insurance and transaction services.
- Only approximately 100,000 of the estimated 2.5 million small and micro enterprises are reached by the MFIs and microfinance practitioners currently in operation.
- If one applies models from elsewhere, e.g. the Grameen Bank experience, one needs to adapt them to local circumstances. One of the rules for a successful application of any microfinance model is that one needs a decent portfolio (in terms of size and quality) that can carry the cost of running the MFI.
- The following are useful web-based resources on microfinance:
 - The microfinance gateway: www.cgap.org

- An international depository of information on microfinance and MFIs: www.mixmarket.org
- One should consider operational and financial sustainability of MFIs – a key question is what the acceptable period is for moving from operational to financial sustainability.
- Non-degree training offered by the Centre for Microfinance at the University of Pretoria covers the following areas:
 - Microfinance and microfinance management (including marketing)
 - Loan officer course
 - Market research course
 - Course on how to react to changes in the environment in which you operate
- Matatiele Financial Services was set up with support from external resources approximately 7 years ago, but training support that was promised has not been provided. It was started with 4 staff members, and still operates with that number. With only 2 fieldworkers, it is difficult to build a portfolio that will make Matatiele Financial Services sustainable and allow it to grow.
- Even if one develops the capacity of MFIs, one could find that they still struggle as the market itself is not entrepreneurial enough. We need to look at the clients that MFIs are servicing – we need more focus on entrepreneurs.
- Matatiele Financial Services focuses on building its clients. People are encouraged to form into groups of 5, with the presence of all 5 required for a meeting to be valid. Strong moral and planning focus, but with emphasis on ownership by members of the group.
- Recommendation: Thina Sinako to facilitate MFI training in partnership with an institution such as the Centre for Microfinance at the University of Pretoria.
- Although it is important to match private and grant funding, MFIs often struggle to obtain private funding without technical assistance.
- The following is a summary of challenges that was summarised from the above:
 - How can microfinance be utilised or leveraged to support the development of business entrepreneurs?
 - Cooperation between financial institutions.
 - Development of the technical capacity of MFIs.
 - Access to finance, e.g. how can we bring a larger percentage of private sector investment funds into MFIs?
 - Legislative framework (including National Credit Act and taxation dispensation) within which MFIs operate – members of AMFISA can influence AMFISA to challenge the legislative environment and the financial system.
 - What is the definitive basket of interventions that the state should employ to support MFIs?
 - The building and maintenance of networks of MFIs and support to MFIs. One of the ways of networking is for microfinance practitioners to get together on a quarterly basis to share experiences. One could also “smuggle” these sorts of discussions into other existing forums or platforms, but has to be aware that discussions within those forums are currently highly politicised and not necessarily conducive to honest and constructive discussion and sharing of experience.

3 Follow-up meeting on coordination of support to MFIs in the Province

A follow-up meeting, which was attended by representatives of the Department of Economic Development & Environmental Affairs (DEDEA), the Department of Housing, Local Government & Traditional Affairs (DHLGTA), the Thina Sinako Programme Coordination Unit (PCU), and Ms Ximiya (one of the presenters from the previous day), focused on the requirements for the creation of a Provincial Financial

Services Forum. The idea of such a forum had previously been mooted during a meeting in the South African Microfinance Apex Fund (SAMAF) offices in East London – that meeting had also been attended by representatives of the Small Enterprise Development Agency (SEDA), the Umsobomvu Youth Fund, the Thina Sinako PCU, and had been chaired by a representative of DEDEA.

Discussions focused on the following in relation to the proposed Provincial Financial Services Forum:

- Types of finance.
- Categories of support.
- Information requirements.
- Agency responsibilities per category of support.
- Milestones

3.1 Types of finance

There was agreement that the following types of finance be dealt with by the forum:

- **MICROFINANCE**
This includes micro-loans (loans up to R 10,000) and micro-savings. This area of finance is currently not well covered by commercial banks.
- **SMALL FINANCE**
This includes small loans and small guarantees (R 10,000 to R 250,000/R300,000). This category of finance is focused on contractors and small businesses. This area is currently not well covered by commercial banks.
- **DEVELOPMENT FINANCE**
Focused on medium-sized enterprises and infrastructure, and includes loan funding, guarantee funding and equity funding. The medium-sized enterprises that are given development finance are usually non-bankable, e.g. start-ups or companies/businesses at the early stages of development.

The following institutions should be included in discussion around microfinance and small finance:

- DEDEA
- DHLGTA
- Department of Agriculture
- ECDC
- MAFISA
- SAMAF
- SEDA
- Uvimba
- Umsobomvu
- SACCOL
- AMFISA
- Bank SETA

The following institutions should be included in discussions around development finance:

- DEDEA
- DHLGTA
- Department of Agriculture
- DBSA
- IDC
- ECDC
- MAFISA
- SEDA
- Uvimba
- Thina Sinako
- SALGA
- Umsobomvu

3.2 Categories of support

The following categories of support were identified:

- Wholesale finance.
 - Loans.
 - Grants for on-lending.
- Information (particularly on operating environment or context).
- Capacity development
 - Human resources (training courses, mentorship, advice)
 - Systems (management, operational procedures, market intelligence)
 - Legal framework
 - Equipment (sufficient and appropriate physical infrastructure – avoid office expenses that cannot be sustained)
- Start-up support
 - Community mobilisation/advocacy (developing understanding of resource endowments, building support for the entity, and mobilisation of support resources and leadership).
 - Wholesale and/or capacity development support
- Networking support
 - Knowledge sharing.
 - Peer group pressure/accountability.
 - Advocacy around the importance of networking.
 - Resource sharing

3.3 Information requirements

Information on the following is required:

- MFIs
 - Typology (who, what, how)
 - Mapping (where)
- Support sources
 - Typology (including funding available, conditions for commitment and disbursement, and capacity)
 - Capacity
 - Mapping
- Market
- Policy and legal context

3.4 Agency responsibilities per category of support

These responsibilities are to be defined in discussion with agencies during the first or early meetings of the proposed Provincial Financial Services Forum.

3.5 Milestones

Milestones are to be defined within the proposed Provincial Financial Services Forum.