Division 41
Economic Development and Employment
Promotion, Trade

Microfinance Associations

The case of Microenterprise Alliance (MEA), South Africa

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TABLE OF CONTENTS

Annexes

Tables

Figures

Abbreviations

AFMIN	African Microfinance Network
AGM	Annual General Meeting
BDS	Business Development Services
DFI	Development Finance Institution
DFID	Department for International Development (UK Government)
DTI	Department of Trade and Industry
FAQ	Frequently asked questions
FINCAP	Micro Finance Capacity Building Strategy
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HIVOS	Humanistic Institute for Cooperation with Developing Countries
KFW	Kreditanstalt für Wiederaufbau
MBA	Master of Business Administration
MCPP	Micro Credit Provision Programme (of TNT)
MEA	Micro Enterprise Alliance
MFA	Micro Finance Association
MFI	Micro Finance Institution
MFRC	Micro Finance Regulatory Council
MFS	Marang Finance Services
MLA	Micro Lenders Association
MODE	MEDUNSA Organisation for Disabled Entrepreneurs
NASASA	National Association of South Africa's Stokvel Associations
NGO	Non-governmental organisation

R	Rand. The exchange rate to the US$ was 10.12 on May 13, 2002.
RFI	Rural Finance Institution
RFS	Rotary Financial Services
SADC	Southern Africa Development Community
SBDC	Small Business Development Corporation
SGB	Standard Generating Body
SIDA	Swedish International Development Co-operation Agency
SMME	Small, Medium and Micro Enterprises
SUMS	S-U Management Services
TNT	The Nations Trust

Summary

South Africa's Micro Enterprise Alliance (MEA) was incorporated in 2000 as a not-for-profit company. Its forerunner was the Alliance of Micro Enterprise Development Practitioners (AMEDP), which was established in 1996. Up to this point an informal network offering micro enterprise development and comprising NGOs, parastatals, commercial banks, micro finance institutions (MFIs) and providers of business development services (BDS) had existed since 1992.

MEA's overall objective is to *build a thriving micro enterprise sector in South Africa. Its mission is to enhance the capacity, efficiency and effectiveness of micro enterprise development agencies.* This is to be achieved through

- advocacy,
- capacity building,
- networking, information dissemination, and
- development of operational standards based on best practices.

The membership of MEA is wide-ranging in terms of purpose, capacity and geographic distribution. It includes very small NGOs based in townships and rural areas, established NGOs, private companies, provincial development corporations, and small and large banks. Alliance members are widely dispersed throughout the country.

At present, MEA has 43 members, of which 27 or 62% are providers of financial services (19 MFIs, 3 banks and 5 finance corporations), while the other members provide business development services (BDS). The majority of MEA members are NGOs. MEA's membership peaked in 1999 when it had 87 members. Most of the members that turned their back on MEA were providers of BDS and housing loans. The drop in membership may be attributed to

- (fore)closure of operations
- merger of organisations, and
- dissatisfaction with the benefits of membership.

Juristic persons or bodies working in the field of micro enterprise development, or organisations providing micro enterprise support services to intermediaries may apply for membership. Organisations interested in MEA membership must be willing to provide proof of legal status, audited financial statements, and a statement of activities. Members have to commit themselves to MEA's Code of Conduct.

MEA's purpose is micro enterprise development. The many micro lenders providing purely cash loans (more than 1,000 throughout South Africa) do not qualify for MEA membership. Most of them belong instead to the Micro Lenders Association (MLA). MLA sees itself exclusively as a lobbying body for its members. It does not have any development objective. There are initiatives by the Government, mainly through the Micro Finance Regulatory

Council, to make cash loan providers a part of the micro enterprise development strategy. MEA would be well advised to open its doors to micro lenders, who are still exclusively in the business of consumer credit, but are, however, considering expanding operations into enterprise lending.

MEA has two distinct groups of members. One group comprises the organisations providing business development services, the other the organisations providing financial services. At present, these two groups are of a similar strength in terms of numbers. In the past, the former group enjoyed an overwhelming majority. MEA's current Board is still dominated by representatives of the group providing BDS. Only three out of nine Board Members represent financial service providers.

The presence of these two substantially different groups under MEA's roof has historical reasons. Both groups were founders of the Alliance. Their common interest is the development of the small and micro business sector, and as such both groups meet the eligibility criterion of the Association.

Harbouring members with different business operations and consequently different interests has caused friction within MEA. It has also obscured MEA's focus and visibility. As a result, advocacy has suffered and MEA's profile has become less visible. The Board and management addressed the problem in 2001, and decided to operate two Chapters under MEA's roof, one representing the membership involved in business development services, and the other representing the members providing microfinance.

MEA is governed by an Executive Committee. It has 9 members and is selected at the annual general meeting of members. It meets 6 times per year. Members are elected for two years. MEA's two chapters are governed by working committees, which are chaired by a member of the Executive Committee. MEA has a staff complement of 6 consisting of:

- Executive Director
- Chapter Officer for BDS
- Chapter Officer for MFIs (a candidate has been approached and should take up office shortly)
- Officer for Publications, Information and Marketing
- Accounting and Administration Officer
- Secretary.

MEA is networking with a number of national and international organisations. It is a member of the- African Micro Finance Network (AFMIN). Due to its reputation as an organisation with outstanding professional experience and commitment, the Government and in particular the Department of Trade and Industry (DTI) seek MEA's advice. As a result, MEA is a member of numerous committees and working groups.

MEA also has a good rapport with donor agencies. At present, it is financially supported by six donor organisations.

Regarding services, in the first instance members see MEA as a means for them to come together, exchange ideas and learn about best practices in the industry. Secondly, members, particularly smaller ones, see MEA as a vehicle to advocate for desired policies and to help set standards for their sector. Thirdly, there is a role for capacity building, although again this is more for the smaller member organisations.

Information collection and dissemination is a major function. Activities in this area are carried out by MEA's Resource Centre. The Centre houses a specialised, catalogued and publicly accessible collection of materials and technical resources for the SMME sector. The impressive achievements of the Resource Centre include:

- Publication of *Update*, the Alliance's quarterly, well designed Newsletter,
- Publication of the Annual Reports of the Alliance,
- Establishment of a website with links to MFRC, among other sites,
- Publications of answers to frequently asked questions (FAQs), and
- Publication of Briefings, which summarise literature on topics of interest to members.

Another activity that belongs under networking and information is the Alliance Annual Rewards Ceremony, which was introduced in 1999. MEA celebrates the success of members in four categories, namely:

- Best Emerging Microfinance Institution
- Best Emerging Business Development Organisation
- Best Established Microfinance Institution, and
- Best Established Business Development Organisation.

MEA has an office of its own in downtown Johannesburg. The total operational cost of the Alliance, including staff salaries, amounted to R2.2 million in 2001. Most of these expenses are borne by donors. In 2001, donor contributions accounted for 86% of total income. In 1999, this figure was 59%; in 2000 80%. Funding of MEA's operations by donors is secured until the end of 2004. In order to increase self-generated income, MEA has decided to increase its membership fee from the current R3,000 to R4,500 in 2004. Efforts by MEA to cover the cost of services, for instance for workshops, have failed. Members argue that payment of membership fees entitles them to free access to services.

With respect to sustainability, there is evidence to show that the Alliance has done well on donor diversity. However, its outreach is limited. The efforts initiated to expand the membership base are urgent. An expanded membership base combined with the intended increase in membership fees will result in a substantial increase in self-generated income. As a result, there will be less need for donor funding.

Abstract

South Africa's Micro Enterprise Alliance (MEA) is a grouping of organisations that provide financial as well as business development services. It started as an informal network in 1992 and was formalised in 1996. It operates from its Johannesburg office and has a total of six staff.

MEA's overall objective is to *build a thriving micro enterprise sector in South Africa. Its mission is to enhance the capacity, efficiency and effectiveness of micro enterprise development agencies.* MEA is recognised by the Government for its professional experience and commitment in the field of small and micro enterprise development, and sits on a number of committees and working groups established by the Government that are involved in small and micro business development. Its services focus on advocacy, capacity building, networking and information dissemination, and the development of operational standards based on best practices.

MEA has a good rapport with donor agencies. At present, it is financially supported by six donor organisations. In 2001, 86% of MEA's total operational expenses were borne by donor funding.

1. Introduction

In 2001 the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) initiated a series of studies on Microfinance associations (MFAs) in Sub-Saharan Africa. So far, case studies on MFAs in Ghana, Namibia, Niger, Mozambique, and Uganda have been carried out. This paper presents the case of the South African **Micro Enterprise Association** (MEA), which both in terms of its name and membership composition differs from the other organisations studied, as almost 50% of its members are organisations offering business development services (BDS). However, like these other associations, MEA is a member of the Africa Microfinance Network (AFMIN).

Microfinance institutions (MFIs) are playing an increasing role in the development of financial markets in developing countries. They offer financial services to segments of the population that are not serviced by commercial banks. Most of these institutions, particularly in South Africa, offer cash loans. However, the more advanced in terms of financial resources, systems and procedures, are now contemplating the introduction of enterprise lending.

MFAs, as second tier organisations, play an important role in consolidating the microfinance sector by providing support services to MFIs such as advocacy, information collection and dissemination, capacity building, training, marketing, auditing, etc. Donors consider them as partners in their efforts to support the microfinance industry through technical assistance. There are a number of arguments supporting this approach. One is that co-operation with MFAs is considered more effective than dealing with individual MFIs, as there is a wider dissemination of inputs. Furthermore, singling out individual MFIs for technical assistance is problematic, as this would distort markets. This holds particularly true in highly competitive microfinance markets such as the South African one. A further point is that the provision of technical assistance to MFAs adds to their capacity building and reinforces their standing. This is important as many MFAs lack adequate structures and resources, resulting in poor service delivery and inadequate advocacy. Technical assistance provided in the form of grants enables MFAs to improve their operations. The additional services provided are intended to generate additional income, thus improving the sustainability of the organisation.

The fieldwork for this paper was conducted from April 16-26, 2002. In-depth interviews were conducted with all staff members of MEA. Unfortunately, due to a commitment in Italy commencing on April 20, 2002, the Executive Director of MEA, Kachesa Bbendele, was only available for a day and a half. Therefore, most of the information about MEA was obtained from other staff members. The study team also attended a meeting of MEA's Executive Board and presented the background of the mission. In-depth interviews were additionally conducted with the management of six member organisations, the profiles of which are attached under annex 4. The study team also had extensive talks with the management of the Microfinance Regulatory Council (MFRC), including the Chief Executive Officer, Gabriel Davel, the Accreditation Manager, Nomsa Maimane, and the Manager for Special Projects, Rashid Ahmed.

2. South Africa's Financial System and the Micro-finance Sector

2.1 Diversity of South Africa's Financial System

South Africa has two distinct financial systems, which only marginally overlap. One is the highly competitive banking and corporate sector, which is well developed and able to meet all short and long-term financial needs. There is a high degree of sophistication and differentiation in this market segment, allowing for any kind of transformation of risk and term*. Monetary policy (in co-operation with other authorities) and interest rates (through the fixing of its Repro Rates[1]) are determined by the South African Reserve Bank (Central Bank).

The picture is very different as far as the microfinance sector is concerned. There is relatively little service provision for medium and long-term transactions. With respect to short to medium-term transactions, there are strong indications that the available supply does not adequately meet the nature and scale of demand.

In terms of spatial distribution of financial services, there is the sophisticated urban banking sector, providing all types of modern services, whereas the picture in rural areas and townships is very different. Commercial banks tend to have very little, if any, presence in these areas. MFIs that have turned into banks and have a spatial mandate are an exception to this rule (a good example is Teba Bank, see profile under Annex 4). The Post Bank is a significant financial service provider in rural areas due to the Post Office retail system. However, services are limited as yet to deposit taking and money transactions.

2.2 The Banking and Corporate Sector and SMME Lending

The experience of commercial banks in South Africa with small, medium and micro enterprise (SMME) lending is very similar to that of other countries in the region (for instance Botswana). It may be summarised by stating that a number of SMME lending initiatives by various commercial banks were initially started, but all subsequently abandoned at a later stage. One of the initiatives implemented by Standard Bank is reported to have failed to get off the ground and was abandoned after two years. Interestingly, it allegedly became successful after it was carried on at almost the same terms and conditions (as Start-up Fund) by the initiator without Standard Bank. Whether this is true is difficult to judge without full knowledge of the facts. One point, however, can be assumed. Had these initiatives earned the implementing banks profits similar to those common in other operations, they would most likely have carried on these initiatives and not given up. Whatever the facts about this interesting case, the essential message is that, for reasons that have been widely documented, commercial banks have found getting involved in cash flow-based SMME

1 The current key Repro Rate is 11.5%, the Prime Rate 15%

lending difficult, and that specialised lending institutions need to be created or strengthened to provide tailor-made services to SMMEs.

Development finance institutions (DFIs) represent one type of these specialised institutions , although many have been closed in and outside the region due to mismanagement. In many DFIs, mismanagement occurred because essential issues such as ownership were not adequately addressed, leading to nepotism and a lack of accountability and supervision. The Boards of these DFIs had many members from all walks of life, normally political appointees, of whom few were professionals capable of giving direction and guidance. Unfortunately, this historical experience has led to the conclusion that DFIs are not capable of servicing SMMEs. The DFI issue is now being readdressed in a number of countries including South Africa. The proposal of the *Mid-term Review of the National Strategy for the Development and Promotion of Small Businesses in South Africa* (p. 10) recommends that small business finance corporations be established in all regions. An example of a functioning DFI is the former Small Business Development Corporation (SBDC), now called Business Partners. In 1996, the shareholding by the Government was reduced to 50% and the Corporation was mandated to financially assist medium sized enterprises with capital requirements in the range of R150,000 to R15 million. Business Partners has developed a sophisticated range of services and largely assists manufacturing companies.

2.3 The Microfinance Sector

2.3.1 Wholesale Lending : Khula Enterprise Finance Ltd.

Khula Enterprise Finance Ltd., a parastatal wholly owned by the Government, is the only organisation providing wholesale finance to micro lenders in South Africa on a significant scale. At present, most of the funds provided by the Government and donors for on-lending to SMMEs are channelled through Khula. As a result, Khula is an important player in the microfinance industry. It is also of significant importance to MEA's members with a lending operation, as for most of these members Khula is the only provider of on-lending funds.

Mission and Mandate: Khula Enterprise Finance was established in 1996 with the objective to undertake the ambitious task of improving the access to finance for the country's large SMME sector, with special emphasis on the previously disadvantaged population*. Its mission is to develop sustainable microfinance institutions, through which Khula's target group is supposed to be serviced. While there is clear emphasis on this developmental objective, there is, at the same time, a mandate to ensure that its own operations as well as the operations of supported retail finance institutions (RFIs) remain financially self-sustaining.

Products, Resources and Operations: Khula has been conceived as a wholesale finance institution. It provides on-lending funds and seed capital to microfinance institutions, and offers guarantees on a 80:20 risk-taking basis to commercial banks providing credit to SMMEs. For its major products, i.e. loans and guarantees, Khula has defined priority target groups and has set achievement indicators. According to these indicators,

- 56% of total loans and 40% of total guarantees should benefit female clients
- 98% of total loans and 40% of total guarantees should go to black clients, and
- 50% of total loans and 20% of total guarantees should be taken up by manufacturing firms.

Khula has authorised capital totalling R500 million, an interest-free shareholder loan of R100 million, and donor funds held in trust of almost R100 million. The Department of Trade and Industry (DTI) is the sole shareholder. Khula's Board has 15 members representing the Government, the private sector, commercial banks, NGOs and universities. Board members are appointed by DTI.

2.3.2 Microfinance Intermediaries

Microfinance intermediaries in South Africa may be classified as formal and informal. The informal ones comprise the stokvel associations or burial societies, and the rotating savings and credit associations. According to the National Association of South Africa's Stokvel Associations (NASASA), there are an estimated 800,000 such organisations, comprising about 8.25 million members and accounting for R200 million a month in savings.

Most of the formal microfinance organisations are registered with South Africa's Microfinance Regulatory Council (MFRC). As of July 31, 2001, there were 1,263 micro lenders, representing 6,808 branches, registered with the Council. In the year ending 31 July 2001, these lenders had disbursed loans to the value of R13.1 billion, representing 13,491,000 loans at an average loan amount of R974[2]. MFRC estimates that around 200 MFIs offer enterprise lending. The general loan ceiling is R10,000. There are about 70 NGOs that are in the business of enterprise lending.

Three terms are used with respect to formal microfinance intermediaries:

- Retail Finance Institutions (RFIs)
- Microfinance Institutions (MFIs), and
- Micro Lenders.

Frequently, these terms are used interchangeably. However, the operations of these types of institutions differ significantly. Most important in the context of employment creation are the RFIs, as enterprise lending is their major objective. The other two types concentrate on cash and housing loans.

Microfinance institutions tend to operate at the lower end of the SMME spectrum, providing loans sometimes as small as R300 to households and individuals. Most use group lending methodologies where social capital and peer pressure ensure loan repayment[3]. Most of the customers of MFIs are women, many of whom are from marginalised communities and

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2 MFRC Annual Report 2001.
3 A typical example is Marang Financial Services, profiled under Annex 4.

rural areas. Many of the community-based micro credit outlets supported by Khula belong to this category of institutions.

Micro lenders are formal institutions outside the banking system. Most of them are privately owned and engage in lending for domestic and individual consumption purposes (cash loans). They differ significantly from RFIs and MFIs as they do not provide enterprise lending. Their growth in the past couple of years demonstrates the high degree of demand for credit in South Africa. The dubious lending and loan collection practices of some of these lenders have put their operations under the public spotlight. Some of the micro lenders have matured and are now well-established businesses. A common problem is the shortage of funds for on-lending. In order to increase the pace of growth in SMME lending, Khula and bilateral and multilateral donors would be well advised to consider the advanced micro lenders as partners of their operations. The provision of on-lending funds combined with technical assistance could be an incentive for these companies to commence enterprise lending.

Most of the **retail finance institutions** in South Africa

- are Section 21, not-for-profit organisations (NGOs)
- focus exclusively on enterprise lending, and
- refinance their operations through Khula.

Many RFIs in South Africa remain chronically weak and only a few show any prospect of reaching sustainability. The causes of this weakness can be traced to a number of factors which are not country-specific, but which reflect international experience. One major explanation is the lack of ownership with the consequent problems of governance, leadership and guidance, and many RFIs have a notable lack of strategic awareness.

2.3.3 The Microfinance Regulatory Framework

The South African finance market is controlled by a large number of acts and regulations. Most important in the context of microfinance are the Banks Act, the Mutual Banks Act and the Usury Act, in particular the Usury Act Exemption Notice of June 1, 1999, which led to the establishment of the Microfinance Regulatory Council (MFRC).

The **Banks Act** of 1990 regulates the operations of deposit takers. The Act defines deposit taking as a business belonging to banking and therefore subject to regulation by the Reserve Bank of South Africa. The Act imposes a number of requirements including a minimum capitalisation of R50 million, capital adequacy and liquidity requirements. It allows, however, the Minister of Finance to grant an exclusion from the requirements of the Act where the financial intermediation takes place within a group sharing a common bond. This refers in particular to Stokvel Saving and Credit Associations and employee-based savings and credit schemes. The exclusion is granted based on the ruling that such operations are not covered by the term banking business. It is, however, unlikely that micro lenders may benefit from this clause in the Banks Act. As a result, the existing regulatory and supervisory framework presents significant barriers to the establishment of new financial intermediaries taking deposits for micro lending. Moreover, the Reserve Bank's direction for the assessment of credit risk places heavy emphasis on the strength of collateral securing loans. Consequently, the operations of the majority of MFIs would be considered as high risk, demanding high specific provisions and thereby creating another obstacle for deposit-taking by MFIs.

The profiled Teba Bank (see Annex 4) is an interesting case, as it hitherto operated as an employee-based savings and credit scheme, before recently deciding to register as a bank.

The **Usury Act** was formulated in 1968. Its purpose is the protection of borrowers from exploitation or, in the language of MFRC, from *predatory lending*[4]. It falls under the jurisdiction of the DTI, and governs the operations of all banks and non-bank financial institutions providing lending. As the potential beneficiaries of microfinance are predominantly in previously disadvantaged communities, enormous political pressure has been placed on DTI to ensure borrower protection. The core provision of the Usury Act is a general cap on lending interest rates (at present 23%). The main criticism levelled against the Usury Act was that it prevented MFIs from full cost recovery as it was tailored to the business of commercial banks, and did not take into account the much higher administrative cost and risk involved in micro lending. In response to the criticism, the Act was amended in 1992 to exempt loans below R6,000. Further amendments have recently been made (Exemption Note of 1999). They state that:

- Loans up to R10,000 and with terms not exceeding 36 months are exempt from the Act. However, an interest rate ceiling is retained but pegged to a level of ten times the prevailing prime overdraft lending rate. At the current market rate, the ceiling is 150%.
- To qualify for exemption from the Usury Act, micro lenders have to register with the MFRC.
- Micro lenders have to adhere to MFRC's code of conduct in their lending operations.

The Exemption Notice created, through the establishment of MFRC, a mechanism for the enforcement of the Usury Act regulations. In detail, the new regulatory regime[5] requires that

- all micro lenders have to meet standard criteria and have to be formally registered by the MFRC,
- the MFRC monitors comply with the conditions of the Exemption Note,
- a complaints call centre be established and complainants be assisted in resolving complaints,

[4] According to MFRC, predatory lenders prey on desperate clients, most of who belong to low-income groups.

[5] It is worth noting that the new regulatory regime complies with the primary requirements for consumer credit regulations as applied in the European Union.

- micro lenders suspected of contravening the rules be investigated and prosecuted at an independent disciplinary committee,
- strict disclosure rules be enforced,
- over-indebtedness be combated through rules against reckless lending, which should be applied in conjunction with a *National Loans Register* that contains all loans granted by registered micro lenders.

Micro lenders violating the code of conduct may be expelled and will no longer qualify for exemption from the Usury Act.

2.3.4 Obstacles to SMME Lending

The regulations of the Usury Act significantly compromise the sustainability of lending above the R10,000 level. As the funding requirements of small and micro businesses generally exceed the R10,000 level, it is hardly surprising that the financial needs of these businesses are not met by the micro lending industry. There is an urgent need to remove interest rate controls and allow lenders to charge rates that cover their operational costs. The current situation clearly undermines efforts by MFIs to service the SMME sector. It may also be one of the reasons discouraging commercial banks from servicing this sector.

Another reason for the poor performance of the microfinance sector in respect of enterprise lending is the lack of access to loanable funds by for-profit non-bank lenders. Existing funding sources are mostly of a short term and high cost nature. Khula’s operations need to be reviewed with a view to offering its services to all MFIs, i.e. extending its services to for-profit organisations as well. Khula should be encouraged to become a wholesale lender for the whole micro lending industry. Private investment in the sector’s operations is needed in the medium term, and could be made available in two ways. Firstly, commercial banks and insurance companies could invest in Khula. Such a move would benefit both parties, easing private investors’ minds in terms of social obligations, while helping commercial banks play down public demand for more involvement in SMME lending. Khula would also considerably gain from this. Apart from broadening its capital base, Khula would benefit professionally. Representatives of these shareholders would sit on the Board and instil an element of ownership in Khula’s operations.

Secondly, another way of making private investment available for the microfinance sector emphasises the role commercial banks or investment bankers could play as microfinance wholesale lenders. The above mentioned reasons for taking up such a role could equally apply here. If at least some of the commercial banks could agree to such an engagement, then they would bring an element of competition into the market. Like a donor, they should be prepared to provide a package of funding and technical expertise. It is highly likely that the public would greatly appreciate such assistance. As a result, pressure to engage in retail SMME lending on a large scale would fizzle out in the long run. It is conceivable that small businesses which develop a track record with the financial assistance of an MFI may eventually become clients of the commercial bank supporting the respective micro lender.

The shortage of on-lending funds for small and micro enterprise lending requires actions on other fronts as well. The Bank Act and Mutual Banks Act, and their rules on deposit taking operations, represent one such front. The existing requirements discourage the flow of deposits. Amendments are needed to permit qualified micro lenders to take deposits. In their present form, both the Usury and the Bank Act still reflect a school of thought that belongs to another era, i.e. they were written under the previous political dispensation, where authoritarian rule was the order of the day. What is needed today is deregulation on one hand, and strengthening of supervisory and control structures on the other. A very important step in this direction was the establishment of the MFRC which, however, needs further strengthening by extending its mandate so that it can deal with the full range of consumer credit issues. If and when this objective is achieved, the type of consumer protection afforded by the Usury Act will no longer be needed.

It is widely acknowledged in South Africa today that the country's small business promotion system, which was launched in 1995 with the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, has largely failed. Even the Minister of Trade and Industry has made a statement to that effect. This is very regrettable, all the more so since the two pillars of the system, Khula Enterprise Finance and Nsika Enterprise Promotion Agency, the system's window for business development services, were formerly seen as positive developments showing the way forward. Sustained effort is now needed to overhaul all elements of the system including legislation, and ensure that the criticisms made are dealt with. The list of references attached to this report summarises most of the major papers that are relevant in the context of the renewal of South Africa's small business promotion system.

3. The Microenterprise Alliance (MEA)

3.1 History of MEA

In 1992, groups with diverse interests (including NGOs, parastatals, and commercial banks) started informal meetings at Wits University. Their common denominator was concern about the development of the SMME sector in South Africa. They felt that a forum was needed to discuss the constraints of SMME development. Most participants at these meetings represented providers of business development services (BDS) and microfinance. The convenors regarded advocacy and networking as the main purposes of the forum. They wanted to play a role in the reshaping of SMME promotion policy, which was to be expected in the context of the political changes that were taking place during that period. In 1996, after the first battles had been fought and substantial contributions had been made to the new Government's first policy paper on small business development (White Paper on the National Strategy for the Development and Promotion of Small Business), members of the hitherto informal group felt that their voice would carry more weight if they formalised their association. Furthermore, formalisation would facilitate the support of donor agencies they were looking for. The increasing operational expenses of the network could not be borne any more exclusively by the group members, particularly given the fact that some sort of office and secretariat was badly needed. Consequently, they moved to create a membership association called the *Alliance of Micro Enterprise Development Practitioners* (AMEDP). The first chief executive, Ms. Sharda Naidoo, was recruited in the same year. In 2000, AMEDP was registered as a Section 21 (not-for-profit) company and renamed the Micro Enterprise Alliance (MEA). The second chief executive, Professor Kachesa E. Bbenkele, took office in July 2001.

3.2 Vision, Mission and Overall Objective

The Memorandum and Articles of Association of MEA, as entered into on October 13, 2000, state that *the main business of the Company is to promote the common interest of micro enterprise development practitioners in supporting micro enterprise* (Articles 2 and 3). The overall objective of MEA is worded as *building a thriving micro enterprise sector in South Africa*[6]*.* This is to be achieved by

- being responsive to the interests of members and representing these interests,
- sharing information among members and letting them learn from each other, and
- imparting international best practices for improved operations.

6 MEA, A Proposal for Co-funding, 2002, page 4

The latest wording of MEA's Vision Statement reads as follows:

> **Vision Statement**
>
> The vision of the Micro Enterprise Alliance is small and micro enterprise support of the highest standards, building towards a thriving micro enterprise sector in the mainstream of the economy

MEA's Mission Statement is worded as follows:

> **Mission Statement**
>
> The Mission of the Micro Enterprise Alliance is to enhance the capacity, efficiency and effectiveness of micro enterprise development agencies[7]

MEA intends to achieve its mission by

- increasing access to and utilisation of technical resources and information for micro enterprise development organisations,
- positively influencing public issues which may impact on matters of mutual membership interest, and
- maximising the financial sustainability of the Alliance.

3.3 Operational Focus

There has not been much shift other than in terms of emphasis regarding the services offered by the Alliance since its early days. This is largely due to the fact that most active members have been with the Alliance since its inception. Discussions with members have revealed that the size of the organisation plays a substantial role in the emphasis on areas of service. Bigger member organisations tend to emphasise advocacy and networking as the most important areas, while smaller organisations consider capacity building as most important. There is, however, a general tendency among members to give capacity building a backstage role. There are various reasons for this. One is the diverse membership (see next chapter) and the rivalry between the two membership groups, namely MFIs and BDS providers; another, that assisting members in improving their capacity is costly (professionals have to be hired) and only affordable if a sponsor meeting the expenses can be found.

[7] The term *development agency* in MEA's Mission Statement appears to be somewhat confusing. One wonders whether members like Teba Bank or S-U Management Services (see profiles under Annex 4) consider themselves to be agencies. The term "provider of microfinance services/ business development services" is proposed as a more appropriate expression.

Furthermore, there is much more need for capacity building in the microfinance industry than in the BDS industry. The question is how to strike a balance between the needs of the two groups.

The Board and management of MEA have indicated that the following services are important for MEA to operate in. The order is an indication of priority:

- Advocacy
- Capacity building
- Networking, information dissemination, and
- Development of operational standards based on best practices.

3.4 Membership

3.4.1 Statistics

The membership of MEA is wide-ranging in purpose, capacity and geographic distribution. It includes very small NGOs based in townships and rural areas, established NGOs, private companies, provincial development corporations, and small and large banks. Alliance members are widely dispersed throughout the country.

At present the Association has 43 members. A list of all members with type of operation, location, and degree of participation in the Alliance's affairs is attached under Annex 1. 27 members are actively or semi-actively involved in MEA's affairs. Active members are defined as those regularly attending meetings of the Alliance, while those attending the Annual General Meeting (AGM) only are considered to be semi-active members. Of the 43 members, 27 or 62% are MFIs (19), banks (3) or finance corporations (5) – in other words providers of financial services – while the other members provide business development services. The majority of MEA members are NGOs.

The number of members of MEA has dropped significantly over the last couple of years. In June 1999, MEA had 87 members. Membership dropped to 79 in February 2000, and to 41 in July 2001. In 2002 MEA's membership increased slightly to the present level. Most of the members that turned their back on MEA were providers of BDS and housing loans. This is simply explained by the fact that BDS providers were clearly the majority group during the first couple of years. The drop in membership may be attributed to

- (fore)closure of operations
- merger of organisations, and
- dissatisfaction with benefits of membership (see chapter 3.4.).

3.4.2 Membership Qualification Criteria

Juristic persons or bodies working in the field of micro enterprise development, or organisations providing micro enterprise support services to intermediaries, may apply for membership. Organisations interested in MEA membership must be willing to provide proof of legal status, audited financial statements, and a statement of activities. Members have to commit themselves to MEA's Code of Conduct, which is attached under Annex 2.

MEA's membership qualification criteria cover the entire area of micro enterprise development. All organisations that focus their operations either on small business development services or on small enterprise lending are eligible for membership. However, organisations whose core business is not directed to micro enterprise development, like commercial banks, are also eligible if they appropriate a proportion of their assets to any of these two activities. Indeed, this explains the membership of banks like ABSA, Land Bank, or the Southern African Development Bank.

The membership of organisations that provide cash loans is more questionable. Examples profiled in this study are Marang Financial Services or Teba Bank (see Annex 4). Both organisations grant cash loans of which probably only a fraction assists micro businesses. Marang Financial Services estimates this fraction at 30%. However, both organisations strongly intend to start cash flow-based enterprise lending.

The membership of MFIs providing housing loans is also doubtful. Their services clearly do not promote the development of small enterprises. An example is the profiled company Rotary Financial Services (see Annex 4). MEA's membership qualification criteria do not cover organisations providing this service.

The ambiguity regarding MEA's membership has historical reasons. A number of members already existed before the network became a formalised association, and it would have been difficult to drop members that did not meet requirements formulated later. Moreover, the question may be raised as to whether MEA's eligibility requirement is helpful. As historical developments in other countries show, the financial services industry is developing from granting consumer credit to providing the whole range of financial services today available in advanced financial markets, including enterprise lending. This historical perspective suggests that MEA is opening its doors to the many MFIs that, at present, exclusively provide cash loans for consumption purposes, but are contemplating the idea of extending their operations into enterprise lending.

MEA's membership fee has been fixed at R3,000 since its inception. This amount is not a major issue for the larger organisations in their decision to renew membership, but poses a problem for smaller members such as MODE (see Annex 4). If a member fails to pay the membership fee, but would like to remain a member of MEA, the Executive Committee decides on its status. MODE is just such a case, where it was decided that it should remain a member with full membership rights.

Most of South Africa's MFIs providing consumer credit are members of the Micro Lenders Association (MLA). According to MFRC, which is trying to market the idea of enterprise lending to all MFIs, MLA is not helpful at all in this respect. MLA sees itself exclusively as a lobbying body for its members, and does not entertain any developmental objectives.

3.4.3 Looking after the Membership

There is evidence to show that, at least in the past, MEA is not particularly concerned about its membership. One indication is that the Mission was given two different sets of membership lists, another that MEA does not have a written policy on membership issues. Furthermore, if one looks at MEA's income from subscriptions, the past membership figures as presented in 3.4.1 are doubtful. On the basis of income from subscriptions, total membership could never have exceeded 40. The discrepancy between membership figures and subscription income may be explained by the non-paying members MEA had been carrying on all along*. If this analysis is correct, one may conclude that it was largely the non-paying membership that left MEA. Be that as it may, there is reason to believe that more attention has to be paid to the issue of membership, in particular to the question of how to attract new members as well as retain existing ones. In detail, one suggestion is that MEA should

- keep more effective membership records,
- establish a written membership policy,
- interview members not renewing their membership, and
- invite potential members to network events.

3.4.4 Membership Diversity and its Implications

As noted, MEA has two distinct groups of members. One group comprises the organisations providing business development services, the other the organisations providing financial services. At present, these two groups are of similar strength in terms of numbers. In former days, an overwhelming majority belonged to the first group. MEA's current Board is still dominated by representatives of the group providing BDS. Only three out of nine Board Members represent financial service providers.

The presence of these two substantially different groups under one roof has historical reasons. Both groups were founders of the Alliance. Their common interest is the development of the small and micro business sector, and as such both groups meet the eligibility criterion of the Association.

When founding a network, the question of membership diversity requires attention. What is more suitable for the operation of the network? Is it a smaller group of people or organisations that have a very specific common interest, or is it a broad representation of loosely connected organisations? There is probably no general answer to this question. Much depends on the circumstances of the network. As far as MEA is concerned, the existence of two factions within the network has been the cause of friction. There have been accusations that one group has benefited more than the other from the network's activities, and there has been general frustration leading to resignations. Critical observers note that the rivalry between the two mainstream factions of MEA has paralysed the Network's operations and impedes the effective delivery of services. They claim that advocacy particularly suffers, as MEA's profile is not clearly noticeable due to a lack of focus.

An interesting observation is that, despite the Board majority of BDS providers, most of the capacity building services offered by MEA during recent years have benefited MFIs. All the training programmes developed by MEA were for loan officers, and efforts to develop and define, together with the Government, national standards, benchmarks and competencies for people working in commerce and finance have focused on the microfinance industry (see 3.7.2.1). It is difficult to say whether MEA's emphasis on microfinance was the result of the influence of the Alliance members representing MFIs. It is more likely that the emphasis was incidental*, in particular as almost all MEA's activities in terms of capacity building were funded by donors. Moreover, capacity building measures for MFIs are more readily available than for providers of BDS (see also 3.7.2.2).

What way forward can MEA take? Excluding either of the two main factions of MEA is out of the question. The Board and management therefore decided to take a route that creates a basis for a more focused and visible operation. It was proposed to operate two Chapters under MEA's roof, one representing the membership involved in business development services, and the other representing the members providing microfinance. This logical and reasonable proposal was approved at the 2001 AGM and has in the meantime been implemented. In terms of administration, MEA intends to have a Programme Officer for each of the two Chapters.

To make the new structures work, it is important that the two Chapters work quite independently. To achieve this independence, it appears indispensable that the two Chapters have their own Committees/Boards that can make decisions on Chapter activities and report to MEA's Executive Committee.

The mix of financially strong and financially weak members causes problems as well. Both groups pursue different interests with their membership. For the stronger ones, it is basically advocacy that counts, while the weaker ones in the first instance need capacity building support. When asked about the benefits they gain from their membership, members in general expressed satisfaction. Many expressed their willingness to pay a higher fee, if the need arises. However, smaller organisations are not happy with the downscaling of capacity building efforts. When, of late, MEA requested a fee of R500 for a capacity building workshop intended to cover the cost of the workshop, the response by members was poor, with members actually questioning what their membership fees were for.

3.5 Organisation

3.5.1 Governance Structure

As already noted, MEA is a Section 21 (not-for-profit) company (NGO). The highest decision-making body of MEA is the Annual General Meeting (AGM) of members, which has to be convened by MEA's Directors/Executive Committee Members at least once a year. The quorum of AGMs has been set at 25% of MEA's membership. AGMs are chaired by the chairperson of the Executive Committee (Board of Directors). The most important function of the AGM is the election of MEA's Executive Committee members. At present, the Executive Committee has 9 members.

The Executive Committee is the governing body of the Network. It is in charge of the Network's policy and direction. It appoints MEA's Executive Director and other staff members, and supervises MEA's management.

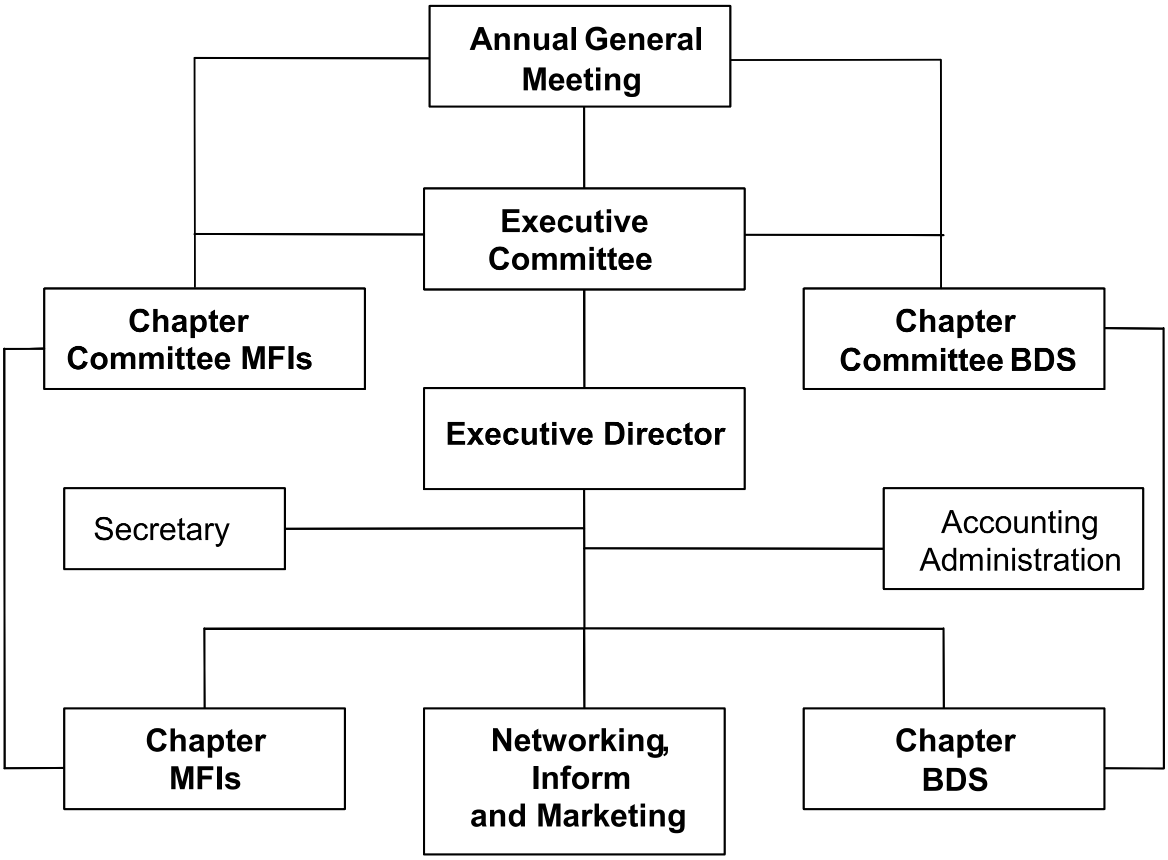
The Executive Committee meets 6 times per year. Members are elected for two years. There are two Executive Sub-Committees, the Audit Committee, and the Human Resource Review Committee.

MEA's two Chapters (see above) are governed by working committees, which are chaired by a member of the Executive Committee. This ensures efficient reporting to MEA's governing body.

3.5.2 Organisational Structure

The organisational structure of MEA is as per the following organisation chart:

Figure 1: Organisation Chart of MEA



MEA has a spacious office in downtown Johannesburg with two meeting rooms, sufficient computers and other facilities, and a small library. It has its own website. MEA does not have branches in other parts of the country. It has a staff complement of 6. They are:

- Executive Director
- Chapter Officer for BDS
- Chapter Officer for MFIs (has been approached and should take office shortly)
- Officer for Publications, Information and Marketing
- Accounting and Administration Officer
- Secretary.

MEA has job descriptions for all staff. The Chapter Officers are responsible for the activities of the two chapters. Previously, MEA had a Programme Co-ordinator and a Programme Officer responsible for all network activities except for information dissemination, which was looked after by an Information Co-ordinator. As noted, MEA intends to become more focused with the new segmentation of its operations. In more detail, the **Chapter Officers** have the following responsibilities:

- Planning and organising all chapter activities
- Implementing Chapter programmes
- Recruiting consultants when needed
- Maintaining Chapter Committees
- Representing MEA in industry meetings
- Drawing and managing Chapter budgets.

The responsibilities of the Officer for Publications, Information and Marketing are:

- Designing and updating marketing plan for MEA
- Building and maintaining the corporate image of MEA
- Developing and updating a package to sell MEA benefits to potential members
- Designing and maintaining the website
- Acquiring, repackaging and disseminating relevant information
- Publishing ***Update***
- Managing the resource centre
- Updating the membership database.

The **Accounting and Administration Officer** was recruited recently. Prior to the appointment, MEA's accounting was outsourced, which created numerous problems. Administrative matters were looked after by the Secretary. With the new Officer working full time for MEA, administration and accounting is now in one hand, which is sufficient considering the size of the Network. The job description of the Accounting and Administration Officer designates the following responsibilities:

- Writing up books to balance sheet
- Drafting contracts for employees
- Compiling monthly salaries
- Keeping and updating staff files
- Keeping track of leave/sick leave entitlements for all staff
- Completing annual tax year reconciliation for the South African Revenue Service
- Structuring salaries when required
- Issuing invoices and controlling settlement
- Arranging logistics, travel arrangements and financial matters for workshops/meetings
- Arranging financial controls required by donors and setting up specified financial reports
- Preparing year-end financial statements.

3.5.3 Human Resources

None of MEA's staff have been long with the organisation. As noted, the current Executive Director took office in July 2001. The Chapter Officer BDS joined the Alliance in 2000. The Officer for Publications, Information and Marketing had previously left MEA and rejoined the office recently. MEA's staff are enthusiastic about their jobs, though salaries are generally lower than levels in industry. The staff that left seem to have been lured by better salaries or career growth prospects, which a small organisation like MEA cannot offer. MEA regularly has to review conditions of service to retain staff. Its competitiveness can be enhanced by providing an attractive work environment and job satisfaction. Training is an essential part of the work environment package.

As noted, a suitable Chapter Officer MFI has been identified but not yet recruited. He is said to have a strong background in finance. The Executive Director has a strong background in marketing, and supports the Officer for Publications, Information and Marketing, who lacks experience in that regard. More details about the educational and employment records of the Executive Director and the Chapter Officer for BDS are given below.

Executive Director: Holds an MBA (majored in marketing management) from the University of Wisconsin, Madison, USA, and a PhD from the University of Stirling, Scotland. His PhD thesis was on consumer behaviour and international marketing. Was tutor and lecturer at the University of Stirling (1984-86), and later at the University of Natal (1995-98), where he became an associate professor. From 1987-89, he was Chief Executive Officer of the Zambia Confederation of Commerce and Industries, and from 1989-1993 an Executive Director of SADC, heading SADC's Business Council at its Headquarters in Gaborone, Botswana.

Chapter Officer BDS: Holds a Bachelor's Degree in Dramatic Art from the University of the Witwatersrand, Johannesburg (1981). Worked as Operations Support Manager at the Business Opportunities Centre, National Economic Initiative, Transvaal (1993-94). As already mentioned, he joined MEA in 2000.

3.5.4 Administration and Accounting

Administration and accounting systems are sensitive areas in organisations that, like MEA, receive subsidies from governments or donors. MEA used to outsource its accounting, and administrative matters were attended to whenever the workload permitted. This caused many problems. When the Swedish International Development Co-operation Agency (SIDA) considered supporting MEA in early 2000, it requested Price Waterhouse Coopers to carry out an in-depth survey of MEA's administration and accounting systems, and to propose improvements wherever needed. The findings of the survey were made available in July 2000. They revealed that there were many shortcomings that the Alliance needed to address to strengthen its systems, including:

- The need for an accounting manual to document accounting policies and procedures.
- The need to use purchase orders for procurement.
- The lack of a formal procurement policy.
- MEA did not have an inventory list.
- MEA did not have job descriptions and had no policy on staff promotion and dismissal.
- MEA did not have a proper travel authorisation system.

- Annual financial statements, with the exception of 1999, had not been audited.

Price Waterhouse Coopers recommended that MEA come up with an action plan to address the issues raised. This was done, and with the help of the Administration and Accounting Officer who was appointed in 2001, the administration and accounting systems were strengthened and missing elements added. What was required in general terms was the formalisation of existing practices by documenting them, and the introduction of missing systems. As is common in small organisations, in the past MEA had not put sufficient emphasis on the development and documentation of appropriate administration and accounting systems. In an organisation like MEA that is largely funded by taxpayers' money, systems facilitating accountability and ensuring transparency are indispensable.

3.6 Partners

3.6.1 National and Regional Collaboration

From the very onset, MEA has been collaborating with partners within and outside South Africa. These comprise:

- AFCAP, the Microfinance Capacity Building Programme in Africa
- Calmeadow Resource Centre, Canada
- The University of Pretoria,
- South African NGO Coalition (SANGOCO), and
- Khula Enterprise Finance Ltd.

Further, MEA is networking with other national players in the field of small and micro enterprise promotion. It sits on the Board of MFRC, and participates in the Reference Group on Access to Finance for SMMEs, and the National Standards Body for Commerce, Management and Business Studies. The Reference Group on Access to Finance for SMMEs was constituted by DTI. Other members are major banks, industry and business representations, MFRC, and the Reserve Bank. The objective of the Group is to make recommendations to DTI on ways forward to increase access to finance by SMMEs. The first draft of the Group's report was made available in January 2002. An interesting finding is that the NGO microfinance sector is on the decline, while commercial lenders (many former cash lenders) are expanding into the SMME market.

The Alliance is represented on the National Standards Body for Commerce, Management and Business Studies. This body is one of twelve established by the South African Qualifications Authority Act to implement the National Qualifications Framework. The purpose of the co-operation is to be aware of the requirements of the Act with respect to courses existing and being developed for the small and micro enterprise sector.

MEA is a member of AFMIN.

3.6.2 Donors

Financially, MEA is supported by a number of national and international donor organisations. The following table summarises their names, the purpose of the grants, and the period of support.

Table 1: MEA's Donors, Purpose and Size of Support in Rand, 2002-2004

Donor	Purpose	2002	2003	2004	Total
SIDA	Support of core activities	1,100,000	1,000,000	900,000	3,000,000
HIVOS	Capacity building and institutional support	600,000	600,000	600,000	1,800,000
Ford Foundation	Programme cost	450,000	450,000	450,000	1,350,000
Nedcor	Programme cost	300,000	300,000	300,000	900,000
Interfund	Outreach programmes and institutional support		150,000	150,000	300,000
Anglo American Chairman's Fund	Capacity building	150,000	150,000	150,000	450,000
Total		**2,600,000**	**2,650,000**	**2,550,000**	**7,800,000**

3.7 Services

MEA's members are a diverse group looking for different services from the Alliance. They firstly see MEA as a means for them to come together, exchange ideas and learn about best practices in the industry. Secondly, members, particularly smaller ones, see MEA as a vehicle to advocate for desired policies and help set standards for their sector. Thirdly, there is a role for capacity building, although this is again more desired by the smaller member organisations.

3.7.1 Types and Relevance of Services Offered

As noted, MEA's major areas of operation are

- advocacy
- capacity building
- networking and information collection, dissemination, and
- development of operational standards with certification and accreditation.

These service packages, in terms of priority and relevance, apply to members providing BDS as well as to members providing financial services. This may change with the establishment of chapters for the two membership groups. If the chapters develop their own independent life under the roof of MEA, new agendas are likely to emerge, though advocacy and information collection and dissemination are areas that will most likely take centre stage in any new agenda as well.

While advocacy, capacity building and information collection and dissemination are areas on which members can easily agree, developing operational standards is a different thing. This explains why MEA has achieved a lot in the first three areas, but nothing at all in the area of standards. Indeed, it would have been a major surprise had this been any different, for several reasons. First of all, building standards in service industries is generally extremely difficult. Secondly, MEA has two types of service providers. While one can think of certain standards/requirements for MFIs in terms of capitalisation, loan collection, sustainability, etc., it is difficult to establish industry standards for BDS providers. But even with MFIs, it is hard to see what the membership could agree on, in particular given the diverse ownership pattern of member MFIs. How one could deal with the different views on the issue of sustainability, in particular among MEA's clientele, remains problematic. There are a number of MFIs which believe in development rather than sustainability as the number one objective of their operations. They maintain that the Government has to replenish their coffers whenever they are empty. Their point of departure is that they are servicing the disadvantaged, and that this target group is entitled to financial assistance. They dismiss the objection that they are hindering the objective of establishing functioning financial markets, simply because they do not believe that this is the ultimate objective of their existence. This discussion eventually boils down to the issue of having a market-oriented versus an interventionist economy. Given this environment, the question is, does it make sense for an organisation like MEA to have an objective like *Building Operational Standards* on its agenda? Furthermore, is there really the need for such an objective since the emergence of MFRC, which is, after all, mandated to establish and enforce operational standards?

3.7.2 Achievements by Types of Service

3.7.2.1 Advocacy

Objective:
The objective of advocacy is to positively influence public issues which may impact on mutual membership interest.

Advocacy is an area where MEA has done very well since its inception. As advocacy was one of the main reasons for its establishment, this comes as no surprise. Some of the activities undertaken by MEA in the context of advocacy include the following:

- Representing the MFI industry in discussions with Government on the Usury Act of 1968, which resulted in the exemption of loans from R6,000 to R10,000;
- Participating in the advisory panel on the regulation of the microfinance sector, the recommendations of which led to the establishment of MFRC;
- As noted, serving on the Board of MFRC;
- Representing the MFI industry during parliamentary hearings on the activities of micro lenders in 1999;
- Supporting MFRC against the Government when lenders were threatened with the cessation of payroll deduction facilities. While the practice of payroll deductions has grown beyond acceptable proportions, it was not acceptable to threaten lenders without due consultation. Some form of compromise that would satisfy borrowers and lenders was required, and this compromise was achieved;
- As noted, representing the MFI industry on the important DTI-constituted Reference Group on Access to Finance for SMMEs;
- In the context of the South African Qualifications Act, supporting the development of national standards on commerce, management and business by helping to define standards, benchmarks and competencies for people working in the microfinance industry. Standard Generating Bodies (SGB) have been established in all sub-fields, and the Alliance submitted the standards for the microfinance industry to the SGB on Banking and Financial Services;
- Having discussions with MFRC after the National Loans Register was launched, so that a comparable facility could be established for enterprise lenders as well.

3.7.2.2 Capacity Building

Objective:
MEA’s capacity building activities aim at increasing the efficiency and effectiveness of micro enterprise development organisations.

Capacity building in the Alliance has in the past focused on both microfinance and business development services. Until 2000, most activities in this area focused on microfinance. The reason for this development was twofold: one was that the MFI members were much clearer about their needs; the other, that a number of training programmes were available in the area of microfinance. Furthermore, major international donors provided substantial support. Since then the sectoral focus has changed, and BDS has made a comeback.

MEA's achievements in the area of capacity building are quite impressive as well, though there are still major challenges, such as

- operationally and financially weak member organisations
- lack of knowledge on best practices, and
- generally poor services to small and micro enterprises.

As MEA lacks the resources in terms of staff and expertise to offer capacity building itself, it collaborates with other organisations and business consultants to deliver its capacity building function. It developed, in partnership with the University of Pretoria, Khula and AFCAP, the Microfinance Capacity Building Programme in Africa, a National Microfinance Capacity Building Strategy (FINCAP). The strategy aims at empowering MFIs so that they are able to select training courses and technical assistance providers in a manner that will maximise their performance and ensure value for money from the services they receive. The premise for this strategy was deduced from a needs analysis carried out among member MFIs. The decision to develop FINCAP was boosted by the closure of a large number of NGO MFIs in 2000 and 2001 due to lack of professional capacity.

MEA has also developed a number of training courses to meet the standard requirements generated by the SGB on Banking and Financial Services. These courses focus on the following areas:

- Duties of a Micro Credit Officer
- Product Development
- Managing Information Systems in MFIs
- Duties of an Operations Manager, and
- Duties of a Finance Manager.

The courses are run at the University of Pretoria. The Micro Credit Officer course has been run for 2 years with 20-30 participants to date.

Part of the effort to boost the capacity of member and potential member organisations consists of provincial workshops. In 2001, provincial workshops were held on the new market development approach in the context of business development services. This approach is the new paradigm in the development of BDS, and favoured by most donors.

3.7.2.3 Networking and Information Collection and Dissemination

For some members of the Alliance, networking is the sole reason for their membership. During the AGM and workshops, members can meet other people from the same industry. The collection and dissemination of information is another function appreciated by most members. MEA's activities in this area are carried out by its Resource Centre. The Alliance Resource Centre houses a specialised, catalogued and publicly accessible collection of materials and technical resources for the SMME sector. The Officer for Publications, Information and Marketing, who heads the Centre, is responsible for the Alliance's publications, the maintenance of its website, and the sale of Alliance publications. The impressive achievements of the Resource Centre include:

- Publication of *Update*, the Alliance's quarterly, well-designed Newsletter,
- Publication of the Annual Reports of the Alliance,
- Establishment of a website with links to MFRC, among other sites,
- Publications of answers to frequently asked questions (FAQs), and
- Publication of Briefings, which summarise literature on topics of interest to members.

Alliance's *Update* has been referred to as one of the most educational and accessible newsletters about the micro enterprise sector. It has been used by some members to introduce and orientate their new staff to the sector. *Update*'s focus on success stories, development news and policies as well as trends in the sector has been a resounding triumph. Topics covered in recent issues include:

- Theoretical and practical approaches to development finance,
- Lessons learnt from closures of MFIs,
- HIV/AIDS and microfinance,
- Launch and review of Women's Business Matters in South Africa,
- Youth enterprise development, and
- HIV/AIDS Workplace Programme.

There is a new service called Information Repackaging that bundles Updates, Briefings and FAQs and supplies them on a quarterly basis. This service is offered to non-members of the Alliance at a cost per annum of R300 for local subscribers and $60 to international subscribers. The subscribers are also invited to all Alliance functions and seminars. This is an innovative way of selling the Alliance to new members.

The Alliance information service has grown considerably. Its Directory of Microfinance Institutions, which was first assembled in 1998, is the most popular of all publications sold, and is updated regularly. In workshops conducted in the provinces, 85% of members and potential members indicated that information is a key requirement among the services the Alliance offers.

Another activity to be named under networking and information is the Alliance Annual Rewards Ceremony, which first took place in 1999. MEA celebrates the success of members in the following four categories:

- Best Emerging Microfinance Institution
- Best Emerging Business Development Organisation
- Best Established Microfinance Institution, and
- Best Established Business Development Organisation.

3.8 Financial Information

3.8.1 Revenues and Expenditure

Table 2 presents MEA's income and expenses from 1999 to 2001. Total income is divided into operational income, grant income and interest earned. Interest earned is a minor item accounting for about 4% of total income in 2000 and 2001. Total income was R2,304,000 in 2001, of which 86% came from grants. Salaries are the biggest single expense item, accounting for 38% of total expenditure in 2001 and 35% in 2000.

Table 2: Income and Expenses of MEA in R'000, 1999-2001

INCOME	2001*	2000*	1999**
Total Operational Income	**244**	**318**	**195**
Subscription Fees	82	98	105
Training Fees: Capacity Building	104	70	80
Advisory Fees: Capacity Building	21	106	-
Conference Fees	29	35	-
Publications	8	9	10
Total grants	**1,971**	**1,657**	**333**
Ford Foundation	1,190	918	-
HIVOS	318	539	-
Interfund	277	125	-
Anglo American	150	-	-
Others	36	75	333
Interest Earned	**91**	**91**	**38**
TOTAL INCOME	**2,304**	**2,066**	**567**
EXPENSES			
Total Direct Expenses of Services Offered	**433**	**542**	**50**
Conference Expenses	210	118	22
Consultants & Trainers: Capacity Building	118	223	12
Newsletter	98	98	16
Course Design	7	103	-
Total Salaries & Other Expenses	**1,839**	**1,460**	**584**
Salaries	884	707	261
Other Expenses (administration, etc.)	1,053	851	323
TOTAL EXPENSES	**2,272**	**2,002**	**634**
Net Surplus (Loss) of the Year	**32**	**64**	**(66)**
Net Income Brought Forward	**867**	**804**	**870**
Net Income Carried Forward	**899**	**868**	**804**

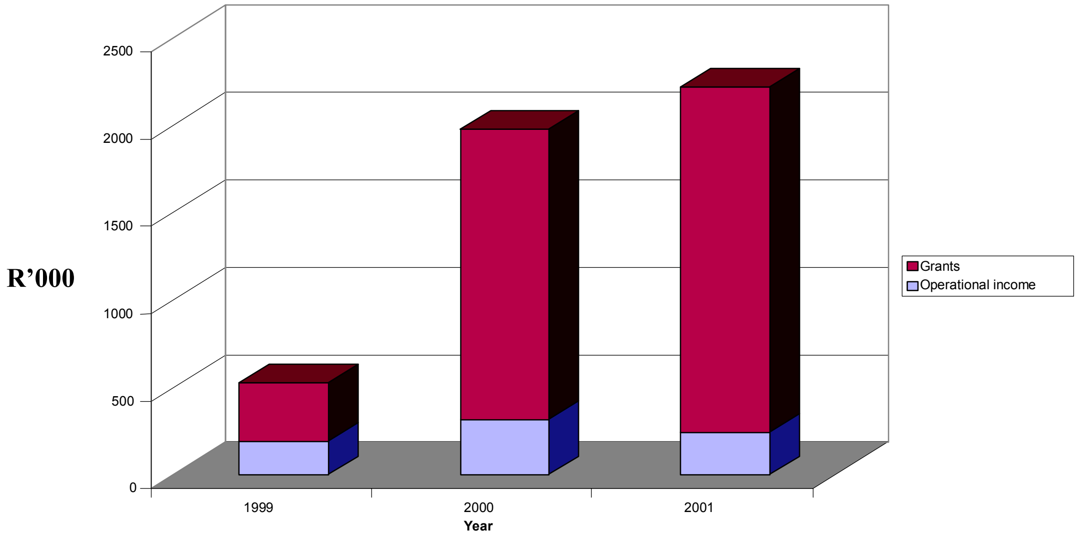
* 12 months ending 31 August
** 5 months ending 31 August 1999

Source: MEA Annual Reports

3.8.2 Increasing Dependence on Grants

While operational income has stagnated during the last three years, grants have grown significantly, and are the biggest income item in MEA's books (Figure 2). They totalled R1,971,000 in 2001, accounting for 86% of total income. The share of grants to total income was 80% in 2000 and 59% in 1999, clearly indicating MEA's increasing dependence on grants.

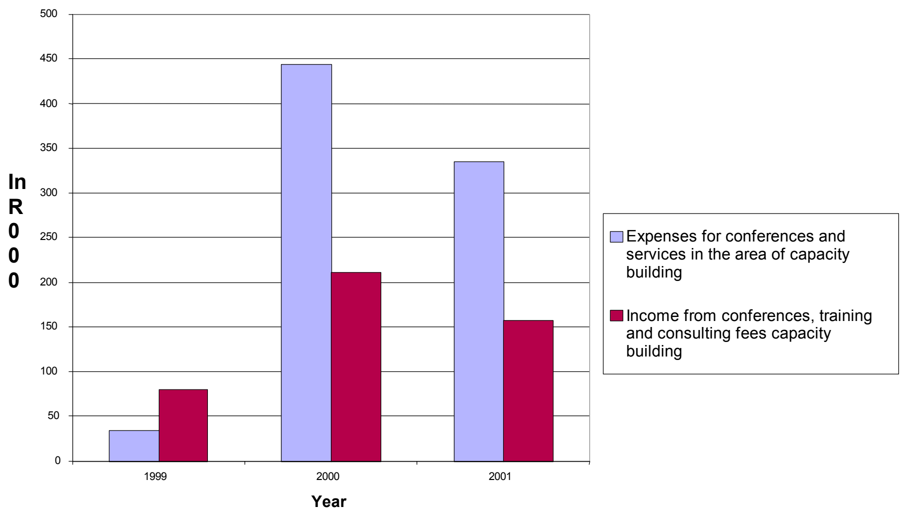
Figure 2: Operational Income and Grants in Comparison



MEA's self-generated income comes to a large extent from subscriptions. Other self-generated income comprises training, conference and advisory fees. However, as shown in Figure 3, with the exception of 1999, fees charged did not cover the cost of these activities, and the balance was made up by grants. In order to increase its self-generated income, MEA intends to increase its membership fee from the current R3,000 to R4,000 in 2003, and to R4,500 in 2004.

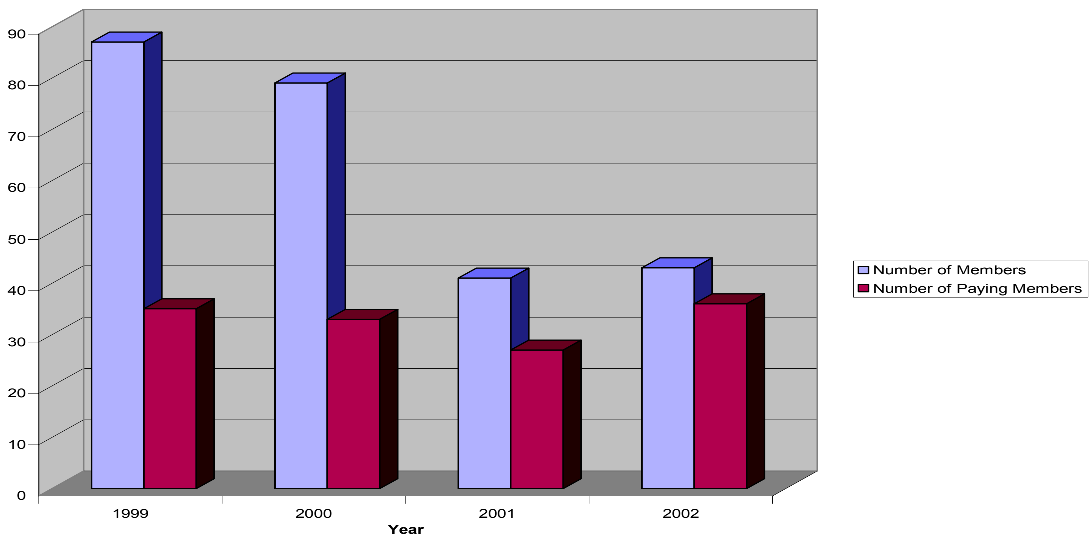
As noted, efforts to cover the cost of services by fees, for instance for workshops, have failed. Participation in workshops dropped to levels below the break-even point when MEA insisted on a fee of R500. The reason for the low level of participation was most likely not any lack of funds on the part of the members, but rather the prevalence of a culture of entitlement. NGOs are used to free services.

Figure 3: Revenues and Expenses on Services, 1999-2000



Of interest in the context of subscription income is Figure 4, which shows the total number of MEA's members as well as the number of members who did not pay membership fees. Although the number of members was much higher in 1999 and 2000 compared to the 2002 figure, self-generated income from subscriptions hardly changed, since in 1999 and 2000 less than half of MEA's members paid the membership fee. In other words, the members MEA lost between 2000 and 2001 were most likely those that did not pay their membership fees.

Figure 4: Number of Total Members and Number of Members not Paying Membership Fees, 1999 to 2002



3.8.3 Financial Projections 2002-2004

Table 3 presents MEA's financial projections in terms of revenues and expenditure for 2002-2004. It is assumed that MEA's membership will increase in 2002 to 46, in 2003 to 58 and in 2004 to 60 members. The grant income from donors is based on the figures presented in Table 1. Though membership dues will increase substantially due to the assumed increase both in the number of members and in fees, the dependence on donor funding will also further rise. In 2002, the projected share of grants to total income is 93%. This share then drops to 90% in 2003 and 88% in 2004.

Table 3: Income and Expense Projections of MEA in R'000, 2002-2004

INCOME	2002	2003	2004
Total Operational Income	**181**	**280**	**322**
Subscription Fees	138	232	270
Fees for Capacity Building	20	22	25
Conference Fees	15	16	18
Publications	8	9	9
Total Grants	**2,600**	**2,650**	**2,550**
Ford Foundation	450	450	450
HIVOS	600	600	600
Interfund		150	150
Anglo American	150	150	150
Nedcor	300	300	300
SIDA	1,100	1,000	900
TOTAL INCOME	**2,781**	**2,930**	**2,872**
EXPENSES			
Total Direct Expenses of Services Offered	**855**	**902**	**988**
MFI Programmes	420	443	483
BDS Programmes	354	389	428
HIV/AIDS, Gender	82	70	77
Total Salaries & Other Expenses	**1,456**	**1,602**	**1,763**
Salaries	966	1,063	1,170
Other Expenses (administration, etc.)	490	539	593
TOTAL EXPENSES	**2,311**	**2,504**	**2,751**
Net Surplus (Loss) of the Year	**470**	**426**	**121**

Source: Internal papers

3.8.4 The Issue of Sustainability

The issue of the sustainability of networks like MEA that provide public and private goods is a controversial one. There is, however, consensus in the national and international microfinance community that a substantial and increasing share of the operational cost of networks needs to be covered by membership fees. In other words: in the long run, networks like MEA have to achieve financial self-sufficiency. However, there is no consensus on the time-frame of the term *long run*.

Financial self-sufficiency requires an adequate membership base or outreach of the network. With 43 members, and in view of the more than 1,300 organisations in the microfinance sector in South Africa alone, one can hardly claim that MEA has done well in reaching out to the industry. However, MEA has now recognised this shortcoming, and has, as noted, set targets for enlarging its membership base.

MEA's performance in terms of financial self-sufficiency is summarised in Table 4. Donor contributions to total operational costs are on the increase and reach above 100%, thereby actually exceeding total operational costs. There is a slight decline in 2004 with 92%. In conclusion, it can be stated that financial self-sufficiency is out of reach for MEA for the foreseeable future.

Table 4: Contributions by Donors to MEA's Operational Costs in %, 1999-2004

	1999	2000	2001	2002 1)	2003 1)	2004 1)
Donor Contribution	52	82	86	112	105	92

1) Projections

Note: In 2002 and 2003 funds expected from donors exceed total operational costs.

In a shorter-term perspective, the issue of sustainability faces another problem: how to bridge the gap until such time as financial self-sufficiency has been achieved. As donors or governments are supposed to bridge the gap under the pretext of the provision of public goods, it is the issue of donor diversity*. MEA has done remarkably well in this respect. As noted, it was able to attract six reputable donors that have pledged to fund MEA's operations until 2004. Moreover, MEA has been able to accumulate current assets to the tune of R1 million covering half of its current annual operational costs and, according to its financial forecasts, is able to generate further surpluses to the tune of another million until the year 2004. It is an indication of sound management that MEA is building reserves. In other words: MEA's operations are sustainable.

4. The Way Forward

4.1 Areas of Concern

There are three areas within MEA's operations that require priority attention by the Executive Board and management. They are:

- The limited outreach of MEA,
- The excessive dependence on donor funding, and
- The need to fix a policy on service charges.

These three areas are interdependent. A higher outreach increases membership dues, resulting in a lower need for donor funding. The same happens if there is agreement on charges for services so that the cost of services is covered by service fees. A crucial element in the context of outreach is the decision to separate MEA's operations into two Chapters. Full and urgent implementation of this decision is needed. The establishment of Chapters for the two industries provides the organisation with the orientation and focus demanded by members. A more focused MEA makes the organisation more visible and consequently more attractive to potential members. As noted, MEA has set targets for its membership drive for the next three years. Though quite modest, these targets should be seen as the beginning of a new start, looking towards a more demand-oriented future.

As far as donor support is concerned, there is reason to believe that the Alliance is operating in an extremely comfortable environment. Donor funding is available as a matter of course. This is potentially dangerous, as such environment leads to complacency.

A firm and consistent policy on service fees needs to be developed. The Alliance should be encouraged to charge service fees for two reasons. One is that charging what it costs the Alliance to deliver instils a kind of business mentality in staff; the other, that the Alliance can improve its record on self-generated income. There is another aspect to the issue of service charges. When members are being charged for services, they are much more critical in their appreciation of those services. When reviewing its service policy, MEA needs to address the issue of priority of capacity building as one of its services as well. Clarification is needed as to what kind of services members expect the Alliance to deliver. This clarification should be one of the first decisions of the new Chapters.

4.2 Areas of Strength

MEA is remarkably strong in advocacy. Its expertise and commitment are acknowledged by the Government and other stakeholders. An indication are the many invitations extended to the Alliance to serve on committees and boards. This may also be one of the reasons why MEA receives substantial donor support. Its strength in advocacy should be a strong point in its efforts to market its services and seek new subscriptions. However, as achievements in advocacy benefit the whole industry, there is not much attraction for potential members to join the club as long as the advocacy job is well done.

Another strength of the Alliance is its strong relationship with the donor community. To be considered for further support after 2004, MEA has to nurture this relationship. Even with an extended outreach and a cost-covering charge for services offered, MEA will still need the support of donors.

- Another strength is the organisational set up and human resources. MEA has a work plan for the two Chapters for the current year. With its young and knowledgeable team, its modern office facilities and the continued support of the donor community, the Alliance should be able to play its role in the further development of South Africa's small and micro enterprise sector.

Annex 1: List of MEA Members

No.	Name	Type	Location	Participation	1999*	2000*	2001*	2002*
1.	ABSA Foundation	Finance	Johannesburg	Passive	x	x	x	
2.	Africa Co-op Action Trust	BDS	Howick	Semi active		x	x	x
3.	African Bank	Finance	Johannesburg	Passive		x	x	re-signed
4.	Agishana	Finance	Pietersburg	Semi active		x	x	x
5.	Artpac	Finance	Johannesburg	Semi active		x	x	x
6.	Basani Business Dev. Services	Finance	Johannesburg					x
7.	Beehive	BDS	Johannesburg	Active	x	x	x	x
8.	Bees Consulting	BDS	Houghton	Semi active	x	x	x	x
9.	Credit Indemnity	Finance	Pietermaritz-burg	Active	x	x	x	x
10.	Decentralized Banking Solutions	Finance	Cape Town	Active			x	
11.	Dev. Solutions Deloitte & Touche	BDS	Gallo Manor	Semi active			x	x
12.	Dev. Bank of S.A.	Finance	Halfway House	Passive	x	x	x	re-signed
13.	Ebony Consulting	BDS	Woodmead	Active				x
14.	Free State Dev. Corp.	Finance	Bloomfontein	Active		x	x	
15.	Gauteng Dep. of Finance		Marshalltown	Passive	x	x		x
16.	Get Ahead Development	BDS	Hatfield	Passive	x	x		
17.	Hollard Community Development	Finance	Marshalltown	Active	x	x	x	x
18.	IFESH		Braamfontein	Active				
19.	Investec	Finance	Sandton	Semi active		x	x	x
20.	Ithala Dev. Fin. Corp.	Finance	Durban	Semi active	x	x	x	x
21.	Khula Enterprise Finance	Finance	Rivonia	Passive	x	x	x	x
22.	Kimberley College	BDS	Kimberley	Passive			x	x

No.	Name	Type	Location	Participation	1999*	2000*	2001*	2002*
23.	Land Bank	Finance	Pretoria	Passive		x	x	x
24.	Letasi Fund Raising	BDS	Kimberley	Active	x	x	x	x
25.	Marang Fin. Services	Finance	Pretoria	Semi active			x	x
26.	Maradadi Handicraft Development	BDS	Claremont	Semi active			x	x
27.	Mineworkers Dev. Agency	BDS	Braamfontein	Active	x	x	x	x
28.	MODE	BDS	Auckland Park	Active	x	x	x	
29.	Mpumalanga Econ. Empowerment Cop.	Finance	Bronkhorst-spruit	Passive				x
30.	New Business Finance	Finance	Claremont	Passive	x	x	x	x
31.	Nicro Enterprise	Finance	Caledon Square	Active	x	x	x	x
32.	Njabulo Investment	Finance	Durban	Passive	x	x	x	
33.	NKWE Enterprise & Finance	Finance	Klerksdorp	Passive				x
34.	Rotary Financial Services	Finance	Bordfontein	Semi active	x	x	x	x
35.	SAB Enterprise Dev. Centre	BDS	Isando	Passive				x
36.	Siyazisiza Trust	BDS	Bryanston	Passive	x	x	x	re-signed
37.	Small Enterprise Foundation	Finance	Tzaneen	Active	x	x	x	x
38.	South Cross Business Dev.	Finance	Clareinch	Passive	x	x	x	re-signed
39.	SUMS	BDS	Durbanville	Active			x	x
40.	Teba Bank	Finance	Halfway House	Active			x	x
41.	The Enterprise Fund	Finance	Swaziland	Passive	x	x	x	x
42.	The Nations Trust	Finance	Auckland Park	Active	x	x	x	x
43.	Thembani Int. Guarantee Fund	Finance	Braamfontein	Active	x	x	x	x

No.	Name	Type	Location	Participation	1999*	2000*	2001*	2002*
44.	Uitenhage Self Employment		Uitenhage	Passive				x
45.	Upstart Business Strategies	BDS	Johannesburg	Active		x	x	x
46.	World Education	BDS	Braamfontein	Active	x	x	x	x
47.	World Vision	BDS	Florida	Passive				x

*Membership fee paid

Active: Attending meetings regularly
Semi-active: Attending AGMs
Passive: Paying membership fees only.

Annex 2: MEA Code of Conduct

The Micro Enterprise Alliance is a membership organisation dedicated to building and maintaining SMME support services of the highest standards and developing a thriving micro enterprise sector in the mainstream of the South African economy. The Alliance strives to do this through enhancing the capacity of, and representing, micro enterprise development organisations.

Members of the Alliance strive to empower people through the provision of credit, training and other forms of support for micro enterprise. In dedicating themselves to the achievement of similar goals, Alliance members have agreed to abide by this Code of Conduct.

Members commit themselves to:

- Meet the needs of their clients in an efficient and prompt manner.
- Serve the long-term interests of their clients, even if this means sacrificing short-term returns for their institution.
- Educate the public and their clients on the needs, strengths and responsibilities of the sector.
- Operate their business with the highest degree of professional conduct, and respect fellow members of the Alliance with professional courtesy.
- Conduct themselves in a manner consistent with the good reputation of their fellow members and the Alliance.
- Constantly monitor the performance of their businesses and strive for ways of improving efficiency and ensuring better delivery of services.
- Work actively towards building sustainable institutions.
- Serve the ongoing learning needs of management and staff of their institutions in order to improve the sector.
- Responsibly manage development funds.
- Submit their institution's financial accounts for annual external audit, in the interests of responsibility and transparency.
- Abide by the guidelines set down by the Regulatory Council, where these guidelines are appropriate to their organisation's activities.

- Build public awareness and trust in the sector by encouraging the sector to meet the highest quality standards.
- Reassess the needs of the sector on a regular basis to ensure that needs are being met in the most efficient and relevant way.

Annex 3: List of Persons Contacted

Name	**Organisation**	**Position**	**Contact Details** (Telephone, E-mail Address)
Bbenkele, K.E.	MEA	Executive Director	011-403 9621/2 kachesa@mea.org.za
Coetzee, B.	SUMS	Managing Director	021-930-9434 barry@sums.co.za
Radinku, Y.	MFS	Managing Director	012-323 1459 yvonner@marang.co.za
Hoffmann, J.	Teba Bank	Managing Director	011-203 1500 jenny@tebabank.com
Maimane, M.	MFRC	Manager Accreditation	011-647 4418 mmaimane@mfrc.co.za
Davel, G.	MFRC	Chief Executive Officer	011-6474400 info@mfrc.co.za
Blom, J.	MEA	Programme Co-ordinator	011-403 9621/2 judy@mea.org.za
Freer, G.	MODE	Programme Manager	011-830 0231 gordon@mode.org.za
du Ploy, Ashley	TNT/MCPP	Director	011-403 0755 ashleydp@icon.co.za
Ahmed, Rashid	MFRC	Manager Special Projects	011-6474439 rahmed@mfrc.co.za
Obernizer, N.	MEA	Administration Manager	011-403 9621/2 infocoord@mea.arg.za
Ziqubu, B.	MEA	Publications, Marketing Off.	011-403 9621/2 infocoord@mea.arg.za
Tlaka, C.	RFS	Managing Director	012-711-0181 keeme@yebo.co.za

Annex 4

Profiles of Selected/Visited Members of MEA

- **Marang Financial Services**
- **Sums**
- **Teba Bank**
- **TNT/MCPP**
- **MODE**
- **Rotary Financial Service (Pty) Ltd.**

MARANG FINANCIAL SERVICES

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1. Operational Information

Background: In June 2000, Marang Financial Services (MFS) was incorporated as a Section 32 company. MFS was established by Khula as the successor to Get Ahead Financial Services (GAFS), in order to rescue the viable parts of GAFS's infrastructure and to ensure the retention of its resources for the communities which had formerly been serviced by its branch network. GAFS had to terminate its operations after cases of misconduct had become public. Subsequent to its initial mandate, MFS also absorbed the remaining branches of the former Rural Finance Facility (RFF).

Legal Status and Ownership: After the most viable parts of GAFS and RFF had been integrated into MFS, its legal status was converted into a Section 21 company upon request by the donor community and Khula Enterprise Finance. While a Section 21 company cannot be changed into a company for gain (for example a Pty), a Section 32 company can. As a result, MFS's new legal status ensures its not-for-profit status. MFS's management is critical of this legal status, emphasising that the ambiguous ownership of not-for-profit organisations often causes problems, and is one of the factors contributing to the frequent demise of NGOs.

Organisational Structure and Staff: MFS is located in Pretoria. It employs a staff of 102. It is run by 11 Board members including the Managing Director and the Financial Director. Board members have a background in accounting, economics and law. The Managing Director graduated in commerce and banking with subsequent long term work experience in the private sector, including a nine-year spell with a German multinational company. Prior to his appointment as Managing Director of MFS, there were assignments with RFF and Khula Finance Ltd.

Outreach and Technology: MFS has 16 branches in five provinces. From its incorporation until March 2002, it has disbursed about 50,000 individual loans amounting to R32.5 million. The number of active individual borrowers has increased, from 5,000 in March 2001 to 13,000 in March 2002. 93% of MFS customers are women and 90% live in rural areas. MFS estimates that about 30% of their loans are used for income generating activities. The lending technology applied is group lending.

Services: At present, MFS provides cash loans only. Borrowers form groups of 5-8 members of which only one member may be male. Loans granted per group member may not exceed

R2,500. Loan terms range from 4 to 9 months and the effective interest rate is 90% per annum. MFS needs this comparatively high rate of interest to cover its huge operational costs. Prior to benefiting from MFS's lending scheme, groups have to save 10% of the loan amount requested. Loan applications are approved subject to the repayment capacity of the group members, which is assessed on the basis of the weekly cash income of the group member families. After the disbursement of the loan, every group member has to save R20 per month. The group loan approach has been chosen to keep transaction costs under control. The group as a whole is liable for the repayment of each group member, either with its savings or with the assets of the individual group members. In addition, the group will not receive any follow-up loan unless all group members have repaid existing loans.

Funding: Grants from Khula Enterprise Finance Ltd and DFID amounting to R4 million in 2001 and R5.1 million in 2002 funded MFS's deficits until March 2002. On-lending facilities were also provided by Khula to the tune of R8 million. Interest on these facilities is 14.5%.

2. Financial Information (in '000 Rand)

	March 2002	March 2001
Total Assets:	9,600	5,700
Total Loans:	7,500	2,600
Portfolio at Risk (overdue more than 30 days):	1.2%	0.4%
Loan Losses (overdue more than 120 days):	0.1%	0
Total Operating Income:	5,100	270
Total Operating Expenses:	9,900	5,920
Total Operating Loss	4,800	5,650
Total Operating Income over Total Operating Expenses	51.5%	4.6%
Number of Active Loan Accounts	13,150	5,130
Loss per Active Loan Account (in Rand)	365	1,110

MFS projects break even of its operation at an active loan account level of 24,000*.

3. Remarks

MFS's operations can be seen as an encouraging example of the increasing professionalism within the South African MFI sector. The sustainability issue is taken seriously, and there is a strong drive to make enterprise lending a core operation. Management is aware of the implications of this additional operation in terms of needed capacity building and additional operational cost. However, MFS's relationship with MEA is not free of tension. Its Managing Director recently resigned from MEA's Board, complaining that MEA's operations are not focussed with* the dual membership of financial and non-financial service providers. The proposed creation of Chapters for both industries under the MEA umbrella does not appeal to MFS. MFS sees advocacy as the most important function of an industry representation. At present, it does not believe that MEA is capable of delivering this function.

Information was provided by MFS's Managing Director, Yvonne Radinku
Johannesburg, April 19, 2002

S-U MANAGEMENT SERVICES SUMS

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Web site: www.sums.co.za

S-U Management Services, known as SUMS, is an atypical member of MEA, as it provides an outsourced, back office solution for the processing of high volume transactions on custom designed computer systems. It was incorporated in 1997 as part of the Micro Business Development Corporation (MBDC Group), which ran what was believed to be the most successful micro lending finance organisation at the time, namely The Start-up Fund. With the forced closure of The Start-up Fund, the group's focus was shifted to the provision of business development services.

At present, SUMS is administering the winding down of The Start-up Fund on behalf of Khula Enterprise Finance Ltd, and managing Landbank's microfinance product called Step Up Loan Ladder. The Step Up Loan Ladder product was initiated in 1996 in accordance with the recommendations of the Report of the Strauss Commission of Inquiry into the Provision of Rural Finance Services.

With a staff of 8, SUMS is processing all operations regarding the Step Up Loan Ladder product, involving 27 branches and about 200 agents on a custom designed computer system. So far 85,460 loans have been processed. The present number of active loans is 49,921. All in all, R158 million has been disbursed, of which R139 million has been repaid. Part of the repayment is a built-in savings component. Total loans outstanding at present amount to R24 million. The total earnings of this product currently stand at R25 million, of which R11 million is interest income, while R14 million has been earned in fees. To a large extent (95%), the Step-up Loan Ladder product benefits the black community, with 60% of all loans going to women.

SUMS's system was designed using Microsoft and Internet-based technology. It overcomes various logistical problems, thus allowing a company to grow to its full potential. The technology uses Microsoft SQL Server, Microsoft Transaction Server, Microsoft Visual Studio as well as Seagate Crystal Reports. SUMS's services are ideally suited to companies with one or more of the following characteristics:

- high volume of transactions
- receipting or payment of amounts on a regular basis that requires reconciliation and monitoring

- the company wants to concentrate on its core business and not on transaction processing
- the company's current transaction processing system is not cost-effective
- the company is in a growth phase and lacks capacity
- the company needs transaction administration but does not want high upfront capital costs.

As noted, SUMS's core business is not in line with the mainstream operations of MEA's members. Nevertheless, the company is a very active member of the Alliance, and its MD serves on MEA's Board. The association with the Alliance stems from the days when the MBDS Group was running the Start-up Fund. SUMS's mass transaction processing technology seems to be *state of the art*. It produces all relevant data on individual accounts and aggregate numbers within minutes and is accessible both by Headquarters and by branches. It permits ATM transactions, and may be an ideal solution for the many micro lenders struggling to keep track of their transactions.

Information was obtained from SUMS's Managing Director, Barry Coetzee
Johannesburg April 17, 2002

TEBA BANK LIMITED

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1. Operational Information

Background: Teba Bank Ltd has its roots in the mining industry. It obtained its banking licence in 2000, and operated prior to this as Teba Savings Fund. The Fund was set up in 1976 by Teba Ltd, the recruitment arm of the mining industry, to provide a number of financial services for mine workers, mine pensioners and their dependants. By early 1990, the restructuring of the gold mining industry forced employers to reassess the role they played in assisting retrenched miners returning to their rural areas where the likelihood of obtaining sustainable employment is poor. A joint labour and employer working group set up to chart the way forward agreed that there was a need to broaden the financial services offered to employees and their rurally-based dependants. The Fund, they agreed, would be converted into a fully-fledged bank to provide financial services to those previously denied access to mainstream financial services.

Legal Status and Ownership: Teba Bank is a public company incorporated under the Bank Act and supervised by the Central Bank. The Bank's sole shareholder is a Trust, which is responsible for providing strategic direction and ensuring that affordable financial services are provided to *all employees in the mining industry, their dependants in rural areas and mining towns, and broader members of rural communities*. The Trust is jointly controlled by the mining industry employers (Mining Chamber) and employees (National Union of Mineworkers). Each party to the Trust nominates three trustees who are responsible for appointing Teba's Board. In 2001, the Bank's capital, including reserves, amounted to R305 million (U$30 million).

Staff and Management: Teba Bank has about 600 staff. Its management, although not from a commercial banking background, is capable, committed, and fully aware of the challenges of a banking operation that includes lending.

Outreach and Technology: Teba Bank Ltd operates 70 branches in and around the gold and platinum producing areas, of which 10 are in the Eastern Cape. It has invested heavily in an effective IT and communications system. A satellite-based online system providing communication with remote areas and real-time transaction processing is in place.

Services: Teba Bank Ltd takes deposits at market interest rates. It offers a funeral insurance product and handles money transactions. Lending is limited to the provision of cash loans. Enterprise lending is under serious consideration, particularly as the increasing retrenchment of mine workers calls for the roll-out of a lending programme that offers financial assistance to those who are capable of running a business. However, such services can only be offered after proper preparation, in particular after adequate enterprise lending skills have been acquired and the respective lending methodologies are in place. At present, Teba Bank is in the process of recruiting a Credit Manager.

Cash loans are only offered to miners on condition that the salary is credited to a Teba Bank savings account. The term of loans is up to 12 months. Customers may apply for up to R10,000. The interest charge is 60%. As yet, around R200 million in cash loans has been disbursed, of which R11 million has been written off. Current arrears of more than 30 days amount to 17% of the loan book.

Funding: Teba's exclusive source of funding is deposits, which amounted to R1.1 billion in 2001.

2. Financial Information (in '000 Rand as of 2001)

Total Assets:	1,200,000
Total Equity:	305,000
Total Deposits:	881,000
Loans:	85,000
Accumulated Provision:	18,000
Net Profit after Taxation for Seven Months	86,000
Net Profit over Total Assets (%)	12
Return on Equity (%)	48

3. Remarks

Teba Bank is well positioned in terms of capitalisation and profitability to extend its outreach and product range. At present, it operates in a secured market with limited risk. This will change as and when enterprise lending is taken up. The uncertain future of South Africa's mining industry poses a major threat, which must be dealt with by product and market diversification.

Teba Bank is a strong supporter of MEA. It considers networking, advocacy and support in capacity building as the most important functions of the Alliance.

Information was provided by Teba Bank's Managing Director, Jennifer Hoffman
Johannesburg, April 19, 2002

THE NATIONS TRUST MICRO CREDIT PROVISION PROGRAMME

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1. Operational Information

Background: The Nations Trust (TNT) was launched in 1995. It aims at empowering young people. Apart from the Micro Credit Provision Programme (MCPP), NTN runs a Business Advice and Support Service (BASS) operation, which is separate from MCPP and has its own accounts. BASS is fully subsidised. As part of its support service, it operates a mentor system. MCPP's target market is un- and underemployed youths between 18 and 35 years of age who are unable to access finance from other institutions. Queen Elisabeth II and Ex-President Mandela are patrons of TNT.

Legal Status and Ownership: MCPP is incorporated as a Section 21 (not-for-profit) company. It is owned by TNT.

Staff: MCPP has 11 staff members of which 8 are loan officers.

Outreach and Technology: So far, 617 businesses have been financed. 51% of borrowers are women. 35% of the total portfolio is granted to businesses in the manufacturing sector. Loans are appraised on the basis of business plan information. Loan officers visit clients' bases of operation. TNT/MCPP has offices in Johannesburg and Cape Town. The Cape Town office manages two-thirds of MCPP's loan book and has 3 loan officers.

Services: MCPP provides financial assistance to young entrepreneurs. It does not grant cash loans. Loan applicants have to have a business plan supporting their loan proposal. Loan sizes range from R500 to R10,000, while loan terms are up to 18 months. Loans are granted on condition that clients

- attend a loan induction seminar
- undergo *Business Basics* training provided by BASS, and
- take on a mentor (also provided by BASS).

The interest charged is 35%. 92% of all loans finance start-ups. The average loan size is R6,722.

Funding: At present, MCPP is operating its *third loan book*, which was set up in 1999 with funds provided by Khula Enterprise Finance. The other two *loan books* were funded with money from TNT and to some extent also by Khula. The performance of the first two *loan books* was a disaster, with total repayments ranging from 20 to 30%. Most operational costs are also paid for by Khula grants, although other organisations also provide operational capital, i.e. ABSA.

2. Financial Information on Third Loan Book (in '000 Rand)

	May 2001-March 2001
• Loan Portfolio:	1,800
• Number of Loan Accounts	165
• Portfolio at Risk (overdue more than 30 days):	27%
• Average Repayment Rate	83%
• Operational Self-sufficiency (interest income over operational cost less cost of funds)	5%

3. Remarks

TNT's MCPP is operating in an extremely difficult market. Its lending technology seems to be weak, lacking stringent systems and procedures. Sustainability appears unattainable under these circumstances. Even operational self-sufficiency, whereby income covers all operational costs except for the cost of funds, seems to be unreachable, let alone the generation of profits. Khula's involvement is difficult to comprehend, given the institution's insistence on sustainable operations within a reasonable time-frame.

Information was provided by The Nations Trust's CEO, Ashley du Ploy
Johannesburg April 22, 2002

MEDUNSA ORGANISATION FOR DISABLED ENTREPRENEURS (MODE)

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Medunsa Organisation for Disabled Entrepreneurs, commonly known as MODE, is a Section 21 (not-for-profit) company dedicated to finding socio-economic solutions for persons with disabilities. MODE aims, according to its mission statement, at "the development, popularisation and recognition of a holistic vocational and economic model that transforms people with disabilities into integrated members of society."

MODE started in 1993 as a Business Development Service Provider specialising in training disabled people on how to conduct a business. In 1997, Karabo Entrepreneurial Finance was established as the finance counterpart to MODE's training activities. After three years of operation, Khula, the funding partner, withdrew from Karabo due to the total failure of Karabo's operations. This failure was partly caused by the concentration on disabled persons only, together with the doubling-up of staff as both loan officers for Karabo and as trainers for MODE. However, the main failing was the lack of accountability and institutional capacity. Though Karabo requested additional loanable funds from Khula, Khula did not respond until today*. The failure of Karabo's operations led to a general crisis in MODE's activities. Currently, MODE is trying to concentrate on its core activities.

With a staff of 18, MODE is currently operating two different "divisions": the Aloga Business Service Centre and the Workshop Transformation & Research division. The operations within the Aloga Business Centre can be described as follows:

- Identifying disabled persons;
- Providing occupational therapy;
- Reporting on the ability of disabled persons to run small businesses;
- Should a person be approved to run a small business, providing an eight-month workshop which the disabled person has to attend once a week;
- After the workshop, the disabled person must be capable of transforming his/her business into a business plan;
- If the business plan is approved, disbursing a grant amounting to R1,500 as an initial capital contribution to the new business;

- Provision of after-care services: monitoring of the proper use of the grant and support in accessing external loan finance if needed.

The operations of the Workshop Transformation & Research division can be described as follows:

- Identifying protected workshops for disabled persons that are entirely funded by the government;

- Transforming these workshops into business entities for the production of goods and services in order to generate additional income (at least 50% of the running costs should be covered by these activities).

Insurance companies partly cover the costs of the workshops of the Aloga Business Service Centre. They benefit from MODE's activities. If a beneficiary of a life pension generates income from a business, the insurance companies pay less in terms of pensions.

Due to its care for disabled persons, MODE receives grants from various donors, both governmental and private.

MODE can be considered a typical member of MEA. The head of the Workshop Transformation & Research division, a former employee of MEA, plays an active role on the board of MEA. MODE complains that MEA activities are not sufficiently demand-driven. Therefore, MODE is not really benefiting from its membership. In response to this problem and due to its financial difficulties, MODE did not renew its membership fee. MODE was able, however, to remain a member according to a decision by MEA's board.

Information obtained from Gordon Freer, MODE
Johannesburg April 22,2002

ROTARY FINANCIAL SERVICES PTY LTD.

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1. Operational Information

Background: As a private company for gain, Rotary Financial Services (FRS) is a typical example of MEA's diverse membership base. The company was initially founded to provide cash loans, but shifted its operational focus to housing loans. In 1998, Rotary Financial Services entered into a contract with the Rural Housing Loan Fund[8] for the provision of an on-lending facility.

Legal Status and Ownership: RFS was incorporated in 1998 as a Pty (Ltd). The company is owned by four shareholders including the managing director (majority shareholder) and the financial director.

Organisational Structure and Staff: Rotary Financial Services is located in Pretoria. It employs a staff of 16. It is run by a 4-member board of directors, including the Managing Director and the Financial Director. The Managing Director graduated as a Bachelor of Science and has subsequent long-term work experience in the private sector, including a nine years' stay with the Standard Bank. Prior to the incorporation of Rotary Financial Services, there were also assignments with Old Mutual and GMC Consulting.

Outreach: RFS runs two branches and its head office in the Pretoria area. Since its incorporation in 1998, the company has disbursed 8,000 loans amounting to almost R30 million. Currently, the number of outstanding loans is 4,500, and the size of the portfolio is R14 million. 55% of the borrowers are men. RFS's clients generally live in the rural areas around Pretoria.

Services: The company provides short to medium term loans for housing improvements in rural areas. At present, RFS offers three loan products:

- A payroll deductible loan ranging from R1,000 to 10,000 with a repayment period of 6 to 24 months. The interest rate is 27% p.a.

- A debit order-based loan ranging from R1,000 to 10,000 with a repayment period of 6 to 24 months, whereby all amounts exceeding R4,000 are disbursed in kind by a third party (wholesaler of building material). The interest rate is 55% p.a.

[8] The German KFW is the main fund provider of the Rural Housing Loan Fund.

- An unsecured loan ranging from R10,000 to 20,000 with a repayment period of 6 to 36 months, whereby the whole amount is disbursed in kind by a third party (wholesaler of building material). The interest rate is 22% p.a. In case of default, the building material or the building is repossessed by RFS.

Prior to approval, the track record of the client is checked against the ITC database and the MFRC's Micro-Loan Register. In addition, the latest payroll slip, two names of relatives living in the neighbourhood and a copy of the client's ID card is requested. The approval of the loan depends on an income assessment of the borrower's family according to the latest bank slips. An administration fee of R350-550, depending on the loan amount, is charged.

Funding: In 1998 the Rural Housing Loan Fund provided a grant amounting to R200,000 for consultancy. It also provided an on-lending facility to the tune of R12 million in 1998. At present, Rotary Financial Services is negotiating a new on-lending facility of R5 million with the Rural Housing Loan Fund. Interest on the Rural Housing Loan Fund facilities is 16%.

2. Financial Information (in '000 Rand)

	April 2001	April 2001
Total Assets:	7,700	4,600
Total Loans:	6,300	4,300
Portfolio at Risk (overdue more than 30 days):	10 %	
Loan Losses (overdue more than 120 days):	4.0 %	7.4 %
Total Operating Income:	2,970	2,090
Total Operating Expenses:	3,140	2,710
Total Operating Loss:	170	620
Total Operating Income over Total Operating Expenses:	94.6%	77.1%
Number of Active Loan Accounts:	4,500	
Loss per Active Loan Account (in Rand):	0.04	

3. Remarks

Rotary Financial Systems is a profit-driven private company. Financial self-sufficiency is a crucial issue. This is reflected in the professionalism of its operations. The management is aware of the need for ongoing improvement of the staff's skills. Therefore it emphasises the importance of MEA's role for capacity building. RFS complains that the interests of the big member organisations, and especially the interests of the BDS providers, dominate MEA's activities. In order to sustain MEA's operations and to increase the offer of capacity building services, Rotary Financial Services is prepared to pay a higher membership fee than the current R3,000.

Information was provided by RFS's Managing Director, Clayton Tlaka.
Pretoria, April 26, 2002

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