FINAL EVALUATION OF THE

SWAZILAND BUSINESS GROWTH TRUST

(USAID Project No. 645-0235)

FINAL REPORT

Submitted by:

Management Systems International, Inc.

Prepared by:

Patricia Walker
Al E.R. Harding

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ACKNOWLEDGEMENTS

This Final Evaluation of the Swazi Business Development Project was conducted over approximately 5 weeks from mid-August to mid-September, 1995. The evaluators spent two days in Washington at the offices of Management Systems International (MSI), the evaluation contractor, for briefings and a team planning meeting; and a total of 30 days in Swaziland for researching and completing the evaluation.

An extensive number of meetings and interviews occurred in the Swazi capital of Mbabane; the Swazi industrial and commercial center of Manzini; and as time permitted, the rural areas and countryside. This included: USAID Officials; the Ambassador of the United States of America to Swaziland; the Board of Trustees & Directors, Management, and Staff of SBGT and its subsidiaries; the Offices of the Ministry of Finance and the Central Bank of Swaziland; Officials with the Development Bank of Southern Africa; the General Manager of Tibiyo Taka Ngwane (Kingdom of Swaziland); the SBGT Auditors and other external advisors; the participating commercial banks of Swaziland; and finally, the many micro, small, and medium SBGT entrepreneurs and other Swazi clients introduced to us and for whom this Project and Project Evaluation is really for and about.

Specific recognition must be paid to the SBGT Branch and Headquarters' personnel who made all of the preparations for the planned meetings and selected field visits; who participated and assisted enthusiastically in the client interviews; who willingly accommodated our itinerary changes and sudden needs for additional information. The information gained from these many meetings and the time spent with all of the SBGT staff, has in a very important way, assisted in determining the outcome of this report.

USAID Mission Staff who were responsible for this evaluation and in particular, the Senior Project Manager Jamie Raile who provided the technical supervision to the evaluation team, supplied invaluable assistance and direction. The background information allowed for a basic understanding of the implementation hurdles encountered by the Project. The support provided by the Mission, "paved the way" for the team through the evaluation.

We would be remiss in not mentioning last of all; the thoughtfulness of the USAID Mission in appointing Miss Fikile Mhlongo, a Swazi business graduate, to an internship as part of the evaluation team. She contributed significantly to the work of the team.

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GLOSSARY OF ABBREVIATIONS/ACRONYMS

BWAS	Business Women's Association of Swaziland
CBS	Central Bank of Swaziland
COP	Chief of Party
DAI	Development Alternatives, Inc.
DBSA	Development Bank of Southern Africa
DGM	Deputy General Manager
E	Emalangeni (US $ 1.00 = Swazi E 3.65)
EOP	End of Project
EOPS	End of Project Status
FDSL	Francis Drummond Swaziland Limited
GM	General Manager
GOS	Government of Swaziland
GTC	Growth Trust Corporation Limited
GTCC	Growth Trust Commercial Corporation Limited
GTZ	German Agency for Technical Cooperation
HAIL	Housing Acquisition and Improvement Loans
IS	Institutional Strengthening
KPMG	KPMG Aiken & Peat, Chartered Accountants (Swaziland)
LOP	Life of Project
MOAC	Ministry of Agriculture and Cooperatives
MSE	Micro and Small Enterprise
MST	Management Systems International
MIS	Management Information System
MOF	Ministry of Finance
PFET	Project Final Evaluation Team
R	South African Rand (US $ 1.00 = R 3.65)
RSA	Republic of South Africa
SBGT	Swazi Business Growth Trust
SBD	Swazi Business Development
SDSB	Swaziland Development and Savings Bank
TL	Team Leader
TA	Technical Assistance
The Trust	SBGT, GTC, and GTCC (consolidated)
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

This evaluation was conducted by Management Systems International, a consulting firm in Washington, D.C. with broad experience in private sector development and in the evaluation of USAID programs.

The Swazi Business Development (SBD) Project is a 4 1/2 year program whose broad goals are to increase Swazi incomes and expand the employment generating capacity of the Swazi small business sector. The Swazi Business Growth Trust (SBGT) is an institution created to implement the SBD Project. Its specific purpose is to assist small businesses with growth potential. The 3 1/2 year implementation phase began in May, 1992. During the first 12 months of implementation, it was discovered that the original project design lending mechanism using the country's commercial banks was not appropriate and SBGT became the primary lender although goals and purpose were not affected. A $5,000,000 endowment was approved by USAID/Washington to SBGT to cover operating costs that cannot be covered by client fees.

The implementation of the SBD Project through the Swazi Business Growth Trust, ("the Trust") led to a number of institutional innovations in lending to small and medium entrepreneurs. SBGT and USAID signed a Cooperative Agreement in 1991. SBGT is a non-profit tax-exempt institution that is organized as a Trust. SBGT gave birth to two for-profit subsidiaries: the Growth Trust Corporation Limited (GTC) and the Growth Trust Commercial Corporation Limited (GTCC). GTC received a Limited Financial Institution License from the Central Bank and implements the credit program though it does not have the authority to take deposits. GTCC operates the franchising and commercial activities of SBGT.

Additional innovations include SBGT's use of a computerized system for its lending program through what is known as the "smart card." GTC uses the card technology to monitor its loans. Smart cards are on-line or remote off-line cards with embedded microchips that can combine savings, installment loans, debit-, and credit-card features on one convenient card with options to control the use of loans at point-of-sale outlets.

Class A lending (loans between E2500 and E10,000) has been by far, the projects greatest output and has provided the greatest contribution to the project purpose and the widest impact. The EOPS is impressive in numbers of clients, repayment performance, and gender achievements. It is singly, the business function which SBGT knows best, does best and has served best.

SBGT business operations have evolved over the LOP to include today: a Class B lending program (loans above E10,000); an affordable home financing and construction assistance scheme; agricultural credit; financing and business support to the small-scale transportation sector; a fully integrated small business training and advisory capacity; and franchising services.

SBGT's financial sustainability is promising. A combination of concessional loans and grants (principally Swazi) of approximately E15.0 million have been either placed in the Trust or have been committed during the past 6 months as SBGT draws to a close as a U.S. administered institution and begins its new life as an important and dynamic Swazi business development institution. This is commendable and a direct reflection of both a USAID Mission and a contracted management team with vision, commitment, and an ability to adapt to changing conditions and emerging realities.

The overall project impact has been positive with all of the indicators achieved and in a number of instances, far exceeded. SBGT's clients are predominately women in various forms of retail and service trades. The majority of SBGT's loan activity is generated by women who take many small loans. Swazi women face the greatest obstacles in gaining access to credit. They lack collateral that most banks require and many lack skills and education. SBGT's requirements for collateral relieved some of these constraints and many women who had never received credit, obtained loans from SBGT.

SBGT provides both financial and non-financial services to small and medium entrepreneurs in Swaziland. Since the beginning of SBGT's lending activity in June, 1993, 505 individual first time borrowers have obtained SBGT loans and at least 66% of them received repeat loans. As of August, 31, 1995, SBGT had issued 1,408 loans for a total value of E8,070,935.76.

Training constitutes a major component of the services provided by SBGT. Training for Class A clients is more comprehensive and effective than the training available for Class B clients. The frequent training obtained by Class A clients strengthens their relationship to SBGT and provides loan officers more opportunities to know their clients. SBGT's training distinguishes its package of financial services from the ones offered by banks and other institutions.

SBGT's loan processing procedures for Class A clients are effective and yield valuable information about potential clients. However, more attention should be given to the particular needs and problems experienced by Class B clients at each stage of the loan process. The monitoring of Class B clients could be improved and is less effective than the monitoring of Class A clients. The one group among SBGT clients that appear to be the least defined in terms of their particular needs and problems are those clients that begin with Class A loans and then take Class B loans.

The Trust is in a process of rapid change with new business opportunities and new financial resources. SBGT must remain ever aware, in its drive to lend in new business sectors, of the female entrepreneurs who have played such a dominant role in its past successes but who also continue to face the greatest constraints.

PROJECT IDENTIFICATION DATA

1. Country:	Swaziland
2. Project Title:	Swazi Business Development Project
3. Project Number:	645-0235
4. Project Dates:	
a. First Project Agreement:	August 16, 1991
b. Final Obligation Date:	4th Quarter, 1995
c. Most recent Project Assistance Assistance Completion Date (PACD):	December, 31, 1995
5. Project Funding:	
a. A.I.D. Bilateral Funding	11.3 million
b. Other Major Donors	
Development Bank of Southern Africa	1.37 million (R5.0 million in 1994)
Government of Swaziland	1.23 million (E4.5 million in 1995)
c. Host Country Counterpart Funds	400,000
TOTAL:	14,300,000
6. Mode of Implementation:	U.S. Institutional Contractor, Development Alternatives, Inc. (3/92-11/95)
7. Project Designers:	Swazi Business Development Team
8. Responsible Mission Officials:	
a. Mission Director:	Jack Royer
b. Project Officer:	Jamie Raile
9. Previous Evaluation:	Mid-term Evaluation, February-March 1994

CONCLUSIONS

1. The overall project impact has been positive and all the project indicators have been achieved and in some instances, exceeded. Many of the planned outputs have been achieved or are in the process of being accomplished. Major outputs include: over 2700 participants involved in some type of SBGT training, over 1300 loans issued to 505 individual first time borrowers, and female entrepreneurs account for over 50% of the client base.

2. The Trust is in a process of change due to the recent influx of funds. The 1995 SBGT Long Term Sustainability Plan, approved in February 1995, no longer accurately reflects the present business and financial environment. The business discoveries of today were unknown as was the extent of the Trust's financial resources when the plan was ratified.

3. SBGT's activity in the small and medium enterprise sector has been dominated by female entrepreneurs who operate in various kinds of retail and service trades. Women have the potential to provide the base for future growth in SBGT's loan portfolio. However, there is a drive to lend in a number of sectors in which women are not traditionally represented. Without careful attention to the role of female entrepreneurs, who have the greatest constraints to gain access to credit, there is a risk that this potential will not be realized.

4. If SBGT eliminated training, it would have to weigh the implications of this action for loan repayment against the cost to acquire information on clients' creditworthiness by some other means.

5. SBGT has received some criticism (external and internal) for the interest rates charged in its lending program. There are no indications that the rates charged are excessive for the type of lending the institution provides. In fact, the literature on lending in the small and medium enterprise sector clearly emphasizes the need for lending programs to charge interest rates reflective of costs and risks in order to be sustainable. Providing subsidized credit does not allow an institution to survive. Given the current economic environment and budgetary conditions in Swaziland, it is unlikely that the government or other donors will bail out another institution if it is unable to sustain itself.

6. Client interviews substantiated another finding of the MSE literature: it is not the interest rate per say that is the concern of entrepreneurs; it is access to credit. In client interviews, interest rates were not an issue.

7. The Class A lending program (small loans progressing in size) has been highly effective in both reaching first time borrowers and in demonstrating the ultimate objective--helping those businesses grow. Based on data for the quarter ending July 31, 1995, over 80% of all Class A businesses had experienced growth as determined by an increase in assets, profits, and/or employees. Thirty-three percent (33%) of the businesses experienced growth by adding additional employee(s); 32.5% by increasing assets or stock.

Much of this success can be attributed to both the training and follow-up of clients involved in the lending program.

8. The Class B lending program (larger, more traditional business loans) which was initiated in February, 1994) is experiencing problems in delinquency. This may be attributed to less training and follow-up. There appears to be an implicit assumption that these clients need less monitoring. In addition, there is less experience among lending officers in dealing with these businesses.

9. The success of this project and institution in meeting the objectives can be attributed in part, to the business-like nature of the organization, even while it performs a developmental function. A private sector oriented Board and management have been instrumental in this process. The search for business opportunities for the small and medium business sector in Swaziland has been proactive. This has resulted in new franchise opportunities, affordable housing designs and appropriate technology, linking small Swazi entrepreneurs with large enterprises, and identifying new business opportunities and transferring that information to the small business sector.

10. The Government of Swaziland (GOS), through its various ministries and offices, has played a positive role in the development of small and medium Swazi businesses in Swaziland through its interactions with SBGT. While recognizing the need for SBGT to be a non-governmental organization, it has facilitated its success in a number of ways: the granting of a financial institution license, participation of SBGT in the small business loan guarantee program, providing a low interest loan to SBGT, and participation in various SBGT sponsored events.

RECOMMENDATIONS

1. In its diversification in the lending program, the evaluators believe that SBGT needs to continue its Class A lending program which provides access to first time borrowers, and is an important aspect of the institution's reason for being. Although the program is well grounded, complacency should not set in.

2. SBGT does not routinely evaluate its training programs, even for Class A clients who constitute the overwhelming majority of participants. Evaluating the effectiveness of its core courses for Class A clients could help SBGT omit or add new information that might have greater use and relevance. Part of the evaluation could seek to determine if clients in Class A would benefit from sector-specific courses in addition to general business courses. The cost effectiveness of providing such training would also have to be evaluated.

3. Management needs to take corrective actions regarding the Class B lending program before the delinquency becomes a critical problem. It should also be aware of the potential for delinquency to develop in the housing program. The same focused attention given to the Class A lending program needs to be given to these programs and any other new lending areas.

4. Class B clients should be required to receive comprehensive training or orientation as part of the loan processing procedure, particularly if it is their first venture into a new type of business. More attention should be given to developing a thorough checklist to identify the kinds of problems Class B clients in particular sectors and loan categories are likely to experience before funds are disbursed.

5. Though female entrepreneurs comprise the majority of SBGT clients, SBGT did not target women specifically. However, for future growth, SBGT may want to consider if it should or needs to target female clients in particular sectors. In addition, ways to graduate female clients from Class A to Class B should be identified.

6. SBGT needs to ensure that major client sector needs are represented at Board level as well as throughout the organization and there are several options they might consider to ensure this. For example, the number of women on the Board of Directors could be increased or women who effectively represent and articulate the interests and needs of the majority of Class A female clients could be included.

7. Data on the gender and business activity of SBGT clients must be improved. Data on repayment rates by gender or sector were not available, for example. The business activities of SBGT clients should be rigorously matched to the Central Bank's classification system or SBGT should develop its own loan classification system. Client data should be comprehensive and accurate.

8. Attention should be focused on the preparation of timely financial statements, audits, and other management reports (including portfolio analyses) which provide the information needed by management and the Board for effective decision making.

9. A transition process is always difficult for any institution and the new management and Board need to be aware of this and ensure open and transparent communication -- with employees, stakeholders, commercial banks, and government.

10. The new SBGT management needs to continue to develop positive relationships with commercial banks, donors, business associations, and others. In all material aspects, SBGT is now a Swazi institution and its success will ebb and flow with the economic realities of Swaziland.

11. In the near term SBGT should consolidate and solidify its programs and ensure a stable foundation for the long term before embarking in new directions.

12. As SBGT solidifies its foundation, in the next few years, the issue of deposit taking (institutional and/or client) should be reopened and reexamined with the Central Bank. Deposit taking authority can be important for SBGT's institutional sustainability and, as importantly, for serving its clients' needs. Innovative mechanisms for deposit taking should be explored--always with the safety of deposits held being the prime concern.

13. To date, SBGT has not published an Annual Report. It needs to begin this now. It is an important document for the public and a way to explain the activities of the Trust, with which many people are not familiar.

14. SBGT has acquired valuable experience lending to female entrepreneurs. The information acquired should be harnessed to contribute to the body of knowledge about women, credit, and enterprise development.

15. Under the leadership of the new management team; direction of the Board of Trustees; and support and guidance of both DAI and USAID, SBGT should reconvene soon and review, update and reaffirm its raison d'etre. Revised long range plans and financial projections should be updated and utilized in the 1996 Business Plan development process.

16. The PFET recommends that careful consideration be levied by SBGT in their deliberations as to the future roles Class A, B and HAIL lending programs may play based on the success and impact that each have had.

17. Without recommending added personnel necessarily, SBGT has reached a level of financial maturity and complexity so that a formalized Treasury function ought now to be established. This would include cash and investment management; asset/liability, liquidity, and matched funding surveillance; and the enhancement of the MIS in regards to all of the above.

18. A number of comments have been made in regards to auditing and all that it implies. Obviously, SBGT should continue to strengthen this activity, from an internal and external perspective and in keeping with its own burgeoning business needs as well as the ongoing requirements of USAID.

I. INTRODUCTION

A. Project Background and Overview

The Swazi Business Growth Trust (USAID Swazi Business Development Project, 645 - 0235) is a 4 1/2 year program whose broad goals are to increase Swazi incomes and expand the employment generating capacity of the Swazi small business sector. Its specific purpose is to assist small businesses with growth potential.[1] The 3 1/2 year implementation phase began in May, 1992 with the fielding of the DAI contracted management team consisting of a General Manager and COP; a Business Development Adviser (changed later to Deputy General Manager); and a Financial Controller.[2] The DAI contract also included a substantial amount of short-term technical assistance which was carried out primarily during the first 18 months of project implementation.

Since project start-up, the implementation strategy has changed dramatically. During the first 12 months of implementation and in close collaboration with the USAID Swaziland Project Manager, it was discovered that the original project design lending mechanisms, using the country's commercial banks as the "window" and SBGT as the credit guarantor/facilitator/ catalyst, were not appropriate. SBGT management proposed to USAID that SBGT become the primary lender and be fully responsible for **all aspects** of loan funding, administration, collection, and risk. Although not affecting project goals and purpose whatsoever, it did have a major affect on the implementation methodology as follows: (a) as the prime lender, SBGT would use the commercial banks for actual loan disbursements and repayments using a "Smart Card" system; (b) SBGT would be required to build up a human resource capability which exceeded what was originally envisaged; and (c) SBGT would be required to obtain a financial institutions license in the name of a subsidiary "for profit" lending corporation (thus GTC).[3]

The Action Memorandum was approved in June, 1993 and from that date, SBGT has developed into the institution that it is today. The EOPS personnel complement stands at 45 - consisting of general, operations, and lending management; financial, accounting, and administrative staff; branch and headquarters' loan officers; technical, training, and MIS personnel; and general support. Branches exist in both Mbabane and Manzini.

In addition to its core lending operations to micro, small, and medium enterprises, the Trust has expanded to include: Agro-Industry, Business Services, Construction Services, Marketing, Transport, and Franchising activities.

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1 Development Alternatives, Inc. "Section I - Statement of Work," USAID Award/Contract 645-0235-C-00-2006-00 (1992): Section B Page 1.

2 The original contracted position of Executive Officer was changed to Financial Controller and under a DAI sub-contract with Kalipha Investments; a Swaziland based consulting company, the position was recruited locally.

3 J. Raile, Project Manager, "Request for approval to modify the SBGT financial services program," Action Memo. for the Director-AID SBD Project (645-0235) (May 14, 1993): 1-8.

B. Project Milestones

- GOS and USAID execute a Deed of Trust which establishes SBGT - July 9, 1991.

- USAID approval and authorization of the Swazi Business Development Project, 645-0235 - August 16, 1991.

- USAID implementation contract award of SBD Project to DAI - March, 1992.

- DAI contract personnel (GM/COP & BDA) arrive in Swaziland to begin implementation - May, 1992.

- USAID approval of the Action Memorandum and authorization for SBGT to modify the financial services implementation program - May 14, 1993.

- SBGT and GTC (now incorporated, capitalised, and licensed as a Limited Financial Institution) begin Class A lending operations - June, 1993, and Class B in February, 1994.

- SBGT Mid-Term Evaluation and Recommendations for Endowment Funding - March to June, 1994.

- SBGT now in full operation and receives R5.0 million loan commitment from DBSA. 1st advance of R1,250,000 taken down for GTC - June, 1994.

- GOS and USAID modify the original Deed of Trust - November 21, 1994.

- USAID approves SBD Project Amendment 1 which will provide to SBGT the income stream in perpetuity from a US $ 5.0 million endowment, for continuing core financial support of project activities. The amendment includes a further US $ 300,000 for increased TA (i.e. 6 month extension to DAI project staff, etc.) - March 10, 1995

- GTZ and SBGT form alliance in support of the bus transport industry in Swaziland. A portion of E2.5 million is committed for SBGT sponsored training and consulting services along with the SBGT management of a E2.0 million guarantee fund for the financing of buses to small owner/operators - 1995.

- SBGT initiates the establishment of the Drummond Investment Fund which in turn provides to DBSA, the necessary guarantee facility to advance its entire commitment to SBGT - May 22,1995.

- SBGT incorporates GTCC as a limited, for-profit subsidiary to carry on some of its non-lending commercial activities (e.g. franchising, Club card, and bulk buying schemes) - August, 1995.

- Triodos Bank, N.V. visits SBGT and discuss placement of a US $ 1.0 million concessional loan with the possibility for an equity conversion after 2 years. Approval pending - August, 1995.

- GOS (MOF) advances E4.5 million to SBGT for its micro, small, and medium lending program. Terms and conditions to be discussed and agreed to "after the fact" - August, 1995 (see footnote 14).

- Tibiyo Taka Ngwane continues to negotiate with SBGT regarding its pending commitment of E8.0 million - August, 1995.

- SBGT Board of Trustees finalist the recruitment process for a Managing Director and General Manager to replace the DAI contract team - August, 1995.

C. Context and Scope of Evaluation

This report has been organized to reflect the objectives of the SBGT final evaluation as determined by USAID in the Scope of Work (Annex A):

1) To evaluate the activities of SBGT relating to achieving the project's goal, purpose, outputs, and
2) To recommend to the SBGT Board and **new** management, strategies for improving performance (institutional assessment).

A mid-term evaluation was conducted in early 1994, less than 1 year after the dramatic change in implementation methodology design. In its general conclusions and comments, the consultants noted "the Project to be well designed in concept and effective in implementation. More than that, the consultants **strongly recommend** that the Project's success to date, its current effective business and client service flow, and its excellent prospects for future growth and continued success convincingly warrant the establishment of long term funding to insure extended sustainability."

D. Methodology and Approach

This evaluation was conducted by Management Systems International a consulting firm in Washington, D.C. with broad experience in private sector development and in the evaluation of USAID programs. The evaluation team consisted of Mr. E.R. (Al) Harding, an independent consultant with many years experience in credit, lending, financial institutions analysis, and international development project management; Dr. Patricia Walker, a micro-enterprise and rural credit specialist and authority on socio/economic impact evaluation, particularly regarding women; and Mr. Paul Ulrich, an economist with USAID/Washington and representing the Office of Microenterprise Development.[4]

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[4] Mr. Ulrich spent approximately 3 weeks with the PFET. He contributed in a significant way to the Institutional Assessment and additionally, examined in detail the "Smart Card" program and the SBGT fraud case (Annexes D & E).

The evaluation was conducted over a period of 5 weeks utilizing the following approach and methodology:

- A team planning meeting and preliminary technical briefings were held with staff members of MST in Washington which included the SBGT Deputy General Manager who had arrived in the U.S. on project business and a preliminary review of available project documents.

- Initial discussions were held with USAID/Swaziland staff and SBGT personnel in order to define the approach of the study; determine appropriate client field visits; arrange for stakeholder interviews; develop an approved plan of work and table of contents; continue the review of project documents; and prepare and test suitable client questionnaires.

- Field visits were carried out via the SBGT branches in Manzini and Mbabane with a varying but representative sample of SBGT clients including a significant number of women entrepreneurs.

- Institutional visits were conducted with existing and potential funders; Trustees and Directors; relevant GOS Officials; Auditors; Commercial Banks; and SBGT management and staff.

- Meetings were held weekly with the USAID Senior Project Manager.

- An initial draft report was written (for review) and submitted to USAID for discussion purposes.

- Following these discussions with USAID, a revised draft was prepared prior to departure of the PFET.

II. INSTITUTIONAL ASSESSMENT

A. Preamble

In many ways, SBGT is still in its infancy and has only now picked up "the head of steam" needed to grow from its pilot phase into eventual maturity. The 3 1/2 year history can be divided into 3 distinct periods. During year 1 (1992/93), the project went through a complete refit insofar as its implementation methodology for lending. Project purpose, goals, and anticipated outputs were not affected by the modification nor did the indicators require change.

Year 2 (1993/94), perhaps the most formative period, was occupied with the rapid development of a Class A Loan program and dynamic portfolio build-up within the target group. This also required the enhancement of the Smart Card delivery mechanism which would eventually provide the leading edge in the conceptualizing of many of the new products and services currently available.

Dominant throughout Year 3 has been a preoccupation among all of the stakeholders, of the various functions usually associated with end of project closure, turnover, oversight, and most importantly, continuation and sustainability. Intensifying this environment, have been the pressures of the day to day management of a "going concern"; the need to develop and improve new and existing SBGT products and services; the tenacious (and commendable) struggle to identify ongoing funding sources; and undoubtedly, the fact that it is no longer possible to plan for a traditional second phase project as originally envisioned.

This portion of the report has tried to take all of this into consideration.

B. SBGT Operational Overview - The Products and The Services

<u>Class A Lending:</u> This activity (loans for E2000, E3500, and E5000) has been by far, the project's greatest output. It has provided to date the most important contribution to the project purpose to stimulate the growth of Swazi-owned businesses; and as witnessed by both the Mid-Term and this Final Evaluation, created the widest and most effective impact. The EOPS is impressive in both numbers of MSE first-time borrowers; delinquency/loan turnover performance; gender achievements; training and support offered; overall business growth initiated; client/SBGT loyalty established; the success of the rapid approval Christmas Loan feature; and the number of graduates to the larger Class A+ (loans for E7500 and E10,000) and Class B (loans above E10,000) lending programs.

Clients enter the program and continue through a highly structured and mandatory training agenda and receive a first loan of E2,000. Full payment is required at the end of 90 days and upon making satisfactory repayment, clients are then entitled to increasing amounts each 90 day cycle which includes continuing training. At the end of 9 months , the borrower will have received the maximum of E7500 and then is eligible to graduate to Class A+ or to go on to Class B (+E10,000).

Of the numerous business services carried out it is singly the product which SBGT -**knows best, does best, and where so far, SBGT has served best**.

The lending process (compulsory training, larger and larger loans, initiation fee rebate incentive, etc.) is human resource and cost intensive. Its track record more than all other SBGT business functions has caught the eye of the donor community and notably has been the most important factor in attracting donor interest and funding.[5]

As frequently reported, the delinquency situation is running at under 5%. This can be attributed to the excellent training, the client contact maintained, and a form of loan closure entrenchment between lender and borrower.

Opportunities

- Class A (and A+) lending has decreased in the past 3 months due to GTC funds availability constraints and other SBGT EOP priorities. Ample funding (last 30 days) now in place.
- Almost all Class A lending promotion (now dormant) has been limited to the Mbabane/Manzini "corridor."
- The Business Women's Association of Swaziland is anxious to collaborate in a country-wide promotion campaign.

Issues

- Among SBGT management, a "split" in opinion exists in terms of the effectiveness and long-term importance to the sustainability to the Trust, of Class A lending.
- There is a perception among some SBGT loan officers that rates are too high6 and uncompetitive and that the MSE market has been "saturated."7
- As SBGT swings **towards** larger and more cost effective lending (as it must), will it or should it swing **away from** traditional MSE clients? What will be the reaction from its traditional funders and donors? Will it have an adequate balance sheet strength to enter the commercial financial markets?

Class B Lending: This program (+ E10,000) was initiated in February 1994 around the same time as the Mid-Term evaluation but not in sufficient volume to have been commented upon in their report. Approximately 80 clients have loans outstanding at present of which 56 were Class A "Graduates." Class B lending is a more traditional lending program for equipment, invoice financing, and franchise operations with monthly repayments.

A "snap-shot" review of the delinquency situation was startling in that approximately **E330,000** would be categorized as **non performing** and/or **doubtful**.8 Even stranger was that from the 13 loan files examined of the 17 borrowers involved in the analysis, only 2 of the defaulters had progressed through the ranks of Class A and had graduated to the larger loan amounts.9 The rest (11) were all first-time Class B clients.

The portfolio consists of a wide array of loan purposes - stock and inventory expansion, invoice financing, some agro-industry, franchising, etc. It is a difficult and marginal market in that SBGT finds itself in many instances with borrowers who may still not qualify for commercial loans from conventional sources (and likely at a lower borrowing cost - see footnote 11) and therefore oftentimes serving as a "lender-of-last-resort."

SBGT applies the formula: % delinquency = outstanding balance of loans past due amounts outstanding

The calculation is the same as to what is used by commercial banks and when applied to the Class B loan book at July 31, 1995 of E2.8 million, the gross non performing/doubtful status amounts to 11.75% as opposed to the under 5% average as stated for the entire portfolio which includes Class A and whatever HAIL loans which have been disbursed to date.

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[5] The original R2.5 million from DBSA must all be used in support of micro-lending and from the 2nd R2.5 million tranche, 25% for housing and 75% as above. TIBIYO (E5.0 million-funding pending) could still ask for conditions. The TRIODOS facility will have no conditions as to its use nor will the loan from the MOF.

[6] Swazi informal but licensed lenders charge borrowers 30% per month. In Petersburg, RSA., the Great North Credit Co. (DBSA client borrower), an organization similar in size to SBGT and very successful, charges 45% per annum to MSE borrowers.

[7] With a population of approximately 900,000 of which 75% reside outside the Mbabane/Manzini corridor; a work force of 70% private sector; a resource based economy; a p.c.i. of under U.S. $1000/yr; and a Class A client base of approximately 750 (less than 0.10% of population); the market can hardly be considered to be saturated.

[8] The PFET reviewed the Class B Loan delinquency situation in depth with SBGT management and decided in the interest of client confidentiality, to refrain from including in this report any reference to names, numbers, or circumstances. All Class A & B loans are guaranteed up to E50,000 @ 75% of their principal balance under the CBS Small Scale Enterprise Loan Scheme. Similar loans in excess of E50,000 are guaranteed @ 50% of their principal balance under the USAID Small Scale Enterprise Loan Scheme. All HAIL loans are guaranteed @ 100% (to DBSA) under the Drummond Investment Fund. The potential bad-debt exposure to SBGT is further minimized by the security on hand and in the ongoing collection follow-up process underway.

[9] Stanbic Bank has commented on the **high quality** of ex SBGT Class A borrowers who have subsequently become their clients.

Opportunities

- Surplus cash on hand will not lie idle. Current rates at commercial banks on large short to medium-term deposit blocks, are in excess of 12% per annum which is well above the average cost of these funds to SBGT and will provide a significant income stream until effectively utilized in good lending opportunities.

Issues

- Larger Class B loans are generally financing more complex businesses than Class A enterprises. Loan appraisal, disbursement control, and loan monitoring require commensurably higher levels of lender input, monitoring and business support (and training perhaps).

- The recent influx of donor funds and concessional loans has added some urgency for SBGT to build income generating loan assets and move ever quicker towards reaching its longer-range financial targets. The haste to put funds out could lead to less rigorous loan appraisal and reduced borrower discipline (as we now may be witnessing in Class B loans).

HAIL AND HAIL 540: The SBGT efforts to open up the affordable home ownership market to the lower middle-class wage earner is in direct response to the dream of every Swazi family. The program deals with conventional mortgage financing but more important and under the 540 plan, is an **innovative answer** to the tenuous problem of a complicated land tenure situation. Land purchase and the right to fee simple ownership in Swaziland is difficult if not impossible for the population majority. Swazi Nation Land (Crown Land) encompasses over 50% of the entire land mass of the country and its use falls under the administration/jurisdiction of the Regional Chief. A Chief, however, can provide a type of *life estate* possession and use entitlement. It is not an undertaking per se but more an unequivocal letter of comfort and is being recognized under the 540 program as adequate for a limited loan package (including related training and SBGT support) for construction and/or home improvements. The straight HAIL program is an answer to more conventional home ownership and where title deed is available.

The 2 HAIL programs are off to a rapid start. Even though little has been disbursed to date, approximately 90 applications have been approved and committed, subject to the registry of title bonds (an arduous and bureaucratic task which often takes up to 6 months).

This program will be limited only by appropriate funding levels and the capacity of SBGT to process loan applications (see footnote 5).

Opportunities

- This market and demand is nearly insatiable and limited only by available and appropriate funding.[10]

- During discussions with the Central Bank and as a ways and means to preserve and repatriate Swazi insurance and pension funds from off-shore investment (primarily RSA), the Deputy Governor expressed interest and the possibility of support for such an SBGT initiative to further finance its HAIL program.

Issues

- A potential asset/liability mis-match exists (1998/99 and beyond) when DBSA principle repayment of the 2nd R2.5 advance million begins. HAIL lending is up to a maximum of 10 years which is beyond the repayment terms to DBSA.

- The DBSA facility requires that up to 25% of the total only, be used to fund housing loans. They would tolerate up to 50%. SBGT must remain aware of this covenant.

Agro-Industry: This is a relatively new business function which has been established in response to the vast potential of agriculture in Swaziland in general and to specifically target certain niche sectors such as input supplies, crop marketing, small to medium-scale chicken broiler and egg production and some low cost irrigation systems.[11] SBGT has been staffed with two agriculture specialists who provide the technical support to the lending operation. Relationships have been established with several farmer's cooperatives and associations, the Ministry of Agriculture, and one Swazi based fruit and vegetable producer/processor/ exporter.

Opportunities

- Sugar production and processing is the country's number one export. Most small-holder production is under the control of a quota system where price, payment, and delivery is by contract and proceeds assignable to lenders. The Board Chairman of SBGT and the GM of Tibiyo (which accounts for 50% of all production & processing) is particularly enthusiastic about upcoming increases in quota which will mainly be allocated to new small-holders (could be as many as 1500 new licenses issued). Both operating credit and some medium-term financing (small-scale irrigation systems) will be required and heavily competed for within banking circles. The Umbombo Ranches sugar enterprise is also planning to expand production with the small-holder sector.

- The PFET visited one very successful layer egg operation (approximately 1,000 hens) where the owner-operator was a woman Class B borrower. This suggests that opportunities in agriculture are available for women, particularly in the small-scale and "back-yard" variety.

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10 Clearly, the SBGT initiative, to facilitate the establishment of the Drummond Investment Fund, which in turn, provides a guarantee to DBSA on the 2nd R2.5 million tranche for housing loans, represents an outstanding **innovation**

11 2/3 of Swaziland's working population is employed in agriculture. (1993 review of Commerce and Industry)

- The GM of Swazi Fruit Packers Ltd., expressed interest in establishing 15 to 18 new small-holder producers of high value crops for guaranteed export production. The GM would even consider a risk-sharing arrangement with SBGT until the farmers are well established. They would provide all of the TA and specialized extension support.

Issues

- The Agro-Industry staff feel that agricultural loan appraisal is highly specialized and that currently an aversion to agriculture exists within the credit approval process.

- Agricultural lending means out-reach and out-reach means **transportation**.

Transport: There is an identified need among small owner/operators of buses for many types of management assistance services which SBGT can supply. GTZ, in a Swazi based transportation project, has formed an alliance with SBGT to provide some of this training/consulting and has been negotiating for a management arrangement wherein SBGT would administer a guarantee program of E2 million for the financing of vehicles.

Opportunities

- Income potential is high for training and consulting services.

- GTC (along with other Swazi banks) will be eligible for bus financing guarantee coverage.

- GTZ conditionally, are prepared to convert the guarantee fund to a grant to SBGT in 12 months, subject to performance conditions, etc.

Issues

- Bus and transport financing is relatively high risk.

Construction Assistance Program: The CAP program was the first non-lending business service established by SBGT in response to its concern for the amount of construction in Swaziland being let to out-of-country contractors. CAP was originally a 3-year USAID project (1990 to 1993) and was officially incorporated into SBGT at the end of 1993. Its purpose then and now is threefold: (i) to provide management assistance to small Swazi contractors including Club Card discount bulk purchase of materials and insurance/bonding services; (ii) marketing initiatives for housing development projects; and (iii) the introduction of low cost and more affordable house construction technology. "Model" homes (currently inhabited by some SBGT staff) are already in place for inspection.

Under the CAP program, small construction firms were able to qualify for performance bonds and CAP members pay a small premium to an insurance firms that provides a guarantee.

Under a grant from the Government of Japan, SBGT will construct a construction resource center to be turned over to the Swaziland College of Technology. There is a link here to some ongoing US Peace Corps work presently underway in the country and an **innovative** link to HAIL lending.

Opportunities

- The PFET had the opportunity to visit the City Council of Piggs Peak for discussions regarding SBGT participation/assistance (financial and technical) in their plans to develop and construct approximately 140 new and "affordable" homes within the community.

Issues

- **General Observation** - The PFET in their various field interviews with SBGT clients, detected little user interest in the SBGT Smart Card. Beyond the withdrawal of loan proceeds and for repayment, little significance or importance was attached to it.

Marketing: This function provides the promotional, public relations, and advertising support to the SBGT lending and other business operations. It is also responsible for the several SBGT client publications and is planning to provide additional support to the Business Services department in the form of client market survey and strategic planning assignments.

Business Services: This department is responsible for all SBGT client training, consulting & advisory services, accounting system "packages," technical publications development, and the sale of the various Club Card products. Under consideration are both legal and client audit services as near term goals and in the more distant future, a national credit bureau/credit reporting type of business service.

Opportunities

- SBGT is presently discussing Smart Card application for the membership of the largest Credit Union in Swaziland. This represents a good business opportunity as the credit union movement in the country is widespread. It could also be the entry point leading to other financial service applications such as liquidity "pooling," training, etc. as there is apparently no strong national credit union federation in Swaziland. The credit union regulatory authority lies with the MOAC (who also have a good working relationship with SBGT) and not with the Central Bank of Swaziland.

Issues

- SBGT has "ruffled the feathers" of the Swaziland Institute of Chartered Accountants as they perceive some of their (SBGT) business consulting services to be quasi-auditing functions.

Technological Innovations: The Growth Trust Corporation (GTC), uses smart card technology to monitor its loans. Smart cards are on-line or remote off-line cards with embedded microchips that can combine savings, installment loans, debit-, and credit-card features on one convenient card with options to control the use of loans at point-of-sale outlets. Until now, smart cards and memory cards--simpler versions of smart cards used in some subway and telephone systems or at automated teller machines--have either been paid for in advance, as the user loads up the card with his or her own money, or to a lesser extent, for a line of credit with settlement of the credit card bill by separate check. SBGT has pioneered the use of the card in lending. Another party's money is loaded on, and later repayments by the user are taken off the card. In other words, GTC's application of smart-card technology is unique: the card not only serves to disburse loans, but also--and more importantly--to collect repayments.

GTC has found its smart cards to be easy to use, and therefore acceptable to both the commercial banks handling the transactions and the loan clients.

Franchising Services: SBGT holds the master franchise in Swaziland for **PHONE SPAZA** and **MAXI MOVIES**. Their long-term business service and income contribution potential for the Trust is optimistic. Two of the Maxi franchises were inaugurated during the evaluation and initial business prospects are encouraging. SBGT plans to establish three to five more in other parts of the country after further market potential has been determined.

The Phone Spaza franchise is a tele-communications type of business which provides low-income neighborhood telephone and FAX service and the potential for E-Mail and Internet access. The business potential is substantial here as well with early estimates at 50 to 60 installations primarily in Swaziland's smaller communities and the country-side. During the field visits, one of SBGT's most successful Class B clients (a woman) made specific reference to the possibility of "picking up a franchise anywhere."

Opportunities

- With its master franchise and a stake in the success of the client, the business relationship and provision of service will be ongoing.
- Like nearly every country in the global economy, franchises are popular in most of Swaziland's urban centers and represent one of the most efficient passages to business-for-self entry.

Issues

- Most existing Swazi franchised businesses are in the hands of expatriate owner/operators.

C. Financial Overview and Comments

Funding: The equity contributions to SBGT so far and since its origin, consist of the founding USAID/GOS (Section 416 Funds) and the recent facility of August, 1995 from the MOF on behalf of the GOS. Its terms are such (2.0% per annum - 10 year balloon repayment) that arguably it is at least a quasi-grant and therefore an equity contribution.12 Still pending but likely prior to this fiscal year end will be the arrival of the Tibiyo commitment some or perhaps all of which, could be in the form of a capital grant.

The Triodos loan (if approved), will arrive after year end and be in the form of a loan convertible to equity after 2 years but at their option.

Additionally, funds from GTZ to establish their transport financing guarantee facility will arrive before the end of the 1995 calendar year and also be convertible conditionally to equity 12 months hence. The loan from the DBSA is and will remain as long-term debt.

It is certain the now approved (but not yet in place) USAID endowment although "off balance sheet" will add substantial weight to the strength of SBGT in the eyes of the donor community and eventually its credit worthiness within the financial markets.

Pro-Forma Balance Sheet, October 1, 1995
(Estimated and for Discussion Purposes Only)
(000,000)

Assets		Liabilities & Equity		
Cash	E15.5	DBSA	E5.0	(@ 12%)
Loan Assets	7.0	Triodos	3.5	(@ 10%)
Other	2.5	Tibiyo	5.0	(@ 6%)
		MOF	4.5	(@ 4%)
		Other Liabilities	1.5	
		Other Equity	5.5	
Total Assets	E25.0	Total Equity/Liabilities	E25.0	(@ 6.5% avg. cost of funds)

Comments

- Liquidity supply and costs are now adequate for SBGT to proceed generally in conventional lending and other business investment opportunities. An early examination and strategy for alternative but **provisional** utilization and income maximization is crucial.

12 The Minister stated at the PFET meeting the E4.5 million to be a manifestation of the GOS commitment to MSE and the only condition was that a strong Swazi team be installed at SBGT before the termination of the USAID contracted management.

! Investment (non lending) interest from fresh funds and other operating income supplemented by the endowment proceeds during fiscal 1995/96, should avoid what had earlier appeared to be a likelihood for the Trust to suffer operating **losses** sufficiently high enough to erode existing shareholder equity and create a **deficit** (at least temporarily) in the balance sheet.

Financial Projections: The 7 Year (September 1995 - 2001) Financial Projections appearing in the approved Project Paper Amendment 1 (February, 1995) and in the subsequent 1995 SBGT Business Plan for Financial Sustainability, present a very different balance sheet configuration than what exists today or what will exist at year end, September 30, 1995 (see pro-forma estimate - above).13

Some extraordinary losses (or at least provision for) such as the 1995 portion of the SBGT fraud and/or bad debt allocation increases (see earlier comments on Class B Lending) and what now appear to be certain **substantial** **operating income** **shortfalls**, have so distorted these forecasts to be now obsolete and cause any further comment to be rhetorical.14

The Case For Deposits: Since SBGT (GTC) became a licensed lending institution and during its recent and aggressive fund raising campaign, deposit taking continues (and will continue) to be revisited among the SBGT stakeholders. The CBS has made it absolutely clear, however, that consideration at this time is not negotiable. Their position is aggravated with the recent, near collapse and ensuing GOS "bail out" and placement under CBS supervision of the SDSB. The option for deposits as an eventual source of funds should not disappear, however, and in the context of longer term fund raising strategy for the Trust, some considerations are tabled in this report.

Firstly, SBGT will in all likelihood be required to reach a much higher level of financial maturity than at present. Perhaps in two or three years it could then begin to negotiate through the CBS, a kind of "legal for life" formulae in its preparation to become a depository.15

In the meantime, SBGT might at least consider, and with some careful planning, develop a type of "brokerage" operation wherein it could assemble and **pool** deposits from its client base and take advantage of the typical (not always) banking premise that larger deposits earn greater interest returns (a form of arbitrage). Similarly, and with an ultra conservative policy as to the extent of mismatch permitted, it could take a risk position in its deposit investment strategy using the (often) typical banking premise that longer terms also earn greater interest returns. In order to cover off on the liquidity risk, it could hypothecate these same interest earning deposits in the negotiation of a "stand by" type of line of credit if in the event there was an early or unanticipated "call" from the base-line client/depositor. If the premised advantages (larger deposits and longer terms) offered an adequate arbitrage spread to SBGT, it could provide at minimal risk, three important outputs:

! an ability for SBGT to offer a deposit arrangement to clients and return to them an interest rate at least as high and possibly slightly higher than they would earn individually;

! the possibility of additional but modest income from the incremental spread; and

! of most importance, to learn the deposit business and demonstrate its ability to manage same by almost being in it.

The "Pros"

! The already developed Smart Card/Micro-Banking technology gives SBGT the ability to take deposits now from an administrative, control, MIS, and accounting perspective. This is similar to what it is negotiating to do for the Swazi credit union movement.

! There presently exists among the SBGT client base, an invaluable loyalty and desire to "do more business" with the Trust.

! Certain sectors of the SBGT client base (hawkers/shopkeepers/vendors, franchisees, medium and small businesses, etc.) represent high level cash flow sources.

! Deposits for any financial institution offer a broadly based and diversified source of funds at the lowest **commercial** cost.

The "Cons"

! Deposit management is administratively intense and relatively expensive.

! Both liquidity and income risk can be dangerously volatile without an experienced and perfected asset/liability management capability.

! The deposit business (universally) is always **rigorously regulated** by governments.

Auditing: As SBGT passes through the transition phase to a stand-alone Swazi business institution, so will its audit requirements. The three Recipient Contracted Audits (and soon to be 4th) of SBGT under the USAID/Swaziland Cooperative Agreement , have very capably been carried out by KPMG Aiken & Peat in response to USAID regulations.

For the fiscal year to end on September 30, **1996**, the responsibility for the appointment of the auditors will rest with the SBGT Board and Directors of the two subsidiaries. SBGT will have changed dramatically at this point in time and so will its audit requirements. Audit terms, conditions, and

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13 The 1995 Business Plan projects total assets @ Sept./95 - E6.6 million, Sept./96 - E19.9 million, & Sept./97 - E24.6 million.

14 The 1995 Business Plan projects fiscal 1995 net earnings @ minus E1.05 million. Based on actual @ June/95 projected to year end, now estimated to be minus E3.5 million.

15 There is at present in Swaziland, no GOS deposit insurance or guarantee scheme.

methodology will no longer be only donor "driven" but dictated as well and even more importantly, by the business needs of the Trust.[16] Foremost will be the necessity for a greater than before emphasis on **loan asset quality** determination, the "acid test" of the strength of any lending institution.

SBGT is currently developing in collaboration with KPMG, a terms of reference applying universally accepted standards for the auditing of financial institutions, in anticipation of its future auditing requirements and in preparation for a tender process in its selection of auditors for the future.

Discussions with the incoming Managing Director, revealed that in concurrence with the Board, he would like to begin soon with the installation of an operational internal audit system (to be contracted for externally at the onset) which would then report directly to the SBGT Trustees. This and the above-mentioned audit initiative are both timely and appropriate.

D. Organizational Overview and Comments

In just a few months the institutional personality of the Trust will change and is presently being planned for. This will be spearheaded by the assumption of new senior management but dictated as well by the influx **and likely influence** created by an array of new stakeholders; the diminishing USAID oversight; and the organizational realization of being "on their own." This could create some **institutional "shock**," the degree of which would be hard to estimate at this time.

Comments

- The incoming Managing Director and General Manager will have the benefit of approximately 80 days of DAI management overlap and for the medium-term, a continuation of USAID support. They may be faced with a variety of tough business decision-making and operational problem solving.

- The PFET has been impressed with the priority which both USAID and DAI have exerted towards the institutional strengthening of the Trust. The endowment of course ranks high but of even greater importance has been the solidification and commitment development of the Board of Trustees particularly during the EOP approach.

- The evaluation team was further impressed with the interest displayed by the U.S. Ambassador in his concern for the longer-term sustainability issues which could occur with the 1996 closure of the USAID Swaziland Mission.

- The evaluation included a review of the process conducted by the Board of Trustees in their identification, screening, and appointment of candidates for the two senior positions within the Trust resulting from the pending completion of DAI contracted management. In the opinion of the PFET, it was carried out with competence and full transparency and included professional counsel from a RSA consulting firm specializing in personnel recruitment.

E. Smart Card Technology

GTC uses smart card technology to monitor its loans. Its application is unique in that the card not only serves to disburse loans but also - and more important - to collect the repayments. GTC clients have found the mechanism to be easy to use and acceptable at all major commercial banks in Swaziland.

Because of its Smart Card system, GTC can act as a virtual bank without the capital investment usually associated with banking. Installing Smart Card terminals in the branches of the four major banks in the Mbabane/Manzini corridor has effectively given GTC the largest banking network in the country. SBGT has made a major investment of approximately U.S. $100,000 in the technology and software but this effort stands to benefit not just Swazi entrepreneurs but micro, small, and medium credit programs world-wide.

SBGT had the foresight to adapt the latest technology to an environment constrained by still underdeveloped infrastructure. Under its recently established subsidiary GTCC, Smart Cards will be used as prepaid "club cards" tied to participating retail and wholesale outlets. Club cards will function like loyalty cards tied to various distributors with SBGT "member" clients accruing discounts for purchases made with the cards. Each of three "clubs" - transport, construction, and agriculture - will charge a membership fee but with anticipated discounts on prices negotiated with participating merchants and bulk purchasing, savings will outweigh the cost of membership. GTCC also hopes to negotiate agreements with the suppliers for a share of profits if as a result of participation, a merchant's sales increased significantly and resulting higher volumes resulted in lower unit costs.

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[16] Under the Project Paper Amendment, USAID oversight will continue for a minimum of 5 to a maximum of 10 years and SBGT will arrange for an annual audit in accordance with the normal A - 133 audit procedures.

III. PROJECT IMPACT EVALUATION

A. End of Project Status Indicators and Project Outputs

End of Project Status Indicators

The two end of project status indicators measure different indices of growth and profitability for businesses serviced by SBGT. The SBGT database contains information on employment, assets, and profits for clients that receive rollover loans in Class A. Clients with Class A loans play a game called The Business Growing Game to qualify for an additional loan. They calculate changes in their profits, assets, liabilities, and number of employees over the three month period of their loan. Information is collected when the first loan is disbursed and becomes the baseline for calculating increases. Clients with Class B loans are not required to play the game. The end of project status indicators reflect changes in growth and profitability for Class A clients only.

<u>End of Project Status Indicator No. 1</u>: 25% of the project-serviced businesses will have increased in size as indicated by increases in one or more of the following: number of employees, sales turnover and/or assets.

Achieved: As of the quarter ending July 31, 1995, 80% of the businesses that received additional loans in Class A experienced an increase in either assets, employees, or profits. Thirty-three percent (33%) had added one or more new employees. A total of 32.5% of the businesses assisted had increased their assets and or stock. Twenty percent had increased their assets and or stock by 100% or more and 12.5% had increased their assets and or stock between 50% and 99%.

<u>End of Project Status Indicator No. 2</u>: 25% of the project-serviced businesses will have demonstrated an improvement in financial health as evidenced by improvements in the following indicators: net equity position and current financial ratios.

Achieved: As of July 31, 1995, 25% of the businesses that received rollover loans in Class A had increased their profit by 100% or more. More rigorous and consistent data on clients' liabilities is needed to calculate improvements in net worth.

<u>Business Growth for Female Clients</u>: at least 30% of the clients who achieve growth and profitability as measured by the end of project status indicators will be women.

Achieved: As of July 31, 1995, 72% of the clients that received repeat loans in Class A were women. Forty-six percent (46%) of them increased their profits and or assets by 100% or more.

Planned Project Outputs

There are five planned project outputs. The data include clients in Class A and Class B.

<u>Credit</u>: Swazi business persons will have increased access to commercial credit as indicated by 500 first time small business borrowers of which 25% will have received repeat loans.

Achieved: As of August 1995, 516 individual clients of SBGT were first time borrowers and at least 64% (or 328) of them received repeat loans. As of August 31, 1995, SBGT has issued 1408 loans for a total value of E8,070,935.76.

<u>Business Linkages</u>: Swazi businesses receiving project inputs will be providing goods and services to large businesses or the GOS.

1) at least 15 small businesses will be providing goods or services to larger businesses or the GOS for the first time.

Achieved: More than 15 small enterprises have provided or are providing goods and services to larger businesses or the GOS as a result of SBGT support. Client histories in Annex B provide evidence for 10 small businesses that could be verified at the time of the evaluation. Businesses that significantly expanded their operations as a result of SBGT credit and services are included.

2) 10 small Swazi construction firms will have an increased number of contracts with the GOS.

Achieved: More than 10 Swazi construction firms have acquired government contracts for the first time and have an increased number of contracts due to support from SBGT's Construction Assistance Program (CAP). Annex B contains evidence for 10 construction firms that could be identified and verified at the time of the evaluation.

SBGT's construction clients have also benefitted from innovations within SBGT. SBGT's HAIL program is a loan program for affordable housing to low income families and individuals. Five (5) SBGT construction clients were paid to build three demonstration houses. Another client was hired to build an environmental center for the Peace Corps. An SBGT client constructed the phone spaza that has been used as a training site. In addition, one client won a tender to add rooms to a large hotel.

The Phone Spaza master franchise, Maxi Movies, and club card bulk purchase schemes for construction (and transport and agriculture) have the potential to create a significant number of opportunities for SBGT clients to provide services to the commercial sector and government.

<u>Training</u>: 1700 persons will have been provided training in planning, management, finance, marketing, or a technical skill area.

Achieved: Each time an individual attends a training course he or she is counted separately in the SBGT database (e.g. an individual taking 3 different courses is counted 3 times). As of August, 1995, the database indicated that the training given by SBGT had 2715 participants. The core training courses for clients taking Class A loans accounted for approximately 953 of the participants. The 2715 figure is actually higher as the database does not yet include all the training and workshops conducted by SBGT.

Strengthening Business Associations: At least 7 business associations will have established action-based plans to provide increased training and services to the business community. The target for the number of associations was lowered to three: the Business Women's Association of Swaziland, the Contractor's Association, and the Trucker's Association.

1. The Business Women's Association of Swaziland (BWAS).

Achieved: SBGT's assistance to BWAS has effectively supported the Association's efforts to provide training and services to Swazi businesswomen. SBGT's financial support for the salaries of the office staff has helped BWAS maintain a full-time office. SBGT advised BWAS on policies for its various savings and credit schemes and helped them prepare a proposal for Tibiyo. SBGT also helped BWAS establish and formalize its operating policies. Two SBGT staff (a trainer and an agriculturalist) travel and work with BWAS when BWAS holds meetings in rural areas its effort to reach out to women at the grassroots. Three SBGT staff traveled and assisted BWAS members when the organization traveled to South Africa in May, 1995 to study stockvelds (a type of credit club).

2. The Contractor's Association

Status as of August, 1995: Together with the Komati Basin Water Authority (KOBWA), the Development Bank of Southern Africa, and the Contractor's Association, SBGT is involved in preparing subcontracts for housing construction near the Maguga Dam project in Piggs Peak. Plans for a "workers village" comprising 250 houses are being finalized. The Komati Basin Water Authority has agreed to present a plan to the Joint Swaziland and South African (KOBWA) Commission in August that will also outline details for ways in which various SBGT Swazi contractors will participate in the project.

3. The Trucker's Association

Status as of August, 1995: SBGT funded a "Memorandum of Understanding" which presented research and analysis on environmental conditions and legislation affecting truckers and the transport sector. SBGT also assessed the organization's needs for training and conducted various workshops. Swazi bus operators also attended the training courses. SBGT consulted with Association members on trends for purchasing fuel and replacing tyres, battery and other spare parts. Tender documentation for these bulk purchase items is still being negotiated. Individual members of the Association benefit from SBGT's bulk purchase (i.e. club card) scheme. The Fuel Control Board has approval from the Ministry of Natural Resources to allow Club Card members to get rebates on fuel and fuel product purchases.

An additional component of this planned output is that SBGT will foster the development of government policies that encourage a favorable enabling environment for small and medium-size entrepreneurs. These policies are related to privatization, lending, savings, and interest rates. SBGT has been involved in activities designed to increase awareness of municipal governments of the need to make affordable housing available. It has also been instrumental in influencing policies in the construction industry that are more favorable to small firms. Efforts have also been made to increase the private sector and the government's awareness of policies that affect large scale efforts at vertical integration.

Implementing Organization: The Swazi Business Growth Trust will have been established and will be providing credit, training, and technical assistance to small Swazi businesses with growth potential.

Achieved: SBGT has continued to expand its financial and nonfinancial products and services. SBGT's client base is diverse ranging from hawkers in markets to franchise owners. The fact that 80% of the enterprises in Class A (the largest lending category) experienced some form of growth in the quarter ending July, 1995 indicates that the businesses serviced by SBGT have growth potential.

Furthermore, SBGT's achievements have taken place in a shrinking economy. Swaziland has been in a recession over the past three years. Nevertheless, SBGT has been able to expand its client base and create new opportunities.

B. A Profile of SBGT Clients

SBGT's clients are predominately women in various forms of retail and service trades. The majority of SBGT's loan activity is generated by women who take many loans, mostly in Class A. Women face the greatest obstacles in gaining access to credit. They lack collateral that most banks require and many lack skills and education. SBGT's requirements for credit relieved these constraints and many women who had never received credit, obtained loans from SBGT. SBGT's lending in the small and medium enterprise sector has had a significant impact on women.

1. An Overview of Small and Medium Enterprises in Swaziland

In 1991 researchers conducted a country-wide survey of micro and small non-farm enterprises (MSE) in Swaziland.[17] The survey was performed on non-farm enterprises engaged in market-oriented production, commerce and service activities with a total of 50 people or fewer in their work force.

Almost 40 percent of Swazi households are involved in MSE activities. Swaziland has roughly 51,400 MSEs that employ over 100,000 people. Many MSE owners do not depend on their business for their entire household income but they may get as much as 50% of their household income from their business activity. Seventy-one percent of MSE proprietors used family or personal savings to start their businesses. The survey also documented the degree to which small entrepreneurs lack access to credit. "Only 2.8 percent of the proprietors got any formal credit for their initial capital; another 3.1 percent received start-up funds from moneylenders. Once the business was started, 86.7 percent of the proprietors never received any loans at all. Another 2.3 percent received loans from moneylenders while 2.0 percent had access to bank credit."[18]

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[17] "A Countrywide Study of Small-Scale Enterprise in Swaziland," Yacob Fisseha and Michael A. McPherson. GEMINI Technical Report No.24. December 1991.

[18] Ibid. p.22

The survey revealed that most MSEs in Swaziland are less than five years old and the majority of small entrepreneurs sell directly to individuals. In 1991 the population of Swaziland was approximately 800,000 and the labor force was about 420,000. MSEs employed roughly 24 percent of the labor force and women comprised more than 70 percent of the MSE labor force. Eighty-four percent of all MSE proprietors are women. Women tend to operate in textile and retail trade while men predominate in construction, transport, and metal production. Three-fourths of all MSE proprietors are married, about one-tenth belong to business associations or cooperatives; two-fifths have no education at all, and roughly 90 percent started their businesses from scratch.

2. SBGT Applicants

The individuals that applied for services from SBGT are described in the Gemini survey. As of August 13, 1995, 1381 individuals met the three eligibility requirements to apply for assistance from SBGT.[19] Sixty-four percent (64%) were married, 84% were Swazi, approximately 59% had been in business for less than 5 years, and 39% had at least one employee. Sixty-three percent (63%) of the male applicants had never received credit while 75% of the female applicants had not. Seventy-two percent (72%) of male applicants and 83% of female applicants owned their businesses. Sixty-five percent (65%) of all applicants sold their goods directly to the public. More men inquired about SBGT services (1231 or 61%) and 58% of those who inquired were eligible to complete an application. Though fewer women inquired (795 or 39%) more of them (42%) were eligible to complete an application. Lastly, 65% of all applicants sold directly to the public. These findings indicate that the average SBGT applicant was Swazi, married, had not had access to credit (particularly if she was female), owned his or her own business, had been in business for less than 5 years, and sold his or her goods directly to the public.

19 To be eligible to apply for assistance from SBGT an applicant must: be an indigenous Swazi or owner of a Swazi registered company; employ at least one paid person other than him or herself; and have a fixed place of business.

Table 1 provides additional data on SBGT applicants by sector and gender.

TABLE 1[20]
APPLICANTS FOR SBGT SERVICES BY SECTOR[21] AND GENDER
(as of September 1, 1995)

Economic Sector	**Male**	**Female**	**Total**
Sector Undetermined	100	76	176
AGRICULTURE: Sugarcane	1	1	2
Cotton	1	1	2
Livestock and dairying	21	11	32
Forestry	5	1	6
Other & Mixed Agriculture	6	4	10
MANUFACTURING: Meat Processing	1	0	1
Fruit and Vegetable Processing	2	0	2
Alcoholic Beverages & Tobacco	3	1	4
Soft Drinks & Other Foods	1	0	1
Textiles & Wearing Apparel	1	9	10
Wood & Wooden Products	8	0	8
Other Manufacturing	1	1	2
CONSTRUCTION: Commercial & Industrial	28	2	30
Dwellings	2	0	2
Other (inc. land dev.)	1	1	2
Total Construction	1	1	2

20 The data are as of September 1, 1995 which accounts for the slightly larger number of applicants.

21 SBGT classifies sectors according to the International Standard of Industrial Classification which is used by the Central Bank to denote output or value added. Some activities are not adequately captured and remain undetermined.

TABLE 1 CON'T.

APPLICANTS FOR SBGT SERVICES BY SECTOR AND GENDER

Economic Sector	Male	Female	Total
DISTRIBUTION & TOURISM: Wholesale Trade	1	1	2
Retail Trade	494	439	936
Hotels, Rooming Houses, and Other Lodging	1	1	2
Restaurants	3	6	9
TRANSPORT & COMMUNICATIONS	80	13	93
COMMUNITY, SOC. & PERSONAL SERVICES	46	20	66
OTHER BUSINESSES	0	1	1
TOTAL	808	591	1402

Findings for applicants in identifiable sectors:

a. 42% of applicants were women
b. 58% of applicants were men
c. 67% of applicants were involved in retail trade (these findings coincide with the GEMINI survey)
--47% were female
--53% were male
d. Female applicants were concentrated (from highest to lowest) in retail trade, services, and livestock and dairying
e. Male applicants were concentrated (from highest to lowest) in retail trade, transport, services, construction of commercial and industrial dwellings, and livestock
f. Entrepreneurs in some of the following economic sectors either did not apply or were not eligible to apply: citrus and pineapple agriculture, sugar and molasses processing, cotton ginning, mining and quarrying, and pulp and paper products.

3. SBGT Clients

Since the beginning of SBGT's lending activity in June, 1993, a total of 505 individuals have received credit. Table 2 shows the number of loans disbursed by gender and business activity.

TABLE 2
SBGT LOANS DISBURSED BY GENDER AND BUSINESS ACTIVITY
(as of September 1, 1995)

BUSINESS ACTIVITY	LOANS TO MALES	LOANS TO FEMALES	TOTAL LOANS
Sector Undetermined	17	20	62[22]
Livestock & Dairying	6	8	14
Forestry	5	1	6
Other & Mixed Agri.	3	3	6
Fruit & Veg. Process.	1	0	1
Textiles & Wearing Apparel	0	2	2
Wood & Wooden Products	4	0	4
Other Manufacturing	0	1	1
Commercial & Indus. Construction	6	0	6
Dwellings	1	0	1
Total Construction	0	1	1
Wholesale Trade	1	0	1
Retail Trade	131	227	358
Restaurants	1	4	5
Transport & Communications	19	5	24
Comm. & Soc. Services	9	4	13
TOTAL	204	276	505

[22] The sector for a total of 62 clients is not captured by the Central Bank's classifications. However, 17 of these clients are males and 20 are female. The gender for 26 clients in this category is undetermined.

Findings:

- a. 55% of SBGT clients who received loans were women
- b. 41% of SBGT clients who received loans were men[23]
- c. 82% of all women who received credit were involved in retail trade
- d. 64% of all men who received credit were involved in retail trade
- e. 47% of all females who completed applications received credit
- f. 25% of all males who completed applications received credit

Table 3 combines data from Table 1 and Table 2 to show the relationship between the sectors in which entrepreneurs applied to SBGT and the number of individuals who received loans in each sector.

TABLE 3
SBGT APPLICANTS AND NUMBER OF LOANS DISBURSED BY SECTOR

Sector	Total Applicants	Total No. Loans
Undetermined	176	62
Agriculture	52	26
Manufacturing	28	8
Construction	36	8
Distribution and Tourism (retail trade)	949	365
Transport and Communications	93	24
Services	67	13
Other Businesses	1	0
Total	1402	505

Findings:

a. SBGT accepted clients operating in retail more often than any other sector. Using data from Table 1, 52% of female applicants in retail received credit and 38% of all applicants in retail received credit. Two percent (2%) of the total applicants in commercial and industrial construction received credit; 26% of all applicants in transport received credit; and 43% of all applicants in livestock received credit.

Table 4 shows the value of all SBGT loans disbursed by sector and gender. Some individuals took more than one loan in a particular sector. The number of total loans may therefore, be slightly higher than the number of individuals who received loans as indicated in Table 3.

TABLE 4
TOTAL VALUE OF LOANS BY GENDER AND SECTOR
(Total values are in Emalangeni as of September 1, 1995)

Sector	**# Loans Men**	**Total Value**	**# Loan Women**	**Total Value**	**Total Loans**	**Total Value**
Undetermined	15	170,752	9	77,973	76	489,325
Agriculture	18	180,000	30	169,340	48	349,340
Manufac.	7	98,000	3	6,000	10	104,000
Construct.	7	38,000	2	5,500	9	43,500

[23] The gender of 25 clients is undetermined so the percentages do not add up to 100.

Dist/Tour. Retail Tr.	384	2,123,867	771	3,341,706	1,155	5,465,573
Transport	39	604,033	6	38,600	45	642,633
Services	11	279,500	11	76,800	22	356,300
TOTAL	481	3,494,152	832	3,715,919	1,365	7,450,671

Findings:

a. 61% of all SBGT loans (first time loans and rollover loans) were obtained by women, 56% of whom were involved in retail trade

b. 47% of the total value of all loans went to men
50% of the total value of all loans went to women[24]

c. 204 identified male clients generated 481 loans

d. 276 identified female clients generated 832 loans

e. Though female clients generated more than double the number of loans generated by male clients, the total value of their loans is only 3% greater than the total value of all loans generated by male clients

f. SBGT's activity in the small and medium enterprise sector has been dominated by female entrepreneurs who operate in various kinds of retail trade (e.g. soft goods, general dealer, or grocery). Most of SBGT's loan activity is generated by women who continue to borrow once they have received the first loan and not individual, first time clients applying for new loans.

g. Women take more loans than men and women in the retail sector take more loans than women or men in any other sector. SBGT data showed that sixty-six (66) women obtained 5 loans or more and 3 of them obtained 7 loans. Eighteen (18) men obtained 5 or more loans and 2 of them obtained 7.

4. Loan Distribution by Class and Gender

SBGT has two loan categories. Loans between E2,000 and E10,000 are Class A loans (Class A+ is from E7,500 to E10,000). Loans from E10,000 and above are Class B. SBGT began its first disbursements of Class A loans in June, 1993. Class B lending began in February, 1994. Some Class A clients also qualify to obtain loans in Class B.

The majority of Class A clients sell used clothes and other items (often referred to as soft goods), and operate small groceries, hair salons, and restaurants. They also sell fruits, vegetables, and handicrafts. They sew and operate as general dealers (i.e. proprietors of small businesses selling primarily groceries and other goods). Data on 224 Class A borrowers who played the Business Growing Game at the end of the July 31, 1995 quarter, showed that the highest concentrations of women were in business activities such as soft goods (25 women) and sewing (52 women). Women dominated in hair salons, groceries, and general dealers. Business activities such as restaurant, poultry, cosmetics stationery, and transport contained the least number of women. Men in Class A were rather unevenly distributed across a wider spectrum of activities including the sectors women concentrated in and others in which women were not represented such as plumbing, printing, welding, telephone service, and a driving school.

Business activities in Class B loans include agribusiness (livestock, poultry, sugar cane, fruit and vegetables, forestry), home construction and improvement, transportation, invoice finance, equipment finance, franchising, and working capital. Table 5 shows the distribution of loans by class and gender.

TABLE 5
LOAN DISTRIBUTION BY CLASS AND GENDER

Total Class A: 367	Total Class B: 82	Total A then B: 56
Male: 140 Female: 223 Gender Unknown: 4	Male: 52 Female: 25 Gender Unknown: 5	Male: 19 Female: 37

Findings:

a. 61% of Class A clients are women and 38% of Class A clients are men

b. In class B, 63% of all clients are men and 30% are women

c. More than half of all clients who begin in Class A and then obtain Class B loans are women. But fewer women begin in Class B.

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24 The percentages do not equal 100 because the gender of 52 clients is undetermined.

d. The fact that women are concentrated in Class A coincides with the finding that the majority of them are involved in retail trade. Their lack of access to credit explains why they enter the SME market with a lower capital base most male entrepreneurs.

5. Field Research Findings

a. Some SBGT clients who lacked access to credit used funds from moneylenders to start their businesses or received a loan or funds from their family. Those who were employed saved their salary to start their businesses. Some individuals who had previously borrowed from other institutions came to SBGT when they could not get an overdraft.

b. Most Class A clients are not members of business associations.

c. Many women in Class A have a primary school education while those in Class B were more likely to have completed high school.

d. Women were more likely to have started their businesses from scratch than men.

e. The loan repayment schedule and timing of income had differential effects on payments and cash flows for clients in Class A and B. Class A clients repay their loans after 90 days in a lump sum. However, most women in Class A are concentrated in sectors such as sewing and soft goods and they receive roughly 75% of their income at the end of the month when their customers (mostly salaried employees) receive their pay checks. Whether a woman works at her business full time or whether she is employed and operates her business on the side, also affects the options she has for managing her cash flow in order to repay the loan. Employed women who operate businesses during the weekends and evenings use their salaries to manage gaps in income from their business. Many women who operate their businesses full time have more than one business. One way they smooth their cash flow is to diversify their sources of income by being involved in many income-generating activities.

f. Depending on the timing of the loan and the flow of income over three months and particularly at the end of each month, a Class A borrower may find it difficult to repay the loan. As opposed to the Class B client, the Class A client's income is more likely to be affected by the fact that he or she accepts payments on credit and sells primarily to the public. Customers can change their minds and refuse to purchase goods. This scenario is experienced most often by women in Class A.

g. The Class B client is generally less dependent on customer's cash flow and sells to small firms or businesses.

h. The Gemini survey found that most SME entrepreneurs attributed their business failures to lack of product demand, bad debts, lack of operating funds, unavailability of raw materials, and poor health. The lack of product demand was considered the most important problem followed by customer's unwillingness to repay their credit purchases which led to the entrepreneur's debt. Lack of working capital was also cited as a major problem. In the field research SBGT clients gave similar reasons for their problems (or business failures). Class A clients were more likely to cite a reason from the above list. The female entrepreneurs that had closed their businesses had each experienced a major health problem. Men appeared to suffer more from problems finding a market for their products, whereas women cited health, competition, lack of demand, and lack of working capital most often.

6. <u>Issues for Consideration</u>

SBGT's activity in the small and medium enterprise sector has been dominated by female entrepreneurs who operate in various kinds of retail and service trades. This indicates that new clients, particularly women, could potentially provide the base for future growth in SBGT's loan portfolio.

Though female entrepreneurs comprise the majority of SBGT clients, SBGT did not target women specifically. However, for future growth, SBGT may want to consider if it should or needs to target female clients in particular sectors.

Data on the gender and business activity of SBGT clients must be improved. Data on repayment rates by gender or sector were not available, for example. The business activities of SBGT clients should be rigorously matched to the Central Bank's classification system or SBGT should develop its own loan classification system. Client data should be comprehensive and accurate.

C. The Impact of SBGT Lending on Female Entrepreneurs

Women constitute approximately 52 percent of the population in Swaziland. The majority, who live in rural areas, engage in subsistence and cash crop agricultural production. Those in urban areas either earn wages, are self-employed, or unemployed. Social and cultural constraints limit their participation in Swaziland's economy. These constraints include low levels of education which affect access to wage employment; lack of legal rights (financial and otherwise) in marriage; and lack of access to land (married women must have their husband's consent).

Many households are headed by women either because of divorce, death, separation, or abandonment. Women have the primary responsibility to feed their families, have less access to formal sector employment, and earn less income than men. These are the major forces that push them into business to generate income for themselves and their families.

The majority of women in Swaziland do not have access to credit from commercial banks and other formal institutions. This is true for all women but particularly for unskilled women. SBGT created new opportunities for Swazi women in general, and specifically, unskilled women with low levels of education, to gain access to credit. SBGT's willingness to accept forms of collateral most commercial banks do not accept helped facilitate this access.

In addition to these obstacles, female entrepreneurs struggle to earn sufficient income from their businesses. The fact that so many SBGT female clients took additional loans indicates that despite these obstacles, they found ways to solve their problems and managed to repay their loans. Because SBGT focused on established entrepreneurs it tended to attract women who had already found ways to deal with the possibility that their husbands might try to take control of their income. The field research revealed some of the ways in which female entrepreneurs sought to overcome their constraints and create opportunities for themselves. It also revealed differences between married and unmarried women and between formally employed and full-time entrepreneurs. The findings are presented below.

Findings:

The first hurdle to overcome is in the home. A number of married SBGT female clients stated that their husbands did not easily give consent for the loan from SBGT and they had to use strategies and persistence to get their husbands to consent to the SBGT loan.

Married women may have to incur costs, in terms of time and transportation, to get their husbands' consent. If a woman's husband works outside of Swaziland she cannot begin the application process until he is available or she may have to travel to where he is in order to get his signature. One SBGT female client in Malkerns had to travel to the rural area in order to get her husband to sign the loan forms.

Wives in a polygamous marriage are in an extremely tenuous situation. A polygamous husband may decide, for example, to consent for one wife to obtain a loan and then distribute her loan proceeds to the other wives. She has no legal recourse should her husband decide to do this. The field research did not encounter women in this situation. However, one SBGT client in a polygamous marriage (she is the third of four wives) stated that her husband has essentially abandoned her and she has to use the income generated from her business to pay for her children's school fees and all other household expenses.

Education makes a difference, even with access to credit. Many female entrepreneurs have a primary school level of education. One woman attributed this to the fact that she grew up in the rural area and her parents did not like for girls to go to school. The low level of education limits the types of business activities women can engage in to a greater extent than it does for unskilled men. This also limits the amount of income they can earn. When SBGT clients were asked how would they earn income if something happened to their business, those with the least education responded that they would do hawking, try to start another small business, or sell their cows, car, or other possessions. Educated and salaried women stated that they would use their salary, open up another type of shop, or try another kind of business.

Swazi female entrepreneurs travel a great deal. About 99% of the women interviewed stated that they travel at least once (and sometimes twice) a month to Johannesburg to get supplies. Some get their supplies from Durban, Maputo, and within Swaziland (Mbabane and Manzini). Those who travel to Johannesburg typically leave on Friday evening or afternoon, sleep in a mini van which costs E104 ($28) round trip, and return on Saturday.

None of the married, employed SBGT clients appeared to fear their husband's reaction if they defaulted on the loan. Each stated that she felt secure because she has a job and her salary gives her an independent source of income she can use to repay the loan.

SBGT female clients diversify their business activities to a greater extent than men. They tend to start a new enterprise rather than expand the one they are in. Most SBGT female clients that operate a business as their sole source of income are involved in at least two business activities. A hair salon owner is also a hawker. The owner of a sewing shop also sells vegetables, for example.

Poor sales are most often explained by competition. Some peddlers and hawkers complained that sales at their stalls in the Manzini market were low because other entrepreneurs sold similar goods on the street and customers shop on the street first. They also argued that their sales are negatively affected by East Indians who come to Swaziland from Durban, investigate goods and prices, go back to Durban and buy these goods and return to Swaziland and sell them at a lower price. Some women who sell in larger shops stated that their competition comes from local businesses that are larger, can advertise, and offer discounts and sales. Other women argued that consumer demand for their goods is low. The lack of transportation to collect payment and get their products to markets was a major problem for women who live in rural areas. Lastly, selling products on credit to customers who do not pay on time was also cited as a major problem.

Safety affects location and location affects sales. A number of female entrepreneurs stated that they had to relocate their businesses because of their unsafe location. However, some were unable to afford to move to locations that were both safe and visible and their sales decreased.

Female clients appear to manage their cash flow differently from male clients. Interviews with male clients who were sole proprietors revealed that they keep their personal and business funds in one account -- either a savings or current account. None of the women interviewed managed their finances this way. In fact, they appeared to pride themselves on their ability to keep their personal monies and business earnings separate. One client admitted that she had used some of the loan funds for household expenses. Only one woman admitted to using the smart card to make a personal deposit not associated with the loan.

Women get income from different sources and keep it circulating. Their finances are very liquid. Because of the business activities they engage in (hawking, grocery, hair salons, etc.) most of them deal with small amounts of money on a daily basis. All but two of the women interviewed had an account (savings or current) at a bank and approximately one-third of them are now or (had at one time) participated in an informal rotating savings and credit club called "Kuholisani." Those that do not have accounts admitted to using informal lenders referred to as "shylarks." It has already been noted that women took many small loans in Class A and each of these loans was due after 90 days. This means that some female SBGT clients 1) continually make deposits and withdrawals as needed on their SBGT loan; 2) make regular withdrawals and deposits in separate accounts for their business and for themselves personally; and 3) deposit funds into a Kuholisani each month and/or receive a loan equal to the number of members and amounts pledged in the Kuholisani.

The fact that women keep their money circulating is an indication that their capital base remains small even after receiving credit.

Female entrepreneurs work very hard. At least 95% of the women interviewed stated that they work 6 days a week at their business. Employed women work who work 5 days a week hire someone to manage their business. They check in during their lunch time, if possible, and in the evenings after work. They also work in their businesses on Saturday.

Support and confidence also help women become successful entrepreneurs. Many of SBGT's female clients valued the encouragement and advice they received as much as they did the credit.

Issues for Consideration:

1. Carefully identify the needs of female clients in Class A and the most effective way for them to graduate to Class B lending.

2. Find ways to strengthen linkages between female clients and the Swazi Business Women's Association (or other women's associations).

3. Identify ways in which female-owned enterprises can grow and make their businesses a source of sustainable income.

4. Identify types of collateral (for married women) that are independent from their husbands' resources.

5. Increase the number of women on the Board of Directors and include women who are able to effectively represent and articulate the interests and needs of the majority of Class A female clients.

D. The Impact of Training on SBGT Clients

Training constitutes a major component of SBGT's services. All Class A clients are required to attend a training course (Business Profile Workshop) prior to disbursement of their first loan. They must attend additional training courses in order to qualify for successive rollover loans in Class A. The majority of Class B clients attend rather specialized training courses and conferences organized around particular topics of interest. However, they are not required to attend training before or after a loan has been disbursed. Clients in sectors like transportation, construction, and agribusiness participate in numerous workshops and relevant courses sponsored by SBGT. There are also clients that receive training and business advice without credit, though the majority of individuals who participate in the training are also borrowers.

All clients in Class A that were interviewed expressed enthusiasm about the training they received from SBGT. Some said it was good but it was most often described as either very good or excellent. Women often commented that they found the courses in bookkeeping extremely helpful. The majority of clients stated that they would be willing to pay for training if fees were assigned. Some Class B clients were less enthusiastic. They stated that they did not receive adequate training or consistent follow-up and information. There appears to be an implicit assumption that Class B borrowers need less consistent, guided training perhaps because they tend to have more experience as entrepreneurs and more experience borrowing. However, the poor repayment rates for Class B clients does not lend credence to these assumptions.

As individuals in Class A continue to take rollover loans, their relationship to SBGT through the training component is strengthened. The frequent nature of SBGT training for Class A clients gives loan officers opportunities to accumulate more information on a particular client. In this sense, training helps SBGT management solve an important problem that plagues all credit programs -- how to determine creditworthy borrowers from those that are not creditworthy. In addition, SBGT's training distinguishes its package of financial services from those offered by banks and other institutions.

Issues for Consideration:

If SBGT eliminated training, it would have to weigh the implications of this action for loan repayment against the cost to acquire information on clients' creditworthiness and develop client/loan officer relationships by some other means.

Though an evaluation of the training component was performed at the beginning of the project, SBGT does not routinely evaluate its quality, even for Class A clients who constitute the overwhelming majority of participants. Evaluating the effectiveness of its core courses for Class A clients could help SBGT omit or add new information that might have greater use and relevance for its clients. Part of the evaluation could seek to determine if clients in Class A might benefit from sector-specific courses in addition to general business courses. The cost effectiveness of providing such training would also have to be evaluated by SBGT.

The data on SBGT training participants shows that women are concentrated in the core group of courses for Class A clients. Their numbers are lower in specialized courses such as construction (280 men and 2 women), franchise workshops (22 men and 15 women), government tenders (113 men and 37 women), and transportation (18 men and 0 women).

E. Loan Processing and Monitoring

SBGT's loan processing procedures for Class A clients are effective and yield valuable information about potential clients. A review of Class A clients' folders showed that SBGT collects detailed financial and socio-economic information on each potential borrower. Class A applicants are interviewed, their financial accounts are verified, they attend the Business Profile Workshop, and their premises are visited. All of this takes place before their loan has been approved or disbursed. Class B applicants complete the same application and take a training course. They complete a business plan and cash flow statement which are reviewed by loan officers. Their financial statements are also verified.

SBGT's loan processing procedures create multiple kinds of relationships with clients in Class A and these relationships appear to positively reinforce each other. For example, the assistance given in completing the application helps the client think through their cash flow which feeds into what they learn in the Business Profile Workshop (for Class A clients).

In client interviews the majority stated that they were very pleased with the quality of service they received from SBGT staff and felt that they could always go to SBGT with a problem.

Loan officers follow up payments that are 1 to 7 days overdue and loan monitoring officers following up payments more than 7 days late. It would be more efficient for the loan monitoring officer to take responsibility for late paying clients regardless of the number of days overdue.

SBGT's monitoring of Class B clients could be improved and appears to be less effective than the monitoring of Class A clients. There are a number of reasons for this:

1) SBGT has more experience with Class A clients and did not begin to make Class B loans until February, 1994. Prior to that, one person monitored all Class A and Class B loans for SBGT. In February, 1995, two loan monitors were hired, one for each office.

2) The same officer is responsible for monitoring Class A and Class B clients. This is reasonable when it comes to monitoring repayment. It is problematic when it comes to monitoring progress and providing hands on support to alleviate problems. Class B clients have different needs and different kinds of problems than most clients in Class A. Though SBGT has different strategies for monitoring repayment by Class B clients, these strategies are not effectively implemented. Most of the lending in Class B involves much larger sums of money and the entrepreneurs are in franchising, equipment finance, invoice finance, and other types of business activities. The same person who monitors a Class A hawker, for example, may need different skills and information to effectively monitor the progress of a franchise operation.

3) The flow of information between loan officers and loan monitors for Class B clients could be improved. The one loan officer for all Class B loans is based in Manzini which leaves the Mbabane office without a class B loans officer. This means that the Class B loan officer in Manzini has to share information with the Class B loan monitoring officer in Mbabane for Class B clients who live in Mbabane.

4) Given the disproportionate number of Class A clients to Class B clients, it appears that there is a tendency to focus monitoring on clients in Class A. This makes it more likely that Class B clients are visited when their problems become critical. The close and frequent contact Class A clients have with loan and monitoring officers is not replicated for Class B clients.

5) SBGT's loan monitoring focuses on delinquent clients who have not repaid their loans. Repayment is monitored, not loan use or progress. As time goes on, effort should be made to monitor the business premises and progress of clients who are repaying on schedule and to see how they have used the loan. This would help SBGT foresee problems with particular clients before they arise.

6) SBGT loan monitoring officers have access to only one vehicle to do visits. Visiting clients requires them to negotiate with other staff for use of the car or combining their trips with other staff who are traveling to see clients.

Issues for Consideration:

Class B borrowers should be required to receive comprehensive training or orientation as part of the loan processing procedure, particularly if it is their first venture into a new type of business. More attention should be given to developing a thorough checklist to identify the kinds of problems Class B clients in particularly sectors and loan categories are likely to experience before funds are disbursed. For example, sources of input and suppliers could be carefully evaluated; the capacity of an overseas company to fulfill an order could be thoroughly assessed; the nature of market demand and the ways it will be cultivated could be determined; alternative strategies for dealing with particular problems could be mapped out.

F. Managing the Transition from Class A Lending To Class B Lending

The one group among SBGT clients that appear to be the least defined in terms of their particular needs and problems are those clients that begin with Class A loans and then take Class B loans. In interviews some of them stated that they did not have an adequate business plan when they moved from a Class A to Class B loan. They did not have a different sense or understanding of how their market had changed or needed to change if they were going to generate enough profit to repay a much larger loan. They also stated that they found it much more difficult to make larger loan payments.

The business management skills, production knowledge, and marketing skills needed in Class B are different from those needed in Class A particularly if the purpose of the Class B loan is business expansion. New problems arise that were not necessarily problems at Class A lending. If the loan is to increase production, clients need to demonstrate a solid understanding of their market and the stability of the market for their product. In short, to make the transition from small to larger loans, clients need to have clearly increased their security and stability in their business operations.

SBGT could better assist this particular category of client by developing ways to more clearly and definitively identify the changes that warrant a larger loan (i.e. changes in demand, in production, in sales, and/ or assets) and carefully evaluating the ways in which the client plans to manage the changes.

G. SBGT Assistance To Construction Firms

SBGT began to provide business advice and support to Swazi construction firms under the Construction Assistance Program (CAP) which was a USAID funded project implemented in Swaziland before SBGT. SBGT has been extremely effective in helping Swazi construction firms (and particularly small firms) acquire government contracts and in helping them improve their business operations and profitability. SBGT's lobbying efforts on behalf of construction contractors has resulted in the removal of some the major constraints (i.e. ability to pay fees for performance bonds) that kept small Swazi contractors from qualifying for government contracts.

IV. LESSONS LEARNED AND INNOVATIONS

The Project Final Evaluation Team (PFET) sought the lessons learned from SBGT clients and the individuals most closely associated with the history of the project and its implementation.

A. USAID Mission to Swaziland

- The most salient point about the success of the of SBGT is the same lesson that has been seen over and over in evaluation of USAID projects, although it is seldom directly stated and may be too obvious to be mentioned. That is: Successful projects are run by good managers who have vision, commitment, and ability to adapt changing conditions or emerging realities.

- Project design, while being quite clear in stating goals and purposes, and to a great extent, underlying assumptions, also left the implementation flexible enough for the managers to adapt without major rewrites and new approvals of the basic documents.

- Political assumptions are not the least of the many problems which bedevil programs for lending to MSE. People who have grown up in the western environment may underestimate the extent to which the financial practices which we see as intuitive, right and universal are, in fact, culture specific. More effort than is generally assumed may be needed in basic education for the general public and political and business leaders, as well as for potential and actual borrowers.

- The mechanism of using a cooperative agreement and an institutional contract to establish a new institution worked well.

- Creating a sustainable, local institution with a developmental focus is a multi-faceted task not easily accomplished in a short period of time, even when the sustainability of the institution was the prime focus of the project from the beginning. Even though the objective of SBGT management was to be market driven and cost-effective, in practice this takes much experimentation to realize. Flexibility is often talked about, but SBGT is a real example of how flexibility matters when major changes are required to the project implementation methodology.

B. Development Alternatives, Inc.

- The SBGT project demonstrates that with the necessary resources, creative energy, and community support it is possible to develop in a relatively short time, a small business service enterprise from inception to a near sustainable level.

C. Micro, Small and Medium Entrepreneurs

- Education is just as important as credit. Clearly understanding cash flow management, pricing, bookkeeping, and other business support makes a critical difference in entrepreneurial success.

D. Innovations

- The modification to the implementation lending strategy which permitted SBGT to become the primary lender when it was realized that the country's commercial banks were not appropriate. Rather than going through the arduous and lengthy process of a Project Amendment, the change in approach was accomplished through an Action Memo and approval was accomplished relatively quickly.

- The adoption of the SBGT Smart Card, not only as a methodology for the efficient management and monitoring of the lending program, but as a pioneering mechanism which would lead to so many other business product and service applications within SBGT as it expanded its operations into other areas.

- As a ways and means to accommodate the security coverage required by DBSA under its Loan Agreement enabling GTC to extend HAIL Loans, the Drummond Investment Fund was established through a direct initiative of SBGT. An adequate guarantee was then available to DBSA, satisfying their security requirement and "opening the door" to a source of funds for mortgage and home improvement lending, one of today's high opportunity areas within the Trust.

- In order to reach the large number of potential home owners where title deed is impossible for the occupant to obtain, SBGT has uniquely capitalised on the jurisdiction of the Regional Chief to authorize to would be borrowers, *life estate* possession and entitlement. This form of land use authority provides HAIL with an adequate form of collateral for certain types of property acquisition and home improvement lending.

- The Construction Assistance Program responds to affordable housing, the Swazi construction industry, and offers a synergetic link to the HAIL program.

- Both commendable and innovative have been the efforts of the SBGT Board & Management with the continuing support and oversight of the USAID Mission, in their successful campaign to raise funds and insure continuation and sustainability of the Trust.

ANNEX A

Scope of Work

Final Evaluation of Swazi Business Growth Trust

BACKGROUND: The Swazi Business Growth Trust (SBGT) is a private, non-profit small business development institution initiated by USAID. A Cooperative Agreement was signed with the Board of Trustees in 1991; project implementation activities commenced in 1992 with the arrival of a U.S. Institutional Contractor team fielded by Development Associates, Inc. through November 30, 1995. The current project will end December 31, 1995. However, USAID/Washington has approved a $5,000,000 endowment to SBGT; income from the endowment will be used by SBGT to support its operating costs which are not fully covered by client fees. SBGT still needs additional capital to onlend to clients at the projected level to obtain self-sufficiency in its lending program (SBGT is expected to reach self-sufficiency in the credit program of its operations in the next several years). Because of the endowment, USAID oversight of the organization will continue for another seven years through the regional office in Botswana.

SBGT provides both financial and non-financial services to the small and medium business community in Swaziland. It has made over 1100 business loans ranging in size from $570.00 to over $30,000. Currently, SBGT serves an average of 500 clients a month (in financial and/or non-financial services; its total client base is approximately 2000. SBGT also has initiated a housing acquisition and improvement (HAIL) loan program for sustainability purposes.

SBGT ("The Trust") is a registered tax-exempt institution organized as a Trust. Legally it became necessary to create two separate for-profit subsidiaries of the Trust to implement the credit program and the franchising/commercial component of SBGT. The credit corporation holds a Limited Financial Institution License from the Central Bank (at the present time no deposit taking authority is allowed). In addition to these two corporations, there is a support services division (MIS, Administration, Personnel) and a business operations division (business planning, marketing, technical assistance). Two subsectors with high growth potential have also been targeted-agribusiness and construction. Recruitment for the Managing Director and General Manager of the institution is currently taking place (to replace the U.S. institutional contractors). There is a Board of Trustees of SBGT and two separate board of directors for the subsidiaries.

SBGT has been innovative and pro-active in its search for business opportunities for Swazi entrepreneurs and in operating its program and finding the necessary capital for its lending program. It has been a pioneer in areas such as: using a "smart card" computerized system for its lending program (and expanding the card to other uses); using low cost building materials and designing affordable housing in Swaziland; and bringing franchising opportunities to Swaziland which are appropriate for small Swazi entrepreneurs.

An outside mid-term evaluation was conducted early last year (field work in Feb/March 1994). The evaluation was positive and resulted in USAID/Swaziland moving forward in proposing an endowment for the Trust.

ARTICLE I Title

Final Evaluation of the Swazi Business Development (SBD) Project: Swazi Business Growth Trust (SBGT) 645-0235

ARTICLE II Objective

The objective of the Final Evaluation is twofold:

1) To evaluate the activities of SBGT as relates to achieving the project's goal, purpose and outputs. The project goal is to increase Swazi incomes and expand the employment-generating capacity of Swazi businesses; the purpose of the project is to stimulate the growth of Swazi owned businesses.

2) To recommend to the SBGT Board and new management strategies for improving SBGT's performance (managerial, operational, and financial) in order to improve its long term sustainability and to meet the needs (financial and non-financial) of its clients in the most cost-effective way.

ARTICLE III Detailed Scope of Work

The contractor will assemble a two-person team of professionals with extensive international experience in the fields of financial appraisal, development banking, small business development, business training, institutional development, and impact assessment to perform the work tasks specified below.

In addition, it is anticipated that an AID/Washington staff member will also assist and participate in the evaluation activities.

General Tasks:

A. Report Preparation

The contractor will prepare a written Final Evaluation Report. The main body of the report should not exceed 25 pages (appendixes may be attached if needed). The report will include an Executive Summary of the key findings and recommendations of the evaluation as well as the methodology used. The Executive Summary will not exceed two pages in length. The Final Evaluation Report should encompass both objectives of the evaluation listed above, include a section on "lessons learned", and document any innovative aspects of the project for possible replication purposes.

B. Review of Documents and Reports

The contractor will review USAID project documents, SBGT documentation and client files including but not limited to: Project Paper and Amendment 1 (approval of $5,000,000 endowment), SBGT mid-term evaluation, annual work plans, SBGT Board of Trustee files, DAI Sustainability Plan, DBSA and other donor documentation and agreements, and the SBGT client database on lending and training/technical assistance activities.

C. Field Research

In addition to file reviews, the contractor will design and conduct a study of SBGT clients to verify and determine client outreach, quality of service, and impact data on growth in client businesses. It is envisioned that a combination of interviews and questionnaires will be used to reach a sample of SBGT clients.

D. Team Composition

The contractor will field an experienced evaluation team with extensive international experience in the fields of financial appraisal, development banking, small business development, financial management, business training, institutional development, and impact assessment. Additional requirements of the team members include specific experience with USAID contract procedures for evaluations, previous work experience in Africa, and excellent data analysis and computer skills (word processing and spreadsheets). The evaluation team will be composed of the following experts:

i. Institutional Development Specialist/Development Banking and Financial Management (Team Leader)
ii. Socio/Economic and Credit Analyst

In addition to the SOW listed above, additional or related responsibilities of each team member and the approximate level of effort are listed below.

A. <u>Institutional Development Specialist/Development Banking and Financial Management (Team Leader)</u>

1) Development of an evaluation schedule and plan for undertaking the evaluation and preparing the final report.

2) Maintain on-going and direct liaison with USAID/Swaziland Private Sector Office during the course of the evaluation.

3) Conduct a review of project files at SBGT and USAID including, Inter alia, project paper descriptions, Trust and corporation financial statements, credit portfolio, donor agreements, board materials, and reports.

4) Review current financial statements and financial projects and conduct a financial appraisal of the institution including its prospects for financial viability and self-sufficiency.

5) Interview major stakeholders including the Central Bank, Development Bank of Southern Africa, SBGT Staff and Board Members, Government of Swaziland, and other donors. Assess internal and external issues relating to non-quantitative issues of the institution's sustainability (leadership, vision, oversight roles).

6) Review and comment on the current/proposed organizational structure.

7) Compile and synthesize the findings and recommendations developed by the Socio/economic and Credit Analyst (and AID/W team member) into a draft final and a final report.

B. <u>Socio/Economic and Credit Analyst</u>

1. Interview staff and review documents relating to the SBGT loan program and portfolio, credit training component, business advisory services and training, client database, and diversification of the products/services piloted by the organization.

2. Assess impact of SBGT programs (financial and non-financial) on clients, especially as relates to growth and profitability of client businesses, client's perception of quality of service, and client outreach. Design and implement appropriate surveys. All data should be segregated by gender.

3. Provide final data on each of the five outputs of the project, the two and the project status indicators, and the percentage of women beneficiaries.

4. Provide input for the Draft and Final Report and brief USAID/Swaziland and SBGT on findings and recommendations prior to leaving Swaziland.

ANNEX B

Business Linkages

Business Linkage No. 1: SBGT Clients That Provide Services to the GOS or Large Businesses

1. Ms. R.L. (Client No. 1278) Ms. L came to SBGT in January, 1994. She is an interior decorator and sells bed linen. Ms. L obtained three Class B loans. She is working on an order to supply curtains to the Central Prison.

2. Ms. B.H. (Client No. 1214) Ms. H came to SBGT in January, 1994. She quit her job in 1991 to start her business making curtains and bedding. Ms. H obtained 4 Class A loans and 1 Class B loan. She used the credit to expand her business and has moved to larger premises in the heart of Manzini's commercial district.

3. Ms. J.M. (Client No. 1037) Ms. M. had never received commercial credit when she came to SBGT in June, 1993. She obtained two Class A loans and one Class B loan for E35,000. She used her first loan to buy chairs for her hair salon. In 1993 she had 1 employee, today she has 4. Her assets then were worth E2000, today they are worth E80,000. She also moved her business closer to town and recently opened a second hair salon.

4. Ms. H.M. (Client No. 1256) Ms. M. had never received commercial credit when she came to SBGT in February, 1994. She obtained five Class A loans and one Class B loan for E15,000. At present she supplies school uniforms to various mission schools around Mankayne and now makes track suits.

5. Mr. H.V. (Client No. 1310) Mr. V. had never received commercial credit when he came to SBGT in April, 1994. He obtained 3 Class B loans. He presently produces and sells eggs to hotels, private individuals and country clubs around Mhlume.

6. Mr. M.G. (Client No. 1074) Mr. G had never received commercial credit when he came to SBGT in July, 1993. He obtained 6 Class A loans and 1 Class B loan. He used to operate a grocery shop in the outskirts of Manzini. He has since opened a bottle store and has a wholesale license. He also sells beer during football matches all over Swaziland.

7. Mr. R.M. (Client No. ----) Mr. M. had never received commercial credit when he came to SBGT in April, 1995. He harvests timber and used SBGT loan funds to buy trees and equipment. His output to a large sawmill has increased and his profit has risen by over 100%.

8. Mr. D.M. (Client 5522) Mr. M. came to SBGT in May, 1994. He took 1 Class A and 2 Class B loans. Mr. M. expanded his cleaning business and now cleans the University of Swaziland, hospitals, and financial institutions. He used the Class B loans to purchase building material to meet a confirmed order by the Ministry of Works, Power, and Communication.

9. Mr. E.M. (Client 1002) Mr. M. took two Class B loans since February, 1995. He used the loan funds to increase his supply of blankets, sheets and bedding material. He now suppplies to hospitals.

10. Mr. M.M. (Client 5732) Mr. M. had never received commercial credit when he came to SBGT in April, 1995. He obtained 1 Class B loan and used it to buy stock to fill an order. Mr. M. supplies soup to companies.

Business Linkage No. 2: Construction Firms That Have Acquired GOS Contracts

1. CD Construction:	Established in 1990. Joined CAP in 1992.
Largest job before CAP:	E250,000
GOS contract:	Construct civil servant staff housing
Value of GOS contract:	E1M
2. Homepride Construction:	Established in 1990. Joined CAP in 1992.
Largest job before CAP:	E667,000
GOS contract:	Construct female hostel at Swazi College of Technology (SCOT)
Value of GOS contract:	E2.65M
3. Zanini Construction:	Established in 1986. Joined CAP in 1992.
Largest job before CAP:	E456,000
GOS contract:	Renovate and extend the Police College in Matsapha and extend the Manzini Library
Value of GOS contract:	E5.8M
4. Du-Van Developers:	Established in 1991. Joined CAP in 1992.
Largest job before CAP:	E596,000
Value of GOS contract:	E3.5M
5. Khula Construction:	Established in 1981. Joined CAP in 1992.
Largest job before CAP:	E200,000
Value of GOS contract:	E986,000
6. Workforce Enterprises:	Established in 1990
Largest job before CAP:	E270,000
Value of GOS contract:	E550,000
7. Speed Construction:	Established in 1981. Joined CAP in 1992.
Largest job before CAP:	E378,000

Value of GOS contract:	E1.8M
8. WSL Construction:	Established in 1991. Joined CAP in 1992.
Largest job before CAP:	E60,000
GOS contract:	Renovate the Swaziland Broadcasting Information Service Building
Value of GOS contract:	E1M
9. Hanier Construction:	Established in 1990. Joined CAP in 1992.
Largest job before CAP:	E127,000
GOS contract:	Construct residential flats for the police department
Value of GOS contract:	E910,000
10. Red Lion Construction:	Established in 1989. Joined CAP in 1992.
Largest job before CAP:	E130,000
GOS contract:	Construction for the Ministry of Works
Value of GOS contract:	E558,000

ANNEX C

Field Research Methodology

Field research was conducted between August 22, 1995 and September 1, 1995. The evaluation team visited approximately 50 clients throughout Swaziland. Many of the clients in rural areas were not available at the time they were visited. Hence, out of the 50 attempted visits, 36 SGBT clients were located and were actually visited and or interviewed. Twenty-seven (27) of them had obtained credit, 3 had received assistance from SGBT for construction, 2 were involved in transport, 2 in agribusiness and 2 individuals from an institution that received technical and advisory support from SBGT. Of the 27 that obtained credit, 22 were women while 12 men that received credit and other services were interviewed.

Visits took place in the following districts and locations throughout Swaziland: Nkhoba, Motshane, SEDCO Industrial sites, Mbabane, Malkerns, Phuzumoya, Siphofaneni, Mpaka, Manzini, Matsapa, Sidvokodvo, and Maliyaduma.

Two different questionnaires were used. The first questionnaire was distributed to male and female clients who obtained Class A loans, Class B loans, and those who started with Class A and then obtained a Class B loan. The questionnaire 1) elicited information on SBGT clients' cash flow management, perception of services from SBGT, major constraints and obstacles, source of initial investment, and changes in growth and profitability since receiving the loan. It also elicited information on the impact of lending within and across different loan classes and business activities.

The sample included clients that obtained 5 or more Class A loans, those that had borrowed large sums in Class B (i.e. above E95,000), and those that had started with small loans in Class A and then obtained relatively large loans in Class B. Business activity was also explored and an attempt was made to include individuals in sectors where data on percentage changes in profitability were high as well as those in which the changes were low. Individuals with Class B loans for invoice finance and franchising were also included.

A random sample of female clients in Class A and Class B received the second questionnaire. It assessed the impact of SGBT credit on women and focused on their constraints and opportunities as entrepreneurs. Input on how to best word particular questions was given by one of the SGBT loan officers. Approximately half of the interviews conducted with women were done in SiSwati. About one-third of the interviewees had received a high school education or more while roughly two-thirds of them had a primary school level of education. Most had been in business for at least three years. The majority were married though the sample included women who were either divorced, single, or widowed.

FIELD QUESTIONNAIRE NO. 1

This questionnaire was used in field visits to both male and female clients who obtained class A loans, class B loans, and those who began with class A and later obtained class B loans.

1. How did you start your business and what was your initial source of capital?
2. Have you always had your own business?
3. What costs did you incur to obtain a loan from SGBT?
4. Why did you need credit and how did you use it?
5. Did you benefit from the training and how did you use what you learned?
6. Have you received credit from other institutions?
7. Compare your profit, liabilities and assets before the SGBT loan and after.
8. How many people do you employ? Are they casual or permanent? Do they work full-time? Are they family members?
9. How do you manage your cash flow between your business and personal finances?
10. Is your business your sole source of income?
11. Where do you get your supplies?
12. What is the greatest benefit of the training you received?
13. What do you think of the quality of personal service given by SGBT staff?
14. What are your biggest problems? What other kind of help do you need besides credit?
15. What suggestions do you have for improving SBGT?
16. Would you be willing to pay for training?
17. What are your future plans?
18. Do you belong to a business association or cooperative?

FIELD QUESTIONNAIRE NO. 2

This questionnaire was used in field visits to female clients who received class A loans, class B loans, and those who began with class A and later received class B loans.

1. Are you married?
2. Did your husband easily give his consent for the SBGT loan?
3. Does your husband give you money to help your business?
4. Do you have children? How old is your youngest child?
5. Who is the breadwinner?
6. Have you ever used the smart card to deposit your personal funds?
7. Are you the only wife?
8. Do you work 6 days a week?
9. What is your biggest problem as a businesswoman?
10. Where do you get your supplies? How often do you travel and do you take your children?
11. Do you have a savings or current account at a bank?
12. Have you ever had a loan from another institution?
13. If you lost your business what other means do you have of repaying the loan?
14. Are you part of a Kuholisani (a type of rotating savings and credit club)?
15. Does your husband monitor your loan payments?
16. Does your husband involve himself in how you use your loan money?
17. How much do you sell each week on average?
18. What is your level of education?

ANNEX D

Smart Cards

The Growth Trust Corporation (GTC), a financial subsidiary of the Swazi Business Growth Trust (SBGT), uses smart card technology to monitor its loans. The system has the potential to provide real-time management information in keeping track of credit clients. Smart cards are on-line or remote off-line cards with embedded microchips that can combine savings, installment loans, debit-, and credit-card features on one convenient card with options to control the use of loans at point-of-sale outlets. Smart cards ensure security because borrowers can spend only as much money as they have in their accounts. By requiring a cardholder's personal identification number (PIN), the card's secure debit and credit procedures deter fraud by forgers, prevent fraudulent attempts to revalue cards with unauthorized funds, and leave a clear audit trail for reconciling accounts with participating banks.

Credit worthiness and risk of fraud limit the use of credit cards, but smart cards can be issued to anyone. Similarly, debit cards require expensive terminals and reliable telecommunications, whereas smart cards can function off-line with battery-powered readers. Smart card balances are like cash, but more secure. Since smart cards do not require on-line authorization, they permit faster transactions than credit cards, an important consideration for retail outlets with a high volume of customers.

Rapid improvements and a new appreciation of smart card technology have spawned numerous applications in closed environments where one or more parties issue funds and in open systems as electronic purses where funds on the card can be exchanged for cash. Cards are now used as portable data storage systems for medical records, in public transport, telephone communications, retail outlets, utility services, and vending machines. Initially characterized by single applications, single card issuers, and single service providers, card technology has improved to the point of allowing multiple applications on a card issued by more than one organization, and serviced by multiple types of outlets.

Until now, smart cards and memory cards--simpler versions of smart cards used in some subway and telephone systems or at automated teller machines--have either been paid for in advance, as the user loads up the card with his or her own money, or to a lesser extent, for a line of credit with settlement of the credit card bill by separate check. SBGT has pioneered the use of the card in lending: another party's money is loaded on, and later repayments by the user are taken off the card. In other words, GTC's application of smart-card technology is unique: the card not only serves to disburse loans, but also--and more importantly--to collect the repayments.

GTC customers have found its smart cards to be easy to use, and acceptable in all major commercial banks in Swaziland. The system requires only minimal hardware--a headquarter base unit at GTC and smart card terminals at GTC and bank branches. Each terminal has memory, a card reader, liquid crystal display, slip printer, hand-held key-pad, and transformer with battery pack. Standard database software programs run the system. Loan managers, loan officers, bank teller, and clients each have separate cards for authorizing and processing transactions. A special settlement card strips transactions from bank cards, collected each day, and updates client files in the headquarter unit.

After receiving the amount of their initial loan loaded onto the card, clients may choose to make their repayments at any one of four participating banks whose branches are equipped with smart card readers. The slip-printer records each reader transaction in triplicate, with one copy remaining at the bank, one with the customer, and one returned to GTC in the daily collection of bank cards. Because of its smart card system, GTC can act as a virtual bank, without investing in the bricks and mortar or security systems usually associated with banking. Installing smart card terminals in the Mbabane and Manzini branches of Swaziland's four major banks has effectively given GTC the largest banking network in the country.

SBGT has made a major investment of approximately $100,000 in the smart card technology and banking software, and SBGT management hopes to amortize this cost over an expanded variety of products. As with any new product development, problems have occurred that required modifications and redesign. Whether or not the Trust recoups the full cost of developing the smart card system, the organization has made an important contribution in applying a new and exciting technology. This effort stands to benefit not just Swazi entrepreneurs, but micro- and small-business finance programs worldwide.

Developers of FAO's MicroBanker, a low-cost bank management software package for micro-computer hardware, visited SBGT to learn about the smart card and SBGT's work in integrating the two technologies through a "smart wall". The visitors were so enthusiastic about the possibilities that future versions of MicroBanker may incorporate features to make the on-line banking system directly compatible with off-line smart cards. In the meantime, SBGT has developed a hybridized version of MicroBanker that controls and accepts data from its smart card system. The Associated Banks of South Africa (ABSA), that country's largest banking organization, has also recently visited SBGT to learn about the Trust's innovative work with the smart card and MicroBanker.

SBGT's General Manager had the foresight to adapt the latest technology to an environment constrained by still underdeveloped infrastructure. Although smart cards, and their less sophisticated version--memory cards, have been around since the 1970s, widespread testing and experimentation of their potential uses did not begin until the mid-1980s in Europe. GEMPLUS, a French manufacturer of Smart Cards, with worldwide subsidiaries, envisions having one smart card serve a variety of functions: as preloaded (and hence, prepaid) electronic purses for small transactions, as debit cards for larger amounts, and as reloadable lines of credit or credit cards for the biggest expenditures.

Interest in smart cards is spreading rapidly through the developing world. In Indonesia, two major banks, BRI and Bank Dharmala, are looking into using the technology because the telecommunication infrastructure does not allow efficient on-line payment services. There will also be a smart card for the Thai Farmer Bank, and pilot testing for other banking applications is underway in China, Vietnam, Malaysia, and the Philippines. GEMPLUS already supplies telephone smart cards to over 40 countries, including the following locations with a USAID presence: the Czech Republic, Slovenia, Hungary, Russia, Mali, Morocco, Senegal, South Africa, Uganda, Zimbabwe, Nicaragua, Peru, Indonesia, and Thailand.

Visa, Mastercard, and Europay have created a technology group of international manufacturers to define the specifications for an electronic purse system based on the smart card. They have endorsed the microchip card (smart card) technology as the common platform for providing their services. As world leaders in consumer payment systems, these three could soon develop a market for over 600 million smart cards with millions of acceptance locations worldwide.

For logistical reasons, SBGT purchases its smart cards and gets technical support from Net1, a small South African company based in Johannesburg, rather than purchase the cards directly from GEMPLUS in France. Net1 has patented an encryption technology, the Universal Electronic

Payments System (UEPS), that Visa and Mastercard are considering as one of several possible industry standards for smart cards. Net1 is so confident of the security of its encryption that it will pay U.S.$500,000 to anyone who can make an unauthorized change to a smart card balance protected by the UEPS code.

Under its for-profit subsidiary, the Growth Trust Commercial Corporation (GTCC), SBGT will use the smart cards as prepaid "club cards" tied to particular retail outlets and will take advantage of the float between the time of clients' pre-loading their money and the date of GTCC's settlement of the retail outlets' card accounts. SBGT has been revamping its card system to strip away the cards' accounting functions of tracking loan interest and penalty payments. MicroBanker will now handle all accounting, and this will allow the card system to do what it does best--track the distribution and recovery of money like a regular passbook. Separating the accounting from the teller functions will increase the card's flexibility and enable it to handle a variety of different loan products, all on the same card.

Four tracks will replace the one track that until recently was used only for simple balloon payment A-loans. New cards will also be able to carry up to four different products--for example, a working capital balloon loan, installment loan, savings account, and line of credit, with a bar for loan conditionality on each track of money loaded. The four tracks could be further differentiated by point-of-sale retail outlet with, for instance, one track of the multi-service club card for use at a seed distributor, one track for a loan from an equipment supplier, one track for purchases at a hardware store, and the remainder a working capital loan for labor. To enhance security, each track could also have a separate PIN for withdrawals and deposits so that, for example, a shop assistant knowing only the deposit PIN may use the shopowner's card just to make bank deposits and not for withdrawals. A card could also obviate the need for checks. If the transaction occurs at the Trust's own terminal, a check would automatically be written to the specified vendor.

Club cards will function like loyalty cards tied to particular retailers, with users accruing discounts for purchases made on the card. Each of three clubs--transport, construction, and agriculture--will charge a membership fee, but for individual members, the savings on prices negotiated through the club's bulk purchasing will outweigh the cost of the membership. Other benefits for both merchant and customer include the added security of not having to carry cash and the potential as a tool for managers to track employees' use of the cards through, for example, information stored in the card on vehicle odometer readings, names, times, locations, and quantities of product purchased. From the card records, merchants can also accrue information on buying patterns of particular customers to better serve their needs.

As with the SBGT's current smart card system, GTCC would collect merchant cards at the end of each day to process settlements. Until Swaziland's phone lines become sufficiently reliable to use modems for electronically linking merchant readers with a headquarters base unit, GTCC staff will have to physically collect and exchange merchant cards on a daily basis. Participating vendors will lease card readers, which currently cost approximately E 3500 (U.S. $1000) each. GTCC also hopes to negotiate agreements to share a percentage of profits if, as a result of the program, a particular merchant's sales increase significantly and higher volumes yield to much lower unit costs.

Card costs have declined by half in the past two years but still amount to about E 50 each. GTC currently owns the cards and distributes them to its clients free of charge. After repaying their loans, clients return the card and are issued a new one for future loans. GTC replaces lost or stolen cards at no charge, and each card has a printed finder's reward notice of E 30 if returned to SBGT. Since deadbeat borrowers often do not bother returning their cards (along with their loan repayment), in the future, new clients may have to buy the card to participate in any of SBGT's programs. In effect, the smart card would replace the Access card that most SBGT clients currently buy to get a loan or training. If clients decided to leave SBGT, they could then sell the card back and it would be reprogrammed for use by others.

ANNEX E

Computer Fraud

Earlier this year, the Swazi Business Growth Trust (SBGT) discovered that one of its employees, the manager of its management and information system, had defrauded the company of tens of thousands of dollars. After audit and legal fees in investigating and prosecuting the case, the total cost of the fraud could amount to E 400,000 (U.S.$ 130,000). SBGT's management decided to incur the substantial costs of pursuing the case as a deterrent: sending the employee to prison for up to seven years will demonstrate that the organization is ready to punish any future infractions just as severely.

Fraud has always been a risk of banking. With computers becoming increasingly common in micro- and small-business financial institutions in developing countries, computer fraud may begin to surface as a major problem, just as it has in the rest of the world. SBGT's unfortunate experience is one of the first and best documented case of such computer fraud in a USAID-supported micro- or small-business development project. As such, it illustrates some important lessons for system design and management.

The SBGT fraudster used the smart card technology to commit his embezzlement, and the case exhibited many of the classic attributes of fraud. Contrary to the common perception, computer fraud usually involves simple techniques of altering input or output data rather than sophisticated reprogramming of computer routines. Apart from the computerized medium, aspects of computer fraud--the motives behind it, as well as the means of its detection and prevention--are common to any form of fraud.

The SBGT fraudster took advantage of three attributes of the smart card system: (1) as manager of the MIS, the culprit had unique access to the smart cards; (2) the smart card's microchip uses as its operating system MS-DOS, which lacks adequate security controls--i.e. it is very easy to duplicate or erase; and (3) in case the card reader malfunctions, the system has a manual override for entering or flushing records from the cards. One other crucial mistake permitted the fraud: Net1 left with the MIS manager a complete set of duplicate smart cards that worked with the installed system. A duplicate set is useful for training purposes, but it should not be allowed to function on the actual system used by clients.

Along with an accomplice at a participating bank, the fraudster manually created false loans to himself on the cards and then used MS-DOS to erase the false records from the system files. It was a simple example of altering a computer's input and output data. Like most fraud, an anonymous tip, not an audit, let SBGT management know what happened. A colleague must have seen what the MIS manager was doing and detected some of the more typical signs of fraudulent behavior. To perpetrate the crime over many months, the manager had to maintain instability in the computer system so as to justify his frequent manual entries. He also had to work late to do the changes when no one else was around to observe his actions. A seeming over-dedication to work with long hours and never taking vacations is one sign of potential fraud: the fraudster commits his actions in private and cannot leave his job to a replacement for fear that the activity will all unravel and be discovered. Other clues of fraud are changes in life-style: a living beyond one's apparent means.

Many forensic accountants and fraud experts agree, however, that circumstances in the working environment rather than the inherently criminal nature of particular individuals accounts for the vast majority of instances of fraud. Very few people actively seek out ways to steal or defraud, but a fair share of individuals, perhaps a majority, will become fraudulent under the "right", or as it were, wrong conditions. A poor working environment, inadequate compensation, weak incentives, or bad leadership can contribute to low staff morale and make some workers feel cheated, that they are somehow owed more and therefore that they can rationalize a fraud as getting what they are "rightfully due". A few persons might commit fraud simply for the thrill of seeing what they can get away with, but those with such a criminal mentality are the exception and are usually weeded out in background checks for previous behavior.

Routine screening of employees' backgrounds (or of prospective loan clients) is more difficult in developing countries, which lack, for example, credit bureaus. For SBGT, the fact that the culprit came from a different African country made it even less likely that management could have detected any past criminal behavior or indications of potential deviancy. Apparently, the fraudster did have personal problems, but the ultimate motives for his crime may never be known. The employee's records show a pattern of fair treatment by SBGT management in terms of salary increases and promotions.

Often the most trusted member of an organization is the one who ultimately commits the fraud. In the case of SBGT, the culprit was highly intelligent, well respected, and being groomed for ever increasing responsibilities, even perhaps for a senior management position. His wife also worked at SBGT, and his company-provided house was right next to that of the General Manager, so he had a lot to lose from his actions. Like many fraudsters, he started small, saw that his changes were not detected, and then began stealing larger and larger sums over the course of a year. A pending overhaul of the smart card system in April 1995 accelerated the urgency of his theft; this urgency may have made him more careless or blatant in his actions, thus facilitating the detection.

SBGT management has an important responsibility in seeing that fraud does not recur and should not view one case as an isolated incident. If one seemingly honest person is induced to commit fraud, circumstances may induce others to similar temptations. Personal factors may also lead to an embezzlement, but it is hard to know of these situations, apart from telltale changes in behavior. In response to the fraud, SBGT instituted a series of internal checks and controls to separate duties, which is part of any good fraud prevention system. Now two of four managers, neither of whom can be from the same department, must authorize the loading of smart card data. Small organizations like SBGT in the early stages of growth sometimes lack the staff to separate duties to a sufficient degree.

Although the smart card technology did not alert management that fraud was occurring, it was able to provide such compelling evidence against the fraudster that he confessed to the crime upon being presented with it. Unknown to the MIS manager, the smart card retains a numbered record of every transaction ever made, so that even if erased, a sequenced number still remains after the erasure. Alerted by the anonymous tip, investigators from Net1 and auditors were able to compare the blank smart card numbers with the banks' record of the transaction and verify the discrepancies. But had the perpetrator simply destroyed the smart cards and had no one notified management of his unusual behavior, the fraud might have continued much longer and the damage been much more severe.

The fraud has raised an awareness of the dangers to an organization, even one like SBGT and its financial subsidiary, the Growth Trust Corporation (GTC), which does not physically handle money but which is linked to banks that do. The systems analyst who is now reworking the smart card system has instituted a number of programmable controls to make any similar jiggering with the system much more difficult. Nevertheless, human ingenuity is without bound, and one cannot foresee every conceivable deviancy.

There are several lessons from a recounting of the fraud at SBGT, and these lessons conform with other instances of fraud the world over: (1) no system is failsafe; (2) one can never predict if or when a trusted employee will go bad; and (3) despite these constraints, one of the best preventive measures for reducing the risk of fraud is management's establishing a working environment where employees feel content and see no reason to stray from accepted behavior.

ANNEX F

Institutional Issues

Incentive Systems

SBGT pays relatively high salaries and provides generous life insurance, pension, and health benefits along with either housing or a housing allowance to all of its employees. As a private company, SBGT may want to reconsider its employee compensation to reduce its wage bill and create more performance-based incentives. SBGT has paid out only one bonus and has had to scrap its incentives payments for lack of funds. At the same time, the organization has grown from a handful of employees to over 45, three times the full staffing of its originally envisioned complement of 15.

The rapid growth and change in the organization has necessitated employees' assumption of new duties and overlapping functions. Such a process presents two risks: (1) burnout, as staff are driven to achieve more without commensurate adjustments in their pay, and (2) weakening of controls as management loses track of who is responsible for particular tasks. These two risks are recipes for a repetition of the kind of fraud that SBGT suffered earlier in the year. Fortunately, SBGT has developed clearly defined job descriptions and a detailed personnel manual. It remains to be seen whether the organization can follow the systems it has developed and re-institute performance-based compensation. Loan officers in particular, should be paid according to their achievement of targets for minimizing delinquency or bad debt and in attracting new clients.

Management should also treat the burgeoning divisions of SBGT, GTC, and GTCC as individual profit and cost centers with appropriate incentives tailored to the objectives of each. Now that USAID support for expatriate salaries and operating costs is coming to a close, SBGT will have to look carefully at the proportion of its income going to these costs. Successful, sustainable microfinance programs have streamlined their processes to keep all operating costs at no more than 25 percent of the value of their outstanding loan portfolio, and loan officer salaries, which include a high percentage of performance-based compensation, are typically only a few times higher than their respective countries' average per capita income levels. SBGT might use these figures as benchmarks to strive for.

Training

As a not-for-profit institution, SBGT will have to weigh carefully the costs and benefits of training--both for the institution and its clients. The organization may continue to cross subsidize its training activities with revenue from its more profitable GTCC operations, but management should reconsider whether making training a mandatory condition for certain loans is in the best interests of the clients. SBGT should make training voluntary and apply the market test--if clients find the training useful, they will pay the required fees. Undoubtedly, many clients find the training worthwhile, and some even go to SBGT rather than to the commercial banks specifically because of the training offered. However, others--particularly those who must travel a long distance to attend the training sessions in Mbabane or Manzini--resent the time spent in training and the opportunity cost to their business of being away for an entire day or more.

SBGT management maintain that training is necessary to teach clients about the true cost of the loan and to ensure that they undertake activities with a high enough return to repay what they borrow. One A-level program, the Christmas loans, had a minimal training requirement yet had an excellent repayment record and was very popular among borrowers. SBGT may want to test whether a training requirement really does contribute to better repayment. Many of the A-level clients have had and repaid loans from moneylenders charging 25 percent per month. While they may not be able to convert simple into compound interest rates or calculate the real effective rates implied by banking fees without additional instruction, they certainly know the value of their time and the approximate cost of the money. Otherwise, they would be unable to pay the informal moneylender rates, which often constitute their only alternative to a loan from GTC.

SBGT management also do not see a need to survey the training participants to assess their impression of the training sessions. A relatively simple method for feedback would go a long way to improving the training and better tailoring it to the needs of the client rather than to SBGT's perceptions of what they need. Any good project involves participant input in its design, and in business, "the customer is always right". SBGT needs to develop structured ways to channel client suggestions to management. The original project paper had proposed a Business Advisory Council of loan clients to report to the General Manager and Board of Directors. The incoming management to SBGT ought to reconsider the decision not to implement that part of the original project's design.

Interest Rates and Transaction Costs

SBGT managers mentioned criticism from the Central Bank and others in the community at their relatively high rates of interest on loans. When approached individually, bankers agreed that SBGT's clientele are more concerned about access to credit than the price of the loan. They have a relatively inelastic demand for the credit, especially since their alternative sources in informal markets are ten times as expensive. By comparison with successful microfinance programs in other countries, the effective rates charged by GTC, after accounting for upfront fees and penalty charges, are not out of line and are necessary to cover the higher costs of small business loans. Any reduction in the fees or interest rate would directly and adversely affect SBGT's viability. One important cost to the loans, however, can and should be reduced because it adds nothing to SBGT's bottom line and detracts from that of the clients--namely, the time required for training.

SBGT should pay close attention to the quality of service it provides in making loans. The best microfinance institutions have streamlined and decentralized decision-making processes to reduce the time to process a loan application. Such institutions are competing with informal moneylenders and formal banks for a certain segment of the market, and the speed of transaction (without compromising quality of loan appraisal) may be the deciding factor in winning new business. It can take up to six weeks for SBGT to process an initial A-loan, and an applicant must first attend a training session without any guarantee of receiving credit. By contrast, one Swazi bank manager said that his bank needed no more than two (occasionally three) weeks to process a small business or personal loan. The longer time needed by SBGT stems in part from loan applications to Manzini having to go to Mbabane for review. Mainly, the wait comes from the requirement that A-level clients have training and that such training first requires the formation of a group of similar borrowers because individual courses are not cost-effective. Such delays can engender frustration and, coupled with uncertainty about the loan, have led to the failure of micro- and small-lending operations elsewhere.

Taking Deposits

The Central Bank has not granted GTC a license to mobilize deposits, and management and the Board have mentioned this restriction as a major constraint to SBGT's achievement of financial viability. With the negative real interest rates prevailing on most forms of deposits in Swaziland's commercial banks, SBGT could conceivably offer higher rates than banks on savings deposits and still achieve a lower cost of funds than borrowing in commercial markets. However, mobilizing deposits is an entirely different business from making loans and would require even more administrative infrastructure than SBGT already has. SBGT needs first to get the lending side of its operations in order, to lower arrearage to acceptable levels, and adequately provision for its bad debt, while expanding the loan book to levels that can cover its operating costs.

As a potential intermediate step to mobilizing small deposits, GTC might use the smart card technology to act as a broker for the banks and small savers. Currently, many of its A-borrowers--the retailers and hawkers who deal in a lot of cash during the day--temporarily deposit their surpluses for safekeeping (but no interest) at the banks using their smart card. If GTC were to mobilize these and similar deposits and keep them in one large account at the bank, it should be able to get a favorable rate of interest from the banks on a commercial loan or line of credit in return for the service of bringing in savings customers' money. When asked, one bank manager of Barclays thought the idea had merit and suggested that some sort of proposal from SBGT detailing the idea might be well received. In general, the banks saw their relationship with SBGT as one of cooperation rather than competition, as SBGT provides services not offered by the banks. This attitude is useful for SBGT because it needs the good graces of the banks to continue its smart card system with them. However, as GTC moves into medium and even large loans to franchisers and others, it may begin to tred on the commercial banks' turf and provoke some antagonism or competitive response.

Competition with Banks

It does not appear that the increasing competition with banks, cited at SBGT, is necessarily due to the banks' starting to move in on SBGT's small business lending. The government has had a generous small business loan guarantee program for nearly five years, and even the 75 percent coverage on lost principal has not had much effect in changing commercial bankers' perceptions of undue risks involved in small loans. In fact, the high rate of default on these loans (due to customers misconstruing the heavily advertised guarantee programs as a royal give-away) may have reinforced commercial bankers' negative perceptions of the small business market.

Financial Sustainability

SBGT management has devoted much time, and with recent success, to sourcing concessional rates of financing from a number of international, regional, and domestic donors ranging from the European Investment Bank and the Development Bank of Southern Africa to Swazi government sources. SBGT now has USAID's U.S. $5 million endowment, intended to run in perpetuity, with surplus earnings over inflation and the 0.2 percent annual management fees charged by Fidelity Trust Management going to support SBGT's operating expenses.

The recent influx of donor funds and concessional loans puts pressure on SBGT to move the money out quickly into loans and achieve its end-of-1995 target for a loan book of E 13 million, approximately triple its current level. This pressure may be one reason for GTC's recent move into increasingly larger loan sizes, some as much as ten times the E 35,000 limit established in the original project paper. The smaller share of fixed costs in larger loans also tend to make them more profitable--yet another incentive for SBGT's movement in that direction as it soon must cover its costs without USAID support. The rush to push out loans can lead to sloppy appraisals and reduced borrower discipline, two problems that have caused the downfall of many supply-led credit schemes. An over-reliance on lending history for class-A borrowers who graduate into the much larger class-B scheme may already have contributed to increasing arrearage among the bigger loans. Large loans involve more complex businesses than the smaller ones and require careful project appraisal before approval.

Subsidized funding can also lead to subsidized lending--another sure way to kill a viable program. SBGT should be vigilant in resisting these pressures and not confuse concessional loans and grants with a non-commercial operation. As much as possible, SBGT should use any donor windfalls to pay the cost of its training program and other non-financial assistance while separating these costs from those of the lending operations to be able to assess the financial viability of the lending program.

SBGT management has devised a complex tripartite structure with GTC and GTCC subsidiaries to adapt to Swaziland's legal, regulatory, and tax environment. The arrangement permits a great deal of flexibility in responding to business opportunities as they arise while minimizing tax exposure. However, management needs a certain degree of transparency in operations, regardless of the arrangements presented to the tax collectors. Management should keep a separate set of books that price donor funds at their true cost to determine the degree of self-sufficiency, at both an operational level--covering all administrative costs and loan losses with client revenues, and at a full financial level--covering all financing costs at non-subsidized rates. Donor support in covering operating losses beyond a clear, time-limited start-up or expansion phase becomes counterproductive. In not including the costs of key managers, housing, and waivers on import duties provided for under the earlier USAID contract, the SBGT projections presented an overly optimistic picture of the financial strength of the institution and the level of improvement needed in the coming years.

Corporate Structure and Mission

SBGT has evolved rapidly in the last twelve months and changed from what was originally envisioned. Increasing complexity in operations may have obscured the clarity of its mission, both at an operational and philosophical level. Any business that tries to do too many different ventures eventually finds it does each less well than before. With delinquency and bad loans at a high level and rising and with the number of active loans declining, it is probably time for SBGT to get back to basics and concentrate on improving the quality of its loan portfolio. At the same time, management needs to rethink where it intends to go. If SBGT continues to gravitate toward the larger business clientele, it must eventually abandon its original objective of serving those whom other formal institutions would not. In so doing, SBGT risks losing the very qualities that distinguished it from other Swazi financial institutions.

ANNEX G

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ANNEX H

Persons, Organizations, and SBGT Clients
Contacted, Visited, and Interviewed

THE TRUST

Management and Staff:

Doug McLean, Deputy General Manager (in Washington)
Donald Henry, Managing Director
Norman Buckham, Business Operations Manager (incoming General Manager)
Derek Ellerbeck, incoming Managing Director
Henry Mnisi, GTC General Manager
Desiree Adams, Financial Controller
Miles Emerson, Systems Analyst
Patrick Gobin, Management and Information Systems Manager
Dominique Brouwers, HAIL Project Manager
Comfort Dlamini, Business Loans Manager
Stieneke Samuel, Class A Loans Officer
Sam Simango, Manzini Branch Manager
Sipho Banda, Manzini Class B Loan Officer
Louis Changuion, Marketing Broker
Aloysius Nyoni, Manzini Class A Loan Officer
Job Sikhondze, Manzini Agro-Industry Officer
Khisimusi Mahlalela, Manzini Loan Monitoring Officer
Sibusiso Radebe, Loan Monitoring Officer
Celiwe Dlamini, Business Consultant
Velile Mbatha, QS Technician
Samuel Shongwe, Business Consultant
Thandi Kuhlase, Service Agent
Ezekiel Phiri, Agro-Industry Advisor

Board of Trustees:

Mr A.T. Dlamini, Chairman
Mr. Eddie Litchfield, Deputy Chairman, The Fund Raising Committee
Mr. Steven Dlamini, Deputy Chairman and Chairman, The Financial Committee

Clients:

Nicodemus Mashwama, Hanier Construction
Jerry Mkhonta, Redlion Construction
L. Willie Lyt, WSL Construction
Eleanor Mphamali, President, Business Womens Association of Swaziland
Richard Mbingo, Timber Harvester
Christopher Hleta, Director, Scottrans
Zirka Lombard, Swazi Fruit Packers Ltd.

Client Borrowers:

Numbers: 1060,1168, 1064, 1037, 5643, 5078, 5110, 5382, 5591, 5309, 1096, 1097, 1377, 1329, 1214, 1305, 1472, 1278, 1134, 1400, 1114, 1500, 5144, 1638, 1267, 5461, & 5327.

Women	-	17
Men	-	10
Total	-	27

USAID

Jamie Raile, Senior Project Officer
Jeffrey Jackson, Private Sector Policy Advisor
Jack Royer, Acting Mission Director

US EMBASSY

Mr. John Sprott, US Ambassador to Swaziland

OTHERS

Steven Dlamini, Manager, Standard Chartered Bank (SBGT Trustee)
Henry Nxumalo, Branch Manager, Standard Chartered Bank
Joseph Nkumane, Branch Manager, Barclays Bank
Emil vanden Houte, Financial Program Leader, Development Bank of Southern Africa
Johan Mans, Senior Project Leader, Development Bank of Southern Africa
Ted Jongerius, Senior Associate, MDCA (Transport consultant to SBGT)
A. T. Dlamini, General Manager, Tibiyo Taka Ngawane (SBGT Trustee)
Martin Dlamini, Deputy Governor, Central Bank of Swaziland
Caroline Sullivan, Director, KPMG Management Services
Arthur H. Fandam, Partner, KPMG Aiken & Peat, Chartered Accountants (Swaziland)
Richard Tucker, Acting Managing Director, Swaziland Development and Savings Bank
Jeffrey Jacklin, Francis Drummond Swaziland Limited
Derek Von Wissell, Minister for Finance, Kingdom of Swaziland

ANNEX I

Plan of Work for the Period
August 9 - September 17, 1995

USAID PROJECT NO: 645 - 0235

August 9, 1995	Travel to Washington, D.C. (P.W. & E.R.H.)
August 10 & 11, 1995	MSI administrative and technical briefings and review of SBGT project documents (P.W., P.U. & E.R.H.)
August 12, 13 & 14, 1995	Travel to Johannesburg and Swaziland (P.U.)
August 14, 1995 (Morning)	Project briefing with Doug McLean, SBGT Deputy General Manager (P.W. & E.R.H.)
August 14, 15 & 16, 1995	Travel to Johannesburg and Swaziland (P.W. & E.R.H.)
August 15 & 16, 1995	Review of SBGT "Smart Card" (**P.U.**)
August 17 & 18, 1995	USAID briefings; SBGT document review (cont'd); and SBGT staff preliminary interviews including visits to both the Mbabane and Manzini branches (**E.R.H.**, P.W. & P.U.)
August 19, 1995	Establish evaluation priorities; develop 32 day work plan; draft preliminary evaluation report table of contents; design field survey questionnaire; and hold "feed-back" discussion with US AID and SBGT General Manager (**E.R.H.**, P.W. & P.U.)

August 21 to 26, 1995 For the 6 day period:

- Present plan of work and final report table of contents (draft) to US AID for review and approval (**E.R.H.**)
- Finalise field impact evaluation criteria, questionnaire, and SBGT client impact field visitation plan (**P.W.**)
- Observe SBGT "Smart Card"/Micro-Banker in action at participating Swazi commercial banks and SGBT branches (**P.U.**)
- Field test questionnaire (**P.W.**)
- Examine Swazi NGO micro/small business environment (**P.U.**)
- Analyse SGBT and its subsidiaries' financial statements, lending plans, and 5 year financial projections. Review existing non US AID loan and grant agreements (**E.R.H.** & P.U.)
- Meet and discuss with SGBT auditors primarily regarding their loan asset quality measurement methodology (**E.R.H.**)
- Field work and generate data (**P.W.**, P.U. & E.R.H.)
- Weekly briefing with USAID and others (**E.R.H.**, P.W. & P.U.)

August 28 to September 2, 1995

For the 6 day period:

- Field work and generate data (cont'd **P.W.** & P.U.)
- In collaboration with SBGT General Manager, US AID and others, meet with the Governor of the Central Bank of Swaziland and SGBT existing and potential funders & investors (**E.R.H.** & P.U.)
- Perform a review of the SGBT and its subsidiaries' non-lending business plans (e.g. training, agriculture/agro-industrial, construction, transport, franchising, affordable housing, "Club Card", potential joint ventures, and other business opportunities (**E.R.H.** & P.U.)
- Meet with the US Ambassador (E.R.H., P.U. & P.W.)
- Weekly briefing with USAID and others (**E.R.H.**, P.W. & P.U.)
- Debrief Paul Ulrich before departure and obtain draft report in-put (E.R.H. & P.W.)

September 4 to 9, 1995

For the 6 day period:

- Dialogue with SGBT Board of Trustees and the Directors of its subsidiaries (**E.R.H.**. & P.W.)
- Synthesise and assimilate field data collected and evaluate the impact (**P.W.)**
- Continue with an anlaysis of the SBGT Long-Term Sustainability Plan and Financial Projections
- Weekly briefing with US AID (and possibly others e.g. SBGT Management, Trustees, etc.) for a final time before report preparation. Receive feed-back (E.R.H. & P.W.)
- Develop final outline and produce report **(E.R.H. & P.W.)**

September 11 to 15, 1995

For the 5 day period:

- Complete and present final draft of report **(E.R.H. & P.W.)**
- Discuss and incorporate US AID modifications to report **(E.R.H. & P.W.)**
- Depart and travel **(P.W. & E.R.H.)**