



South Africa Siyasebenza

10th ANNIVERSARY

A DECADE OF INNOVATION AND PARTNERSHIP



Ushintsho Olughakazile

Jobs Fund-GTAC Webinar

*The Implementation of Effective Blended Finance
Support Programmes for SMMEs*

17 February 2023

The event will start at 14h00



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA







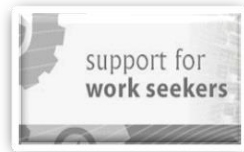
National Treasury
REPUBLIC OF SOUTH AFRICA


Welcome


Evelyn George


Senior Manager: Development Finance
(Jobs Fund)

- In the context of persistent unemployment, the Jobs Fund was established to inspire innovation in the face of several challenges government was experiencing, including:
 - Lack of innovative and flexible public instruments to leverage private sector resources and test solutions to social challenges.
 - Despite a number of interventions in government, the desired impact has not always been achieved.
- In 2011, it was capitalised with **R9 billion**.
- The Jobs Fund is a programme of the National Treasury and, for administrative purposes, is located in the Government Technical Advisory Centre (GTAC).
- The Jobs Fund is government's R&D Pilot on innovative job creation models:
 - 
Test innovative approaches to job creation - supply and demand side of the labour market
 - 
Share risk - catalyse social return
 - 
Encourage wider market adoption of challenge fund funding instrument over the medium to long term
 - 
Encourage adoption of successful Job creation Models by organisations
- The Fund works with intermediaries, leveraging their networks to access and provide support to the targeted beneficiaries, through four funding windows. The intent is to focus on addressing specific barriers to job creation.








- The Jobs Fund was established with knowledge sharing as one of its foundational pillars and has a rigorous monitoring, evaluation, reporting, and learning framework.
- In this regard, the Jobs Fund regularly hosts and participates in knowledge exchange sessions, together with its partners.

Blended Finance for SMMEs - Good Practice Framework

Evelyn George, Nazeem Hendricks & Ben Kasimukire

Jobs Fund

Blended Finance is the use of Development Finance for mobilisation of additional finance towards Sustainable Development in developing countries,

Organisation for Economic Cooperation and Development (OECD)



SMME Potential in South Africa

- A key facet to unlocking economic growth and job creation is driving growth and sustainability within the SMME sector.
- But, we know that there are a number of challenges that SMMEs face, one of which is access to appropriate finance.

Problem Statement

The inability of SMMEs to access appropriately structured finance solutions.

Root Causes

- High levels of **perceived risk** to the sector
- **Restrictive lending policies** / inappropriate assessment processes and criteria:
 - Minimum Collateral requirements
 - Minimum Trading history
 - Historic financial statements
 - Cash mismatch

Impact of Challenges (short, intermediate, long-term)

- High levels of decline
- Cost of funding is unaffordable
- Lack of transformation in some sectors (low participation of PDIs)
- Lack of interest by commercial funders in funding developmental initiatives due to perceived high risks and low returns, leading to some risk mitigating mechanisms such as guarantee mechanisms to safeguard capital and attract investments
- Lack of growth and sustainability in the sector - implications for economy & job creation
- Inappropriately structured solutions

What Needs to be Achieved in Terms of Financing of SMMEs?



Aim

- SMMEs are able to access finance/ market (short-term)
- Reduction in risk perceptions of investors and funders to enable behavioural change in lending practices to SMMEs (widen the market) (longer-term)

How can this be achieved?

- Adjustments to current methodology for finance approval
- By providing the market with a proof of concept:
 - Under certain circumstances and within certain sectors, risks can be reduced sufficiently for financial institutions to assess SMMEs differently
 - Make sustainable funding solutions available to SMMEs

How does the Jobs Fund contribute to this process?

- By testing various blended finance solutions
- Demonstrating alternate risk reduction strategies within various sectors and geographies, for particular cohorts of SMMEs
- Thereby encouraging established institutions to amend current practices



- The JF has received a number of applications from various applicants seeking to address the following SMME financing challenges:
 - Lack of finance in general
 - Lack of affordable finance in specific sectors, requiring specific intervention like blended models to address the affordability and the financial indebtedness of beneficiaries
- Some of the **broad financing models that the Jobs Fund has approved** include:
 - General debt funding
 - Blending funding
 - Guarantee mechanisms
 - Equity funding
 - Impact capital
 - Social impact bonds/ pay-for-performance



Indicator	Number/Amount
No. of projects	44
Models	General debt funding, Blending funding, Guarantee mechanisms, Equity funding, Savings groups funding, Social impact bonds
Sectors/ sub-sectors	Agriculture, Housing, Green Economy, Education, Construction, Logistics, Health, Manufacturing
Grant disbursed to date	R2.1 billion
Matched funding leveraged to date	R6.5 billion
Funding ratio	1: 3
Jobs created to date	76,106
SMMEs/Farmers supported to date	33,213 (Majority are women and PDI-owned)



Financing Models

General Debt Funding



- Aim of facilitating access to affordable funding to qualifying beneficiaries (within a package of support)
- Grant funding:
 - Crowds in commercial funding and is **blended with commercial funding**
 - Provides **first loss provision, interest rate subsidy, equity provision**, etc.
 - Blending **reduces the cost of funding to SMME beneficiaries**
 - Enables **relaxation of funding terms**, e.g., payment moratoriums, repayment terms, collateral requirements
 - Coupled with **technical and business development training**
- Appropriate blending ratio: offering the lowest rate to be beneficiaries as possible
- Sector/project specific product relevance vs market needs
- Brings critical funding mass to some concepts where innovative funding mechanisms are being tested



Supporting Black Citrus Growers

The overall objective of the project, in partnership with an industry body, is to provide appropriately structured finance packages to emerging black citrus farmers to fund entry into lucrative export markets by increasing scale and quality of production. The funding package includes grant and loan facilities supported by technical assistance and training to improve operational performance.

Performance:

- 10 transactions valued at R155m has or in process of being approved (Target 30)
- Targeting 884 additional hectares to be planted.
- Contracted to produce 1,726 permanent and seasonal jobs over the implementation period

Achievements:

- The project reduces the cost of capital for emerging farmers; leverage =1.6x
- The R118 million Jobs Fund grant will be used to reduce the weighted average cost of capital to approved beneficiaries
- Operational costs funded by the Industry body.



Growing the Fruit Value Chain

The overall objective of the project, in partnership with an industry body, is to establish a sustainable funding mechanism to provide structured growth finance to emerging industry players to enable growth in the value chain and contributing towards industry's transformation.

Performance:

- 19 transactions valued at R225m has been approved; leverage – 2x
- Over 200 ha of fruit has been planted and 100 more will be planted over the next 12 months.
- 1,211 permanent and seasonal jobs have been facilitated to date

Achievements:

- The project reduces the cost of capital for emerging farmers -The R200 million Jobs Fund grant reduces the weighted average cost of capital of the established fund
- The interest rate margin covers its operational costs - sustainable.



Supporting Emerging Contractors

The grant catalyses the breaking of barriers to entry for small contractors to partner with developers.

Through the provision of short to medium term affordable finance for contractors this allows for rolling engagements such that contractors build the necessary technical and financial track record.

The package includes technical assistance and business support as well access to tools and capital machinery.

Performance:

- ~R200 m in grant funding leveraged as ~R390m in loans to beneficiaries
- 2,077 jobs created

Achievements:

- Progression with CIDB ranking
- ~500 contracting SMEs impacted with skills, access to market, finance
- ~R5 billion worth of construction projects completed (All players)
- Impairment rates of <5%
- Favourable repayment terms allows for sustenance of jobs and SMEs

Guarantee Mechanisms



- Facilitates **access to affordable growth funding** to qualifying SMMEs
- **Grant funding provides guarantee as de-risking mechanism** to enable crowding in commercial funding for on-lending to SMMEs. First loss provision, funding bad debts of lending book.
- Institutional structure is crucial:
 - Commercial funding housed in a lending fund
 - Guarantee housed within independent trust, governed by independent trustees in terms of Trust Deed
 - Trust deed sets out terms under which loss claims are to be approved and paid
- Key issues to consider:
 - Level of first loss coverage
 - Equity of risk sharing provisions
 - Understanding how the guarantee facilitates access and affordability to SMMEs
 - How the commercial funding will be raised and how the leverage ratios impact this
 - How will the guarantee enable additional funding to be raised over the long term
 - Is it optimal to provide a guarantee into perpetuity?



De-risking Investment

The grant awarded provides a guarantee, de-risking capital for investment into SMMEs across economic spectrum.

The grant of R100m has unlocked funding of R900m in commercial funding which is provided to SMMEs via appointed intermediaries.

Performance:

- Targeted private sector funds raised. Level of leverage attained – 10x
- 22 transactions funded - benefitting >10 000 beneficiary SMMEs
- 7,130 permanent jobs created over the implementation period

Achievements:

- The project reduces the risk for private investors in investing in SMMEs
- Level of leverage targeted – 10x
- Grant has reduced cost of funding to these SMMEs while producing acceptable financial return to investee pension funds
- Proof of concept will enable the guarantee to be grown further leveraging private sector funding beyond the project implementation period.

Equity Funding Arrangements



- Enabling access to funding to SMMEs to:
 - Enable participation of beneficiaries/communities in transformative stakes in entities, industries e.g., Workers Trusts
 - Provide equity funding to potential beneficiaries to enable access to other funding products
 - Provide growth funding to qualifying SMMEs via equity or similar structures
- Grant reduces risk to investors, hence reducing return expectations of investors/lenders
- Access to technical and business development via the strategic partner
- Key issues:
 - Shareholding structure and selection criteria
 - Rights of beneficiaries within the structure
 - Risk sharing commensurate with contributions/shareholding
 - Skills transfer is key, e.g., conversion of workers to business owners
 - Equitable exit strategy



Outcome-based Funding

- Can either take the form of a **Social Impact Bond (SIB)** or **Pay-for-Performance (P4P)** model
 - SIB has third party investors providing working capital to implementors to implement a given initiative.
 - P4P – the implementors raises and uses its own funding to fund implementation
- **Implementors/funders are repaid (with or without a return) according to an agreed rate upon achievement of a verified outcome**
- Why outcomes-based models?
 - **Efficiency of government spend** – grant paid on achievement of outcomes, in context of constrained public purse
 - **Social return is monetised**, often an impediment
 - **Promotes innovation** by shifting focus to outcomes – performance
- Key issues to be considered:
 - Thinking “outside of the box”- Model different to what we are used to
 - Identification of credible intermediary – Depth in the market limited
 - The outcome triggering payment - must be clearly defined and agreed upon, measurable
 - Alignment between investors and outcomes funders, Consistency of recognition protocols
 - Understand the cost of delivery from operators – informs the rate card
 - Rate of return payable to Investors (SIBs)
 - Risk sharing



Outcome-based Funding Models

The overall objective of the project, in partnership with an industry body, is provide an outcomes-based de-risking mechanism so as to leverage private sector capital for investment into early-stage SMMEs active in the green economy.

The grant of R83m has unlocked funding commitments from funders of R405m. The grant is disbursed to investors once jobs are delivered investments made. The grant disbursed is utilised to provide technical support and capacity within investee SMMEs.

Performance:

- 18 transactions valued at R126m has or in process of being approved
- Contracted to produce 730 permanent jobs over the implementation period

Achievements:

- The project reduces the risk perception of private investors in investing in SMMEs active in the green economy
- Level of leverage targeted – 5.3x
- Grant has reduced cost of funding to these SMMEs (average prime)
- Where appropriate, cost of funding linked to performance of SMMEs.
- Grant disbursed on delivery and based on the quality of jobs produced



Additionality

- Initiative must promote a change in behaviour of commercial lenders by testing and proving concept thereby reducing risk perception resulting in greater access and lower cost of capital
- The allocated grant must crowd in commercial finance
- Minimise market distortion and prevent crowding out of private investors

Drive Leverage

- Maximise the amount of commercial funding unlocked by the grant, what is the optimal grant award?
- Consideration be given to context specific issues – transactional, geographic and sectoral
- Adequate risk sharing vs assessment benefits to the commercial funders/Intermediary

Address Market Failures

- Identify and address root causes to drive systemic change
- Understand the gap that the grant is addressing



Capacity of Partners to Implement

- Ability to generate the required pipeline
- Credit assessment process - ability to amend existing credit policies
- The ability to crowd in private sector funding
- The ability to provide non-financial support to approved SMMEs
- The capacity to manage the loan book, collections, etc.

Sustainability

- Understanding how the funding will contribute to commercial sustainability of the SMME
- What does sustainability of the loan book look like?
- The ability to track key sustainability criteria
- Is there an exit strategy in place?

Conclusion



- The Jobs Fund, using challenge fund principles, enables the selection and testing of most competitive and innovative models
- Provides proof of concept for additional crowding in of developmental, philanthropic and commercial funding to a segment of businesses that are unable to grow as they lack the appropriate types of funding
- Effective use of public funds
 - funding is able to address the nuances of credit gap - it's not just about access to finance
 - for this segment of entrepreneurs, the business development and technical support is a key complement to the finance package
- Assist government in the adoption of widely-used mechanisms in developed countries, e.g. Social impact bonds, Pay for Performance
- Provide key leverage through our governance, selection and monitoring processes:
 - balanced risk taking
 - access to removal of barriers/ enabling access
 - Inclusive selection criteria
 - fit for purpose development credit policies
- Robust monitoring and evaluation framework builds capacity of intermediaries and beneficiaries alike
- Grant Management System allows for solid data collection, critical for future policy design



Q&A

Facilitated by: Evelyn George (Jobs Fund)



Closing Address

Najwah Allie-Edries

Deputy Director-General: Employment Facilitation
(Head of the Jobs Fund)



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Department:
National Treasury
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Thank you



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