THE EIB SOUTHERN AFRICAN MICRO AND SME FINANCE ACADEMY

15 to 19 February 2016, The Innovation Centre - Pretoria, South Africa

About the EIB

The European Investment Bank (EIB) is the financial institution of the European Union (EU). Outside the 28 EU Member States, the EIB operates in more than 120 countries worldwide, in support of external cooperation and development policies of the EU.

The Cotonou Partnership Agreement provides the current framework for the cooperation between the Africa, Caribbean and Pacific countries (ACP) and the EU. The EIB is entrusted with the management of the ACP Investment Facility and has put in place a number of Facilities to finances private sector projects as a means of promoting sustainable economic development in the ACPs.

In line with the EU Agenda for Change, the EIB is concentrating on private sector development in the ACP countries. EIB has set up lines of credit (funding facilities) with Approved Financial Intermediaries (AFIs) to on-lend to private sector Micro, Small and Medium Enterprises (MSMEs) in a.o. Botswana, Malawi, Mozambique, Namibia and Zambia.

The EIB Southern Africa Academy was organized by Frankfurt School of Finance and Management in cooperation with Enterprises University of Pretoria and took place in the Innovation Centre in Pretoria from 15 to 19 February 2016. The EIB Southern Africa Academy consisted of distinctive events, starting with a 2-days Symposium, the Executive Academy, followed by the "EIB Dialogue Day" and a 2-day Training Academy for the middle management.

A total of 56 persons participated in the different events of the EIB Academy. 16 financial institutions from Botswana, Malawi, Mozambique, Zambia, Zimbabwe and South Africa sent representatives.

Opening Ceremony and welcome words

After a short welcome notice by the Team Leader of the Technical Assistance Programme, the Academy was officially opened by Mr. Carmelo Cocuzza, the EIB's Head of the Regional Representation for Southern Africa and Indian Ocean.

Focus Theme 1: "Broadening the Customer Base" - Outlook into M/SME lending in Southern Africa

The financial institutions operating in the region all started from selected business segments, but as the financial sector continues to develop and competition increases, there is a need for them to expand their customer base. Hence, in this session different business segments were presented to the participants to inform them of opportunities to grow their activities in these markets and to provide lessons learned from experiences in the region. The moderator was Frankfurt School's Team Leader of the Technical Assistance Team, Mr. Rainer Fitz who introduced the four presenters and opened the individual rounds of discussion.

Mr. Tarcisio Mahanhe, Moza Banco Director Coordenador, Direcção de Crédito, presented the Case Study "o banco do merkado". The bank was established in Mozambique in 2008 as a bank mainly dedicated for corporate customers. After an impressive growth, in 2015 the bank as

The EIB's Southern Africa Region Technical Assistance Programme

Practical and effective support to the EIB's lines of credit is provided via a Technical Assistance Programme that has the overall objective to promote job creation and maximize the development impact of M/SMEs through enhanced access to funding while the specific objectives of the assignment are providing practical and effective support to the EIB's Global Loan lending operations via a four component approach, namely:

(i) Design and deliver training programmes focusing on Credit Risk Management as well as on Banking and Administrative Risk Management to our financial intermediaries.

(ii) Providing targeted capacity building via consulting interventions for each intermediary.

(iii) Business Development Support for Micro Enterprises & SMEs.

(iv) Cooperation with professional and educational bodies and universities.

No. 4 in the market decided entering into a completely different business segment by providing financial services to mainly unbanked informal market traders ("hawker traders") in cooperation with the Association of Informal Market Traders (AEIMO) and governmental authorities whose interest it is to increase the number of formal enterprises.

The bank recently rebranded as "Moza" and established pilot branches in different markets in Maputo. These are specially equipped containers with 2 staff, an ATM, a generator and a security guard. The financial products comprise of current and savings account with only USD 2 to start operating, authorized overdraft up to USD 100, debit and credit Cards (Visa) & Forex (ZAR in Maputo only), and a short term (1yr) working capital loan provided to members of AEIMO at the level of a certain percentage of their declared turnover. The government supported the programme by a special simplified tax regime for the informal M/SMEs. In the frame of the Technical Assistance an improved micro insurance product was developed. As the pilots started only recently no lessons learned can be drawn yet.

In the second presentation Mr. Peter Roussos, Partner of Vulindlelasa Consultants, shared his experiences about the attempts of commercial banks downscaling to Microfinance. The cases he presented and commented on were Kingdom Bank Group in Zimbabwe and Absa in South Africa.

The factors mentioned of how established banks can contribute to microfinance endeavours were that they have a large network of branches, advanced technology, skilled professionals, trusted brands, access to plentiful and low-cost on-lending capital and the ability to rapidly scale-up proven products.

The disadvantages of larger banks cited were high costs and overheads from originating micro loans stemming from maintaining premises standards, branding imposed by the group, the difficulty to remunerate microfinance staff differently than bank staff and resistance to performance based remuneration, which is one of the key success factors in micro lending. There is also a different culture as to credit risk management (systematic collection versus write-off) required when downscaling as well as impatient shareholders/investors that expect returns on capital within 2 or 3 years.

About Frankfurt School

Frankfurt School is a research-led business school, covering every aspect of business, management, banking and finance.

An impressive portfolio of services – ranging from degree courses to Executive Education programmes, from research projects to consultancy – means that Frankfurt School acts as adviser, catalyst and educational partner to companies and organisations, to individuals embarking on new careers, and to experienced executives.

As a centre of intellectual and practical activity, the business school formulates forward-thinking solutions for the worlds of business, finance and management, where agendas and issues are constantly changing.

Through its International Advisory Services (IAS), Frankfurt School offers training and education in all areas related to Banking and Finance.

IAS is made up of different competence centres, reflecting technical and academic know-how: Microbanking, SME/Project Finance, Housing, Sustainable Energy, Rural & Agricultural Finance, Risk Management.

Peter Roussos then presented alternative models of entry into the microfinance sector, such as wholesale lending to micro finance institutions, agreements where micro finance institutions are sourcing M/SME clients with a joint approval of the clients by the bank and the micro finance institution and the "Service Company Model", where a micro finance institution (non-deposit taker) provides loan origination and credit admin services to a bank. The loans are booked by the bank and the service company employs the lending team, provides IT and possibly branch infrastructure and can attract external investment/grants. This model reduces the cost of entry for the bank as well as time to market. As to the remuneration, the service company charges a loan origination fee while the bank charges for services provided.

The third case for "Broadening the Customer Base" was dedicated to agricultural finance. In view of the large part of the population active in agriculture in Southern Africa together with questions of food security and climate change this is a very important field where financial institutions have to engage to support sustainable development in the region. Mr. Deon Scheepers chairs the Business Unit for Sustainable Agricultural Development at the University of Pretoria, he shared his insights into "Agricultural finance: opportunities and market failure" by explaining that failures in increasing the outreach of agricultural finance are due to the fact that banking is still very collateral driven and that there are aggressive and unscrupulous cash loan markets, both formal and informal (e.g. middlemen, money lenders). The recent drought in the Southern African region places increasing emphasis on loan repayment ability after 8 years of stable revenues for the farmers. Even the so called development and social investment/finance initiatives are using the traditional approach, hence, on-lending via traditional banks to farmers will result in a traditional risk evaluation by the financial intermediaries and increase in outreach to small holder farmers by only supplying (subsidized) funding is questionable.

There are, however, large opportunities in agricultural finance in the region. For example, there is a tremendous lack of agri-insurance and business insurance products in Southern African that should be catering for agricultural & M/SME risk. Government support for crop insurance is missing as well as a change in mind of financiers that should be willing to accept aggregate instead of individual insurance coverage.

Other models for potentially improving agricultural finance include value chain finance, finance based on Warehouse Receipts and credit programs to hawker trading (in South Africa about half of the produce fruit and vegetables is sold informally on streets and markets). Branchless banking also reduces overheads and transaction costs. All such initiatives would, however, require trained borrowers and credit people to be successful.

Questions related to experiences with warehouse receipt finance systems in different countries and to the linkage between trading of produce attack exchanges and agricultural finance.

The first day was closed by a presentation of Ms. Kecia Rust, the Executive Director and Founder of the Centre for Affordable Housing Finance in Africa, about "Finding new markets in extending access to housing finance in Sub-Saharan Africa". While high birth rates and urbanization put pressure on the market to deliver affordable housing for the masses, there is little to offer apart from mortgage finance to the wealthy few. Kecia explained the key constraint of weak links in the housing delivery value chain and mentioned examples such as municipal under-investment including failure to provide infrastructure, which leads to higher housing prices, and poor road networks which increases the cost of cement. In turn this leads to housing constructed with informal materials.

The opportunities mentioned included increasing access to mortgage finance, growing & developing housing microfinance, financing rental housing and funding delivery of lower cost housing. In addition, financial institutions can increase their business by investing in the housing delivery & finance value chains that comprise of building materials, SME contractors (plumbers, electricians, builders), and other services, etc.

Questions related to the complexity in market and mismatch in size of ticket and term. Kecia explained that e.g. in Angola one can only obtain a 36 month loan to buy a house. The way to finance housing under such conditions is to start with small walls and grow the house by time. It was also mentioned that the construction price is only one factor between many that determinate the price of housing.

Focus Theme 2: "What is coming in Basel III and IFRS 9 and what does it mean for M/SME Finance?"

On the second day Frankfurt School Senior Banking Expert Dr. Joachim Bald started with this session and gave a fresh look at liquidity, capital requirements, internal adequacy processes, hedge accounting and provisioning following by a question & answers session. He was also referencing a few small Excel models where he demonstrated some of the effects on the financial institutions which have been made available to the participants.

The first discussion point, directed to Basel whether it caters about "Know our customer" (KYC) and "Anti Money Laundering (AML), especially for Microfinance. Dr. Bald pointed out that there is a specialized entity FATF (Financial Action task Force) in charge of looking into these topics, in addition to a common guideline as a framework that has been drafted a few years ago with the support of the Consultative Group to Assist the Poor (CGAP), a global partnership of 34 leading organizations that seek to advance financial inclusion that is housed at the Worldbank.

Focus Theme 3 "M/SME Lending Strategy – Challenges in the Southern African Environment"

In the afternoon of the second day, the theme of the panel discussion was M/SME Lending Strategy – Challenges in the Southern African Environment. The moderator was Ms. Willemien Libois, Key Expert of the Technical Assistance Team and the first topic was

"The role of staff development in keeping staff retention levels high".

Fatma Dirkes, head of Frankfurt School's International Advisory Service, presented the development of the university which started as a professional training institute in the 1950s when banking careers up to top management positions were possible for apprentices in Germany. In the "new world" where academic qualifications are demanded by the banks even at entry level, the institution responded to this demand and became a fully fledged university. Frankfurt School represents a model whereby different financial institutions establish a non-exclusive educational body for the sector. The advantage of this model is that financial institutions can outsource certain functions, such as apprenticeship management entirely while the educational institution is obliged to constantly adapt to the needs of the sector.

In the question and answer session it was discussed that the German system of apprenticeship is very specific and does not exist in Souther Africa. Therefore, Frankfurt School is developing other models with local partners, e.g. in Kinshasa.

This presentation was followed by Pieter Louw, Africa Head of Leadership and Learning, Barclays Africa Group, who explained their concept and experience with organizing staff development programs in-house which is a choice of an institute that has a certain size and number of staff. The title of his intervention was "Our view on creating a platform for staff retention through our Financial Advisory Academy – a case study."

While the basic offer is providing in-house training, the bank cooperates with educational institutions and universities to provide certifications and academic grades at a higher level. He also presented their approach towards staff retention which includes the bank offering more than just higher pay and sees the role of staff development as a central piece.

In the Q&A session it was mentioned that Barclays has a Financial Advisory Academy for investment and wealth management where the ROI is measured and high. It was also mentioned that there is no fixed curriculum but that training is a constant process of learning by doing because the client environment is changing.

Frances Fraser (Operations Director, Positive Planet, Johannesburg) presented next. In her previous work, in Absa's Micro Enterprise Finance business, she was responsible for market research, product design & development, product performance monitoring as well as staff training. The bank's downscaling program focused on providing small loans to informal micro enterprises. She presented "Drawing lessons from the Absa Bank downscaling pilot" in the context of staff development and staff retention. Key in staff retention is providing a meaningful work experience where good performance is recognized and some mistakes are accepted in the spirit of learning but ultimately where staff are held accountable for their performance. Her lessons learned were that one has to find the balance between motivation and discipline. Staff is people and they want to know that what they're doing is valuable.

For the next session the panelists included Ms. Frances Fraser, Positive Planet, Operations Director, Ms. Tatiana Pereira, Frankfurt School TA to the EIB Lending Operations Southern Africa Key Expert and Mr. Lindokuhle Mlaba, Enterprise at University of Pretoria, Executive Manager Africa Business.

Tatiana Pereira opened the session with the topic: "Investing in Business Development Services (Building capacity among clients): CSR or ROI? From her experience as co-founder and managing partner of IdeiaLab, a social enterprise focused on SME development and on the promotion of entrepreneurship and innovation in Mozambique, she explained the concepts of Business Development Services (capacity building measures for entrepreneurs) and corporate social responsibility. She advocated that investing in education of M/SMEs is a long term investment for financial institution in their core markets. A useful tool for investing is in physical hubs were the entrepreneurs can get all necessary information in one place, can network and receive capacity building. Such a hub can become a sustainable commercial enterprise.

In the question and answer session it was a.o. discussed what the actual experience in seeing that BDS can contribute to MSMEs becoming more bankable or becoming better in their financial management is. Frances mentioned that 9 out of 10 clients were declined for the loan in the beginning but the simple incentive was to give 20 Rand to the customers if they brought back a 3 month budget; as a result 65% of the customers brought back a monthly budget 3 months in a row. It could also be noticed that the loan amounts they asked for were lower. More knowledgeable clients in insurance kept their insurance policies longer.

AB Bank mentioned that they are believing in the positive impact of training for customers and that they are engaging in this activity. The possibility to cooperate with universities was also discussed. However, staff has to be trained accordingly to guarantee the wished for impact.

The next topic, Digital Financial Services in Southern Africa – being a forerunner or learning from what the competition is doing? was presented by Tara Lacey, Frankfurt School Expert for Digital Financial Services in Africa, who has more than 15 years experience in the financial sector, especially in Africa and is passionate about the smart use of innovative distribution channels, technologies, and creative business models which are designed to disrupt and expand financial services in emerging markets.

She explained different business models using technology that are disrupting the financial sector in Africa. Mobile payments have revolutionized the financial industry in Sub-Saharan Africa, where more than two thirds of people have a cellphone, but only around one-third have bank accounts. Cash is still king in the region, and the financial architecture of bank branches, payment cards and transfer services that are ubiquitous in other regions of the world are lacking. Yet, people still need to buy, sell and get paid, while the large remittance market means moving money internationally is a huge business.

Stand-out success stories, such as M-Pesa, the Kenyan money transfer system now used across Africa, have changed the way that consumers, banks and investors see the growth of banking and finance on the continent. Now an increasing number of companies are trying to build on the opportunities that this mobile revolution has created. Technology is also entering the credit business, e.g. in Kenya loans are already offered up to substantial amounts per smartphone. Traditional financial institutions can make use of these technologies to increase outreach and lower transaction costs but have to be aware that new market players will grab some of their traditional sources of income.

After having shown the large differences in outreach of mobile money in different African countries Genna Robb, who is a research economist at DNA Economics in Pretoria explained in her presentation "Mobile money: a regulatory perspective" what Best Practice means in terms of regulation. She explained that regulation should be functional and proportionate in order to provide a level playing field for equivalent services, not different providers and should put regulatory requirements in proportion to the risk posed by the activity.

The players in this role are central banks, other financial regulators, telecoms regulators and competition authorities. They have the following main concerns: (i) Protect the integrity of the financial system; (ii) Protect people's money, (iii) Prevent money laundering; (iv) Ensure fair competition.

The rapid development of mobile money services in Kenya was possible because the regulators issued a non-objection letter. As an example, South African regulators have a very restrictive opinion and hence mobile money services did not obtain a large market share until now.

Competition authorities and tele-communications authorities may have concerns about dominance of few market players (Kenya), high charges for transactions to unregistered customers (Kenya), high charges to 3rd parties such as banks for use of the USSD function (Zimbabwe), agent exclusivity matters (Kenya, Uganda) and Interoperability (Kenya vs. Tanzania). Finally, she showed the direct correlation between competition and prices on the example of cost of remittances in Tanzania, Kenya and Zimbabwe. The latter has the lowest competition and the highest prices for the consumers.

The available statistics of mobile phones in the African continent might be misleading, since some of the potential customers might hold several SIM cards of different service providers in the country, which could eventually draw a wrong picture of actual mobile phone holders.

The panelists and the audience admitted that intrinsic risks of mobile banking are currently still high and not for all of them solutions are in place yet. Other topics mentioned were the need for cheap cross-boarder transfers where mobile money should reduce costs for the general public compared to the high costs of the specialised companies and of banks.

The EIB feedback session

EIB has invested significant amounts in the financial sector in Southern Africa, especially if South Africa is included. The morning of Wednesday, February 17th was an opportunity for all participants to be in a direct dialogue with EIB regarding the credit lines and TA provided. The session allowed for participants to provide feedback and comments and to discuss and ask questions about the operations of EIB.

After the welcome address by Carmelo Cocuzza, Head of the EIB's Head of the Regional Representation for Southern Africa and Indian Ocean, Mr. Edvardas Bumsteinas, Head Of Microfinance Unit in the Directorate of Operation provided a general overview of financial inclusion in Sub-Saharan Africa and its development.

He revealed that the main reason to borrow in Sub-Saharan Africa more than anywhere else in the world is driven by the desire to improve health and for education and business purposes.

Robert Schofield, Head of Financial Sector Division, Global Partners, presented EIBs' instruments to support SME lending, including new models of risk sharing and tools such as warehouse receipt finance schemes as lines of credit to commercial banks. He explained that MFIs have been the primary means of funding for the private sector in the past but they are only one of a range of options for supporting private enterprise.

This was followed by a presentation of the results of an online-survey that the Technical Assistance team had carried out amongst the participants prior to the event. The main results were:

"Availability of medium and long term funding" and "Cost of funding" were the two main factors of competitiveness addressed by EIB's credit lines for their institution while the two main factors of competitiveness addressed by EIB's technical assistance programme for their institution selected by the respondents were "Tailor made capacity building" on staff and on institutional level.

Nearly all respondents mentioned "The increased knowledge in their institution" and "Sustainable capacity building measures for the M/SME clients" as the main factors that will allow their institution to continue serving the M/SME target group in the same way - or even better - after the financial and technical support. "Transfer of Know-How to local universities and educational institutions" and "Awareness" were also mentioned.

All respondents expected an increase of their M/SME lending business. The main drivers of growth mentioned were: "Local/regional demand growth due to population growth", "Rising middle class" and "Increased outreach at reasonable cost", e.g. by mobile money solutions. The main challenges for the growth mentioned were

"Devaluation of local currency/unpredictable exchange rates" and "Fluctuating prices of commodities".

In the Questions & Answers Session it was clarified that Technical Assistance is only provided to the Southern Africa region and not to South African institutions due to internal rules within EIB and that this program is a new approach to combine all effort to provide Technical Assistance for Microfinance and SME Finance for a region rather than by country.

The question was asked whether before considering financing, EIB could provide Technical Assistance first? EIB said that being a bank, Technical Assistance is linked to investments and Technical Assistance and Financing are a package. Trying to expand the range of EIB's products and services is not just funding treasury, it also involves EIB in talking directly to the associated financial institutions (AFIs') customers. EIB is trying to expand their services to the banks so that they also provide Technical Assistance to SMEs directly (i.e. to the customers of EIBs' AFIs). The AFIs are the only channel for EIB to reach out to the private sector. However, EIB is trying to improve their services to AFIs so that they take more risk and reach out to a target group which is not yet the classical target group. The aspect of putting more efforts on capacity building to SME borrowers was emphasized by the participants since the know-how gap between banks and companies is increasing.

Another question related to the EIB's definition of SMEs, as 80% of the small businesses are informal. They receive money from moneylenders, which apply excessive interest rates, and this limits the growth. Is there any possibility to extend loans to this group of enterprises as they are the ones that are creating jobs? EIB replied that they work with micro finance institutions that are mainly providing loans to the informal sector. Even banks can obtain microfinance credit lines, which are on a portfolio basis and not on an individual basis. EIB acknowledges that there is a huge informal market and encourages clients to formalize by addressing the issue to AFIs and asking for their support.

One of the participants remarked to the question of the survey, "Has the cooperation with EIB been a trigger for obtaining support in the form of grants, loans, TA from other Development partners?" that because their bank has a good relation with EIB, this has enabled them to know how to negotiate well with other Development Finance Institutions. Reference of their work with EIB is made when they are trying to negotiate new terms and conditions with other DFIs.

A banker questioned how "loan sharks" that have an online tool where one can get a loan within 120

minutes can be successful and how a borrower can repay a loan with 30% interest on time? He concluded that banks would need to do more research on this and understand what convinces these companies to give loans just based on the little information asked for. Also, traditional banks have a different cost structure.

Frankfurt School informed participants that they carried out focus group meetings in Mozambique among the market traders and some respondents said that they do not care so much about the interest rates of money lenders as they come to the trader and deliver the money in the market. If one needs to go to the container branch of Moza Banco one has opportunity cost. Therefore, one may identify how the AFIs can use technology to bypass moneylenders.

Loans in local currency, loan structure and loan tenor in tranches were mentioned as very attractive features of the EIB loans. However, it seems that the pricing of the local currency came as a surprise for one AFI and could be improved, both in terms of calculation as well as about the communication on this issue. Other areas to look at are capital markets (South Africa is developed but not products in the other countries, such as guarantees and risk sharing and warehouse receipts.)

EIB explained that in Angola and Tanzania they have warehouse receipt systems in place. EIB is also financing the building of warehouses and e.g. Malawi has a functioning system of warehouse receipts. The advantage of linking warehouses to a warehouse receipt finance system is a way to certify quality and quantity for the farmer who can go to a bank and receive credit against that receipt because the bank knows there is a quantity of a saleable product; or the farmer can sell the product later after the harvest when market prices improve.

The requirement that the customer should know about the involvement of EIB was discussed. This is sometimes a concern as final beneficiaries could believe that EIB provides a grant and do not repay the loan. With regards to the quality of the portfolio, EIB said that EIB is mandated to finance SMEs and target groups that are less reached out to. EIB does not have the intention to increase the banks risk, but at the same time, EIB wants to encourage banks to reach out to these beneficiaries. Compared to other regions Sub Saharan Africa is doing well in terms of repayment by the beneficiary to the intermediary bank but there are differences between the countries in the region. EIB has not seen many banks with an NPL of more than 10%. There are some, but only few. Overall the NPL rates are low.

With regards to the instrument of guarantees, EIB informed participants that they can give AFIs capital relief on a specific portfolio but they expect that the capital would be used on a new portfolio. This is how guarantees provided by for Europe work. Together with IFC guarantees can be provided for new transactions. The feedback from IFC and beneficiaries is that this is a way to get financial institutions to take risks.

The presence of the EIB team in South Africa was welcomed and it was also mentioned that a symposium like this takes place.

"I am 8 years in charge of 5 DFIs and never seen anything like this taking place with any of the other DFIs. This Forum is great and shows commitment to clients, growth in market and ultimately achieve what these goals are. EIB is a long term player." (Feedback from one of the participants)

Financing Needs of M/SMEs

The Wednesday afternoon session centred on the financing needs of M/SMEs.

Dave Munro, Manager of Vumela Enterprise Development Fund gave a presentation about "Needed alternatives to bank finance" to broaden the view of M/SME financing beyond traditional loans. Traditional financing with loans is limited to companies that have a certain track record and collateral. This excludes all enterprises in the start-up and the growth phase of M/SMEs. For the latter other tools of finance have to be applied, e.g. "Hybrids" (preferred equity, subordinated loans, convertibles).

Growing companies need more marketing funds, to expand asset platform, to hire more skills to build network, technology, manufacturing base etc. They also need to build inventories and or offer credit terms to customers. However, alternative funding models are cost intensive and bear a high risk, therefore, they can only be applied to entrepreneurs that want to grow and make an economic impact and not to entrepreneurs that want to run their business as "survivalists" or "lifestyle entrepreneurs". The high transaction costs comprise of entrepreneur assessments, business screenings, forecast assessment & due diligences, deep legal engagement on funding docs, minority protection rights, board governance, administrative and financial governance, sureties, guarantees & cession of shares, pledges, covenants & performance targets, and business development services to increase chance of success.

In order to make the link between the theories about M/SME finance and the economic reality, the participants had the opportunity to see the Incubator of the Innovation Hub.

The visit was followed by presentations of 6 start ups of their business idea. These entrepreneurs were asked about their experiences with raising finance. Lessons learned mentioned were that it can be easier to start as a non-profit organization that can receive grants and public support rather than as a commercial enterprise that seems to be excluded from such funding. It was also mentioned that angel investors gave the impression that they rather wanted to "grab" the start-ups and take large stake in ownership. These entrepreneurs also shared their disappointment when their business ideas were turned down without any advice on how to improve it.

The day was closed by Carl J Lotter, the Chief Executive Officer of SASMEF (South African Small and Medium Enterprises Federation) who introduced the following M/SME definition of the Brazilian SME development organization SEBRAE to the audience:

SME's are the expression of free initiative, social inclusion and citizenship. Along these lines SME's directly and indirectly influences the life of entrepreneurs, associates, employees, suppliers, family members and the entire social chain.
SME's are the democratization of opportunity.

The OECD in their Policy Brief on Access to Business Start up Finance and for Inclusive entrepreneurship recommends the following:

(i) Ensure that government – supported loan guarantee programs and micro credit scheme adequately reach socially disadvantaged entrepreneurs and, take remedial action by either setting up special sections in mainstream scheme, or by launching targeted programs;

(ii) Expect to provide a strong subsidy component to loan guarantee and micro credit programs;

(iii) Raise awareness among entrepreneurs about the potential of internet based financing tools and also introduce adequate legislation to avoid misused and protect investors;

(iv) Encourage linkages between community based tools such as CBO's self-financing groups and more structured government programs aimed at strengthening general access to finance for entrepreneurs;

(v) Combine supply –side policies with improved financial literacy skills amongst disadvantaged entrepreneurs to enhance the chances of obtaining finance in credit markets.

The foregoing is costly and will not deliver short term results and is more likely to be beneficial in the long term. However, unless the attitude is not changed from cost perspective to investment notion, one shall not be able to deliver on the UN sustainable goals nor to alleviate the M/SMEs' need for access to money and markets.

The trust deficit between the formal economy and the informal economy is huge.

The formal economy has the resources and should make the first move in building this trust. Building trust is receiving much thought on many platforms and there are tools available for this sort of work. The formal economy should invest in these things because it makes good business sense. They will benefit from stable societies, larger markets and more customers.

Governments have to ensure proper registration of assets that can serve as collateral so that borrowing becomes cheaper for M/SMEs. Together with academia and formal businesses they should invest in the training and professionalizing of Enterprise Development.

The OECD Policy Brief on access to Business Start up and Finance for inclusive Entrepreneurship emphasizes the importance of the role financial education. The research on this role is compelling. However, this need is not always recognized by M/SMEs themselves as there are other more pressing basic needs. Hence, at some level an incentive to M/SMEs could be introduced. Certified Professional Development programs have to be aligned with other policy initiatives and one can build on the creativity and basic survival business skills of the M/SMEs.

EIB Training Academy for middle management

The EIB Training Academy for middle management started on Thursday the 18th with a session led by Prof. Michael Leyer of the University of Rostock (Germany). He introduced the participants into

"KreditSim", a Business simulation developed by Process Lab,

Frankfurt Schools research center. The focus is on learning of process-oriented behaviour while simulating the loan approval process, the central task in the classic banking business. The participants were assigned with different roles in this process and received instructions to perform their task while not communicating with others.

During 20 minutes, applications were sent by the branches to head office.

After the first round, it became quickly apparent that the number of approved and finished applications was unsatisfactory. The fictitious employees then received time to reorganize the process, eliminate unnecessary process steps, modify the floor layout and attribute resources for the different functions according the estimated workload. Then a second round was played in the new setting and the drastic improvement of the number of correctly approved applications was noted. It was also clear to the participants that further improvements of the process in order to become more efficient is possible.

In a group discussion the participants analyzed the different elements of continuous improvement at each

person's working place level. Prof. Leyer mentioned that research in a German bank showed that behaviour of staff that had participated in KreditSim had sustainable changes even 2 years later.

In the afternoon there was a workshop on

"MSME Finance PLUS: How to comprehensively serve clients?"

moderated by the Frankfurt School Key Experts Rainer Fitz and Christopher Engelhardt. The participants exchanged their ideas and personal experiences about relevant topics such as: How to know and meet customer expectations, new clients acquisition while retaining existing customers, one-stop shop, customer segmentation and total customer profitability concept.

The EIB Training Academy ended on Friday 19th with working sessions led by Prof. Michael Leyer on

"Practical Implications of Downscaling / Upscaling"

which gave hand-on tips on how participants can improve the processes in their own working environment.

Finally, the EIB Southern Africa SME & Microfinance Academy 2016 was closed by Mr. Carmelo Cocuzza of the EIB who thanked all participants for coming to Pretoria and for their contributions in the dialogue with the EIB aiming at improving the relevance of their operations and products in the region.

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