

# Khula signs agreements

In a move that bodes well for the co-operation between the private and public sector in SME development, small business development agency Khula Enterprise Finance has signed a number of agreements with commercial lending institutions.

In July last year Khula Absa Bank announced that they had joined forces to make finance more accessible to South Africa's entrepreneurs through signing a revised Credit Indemnity Agreement.

This is the latest in a series of agreements, such as that with Nedbank, as well as the formation of a dedicated development fund with Business Partners. These partnerships are significant as they aim to further widen financing opportunities, by major banks, to aspiring small and medium business owners.

Xola Sithole, Khula managing director, said: "Absa has always been the lead bank in terms of the utilisation of the Khula credit indemnity product and Khula is proud of its association with the bank.

"The revised agreement is aimed at further strengthening our relationship to address the needs of marginalised SMEs that are starting up, largely owned by women and located in provinces outside Gauteng, KwaZulu-Natal and Western Cape."

Since the inception of the Credit Indemnity Scheme in 1995, Absa had been a key partner in the SME sector with their commitment of R293m, constituting about 56 percent of Khula's total funds committed under the Credit Indemnity Agreement, which makes Absa the major market shareholder in the Khula Credit Guarantee scheme in the industry.

Daphne Motsepe, managing executive: Absa Small Business said: "The revised agreement with Khula will result in several benefits for the SME sector. From the inception of our partnership with Khula, a total of 2,720 indemnities have been issued to Absa. The value of outstanding indemnities currently stands at about R293.4m.

"Most significant is the increase of the indemnity limit from R1m to R3m. Geographical spread of the funding will be increased across the provinces, and loans to entrepreneurial women will become more available.

## Launched around 362 new, black-owned businesses off the ground and running

"We will also be increasing finance support for smaller and start-up businesses that were not previously major recipients of funding allocations," Motsepe said.

Business Partners and Khula last year launched a R150m fund which aims to get around 362 new, black-owned businesses off the ground and running.

The fund - known as the Business Partners/Khula Start-Up Fund - is one of the interventions identified in government's growth plan - the accelerated and shared growth initiative (Asgi) - aimed at getting funding and continuous business support for new businesses.

Business Partners (which is 20 percent government-owned) will contribute R30m to the fund, manage the fund and provide technical support and mentorship to small business owners. Khula - a 10-year-old department of trade and industry agency which targets the under-serviced small-loan for early-stage small businesses - will provide R120m.

Qualifying applicants can receive between R150 000 and R3m for their venture, with the pricing of the loan calculated using the basic principle of risk versus return; the higher the risk, the higher the rate of interest paid on the loan, said Sithole.

Security and own capital contribution will not be prerequisites for finance, although they will strengthen the application.

Applicants falling outside of the scope of the fund but who have a good business idea will not be turned away, said Business Partners' managing director, Jo Schwenke. "Helping small businesses is what Business Partners does on a daily basis; that will obviously continue."

Nedbank has also signed an indemnity agreement with Khula to boost SME development. This agreement signaled a turning point for SME financing, as it placed a considerable emphasis on developmental imperatives, such as increased regional focus in favour of more rural and periurban entrepreneurs together an attempt to lift the lending patterns of loan sizes under the R250 000 mark.

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