



Samoa - Small Business Evaluation



Social and Economic Impact Assessment of



Samoa Small Business Enterprise Centre (SBEC)



December 2008



Nimmo~Bell
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Management of potential conflicts of interest

A local consultant engaged to provide research services is a co signatory on a loan guaranteed through SBEC (one of 994 guaranteed by SBEC). As a government employee with a regular income, and working in an environment where banks have no access to family land for loan security, the consultant's situation is common in Samoa. The consultant is not connected with the operations of the business and is not a beneficiary. Nimmo-Bell has taken every possible measure to ensure that this potential conflict of interest is managed and that the integrity of this evaluation is not compromised in any way. A letter confirming understanding of professional obligations in this regard has been provided by the consultant. The SBEC Director has also confirmed that she was comfortable with the consultant's role in the evaluation and was confident that the consultant's input would be professional and independent. All measures to mitigate any potential conflicts have been discussed and confirmed as appropriate with NZAID prior to the consultant's involvement in the evaluation.

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Note: - All dollar amounts referred to in this report are Samoa Tala unless otherwise stated.

Acronyms

ADB	Asian Development Bank
ILO	International Labour Organisation
IYB	Improve Your Business (Training program)
KPI	Key Performance Indicator
PMU	Program Management Unit (For the ADB project)
SYB	Start Your Business (Training program)

1 Executive Summary

A significant barrier to the establishment of any small business anywhere is the inability to access suitable finance. As a small business advisory centre, the Samoan Small Business Enterprise Centre (SBEC) is unique in having addressed this problem through its partnership with the local commercial banks, its guarantee scheme and supportive business advisory services.

The review in 2002 commissioned by NZODA concluded that SBEC had successfully developed this formula and was making a positive impact on its clients and the Samoan Economy. It was developing new business at a steady rate in line with the relatively modest level of its guarantee scheme (\$750,000) as provided by NZODA and was considered as a good example and regional model.

Since 2002, an ambitious ADB loan funded Business Development Program has provided a ten million dollar boost to SBEC with another guarantee fund. Currently SBEC is suffering from symptoms of too much money chasing too few projects with insufficient management resources, just as many Development Banks (including the Development Bank of Western Samoa – as it was then known) did after they were established in the late 1970's / early 1980's. For the development banks, this eventually resulted in quite large loan write-offs, bank recapitalisation and withdrawal from small loans and advisory services.

Improving the standard of living is one of the main objectives of Samoa's Statement of Development Strategy and in this regard, SBEC is clearly helping the people of Samoa. A survey conducted with SBEC clients confirms a positive and significant economic and social impact from SBEC's activities to date. It confirms the significant impact of SBEC services on the standard of living and well being of the client, family and local community and in particular, survey respondents indicated having achieved improved access to better education, health care, food and all the basic needs. Importantly, clients who previously had no regular source of income have become empowered by the success of their small businesses, more self reliant and better able to take part in local activities through their raised status.

The economic analysis indicates that for every tala invested in SBEC, over three tala has been generated for the Samoan economy and that for every additional tala of economic activity, Government revenues benefit by \$0.12 (12%). Due to the leverage affect of NZAID funding the actual impact from GoS funding is closer to 20 tala of economic impact per tala invested.

Concerns however are held as to the sustainability of SBEC by the review team as the ADB sponsored boost to its operations has over-stretched its resources to the extent that a breakdown in the effectiveness of the services it provides is evident.

SBEC has become more of a de facto Development Bank as opposed to the business nurturing centre that it used to be. Its training program is primarily focussed on the compulsory "Start your Business" program leading to the development of sometimes hastily prepared business plans to enable clients to submit loan applications to the banks so that guarantees may be approved. The frequency and range of other training programs has reduced and ongoing advanced, business improvement training has been relegated in priority.

Business Advisory Services are now more commonly associated with chasing clients in arrears than in properly mentoring clients through their early establishment period before they were in arrears, as was the case initially. The biggest client complaint revealed in the survey was that clients do not see SBEC staff as often as before and with over 200 clients per business advisor this is inevitable, for monitoring / nurturing small business clients can be a difficult and tedious task.

While criticism is being levelled locally at the staff and management for the reduction in service quality, the current system of governance and the huge impact of the ADB loan project on SBEC's resources is the primary source of the problems, concerns and recommendations of this review.

SBEC now finds itself somewhat "high and dry" with the ADB program over. It is left with a hugely increased client portfolio, a shortfall in funding, a relatively high but probably not unexpected level of arrears given the circumstances, and the risk of increased problems in the next two years as the effects of the current world financial crisis reach the shores of Samoa and impinge on the profitability of small businesses.

This review confirms the unique attributes of SBEC and its very positive impact on the Samoan economy, but it is feared that much of the good work achieved could be lost in a relatively short space of time if urgent attention is not given to restructuring the operations of SBEC. This should commence with a smaller and revamped Board of Trustees and installing a commercial standard of governance throughout its operations, for SBEC's scorecard on governance and management is below that expected of a sustainable business operation.

While this may seem unduly alarmist, there is much at stake with over \$9million outstanding in guarantees and 25% of clients in arrears. With world economic uncertainties ahead the arrears could increase significantly and foreclosures escalate, forcing SBEC staff to become recognised more as debt collectors than business nurturers.

It would seem timely and prudent therefore to consolidate, to significantly reduce the rate of establishment of new businesses so that attention may be better focussed on supporting the large number of businesses that have been established through the loan guarantee scheme, and who need help with management advice, record keeping, cash flow management etc so they may be helped through the early establishment and consolidation phase of their new business.

SBEC is in imminent danger of running out of operating cash flow and requires an injection of at least a further \$150,000¹ this year over and above the current level of NZAID and Government grants to survive.

A number of options for SBEC are canvassed in this report from closure and transfer of the guarantee scheme to the Development Bank and transferring SBEC into a government ministry. The one most favoured is for the Samoan Government to recognise the financial and organisational needs of SBEC as the stand alone organisation that it is, and to recognise the ongoing and well justified need for its ongoing existence.

¹ All dollar amounts detailed in this report refer to Samoan Tala unless otherwise stated.

Donor assistance has been recommended to engage the services of an experienced Business Development Advisor to help redevelop the Board of Trustees, to establish more appropriate governance and management systems, and to mentor and coach the management and staff.

2 Summary of Recommendations

- 1 That the Samoan Government be prepared to support SBEC as a stand alone entity, with an immediate infusion of an additional \$150,000 to maintain its liquidity for the 2008/09 financial year and commit to supporting SBEC through its business reorganisation for at least the next two years.
- 2 That an experienced Business Development Advisor be engaged over an 18 month period to implement a series of reforms to governance and management systems in SBEC which will include the need to employ or second two experienced loans officers as business advisors to assist service the existing client base. This would be subject to a range of preconditions as detailed in section 7.2.
- 3 That during the restructuring period, SBEC:
 - Undergoes a period of consolidation and refrains from actively seeking new business clients until it is in a position to effectively manage further increased workload. Loans approved during this period should only be for justified and worthwhile expansion of existing businesses or the establishment of new businesses only where there is a strong chance of success, clear benefits to the local community from the service being provided, and no negative impacts on other existing businesses (eg no more new retail stores / taxis)
 - Focuses its training programs on providing refresher training on record keeping, accounting and cash flow management to existing clients and that new ways to deliver this should be considered, such as through developing local “business discussion groups”.
 - Implements a client risk classification system to ensure high risk clients are identified and prioritised for attention.
 - Implements an improved monthly cash flow forecasting system in line with sound business management practice.
- 4 That SBEC’s Trust Deed be amended to re-constitute the Board of Trustees to no more than five persons selected for their ability and willingness to oversee the rehabilitation of SBEC through the implementation of commercial standards of governance.
- 5 That the administration of the two guarantee schemes be merged into SBEC.
- 6 That SBEC undergo a process of Organisational Restructuring and that a Business Development Advisor be appointed to work with the SBEC Board, management and

Staff of SBEC fulltime for a period of 6 months followed by part time inputs of 2 -3 weeks every three months for a period of twelve months.

3 Evaluation Methodology

The SBEC review team comprised two persons who were members of the three person team who undertook a similar review of SBEC for NZODA in 2002. The Terms of Reference for this review (as detailed in appendix 1) included a socio-economic impact survey of clients in order to better substantiate the benefits to Samoa of the significant investment of NZAID and Samoan Government funds in SBEC.

After considering the contents and results of a recent SBEC in-house survey of clients, a new survey questionnaire was developed (copy attached as appendix 2) and fifty six client interviews, representing approximately 6% of all SBEC clients, were analysed. Of these, 32 were located in Upolu and 24 in Savaii. The projects visited covered a wide range of businesses chosen from lists provided by SBEC. Only those at their place of business when the review team called unannounced were actually surveyed.

At least one SBEC staff member accompanied the review team to introduce them to the client, after which the staff member withdrew so as to not influence the client response. All clients appeared happy to be interviewed, including those in arrears and three who had their loans foreclosed.

A half day workshop was held with SBEC staff to consider the issues associated with the effective delivery of SBEC's core services and its Critical Success Factors.

A number of interested stakeholders were also interviewed including members of SBEC's Board of Trustees and staff members as detailed in the list of persons met in appendix 3.

4 The Role of SBEC and its Contribution to Economic Livelihoods:

4.1 SBEC's Role

SBEC, as its name suggests, was created to provide encouragement and assistance to small business entrepreneurs in Samoa.

From its Vision "*A better life for all through Business Opportunities,*" SBEC's mission is "*To lead sustainable business growth and development*"

SBEC's Strategic Plan states that it will provide services to all businesses in Samoa with the exception of multinationals. On a demographic basis, the plan states that SBEC's services will focus on the disadvantaged groups, which are the relatively poor youth and women in the rural areas and outer islands.

To achieve its mission, SBEC provides the following core services:

- Small business management training
- Small business advisory services
- Facilitation of access of small enterprises to financial resources
- Advocating and facilitating small businesses into positive change.

Eligible businesses include small businesses that:

- Employ up to five people
- Use cash flow accounting and have little documentation
- Are sole proprietorships, partnerships or co-operatives
- Are not able to afford business advisory and training services
- Are located anywhere in Samoa, but with a focus on rural areas outside the Apia Urban area
- Are only accessing credit for the first or second time.

4.2 The Rationale for Small Business Development Support Services:

International experience indicates that the failure rate of small businesses is high, with around 80% of new small businesses going out of business within the first five years for a variety of reasons, but mostly due to the businesses not fulfilling the owner's expectations. Small business failure has associated costs to the community and individuals. Many small business failures are directly attributable to lack of management expertise and the failure to adopt sound business management practices, including appropriate pre establishment market research, record / book keeping and cash flow management.

Small business failures have a ripple effect through a community where losses to external creditors, including financial institutions cause suppliers of goods and services to become more wary of doing business with other small business. Business failures also reduce the confidence of other potential entrepreneurs.

Small Business Advisory Centres such as SBEC can assist with both the successful establishment and improvement of businesses with the objective of minimizing subsequent failure rates and in engendering a climate of increased business support, confidence and investment.

4.3 SBEC's Strategic History.

SBEC was established in 1994 following a Memorandum of Understanding between the Governments of Western Samoa and New Zealand to encourage the development of small business in Samoa. The Samoa Small Business Development Trust was incorporated under the Charitable Trusts Act 1965 with ten trustees representing the banks, the New Zealand and Samoan governments, private sector, and NGO's.

The Capital Development Agency of Wellington was contracted to set up and manage the operation, until a review in 1997 recommended localisation of management and professional staff which has since been successfully achieved.

SBEC was supported solely by NZAID until 2002 when the Government of Samoa began to contribute \$150,000 per year in support of the ADB's Small Business Development Project which injected funds for increased business advisory and training activities and a significantly increased SBEC's Loan Guarantee program.

The ADB loan funded Small Business Development Program which began in late 2002 under the management of a separate Program Management Unit (PMU), concluded at the end of September 2008. This program injected \$10m into a new (and separate) guarantee fund and has been responsible for a significant boost to the number of clients trained, businesses established and loans guaranteed. It has however placed significant strain on the operational capability of the existing staff to adequately maintain services to its expanded client base and with the end of the ADB program there has been no significant replacement funding² or strategies established to mitigate the loss of the ADB's financial support to service the large client base. SBEC is currently left "hanging" with insufficient funding to maintain normal operations much longer.

4.4 Economic Impact:

Approach: The approach taken to estimating SBEC's economic impact has been to compare the total annual costs of the SBEC program against the estimated quantifiable benefits in an annual cash-flow.

Cost-benefit analysis has been used to identify the costs and benefits associated with the program to date, using available data from 1994 and forecast future program costs and benefits over the next 15 years. It is important to estimate the future benefits of SBEC activities as this approach recognises that donors make an annual investment in SBEC and that the development benefits will occur for some future time period. Excluding future benefits would significantly understate the economic impact.

A total 30 year time horizon has been used, given that 15 years into the future is a standard time horizon used by Nimmo-Bell for producing a Net Present Value³ from a project of this nature. The NPV cashflow starts in 1994 (15 years in the past), one year prior to the NZAID guarantee fund and the start of reliable SBEC data.

The costs include SBEC's operational costs and the value of the Loan Guarantee deposit⁴. The economic benefits are estimated by using survey data to describe the income generating situation that would exist for families without any intervention or provision of services from SBEC (as baseline data) and then estimating the impact of SBEC services against this baseline⁵.

² The Government of Samoa has offered to increase its contribution by \$50,000 per year, but this amount is insufficient to cover SBEC's requirements following the withdrawal of the ADB program.

³ Net Present Value is the sum total of benefits less costs, expressed in today's dollars. The NPV requires all future cashflows to be discounted (at a rate of 10%) and all past cashflows to be adjusted-up using inflation data to today's values.

⁴ The "salvage value" balance of the loan guarantee deposit is also included as a benefit in the final year of the cashflow.

⁵ This baseline situation can also be called the "counterfactual" and is a hypothetical view of shifts in family income that would occur without any involvement from SBEC.

The baseline situation also takes into account potential intervention from other similar development programs or access to business funding.

The costs and benefits of the program have been estimated over the lifetime of the program to produce estimated cashflows and a net-benefit of economic impact (total benefits less total costs). Central Bank inflation data has been used to present all values in 2008 Samoan tala. The Net Present Value produced also discounts the values of future costs and benefits for 15 years and expresses these in 2008 tala. A discount rate of 10% is used for the cashflows.

Costs: The costs of SBEC were gathered using organisational records. The costs of the program are split out into the contributions of major donors. Future funding was forecast after discussions with SBEC management and analysis of accounts. The table below provides a snapshot of the donor funding used in the cashflow in nominal values.

SBEC Donor Funding Costs (SAT\$ 000's)

Donor / Year	1994	2003	2004	2005	2006	2007	2008	2009	2010	2011
NZAID	239	350	350	450	345	345	345	350	350	350
GoS		150	150	150	150	150	200	350	350	350
NZAID Loan Guarantee Deposit Grant	459									
ADB Loan Guarantee Deposit Grant		10,000								
Total Costs	375	10,500	500	600	495	495	595	700	700	700

Quantified benefits - Survey Results:

Increased number of small businesses and increased income: The review team could not help but notice the significant development of small businesses in Samoa since the previous review in 2002. Most noticeable was the impact on Savaii and the growth in the area around the port town of Salelologa. On the last review, SBEC businesses in Savaii were relatively few and far between whereas this time, with an extra day allocated, there was simply not the time to call on many of them.

The survey confirmed the significant economic impact of SBEC on the livelihoods of the families that have taken loans through SBEC and people directly affected by the new businesses. The key results of the survey which measured net income before and after SBEC assistance, the number of persons employed and the amount of wages paid is summarised as follows:

	# of Clients	Loan	Guarantee	Net Benefit	Operators	Employees	Wages Paid
Savaii	24	588,750	392,720	1,167,703	55	80	505,440
Upolu	32	774,176	547,883	2,247,693	86	105	925,040
Total	56	1,362,926	940,603	3,415,397	141	185	1,430,480
Per Client							
Savaii	24	24,531	16,363	48,654	2.29	3.33	21,060
Upolu	32	24,193	17,121	70,240	2.69	3.27	28,908
Total	56	24,338	16,796	60,989	2.52	3.29	25,544

The survey indicates that the average client received a loan of \$24,000, guaranteed to an average 70% of the loan approved, (ie approximately \$17,000) and that these businesses provided additional income (after expenses) to the owners of \$61,000.

The survey was designed to provide a basis for the estimate of increased income from SBEC activities while the SBEC data is used to estimate the magnitude of economic impact.

While the average amount borrowed was similar between the Savaii and Upolu clients interviewed, the actual net benefits were higher in Upolu at \$70,240 compared with \$48,654 in Savaii, a reflection on the larger population and turnover opportunities in the Apia environment.

The net benefit in the table refers to the difference between the client's income before the loan was approved and the income (after expenses) received from the business today. The number of family operators and employees are as at the present time, most of them in fact being as a result of the loan/s.

A combination of SBEC loan data and survey results have been used to make an estimate of the economic impact of SBEC activities. SBEC's client data indicates the following:

	NZAID Fund	ADB Fund	Total
Total loan portfolio	\$1.34 m	\$13.39 m	\$14.7 m
Number of loans	229	723	952
Average loan size	\$5,847	\$18,520	\$15,471
Average Guarantee	\$4,503	\$13,278	\$11,167

Assumptions:

Increased income per client: The survey data showed that the SBEC loan and advisory services resulted in a significant increase in net income (after additional costs) for SBEC clients. The surveyed clients had a higher average loan amount than the average loan size in the SBEC loan data. In making an assumption of the net benefit impact per tala of loan (\$2.51) it has been assumed that the larger loans indicate larger businesses and a higher impact per tala (than the average) and therefore discounted this by 30% to \$1.75 per tala loaned.

The survey questionnaire and stakeholder interviews were designed to assess the increased income attributable to SBEC services and took into consideration alternative sources of loan financing and business advisory services. The following assumptions have been used to estimate total increased income impact:

Assumption	Value used
Average loan size- ADB scheme	\$18,520
Average loan size- NZAID	\$5,847
Net-benefit impact of SBEC loans	\$1.75
Forecast rate of foreclosure (2008-2024)	10%
Future interest on G'tee loan balance	5%
Recovery rate from foreclosed loans	20%
% of impact directly attributable to SBEC	66%
Annual loan clearance rate as % of total portfolio	5%

Average loan defaults

9%

Assumptions on the rate of foreclosure, guarantee fund interest, recovery rate on foreclosed loans and, loan clearance rate (i.e., loans paid back) and loan defaults are all based on discussions with SBEC staff and a view formed from the outcome of stakeholder interviews.

The proportion of the total benefit attributable to SBEC is based on the team's view of other business support and loan services provided to SBEC clients. Assuming that around 66% of the income impact is attributable to SBEC services recognises that clients pick-up information and benefit from relationships with banks and NGOs that are non-related to SBEC. Making the assumption that not all the increased income is attributable to SBEC in this way is standard practice in this form of analysis.

Dissipation of benefits: While SBEC support has an immediate impact in the first year of new business establishment, the percent of benefit that is directly attributable to SBEC diminishes over time. The cashflows account for this reality by reducing the annual impact of a loan drawdown over ten years using the profile below.

Year	1	2	3	4	5	6	7	8	9	10
Impact	100%	89%	78%	67%	56%	44%	33%	22%	11%	0%

Increased GoS tax and license revenue: While the income from many SBEC clients fails to meet the threshold for personal income tax in Samoa, some account for the additional GoS revenue generated by increased economic activity is accounted for in the cashflows. In estimating additional tax revenues, SBEC data has been used to estimate the number of clients operating as sole traders over the income tax threshold (\$12,000) up to the top rate of 27%. The following assumptions are based on SBEC client portfolio and survey data and information provided by SBEC staff.

Assumption	Tax rate used	Value used
Total number of SBEC clients		952
% of client with income less than \$12,000	Nil	40%
% of clients in \$12,001-\$15,000	10%	30%
% of clients in \$15,001-\$20,000	20%	20%
% of clients earning over \$20,000	27%	10%
Average loan size- NZAID		\$5,847
Net-benefit impact of SBEC loans		\$1.75

The total additional tax revenue has been estimated by breaking down the total impact (which accounts for net additional income) using the proportion outlined above to arrive a tax amount each year. The tax revenue reaches a peak of over \$1.0 million per year in 2008 and plateaus at around \$0.5 million from 2014. This represents around 12% of the total economic impact (estimated in pre-tax terms). The tax revenues have not been separated out in the cashflows as they represent a transfer from businesses to the GoS.

When analysed on a tax revenue basis only, the analysis shows that for every additional \$1 of economic activity, GoS revenues benefit by \$0.12.

Benefits not quantified: While the analysis accounts for increased business incomes (after expenses), the cashflows do not account for the downstream multiplier impacts of increased income earned by SBEC clients and their employees (e.g., the impact of increased disposable income). Development of economic activity multipliers requires another level of economic analysis beyond the scope of this assignment.

The findings of the survey do indicate that from the surveyed businesses, 2 - 3 family members are involved as “operators” - i.e., husband/wife and other family member/s. These people have not been regarded as employees but as beneficiaries of the business revenues. The businesses employed on average 3.3 wage workers each for an annual average payroll of \$25,500 per business. Hence the total number of people directly engaged in the businesses and achieving economic benefit is 5.8.

Given the larger average size of businesses surveyed it is estimated that around 2,500 nationwide have been employed through the establishment of SBEC serviced businesses.

The average wages paid per employee surveyed is as follows:

	Per Year	Per Week
Savaii	6,318.00	121.50
Upolu	8,852.06	170.23
Total	<u>7,753.28</u>	<u>149.10</u>

Extrapolating these figures across the number of businesses of sufficient size to employ staff indicates that the combined wages paid is likely to exceed \$2.5million per annum.

Results of the cost-benefit analysis: An analysis of the economic impact of SBEC services through the money provided by NZAID and the GoS (including the ADB loan for the guarantee deposit of \$10m) from 1994 through to 2024 (15 years time) indicates a strongly positive NPV and a net Benefit / Cost ratio. The NPV and NB/C ratio is expressed in 2008 Samoan Tala and is based on the cashflows of historical and future expected costs and benefits.

The analysis is also expressed in terms of the economic benefits compared to donor and NZAID funding only. The results demonstrate the leveraging benefit of a partnership funding.

Results of Cost-Benefit Analysis

	Real (2008 values)
Net Present Value (NPV)	\$81.4
Net Benefit / Cost ratio (all donors)	3.06
Net Benefit / Cost ratio (NZAID funding- Dollar of economic benefit per dollar of funding)	6.58
Net Benefit / Cost ratio (GoS funding- Dollar of economic benefit per dollar of funding)	19.73

Note: This positive result assumes the guarantee funds remains at the levels shown in the appendix intact throughout the next fifteen years and are not lost to excessive foreclosures as a result of business failures, and herein lies a need for caution.

As this report suggests, the high rate of business expansion in the past few years will have some repercussions over the next two years with business failures as a result of the recession in the world economy and probably too many new businesses in some sectors.

A better measure of SBEC's impact will be found in two to three years time after the recent business growth has time to settle down and prove its sustainability, however in any event, even if the economic data supplied by clients was halved, a positive impact would be measurable.

SBEC has played an enormous part in the advancement of private sector development and should be given due credit for this. Its ability to provide clients with access to finance through its guarantee scheme and the confidence the process has given budding business people is the major reason for this success.

Summary:

The approach taken to estimating the economic impact of SBEC has been to compare the total costs of the SBEC program (including the value of the guarantee funds) against the estimated increased income generated using an annual cash-flow over 30 years.

The impact of the NZAID and GoS (ADB) guarantee scheme has been assessed separately. On a national basis, the GoS fund has lifted the value of the increased incomes from around \$1.0 million to over \$15.0 million per year. The nation-wide value of increased revenues is likely to be around \$12.0 million per year from 2009 onward and around 90% of this is generated by the GoS guarantee fund (providing the fund can be maintained).

While the value of increased business incomes is significant, it has been assumed that only 66% of this is directly attributable to the SBEC's involvement. This recognises that there are other (limited) sources of finance available to SBEC clients and that increased incomes are generated by a range of factors.

From an NZAID and GoS perspective, an important aspect of the analysis was to determine whether the value of the economic impacts to Samoa is greater than the funds invested in the program. The Net Present Value used in calculating the cost-benefit analysis answers this question.

The results of the cost-benefit analysis show that the investment in SBEC is likely to generate nation-wide economic benefits (net of costs) of around \$81 million tala over the 30 year time horizon (in today's tala values). The economic impact can also be shown as the value of economic impact per tala invested by NZAID and GoS in SBEC (i.e., a net-benefit/cost ratio).

The results show that for every tala invested in SBEC, \$3.06 has been generated for the Samoan economy⁶ by the program as a whole. The value of the economic impact per tala invested by

⁶ Benefits included in the cashflows are at the business owner level only.

NZAID and GoS is \$6.58 and \$19.73 respectively and shows the leveraging affect of combined donor funds.

The value of nation-wide impact is most sensitive to the value of increased incomes generated by the loans (reflecting the importance of SBEC training), the future annual number of loans made (which is dependent on the ability to maintain the guarantee balance) and the rate of loan foreclosure.

The total additional tax revenue generated through the program reaches a peak of over \$1.0 million per year in 2008 and plateaus at around \$0.5 million from 2014. When analysed on a tax revenue basis only, the analysis shows that for every additional \$1.00 of economic activity, GoS revenues benefit by \$0.12.

Taxes and Licensing Fees: No business licence is required for agriculture or fisheries businesses and the VAGST of 15% has an income threshold of \$78K which exceeds most of the rural businesses and all but the larger businesses closer to Apia. SBEC has played an enormous part in the advancement of private sector development and should be given due credit for this. Its ability to provide clients with access to finance through its guarantee scheme and the confidence the process has given budding business people is the major reason for this success.

4.5 Social Impact:

The social impact section of the questionnaire sought to assess the impact and benefit of the business to the owner, family and community. The questionnaire sought to assess spending priorities and the affect of the business on Samoan culture and tradition.

Impact on the Owner: Of the clients surveyed, nearly 28% said that “recognition” was the main personal impact. When prompted to elaborate, many explained that before they had any business or regular source of income, they were just ordinary people while others said they felt marginalized and people did not want to know them. However, since they started their businesses, people now want to know them and it’s a great feeling.

Nearly 25% said that the main impact to them as business owners is that they now hold cash all the time and money is no longer the worry it once was. These two answers were followed by “being my own boss” as the main impact of owning a business to the owners by nearly 10%.

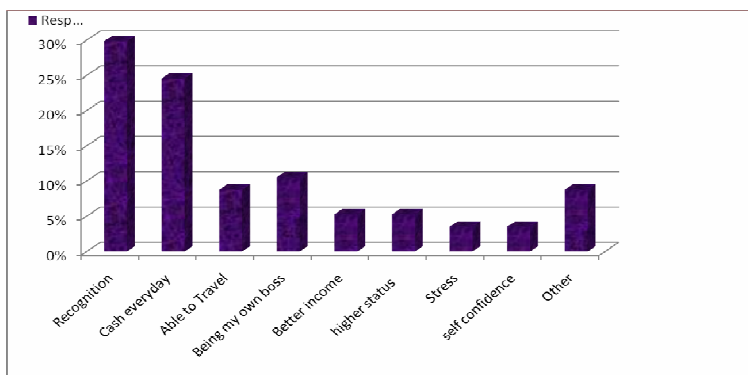
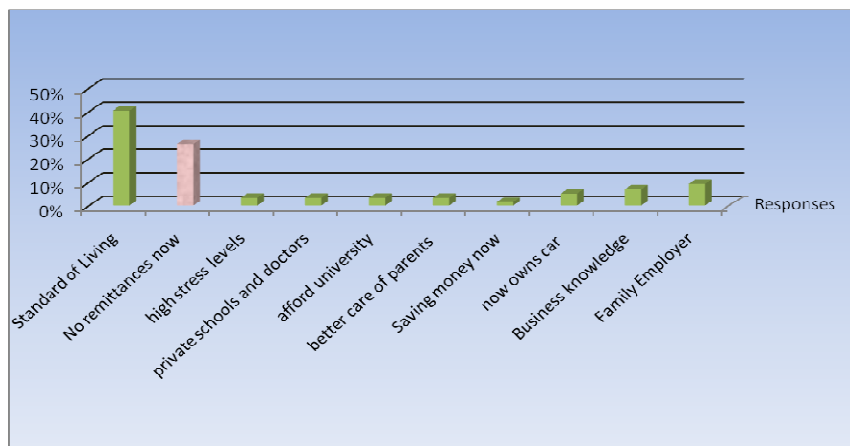


Figure 1: Survey Responses to Question on Impact of the Business to the Owner.

Impact on the Family and the Community: When the clients were asked about the impact of their business on their family, nearly 25% of the clients stated that the main impact of the business to their family was “improved standard of living”. When asked to elaborate, most stated that their children now eat better and were doing much better at school. Others said that they can now more easily afford basic needs that they could not afford before, including education and access to health services.

The following graph depicts the key responses from the survey question on family impact.



Some clients stated they can now afford private doctors and private schools for their children. A concrete block manufacturer smiled as he told us that his eldest daughter had a place at the national university of Samoa, but because he was earning only \$150 tala a week from his job, he could not afford the university fees, so she missed out. Since he started his business, his second daughter is in her last year at university.

A few clients described how they are now proud owners of freehold land and will no longer need SBEC for their next development loan. It appears that owning freehold land is becoming the trend for some SBEC clients, being a reflection of the training conducted with these clients back in 2001-2002.

However not all impacts were positive. A few indicated that they suffered from various degrees of stress worrying about achieving success and being able to repay their loan.

The survey confirmed that most clients employ family members and local villagers. The other most important finding is that through SBEC the clients are increasing their knowledge of how to run and manage a business. However, when asked to rate the usefulness of SBEC services, many clients said that more training is needed particularly in cash management and record keeping.

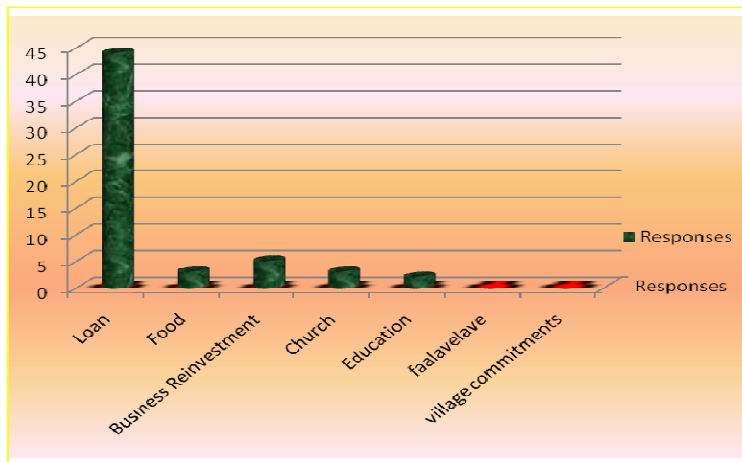
Just over 20% of the clients stated that they no longer rely on their families overseas for money to help them afford the basic needs of life. The number of people who volunteered this as a benefit was a surprise. It demonstrated the desire of most SBEC clients to achieve independence through successfully operating a business.

Other clients explained that through the business, they were able to travel overseas to visit their children or other family members and found that there were a lot more expenses overseas than

in Samoa in terms of daily needs and they now feel not so badly off and don't want to rely on family.

Many businesses are providing employment for villagers. For instance, a saw mill and a taro plantation each employ 10 villagers, and a tourism business started with SBEC assistance, now employs 31 paid staff plus family members. Furthermore, many businesses provide market outlets for local produce. For instance, for the bakeries, people sell them firewood and coconuts. For the beach resorts, local villagers sell them fish, taro, vegetables etc. The survey confirms that the SBEC clients continue to provide a significant social impact to the owners, families and the community.

Priority Spending: The survey sought to establish the clients spending priorities. Figure 3 below shows that clients are quite business minded. During the 2002 SBEC review, some clients indicated that the key issues they faced included family fa'alavelave⁷, the money owed to them by clients who purchase goods on credit and also church and village commitment. This survey found that meeting loan commitments (or saving) was given as the greatest priority followed by reinvestment in the business. Fa'alavelave/village commitments were ranked well down the list.



Prioritisation for Spending of Profit

With respect to village commitments, it was not unexpectedly found that in the Apia areas and those suburbs closer to Apia, the village commitments are almost non-existent, however the more rural families still have these pressures but many appear to have learned to better manage this within affordable limits.

Summary: The Survey confirms a significant positive impact of SBEC services on the standard of living and well being of the owner, the family and local community. In particular the respondents indicate improved access to better education, health care, food and all the basic needs. Importantly, clients who previously had no regular source of income have become empowered by the success of their small businesses, more self reliant and better able to take part in local activities through their raised status.

⁷ Fa'alavelave : "extended family events" where everyone contributes e.g. funeral, weddings, ceremonies for awarding a chief title.

Improving the standard of living is one of the main objectives of Samoa's Statement of Development Strategy. SBEC is clearly helping the people of Samoa in this regard.

4.6 Cross Cutting Issues:

SBEC could be regarded as very successful with regard to cross cutting issues, having achieved significant penetration into the rural areas to reach the more disadvantaged people of the Samoan community providing many with greater empowerment.

SBEC has mainstreamed gender equity awareness and practice into its regular activities it has achieved a good balance of male and female clients, both in its training and business development activities. Statistics however do not tell the whole story as many guaranteed loans in men's names are in fact for businesses run by their wives. Most businesses surveyed however were being run by husband and wife teams with often the wife nominated for SBEC training as she takes better care of the family finances.

The Pacific Development Banks have for some time recognised that women have the best loan repayment records, usually developing businesses specifically to support their families, and not giving up easily. They have proven internationally to be the most successful recipients of microfinance programs and this is no different for Samoa. While often not having high ambitions as to ongoing business expansion (due to family responsibilities) many women have ventured into significant business operations.

SBEC has always encouraged women applicants over a wide age range through the nature and language of its promotional village and national programs, the manner in which it has conducted its training and the empowerment it has given its successful customers who have encouraged others.

The reasons why men do not fare so well in successful borrower statistics are complex and beyond SBEC's ability to resolve other than to ensure its promotional activities and training programs encourage men and women equally. Suffice to say that there is no apparent discrimination against men with regards access to SBEC services and that many men achieve significant benefits through their personal, physical and financial support for the family business.

4.7 Environmental Awareness.

Most of SBEC clients are operating small businesses that have little effect on the environment. SBEC staff are trained to recognise and consider environmental concerns when appraising new propositions and visiting ongoing businesses.

Where necessary, clients are advised of any environmental concerns and where necessary referred to appropriate sources of specialist advice and guidance. An example of this is the Turtle Sanctuary on Savaii which was referred to the Environmental Agency for establishment of operating rules and guidance.

5 The Effectiveness of SBEC's Services

5.1 Small Business Management Training Programs

Training of small business people has been a key service and is the main justification for SBEC's existence.

SBEC has for some time provided Customer Service Training programs to fee paying commercial businesses, and has capitalised on its ability to provide business training by tendering competitively for the delivery of community based training on business concepts and planning for the UNDP Global Environment Fund project and the EU Micro-Finance Project. This work also enabled SBEC to educate more communities on 'business concepts and planning' and at the same time raise their awareness on the services that SBEC can provide as a business development agency.

SBEC's main area of training is in the provision of the International Labour Organisation's (ILO's) "Start Your Business" program which SBEC has successfully adapted to cater for Samoan cultural attitudes to business, family and community responsibilities. This has been translated and is taught in the Samoan language.

SBEC employs a Training Manager, one business trainer and an assistant. Little effective increased training (personnel) capacity has been added to SBEC since the advent of the ADB program in spite of the growing client base.

Successfully completing the SYB program is a prerequisite for acceptance under the Loan Guarantee program, and with the push to meet the ADB program's new business targets, the SYB program has become SBEC's main training focus. Training is conducted in SBEC's suitable and well located training rooms in Apia and Salelologa.

While SBEC has provided advanced courses in Marketing and Finance, it should also be catering for existing clients with the ILO's "Improve Your Business" training course (IYB). The demand to meet new business growth targets has effectively reduced SBEC's ability to cater for its client's ongoing business improvement needs and to seek and develop new programs.

This is evident in the following tables provided by SBEC, which summarise the number of training programs conducted in recent years and the number of participants. Almost half the training has been devoted to necessary income generating, fee based services, and of the services provided to small business customers, most have been SYB programs to new applicants, a large portion of which the ADB program has funded. (eg last year, 17 SYB courses, but only 3 Advanced training courses for small business clients in spite of a greatly increased client base).

Numbers of Training Courses:

	2002	2003	2004	2005	2006	2007	2008	Total	
1 Start Your Business	11	4	3	4	14	17	7	60	43%
2 Advanced SYB	0	1	2	2	3	2	1	11	8%
3 Marketing & Finance	0	1	3	2	1	1	0	8	6%
4 Customer Follow-Up	1	2	1	1	0	0	0	5	4%
5 Customer Service	4	6	6	4	3	6	3	32	23%
6 Other (Fee Earning)	9	3	1	4	1	0	7	25	18%
	25	17	16	17	22	26	18	141	100%

Numbers of People Trained:

	2002	2003	2004	2005	2006	2007	2008	Total	
1 Start Your Business	212	121	56	87	292	299	119	1186	42%
2 Advanced SYB	0	18	36	28	83	32	10	207	7%
3 Marketing & Finance	0	14	51	26	11	4	0	106	4%
4 Customer Follow-Up	7	12	9	8	0	0	0	36	1%
5 Customer Service	84	119	92	78	65	136	69	643	23%
6 Other (Fee Earning)	233	79	20	188	24	0	121	665	23%
	536	363	264	415	475	471	319	2843	100%

SBEC statistics indicate that the training programs are gender balanced to almost 50:50 male and female and that overall, approx 60% of attendees came from the Apia and its immediately surrounding "urban" area, with 20% each from the rural areas of both islands.

Bearing in mind the population distribution and location of business opportunities, this spread is regarded as satisfactory and it would appear that the rural areas are receiving fair opportunity of access.

Clients surveyed expressed their overall strong satisfaction with the training they have received, most clients had received their first formal instruction on business concepts and money management from SBEC, enabling them to more confidently embark on their business venture.

The desire to attend ongoing and follow-up training if available was also evident and there is a need for SBEC to consider cost effective ways to bring this training to existing clients, possibly by developing district "business discussion groups" where groups of clients can be brought together for a few hours to discuss / refresh a topic pertinent to their business operations such as record keeping, cash flow management etc..

SBEC is aware of the need to improve the extent of its training services and indicates that it is re-developing its training in the following areas;

- business rehabilitation course for those clients in critical situation and foreclosed clients
- breaking down parts of the Marketing and Finance Course to cover specific areas that could be taught to clients
- Working with ILO to develop a more simple 'improve your business' course for existing customers

Conclusion:

SBEC continues to do a good job with its basic SYB training, but SBEC as an organisation is not adequately resourced to meet the needs of its significantly expanded client base which should be regarded as being equally important.

The initiatives in developing further 'advanced' training are commended, and new ways to deliver follow-up training to meet the demands from the increasing number of clients should also be considered, such as through local "business discussion groups" where regular 6-8 weekly group meetings of clients in their local areas could be held to deliver advanced training.

Recommendation:

That during the restructuring period, besides maintaining its revenue earning Customer Service Training Program, SBEC should focus its training on providing refresher courses on record keeping, accounting and cash flow management to existing clients and that new ways to deliver this should be considered, such as through developing local "business discussion groups".

5.2 Small Business Advisory and Consultancy Services

SBEC employs a Manager and three Business Advisors as its business advisory team. Their tasks include interviewing all persons receiving SYB training and to help them prepare business plans and applications for loans from the partner banks⁸. If approved, the loans will then be guaranteed under either the "New Zealand" or "ADB" loan guarantee program, depending primarily on the amount required.

The development of a business plan is a key step in the process of establishing each small business. The plans must take into account the applicant's circumstances, knowledge, market requirements, business establishment and working capital requirements, the financial viability of the proposal and the applicant's ability to meet the proposed loan commitments.

This is a highly skilled job, and some specific business experience and / or training such as a loans officer in a bank may receive is required. Most of the advisors do not have this level of experience, and two have been developed "in house", supplemented with ad-hoc training from a variety of sources as and when available.

During the review of 2002, it was felt that the business advisors employed at that time were doing a reasonable job and that the partner banks were on the whole reasonably satisfied with the information they received (for their own subsequent checking).

This review however finds that the participating banks were unanimously far from satisfied, with comments such as "the business plans are 'cut and paste' and not worth the paper they are written on" to "we went to inspect the site of the potential project in the business plan and found that there was nothing there".

⁸ Partner Banks include: National Bank of Samoa, Samoa Commercial Bank, Westpac, ANZ and the Development Bank of Samoa.

While no excuse for dropping professional standards, the pressure to “churn out” business plans to meet the ADB project driven lending targets has placed extreme pressure on SBEC staff who struggle to cope.

Business advisors are also responsible for client follow-up, to mentor clients through the early stages of their business establishment, to help them manage their income and expenditure and to meet their loan commitments. This was a function that appeared to be working quite well in 2002, but as the client survey revealed, the main complaint from SBEC clients now is that they don't see SBEC officers much if at all after they have received their loan, and that if they did, it was usually from an unannounced spot visit while passing. Those businesses that were around in 2002 particularly noted the decline in this service.

This is not intended as a direct criticism of the advisors themselves, but recognition that with over 250 clients per business advisor, it is simply not possible, on top of developing business plans and loan guarantee management, to deliver the necessary level of advisory services that the increasing client base requires.

In an attempt to assist the Business Advisors, SBEC is working with a regional project developing “toolkit” software to assist in business appraisals. The review team did not assess the merits of the “toolkit” but comments that while it may usefully assist with business appraisal, it should not be used to replace the ever necessary inspection and need to truly understand the individual client’s needs and overall personal, financial and family situation.

It would seem that at least two more experienced Business Advisors are required to meet the demands of the increased client base and that a client risk classification system should be implemented to prioritise efforts to the clients with most need.

Recommendation: That SBEC employs (or seconds from local banks) two more experienced Business Advisors to lead the implementation of a client risk classification system to prioritise efforts to the clients with most need for closer mentoring and assistance.

5.3 Facilitation of Access to Finance – The Loan Guarantee Scheme

The major barrier to beginning business in Samoa is access to finance. Virtually all clients surveyed indicated that access to finance was their biggest barrier, and that without SBEC and its loan guarantee scheme, most would have been unable to commence their business.

While many of the larger Samoan businesses have been developed by existing business people from Savaii with private and commercial bank funding, the establishment of most of the smaller businesses can be attributed to SBEC as the Commercial Banks will not lend without sufficient securable assets, including the Development Bank which requires at least three suitable guarantors which are not easy to find. The only real choice for small entrepreneurs who do not have sufficient cash or assets to contribute, is a loan secured by a SBEC guarantee.

Solving the access to finance problem is what has made SBEC so unique, but excessive demand now provides the potential for its downfall.

Loan Guarantee Schemes:

There have been a wide range of loan guarantee schemes developed throughout the world for a variety of reasons. Most are government sponsored as a means to support the establishment of high risk, new start business. In the Pacific, loan guarantee schemes have been developed for similar reasons, and as a result of the inability to mortgage or sell customary owned land.

Commentators have criticised guarantee schemes designed for this purpose as simply a palliative and a means of avoiding the bigger issue of land and other legal reforms that will ultimately be necessary.

Reviews of guarantee schemes by ADB and World Bank financial analysts generally conclude that guarantee schemes result in only minimal additionality (i.e. loans that would not otherwise have been approved), and that they are an expensive means of financing the few loans that are genuinely “additional.” The analysts concluded that guarantee programs invariably end up with the guarantee capital being transferred to the banks and a bunch of bad loans left to an administering body without the skills or experience to manage them⁹.

SBEC’s 2002 Review:

The 2002 review observed the unique way in which SBEC has packaged its loan guarantee scheme with their training and advisory services, and the supportive partnership they had forged with the banks at that time. This package of services was unique in the Pacific region, and for this reason the review team concluded in 2002 that SBEC’s experience was a model that could be considered for replication elsewhere in the Pacific region.

The Current Situation:

Additionality¹⁰: The client survey suggests that the degree to which SBEC’s guaranteed loans are genuinely additional in the rural areas is high, for most rural respondents indicated that they had no securable assets and would not have obtained a loan without the guarantee.

Coming closer to Apia, the picture is not so clear, for some sound, high turn-over businesses admitted that they utilised SBEC’s guarantee scheme as an expedience to avoid securing assets. They fall outside SBEC’s target client group which are stated in the Strategic Plan to be disadvantaged groups, being the relatively poor youth and women in the rural areas and outer islands.

Businesses that have reached sufficient threshold with ownership of assets and /or larger business turn-over should be ineligible for SBEC’s guarantees, especially when loans to smaller enterprises are rationed due to insufficient guarantee funds remaining, as will soon be the case.

Expansion of the scheme to include larger businesses and / or larger loans as has been suggested by larger businesses, defeats the purpose of the scheme. Successful SBEC clients must learn to graduate from SBEC and to negotiate loans with banks directly on the strength of their cash flow and performance record. Where appropriate, the larger, more successful

⁹ The review teams’ leader was employed by the ADB in 2001 to assess the prospects of a loan guarantee scheme in the FSM. The assignment included a review of ADB and World Bank literature and studies on guarantee schemes in the ADB and World Bank libraries in Manila.

¹⁰ Additionality refers to loans which would be genuinely “additional” ie they would not have been approved without a guarantee

businesses should be referred to the NZAID/UNDP contestable Private Sector Support Fund (PSSF) enabling SBEC to focus on their mandated group, i.e. small and medium enterprises.

It is difficult to draw a precise line as to where SBEC should cease to assist, (other than with its maximum limit), as some of the current larger businesses have provided a very worthwhile community benefit, and a degree of SBEC management support in the early years has been an important factor in their early establishment.

The main concern is that with limits to the number of loans that can be guaranteed by the remaining guarantee deposits looming, eligibility guidelines for applications requiring a guarantee over \$25,000 should seek to:

- maximise additionality, (ie to be sure that finance cannot be raised elsewhere)
- benefit a wide cross section of the community¹¹ and
- have a genuine need for SBEC support.

Fees: Many clients complain that the fees charged by SBEC on the guarantee (these being deducted from the approved loan) are excessive, but these are the only fees charged by SBEC, one off and upfront, for its total package of services including the SYB training, the business plan and guarantee administration.

The fees represent a significant portion of SBEC's earned income and are warranted. They are charged in accordance with the following scale:

<\$5,000	= 2.5% of amount guaranteed
\$5001 - \$10,000	= 3%
\$10,001 - \$20,000	= 4%
\$20,001+	= 5%

Guarantee Scheme Sustainability:

SBEC's sustainability in the form it was developed is dependent on the ongoing success of its Guarantee Scheme. SBEC administers clients assisted under two schemes - the "New Zealand" scheme and the "ADB" scheme.

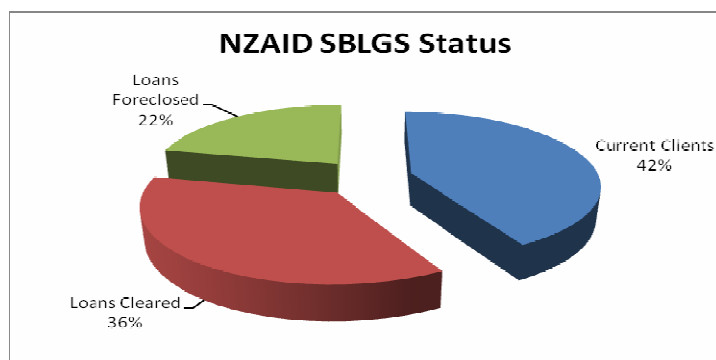
SBEC's "New Zealand" Small Loans Guarantee Scheme: SBEC's loan guarantee scheme began in 1995 with a fund of \$458,940 provided by NZODA. This money is held in deposits with the participating banks and monitored by SBEC. The fund is used to guarantee up to 80% of the principal component of smaller loans made by participating banks to SBEC clients, initially up to a maximum of \$5,000 but extended now to \$20,000.

This scheme has operated basically unchanged since 1995 and the fund has today grown to \$637,919 after the inclusion of just over \$500,000 interest, deduction of foreclosed loans

¹¹ Eg: Additional rental cars to an existing established business in Apia with sufficient assets and turn over to attract a commercial loan should not be eligible, whereas an extension of a needed service into a rural area could be eligible

amounting to \$417,097 and recoveries of \$87,000. Thus the fund has sustained itself in absolute value, and in real terms it is just holding its own with an average interest rate return on deposits at just over 6% and annual inflation around 5%. A deteriorating foreclosure rate would see the fund decline in real terms.

The following is a graph provided by SBEC of the overall status of the NZAID scheme since inception.



The ADB's Small Business Loan Guarantee Scheme: A loan from the ADB to the Samoan Government in 2002 for Small Business Development provided \$10million for new deposits with participating banks to secure larger loan guarantees of up to \$50,000, or 80% of the principal lent. A separate Program Management Unit (PMU) was established by the Samoan Government to manage the entire ADB program and to reimburse SBEC from ADB loan funds for the costs of training directly related to clients who received guarantees from the larger fund.

SBEC has had a very difficult job in keeping track of guarantee deposits, loan balances and arrears for it has no direct control of these, being held by the participating banks.

Neither the Central Bank, SBEC or the PMU could provide the review team with sensible figures as to the amount of money currently held under deposit amongst the banks for the ADB fund, including interest, deduction of amounts paid to banks under guarantee and recoveries made.

This is an indictment on the top heavy management of this scheme and needs to be improved. The end of the PMU provides the opportunity to do this.

It would be more efficient for SBEC to directly administer the total ADB Guarantee program in partnership with the banks as it does with the NZAID scheme. Much time has been spent in recent years reconciling events between the PMU and the Banks, and especially in separating out the portion of its daily activities into "SBEC" and "ADB" and justifying this to the PMU for reimbursement of costs.

Legal Review:

Problems have occurred with the administration of the ADB guarantee scheme due to lack of clarity and understanding of the MOU between the Banks, SBEC and the PMU. Banks have been helping themselves to deposits when foreclosing loans as a result of frustration over

lengthy foreclosure procedures and SBEC has endured much administrative frustration keeping the two guarantee programs and their costs separate, and in its claims for PMU support.

A legal review is currently underway to address these issues, including the legality of the ADB scheme. The likely outcome will be a revised MOU or a full legal agreement confirming the agreed processes for executing and managing guarantees, including adequate notice being made to each party. This will need to be carefully negotiated with the banks for their current mood suggests that they have little remaining patience with the double layer of bureaucracy as currently administered through the PMU and SBEC.

The legal review was to look at the degree to which the two guarantee schemes may be merged. Ideally with the ADB project now at an end, the two schemes can at least be administered for overall increase efficiency and accountability by SBEC alone.

There is a chance that the legal review will determine that the ADB fund is comprised of “public monies” and that it has been constituted illegally. If this is the case, then legal minds and processes will be required to put it right.

Client Statistics:

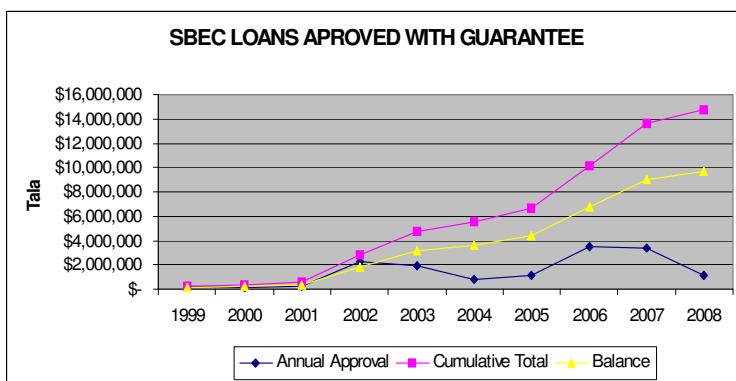
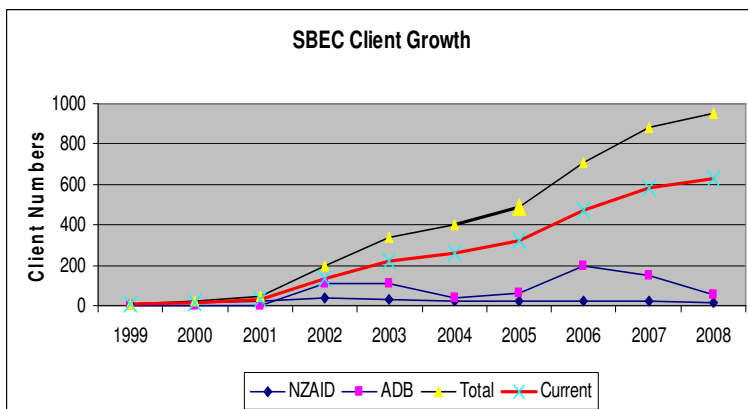
The following table compiled from data provided by SBEC summarises the total number of clients and amounts guaranteed under each scheme from inception.

	# Clients		Total		Per Client		
			Gtee	Loan	Gtee	Loan	%
ADB	724	76.9%	\$ 9,612,924.80	\$ 13,406,052.42	\$ 13,277.52	\$ 18,516.65	71.7%
NZAID	218	23.1%	\$ 983,939.00	\$ 1,281,501.00	\$ 4,513.48	\$ 5,878.44	76.8%
TOTAL	942	100.0%	\$ 10,596,863.80	\$ 14,687,553.42	\$ 17,791.00	\$ 24,395.09	72.9%

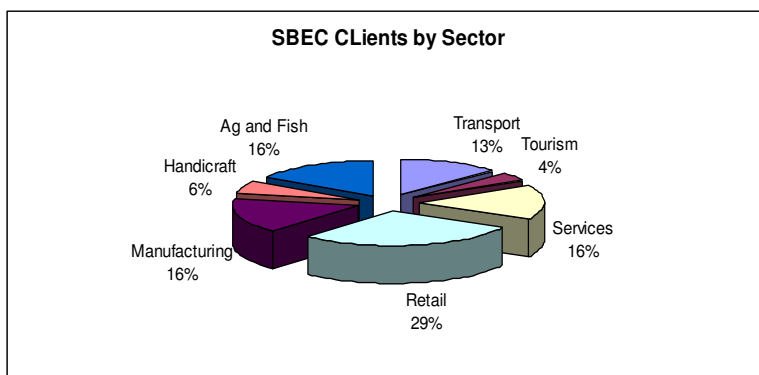
	# Clients		Total		Per Client		
			Gtee	Loan	Gtee	Loan	%
ADB							
Male	367	50.7%	\$ 5,002,566.00	\$ 6,960,381.00	\$ 13,630.97	\$ 18,965.62	71.9%
Female	306	42.3%	\$ 3,847,718.00	\$ 5,099,673.42	\$ 12,574.24	\$ 16,665.60	75.5%
Couples	49	6.8%	\$ 738,640.80	\$ 1,315,998.00	\$ 15,074.30	\$ 26,857.10	56.1%
Groups	2	0.3%	\$ 24,000.00	\$ 30,000.00	\$ 12,000.00	\$ 15,000.00	
	724	100.0%	\$ 9,612,924.80	\$ 13,406,052.42	\$ 53,279.51	\$ 77,488.32	68.8%

	# Clients		Total		Per Client		
			Gtee	Loan	Gtee	Loan	%
NZAID							
Male	103	47.2%	\$ 482,616.00	\$ 593,552.00	\$ 4,685.59	\$ 5,762.64	81.3%
Female	106	48.6%	\$ 448,825.00	\$ 632,539.00	\$ 4,234.20	\$ 5,967.35	71.0%
Couples	9	4.1%	\$ 52,498.00	\$ 55,410.00	\$ 5,833.11	\$ 6,156.67	94.7%
Groups	0	0.0%	\$ -	\$ -			
	218	100.0%	\$ 983,939.00	\$ 1,281,501.00	\$ 14,752.90	\$ 17,886.66	82.5%

The growth attributable to the ADB loan funded program since 2002 is significant and is demonstrated by the following graphs:



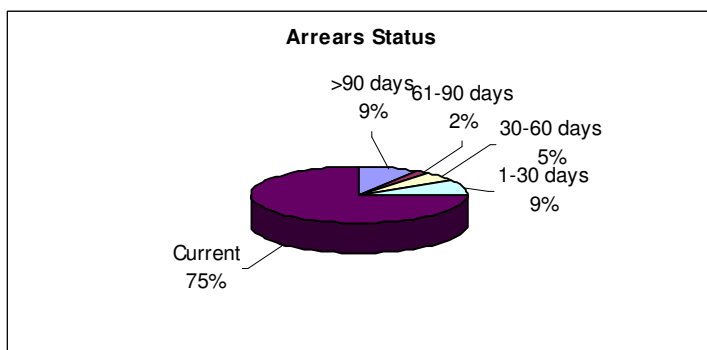
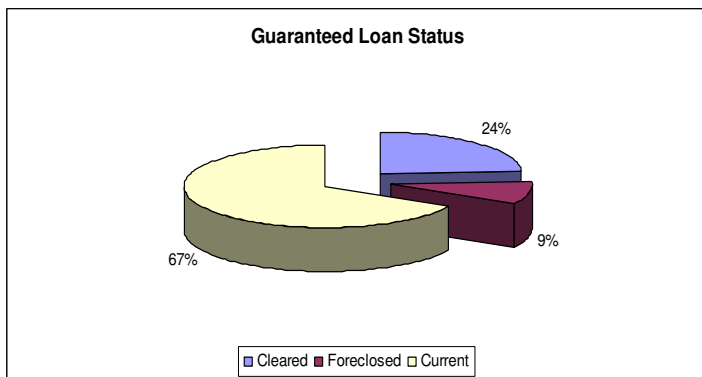
The following graph indicates the composition of the overall client base by sector. Almost 60% of clients are in the higher risk village retail, transport (taxi), Agriculture and Fisheries sectors¹².



¹² The main reasons why these sectors are considered high risk are as follows:

- Village Retail** – Small rural villages have a limit as to the number of stores that can be sustained. Strong management and funds control is required as store owners are placed under pressure to supply goods on credit/free.
- Taxis** pose a high risk due to the high level of competition, the high potential for owners to not save sufficient for repairs and the losses in value of their vehicles and change-over costs when left hand driving begins.
- Farming and Fishing** activities are internationally regarded as high risk due to the “gamble” with the weather, “nature,” fluctuating commodity prices, & the high level of effort and management required for commercial success.

24% of loans guaranteed have been repaid to date, 9% foreclosed and charged to the guarantee fund. 67% are still active – or unresolved as this includes loans in arrears which amount to a high 25% of the remaining portfolio



Arrears and Foreclosures:

Prior to the ADB involvement, arrears and foreclosures were manageable and within the ability of the guarantee scheme to absorb. Since the advent of the ADB program with increasing client numbers and larger loans, arrears began to rise resulting in the PMU slowing growth and providing a short term credit expert in 2005 to assist SBEC front up to the growing problem and to recognise the accounts of concern and those requiring foreclosure / recovery action. A further push by the PMU which extended its program by one year in order to meet its final growth targets saw new loans significantly boosted once more, and following this, not unexpectedly, arrears have continued to rise.

The banks are required to provide SBEC with notification of clients in arrears and to make every effort to recover payments until the client is over 90 days in arrears and no longer able to pay. The bank is then entitled to seek reimbursement under its guarantee and to pass the client back to SBEC for recovery action. SBEC then charges a one off 10% fee to the account and pursues the client as and when it can.

Since the recent employment of a recoveries officer, numerous “foreclosed” borrowers are now making repayments although these payments no longer include interest and some are at such a low level as to require up to ten years to repay.

The problem of arrears however will not be simply resolved. With approximately 160 clients in arrears, the job of getting around these clients to assist them solve their problems is proving too great for the Business Advisors whose visits tend to be more focussed on the collection of payments in arrears than true business mentoring. Part of the problem is of systemic origin in that the loans are approved and held by individual banks that are primarily responsible for the loan management until repaid or foreclosed. Early warning of arrears is necessary to allow SBEC sufficient time to assess the problems and provide business advice and support to the borrower so as to minimise the likelihood of eventual default. Early warning does not always occur.

Unfortunately, with the big boost in new client numbers over the past two years and the predominance of loans in risky sectors suggests that the problem of arrears will become worse before they become better, especially if and when the current problems in the world economy reach the shores of Samoa.

Affect of Change to Left Hand Driving:

The law will change in 2009 to require all vehicles to drive on the left instead of the right hand side of the road, necessitating in due course a change to RHD vehicles. This will have a significant impact on taxis and rental car businesses in particular as they will need to change cars for safety purposes.

All business operating vehicles will face the costs associated with eventual vehicle change, the depreciation of their existing vehicle, and issues with their insurance in the meantime.

While the law does not specify any time limit on changing cars, the government is already refusing taxis licence renewals on cars over 12 years old.

SBEC has approved guarantees of \$1.8m for loans totalling \$2.76m for the transport sector (taxis, buses and rental cars) between 2002 and 2007 with the current outstanding loans totalling in excess of \$1m. Just what the impact on SBEC's business will be is not clear, for a number of customers are already looking at ways to change their vehicle/s and cope with the change.

Sadly there will be some, especially in the taxi business, who will not have the ability to change because they are in difficult circumstances already and arrears / foreclosure is a distinct possibility. The extent of this risk has not been established, but in mitigation, SBEC indicates that it is doing what it can to identify and work with the clients at risk, to look for ways to help them through the change, recapitalising existing loans and providing guarantees for further advances if appropriate.

Conclusion:

With the end of the ADB loan program, it would seem time to prioritise consolidation and nurturing of existing clients ahead of the encouragement of further new businesses. SBEC's ultimate success will be judged on its ability to manage its clients through what is likely to be a difficult year or two ahead.

Recommendations:

- That SBEC prioritises its attention to servicing its existing client base, accepting new and additional loan guarantee applications only where there is a strong business case and the impact will not adversely impinge on other SBEC clients.
- That the administration of the two guarantee schemes be merged into SBEC.
- That SBEC implements a client risk classification system to ensure high risk clients are identified and prioritised for attention.

5.4 Advocating and Facilitating Small Businesses into Positive Change:

SBEC is now well known in Samoa. The client survey indicated a high awareness of SBEC by prospective clients through its advertising, news broadcasts and “word of mouth” spread from positive participant responses to its training and advisory activities.

The Chamber of Commerce recognises SBEC as the best advocate for small business in Samoa and its activities have attracted the attention of the Government and donors. Government Ministries and Organisations with which SBEC networks to promote the interests of small business development include the:

- Ministry of Commerce, Industry and Labour
- Ministry of Finance
- Ministry of Women, Culture and Social Development
- Trade Commerce and Industry Board
- Chamber of Commerce – Upolu and Savaii
- Samoa Association of Manufacturers and Exporters
- WIBDI
- Savaii Business Association
- Savaii Cattle Farmers Association
- Savaii Eco-Tourism Association
- National Export Strategy Committee
- National Food Crisis Committee
- Samoa Qualifications Authority Working Committee
- Samoa Mamanu and Garments
- PSSF Advisory Panel

SBEC continues to network in support of small and micro businesses in the Pacific. SBEC's model was presented to all Pacific Business Development Agencies as part of a regional project funded by the EU.

Activities within the Pacific Region also include:

- **Business Toolkit Project** - working with the Pacific Islands Forum Secretariat on toolkit software which would assess businesses.

- **Pacific Islands Private Sector Organisation (PIPSO):** SBEC made a presentation at the PIPSO Conference in October 2008 on facilitating access to finance using the SBEC model. SBEC's Director was also part of the organising committee and was involved in the development of the Agenda.
- **Australia-PNG Business Council:** The SBEC Director was invited to present the SBEC Model to their conference and PNG are now looking at using this model.
- **Solomon Islands and Niue:** SBEC continues to work with the SBECs in these countries to assist them with a similar scheme.
- **Tonga:** NZAID has considered how the SBLGS could work in Tonga after the 2006 Nukualofa riots.
- **Business Incubators:** SBEC is also working with Info Dev (World Bank) on the feasibilities of Business Incubators in Samoa and in the Pacific. This is work in progress requiring a feasibility assessment that Info Dev would be conducting for an incubator in Samoa.

From the above, it would seem that SBEC has been very successful in creating regional interest in its unique model, however in its own interest it would seem that for now, SBEC has a need to conserve its resources to work more with its own clients (as will be further elaborated in the next section) before expending too many resources on regional issues.

5.5 SBEC in Relation to Other Regional Business Support Activities:

A comparative study of other current regional business support activities is beyond the range of this review. All Pacific Island Nations have small business support activities but none are known to have developed to the degree that SBEC Samoa has, particularly in capturing the Access to Finance component through support from the commercial banks for its loan guarantee schemes.

The fact that SBEC is frequently called upon to advise and assist with the development of other SBEC programs confirms the uniqueness of the SBEC mix of products and the regard it has developed as a regional leader.

While SBEC indicates that it is currently undertaking initiatives to further develop its training programs and trialling a computerised "tool kit" to aid business analysis, the needs of the most SBEC clients remain the 'basics,' centred around the "Start Your Business" and "Improve Your Business" type programs, suitably adapted for local circumstances and business requirements.

SBEC will need further resources to provide more advanced continuing professional development type training which is the more likely domain of the NZAID/ AusAID-funded In-Country Training Programme through the Oloamanu Professional Development Centre at the National University of Samoa.

6 The Efficiency and Sustainability of SBEC's Operations:

6.1 Role and Engagement of the Board of Trustees:

Governance in business terms relates to the processes, customs, policies and laws affecting the way people direct, administer and control an organisation. It consists of the development and approval of strategies and goals by the directors on behalf of the owners, the implementation and direction of an operational plan by executive management to achieve the longer term goals of the organisation's mission. Importantly, it includes the processes of monitoring and effectively managing activities to achieve the desired outcomes throughout the organisation.

Although not a commercial business as such, the role of the Board of Trustees is essentially the same, to set policies and approve strategic and operational plans to ensure that SBEC achieves its key mission objectives and remains sustainable. To do this effectively it must set the operational policies and standards for the information it requires so that it can properly monitor activities, revise targets and direct its CEO as required.

The review report of 2002 recommended changes to the Board of Trustees to increase private sector business representation in order to develop commercial standards of governance. Integral to this was the recommended need for the board to meet more often than quarterly, preferably monthly, in order that financial and operational targets may be more properly monitored and driven in a business like manner.

SBEC as a business development organisation should demonstrate leadership in organisational governance, but unfortunately this has not occurred and in spite of favourable comments made of board performance in other recent reviews, many of the current organisational problems can be attributable to an ineffectual board. The main reasons for saying this include:

- The board has overseen the huge push from the ADB loan program which has exceeded the organisation's ability to properly absorb and SBEC is now, following the end of the ADB program, without any firm strategy as to how to manage "post ADB." This would be an untenable situation to a commercial organisation.
- The annual operational and strategic plans approved by the board lack a commercial standard of management focus, monitoring and control.
- The board has presided over two years of quite substantial financial deficits and has approved another deficit budget this year with no proper (business like) action plan for mitigation, resulting today in the depletion of SBEC's cash reserves and a looming cash flow crisis.

The board needs to be reduced to 5 persons chosen for their ability to contribute to the governance of SBEC. They need to be fairly compensated for their time. There is no need for representatives from government ministries, women or the small business association per se other than as individuals with the skills and desire to assist. SBEC is a "\$10m business", with annual operating expenses of around \$1m per year and a heavy reliance on external support. It requires a stronger standard of governance.

These comments are not intended as a judgement on the abilities of individual board members, who are capable people in their own right, some of whom are known to have been very helpful to the director. It is more a criticism of the constitutional framework, as contained within the Deed of Trust, of the board's composition and the acceptance of trustee's proxy representatives (who lack continuity of knowledge and interest) when members are absent, the fact that the board meets only quarterly, and does not receive timely and sufficient information, to enable it to be a pro-active and responsive board.

The Samoan Institute of Directors (supported by the NZ Institute of Directors) is able to assist boards and individuals understand better their role as directors / trustees, and it is strongly recommended that the board become a member of the Institute and to seek help in developing a better system of governance.

Trustees who do not wish to assume this level of responsibility should be asked to step down.

Recommendation:

That SBEC's Trust Deed be amended to re-constitute the Board of Trustees to no more than five persons selected for their ability and willingness to oversee the rehabilitation of SBEC through the implementation of commercial standards of governance.

6.2 Internal Policies and Procedures of SBEC

SBEC has a Policy and Procedure manual which appears to adequately cover the requirements of day to day operations of a small organisation including HR Management. Salaries were reviewed recently in order to bring SBEC in line with Government salaries and although staff indicate that salaries still lag behind government sector rates, an initial analysis by the review team suggests that at the mid to lower levels, it is not so far out of line.

Accrual accounting is practiced in accordance with the standards of the Samoa Society of Accountants and is subject to an annual financial audit and quarterly systems audit by external accountants. Procedures for approval and payment of expenses is in line with normal accounting procedures with the Director delegated to approve payments and sign cheques (with a second signatory) for all normal board approved budgeted expenses. The board's chairman must be involved where payments and cheques exceed budget etc.

The main drawback to the accounting system is that it is an accounting system only and management information must be recorded and analysed separately, leading to inaccuracies and incompleteness of management information.

Complicating all this has been the requirement to maintain separate records and accounting for "ADB" clients and the need to liaise with the PMU, and the participating banks for important information and financial data, all of which is compiled and transferred manually, and often with un-reconciled discrepancies which take up significant administrative effort to resolve.

The review team struggled to obtain what should be simple information on current outstanding loan balances, loan arrears, loans repaid, the level of guarantees held at any point in time, the amount of guarantee deposits held etc.

Suffice to say that the Management Information System needs an overhaul, starting with rationalisation of the separate ADB and SBEC accounting and budgeting procedures in order that management and the board may be better and more regularly informed on key performance indicators.

Recommendation:

That as part of the recommended restructuring of SBEC's operations, a Business Development Advisor should be tasked with reviewing SBEC's entire Policy and Procedures in light of current work practice requirements.

6.3 Monitoring and Evaluation Environment:

The M&E environment could be described as rudimentary and not particularly effective. There did not appear to be a clear M&E framework and it was noted that at the date of the review, (October), KPI's for the 2008/09 operational plan had not been completed.

Quarterly reports to the board do not adequately convey trends in performance deviations (physical and financial) nor provide for necessary and timely management and board responsiveness. Key indicators appear monitored, rather than managed.

The current strategic plan sets out a range of strategies which in themselves are fine, but it is what is not included that is of particular interest. Little is mentioned in the strategic plan regarding governance and financial sustainability and as a result, the operational plans developed each year do not adequately address these requirements.

Of particular concern is the financial management reporting which comprises a quarterly variance report, comparing actual to date figures with the original and out of date budget. Without a revised forecast and monthly cash flow estimate, the report provides little by way of useful management information and this situation is of serious concern. Operational losses have been sustained over the past two years and looms again this year yet this appears to have created no sense of urgency or strategies to deal with it.

SBEC management acknowledge that cash reserves were depleted by last year's loss and that a significant deficit has once again been budgeted (and accepted by the board). Although questioned a number of times, the director and accountant could not indicate as to when SBEC would be unable to pay their wages, in other words, it was evident that SBEC's own cashflow was not being forecast and managed in a sound business like manner.

The board and management should at all times be aware of the cash flow requirements so that proper and timely action may be taken to mitigate problems. With the system of governance in place and reliance on NZAID and the Government of Samoa for ongoing funding, the level of which is uncertain, the apparent reliance / resignation / hope that this review will address and solve the problem this year is understandable. It does not however excuse not having this and other important information at management's "finger tips."

It would seem that the M&E environment is in need of an overhaul to commercial standards of management and that the board and management will require help and support in doing so.

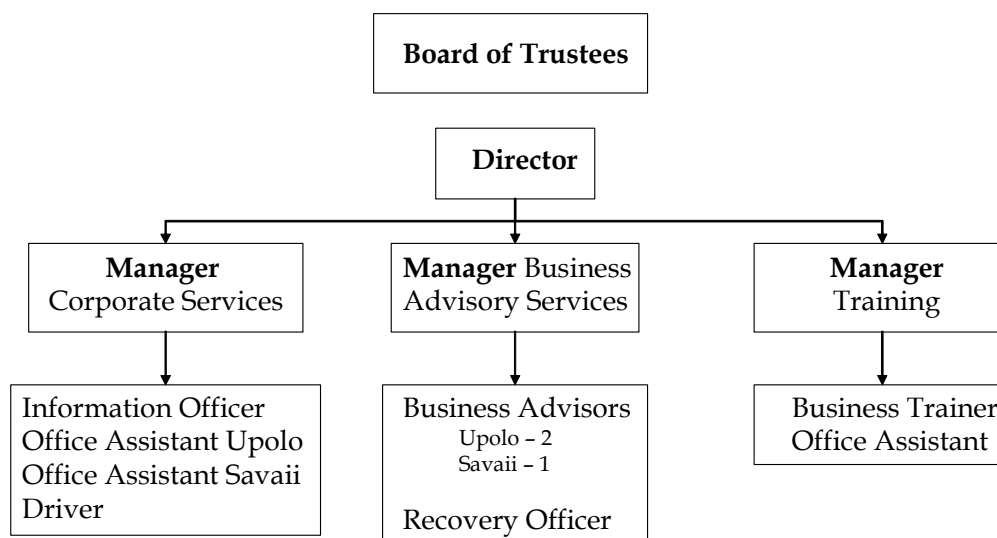
Recommendation:

That as part of the recommended restructuring of SBEC's operations, a Business Development Advisor be tasked with reviewing SBEC's M&E environment to better manage the requirements and achievement of the revised business plan's key indicators.

6.4 Capacity of the Director and Staff to Carry Out SBEC's Activities:

SBEC is currently staffed with 14 personnel as follows:

SBEC Organisational Structure



Being a small organisation of just fourteen people, strict divisionalisation is inappropriate and a team approach is best suited to achieving goals and good staff morale through work variety and a sense of total belonging.

It is clear that the current staff are failing to cope with the increased client base and that the quality and range of services provided has suffered as a result of the drive to process loan applications.

Staff turn over has been high, only three staff remaining today from the staff employed in 2002 at the beginning of the ADB program.

The current director is one of the new personnel and admits that she needs help with the higher level management and governance requirements of her position. Having come from a consulting background, the director has been able to secure valuable revenue earning consulting opportunities which is a positive strength, however she lacks experience in organisational governance, not helped by the remoteness of the board.

A case in point is her recent initiative to commission an impact study followed by an issues paper to the board highlighting the problems facing SBEC post the ADB program. This initiative was timely and on the right track, but the paper lacked the crucial conclusions as to just what the options and costs for SBEC were. As a result, the urgency and degree of SBEC's needs failed to reach the ears of Government. Whereas a proactive board could be expected to lead such an important exercise, it would appear that it was in fact of little help to her in this important matter.

Accordingly, with some difficult times ahead, SBEC requires firmer leadership, beginning with the board and some management support to the director who clearly wants to do a good job and who would be willing to be helped to do it.

There is a wide range of good qualifications amongst staff, but it is apparent that motivation is not what it should be. High work loads and constant criticisms from outside parties, especially from the PMU is assessed as the primary cause. This has contributed to divisionalisation of work practices and resulting inefficiencies.

There is a need to improve multitasking, as appeared the case in earlier years – ie there is no reason why business trainers cannot assist more with business advisory services and vice versa, and even the Corporate Services Manager and Information officer could utilise their skills more widely and assist more with client contact. Back-up personnel should be better trained to maintain essential operations (such as payroll and accounting functions) during key staff absences.

With arrears currently standing at approximately 25% of the active client guaranteed loan portfolio, there are at least 160 clients in urgent need of regular follow-up to encourage payment and help with solutions to problems their businesses are facing.

It is possible that there are many more at risk of falling into arrears over the next year as the Samoan economy suffers fallout from the current world financial crisis. This will need careful pro-active handling through client risk classification and prioritisation of effort in partnership with the client's bank in order to safeguard the loan guarantee deposits.

Knowing customers well and being pro-active in supporting them is essential for maintaining both client repayment discipline and in improving flagging business owner enthusiasm through tougher times. With enough work currently amongst the existing clients in arrears to keep the business advisory staff full time engaged, at least two more experienced staff, preferably with bank loan officer backgrounds should be sought ahead of more problems occurring.

A recoveries officer has been appointed to recover money from persons with foreclosed accounts. This officer was on a three month training course in New Zealand during the time of the review and his capacity could not be assessed. It is apparent however that he is paying his way through having already recovered a significant amount from clients whose loans were foreclosed and guarantees paid out.

Recoveries action is a last resort when all else has failed. Banks normally try to divorce recovery activity from the regular pro-active normal business activities, to the extent that if a major bad debt problem has occurred, the entire bad debt portfolio is usually transferred out to another company or division for special recovery / resolution management.

Drastic action such as this may be required should the “ADB” portfolio fall into more serious arrears over the next year or so. Transfer of this debt to the Samoa Government’s Development Bank may be the best way to ensure maximum recovery of debts and to avoid the real danger of SBEC officer’s becoming recognised in the villages as debt collectors rather than business mentors.

Recommendation:

That the Director and Staff receive support and mentoring from a Business Development Advisor to be attached to SBEC for an 18month period.

6.5 Sustainability Options:

As a business mentoring, educational facility targeting small businesses amongst people with few assets, SBEC will never become financially self-sustaining. The measurement of sustainability will be in the success of the businesses it develops and its ability to preserve its guarantee fund(s).

In assessing SBEC’s Sustainability Options, a scorecard for its Critical Success Factors has been developed and is assessed as follows:

Critical Success Factor	Assessed Performance
A commercial approach to SBEC’s governance, operational and financial management.	<p>SBEC’s governance has been ineffective in key areas. The board has presided over three years of significant losses yet its strategic and operational plans focus little attention to the underlying problems. SBEC has developed no clear strategy following the end of the ADB program’s huge push on its resources, a situation that was foreseeable and should have been resolved in advance.</p> <p>As previously stated, this is not intended as a judgement on the abilities of individual board members, who are capable people in their own right, some of whom are known to have been very helpful to the director. It is a criticism of the constitutional framework within the Trust Deed.</p> <p>A smaller more focussed board, meeting more regularly and being provided with better management information is required to lead SBEC into the future.</p>
Competent, professional staff, customer oriented, with up to date skills and job satisfaction.	<p>Staff want to do a good job but are struggling with the workload. Small business management is hard work in places like Samoa and special skills and time are required to properly assist clients. SBEC has become a quasi-development bank without the resources or skills of a bank and staff moral and motivation as a result is not what it</p>

should be.

Provision of some extra experienced staff to help better service the client base and close mentoring and guidance by an experience Business Development Advisor is recommended to assist the director, boost confidence, output and morale.

Delivery of products and services that meet customer's changing requirements and assisting them to blend business with culture.

The pressure of recent expansion has reduced the ability of SBEC to deliver the range of services that it should and could be doing. Its recent focus has been on processing loan applications and it has been a struggle to meet client's changing needs. SBEC has done an excellent job in developing business concepts that take into account cultural pressures, (such as the pressure to give and share apparent wealth, and the difficulties of saying *NO* to family and friends who do not appreciate the needs of businesses to build assets), but ongoing mentoring is just as important to help support and re-enforce this amongst its newer customers.

SBEC has good trainers, good facilities but could better utilise its business advisers to also assist in training activities which need to reach out to groups of existing clients. SBEC has the materials and capability, but needs the time prioritised to do this. Reducing the targets for new lending will provide the opportunity to do this.

Financial Viability

Arrears and potential guarantee losses aside, the current most critical issue affecting SBEC's sustainability is its own financial viability.

The table on the following page presents and compares a summary of SBEC's accounts for the past five years, the five year average and the deficit budget for 2008/09 as approved by directors. The figures and layout is as per the accounts.

SBEC Accounts Analysis

Year Ending 30th June	2004	2005	2006	2007	2008	5yr	2009
	Actual	Actual	Actual	Actual	Actual	Average	Budget
INCOME							
Training	80,088	72,837	32,416	63,866	67,336	63,309	66,000
NZSLGS Fees	3,023	2,479	2,590	4,063	-	2,431	10,000
SBLGS Fees	19,866	17,403	24,733	95,575	138,434	59,202	100,000
SBDF Monitoring / Follow up	6,524	14,936	4,369	8,395	-	6,845	11,400
ADB Training - Fees	2,310	3,910	4,505	13,420	-	4,829	12,000
Hireage	-	345	50	615	11,354	2,473	28,000
Expense Recovery	-	8,454	8,272	8,542	27,603	10,574	-
Interest from SBEC Term Deposits	6,361	5,274	8,286	8,753	4,300	6,595	2,000
Consultancy and PS Admin	-	-	-	15,065	42,668	11,547	44,000
SBLGS Recovery ex Banks	-	-	-	145,850	-	29,170	-
Other Income	31,710	3,332	680	461	777	7,392	-
Gain / Loss on Asset Disposal	600	-	18,250	-	-	3,770	-
Income - Core Business	150,482	128,970	104,152	364,605	292,472	208,136	273,400
GRANTS							
NZAID Grant	350,000	450,000	337,500	337,500	337,500	362,500	337,500
GS Grant	150,000	150,000	150,000	150,000	150,000	150,000	200,000
Total Grants	500,000	600,000	487,500	487,500	487,500	512,500	537,500
TOTAL INCOME	650,482	728,970	591,652	852,105	779,972	720,636	810,900
Grant as% of Income	76.9%	82.3%	82.4%	57.2%	62.5%	71.1%	66.3%
Operational Costs - Main Office							
Advertising & Promotions	7,041	4,225	5,940	11,068	2,343	6,123	6,900
Occupancy Costs	74,792	46,652	49,672	49,817	145,483	73,283	149,600
Communications	17,929	19,779	20,980	25,340	46,723	26,150	45,750
General Administration	129,886	79,120	84,026	66,752	42,963	80,550	46,400
Financial Expenses	14,497	11,633	12,148	46,137	18,626	20,608	82,400
R&M	9,142	7,179	3,467	15,981	25,369	12,228	17,200
Professional Services	7,671	13,474	5,400	5,460	2,380	6,877	8,000
Training Costs	36,583	57,107	25,853	41,128	21,660	36,466	29,900
Board Costs	-	3,913	8,935	14,233	8,494	7,115	11,900
Travel and Accomodation (incl Vehicle)	68,115	67,189	64,204	107,937	170,684	95,626	130,340
Staff Costs	276,842	252,012	342,995	375,574	431,917	335,868	483,800
Consultancy	6,241	17,165	2,445	22,800	24,764	14,683	18,400
Staff Training	2,560	3,874	5,489	6,490	13,638	6,410	13,800
Operational Costs - Savaii	12,423	12,062	15,241	47,905	-	17,526	46,100
	663,723	595,384	646,796	836,622	955,044	739,514	1,090,490
Depreciation	-	-	-	-	66,531	13,306	-
Total Expenses	663,723	595,384	646,796	836,622	1,021,575	752,820	1,090,490
Surplus/Deficit	- 13,241	133,587	- 55,144	15,484	- 241,603	32,183	- 279,590
Staff as % of Expenses	41.7%	42.3%	53.0%	44.9%	45.2%	45.4%	44.4%
Staff as % of Income	42.6%	34.6%	58.0%	44.1%	55.4%	46.6%	59.7%
Occupancy Costs as % of Expenses	11.3%	7.8%	7.7%	6.0%	15.2%	9.9%	13.7%
Travel/ Vehicle as % of Expenses	10.3%	11.3%	9.9%	12.9%	17.9%	12.9%	12.0%

SBEC Balance Sheet:**SBEC Balance Sheet - as at 30 June 2008 and 2007**

	2008	2007
Accumulated Funds		
Capital	\$ 969,789	\$ 936,512
Accumulated surplus/deficit	-\$ 68,228	\$ 173,374
	\$ 901,561	\$ 1,109,886
Current Assets		
Cash on Hand and Bank	\$ 5,249	\$ 84,315
Term Deposits (SBEC's)	\$ 38,464	\$ 176,335
Receivables and prepayments	\$ 66,243	\$ 56,967
	\$ 109,958	\$ 317,617
Current Liabilities		
Creditors and Accruals	\$ 21,370	\$ 30,146
	\$ 88,588	\$ 287,471
Working Capital		
Non Current Assets		
Term Deposits - SLGS	\$ 636,452	\$ 642,549
Term Deposits - ADB recoveries	\$ 11,763	
Fixed Assets	\$ 164,758	\$ 179,866
	\$ 812,973	\$ 822,415
	\$ 901,561	\$ 1,109,886

Notes to the accounts analysis and Balance sheet:

1. The presentation of the ADB training fees and Savaii operational costs in the accounts is inconsistent. In 2008, these costs were still incurred but not separated out as before.
2. Hireage is the hiring of SBEC training rooms and equipment by other organisations.
3. Staff Costs include salaries, National Provident Fund, ACC, PAYE, and staff bonuses.
4. Grants from NZAID and the Government of Samoa have provided 70% of SBEC's income over the past five years.
5. Operational Expenses have risen from around \$600,000 per year to virtually \$1million per annum over the period.
6. Staff costs represent the bulk of costs with 45% in Salaries and travel and accommodation expenses (including overseas travel) of a further 13%.
7. Accommodation (premises) costs have risen sharply as a result of shifting into more suitable premises in both Apia and Savaii.
8. Significant operational losses have been sustained in each of the past three years.
9. A loss in 2007 was disguised by the inclusion of \$145,850 recoveries from the Small Business Loan Guarantee Scheme. This was essentially a refund from the guarantee deposits for loans foreclosed in earlier years but actually paid out from SBEC's own funds as opposed to the deposits held for this purpose. This recovery was actioned as a means to obtain cash to meet operational expenses.

10. A loss of \$241,000 was sustained last year, depleting SBEC's reserves. An even larger loss of \$279,480 has been forecast for this year and although some additional consultancy income is possible, a loss of at least \$150,000 would seem likely to eventuate and needs to be covered through a combination of expenditure reduction, increased consulting and other revenues and increased donor inputs from either NZAID and / or the Government of Samoa.
11. Last years loss in the balance sheet has resulted in the reduction of accumulated funds from \$1.1m to \$900k as reflected in the reduction in cash, deposits and net receivables.

Since the advent of the ADB program, increased costs to meet the expanded business volume have exceeded the Government's contribution of \$150,000 per year and the re-imburement of direct training costs received from the ADB program.

With the size and state of the current client loan guarantee portfolio, there are few obvious places from which any significant savings may occur. More experienced staff are required, not less, so few savings may be made in the staff area. In fact an additional \$100,000 per annum for two more experienced business Advisors and their transport related costs is required.

International travel could be reduced. SBEC's spending priority would seem better focussed in the next few years to maintaining its own business, not promoting itself as a regional model.

After putting up with sub optimal facilities for many years, SBEC has now obtained much more suitable premises for its offices and training programs. This has come at additional cost but can be alleviated to some extent through use – eg the Apia facilities are being shared with the Chamber of Commerce and training facilities in both islands are available for hire to other organisations for conferences and workshops.

The need for double cab, 4WD Toyota Hilux vehicles is questionable. They are expensive to buy, have high running costs, and of questionable need (the review team visited over 60 clients, all but one of which was reached by a small and much more economical 2WD rental car). Additional and replacement vehicles should be subject to greater cost/benefit justification.

SBEC's fees for its training or advisory services cannot cover its costs. SBEC should target earning 25 – 30% of its income from commercial services such as consultancies, commercial training programs, hireage of its training / meeting facilities and from loan guarantee fees.

Indicative Average Budget:

An indicative, balanced, future budget below has been extrapolated from the five year accounts analysis and current budget to indicate the likely situation for SBEC into the foreseeable future. The budget indicates that \$700,000 in support grants will be required to breakeven, and does not include one off capital purchases such as a new vehicle which will need to be funded by further grant / reduction in expenditure or through a lease / loan arrangement.

Indicative "Average" Budget

Income	Training		\$ 70,000	
	Guarantee Fees		\$ 60,000	
	Consultancy & PS Admin		\$ 85,000	
	Hireage		\$ 30,000	
	Total Earned Income			\$ 245,000
	Grants	NZAID	\$ 350,000	
		Government of Samoa	\$ 350,000	
				\$ 700,000
Total Income				\$ 945,000
Expenses	Advertising and Promotions		\$ 5,000	
	Occupancy		\$ 150,000	
	Communications		\$ 25,000	
	General Administration		\$ 45,000	
	Financial Expenses		\$ 20,000	
	R&M		\$ 15,000	
	Professional Services		\$ 5,000	
	Training Costs		\$ 30,000	
	Board Costs		\$ 10,000	
	Travel & Accomodation		\$ 65,000	
	Staff Costs		\$ 550,000	
	Savaaii Operational Costs		\$ 25,000	
				\$ 945,000

Comments on the "Average" Budget:**Income:**

- The budgeted \$245,000 earned revenue is less than earned last year, and below the \$273,400 initially budgeted for this year. It allows for a reduction in guarantee fees as a result of reduced lending and could be exceeded from training and consultancy work.
- The required grant funding of \$700,000 exceeds the current level comprising \$345,000 ex NZAID and \$200,000 ex the Government of Samoa. A 50:50 split would require the Government of Samoa to increase its contribution by \$150,000 per year, and represents the minimum amount required to enable SBEC to meet its commitments and stay in business this 2008/09 financial year.

Expenses:

- The majority of the costs are based on recent actual results and in total are on par with last years reported expenditure levels but below this years initial (deficit) budget.
- Any increases to expenditure will need to come from increased grants and /or earnings. Compared with this year's deficit budget, a serious effort to control costs will be required.

- The budget does not include the costs associated with the employment of a Business Development Advisor and organisational restructuring, including additional board and staff training during this process. This will require its own budget and external support.

Grant Justification

There are two main reasons why the increased level of grant support is justified.

- SBEC still provides a very useful role in support of small business development. In spite of the problems highlighted, SBEC's economic and social impact justifies ongoing and increased investment by the Samoan Government. To allow it to fail without a strategy to replace its activities in some way will have an adverse and significant impact on the Samoan economy.
- There is the need to safeguard the \$10m loan guarantee deposits borrowed from the ADB. A reluctance to fund SBEC to the increased level will require a drastic re-organisation of SBEC's operations, reduction of staff numbers and services and potential greater losses from the loan guarantee deposits as a result of SBEC being unable to adequately service its clients.

Recommendations:

That the Government of Samoa agrees to underwrite the operational costs of SBEC for at least the next two years while a business re-organisation process is undertaken.

That SBEC implement an improved monthly cash flow forecasting system in line with sound business management practice.

7 Future Strategic Options for SBEC

7.1 SBEC Sustainability Paper 2008

A paper presented to the Board of Trustees and Government, dated April 2008, raises the general issues as seen by the Director and presents the conclusion of an impact study on clients undertaken in July 2007. The issues raised are endorsed and comments on the options suggested for SBEC in that paper are as follows:

1 Continue the Status Quo:

As the director concluded, continuing with the status quo, ie with just the current NZAID and Government grant is not a viable option as the costs of maintaining the increased client base exceed SBEC's ability to fund. SBEC must either receive increased funding or substantially reduce the scale of its operations within the next few months.

2 Increased Government Funding:

Given that the need for increased funding has been accentuated by the Government's "ADB" Business Development Program, the amount of guarantee funds at risk and the positive benefits to the Samoan Economy of recent business developments, it would seem that the Samoan Government has little choice but to further support SBEC, for the short to medium term at least.

Although the impact paper does not indicate just how much will be required, this review finds that a minimum of \$700,000pa external funding will be required to keep SBEC in business. Currently NZAID provides approximately \$350,000 per year, so the shortfall is a similar amount, ie an increase of \$150,000 over the government's current (and increased) budget support of \$200,000. This assumes that NZAID will want to continue its support to the at least the same level as previously.

3 SBEC to Become a Government Corporation:

Speculation was heard that because of concerns re SBEC's organisational competence raised by the PMU, that the Government may be considering moving SBEC within the Ministry of Commerce, Industry and Labour or converting it to a fully funded Crown Corporation. The truth of this has not been ascertained.

There are many ways that support to small businesses may be provided. Small business advisory centres have been attached to training facilities (e.g. Polytechs), Government Departments and Development Banks. While this may save some overhead costs, stand-alone centres such as SBEC are considered the best option, particularly if constituted as a non profit organization for the following reason:

- They can have a dedicated board and staff members employed to focus on the development and promotion of the centre's activities in an independent and commercial manner without being diverted to other duties.
- They provide a 'transparent' and independent agency that can source outside aid and support for training /educational/ capacity building activities and other resources.
- They can be seen as independent to government, allowing private business to approach and discuss business plans or concerns in confidence.
- They can service clients of all banks.
- Banks are less likely to participate in a guarantee scheme if operated by a government department where conflicts of interest, impartiality and confidentiality may be questioned.

4) SBEC to be Established as a Profit Oriented Organisation:

This option provides for the Government of Samoa to withdraw its funding and to leave SBEC to establish a profitable business model. This is an unrealistic expectation as the essence of SBEC's services is to service the small and disadvantaged business people in Samoa which is just not commercially feasible. Pacific Development Banks used to do this but were forced to drop it as un-affordable once they were required to become profit oriented.

The need is to assess SBEC's future structure and required outputs and to fund it sufficiently, leaving a 25 - 30% gap to be filled by profit making activity. Needless to say, the organisation

should still be run under commercial principles of Governance and Management. Not only is this financially responsible, but SBEC is a business development model. It should be a leader in the area of organisational governance and management as an example to its clients and regional observers.

5) Transfer Management of the ADB Guarantee Scheme to the Development Bank

If SBEC is forced to retract its operations through insufficient funding, one option for safeguarding the Government's "ADB" deposits may be to transfer this business (and its costs) to the Development Bank of Samoa.

Any costs savings would be limited to the extent that DBS may be able to more efficiently manage the guarantees within its existing business structure and activities, and this is not certain.

Passing the "ADB" business to DBS would leave SBEC left to re-organise back into the business mentoring organisation it used to be with the reduced (NZ AID) guarantee fund and would prompt the DBS to become more proactive in SME support.

Whilst this option has its attractions from the point of view of consolidating SBEC's operations, it would seem an unlikely reality and is not recommended unless the government was to withdraw its support.

5) Cease Operations:

There is always the option to close SBEC down. This would leave a huge void in the servicing of small business in Samoa and could not be justified on the wider economics of the decision. Someone would have to takeover management of the loan guarantee scheme and while this could in theory be transferred to the Development Bank to manage, the Bank's directors would quite rightly insist on sufficient funds to service the clients and banks until at least the loans were repaid and the Guarantee funds returned either to government or a new body to manage.

7.2 The Recommended Option:

Findings:

- 1 The need remains for a small business supporting organisation in Samoa and there is ample economic and social justification for it.
- 2 The aims and objectives of SBEC align with the Samoan Government's Strategic Development Strategy and it is still capable of delivering a worthwhile level of results.
- 3 SBEC has been forced to grow at a pace beyond its capacity in order to meet the demands of the Government's ambitious ADB funded Business Development Program. SBEC has become a loan processing "factory", a quasi-development bank and is not the business nurturing organisation that it once was.

- 4 There is an urgent need to consolidate and take control of its business through governance and management reforms and to work more closely in support of the new and existing clients.
- 5 There is an urgent need for additional funding to keep it in business.
- 6 There is a need to manage and safeguard the loan guarantee funds. Problems in the loan portfolio are likely to get worse before they get better as a result of the rapid boost in new businesses over the past three years and the likely adverse affects on them from the current world economic crisis. There is a need to recognise and prepare pro-actively for this, not wait to see if it will happen.
- 7 The board and management need help in installing a more suitable system of governance and an improved M&E framework.

Recommendation:

That SBEC undergo a process of Organisational Restructuring and that a Business Development Advisor be appointed to work with the SBEC Board, management and Staff of SBEC fulltime for a period of 6 months followed by part time inputs of 2 -3 weeks every three months for a period of twelve months.

This would be subject to:

- 1 The Government of Samoa agreeing to meet the operational deficits for at least the period the advisor is employed.
- 2 NZAID or other donor agreeing to meet the cost of finding and employing a suitable Business Development Advisor. (A semi retired banker or business person such as those employed by NZAID with its successful Development Bank restructuring projects in the late 1990's - eg Development Bank of Kiribati).
- 3 The Trust Deed being amended to establish a new Board of Trustees with a maximum of five directors chosen for their willingness and ability to direct the operations of SBEC on a commercially oriented basis. Remuneration for directors should fairly compensate them for their efforts.
- 4 Appointed directors agreeing to undertake a development program, led by the Advisor and utilising the programs available from organisations such as the Samoan Institute of Directors as applicable.
- 5 The establishment of an improved, commercially focussed, M&E management and reporting framework led by the advisor.
- 6 SBEC's activities to be focussed on better servicing its current clients over at least the next eighteen months.
- 7 SBEC to cease active promotion of new business loans and to process only those businesses deemed viable and referred from the banks for guarantees. Additional loans for existing client business expansion should be well scrutinised for market potential, and the need for the expanded services by the local community. Propositions of doubtful merit and those who may have adverse impact on competitors who may also be SBEC clients (eg retail stores) should be declined. This should continue until SBEC is deemed ready to manage a further increase to its client base.
- 8 The employment (or secondment) of two additional experienced business advisors with loans officer / banking experience to help take better control of the arrears

situation through a full risk assessment and prioritisation of clients for review based on a banking type risk classification process.

Options for NZAID

SBEC is struggling with the aftermath of a period of significant growth. It requires “time out” to consolidate and re-establish control of its operations and prepare for possibly more difficult times ahead.

The concept and reason for its existence remains as valid as it was when first started. The opportunity for NZAID to gradually withdraw its support was presented following the 2002 review when the ADB project was about to commence and the Government of Samoa was beginning to take some ownership.

NZAID elected to stay with SBEC because of its long association and because of its success in delivering private sector development services to the poorer and disadvantaged people of Samoa. The client survey and study of the economic and social benefits confirm very positive benefits for the money spent and there are now over seven hundred active businesses in operation as a result of SBEC’s existence.

Now that it faces “growth” difficulties, it is not the time to walk away.

The period of restructuring recommended requires certainty of funding, for both the operational costs and for a Business Development Advisor to lead and mentor the required changes to assert a more solid system of governance.

Assuming that NZAID will continue to assist, the options open include:

- 1 Simply maintaining the current level of assistance, subject to the Samoan Government increasing its support for operational expenses (to \$350,000pa) and funding the recommended program of assistance.
- 2 Maintaining existing operational funding and also offering to fund the recommended restructuring program
- 3 Offering to fund the restructuring program only subject to the Samoan Government taking over responsibility for funding the entire operational requirement of \$700,000pa for the next two years.

With the level of Government money at stake through the ADB program, it would seem that option three would be a fair approach, ie that the Government of Samoa take responsibility for SBEC’s operational requirements with NZAID providing the management and restructuring support.

The Restructuring Program:

The restructuring program will require the conditions outlined in the previous recommendation to be met and the employment of a (senior) Business Development Advisor.

The Business Development Advisor would need to have the following minimum qualifications and experience:

- A Degree or suitable qualification in Commerce or Business Management
- At least ten years senior management experience in (preferably) a Bank or suitable Private Sector Business
- Experience working in the Pacific Region

The Advisor's Terms of Reference would include:

- 1 Assist with the restructuring of the SBEC Board of Trustees and organising suitable professional development programs for the trustees to ensure they are well versed in the requirements and responsibilities of their positions.
- 2 Revise SBEC's strategic plan with a focus on consolidation and support for the existing client base.
- 3 Develop an integrated M&E framework and effective monthly KPI management information reporting system for effective operational management
- 4 Develop effective budget management processes with particular regard to monthly cash flow and guarantee fund management.
- 5 Implement a client risk classification system to enable clients at risk to be prioritised for follow-up support
- 6 Review SBEC's organisational structure and develop better team work to more efficiently service the client base. Review job descriptions, assess staff skills and training needs, organise and implement appropriate training.
- 7 Review SBEC's Policy and Procedure manuals for relevance to current requirements

Appendices:

- 1 Terms of Reference**
- 2 Survey Questionnaire**
- 3 List of Persons Met**
- 4 Economic Analysis Data Sheets**

Appendix 1

Terms of Reference

Rationale for the SBEC Impact Assessment

The main objective (see also Section 4) of this study is to assess SBEC's role and contribution to its clients, stakeholders and to the country. This study will assess the services provided by SBEC and recommend how SBEC can/should continue to expand its roles and responsibilities for the next five to ten years, including the support needed to do so. The findings and recommendations of the study will assist SBEC to more effectively identify their strategic goals and implementation plans.

SBEC has been made operational primarily through funding from the New Zealand Government (an annual grant of SAT337,500) under the bilateral Overseas Development Assistance Programme to Samoa, administered through NZAID, and grants from the Government of Samoa (SAT150,000). SBEC also received some support from the Asian Development Bank. In early 2008, NZAID agreed to review its future funding options for SBEC given that the ADB project will end in September 2008. The GoS has not made any commitments as to whether its annual grant would increase if all other funding ceases for SBEC's operations. This assessment will provide invaluable analytical and statistical information to help the GoS and donors to decide future support opportunities.

SBEC has been operational for more than ten years. Although a review of SBEC's Strategic Plan and a preliminary impact survey were undertaken in 2007, it is timely for a full assessment to be undertaken to provide data showing how SBEC has contributed to the economic and social development of small and micro businesses in Samoa.

This impact assessment will provide critical information on SBEC's:

- i) contribution to the economic development of Samoa through its business development services;
- ii) contribution to the economic and social development of small businesses and the private sector in Samoa inclusive of gender (male/female, adult/youth) and geographical coverage nationwide (rural/urban);
- iii) contribution in narrowing the poverty gap and contributing to the livelihoods of Samoan families, communities and organisations;
- iv) contribution and level of success as a capacity builder for emerging and existing businesses;
- v) contribution and level of success in engaging and coordinating with key Government Ministries and the private sector, and its interface with NGOs (particularly Women in Business Development Inc.), towards small business and private sector development in Samoa;
- vi) effectiveness in managing support/office operations given resource constraints and the expansion of its work, including how SBEC's support/office operations costs have impacted on the current SBEC budget; and the
- vii) sustainability of each of SBEC's current and planned services, and the Small Business Loan Guarantees Scheme in particular. (Issues vi and vii go to the heart of the overhead cost function.)

Scope

The impact assessment will consider a broad sample of SBEC's clients nationwide, from the year it was established, given: (a) the availability and information that can be compiled from SBEC's records/databases on its clients; (b) the amount of field data that can be gathered within the contract period for analysis; and (c) the quality of information that can be provided from other reports and statistics (government/non-government).

Objective

A comprehensive analytical and statistical assessment, based upon SBEC's past record of performance and results, to support the study's recommendations on the future sustainability of SBEC and its aims to meet the needs of Samoa's growing and expanding business environment.

Areas of focus

The impact assessment will have four areas of focus to address the issues raised in Section 2.4:

- the role of SBEC and the extent of its contribution to the economic livelihoods of small businesses in Samoa;
- the effectiveness of the services provided by SBEC to its clients and stakeholders;
- the efficiency of SBEC's operations, including costs associated with its overheads;
- the sustainability of SBEC's operations in the future.

Tasks

The consultants will be required to undertake the tasks listed under the four focus areas below.

Within approximately one week of the evaluation start date, the consultants will be required to submit a workplan and schedule that will accomplish the objectives of the study to SBEC and NZAID (Apia) for comment and agreement.

Role of SBEC and the extent of its contribution to the economic livelihoods of small businesses in Samoa

Undertake an economic impact analysis of SBEC clients and their contribution to the national economy (i.e. through banking systems, business licensing, employment/income generation and taxes).

Undertake a social impact analysis of how the work of SBEC contributes to the development and wellbeing of Samoan families, communities and organisations.

Effectiveness of the services provided by SBEC to its clients and stakeholders

Assess a broad sample of SBEC's clients and how their businesses have developed (or not) through SBEC's support. How does this compare with a sample of businesses not receiving SBEC services?

- a) SBEC business training services:
 - i) assess how SBEC's business training programmes have contributed to starting new businesses or enhanced existing businesses and organisations;

- ii) identify any additional business training that SBEC could provide to further support the development of SME businesses in Samoa;
 - iii) compare SBEC's business training programmes to other similar regional programmes targeting SMEs.
- b) Business advisory services:
- i) assess the monitoring and on-site advisory services provided directly to business clients.
- c) Small Business Loan Guarantee Scheme (SBLGS):
- i) assess the SBLGS and develop options to address existing and emerging concerns.
 - ii) review Memorandums of Understanding (MOUs) with banks (the business plans, business appraisals and monitoring work) with respect to the SBLGS.
- Consider:
- business appraisals within SBEC and the banks' appraisal processes;
 - loan portfolios by sector and linking the sectors to the national strategies and national economic indicators;
 - critical issues and concerns and the options available (e.g. loan recapitalisation/cost recovery) in light of SBEC's resources constraints (i.e. as a percentage of SBEC's overhead costs).

Assess SBEC's support of networking with other organisations in relation to SBEC's role and contributions, including the quality and effectiveness of that support and how it is seen and received by others, as follows.

- i) SBEC's role in private sector organisations and NGOs, the Chamber of Commerce, and Women in Business Development Inc., in particular;
- ii) SBEC's role in other Government and organisational projects.

Efficiency of SBEC's operations, including costs associated with its overheads and the Sustainability of SBEC's operations in the future

Assess SBEC's governance and administrative operations in terms of the level and quality of organisational and human resource capacity, efficiency, robustness, responsiveness, and resiliency to changes and challenges. Consider the:

- i) role and engagement of the Board of Trustees;
- ii) internal policies and procedures of SBEC;
- iii) capacity of the Director and staff to carry out SBEC's activities;
- iv) options for SBEC to address sustainability issues together with an assessment of the future commitments from funding sources.

Provide a draft report, including recommendations, to SBEC, NZAID and GoS (through the Ministry for Finance) for review and comment.

Present the findings of the study to SBEC, NZAID, GoS, and other key stakeholders, through a PowerPoint presentation.

Incorporate all agreed comments into the final report. Provide hard and electronic copies to SBEC, NZAID, and GoS.

Provide an approved, summarised version of the findings to be posted on the NZAID and SBEC websites, following relevant approval processes.

Methodology

NZAID values a participatory approach to evaluative activities which engage a range of stakeholders so that they may contribute to, and learn from, the review or study. The consultants will ensure that the principles of partnership are demonstrated throughout the assignment. While the consultants will select an appropriate methodology to assess the impact attributed to SBEC interventions (e.g. comparative and/or historical assessment of client/non-client histories), it is important that some key components are utilised.

- A desk review/research will include: an analysis of SBEC's strategic and corporate plans, and past reviews and documentation regarding SBEC's performance to date; the database on SBEC training and SBEC clients under the SBLGS; and any other reports/documentation prepared regarding SBEC's activities.
- Consultation and interviews with SBEC clients and stakeholders will take up the bulk of the assessment. The consultants will be provided with a list of SBEC clients and other key stakeholders to be consulted.
- Information and data compiled from the above will be analysed and presented in a draft report. The findings, conclusions and recommendations will be presented to SBEC Board of Trustees, GoS, donors and others (NGOs and private sector), as relevant, in a PowerPoint presentation. Agreed comments from relevant stakeholders will be incorporated into the final report. A separate summary of recommendations will support the study's findings.

It is planned that this study will take place from September, primarily in Samoa, with the report finalised by December 2008. (The economics aspect could be undertaken mostly offshore, with visits to Samoa at the beginning and end of the consultancy; the latter to assist in working up the final figures and report.)

Outputs

The consultants will provide the following outputs:

- i) Initial workplan and schedule submitted to SBEC and NZAID (Apia) within one week of impact study commencement.
- ii) An analytical and statistical assessment based upon SBEC's record of performance and results addressing the identified tasks in Section 5 (with consideration of the information also provided in Sections 2 to 6), presented in a draft report. The draft report is to be submitted to the SBEC Board of Trustees, NZAID, and the GoS (through the Ministry of Finance), for comment and feedback.
- iii) A PowerPoint presentation of key findings and recommendations to the SBEC Board of Trustees, GoS, NZAID, and other stakeholders (NGOs/private sector).
- iv) A final report, incorporating agreed comments from the key stakeholders. The consultants will provide five hard copies, and electronic copies (as requested), of the final report. It is expected that the consultants will be guided by the report format as defined in NZAID's *Guideline on the Structure of Review and Evaluation Reports* (to be provided by NZAID).

The report length should comprise no more than five (5) single spaced pages for the executive summary and generally between 30-40 single-spaced pages for the overall report. The report will include an executive summary; introduction, background, and purpose/objective of the impact assessment; methodology used; supporting analysis, including statistical analysis; summary of critical findings; and recommendations i.e. for SBEC, donors and other stakeholders, including a timeframe, budget, and a risk analysis (threats/mitigating measures). Appendices to the report will include the impact assessment Terms of Reference; consultants' report on tasks achieved and any remaining tasks still outstanding, with recommended actions for the latter; list of documents/databases assessed and results; list of stakeholder meetings or interviews conducted and a summary of compiled responses; and compilation of statistical information gathered to support the analysis undertaken, but not included in the body of the report.

- v) Summary version of the final report findings and recommendations to post on the SBEC and NZAID websites, following the appropriate approval processes.

Appendix 2

SBEC Survey Questionnaire - October 2008

1	Client Details	
1.1	Name	
1.2	Business Type:	Manufacturing / Service / Commerce & Trade / Farming / Fishing / Other _____
1.3	Initial Contact	
1.4	Loan Approved	
1.5	Amount Guaranteed	
1.6	Bank	
1.7	Loan Status	
1.8	Business Status	

2	SBEC			
2.1	How known?	Media / Other SBEC Client / "Word of Mouth" / Direct SBEC contact/ Other		
2.2	How Approached	Phone Call / Visit to office / Met SBEC staff in "Field" Other		
2.3	Stage of Business	Looking for Business Ideas	<input type="checkbox"/>	Comment
		Definite Proposal in Mind	<input type="checkbox"/>	
		Already started, seeking help	<input type="checkbox"/>	
		Expanding existing business	<input type="checkbox"/>	
		Starting another business	<input type="checkbox"/>	
2.4	Services Used	Business Training	<input type="checkbox"/>	Comment
		Business Plan	<input type="checkbox"/>	
		Loan Guarantee	<input type="checkbox"/>	
		SBEC Advisory Services	<input type="checkbox"/>	
2.5	Comments on Usefulness of Services Received	Business Training:		Satisfaction Score
		Marketing,		<input type="checkbox"/>
		Accounting,		<input type="checkbox"/>
		Human Resource Management,		<input type="checkbox"/>
		Production Technology		<input type="checkbox"/>
	Business Plan:		<input type="checkbox"/>	
	Loan Guarantee:		<input type="checkbox"/>	

	<p>SBEC Advisory Services: <input type="checkbox"/></p>
2.6 Suggestions for SBEC improvements or additional services.	
2.7 If there was no SBEC, what would you have done instead?	

3 Economic Impact																					
3.1 Base Line	Est. Income before SBEC \$ per week/month/year																				
If no business income before SBEC, what were the sources of income?	<table border="1"> <thead> <tr> <th></th> <th>B4</th> <th>Now</th> <th>Comments</th> </tr> </thead> <tbody> <tr> <td>Remittances</td> <td><input type="text"/></td> <td><input type="text"/></td> <td></td> </tr> <tr> <td>Working for Relatives</td> <td><input type="text"/></td> <td><input type="text"/></td> <td></td> </tr> <tr> <td>Paid Employment</td> <td><input type="text"/></td> <td><input type="text"/></td> <td></td> </tr> <tr> <td>Other</td> <td><input type="text"/></td> <td><input type="text"/></td> <td></td> </tr> </tbody> </table>		B4	Now	Comments	Remittances	<input type="text"/>	<input type="text"/>		Working for Relatives	<input type="text"/>	<input type="text"/>		Paid Employment	<input type="text"/>	<input type="text"/>		Other	<input type="text"/>	<input type="text"/>	
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	Working for Relatives	<input type="text"/>	<input type="text"/>																		
	Paid Employment	<input type="text"/>	<input type="text"/>																		
Other	<input type="text"/>	<input type="text"/>																			
3.2 Business Turnover	Gross Income \$ per week/month/year																				
3.3 Business Expenses	\$ per week/month/year																				
3.4 Net Business Income	\$ per week/month/year																				
3.5 Employment	<p>How many people employed? Comment</p> <table border="1"> <tbody> <tr> <td>a) Full Time</td> <td><input type="text"/></td> </tr> <tr> <td>b) Part Time</td> <td><input type="text"/></td> </tr> <tr> <td>c) Volunteer</td> <td><input type="text"/></td> </tr> <tr> <td>Total</td> <td><input type="text"/></td> </tr> </tbody> </table>	a) Full Time	<input type="text"/>	b) Part Time	<input type="text"/>	c) Volunteer	<input type="text"/>	Total	<input type="text"/>												
a) Full Time	<input type="text"/>																				
b) Part Time	<input type="text"/>																				
c) Volunteer	<input type="text"/>																				
Total	<input type="text"/>																				
3.6 Wages paid	\$ per week/month/year																				
3.7 Economic Impact on Other people and businesses.	Who else does the business impact on <i>economically</i> (positive and negative)																				

4 Social Impact	
4.1 What has been the social impact of the business on:	
Owner	
Immediate family	
Extended Family	
Local Community	
4.2 Access to services: Has there been any improvements to access to the following services as a result of the business:	
Health	
Clean water	
Education	
Transport	
Electricity	
Other of Local Significance	

<p>4.3 What are the priorities for business profits? (1= Highest, 7= Lowest)</p> <p>Business Reinvestment <input type="text"/></p> <p>Church <input type="text"/></p> <p>Education <input type="text"/></p> <p>Faalavelave <input type="text"/></p> <p>Food <input type="text"/></p> <p>Loan Repayment/Savings <input type="text"/></p> <p>Village Commitments <input type="text"/></p>	
<p>4.4 Social Impact on other people - family, local community and Samoa.</p>	<p>Who else does the business impact on <i>socially</i> (positive and negative)</p>

<p>5 The Business Environment in Samoa</p>	
<p>5.1 What have been the main barriers to starting and operating this business?</p>	<p>Eg Access to Finance, Access to Markets, Business Management Knowledge, Cultural, Grant Dependency, Skilled Labour Requirements, Product Technical Knowledge, Uncompetitive Products,</p>

<p>6 Future Plans</p>	
<p>Where do you see the business in 5 years time?</p> <p>What is the impact on the rising cost of energy on the business?</p>	

Appendix 3

List of Persons Met

Leota Laki Lamositele-Sio	Project Manager	ADB Small Business Project Management Unit
Margaret Sapolu	PMU Assistant	ADB Small Business Project Management Unit
Peter Johnson	Managing Director	ANZ & SBEC Board Member
Ane L Moananu	Program Manger	EU Microprojects Program
Elisapeta Eteuati	ACEO	Ministry of Commerce Industry & Labour
Hon. Fiame Naomi	Minister	Ministry of Women, Culture & Social Development
Luagalau Foisaga Eteuati-Shon	CEO	Ministry of Women, Culture & Social Development
Noumea Simi	Assistant Chief Executive Officer	Minstry of Finance
Doug Crombie	CEO	National Bank of Samoa
HE Caroline Bilkey	High Commissioner	New Zealand High Commission
Kilali Alailima	NZAID	NZ High Commission
Raymond Schuster	Lawyer	Raymond Schuster Law Office.
Sina Retzlaff-Lima	President	Samoa Chamber of Commerce
Ray Ah Liki	Managing Director	Samoa Commercial Bank
Samuelu Lolagi	Manager - Small Loans	Samoa Commercial Bank
Fuimono Falefa Lima	General Manager	Samoa Development Bank
Saumani Wongsin	AGM Finance & Admin	Samoa Development Bank
Aukusitino Rasch	AGM Loans Operations	Samoa Development Bank + SBEC Board Member
Sealiimalietoa Melepone Isara	CEO	Samoa Insitute of Directors Inc.
Alatina Ioelu	Business Advisor - Upolu	SBEC
Atuaisaute Misipati	Business Advisor - Upolu	SBEC
Fala Tiumalu Tupo	Office Assistant - Savaii	SBEC
Goretti Godinet	Manager - Business Advisory Unit	SBEC
Margaret Malua	Director	SBEC
Senele Tualualelei	Business Trainer	SBEC
Tevita Tariu	Business Advisor - Savaii	SBEC
Klause Stunzner Jr	Private Sector Representative	SBEC Board of Trustees
Letoa Henry Jenkins	Chairperson	SBEC Board of Trustees
Aaron Pili	General Manager	South Pacific Business Development
Jason Green	Manager	Westpac & SBEC Board Member

Appendix 4.1- Economic Impact Cashflow 1
Economic Impact of SBEC Services and Loan Gurantee Scheme- cont'd
Cashflow - Inflation adjusted values (\$000s)

Year ending June	-15 94	-14 95	-13 96	-12 97	-11 98	-10 99	-9 2000	-8 2001	-7 2002	-6 2003	-5 2004	-4 2005	-3 2006	-2 2007	-1 2008	
Average Annual rate of inflation¹	12%	-3%	5%	7%	2%	0%	1%	4%	8%	0%	16%	2%	4%	6%	3%	
Inflation Index	1.91	1.70	1.75	1.66	1.55	1.52	1.52	1.50	1.45	1.34	1.34	1.15	1.13	1.09	1.03	
Funding Costs	PV															
Donors	NZD															
NZAID	12,365	456	1,360	1,296	881	490	616	575	563	542	468	468	517	389	375	355
ADB	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GoS	4,124	0	0	0	0	0	0	0	0	201	201	172	169	163	206	
NAZID Loan Gurantee Deposit Grant	875	875	0	0	0	0	0	0	0	0	0	0	0	0	0	
ADB Loan Gurantee Deposit Grant	13,380	0	0	0	0	0	0	0	0	13,380	0	0	0	0	0	
Loan Gurantee Salvage Value	- 15,552	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total Programme Costs	26,619	1,331	1,331	1,296	881	490	616	575	563	542	14,049	668	690	558	538	561
Increased Income Benefits from SBEC LGS																
Income Survey Impact- Economic Benefit	107,996	34	64	-296	199	210	232	321	430	2,872	5,574	5,701	6,632	10,178	11,989	11,511
Total Benefits to Samoan SMEs	107,996	34	64	-296	199	210	232	321	430	2,872	5,574	5,701	6,632	10,178	11,989	11,511
Total Net Benefits	81,377	-1,298	-1,268	-1,592	-681	-279	-384	-254	-133	2,329	-8,475	5,033	5,942	9,620	11,451	10,950
NPV	81,377															
Net Benefit/Cost	3.06															
Net Benefit/Cost- NZAID	6.58															
Net Benefit/Cost- GoS	19.73															
Discount Rate	10%															

Appendix 4.2- Impact Worksheet 1

Economic Impact of SBEC's Loan Guarantee Fund

Impact Worksheet

Cashflow Forecast year	-15	-14	-13	-12	-11	-10	-9	-8	-7	-6	-5	-4	-3	-2	-1
Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008

NZAID LOAN GUARANTEE FUND

Impact profile over 15 years	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Impact	Impact	100%	89%	78%	67%	56%	44%	33%	22%	11%	0%					

Profile of Clients and Portfolio

Opening number of loans		5	5	10	15	20	25	32	48	50	72	71	64	59	60	62
New loans disbursed		5	5	5	5	5	7	16	22	43	29	23	22	26	27	14
Loans cleared									16	16	24	23	21	20	20	20
# loans foreclosed									4	4	6	6	6	5	5	6
Closing number of loans		5	10	15	20	25	32	48	50	72	71	64	59	60	62	50

Loan and G'tee Fund Value (\$000s)

Annual value of loans disbursed		29	29	29	29	29	41	94	129	251	170	134	129	152	158	82
Value of loans cleared		-	-	-	-	-	-	-	93	96	139	136	123	114	116	120
Value of loans foreclosed		- 3 -	- 3 -	- 3 -	- 3 -	- 3 -	- 4 -	- 8 -	- 23 -	- 56 -	- 21 -	- 1 -	- 85 -	- 15 -	- 22 -	- 45
Total value of loans portfolio		27	53	80	106	133	170	255	268	368	377	374	294	317	337	254
Unrecovered loans		- 3 -	- 3 -	- 3 -	- 3 -	- 3 -	- 4 -	- 8 -	- 23 -	- 56 -	- 21 -	- 1 -	- 85 -	- 15 -	- 22 -	- 45

Opening balance of guarantee fund			459	100	191	274	349	430	507	428	494	349	270	195	189	201
less called guarantees		-	-	9	17	25	31	39	46	39	44	31	24	18	17	18
plus recovered calls		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
plus interest		-	23	5	9	12	16	20	23	19	22	16	12	9	9	9
Closing balance of guarantee fund		-	482	96	183	262	334	411	484	409	472	334	258	186	181	192

Guarantees provided opening balance		-	-	100	191	274	349	430	507	428	494	349	270	195	189	201
Guaranteed portion of new loans		-	100	100	100	100	112	116	142	217	82	79	63	82	94	45
Value of guarantee cleared		-	-	-	-	-	-	-	175	112	182	128	113	70	65	94
Guarantees called on foreclosed loans		-	-	9	17	25	31	39	46	39	44	31	24	18	17	18
Recovery		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance of Guarantees		-	100	191	274	349	430	507	428	494	349	270	195	189	201	134

Total Value of Impact		51	97	136	171	199	242	369	540	900	1,069	1,148	1,197	1,267	1,324	1,223
Less change in Guarantee balance			-	386	87	79	72	77	73	- 75	63	- 138	- 76	- 71	- 5	11

Key Assumptions

Average weekly impact (net-benefit)	\$ 1,276
Annual impact of SBEC loan plus service	\$60,989
Average loan size	\$ 5,846
Avg guaranteed portion	\$ 4,503
Income impact per Tala of loan	\$ 1.75
Income impact per Tala loan guaranteed	\$ 3.63
Average Loan defaults (1995-2008)	9%

Key Assumptions

Forecast rate of Foreclosure (2008-2024)	30%
Future interest on G'tee balance	5%
Recovery rate from foreclosed loans	20%
% of impact directly attributable to SBEC	66%
Loan clearance rate (% of total)	33%
Future % of loans guaranteed	72%
NZAID average annual number of new loan:	15

Appendix 4.2 - Impact Worksheet 3

ADB LOAN GUARANTEE FUND

Impact profile over 15 years	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
		100%	89%	78%	67%	56%	44%	33%	22%	11%	0%					
Profile of Clients and Portfolio																
Opening number of loans			-	-	-	-	-	-	-	-	110	173	140	146	284	311
New loans disbursed										110	109	40	65	199	146	54
Loans cleared									-	36	57	46	48	94	103	
# loans foreclosed									-	-	10	16	13	13	26	28
Closing number of loans										110	173	140	146	284	311	234
Loan and G'tee Fund Value (\$000s)																
Annual value of loans disbursed										2,037	2,019	741	1,204	3,685	2,704	1,000
Value of loans cleared										-	672	1,056	857	894	1,735	1,899
Value of loans foreclosed															243	90
Total value of loans portfolio										2,037	3,384	3,068	3,415	6,206	7,419	6,610
Unrecovered loans																
Opening balance of guarantee fund										10,000	10,500	10,883	11,206	11,591	11,984	12,205
less called guarantees										-	135	210	167	178	360	447
plus recovered calls										-	-	-	-	-	-	87
plus interest										500	518	534	552	571	581	588
Closing balance of guarantee fund										10,500	10,883	11,206	11,591	11,984	12,205	12,433
Guarantees provided opening balance										-	1,504	2,338	1,856	1,974	4,004	4,963
Guaranteed portion of new loans										1,504	1,268	533	750	2,492	2,255	796
Value of guarantee cleared											299	805	466	284	936	1,425
Guarantees called on foreclosed loans										-	135	210	167	178	360	447
Recovery																87
Closing Balance of Guarantees										1,504	2,338	1,856	1,974	4,004	4,963	3,974
SBEC Impact																
Total Value of Impact										3,565	6,702	7,209	8,383	13,666	16,515	15,856
Less change in guarantee fund balance										10,500	383	323	385	393	221	228
NZAID Fund- Value of Impact		51	97	136	171	199	242	369	540	900	1,069	1,148	1,197	1,267	1,324	1,223
ADB Fund - Value of Impact		-	-	-	-	-	-	-	-	3,565	6,702	7,209	8,383	13,666	16,515	15,856
% of Econ Impact Attributable to SBEC	66%															
Less change in guarantee fund balance				386	87	79	72	77	73	75	446	185	309	322	216	239
Total Impact		34	64	296	199	210	232	321	430	2,872	5,574	5,701	6,632	10,178	11,989	11,511

Key Assumptions

Average weekly impact (net-benefit)	\$ 1,276
Annual impact of SBEC loan plus service	\$60,989
Average loan size	\$18,520
Avg guaranteed portion	\$13,278
Income impact per Tala of loan	\$ 1.75
Income impact per Tala loan guaranteed	\$ 3.63
Average Loan defaults (1995-2008)	9%

Key Assumptions

Forecast rate of Foreclosure (2008-2024)	30%
Future interest on G'tee balance	5%
Recovery rate from foreclosed loans	20%
Loan clearance rate (% of total)	33%
Future % of loans guaranteed	72%
ADB Average annual number of new loans	30

Appendix 4.2- Impact Worksheet 4

ADB LOAN GUARANTEE FUND

Impact profile over 15 years	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Profile of Clients and Portfolio																
Opening number of loans	234	166	126	103	90	82	78	75	74	73	72	72	72	72	72	71
New loans disbursed	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
Loans cleared	77	55	42	34	30	27	26	25	24	24	24	24	24	24	24	24
# loans foreclosed	21	15	11	9	8	7	7	7	7	7	6	6	6	6	6	6
Closing number of loans	166	126	103	90	82	78	75	74	73	72	72	72	72	72	71	71
Loan and G'tee Fund Value (\$000s)																
Annual value of loans disbursed	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556	556
Value of loans cleared	1,431	1,013	771	631	549	502	474	459	449	444	439	438	437	437	437	437
Value of loans foreclosed	- 280	- 198	- 151	- 123	- 107	- 98	- 93	- 90	- 88	- 87	- 86	- 86	- 86	- 86	- 85	- 85
Total value of loans portfolio	5,455	4,799	4,432	4,234	4,133	4,089	4,077	4,085	4,103	4,128	4,157	4,187	4,219	4,252	4,285	4,319
Unrecovered loans	- 159	- 121	- 99	- 86	- 78	- 74	- 72	- 70	- 69	- 69	- 69	- 69	- 69	- 68	- 68	- 68
Opening balance of guarantee fund	12,433	11,859	11,800	11,944	12,179	12,463	12,777	13,112	13,465	13,836	14,225	14,632	15,059	15,506	15,974	16,465
less called guarantees	1,192	659	454	368	330	314	307	305	304	305	306	307	308	309	309	310
plus recovered calls	56	40	30	25	21	20	19	18	18	17	17	17	17	17	17	17
plus interest	562	560	567	579	592	607	623	640	658	677	696	716	738	760	783	808
Closing balance of guarantee fund	11,859	11,800	11,944	12,179	12,463	12,777	13,112	13,465	13,836	14,225	14,632	15,059	15,506	15,974	16,465	16,980
Guarantees provided opening balance	3,974	2,195	1,513	1,226	1,100	1,046	1,023	1,016	1,015	1,017	1,020	1,023	1,026	1,029	1,032	1,034
Guaranteed portion of new loans	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
Value of guarantee cleared	1,043	464	263	183	146	128	119	114	111	109	108	107	107	106	105	105
Guarantees called on foreclosed loans	1,192	659	454	368	330	314	307	305	304	305	306	307	308	309	309	310
Recovery	56	40	30	25	21	20	19	18	18	17	17	17	17	17	17	17
Closing Balance of Guarantees	2,195	1,513	1,226	1,100	1,046	1,023	1,016	1,015	1,017	1,020	1,023	1,026	1,029	1,032	1,034	1,036
SBEC Impact																
Total Value of Impact	14,224	12,485	10,638	9,078	7,804	6,565	5,452	4,948	4,862	4,862	4,862	4,862	4,862	4,862	4,862	4,862
Less change in guarantee fund balance	- 574	- 59	144	236	284	313	335	354	371	389	407	427	447	468	491	515
NZAID Fund- Value of Impact	1,124	1,026	937	879	837	804	779	766	767	767	767	767	767	767	767	767
ADB Fund - Value of Impact	14,224	12,485	10,638	9,078	7,804	6,565	5,452	4,948	4,862	4,862	4,862	4,862	4,862	4,862	4,862	4,862
% of Econ Impact Attributable to SBEC	66%															
Less change in guarantee fund balance	- 667	- 81	140	244	292	320	341	358	375	392	410	429	449	470	493	516
Total Impact	9,464	8,837	7,779	6,815	5,995	5,184	4,453	4,129	4,090	4,107	4,125	4,144	4,164	4,185	4,208	4,231

Appendix 4.3- Impact Worksheet 5- Tax Revenue Estimate

TAX REVENUE	Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total clients		5	5	10	15	20	25	32	48	50	182	244	204	205	344	373
Total net benefit/client (\$000s)		7	13	30	13	11	9	10	9	58	31	23	32	50	35	31
Loans with no tax charged	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% of clients \$12,001 - \$15,000	10%	1	2	9	6	6	7	10	13	86	167	171	199	305	360	345
% of clients in \$15,001-\$20,000	20%	2	4	18	12	13	14	19	26	172	334	342	398	611	719	691
% of clients earning over \$20,000	27%	1	2	8	5	6	6	9	12	78	151	154	179	275	324	311
Total GoS income tax revenue		4	7	35	23	25	27	38	50	336	652	667	776	1,191	1,403	1,347

Key Assumptions

Clients with no tax charged	40%	Tala of income tax per tala of benef \$ 0.12
clients \$12,001 - \$15,000	30%	
% of clients in \$15,001-\$20,000	20%	
% of clients earning over \$20,000	10%	

Appendix 4.3- Impact Worksheet 6- Tax Revenue Estimate- cont'd

TAX REVENUE	Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total clients		284	210	157	130	115	106	102	99	97	96	96	96	95	95	95	95
Total net benefit/client (\$000s)		33	42	49	53	52	49	44	42	42	43	43	43	44	44	44	44
Loans with no tax charged	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% of clients \$12,001 - \$15,000	10%	284	265	233	204	180	156	134	124	123	123	124	124	125	126	126	127
% of clients in \$15,001-\$20,000	20%	568	530	467	409	360	311	267	248	245	246	247	249	250	251	252	254
% of clients earning over \$20,000	27%	256	239	210	184	162	140	120	111	110	111	111	112	112	113	114	114
Total GoS income tax revenue		1,107	1,034	910	797	701	606	521	483	479	481	483	485	487	490	492	495