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SUPPLY/DEMAND FOR FINANCIAL BUSINESS SERVICES - GAUTENG

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FINANCIAL SECTOR PROGRAM

**SUPPLY/DEMAND FOR FINANCIAL BUSINESS SERVICES -
GAUTENG**

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ACRONYMS

BDS	Business Development Services
BS	Business Services
BSM	Business Sophistication Measure
BDSP	Business Development Service Provider
dti	Department for Trade and Industry
FSP	Financial Sector Program
GEP	Gauteng Enterprise Propeller
IDC	Industrial Development Corporation
NAFCOC	National Federated Chamber of Commerce
NEF	National Empowerment Fund
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
SMME	Small Medium and Micro Enterprises
SOW	Scope of Work
STTA	Short Term Technical Assistance
TOR	Terms of Reference
UYF	Umsobomvu Youth Fund
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

The strategic objective of USAID's/Southern Africa Financial Sector Program (FSP) is to improve SME access to a range of high quality and affordable financial services in Gauteng, South Africa. The research conducted under this assignment is to inform the FSP of current availability of financial business development services (BDS) in the Gauteng market, as well as to identify what studies have been undertaken to assess the demand for such services by small and medium enterprises (SMEs). Primary methods of data collection included telephonic interviews and desk based research.

Seventy-three provincial and national organizations were initially identified as offering some type of business development service to SMEs and entrepreneurs in the Gauteng province. Of those seventy-three identified, only fifteen participated in the full interview. The lack of availability of and access to BDS providers experienced while conducting this assignment has led to the assumption that when seeking assistance and BDS, the experience of SMEs is no different. Business Partners and Enterprise Support in particular, made strong positive impressions during the interviews specifically in regards to understanding their clientele and the services they offer. On the other hand, the larger, more recognised players in the industry such as Khula Enterprise Finance, SEDA and Umsobomvu Youth Fund, proved to be unavailable and unhelpful. On the whole, the information gathered from the interviews indicates that the majority of organizations purporting to offer BDS to the market are not customer or service oriented and do not specifically offer finance related BDS. The conclusion reached is that the supply of finance related BDS to the market is very weak.

Investigation into what research has been undertaken of SME demand for BDS revealed that limited research has been done which specifically focuses on the demand for finance related BDS by SMEs. Many studies have been conducted relating to banking and financial services offered by financial institutions, however, nothing has been done concerning financial literacy and financial management skills of the South African population. In addition, very little is available regarding the types of services used by SMEs, what SMEs are prepared to pay for various types of service, which service providers have been used for which types of service, and how often they make use of such services. It was found that BDS, including financial BDS, tend not to be offered based on SME needs, but rather supply side perceptions. The research done suggests that use of BDS is weak and that, as such, demand for BDS

Studies reviewed touch lightly on each of the questions above, but do not provide strong enough evidence to be applied when structuring financial BDS under FSP.

Ultimately, this report serves to confirm that the supply of and demand for finance related BDS for SMEs in South Africa is weak.

SECTION I BACKGROUND

The Financial Sector Program (FSP) supports the accomplishment of the U.S. Government's Economic Growth Objective in South Africa. This task order is one of two main vehicles to promote vibrant growth of historically disadvantaged small and medium businesses (SMEs) and reduce unemployment and poverty. The objectives of this program are to expand access to financial services and lower financing cost for small and medium enterprises (SMEs) through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SMEs in South Africa, thereby expanding SME access to a range of high quality and affordable financial services.

Activities under FSP will focus on improving and expanding financial services and products; managing and mitigating financial risk and transaction costs; improving bankability of SMEs and business services by linking financial services with business service activities that can build SME capacity, productivity and competitiveness, as well as improve the capacity of financial advisory services to serve SMEs, support the emergence of an efficient credit industry regulator that promotes an enabling environment for financial intermediation and risk management, and boosts the private sector's role and participation in the provision of financial services to SMEs; promote reforms to commercial laws, regulations, and administrative practices affecting the private sector and SME development; and, improve knowledge management through an accessible repository of knowledge about SMEs and finance in South Africa.

In order to facilitate a comprehensive development of the financial business development service (BDS) component of the initial work plan, a detailed investigation into the scope of available financial BDS providers is essential. A preliminary inventory of the financial business services providers will provide the springboard from which the FSP long term BDS advisor will begin investigation into the strengthening and needs assessment of providers as it related to the needs of the SME themselves. This supply side information will complement the SME demand side market assessment happening concurrently.

1.1 Purpose

The objective of this assignment is to collect a broad range of data regarding the current players in the financial BDS provision industry in Gauteng province. The data will provide the basis for the BDS advisor's assessment of the adequacy and depth of the financial BDS market and offset against the SMEs needs.

1.2 Tasks

The principal tasks to be completed under this scope of work (SOW) are as follows:

- Review salient background documents, including USAID's FSP request for proposal, Chemonics's technical proposal for the implementation of FSP, other available BDS activity evaluation documents;

Supply side study:

- Conduct a comprehensive assessment of the typology of financial BDS providers in Gauteng/SA (as per list in Appendix A) as per questions listed in Appendix B;
- Summarize the data collected in a spread sheet (see Appendix C) and additional electronic format;

Demand side study:

- Given the above research, determine what, if any, demand side studies were undertaken to discern the needs of SMEs with regard to financial BDS. Desk research to include:
 - Identification of who has undertaken such research;
 - Review to determine if depth of research meets the needs of FSP;
 - Recommendations, to *either* focus on *existing* studies *or* proceed with limited market demand study to better assess the SME demand for financial BDS.

1.3 Deliverables

Based on the tasks outlined above, the following deliverables are expected:

- Spread sheet (database) detailing the key players in financial business development provision;
- Report listing all salient studies identified, reviewed with abstract summaries of each;
- Summary of key findings identified in the literature.

SECTION II METHODOLOGY

2.1 Assessment of supply of financial BDS in Gauteng

This high level assessment of financial BDS was undertaken based on a series of telephonic interviews of BDS providers (BDSPs) in Gauteng.

Including both provincial and national organizations, a list of BDS organizations was compiled based on the consultant's experience in the industry as well as using directories provided on various websites. This list was subsequently cross-checked with a list provided by the FinMark Trust in the FinScope "Pilot Study - Survey Highlights including BSM Model" document from 2006 (see

Figure 1: Awareness of Support Organizations



Figure 1) to ensure comprehensiveness.

Organizations were identified based on two broad criteria, namely, their focus on SME/entrepreneurship development and their location in Gauteng.

The final list of seventy-three BDS organizations is provided in Appendix A.

Attempts were made to contact each of the 73 organizations, however, where contact details from the website or telephone directory were incorrect (or not listed), or where the person answering the phone was unwilling or unable to assist, these attempts did not translate into successful telephone interviews.

A prescribed set of questions was provided by FSP the purpose of which was to assess *what* services organizations offer to SMEs, specifically finance related services, and *how* they offer them (see Appendix B for the questions asked).

It is important to note that from the opening communications with organizations, it became clear that very little differentiation is made between financial and other (non-financial) BDS, with the exception of tax and accounting services.

In addition, the researcher was informed that the term BDS, or Business Development Services, is no longer used in South Africa and the concept is referred to simply as Business Services (BS). The terminology used was therefore adapted to ensure that the meaning of questions was clearly understood by the interviewees.

A summary of the interview responses is provided in a mapping spreadsheet enclosed in Appendix C.

2.2 Assessment of demand for financial BDS

Assessment of the demand for financial BDS was based on a review of what studies and research has been undertaken to identify the demand or needs of SMEs for finance related business support.

Desk research included:

- (a) Identifying what research has been done into the financial BDS needs of SMEs; and
- (b) Reviewing the relevant articles to determine if the depth of research meets the needs of FSP.

A thorough search for relevant articles, publications and reports via the internet was conducted, beginning with some of the organizations identified in the first part of this study, and secondly, following up on links provided by individuals and organizations.

A number of experts identified by the FSP SME Business Services Specialist were contacted to guide and provide direction and was expanded as individuals were further recommended. The list of individuals and organizations approached is included in Appendix D and the list of documents sourced and reviewed is included in Appendix E.

Both international and locally produced literature about the financial BDS needs of SMEs was researched.

To complement the research regarding SME needs for financial BDS, an additional component was extended to the original scope of work to identify whether any research has been conducted which addresses the financial literacy needs of SMEs/entrepreneurs in South Africa. The same research methodology was employed as for the above.

SECTION III

KEY FINDINGS AND RESULTS

3.1 Supply of financial BDS

Availability, accessibility and perceived service delivery of BDS providers

Based on the attempted contacts made, the final number of organizations with whom full interviews were conducted was limited and is outlined below. Many of the organizations eliminated themselves immediately based on incorrect contact details. Where the researcher succeeded in getting through to an organization, but not to a representative capable of answering the first question "What type of Services do you offer?" the decision was made not to pursue the interview further. The assumption in these instances was that an entrepreneur or SME business owner/manager looking for assistance would not be successful either in getting the information they want. Thus, if after three attempts the telephone was not answered, or the researcher could not reach a representative who could adequately answer the first question, the organization was considered unreachable or inaccessible.

Of the 73 (seventy-three) organizations identified as providing BDS to the market, "successful contact" was made with thirty-seven (i.e. 50% of the original sample size). Successful contact in this context was considered to be speaking to an individual who could answer the first question "What type of services does your organization offer?"

Of the 73 organizations identifying themselves as providing services to SMEs and entrepreneurs in Gauteng and South Africa, only fifteen telephonic interviews were completed with substantial responses from the interviewees.

Of the 37 that responded to the first question, when an organization confirmed that it *only* provides financing/loans/investment services, the interview was not pursued as these organizations do not offer finance related BDS, the focus of this research.

When a successful connection to an individual capable/willing to participate in the study was made, the questions in Appendix B were asked by the researcher. It is important to note that almost immediately it became clear that among the organizations that were interviewed, no differentiation was made between *general* (non financial) BDS and *financial* BDS and therefore the researcher eliminated this distinction and focused on the nature and delivery of business services offered by the organization.

Appendix C provides a summary of the responses to interviews with the fifteen organizations that completed the interview. Only the most complete questions have been included in this appendix. The entire database is, however, available as an electronic resource. What the data suggests is that the organizations listed appear to offer a comprehensive range of finance related services. What is not clear is what the uptake "or reach" of these services is, and whether use of their services lead to increased access to finance.

According to the 2006 FinScope Small Business Survey referenced in Figure 1, only 28% of business owners had ever heard of organizations that supported small businesses and of those, many they have heard of are financing institutions only. In the comprehensive list of "Key Players" in the market, Umsobomvu Youth Fund (UYF) and Khula Enterprise Finance (both government agencies) are the most widely recognized. Under this research, communication attempts with Umsobomvu, Khula, the Small Enterprise Development Agency (SEDA) of the dti, and NAFCOC were all negative experiences. Neither of the receptionists at Umsobomvu or Khula could respond to the questions put to them and neither was willing to connect the

researcher to a representative who could assist. Their respective websites were equally unhelpful in enabling the researcher to find out the required information.

The attitude and service received from the telephone exercise conducted appears to be indicative of the poor quality of BDS available in the market: where one would expect BDSPs to implement best practice in their own daily operations (of ensuring correct contact information, telephone manners and etiquette, and available and comprehensive information about the business services they offer) this was not forthcoming. While first impressions from the phone contacts may not be a full reflection of the organizations contacted, it is the researcher's view that these are nevertheless indicative of the levels of service which SMEs have to contend with, and as such, reflect the lack of accessibility of these organizations.

By contrast, a few organizations stood out in terms of the way they responded to the research and the BDS they offer. Most notable of these were Business Partners and Enterprise Support. Business Partners, one of the largest players in the market, was informative and appear to have a business model which works in an efficient and effective way. Another interesting model is Enterprise Support whose primary platform is web-based. This is a private company which has been set up in the past few years. Further discussions with this company regarding their for-profit, demand driven model could prove to be informative.

Many large government agencies do not provide direct BDS to the market, but have databases of independent consultants or small firms which provide business development support on their behalf; (the agencies were not, however, prepared to share contact information over the phone so that these firms were not further researched). Hemix Project Center is an example of a firm listed as an accredited service provider for several government agencies, viz. SEDA, Gauteng Enterprise Propeller (GEP), Umsobomvu, National Empowerment Fund (NEF), Industrial Development Corporation (IDC) and Business Partners. In order to assess how this "indirect" supply of services works, FSP could investigate how a company like Hemix becomes affiliated to an organization offering BDS to the market, how effective the process is and how the individual providers perceive the current system is working. (This could potentially identify what constrains service delivery in the market by individual providers working through BDS organizations).

It is interesting to note that some BDSPs have opted to go for an online platform, presumably, as a way of expanding their reach, or accessibility to SME users. From a cursory exploration, these platforms appear to be comprehensive; however, it is questionable whether online availability actually increases use by SMEs. It is the researcher's view that this does not enhance the supply of services as intended but in fact *limits* the potential audience as many entrepreneurs and SMEs do not have internet readily available.

It is beyond the scope of this study to assess the extent to which services available in the market meet the needs of SMEs (or match their demand for BDS) however, regarding how organizations determined *what* type of service to offer to their SME client base, only a few of those questioned had *any* notion of how they decide what services to offer. These included Enablis Entrepreneurial Network, The Business Place, National Industrial Chamber, and the SEDA Technology Programme.

3.2 Demand for Financial BDS by SMEs

From the extensive and comprehensive research conducted of both literature, individuals and organizations, it is apparent that little has been documented in South Africa regarding the demands and needs of SMEs or entrepreneurs for finance related BDS. This was confirmed most energetically by Professor Chris Rogerson of Urban Geography at the University of Witwatersrand, who stated "you can be assured that no study of that specific nature has ever

been done. Shawn Cunningham, Local and Regional Economic Development expert and current partner at Mesopartner, echoed Rogerson and added that there was a lot of field work being done in BDS *provision* to SMEs but that little had been published to date.

Of all the documents reviewed, those most directly investigating the BDS demands of SMEs are FinScope's *Small Business Survey* (2006) and the GTZ study, *Market Assessment of Business Development Services – Nelspruit, South Africa* (2004), see Appendix F, abstracts 1 and 7 respectively.

The GTZ study disclosed some important findings regarding awareness, knowledge and usage levels of BDS in the Nelspruit area. The diagrams included in Appendix F for this article outline information regarding these three factors, as well as reasons for each and perception of importance. Of note is the one finding, for example, that amongst those BDS which have the highest incidence of use are accounting services and that in addition to this, assistance with financial planning / business plans, amongst others, is a service of potentially high demand. Thirty three (33) per cent of those using accounting services and 30 per cent using financial planning / business plans do so in order to access financial aid.

Although Mpumalanga and Gauteng differ in significant ways as provinces, one could surmise that there may be similar patterns or reasons for use in both provinces.

According to the FinMark Trust, the FinScope Small Business Survey is the most comprehensive study published to date investigating the need for financial services and support by small businesses (defined in this study as including an average annual turnover of R1 to R463 747 per annum). This study found that *only* businesses categorised in the *higher* level segments (referred to as business sophistication measure/BSM6 & BSM7 out of total of 7 BSM segments) have made use of any business support services¹. According to their findings, 73% of their sample has sought financing, whereas only 35%, for example, have sought business planning assistance.

Two articles reviewed indicate the cost of services and the price that SMEs will pay for services, viz. *Survey of Tax Practitioners in South Africa* (2007), abstract 5 in Appendix F, and GTZ's study, *Market Assessment of Business Development Services – Nelspruit, South Africa* (2004), abstract 7. These articles suggest that SMEs are paying for services and are prepared to pay for services; for example, it is clear that SMEs pay practitioners for their tax submissions. In Torppa's article, *Market Approach to Small Scale Enterprise Development in South Africa* (2006), Abstract 4, she references a study by Ligthelm (2001) in which as many as 85% of the sample of SMEs in Tshwane province were prepared to pay for BDS. This suggests that there may be a demand for services which as yet, has not been met but which SMEs are prepared to pay for.

The Economics of SMMEs in South Africa (2002), by Berry, Blotnitz et al, make the important distinction between demand which is qualified and that which is not, based on the ability of an SMME to pay for services. They argue that needs do not translate into *qualified* demand where the SMME is not able to pay the market price for the service and as such, remain unexpressed needs. (This implies that use of subsidized services is not necessarily an expression of actual needs).

¹ Note that FinScope uses its own segmentation scale which does not reflect the entire SME spectrum (up to ZAR 14 million) which is used in other definitions of SMEs.

3.3 Financial Literacy of the South African Population

The literature available on financial literacy in South Africa was limited. *Financial Literacy Scoping Study & Strategy Project*, by ECIAfrica (2004) was the most useful document reviewed. This article stated clearly in its conclusion that no comprehensive study has been conducted to understand the needs and demands for financial literacy of the South African population to date and, according to the authors, is absolutely essential.

Rogerson's article (2008, Abstract 3) suggests that one of several obstacles preventing women enterprise owners from accessing finance is financial literacy, viz. a poor understanding of financial terminology and lack of awareness of bank and microfinance services as well as credit processes.

With regards to the development of financial literacy products and support services, market players (particularly banks) have developed their products based on global research and international assessments rather than formal studies of the South African market, confirming the ECI conclusion that the local market needs yet to be understood.

SECTION IV CONCLUSION

The information gathered in this assignment has indicated that in spite of the existence of many service providers in the market, few are easily accessible by telephone, the quality of customer service is extremely poor and the services available are limited. This points to the *supply* of BDS to SMEs being weak.

While there are recognized organizations such as SEDA, Umsobomvu and Khula Enterprise Finance, they provided little to no assistance when interviewed. It is unlikely that an SME looking for assistance and business development support from these organizations would easily succeed in their quest.

It is clear that there is insufficient research on the *demand* for financial BDS in the market. The available research has focused on examining the credit and finance (loan) services as opposed to finance related BDS available to SMEs and entrepreneurs. The research that has been done suggests that usage of BDS is low and does not reflect latent demand for services.

This review suggests that the market for business development services in South Africa has been driven by a supply-side model, rather than one which responds to the actual needs and qualified demand of SMEs. Few providers were able to articulate how they had determined the services needed by SMEs, suggesting that few had investigated from SMEs themselves what their demand or need for BDS might be.

A study investigating the financial literacy of South African entrepreneurs and SME owner/managers, as well as their demand for financial BDS, could provide more accurate information for suppliers of BDS and help SMEs find the services they need to better develop their enterprises. However, if a study were to be conducted, not only should the question *‘What kind of financial support services do you require?’* be asked, but also *‘What would you be willing to pay for that service?’* Preparedness to pay market prices is an important point to consider in the South African market where BDS has typically been considered a public (and therefore subsidized) service.

A study of this nature is perhaps beyond the scope of FSP, however, it is clear that information about the gaps in financial literacy of SMEs and identification of what SMEs need in terms of finance related BDS could have considerable impact in terms of helping BDS organizations understand what SMEs need, what products and services to delivery and on what basis, thereby transforming the business services market in the country and providing significant benefit to the growth and success of the SME sector and the economy as a whole.

ANNEX 1: LIST OF BUSINESS DEVELOPMENT SERVICE PROVIDERS

Financial BDS Providers

Name of Organization	Contact made	First Impression/Notes	Type of Org	Key Contact Person for Financial BDS	Website	office no.
ABSA New Enterprise Banking	Y	Friendly and helpful	VC/Bank		www.absa.co.za	0860 04 03 02
African Bank Investments Ltd	Y	Nice on the phone.	VC/Bank		www.africanbank.co.za	086 11 11 0 11 +27 11 256 9000
Association for the Advancement of Black Accountants of SA	N	1) First number is to a communications company - Nozipho is away from the office 2) There was no answer - Neither returned my messages.	Association	Nozipho Sokhela Tel: 031 266 9937 Xolile Mthethwa Tel: 031 327 6210 011 621 67 37	http://www.abasa.org.za/	
Association of Chartered Certified Accountants	N	Did not call - would need to strategize for purpose of meeting.	Association		www.southafrica.accaglobal.com	27 (0)11 459 1900
Bantsho Management and Marketing Strategies	N	Vusi is not in the office ever! (tried 3 times). Based on website - they would be an appropriate BDS provider.	Private Co.	Vusi	www.bantsho.co.za	Tel: (011) 202 9960 (number doesn't answer -ever) Tel: (011) 692 3287
Bioventures	Y	Friendly.	VC/Bank		www.bioventures.co.za	Tel: +27 (0) 21 462 2152
Blue Catalyst	N	no phone	NPO - Government funded		www.bluecatalyst.co.za	No phone (argh)
Business Opportunity Centre	Y	not very professional, ESL	NGO - government	Norman Makgato		(011) 839 2750/3
Business Partners	Y	Helpful - Could do more investigation into their system. "Business Partners is a specialist risk finance company, the only one providing debt and equity investment, mentorship and property management services for small and medium enterprises (SMEs) in South Africa". June Naidoo was very friendly - she's in charge of the consultant database.	Private Co.	June Naidoo (Mentor/Consultant Database Manager) Petro Bothma - Asst. General Manager (Marketing Coordinator)	http://www.businesspartners.co.za/	011 480 8700

Business Skills of South Africa Foundation	Y	Friendly and helpful	NPO - Government funded	Mizo Mahlangu	www.bssa.co.za	(012) 349 1777
Centre for Business Education & Training	N	no answer, no voicemail				(012) 799 2842
Community Education Computer Society	Y	bad. Very very bad.	Training/School		www.cecs.org.za	011-834-3329
Damelin	Y	great. Sent email with course list within 10 minutes!	Training/School	Michael Sibisi	www.damelin.co.za	(086) 222 2345
Development Bank of Southern Africa	N				www.dbsa.org	
eGoli BIO	N	no answer	?		www.egolibio.co.za	(011) 605-2941
Ekurhuleni North Chamber of Business	N	Phone number does not exist?	Association			011 453 1530
Enablis	Y	Very friendly.	NGO	For SME support - need to be a member of the network- Contact person for Gauteng (Northern Chapter) is Valerie Flanagan	www.enablis.org	011 234 2526
Endeavor	N	Gregg will be in and out on Friday, need to speak with him apparently - but how can only the MD answer questions (?)	NGO	Greg Durst	http://www.endeavor.co.za/	(11) 566-2042
Enterprise Support	Y	professional, very nice. Definitely worth a follow up - interesting that they also operate in Singapore.	Private Co.	Rodney Prinsloo	http://www.enterprisesa.com/	(0)11 795 1294
Financial Services Board	Y	they do not do any bds. Said to contact INSETA at 0115442000	Association		www.fsb.co.za	(012) 428-8000
FNB Biznetwork	Y	Unhelpful - maybe wrong person but she was directing me to a branch	VC/Bank		www.biznetwork.co.za	0860 010 151
FNB-UYF Progress Fund	Y	Same call as above.	Fund			
Gauteng Enterprise Development Agency	N	no answer	Government Agency		www.geda.co.za	11 833 8750
Gauteng Enterprise Propeller (GEP)	Y	alright.	Government Agency	Hopolang Tsoeu Christel Potgieter - Enterprise Support - cpotgieter@gep.co.za	www.gep.co.za	011 833 2542

HBD Venture Capital	Y		VC/Bank		www.hbd.com	(021) 970 1000
Hemix Projects Centre	Y	Accredited service provider with a lot of agencies - could be interesting to speak to them re: how they get affiliated	Private Co./BDS	Phillip Zizhave	www.hemix.co.za	(012) 323 0220
Industrial Development Corporation	Y	Friendly and helpful	Government Agency	Sindiso Malako (PR)	www.idc.co.za	011 269 3072
Innovation Fund	N	Didn't call.	Government Agency/Fund		http://www.innovationfund.ac.za/	(012) 481 4191
Insedlu Business Companion	N	phone number does not exist?	Private co.			(011) 832 1400/01
JCCI-Nafcoc	Y	too busy to speak to us - useless	Association		http://www.jcci.co.za/	(011) 726 5300
JMT Executive Tax and Marketing Vosloorus	Y	Very BEE - but an accounting firm for BEE by BEE! Would be interesting to meet with them about their clients etc.	Private co.	Joseph Tshiwilowilo (CEO)	www.jmtgroup.co.za	(011) 863 3966/70
Khula Enterprise Finance	Y	Receptionist 'blocked' me!	Government Agency	Xola Sithole (MD), PA is Gloria Mokgati Mbongo (reg. Coor in Midrand)	www.khula.org.za	0800 11 88 15 or 012 351 5560 011 315-0036/7
Land Bank (MCO)	N	Didn't call	Bank (with Government funds)		www.landbank.co.za	0800 00 52 59
Medunsa Organisation for Disabled Entrepreneurs (MODE)	N	busy first time, then no answer	?			Tel : (011) 830 0231
Micro-MBA Course	N	Didn't call	Training/School		http://www.micro-mba.com	Tel: 021 592 4201
Midrand Chamber of Commerce & Industry	N	call tomorrow - person to help not here!	Association			(011) 315 1063
NAFCOC (National African Federated Chamber of Commerce and Industry)	N	too busy, call back	Association		www.nafcoc.org.za	(011) 268 2800
National Empowerment Fund	Y		Government Agency/Fund	Charles Jele	www.nefcorp.co.za	Tel: (011) 305 - 8000
National Industrial Chamber	Y	alright, the woman was a bit rude.	Association	Tebogo Maswanganya	www.nic.org	Tel (011) 985 2765 Tel (012) 801 1420
National Research Foundation (NRF)	Y		Government agency/Funds		www.nrf.ac.za	+27 12 481 4000 / 4001
NEDBANK - Nedbank Small Business Services	N	told me they would transfer me to the business services side, and disconnected me. Twice.	VC/Bank		www.nedbank.co.za	0860 115 060 f
New Business Finance	N	on hold forever. Useless.	?		www.nbf.co.za	Tel: (011) 832-1100

PC Financial Services	Y	woman said Peter was busy, need to call back. Again - how can only one person answer questions?	Private co.	Peter Masegare	www.pcfs.co.za	Tel : (011) 849 9330
Prodigy Business Services	Y	Office line was directed to Varish's cell phone - he was knowledgeable but not relevant to our project really.	Private co.	Varish Gantath	www.skillsmatters.com	(011) 234 5220
Raizcorp	N	busy, twice - but they are the 'premier' incubator in the country - need a follow up.	Incubator		www.raizcorp.co.za	Tel: 011 566 2000
Regent Group (Khula partner for factor finance)	N	busy, twice			http://www.regentgroup.co.za/	Phone: 086 11 REGENT
SA Institute of Chartered Accountants	Y	Body of CASA accredited professionals. Membership in areas/regions. Do not have a referral list but on website have a search engine to find a CA in your area. Member of the International Federation of Accountants.	Association		https://www.saica.co.za/default.asp	08610 SAICA (72422)
SAB Kickstart	Y	alright.	CSR program of SAB		www.sabkickstart.co.za	Tel: 011 571 1000
SAIBL	N	professional, but unavailable to talk...	USAID funded project	John Chiza (surname might be wrong)	www.saibl.co.za	011 802 0015
SASFIN Bank Limited	Y	professional	VC/Bank		www.sasfin.com	27 11 809 7500 or 0861-sasfin
Seda	N	transferred three times, ignored, gave up :(Government Agency		www.seda.org.za	Tel: (012) 441 1100
Seda Technology Programme	N	rude, and not that helpful.	Government Agency	Bongi Msibi	www.stp.org.za	+27 (0) 12 441 1117
Sedibeng Training Centre	N	busy				(016) 988 1350

Sizanani	N	Couldn't get through. :(Also weird cause all numbers are private mobile numbers - apparently as SME you are requested to send an email and they will return your query. I think it's weird that one of the people listed as senior business advisor has an absamail. email	Private business c/o banking association		www.sizananiadvisory.org.za	083 572 7309
Small Business Advice Centres	Y	NB. Small Business Advice Centres (Red Door) is only in Western Cape. When I called the lady who answered the phone could not even answer my question 'Is Red Door in Gauteng'.	NGO			021 483 2628
Softstart BTI - Business and Technology Incubator	N	busy. But should follow up - they are pretty well known in the industry.	Incubator		www.bti.co.za	011 695 4800
South African Institute of Professional Accountants	N	Didn't call - need to strategise on why contacting them!	Association		www.saipa.co.za	(011) 207-7840
South African Micro-finance Apex Fund (SAMAF)	N	Didn't call.	Fund		www.samaf.org.za	Tel: + 27 12 394-1796/ 394-1703
Southern African Accounting Association	N	Didn't call	Association		http://www.saaa.co.za/	Only emails list on website
Southern African Business and Technology Incubation Association	N	no answer on numerous attempts, no voicemail	Association		www.sabtia.org.za	0861 SABTIA
Southern African Enterprise Development Fund	N	Didn't call.	Fund		www.saedf.com	+27 11 283-1630
Springs Business Linkage Centre	Y	Very friendly and helpful. I would follow up with them - they say that they often get requests for bookkeepers etc. but they run out of referral names!	Funded by large corporates in the region - Assuming through CSR. NPO?	Mr. Jones		Tel: (011) 362 6488
Support for Industrial Innovation (SPII)	Y		Fund	Ms Sithembile Bagopi: Fund Manager	www.spil.co.za/	Tel (011) 269-3911,
Technoserve	N	Didn't call	NGO		www.technoserve.org.za http://www.believe-begin-become.com/	(011) 482-6001
The Institute for Public Finance and Auditing	N	Didn't call. Need to strategise as to the purpose of the contact.	Association		www.ipfa.co.za	(012) 470 9450

The Business Place	Y	great. We have the details for the MD if you are interested in meeting with him.	NGO	Simon Mbatha Mr. Martin Feinstein is the MD.	www.thebusinessplace.co.za	(011) 836 9000
The Technology and Human Resources for Industry Programme (Thrip)	N	no answer, no voicemail	Fund			(012) 481 4078
Thusong Service Centres	Y	Do not offer BDS (very government like! Ie. didn't really want to help)	Government Agency		www.thusong.gov.za	011 834 3560
Tourism Enterprise Partnership (TEP)	Y	Very difficult to get through - have recently since April 1st changed the structure of the organization.	Section 21 - but have subcontracted operations to private company (??)	Thabo Mabale	www.tep.co.za	011 832 2014
Umsobomvu Youth Fund	Y	The head office receptionist (or whoever answered the phone) was completely unhelpful - and very unfriendly. She told me that I need to speak to Asandla but that he is too busy to talk to me. It was the most unpleasant phone call of all. However, I did call the 'business help line' and the gentleman was much more friendly as his job is to help the young people - but he couldn't answer all the questions. Website doesn't work well either.	Government agency/Fund	Asandla	www.youthportal.org.za	011 651 7000
University of Pretoria	Y	no one was available to tell me about business courses.	Training/School		http://web.up.ac.za/	(012) 420 3111
Wits Enterprise	N	No answer repeatedly but that may be Telkom issue	Training/School		http://www.wits.ac.za/enterprise/	27 11 717 4595
Zenzele Technology Demonstration Centre (TDC)	Y	Excellent - He's very keen and happy to participate and interested in the program. Very clued up on the business process and I enjoyed talking to him. My favourite conversation of all.	Funded by Department of Minerals and Energy and located in Mintek - a 'virtual incubator'	Solly Table	www.zenzeletech.com	Tel: (011) 709-4674

ANNEX 2: QUESTIONS TO DEVELOP TYPOLOGY OF BDS PROVIDERS

Organisational information

1. Organization name and Contact details (found through initial contact)
2. Type of services offered
3. Type of organisation e.g. public, private, etc.
4. Key contact person for financial BDS
5. Number of offices in Gauteng
6. Key partners (especially if financial institutions)

Service provision

7. Category of services provided e.g. training, mentorship, advice
8. Employee / service provider status viz. are own employees or third parties used to provide BDS to clients
9. Based on previous question, number of service providers offering services
10. Average number of clients per service provider
11. Average number of clients served per month
12. Would they be willing to share their database of clients
13. (With reference to question 8) how are "service providers" sourced?
14. Qualifying criteria of service providers - what educational qualifications are required by business service organization
15. Qualifying criteria - who must service provider be registered with
16. What services are offered by the BS organization
17. Who is their target group
18. Do they target specific industries with their services
19. If yes, which sectors
20. How are their services marketed
21. How are services priced (e.g. hourly rate)
22. Who pays for the service; (does the client pay for full price or are services subsidized)
23. How do the providers measure demand for their services
24. What is the average cost of marketing per month

ANNEX 3: SUMMARY OF BDS PROVISION

(Full database available as electronic resource)

Financial BDS Providers	Category of Service	Ave. no. of Clients per month	Services Offered	Target Group/Industry	How are Services Marketed?	Who pays?
Business Opportunity Centre	Coaching / mentoring / advisory	120/mo (about 7 a day)	Financial statements, budgeting, cost & price advice, analysis on financial results, tax advice, regulations advice, training.	All SMMEs in Gauteng	Daily advertisement in Sowetan	Walk in services free, training course small fee
Business Partners*	Mentors / Advisors Consultant	50	Financial statements budgeting costing & pricing advice Financial management systems Analysis & advice on financial results Taxation advice Advice on regulations / registration Loan application assistance Business plan development information & referrals deal brokering BEE transaction / empowerment deals VAT compliance PAYE compliance	SME, All industries that have a marketable/viable business idea. Only legal/above board businesses (nor arms/drugs etc.)	Website - provide useful telephone information	Client If financing is received - cost worked into loan payment.
Business Skills of South Africa Foundation	Coaching / mentoring / advisory Specialist consulting	2,000/year	training finance, financial management training, bookkeeping training, business plan training, pricing and costing training	any small business	No	other orgs including the SETA partners and Gauteng Enterprise Propeller pays for them
Damelin	Training	Thousands of Learners	Courses: Skills for bookkeeping, skills for payroll and SARS, skills for financial statements, cost and management accounting, financial management, credit management, sales and marketing, procurement and supply chain.	All		Learner

Enablis Entrepreneurial Network	Coaching / mentoring / advisory Specialist consulting	350 members in network	Financial statements budgeting costing & pricing advice Financial management systems Analysis & advice on financial results Taxation advice Advice on regulations / registration Loan application assistance Business plan development information & referrals VAT compliance PAYE compliance	SME/BBE	Business Plan competition Sunday Times Word of Mouth	Member
Enterprise Support*	Coaching / mentoring / advisory Specialist consulting Technical assistance Information Training	About 30	finance for non-financial managers, working on SETA accreditation, venture creation training course, 1 day course on bookkeeping and financial management, accounting, cash flow, business improvement	SME	Online website	SME
Gauteng Enterprise Propeller (GEP)	Coaching / mentoring / advisory Specialist consulting Technical assistance Information Training	Depends (?)	business plans, marketing materials, mentoring, produce testing, planning, workshops - financial management, business plan, costing and pricing and tendering; Financial assistance; Accounting system: setting up a system of accounting and to understand the elements of a financial statement; Preparation of budgets: defining sales targets and expenses to achieve the product sales; Setting up a debtors/creditors system: correct information in terms of clients who owe the business and what the business owes; Setting up a stock control system: buying more stock than required is not productive and having insufficient stock will	SME	Magazine Advertisements	Clients pay

		lead to losing orders for the business Costing: knowing how much it costs to manufacture a product or provide a service helps determine direct and indirect costs and how to price for profit; Cash flow management		
Hemix Projects Centre	Specialist consulting	Work with companies who are starting up; SMEs, training on basics of business management, running businesses, etc.	SMEs, Mostly transportation and engineering	No, only have website Government agencies, National Productivity Institute, vouchers etc.
JMT Executive Tax and Marketing Vosloorus	Specialist consulting	Preparation of quarterly and annual reports and financial statements; Preparation of medium term budgets; Installation and maintenance of proper books of account; Preparation and maintenance of a fixed asset register, including depreciation of fixed assets; Exercising budgetary control; Ensuring that all proposed expenditure is properly authorized and in accordance with approved rates; Administration of the payroll system; Preparation of a fraud prevention plan; Identification of gaps in the internal policies of the organizations; Recommending improvements to internal financial procedures (e.g. authorization of transfers, control over petty cash); Preventing wasteful expenditure; Performing effective internal audits, and reporting thereon; Working with, and transferring knowledge and skills to the staff of the Regulator employed in similar work; Rendering the service in compliance with: Tax Planning and Administration of various taxes, Tax Computation. Staff Training and development at JMT Executive Training. Company secretarial services:	BEE - SMMEs	Website client or via government voucher type program.

			Implementation and Maintenance of Appropriate Corporate Governance - GAAP, - The Municipality Finance Management Act, - The Public Finance Management Act, - The requirements of SA Revenue Service, - The financial policies and statutory Compliance.		
National Industrial Chamber	Training	Training by need. Not regularly scheduled	Financial skills training, marketing, bookkeeping, etc.	SME, manufacturers and up and coming businesses	pamphlets and website sponsored by SEDA
Prodigy Business Services	Specialist consulting	Work with SETAs	Assessment services, training	Financial services, primarily insurance and real estate	not really SETAs
The Business Place	Coaching / mentoring / advisory Specialist consulting Technical assistance Information Training	At least 4 workshops a week.	number of workshop trainings for basic admin skills, intro to financial management, raising funds, funding proposals, type of finances, tendering, etc.	Emerging to existing but all SMMEs	as an NGO, marketing is limited to user-friendly media - free magazines, big name news, etc. SMMEs pays small fee (10-50R) for services - this shows commitment and proves that one needs to invest in their own success
Tourism Enterprise Partnership (TEP)	Training Business Linkages	150	Introductions Matching buyers and suppliers of goods and services Mentoring/Aftercare Ensuring that SMMEs have the necessary capacity to successfully conclude more and better business transactions - Information sharing Practical information toolkits to assist SMMEs in the tourism industry. One day workshops on each toolkit are being conducted on a national basis. Toolkits include:	Operating businesses only	Relations with municipalities and relationships with Tourism associations and other tourism industry GTA - no advertisement - all in partnerships

			<ul style="list-style-type: none"> ▪ Legalities and Compliance ▪ Business Planning in the Tourism Industry ▪ Website Planning and Development ▪ Marketing in Tourism ▪ Quality Assurance and Customer Care in Tourism ▪ The Tourism Channel ▪ Communication in Tourism ▪ Business Administration in Tourism <p>Training for Tourism SMMEs In respect of skills development and training requirements, TEP can provide Business Skills training specifically aimed at tourism enterprises.</p>			
Umsobomvu Youth Fund	Coaching / mentoring / advisory Specialist consulting Information Training	Thousands (?)	Preparation of budgets, setting up stock control, setting creditor system, setting debtors system, basic administration, bookkeeping, cash flow management, operation and procedure management, payroll, loan applications, Micro loan (1-100K), SME loan (101-5m), business plans	Under 35 BEE youth - don't even have to be in business yet	Umsobomvu has loads of adverts in newspapers, is at Expos, and is promoted within government departments	Contribution of R200
Zenzele Technology Demonstration Centre (TDC)*	Holistic approach to develop a project to a level to a level where a funder would have confidence to fund. Claims that 100% of their submissions for funding are successful.	Not a walk in service - they work with SME/entrepreneurs to get business to level.	<p>Virtual Incubator</p> <p>Financial statements budgeting costing & pricing advice</p> <p>Financial management systems</p> <p>Analysis & advice on Financial results</p> <p>Taxation advice</p> <p>advice on regulations / registration</p> <p>Loan application assistance</p> <p>Business plan development information & referrals</p>	Small enterprises start-ups, Mining	Road show with Dept. Minerals and Energy Workshops	Flat cost rate for services - subsidized/minimum amount of money (not the market rate)

* Appear to be delivering the best/most effective services to the market based on the telephone contact and web presence.

ANNEX 4: LIST OF INDIVIDUALS AND ORGANISATIONS CONTACTED FOR DEMAND SIDE RESEARCH

▪ Individuals

Name	Title	Organization	Tel. Number	Email
Christian Rogerson	Dr.	School of Geography, University of Witwatersrand	(0)11 716-4203	christian.rogerson@wits.ac.za
Eric Wood	Dr.	Centre for Innovation and Entrepreneurship (CIE) at the Graduate School of Business, University of Cape Town	(0)21 406-1093	ericwood@gsb.uct.ac.za
Gerda Piprek	Ms.		(0)83-325-5452	
Gerhard Coetzee	Dr.	Centre for Microfinance, Graduate School of Management, University of Pretoria	(0)12 420-5836, (0)82 552-9679	gerhard.coetzee@eciafrica.com
Liisa Tervo	Ms.	Small Enterprise Expert, seda		ltervo@seda.org.za
Matthew Stern	Mr.	Chief of Party, SEGA II Project		Matthew.stern@dnafica.com, mstern@sega2.org.za
Rebecca Rishty	Ms.	Deputy Chief of Party SEGA II (completed in May 2008)	(0)76 080-3268	
Shawn Cunningham	Mr.	Partner - Mesopartner, Consultant to GTZ	(0)82 902-4200	sc@mesopartner.com
Tommy Du Plessis	Dr.	Director, Potchefstroom Business School of the Northwest University	(0)18 299-1419	pbstedp@puk.ac.za

▪ Recommended for Further contact

Name	Title	Organization	Telephone Number	Email
Dawn Jefferson Green	Ms.	Chair of Institute for Business Advisors at Nedbank	(0)11 295-8926	dawnj@nedbank.co.za
Elize Bezuidenhout	Ms.	Department Chair of Business Advisors at Business Skills South Africa	(0)12 349-1777	
Ferdi Preller	Mr.	Small Advisory Board at North-West University	(0)18 299-1346	
Phil	Mr.	CEMBIS	(0)82 561-2953	
Wayne Oosthuizen	Mr.	Head of the Port Elizabeth Development Fieldwork (SEDA)	(0)41 502-2400	

- **Organizations**

Name	Contact Details
Business Partners	(0)11 470-3000
Ernst & Young	(0)11 502-0472
Finmark Trust	(0)11 315-9197
Finscope	(0)11 315-9197
Khula Enterprise Finance	(0)12 394-5560
SAIBL	(0)11 802-0015
Small Enterprise Development Agency (dti)	(0)12 441-1000
South African Global Entrepreneurship Monitor Report (GEM)	(0)21 406-1177 (0)21 406-1470
South African Institute for Entrepreneurship	(0)21 447-2023
Tourism Enterprise Partnership	(0)11 718-2000
UCT Centre for Innovation and Entrepreneurship	(0)21 406-1177

ANNEX 5: SOURCE LIST OF DOCUMENTS

Document	Reviewed	Cited	Unavailable
Annual Review of Small Businesses in South Africa - 2003. Rep.No. Enterprise Development Unit, South African Department of Trade and Industry. Pretoria, 2004.	√	√	
Berry, Al, Magali Von Blottnitz, Rashad Cassim, Anna Kesper, Bala Rajartnam, and Dirk Ernst van Seventer. The Economics of SMMEs in South Africa. Rep.No. Trade and Industrial Policy Strategies. 2002.	√	√	
Falk, D. Credit And Finance For Micro-Entrepreneurs. Rep.No. Micro-Enterprise Development in South Africa. Ed. R. Hirschowitz, M. Editor, C.M. Rogerson and D. Smith. 1994. 236-66.			√
Financial Literacy Scooping Study & Stragegy Project. Rep.No. ECIAfrica Consulting (pty) Ltd, FinMark Trust. 2004. 1-67.	√	√	
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Gape, H.T. "An Investigation into the Pricing Methods Used by Small and Medium Enterprises." Thesis. Potchefstroom. 1-251.	√		
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Hinton, Peter F. International Experience of SME Banks - Lessons for South Africa. Rep.No. FinMark Trust. 2007.	√		
Hirschowitz, R., M. Orkin, C.M. Rogerson, and D. Smith. Conclusions. Rep.No. Micro-Enterprise Development in South Africa. 1994. 326-40.			√
Integrated Small Enterprise Development Strategy: Unlocking the Potential of South African Entrepreneurs. Rep.No. Enterprise Development Unit, South African Department of Trade and Industry. Pretoria, 2005.	√		
Key to Growth: Supporting South Africa's Entrepreneurs. Rep.No. 12. CDE Research, Centre For Development and Enterprise. Johannesburg, 2004.	√		
Making Financial Markets Work for the Poor 2007. Rep.No. TNS Research Surveys, FinMark Trust. 2007.	√	√	
Market Assessment - Nelspruit: To Establish Which Business Development Services Should be Used for Intervention in Nelspruit. Rep.No. BMI Foodpack, GTZ South African Office. Pretoria, 2004.	√	√	
Market Assessment - Queenstown: To Establish Which Business Development Services Should be Used for Intervention in Queenstown. BMI Foodpack, GTZ South African Office. Pretoria, 2004.			√
Mears, R., and D.J. Theron. "The Development and Management of SMMEs by NEPAD." Acta Commercii (2006): 20-26.	√	√	
Miehlbradt, Alexandra. Building a Team for BDS Market Assessment & Key Issues to Consider When Starting BDS Market Assessment. Publication No 1. The Practitioner Learning Program, SEEP. Washington DC, 2003.	√		
Miehlbradt, A.O., and M. McVay. Developing Commercial Markets for Business Development Services: BDS Primer for Fourth Annual BDS Seminar, Turin, Italy. Rep.No. Small Enterprise Development Programme of the International Labour Organization. Geneva, 2003.	√	√	

Document	Reviewed	Cited	Unavailable
Mitchell, Colin, Fiona Martin, and Philip Frankel, comps. Constraints to SMME Development in Witbank, Middleburg and Secunda: Report on Middleburg Workshop. Rep.No. United States Agency for International Development, The Macro Planning and Policy Coordination Office of the Premier Mpumalanga Provincial Government, SEGA - MESP II. 2007.	√		
Mitchell, Colin, Fiona Martin, and Philip Frankel, comps. Constraints to SMME Development in Witbank, Middleburg and Secunda: Report on Secunda Workshop. Rep.No. United States Agency for International Development, The Macro Planning and Policy Coordination Office of the Premier Mpumalanga Provincial Government, SEGA - MESP II. 2007.	√		
Mitchell, Colin, Fiona Martin, and Philip Frankel, comps. Constraints to SMME Development in Witbank, Middleburg and Secunda: Report on Witbank Workshop. Rep.No. United States Agency for International Development, The Macro Planning and Policy Coordination Office of the Premier Mpumalanga Provincial Government, SEGA - MESP II. 2007.	√	√	
Napier, Mark. Financial Inclusion in SA and Beyond. Rep.No. FinScope, FinMark Trust. Johannesburg, 2008.	√	√	
OECD, Promoting The Supply-Side Response: Technical And Financial Assistance For Pro-Poor Growth, Promoting Pro-Poor Growth: 45 Private Sector Development, 2006.	√		
Rogerson, Christian M. "The Market Development Approach to SMME Development: Implications for Local Government in South Africa." Urban Forum jan.-mar. 17 (2006): 54.	√		
Rogerson, Christian M. "Tracking SMME Development in South Africa: Issues of Finance, Training and the Regulatory Environment." 14 Feb. 2008. Springer Science and Business Media. 5 Sept. 2008 < http://www.urbanforum.org.uk/ >.	√	√	
Rogerson, Chrisitan M. "Government Vs Market-Led Approaches To the Provision of Business Development Services" Report for the Department of Trade and Industry, funded by USAID/ SEGA II, March 2007.	√	√	
Smulders, S., and M. Stiglingh. <u>Annual Tax Compliance Costs for Small Businesses: A Survey of Tax Practitioners in South Africa</u> . Rep.No. Department of Taxation, University of Pretoria. Pretoria, South Africa, 2007. 117. Taken from: RBI First International Business Conference, 12-14 Sept. 2007, Pretoria, South Africa. SMME Development: "An African Perspective" 2007.	√	√	
Torppa, R.J. Market Approach to Small Scale Enterprise Development in South Africa. Rep.No. Unpublished Master of Management Resource Report, University of Witswatersand. Johannesburg, 2006.	√	√	
Tustin, D.H. The Status of Tax Management and Administrative Skills of SME Manufacturers. Rep.No. 1. Department of Taxation, University of South Africa. Pretoria, 2005.*			√
Trah, Gabriele. Programme Description of The German-South African Programme on Business Development Services and Local economic Development. Rep.No. GTZ South African Office, GTZ. Pretoria, 2004. 1-14.	√		

ANNEX 6: LITERATURE REVIEW – ARTICLE ABSTRACTS

The following documents have been cited based on their relevance and interest for this particular desk based research. This information has either been paraphrased or quoted from the original source. This information serves to inform the conclusions in the report. A full list of documents sourced is included in Annex 5, which includes the full reference details for the following documents.

Abstract 1: “Pilot Study. Survey Highlights including BSM Model.” Finmark Trust. FinScope SmallBusinessTM. Gauteng. South Africa. 2006

According to FinMark Trust this is the most comprehensive study published to date investigating the needs of financial services and support of SMMEs.

According to their study, only businesses that lie in the Business Sophistication Measure (BSM) Segments 6 & 7, have sought business support. The BSM is a scale used by Finscope to segment all small businesses including micro in the country; Segments 6 & 7 are the two most sophisticated segments. No businesses in the lower segments have sought any form of business support. The type of support accessed is shown in Figure 1 below.

The study in Figure 2 shows that only 12.5% of SME owners have received training. Of the training received, business management is the most important.

Figure 1: Business Support Sought by SMMEs

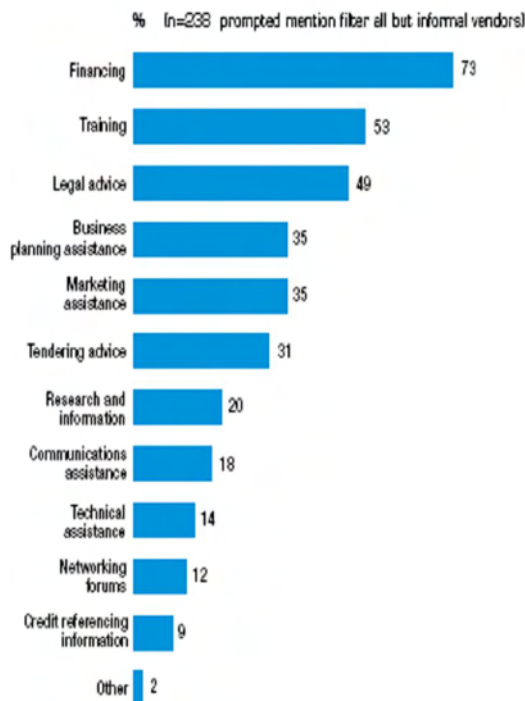
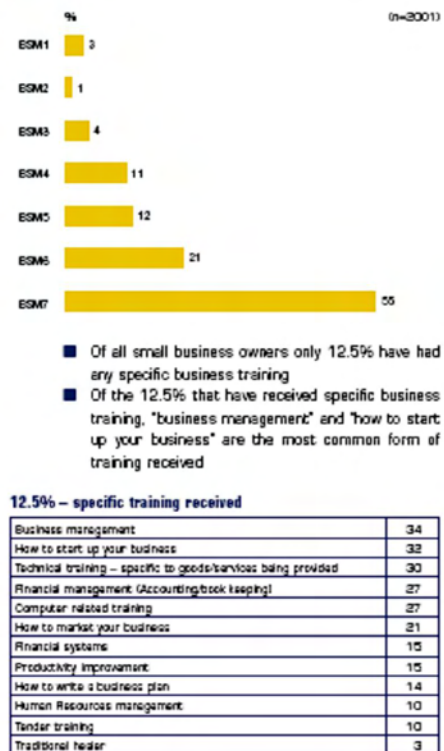


Figure 2: Business Training as a subtype of Business



Abstract 2: “Government Vs Market-Led Approaches To the Provision of Business Development Services”, Christian M. Rogerson, Report for the Department of Trade and Industry, March 2007

This article serves to highlight what is required in the market in SA ó but does not address the questions raised in the SOW.

The current situation in South Africa is that the market for BDS is supply and mostly subsidy driven, with government and donors crowding out private sector providers as a result. The international market is shifting to a market *demand* approach whereby the services required by SMMEs are provided by other SMMEs themselves. In South Africa the government has traditionally subsidised SMME programmes and their development through BDS services. This study highlights previous studies that have found that ösubsidies for state-provided business support have created a set of market distortions that hinder the development of private sector provision (Hitchins, 2002; Bear et al, 2003).ö

This report stresses the need for assessments to determine SMME demands/needs, the need to use a sub-sectoral approach, SMME-focused product development, education/training for less experienced/knowledgeable entrepreneurs, and building clusters for support and efficiency. Dr. Rogerson's conclusion is that BDS should be seen as a market product in DEMAND.

Abstract 3: "Tracking SMME Development in South Africa: Issues of finance, Training and the Regulatory Environment" by Christian M. Rogerson, February 2008

A valuable finding identified in Rogerson's article is that öthe probability of cash flow difficulties being experienced was found to significantly decrease in those firms that kept cash books, records of accounts receivable, records of inventory and practiced active debtor managementö (Angela Motsa & Associates 2004: 16) (page 63)

A major problem for small businesses applying for finance from a bank, is that the commitment required to a long-term relationship with a bank was identified to be öthat many small business entities do not know where their next customer is coming fromö (Kubheka 2006: 21) (page 64)

In addressing the lack of understanding of women's enterprises, this research highlights several particular sets of obstacles, which are experienced by women in accessing finance:

- Financial literacy ó poor understanding of financial terminology and lack of awareness of bank and microfinance services as well as credit processes.
- Attitudes of banks towards women with the absence of specific programmes to increase the share of women-owned enterprises.
- Black Economic Empowerment (BEE) code targets, which do not contain sufficient explicit targets for women's financial outreach or business activity; in many respects, the prevailing consensus is that BEE is a -man's game with women treated as minor partners or add-ons (Naidoo et al. 2006: 6).
- Lack of awareness by women of development finance options, different institutions, their products and how to access them.
- Overall lack of financial confidence of women as compared to men.
- Bias in Business Development Services (BDS) provision towards male entrepreneurs. [The article does not elaborate on the source or cause, but states that much of the literature ignores or does not investigate this bias. Dr. Rogerson advocates that this bias should start to be tracked and highlighted, as well as policies put in a place to combat it.]

- Lack of appropriate products for women entrepreneurs especially with the emphasis on collateralised and asset-based lending, which disqualifies most women from accessing loans. (page 65)

In the findings of a 2006 World Bank study in which respondents were asked to indicate demand for particular support programmes offered through DTI [only discusses public sector BDS], it was concluded “that training did not figure as prominently as expected” (World Bank 2006: 67). This situation accounts for the relatively low proportion of small business owners who have had any specific business training (page 71)

Abstract 4: “Market Approach to Small Scale Enterprise Development in South Africa” by R. J. Torppa, June 2006

As Torppa asserts, because “BDS is not very widely appreciated or known about, it is not in high demand. One would expect that this type of finding would lend itself to a more active policy level engagement to the concept of BDS market development” “South Africa is still predominantly “trapped” in the belief that the state is the engine of development, specifically when addressing the wrongs of the past” (page 34).

A study carried out in the Tshwane Metropolitan area (Ligthelm, 2001) among small-scale enterprises from varied backgrounds demonstrated that the most important services required by small businesses are financial support [in the form of a loan etc.], security services, management training, managing competition and marketing (page 19-20).

A more recent South African study conducted in the Nelspruit area (GTZ, 2004) is cited in the R.J. Torppa’s article and has been referenced directly below.

When considering the challenges facing small-scale enterprise development in South Africa, one can be concerned whether the small-scale enterprises have the resources to pay market prices for Business Development Services. The Ligthelm study (2001) reveals that almost 85 percent of the respondents were prepared to pay for services that they receive (page 22).

Triple Trust Organisation (a Cape Town based non-governmental organisation) and its core donor, USAID, were motivated to support the Spaza shop market in South Africa given its high potential to impact on the lives of the poor. The key constraints faced by the Spaza shop owners were summarised to be insufficient and limited range of stock; the difficulty and high cost of transporting goods from supplier to shops; lack of safe, protected and adequate storage space; environmental problems such as rats and other pests and rain damaging stock or buildings, and theft. Whilst there was limited demand for general business training per se, there was a demand from Spaza entrepreneurs for mentorship. Due to their poverty, Spaza owners could not pay upfront fees for services. The proposed response was to assist BDS suppliers to develop innovative payment options (page 42-44).

Ligthelm (2001) and GTZ (2004) studies demonstrate that there are still groups of entrepreneurs who hold a view that they are entitled to highly subsidised or even free services and see such a provision of services the only possible way of accessing them (page 56).

Abstract 5: “Annual Tax Compliance Costs for Small Businesses: A Survey of Tax Practitioners in South Africa” by S. Smulders and Prof. M. Stiglingh, September 2008

This study investigated tax compliance costs for small businesses. A questionnaire was sent out on 1 November, 2006 and access to this questionnaire was closed on 5 January 2007. The overall response rate was 15.75% (3 429 respondents).

The study has some interesting findings related to the needs and demands of SMEs for Financial BDS, particularly responding to the questions 1) what SMEs have paid or are prepared to pay for such services and 2) frequency of use. We can consider for this purpose that a Tax Practitioner can also offer a variety of Financial BDS services.

The study found that tax practitioners on average charge their small business clients R7 030 per annum to ensure that all their tax returns are prepared, completed and submitted as required by SARS. VAT returns appear to be the most expensive returns for the businesses to obtain assistance with from a tax practitioner. This is followed by the monthly employees' tax returns. If the IRP 5 reconciliation is also prepared by the tax practitioner, on average, it will cost the small business an additional R597 (page 132).

A summary of the average costs that a business would pay for taxation and accounting services is set out in Figure 3 below. The cost of services rendered is illustrated by turnover of business.

Figure 3: Cost paid by an SMME to Tax Practitioner

Service Rendered	Turnover				AVERAGE
	R1 - R300,000	R300,001 . R1,000,000	R1,000,001 . R6,000,000	R6,000,001 . R14,000,000	
Tax Retainer	R22,800	R19,829	R24,400	R27,311	R24,158
Accounting Services	R11,590	R12,082	R13,151	R14,289	R12,185
Total	R34,930	R31,911	R37,551	R40,800	R36,343
% of Turnover *using max.	11.6%	3.2%	0.6%	0.3%	

Note: Information taken from Smulders and Stiglingh's article to create this table.

Figure 3 shows that Tax Practitioners' services are approximately the same cost for a business with a turnover of R1 as they are for a business with a turnover of R14, 000,000. The cost of accounting / tax retainer services is significantly more for smaller businesses. In addition to the cost and frequency of use of Tax Practitioners' services, the main reasons cited for small businesses to make use of tax practitioners is their lack of tax expertise. It was also noted, that regardless of the size of a business's turnover, approximately a quarter, to one third of tax practitioners' clients request their assistance with completing/maintaining the small businesses' accounting and bookkeeping records.

Abstract 6: “The Economics Of SMMEs In South Africa” by Al Berry, Magali Von Blottnitz, Rashad Cassim, Anna Kesper, Bala Rajaratnam And Dirk Ernst Van Seventer, December 2002

This article discusses all the government programmes, but not actually any discussion of what SMMEs want. Both emerging and established SMMEs show little awareness of the existence of SMME support initiatives. 57% of emerging SMMEs interviewed in Gauteng and 70% in the Western Cape had never had contact with or even heard of any support institution.

The authors state that in theoretical terms, *ödemandö* implies both the expression of a need, and the agreement to get it. Unexpressed needs (needs that are expressed but where there is no ability to pay the market price) are not qualified demand.

Firms in need of finance that are denied access are precisely those that are not creditworthy/not viable. In this scenario, it is argued that the market functions correctly. This does not mean that there is no problem; however, the problem is not genuinely to do with finance; it has rather to do with the skills of entrepreneurs, their access to product markets, or other problems. Any interventions aimed at improving firms' viability and sustainability in order to *öqualify* them for finance is certainly a sensitive policy (page 111).

Abstract 7: “Market Assessment Of Business Development Services – Nelspruit, South Africa” by GTZ, July 2004.

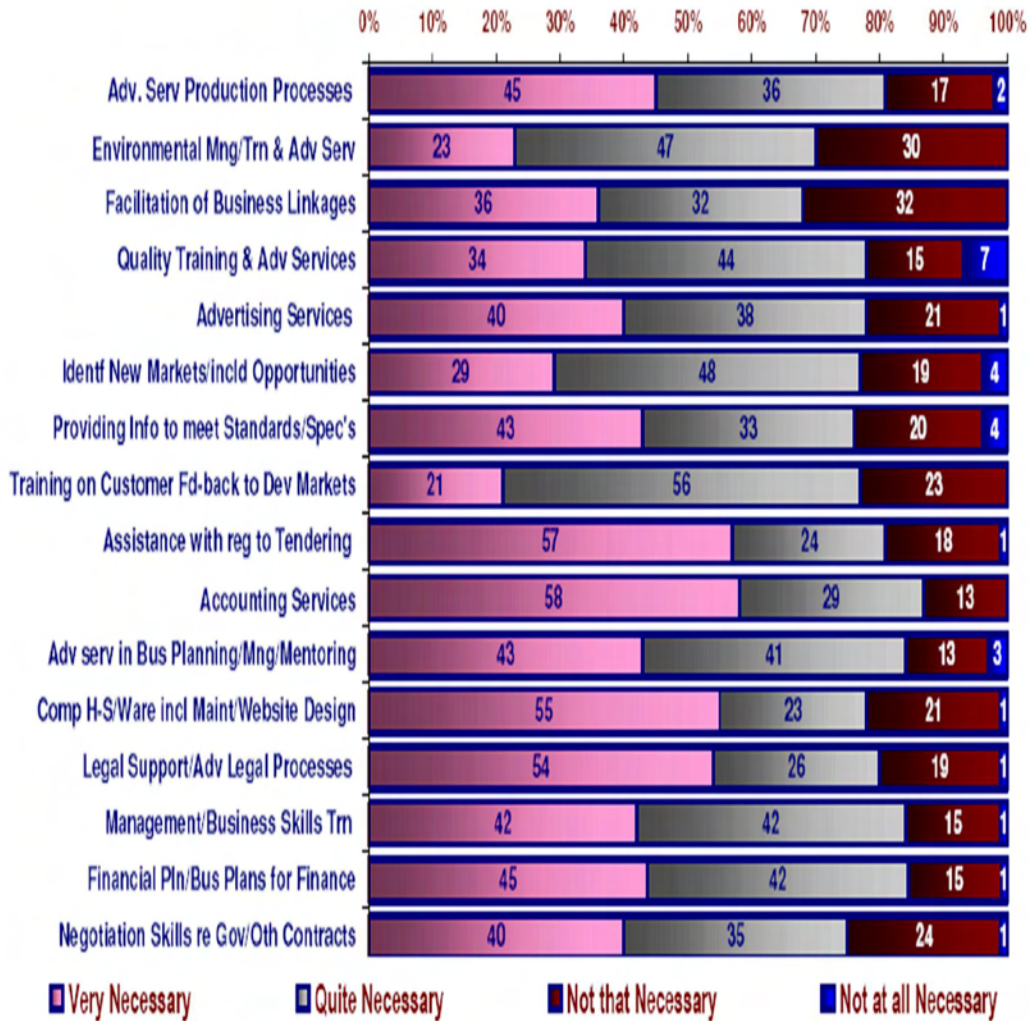
The GTZ study disclosed some important findings regarding awareness, knowledge and usage levels of BDS in the Nelspruit area. Out of the 4,095 businesses in Nelspruit, the highest usage incidence is recorded for advertising services (used by 55% of SMMEs), accounting services (54%), computer hardware and software services (42%) and legal support services (38%). The lowest levels of service usage incidence were recorded for environmental management (3%), facilitation of business linkages (4%), negotiation skills (4%), and tender support (4%). A quarter of the respondents in the survey (25%) could not think of any business development services off-hand. Once a definition had been provided, this reduced to 0%.

In terms of services considered for future usage, it was shown that the five services with the highest past usage incidence *ó* advertising, accounting, legal support, computer hardware/software services and financial planning *ó* also exhibited the highest future usage incidence.

Awareness levels were recorded to be the highest for advertising, accounting and legal services and the lowest for assistance regarding tendering and negotiation skills. Most important sources of information about BDS were colleagues and, in some cases, advertisements and the activities of consultants. Interestingly, the government or governmental agencies were not listed as source of information. Overall usage of most forms of BDS in the Nelspruit area was recorded as considerably low (page 20).

The following diagrams (unfortunately, not the most well displayed) are a variety of different findings from the GTZ study in Nelspruit. These are extracted directly from the GTZ report. Figure 4 illustrates that SMMEs perceived that accounting services (87%), financial planning/business plans for finance (87%), assistance with regards to tendering (84%) and management/business skills training are the most needed types of BDS.

Figure 4: Perceived “Extent of Necessity” of Business Development Services



Source: BMI FOODPACK

Figure 5 displays SMMEs reasons for needing BDS. For SMMEs using accounting services, 33% did so out of a need for financial aid assistance, while 25% acquired this service because their business is expanding or growing.

The same reasons are essentially given for usage of financial planning/business plans for finance; 30% use the service for financial aid assistance and 27% because their business is expanding or growing.

SMMEs reason for getting assistance with regards to tendering was more varied as the most common response (35%) was because their business is in decline. Losing a contract, increase in competitor activity, business expanding/growing and a skills shortage in the business were also commonly cited reasons.

The most common reasons given for SMMEs need for management/business skills training was their business was expanding or growing or they had a skills shortage in their business.

Figure 5: Main Reasons Given for Usage of Business Development Services

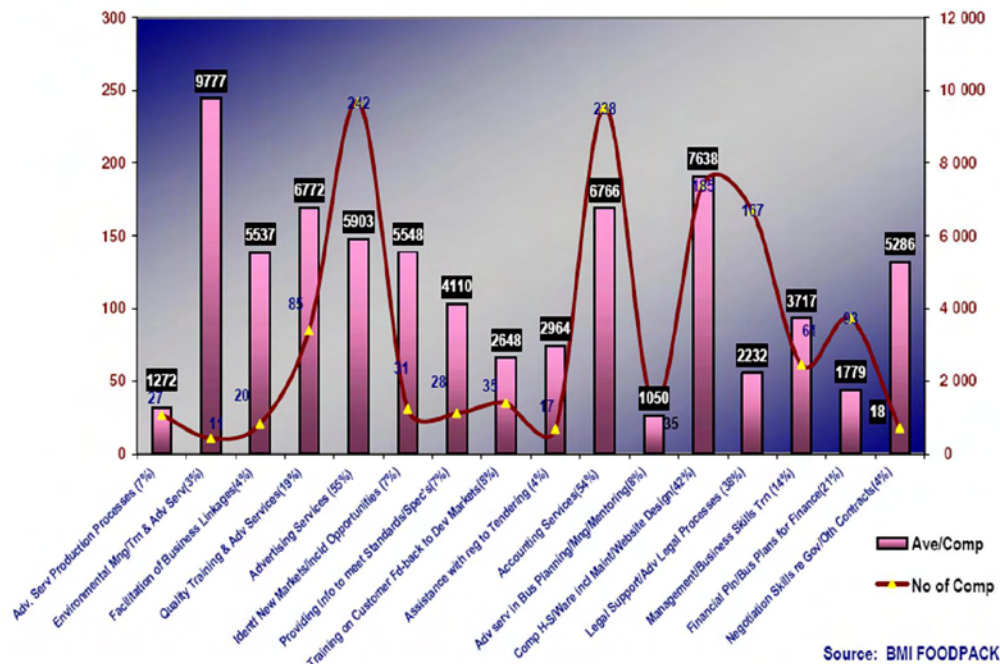


We are shown in figure 6 how much BDS services on average are costing firms and how many firms are using these services. Environment services are by far the most expensive service to SMMEs (R9, 777) and that is perhaps why very few SMMEs in Nelspruit use this service (3%).

Other costly services to SMMEs are computer hardware, software, maintenance, and website design (R7,638), accounting services (R6,766) and quality training and advanced services (R6,772).

The least costly service to SMMEs was advanced services in business planning, management and mentoring (R1,050).

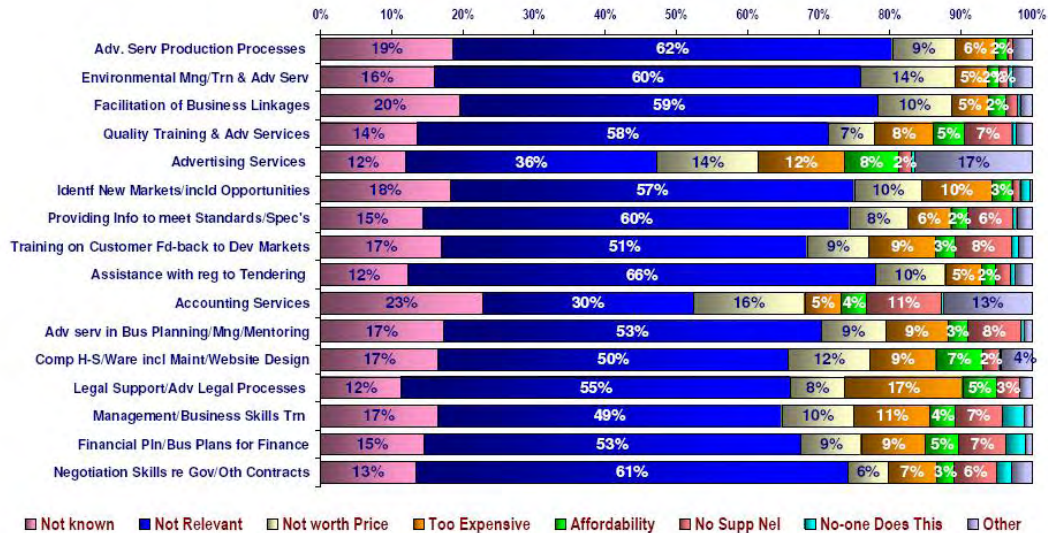
Figure 6: Average Amount Transacted Per Company Paying for the Service Used – The Last Time



Source: BMI FOODPACK

Figure 7 explains why SMMEs choose not to use particular BDS. For every form of BDS offered in Nelspruit the most common reason for not obtaining its service is that it was not relevant for the SMME. The second most common reason for not using a particular type of BDS is that the SMME was not aware of the service.

Figure 7: Reasons for Not Having Used Business Services in Nelspruit



Source: BMI FOODPACK

Abstract 8: Developing Commercial Markets for Business Development Services: BDS Primer for Fourth Annual BDS Seminar, Turin, Italy by A.O. Miehlabrad and M. McVay, September 2003

It is recognized that one of the mistakes of early BDS initiatives was that they often assumed which services were wanted by SMMEs. Clearly the market has been supply rather than demand driven. It is acknowledged that high impact strategies for BDS support delivery require a solid understanding of the constraints on SMMEs and the demand for services. In seeking the development of high impact strategies, therefore, a key entry or starting point is thus the conducting of an objective assessment and analysis of market opportunities and constraints.

The market development approach starts by understanding both the existing supply of BDS from the private sector, donor-supported programmes by the government and seeks to identify 'market failures' that can result in a gap between the supply and demand for services. The goal of market development interventions is to overcome these market failures and rather to take advantage of opportunities to expand the service market for SMMEs (Miehlabrad, 2002). The desired outcome is that a large proportion of SMMEs buy the BDS of their choice from a wide selection of products which are offered (primarily) by unsubsidized private sector suppliers in a competitive and evolving market (page14).

In South Africa, the BDS market has been primarily supply driven as opposed to demand driven. Over the past decade, there has been limited public debate or research about the market development approach towards BDS provision in South Africa and perhaps this has hindered the shift towards the market driven model in the country.

Abstract 9: “*Annual Review of Small Business in South Africa – 2003*” Department of Trade, 2003. (Much of the information in this report was taken from the GTZ, 2004 study already mentioned above)

Kind of BDS and Main reason for usage:

- **Advisory services in production processes** - Received complaints about product or service delivered
- **Environmental management training** - Required to by law
- **Facilitation of business linkages** - Increase in competition
- **Quality training and advice** - Need/desire to be more professional
- **Advertising** - Increase in competition, growth or expansion of business and/or insufficient demand for product or service delivered
- **Identification of new market** - Business in decline
- **Provision of information for standards/Specifications** - Complaints received about product or service delivered
- **Training on customer feedback to develop new markets** - Skills shortage in business
- **Tender assistance** - Business in decline and increased competition
- **Accounting** - Need for financial assistance
- **Business planning/management services** - Need to be seen as more professional and skills shortage in business
- **Computer hardware and software services**- Need to be seen as more professional
- **Legal support** - Not knowing correct legal procedures
- **Management and business skills training** - Business expanding and skills shortage in business
- **Financial planning** - Need for financial aid/assistance and expansion of the business
- **Negotiation skills re-contracts** - Expansion of the business

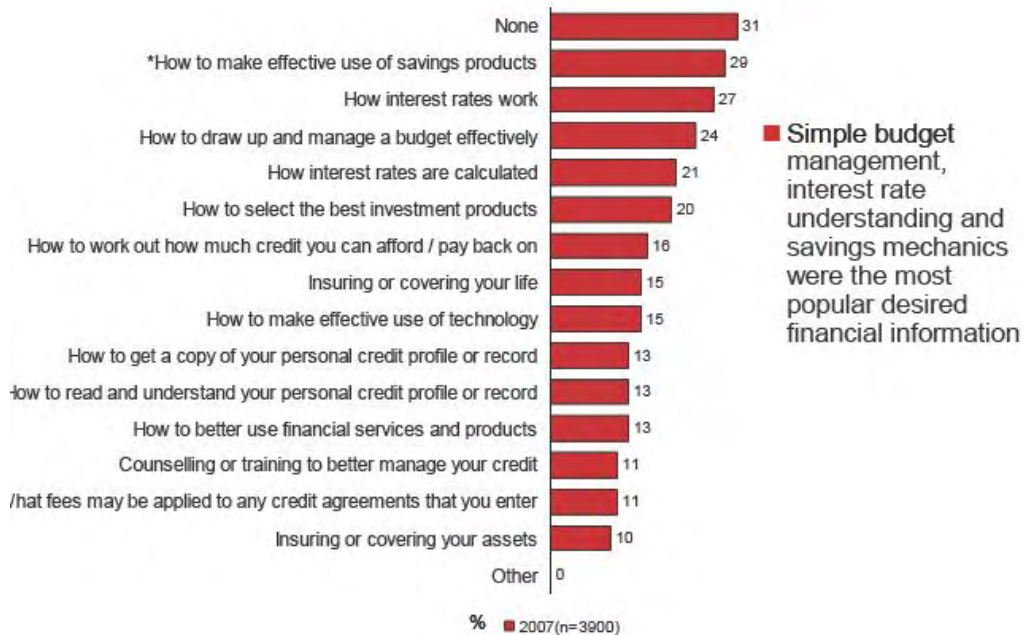
Abstract 10: “*Financial Inclusion in SA and Beyond*” by Mark Napier, FinScope, March 2008.

Napier found that SMME access to finance in SA is: 60% formal banking, 4% formal other, 11% informal, and 25% unbanked. He also found there is a need for more financial literacy to lessen the gap between the haves and have-nots.

Abstract 11: “Making Financial Markets Work for the Poor” by TNS Research Surveys, March 2008

This survey found that the number of people ðbankedö increased 2% from 2006 to 2007. Figure 8 below illustrates the results found when individuals were surveyed in this study, but would also correspond to SME needs as SMEs are often run by a business owner-manager.

Figure 8: Financial Information Desired by Individuals Surveyed



Abstract 12: “The number of people banked in South Africa has increased by 20 percent – but use of products remains limited” Finscope Press Release, March 2008

Growth in bank account use has come from the black population, from people living in informal urban areas and from people earning between R500 and R999 a month. Unquestionably, Mzansi accounts were a driving force behind this substantial increase ó one in 10 adult South Africans now has an Mzansi account, well over a million more than in 2006.

Although the banking sector has grown at an impressive rate, an uptake in banking does not always directly correlate with knowledge of financial matters or appropriate financial management. The most pressing areas in which education is desired are how to make effective use of savings products (29%), how interest rates work (27%), how to draw up and manage a budget effectively (24%), and how interest rates are calculated (21%).

For most of the banked population, their use of financial products remains limited, and more complex savings and investment vehicles are not part of their financial management tools. While this is largely driven by financial constraints, which do not allow for surplus money over and above that required to meet basic needs, an improvement in financial knowledge and management abilities would ensure optimum financial management should financial circumstances change.

Abstract 13: “Financial Literacy Scoping Study & Strategy Project”, ECI AFRICA, 2004.

This report completed by ECI Africa in 2004 discusses the current state of financial literacy training available in South Africa and the strategy including required research for achieving a more effective impact for the population.

In addition to some primary research projects, the financial institutions generally use a range of resources, both internally and externally, to ascertain needs and develop programme content. Firstly, some of the financial institutions have done a review of global best practices before developing their own programmes. FNB and the Standard Bank Foundation are examples of programmes which were only developed after extensive overseas research. Secondly, internal sources are often consulted, such as client queries or MIS as a proxy of client behaviour and needs. Both Standard Bank and ABSA conducted an intensive review of internal sources to aid the development of their programmes. These were complemented by primary research, to determine perceptions of their programmes and further refine their financial education initiatives. Old Mutual also conducts in-depth research on a regular basis to both assess effectiveness and further improve the delivery of their multimedia consumer education campaign. Teba, FNB and FSB are all currently in the process of conducting research to aid the development of their financial education programmes (page 33-34).

Where no primary research has been conducted, programme content is partially supply-driven (what the providers believe should go into the programme), informed through informal consultation with the target audience and refined by drawing on learning from other programmes. All-in-all, formal needs assessment have been lacking to date, and most programmes are largely developed based on the implementers' perceptions of financial education needs (page 34).

As stated in the article, “It is therefore clear that South Africa is in dire need of a comprehensive financial literacy study to benchmark current levels of financial knowledge and ascertain financial education needs to inform future programme development. Individual programme suppliers should also consider how their programmes will be assessed against the programme's stated objectives. Impact assessment and indicators of success should be defined during the programme design phase. Without such measures, we will simply stumble on in trial-and-error, and will not be able to refine our approach or measure our achievements.” (page 35).

A national study should be undertaken to benchmark financial literacy levels and ascertain financial education needs within the various segments of the population. The segments created by FinScope (FSMs) could possibly be used for the study. The study would further require the development of proxies of financial literacy, and conducting (outsourcing) of periodic surveys to monitor progress and assess changing needs (page 47).

ANNEX 7: SCOPE OF WORK

Chemonics International Inc.
USAID/Southern Africa Financial Sector Program (FSP)

Scope of Work: BDS Data Collection

Background

The Financial Sector Program (FSP) supports the accomplishment of the U.S. Government's Economic Growth Objective in South Africa. This task order is one of two main vehicles to promote vibrant growth of historically disadvantaged small and medium businesses (SMEs) and reduce unemployment and poverty. The objectives of this program are to expand access to financial services and lower financing cost for small and medium enterprises (SMEs) through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SMEs in South Africa, thereby expanding SME access to a range of high quality and affordable financial services.

Activities under FSP will focus on improving and expanding financial services and products; managing and mitigating financial risk and transaction costs; improving bankability of SMEs and business services by linking financial services with business service activities that can build SME capacity, productivity and competitiveness, as well as improve the capacity of financial advisory services to serve SMEs.; support the emergence of an efficient credit industry regulator that promotes an enabling environment for financial intermediation and risk management, and boosts the private sector's role and participation in the provision of financial services to SMEs; promote reforms to commercial laws, regulations, and administrative practices affecting the private sector and SME development; and, improve knowledge management through an accessible repository of knowledge about SMEs and finance in South Africa.

In order to facilitate a comprehensive development of the financial BDS component of the initial work plan, a detailed investigation into the scope of available financial BDS providers is essential. A preliminary inventory of the financial business services providers will provide the springboard from which the FSP long term BDS advisor will begin investigation into the strengthening and needs assessment of providers as it related to the needs of the SME themselves. This supply side information will complement the SME demand side market assessment happening concurrently.

Purpose:

The objective of this assignment is to collect a broad range of data regarding the current players in the financial BDS provision industry in Gauteng province. The data will provide the basis for the BDS advisor's assessment of the adequacy and depth of the financial BDS market and offset against the SMEs needs.

Tasks:

The principal tasks to be completed under this SOW engagement are as follows:

- Review salient background documents, including USAID's FSP RFP, Chemonics' technical proposal for the implementation of FSP, other available BDS activity evaluation documents
- Conduct a comprehensive assessment of the typology of financial BDS providers in Gauteng/SA collecting the following information as available:
 - Organization and Contact details
 - Key partners
 - Category of services provided
 - Employee / service provider status
 - No. service providers offering advice, mentoring, etc.
 - Average no. clients per service provider?
 - Average no. clients served per month
 - Would they be willing to share their database of clients?
 - How are "service providers" sourced?
 - Qualifying criteria - educational qualifications
 - Qualifying criteria - who must service provider registered with
 - Services offered
 - Target group
 - Target industries
 - Specific sectors
 - How are services marketed?
 - How are services priced?
 - Who pays for the service?
 - How do they measure demand?
 - What is average for "R" per month?
- Summarize data collected in a spread sheet
- Given the above research, proceed to determine what if any demand side studies were undertaken to discern the needs of SME with regard to financial BDS. Desk research to include:
 - Identify who has undertaken such research
 - Review to determine if depth of research meets the needs of FSP
 - Recommend to either focus on existing studies or proceed with limited market demand study to better assess the SAME demand for financial BDS

Deliverables:

- Spread sheet detailing the key players in financial business development provision
- Report listing all salient studies identified, reviewed with abstract summaries of each

Timing/Duration:

The assignment is estimated at 7 days, including six day work week in country and will begin on or about July 22, 2008. No travel time or concurrence required.

Location:

Johannesburg, South Africa

Reporting:

While in South Africa, the consultants will fully collaborate with Terri Kristalsky, Chief of Party, and will report directly to same. Chemonics may amend the SOW for this assignment in consultation with the consultant.

Qualifications:

- BA or equivalent
- Experience in assessment, analysis and promotion of SME BDS in the South African context required
- Previous work within the SME development community a bonus
- Well versed in data base development

Proposed Consultant: Alyna Wyatt, Khulisa Management Services