Resource Report 12:

Research into Service Providers in respect of Entrepreneurs

A research project sponsored by the National Department of Housing, the Social Housing Foundation, Nedbank and the FinMark Trust

Date: 6 February 2006

Submitted by:

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in Association with CSIR Built Environment

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Acknowledgements

Funders

The Finmark Trust, the Social Housing Foundation,
Nedbank, and the National Department of Housing

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Thank you to the advisory committee, focus group, interview and survey respondents, as well as specialists and Government Officials who provided their valuable input. A special thank you to NURCHA who provided the Team with access to primary research data.

Reports produced as part of the Housing Entrepreneurs Research Project:

Final Reports:

Research Report: Consolidated analysis of research into Small Scale Landlords and Home Based Entrepreneurs (April 2006)

Small Scale Landlords: Research Findings and Recommendations (3 May 2006)

Home Based Entrepreneurs: Research Findings and Recommendations (to be released in July 2006)

Resource Reports

Literature Review

Resource Report 1: Literature review of Small Scale Landlords (6 February 2006)

Resource Report 2: Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks. (6 February 2006)

Resource Report 3: Literature review on entrepreneurship, housing and housing finance (6 February 2006)

Resource Report 4: Literature review on Home Based Entrepreneurs (6 February 2006)

Small Scale Landlords

Resource Report 5: Research into Landlords in Inner Cities (6 February 2006)

Resource Report 6: Research into Landlords in Townships (6 February 2006)

Resource Report 7: Research into Successful Landlords (6 February 2006)

Resource Report 8: Research into Service Providers in respect of Small Scale Landlords (6 February 2006)

Resource Report 9: Research into Public Sector Stock (6 February 2006)

Home Based Entrepreneurs

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1 Introduction

Finmark Trust, the Social Housing Foundation, Nedbank and the Gauteng Department of Housing have appointed Shisaka Development Management Services in association with the CSIR to undertake research into 'Housing Entrepreneurs'. Housing Entrepreneurs are defined as small scale landlords and entrepreneurs who operate or use their house as part of their business activities.

The purpose of the research is to understand **how housing and housing finance can be used as a tool to promote the emergence and growth of entrepreneurs and small scale landlords.** Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build an entrepreneurial and small scale landlord sector in low income areas.
- Developing **appropriate information products and tools** to assist emerging entrepreneurs and landlords in their efforts at becoming housing entrepreneurs.
- Focusing on the potential for small scale entrepreneur landlords to be the model for dealing with **difficult to transfer state owned stock.**
- Understanding the key issues which would support a **productive relationship between the landlord and the tenant** in the small scale sector in the mutual interests of both parties.
- Inform policy and strategy directions so as to facilitate **better access to housing investment opportunities for either entrepreneurs or small scale landlords,** such as are already being realised in the middle and upper income sector of South Africa.

This report forms part of Phase 1 of the research and covers slightly edited transcripts of semi-structured in-depth interviews conducted with key service providers in respect of the facilitation of small and medium enterprises (SMEs) in South Africa in August/September 2005. **This research comprises one component of the overall research being undertaken which includes:**

- Research into Landlords operating in Inner Cities and Townships
- Research into Successful Landlords
- Research into Service Providers and Lenders in respect of Small Scale Landlords

- Research into Entrepreneurs in Inner Cities and Townships
- Research into Successful Entrepreneurs

This report includes:

- Methodology
- Summary of interviews undertaken
- Key findings

2 Methodology

2.1 Institutions & Individuals Interviewed

The following institutions were included in the survey:

- Marcelle Newsome – The Business Place
- Tim Anderson – Tourism Enterprise Programme
- Dawn Jefferson-Green – Absa Bank
- David Morobe – Gauteng Enterprise Propeller
- Jo Schwenke – Business Partners

2.2 Interview Guide

A simple interview guide was developed, covering four broad areas: extent of support, interest in providing support, challenges and opportunities in this area, and finally the role of the house/housing finance in the entrepreneurial process.

3 Summary of interviews undertaken

3.1 Marcelle Newsome: The Business Place

3.1.1 Extent of support

Business Place is intended to be a youth-friendly, comfortable place where people with a business idea, can go for support. Business Place wants to encourage the idea that there are resources available to entrepreneurs to help them toward their goals in their business.

Business Place does not provide financial support, but does provide referrals to financial services and explains the financial process to clients, mentoring them through the process of accessing finance. Business Place attempts to see the client where they're at but also understands what the banks need; they see themselves as the middle point getting each side to try and understand the other. There are lots of different types of interventions to help clients, depending on a range of factors such as their sector and the level of business development.

What is unique about the Business Place is the relationship with other service providers in the same facility. There are 14 service providers providing a one-stop-shop environment including:

- Three or four different financing companies
- 3 consulting companies
- 3 or 4 business training companies

Business Place has a database of 16 000 businesses in Gauteng - between 800 and 2000 people walk into their offices each month. Business Place works with mainly micro businesses, occasionally on the small business side, but not large and medium businesses. Micro-business is defined as having up to 12 or 15 employees.

Business Place does interact with informal businesses. For many of them, formalizing their businesses at a cost of R20 000 might not be that persuasive an idea. There are certain costs in terms of getting a business off the ground, a factor which locks clients out of markets – for example, access to tender opportunities.

Businesses go through different phases:

- There is a pre-conception phase, thinking about the idea of starting a business;
- The conception phase - taking active steps to set up their business idea; and
- The final stage is the implementation phase – either started their business, or have a start date as to when it will happen.

Business Place classifies the implementation phase as the growth phase too and looks at the sophistication of the client in their understanding of the business concept, which helps them to understand how they can intervene.

The institution interfaces with clients on all levels. Almost all its services are free, there are some training programmes and workshops where a nominal fee is charged, just to ensure there is commitment to attend. Other than that, everything is funded predominantly by the City of Johannesburg and Investec.

3.1.2 Interest in providing support

There are two specific ventures that Business Place is about to get off the ground:

- The first is the **Opportunities Enterprise Network or OPEN** which focuses on being more proactive about encouraging clients based on their interests in a specific sector, for example, in tourism, construction and so on. Business Place is currently structuring how to network those clients with one another, provide some keynote speakers, opportunities to meet, perhaps develop a mentorship programme out of it etc.
- The second area is the **Business Opportunity Shop or BOS** which provides pre-packaged small businesses, for a nominal amount of money. These 'mini-franchises' encourage a group of people who might have an interest in running their own business, but don't really know what to do specifically. A key feature of BOS is matching skills with opportunity, allowing entrepreneurial people to explore different options and give them ideas. Becoming a rental entrepreneur could fit into this BOS concept.

Business Place is looking for resources for these programmes.

This shift in approach is because of the sense that Business Place is slightly reactive now – meeting a person with a business idea, but often ending up just listening to their idea, taking it up to a certain level and not being able to take it further after that. Business Place could be steering them into something really positive, informing people about the opportunities in their own sector – tender opportunities, for example. There are also sub-contracting opportunities with larger companies, building these business linkages. The feeling is that networking opportunities on a monthly basis will open up tremendous opportunities.

Business Place feels there are lots of opportunities to be directed more closely towards their clients, really understanding their needs and structuring themselves to impact more directly.

In addition, the idea is to restructure so as to focus on clients that are a little more developed in their business concept and spend more energy working with them directly. Clients that are more into just understanding what their business is about, can be directed into training and other kinds of interactions which do not have to directly involve one on one interaction.

Business Place's approach is to wait until the Entrepreneur has taken a few steps, and demonstrated his/her commitment. Business Place then gets into serious level engagement.

3.1.3 Challenges

Business Place's monitoring and evaluation processes are not that well-established, the organization is not in a position to say what long-term impact they have on clients, and could do more in terms of follow-up.

Capacity is limited with some 2000 clients and 16 staff members - 6 dedicated on the floor to coach directly, 3 in administrative functions and quite a few volunteers. Business Place staff do not see themselves as advisors, but rather navigators – sitting alongside the client, working with them to identify their next steps, a relationship-building exercise – this is the key. Entrepreneurship is a lonely business, there's a lot of darkness out there, you hear about licenses, rumblings of 'you need to register your business' and so on – getting some insight into what this means, overcoming fears associated with it, having some place to go to find out how to overcome these obstacles, find out what the alternatives are – this is important.

The relationship aspect is critical in terms of the intervention and a challenge to develop this quasi-mentorship sense, of having that person around, with as much support, valuing this support, infusing the client with the right resources at the right time, will help that business to really take off. It is not about just giving money, a return on Business Place's investment is expected at some level!

Business Place's experience is that the ladder where a business graduates in steps on a growth path does not necessarily happen. This depends on how much capitalization the business has. Most businesses that start small generally stay small, medium sized businesses -unless they're able to find significant funding - tend to stay medium, and similarly large ones tend to stay large. This does not necessarily relate to success or failure, businesses in each of these categories can equally fail or succeed.

The issue is capitalization – access to funds. The argument that access to capital is not the major constraint to business growth was disputed. However, it was noted that at the initial stages of business development, access to capital is not the major constraint: skills, capacity and an understanding of what they're getting into are the initial constraints that this kind of business will confront. These need to be worked through before you start talking about access to finance. If these aspects are not well-grounded into their costs, you'll end up throwing a lot of money into a failing venture.

Once these issues have been addressed then access to funds becomes important. Marcelle Newsome would have a hard time giving money to a newer business, but would look at the business on a case by case basis. What kind of structures does that business have in place to be able to prove that they're operating rationally? Some businesses don't have a financial record 18 months later, they don't have their own bank accounts, they need to demonstrate that they're taking their businesses seriously.

Failure usually does not happen in the start-up phase, which can be done on a shoestring budget, in a room or house. Businesses will start off basically having enough money to get the business off the ground and will be operating fine. They start off at ground zero, but getting to level 7 might require money, equipment, moving to a bigger facility and so on. Working in the house

may become a constraint at a certain level of business, or the entrepreneur has a vision of wanting to move into their own building.

Entrepreneurs often allow their business to grow, but they're not paying themselves. Profit goes into the growth of their business, the entrepreneur keeps floating that business for two years, but that growth comes at the expense of the owner. This is not a situation that can be sustained. The business can be succeeding, but at the expense of the investors in that process, of the owner or whoever the investors are.

Many businesses end up failing between 18 months to three years. They can shoestring it for the first 18 months, believe in it, they then realize they need financing or the business is going to stop because they don't have any other resources to put into it. There's a certain kind of personality that will try again after failure, that takes that challenge, tries to figure out another activity, the life experiences that they gained are perhaps helpful on the second one. It is not saying it is a lost cause and they failed. Some businesses just run out of steam and can't go further.

Businesses do not grow, basically because there is not enough money to capitalize. Of course, a lot of businesses are ill-conceived. In the US, it is a really easy process to get financing, if you have a good business idea, put in enough of your own money and get loans from your family and friends contribute. The housing market has grown so much, you can use your house to get a 200 000 USD loan. This makes a big difference.

There is an issue around entitlement mentality in SA, where people don't want to put anything into the process, all they have to do is come up with the concept and the money and business is supposed to fall at their feet. I can promise you that this kind of approach to a business will end in failure a year down the line!

Some small business support organizations complain that too much is asked of the client, that we need to drop this or that requirement. This is the wrong approach. If entrepreneurs are not prepared to contribute 10% of a R7 000 voucher to pay for their branding model for their business, do they really have enough money to set up their business anyway? Are they really committed to what that person is going to give them or are they just going for it because it is for free? Is it an important resource after all? If so, where is the rest of that money going to come from?

There's a lot of evidence to show that loans in this sector haven't worked successfully, there's a lot of failure in terms of repayment rates. This field is one that financiers have to approach carefully, making sure their assets are covered.

Government should really just watch entrepreneurship, say it's a really good idea, and let entrepreneurs just get on with it! This is their challenge.

3.1.4 Housing/housing finance and the entrepreneurial process

The house is an incredibly valuable asset. What do you have to offer if you don't put up your house?

The house acts as an incredibly useful business incubator in the initial phase of many businesses. The interviewee has a house in Washington DC, was able to get a second mortgage on it, which was used to finance a big portion of the business he was running. Because the property market was growing, the interest rate was very low – 5% a year – which made taking the risk easier.

In SA, there are too few assets, too few financing avenues, collateralisation is a very big issue. To the extent that there is ownership of the house, that is one option, but the interest rate can work against this. If you're dealing with all sorts of costs associated with your business and dealing with a bond re-payment of 12%, this can be an inhibitor. In the US, 5% is manageable. If your loan costs 12% you need to make profit to exceed the repayment amounts. Using your house as collateral in SA is inhibited by lack of ownership and high interest rates. You can only borrow up to a certain margin on your property.

The access bond facility in SA simplifies things for many entrepreneurs. You can get a line of credit using this facility, you do not have to worry about credit checks and it is always there for you when you need it. If you want to pay it off, you can do so with no extra costs associated with it. You can also save your money in this facility.

In the US, the second mortgage has financed a lot of different things for many people! I'm not sure why South African's don't go this route? South Africans pay off their car loans at 15% interest, why don't they get a second mortgage on their house and drop the interest rate? South Africans also use credit cards, when they're paying about 20% interest, when you can get a debit

card through your mortgage and be paying 9,5% right now? There's a whole orientation that South Africans have, but which could usefully change.

Using your house is a very safe way to make loans. You already have the asset secured, it does not seem like you need to look at the business, there is not an extensive amount of paperwork involved, you just look at the asset and the capacity of the person to repay and you hope the person will not default. It is an already secured claim from the financiers' perspective and encourages the client to make sure he carefully builds his process since he has a vested interest. In Mozambique, you get title to the physical property, but you don't get rights to the land. This is a strange system, you have to come up with separate capitalization to build on your property, you can't use your land as an asset.

3.2 Tim Anderson: Tourism Enterprise Programme

3.2.1 Extent of support

TEP has been running for 5 years, the first four funded by the Business Trust, working with the Department of Environmental Affairs and Tourism. A number of specific targets were set, in terms of the number of SMEs in the tourism economy that were supported, the amount by which their revenues grew as a result of that support, and the number of jobs that would be created following that growth.

So, it's very targeted and very focused. SMEs are only supported if the intervention is going to result in business growth.

It is not just the tourism industry, but the tourism economy that is supported. A lot of the SMEs that are supported are not tourism enterprises, but may be suppliers of goods and services to the tourism economy. For example, TEP supported black entrepreneurs in the Eastern Cape to put up game fences around 60kms of the Addo extension. They did not need to be told anything about fencing, but they were not good at submitting the tender, getting the raw materials at the best price, the tools and so on, they needed a good contractor who'd done this kind of thing before. TEP found a retired contractor, paid him a minimal salary for 6 months, he was happy to go in

and support them, drew their wages from the bank, paid them, ordered the poles and wire. He was very experienced in fencing, this was critical in terms of the intervention.

So TEP do not provide the services directly, but act as facilitators. TEP does not know much about fencing or some other sector, but will go out and find a fencing specialist – the same would apply to maintenance services, plumbing, catering, B&Bs etc.

If an SME needs support to grow his business, in terms of grading, training, market access, brochures, a website, TEP cost shares – 50% is the rough guideline, but it could be more or less. TEP also tries to get other people involved, if they can fund 25%, they try to pull in, for example, the Eastern Cape Tourism Board or DTI or the IDC to pay 25% as well, then their money goes further, and more people get involved.

TEP interacts with the SME in a number of different ways. The first time they meet with an SME face to face, they fill in a basic form and get onto the database. Thereafter TEP waits to be approached by SMEs, this is important. TEP wants SMEs that have got ideas. TEP is delighted when an entrepreneur walks through the door and says, 'Sorry, my English is bad, my ideas are handwritten, but this is my vision.' TEP will then cost-subsidise a business plan to sit down with the entrepreneur and turn this into something. Entrepreneurs have ideas, they don't have to be given them.

The first five years have gone pretty well, our funders are pretty content.

TEP doesn't like doing everything itself, what happens when TEP ends – which it will, as a facilitator this should be an inevitability – if it takes on too much of the responsibility itself? Part of TEP's job is to help build the enabling environment around SMEs, which is more than TEP, encompassing for example, tourism associations. TEP has been building a strong local tourism association in Soweto which can continue helping its members.

TEP is apparently becoming recognised as the tourism programme, more and more provinces are referring to us.

3.2.2 Interest in providing support

TEP is going deeper rather than broader in its approach in terms of providing support as this is a core area of interest. TEP has 'latched' onto the work that Monitor has done which found that

cultural tourism is a huge potential opportunity, but that the products are usually pretty awful, not high quality and not authentic.

The other major interest is in business tourism – particularly in Jo'burg and Cape Town. Jo'burg is winning big contracts in terms of conferencing, with a number of people coming into the country, how can you link SMEs into the value chain? This is what TEP is currently interested in exploring.

In terms of accounting services, helping people with business plans, with websites, TEP has just put together guidelines on developing business plans and websites. TEP will take business service providers that they typically use, accredit them, put them through a day or two course and it is hoped that this approach will turn them into better service providers for the SME market. There is no need to get KPMG to do a business plan for Lolo's guest house, for example, as KPMG doesn't necessarily understand her, they might be too expensive, and possibly not that interested anyway. But Lolo's needs a business plan, who's going to do it? You typically need a one man band bookkeeping service in Soweto, we might need to teach him about doing business plans. So, our work is not always targeted at the SME directly, but at the supporting industries around the SME, who might be SMEs themselves.

TEP has prepared guidelines, will accredit service providers who will be cost subsidised – this is a learning experience.

Ebony Consulting International, TEP's parent company, recently did a study on shopping tourism for the city of Johannesburg. What the interviewers found at JHB station was that a lot of the people getting off the trains had come here to shop, to buy perishables, fridges, egg beaters, whatever – in many cases these were traders from the rest of Africa. In terms of problems identified, interviewees noted that they weren't always aware of where to get the best deals, where to store what they buy while in JHB, what else to do in the city aside from sit in their hotel rooms when they would rather be watching a soccer match in Soweto, for example – this is such an opportunity to small enterprises to service this market, one which is not going to dry up in a hurry.

Newsletters on what specials are available in the CBD wholesalers, the soccer fixtures list, transport to and from the hotels, where to eat, where to stay – whether it is a B&B, hotel - and so on.

Couriering opportunities also exist, and if there was a small enterprise which could package their products and transport them back home, it would help a lot since these traders typically buy as much as they can carry home. (Although customs charges might then become an issue.) Their reason for being here is around shopping but there are huge tourism opportunities too.

TEP going to stop helping as many SMEs as previously in terms of numbers; the focus will shift towards helping fewer to get bigger and become stable in the business landscape, then TEP can disappear. Another approach is to help 5 000 SMEs to have 2 employees each, but they will not be anything as secure as the bigger businesses. The view is that there'll be greater job creation if we help fewer SMEs, put more effort into them.

3.2.3 Challenges

Everybody is doing their own thing in this area! Whether it is DTI, IDC, all of the provinces, SA Tourism, Tourism Business Council – this field is so fragmented.

A key challenge is that most people are not entrepreneurs, have no desire to be entrepreneurs, and will fail if you try and force them to be entrepreneurs. Programmes should not assume boundless entrepreneurial flair; one needs to be very careful about how you approach this dynamic market, who you target. The idea that everybody in this country can run a small business is not true. Lots of people just want to be somebody's employee, come to work everyday for 8 hours - provided their kids are looked after - be told what to do, get paid a fair wage and go home at the end of the day. Some caution about putting people into risky situations that they wouldn't choose themselves, is necessary.

TEP's experience is that access to finance is not the major issue, most of the enterprises we help have already got a house - which may be a family house which they've converted into a B&B - or they've already got a vehicle which they've bought as part of a retrenchment package – what these enterprises want is market access. This latter aspect is really the critical challenge.

The kinds of support that an SMEs wants are:

- access to markets;

- access to finance;
- access to skills.

TEP has learnt that you're spreading yourself quite thinly if you want to work with 5 000 SMEs across all these wants!

3.2.4 House/housing finance in the entrepreneurial process

There have been quite a few people associated with TEP who have used their houses, built on conference facilities/venues for example – normally a smaller venue catering for some 30-40 people. A B&B entrepreneur, for example, in Tembisa started very small, bought the plot next door and opened a conference centre. This whole exercise was sprung from that original family house.

Particularly in rural areas, women use their homes as a place of production for crafters. They might have a creche outside in the backyard, fenced off – these mothers have always got young children and this is a problem in that there is often no one to look after them.

Numbers in terms of those entrepreneurs who've used their house as collateral, is unclear, but the interviewee felt that this would really be a sign of commitment to the business. It may not mean much to the bank, but it means something to the entrepreneur. He is taking a risk, demonstrating commitment to his entrepreneurial venture. If a person with an asset/house, approaches a bank or financing institution and they will not volunteer to put this up, but want 80% of the loan from the bank, this might suggest lack of commitment. Maybe people do not want to use their homes as collateral because they do not have much confidence in their business idea? For many people, losing your house is just not worth it. Why should somebody else carry the risk if you're not prepared to?

Do folks not use their houses as collateral because it does not have a collateral value or because they don't know how? What value of collateral is a house in the middle of Tembisa to ABSA bank? If ABSA got this house, what are they going to do with it? It does not have collateral value, or maybe a tenth of its market value. If you've loaned out 60% of the value of the house, you end up getting only 20% of the value back, it's probably going to be occupied by squatters,

go to rack and ruin pretty quickly, is not worth sending guards out there to look after it. Probably the last thing the banks want is to have to claim the house!

A kombi or a vehicle is much better collateral than a house. While it might not be as high value, it is transferable, you can take it away and sell it. Houses as collateral have got very real issues, particularly when they're in a market that the lender does not understand.

Working from home requires discipline, but people visiting you probably wouldn't feel comfortable visiting you in your home – it is not a professional business environment, the dog jumps up on you, you don't dress up properly when you're at home, you slouch around, you get sidetracked and so on. But obviously in a B&B then you don't have these issues – this is a different kind of business.

It would be OK to publicise the fact that your house can be used as collateral but you have to stop there, you can't badger people into doing it. This is a pretty terrible risk.

3.3 Dawn Jefferson-Green: ABSA

3.3.1 Extent of support

Support is a broad aspect, it is important to clarify exactly what this means. As a financial institution, we provide the full value chain of support and financial services. Non-financial support is provided through making training available to clients through consumer education workshops around specific skills. Also offered are mentorship, business counseling or business advising, a lot of workshops and so on. This aspect of ABSA's work forms part of our support which facilitates the transfer of skills and information to our clients – a key issue in terms of the financial services charter.

It is our belief that the entrepreneurs should pay for these workshops - in the past if they did not pay, they did not come. ABSA provides non-financial services, but if the SME does not pay a portion of the cost, this normally means that they are not committed. ABSA has been able to offer the SME a 5 day course normally charged at R11 000, for only R1 300. For that kind of value-add – not just in terms of the course, but the discounted rate - ABSA asks them to contribute say R50 a day.

In terms of financial products to this market, ABSA has a range. The services include products from the basic start-up business savings account – for example, Transact, Business Start. These products are for the emerging market where people do not want to unnecessarily incur the costs of a fully fledged cheque account. ABSA provides alternative, appropriate products which have all the features of a cheque account but is a card based account which helps the entrepreneur build a credit history. ABSA has a range of financial services products – savings and cheque accounts, bank guarantees, asset financing, telephone banking (a strong product), as well as business internet banking (for more details, see www.absa.co.za under small business)

There are a variety of different benefits to each product, if you have a savings account like Business Transact which does not require a minimum balance, on the Biz Start cheque account there are preferred fees in terms of that cheque account. They all have their value adds and their benefits.

ABSA typically does a needs analysis for the client, since the latter often does not really know what they want; it is the bank that knows what is available product-wise.

ABSA has recently opened a small business centre in Pimville. The research done around this tried to establish what clients want from a support, product and service perspective. Depending on the point of entry, ABSA advertises a workshop, for example, taking the view 'help us to help you'. Entrepreneurs walk or phone in and ABSA tries to determine their needs.

ABSA hasn't gone down to industry specific sectors, but focus rather on the SME sector as a whole. The basic needs are very similar right across the industry sectors – whether it is B&Bs, craft markets, construction.

Another product which is particularly promising is Mobile Express, whereby you can accept payment via credit card rather than the entrepreneur having to purchase the credit card machine. This increases the sophistication of this market, it is not just a case of giving a cheque or savings account but trying to 'sophisticate' people.

3.3.2 Interest in providing support

ABSA is very interested in this field, and is doing quite a bit already, as noted above. There was some interest from Finmark in ABSA developing our owner-driver concept through the Group Innovation scheme. ABSA already has an initiative with SAB.

3.3.3 Challenges

The quality, monitoring and control of the business service providers is an area that requires scrutiny. Some of these service providers are not accredited by professional bodies. A start-up businessperson who is uninformed may not know that he is getting bad service – 6 or 7 months down the road the business fails and it is the entrepreneur who is sitting with a debt. He has no recourse to that person who got him into that position in the first place, that service provider.

Because the entrepreneur is uninformed, he might have a concept in his head but does not know how to put it on paper, he thinks that you need an MBA degree to do a business plan. ABSA's view is that the business plan does not have to be formal or 50 pages thick, it doesn't need a certain format – just write an essay for us about your business concept, how you're going to manage it, how you're going to market and cost it.

'Business plan' is a buzzword, 'if you don't have it you won't get bank finance' is the view – some service providers take advantage of this, provide a business plan with no input from the entrepreneur. Experience can be harsh, entrepreneurs do not know of their rights and obligations and recourse when they deal with these service providers. And the often repeated response to a question like 'in your business plan you say x', saying 'well, the business advisor said that'.

Banks are not responsible in this circumstance. All our staff comply with the Financial Intelligence Centre Act (FICA) and the Financial and Intermediary Services Act – where you need a license to trade or operate from the Financial Services Board. The support services industry should also be complying – they are not. There's an imbalance, a mismatch. The business plan should be signed, acknowledged and accepted by the client. Also unhelpful is the pattern of people simply photostatting business plans and just changing names and addresses. SMEs are currently the flavour of the month and some service providers are taking advantage of this. Meanwhile, the banks are not looking for a thesis, just give us your idea in an essay format.

It's a Catch 22 situation – the business support service provider knows how to get the loan, the credit scoring, where to get the brownie points so the loan will come through. What is the point of this when you have a business failure within the first year?

Why do businesses fail? It is because the entrepreneur has not capacitated himself sufficiently in terms of the research to start the business idea or concept. The onus is on the entrepreneur, he often does not do his homework. The first reason for failure is a lack of research, where the entrepreneur does not know enough about the product, then there's the marketing, buying, costing, do I know enough to manage this business? This is all part of the research, but many are so quick to want to get into business and make a fortune and they take a shortcut.

The National Credit Bill is currently on the cards, in a strange way this is not going to do the consumer any good. It is usefully proposed that the onus be on the bank to be responsible lenders. Banks cannot deliberately or inadvertently get people into debt beyond their ability to repay. Whether it gets passed or not, is not clear but there could be some challenges here.

Banks have to be compliant in terms of the financial services industry, the Banking Association and FSC – the Financial Services Charter. Massive targets means we cannot afford to be reckless lenders and give money away to meet our targets. A challenge is going to be educating the consumer – which includes the entrepreneur – to know his rights and responsibilities.

There is no one set definition for SME, do you look at employee size, capital base, turnover? Importantly, it is very difficult to define an SME before it has started. The bank looks at the package of financial assistance required in terms of rand value, then defines SMEs into emerging market – anybody looking for money from R5 000 up to R570 000 turnover per annum in terms of the FSC – if he needs a loan in that bracket (not turnover); a slightly more sophisticated SME who's been in business for about a year, looking to expand and now requires say R800 000 falls under the 'normal' classification of small business where he has enough for his own collateral and he can automatically develop business wise. Anything beyond R1million – asset based financing is added, commercial property finance (if he wants to buy a building), then his

exposure can go up to R3million. Over and above this, you're starting to become a medium business. To us an SME is from about R570 000 turnover going up to about R10-15 million per annum.

What banks tended to do was define an SME by turnover, a few years ago between R5 million and R20 million you belonged to medium business, above that, you're large. So we ended up categorizing and putting these poor SMEs into silos and if they had any different or in-between, there were these massive gaps, nobody knew how to deal with the SME and bounced them around the bank. Bank staff should ideally be multiskilled in terms of advice to a client on the product that the bank owns – if somebody comes to me, notwithstanding his turnover, and says 'I want to buy a building', the bank can then meet his need rather than send him around the bank trying to find someone to assist him. Never mind the small business, the medium business, their asset financing, their building finance, the commercial property finance, their mobile express – we need to be able to meet the entrepreneur's need. Skill of bank staff is an issue, affirmative action in terms of employment equity means we're often sitting with a brand new entrant from universities or wherever into the banking industry. The challenge lies in the fact that you can only obtain this kind of skill from hands on experience in a bank, an MBA student will not be able to give the same advice as a more experienced person, because they do not as yet have the experience, the interaction and knowledge. The client ends up getting shoved around from pillar to post, because somebody is uninformed and can't make a decision. There's a lot of frustration out there.

Relationship banking, where you're getting personal attention, is pricey. You're dealing with one person who has a mandate and then you get requests 'Do me a favour, just pass this cheque today, although I'm depositing on Friday.' Banks are being hit now because of high bank costs. Banks have had to segment the market in terms of who can afford and who can't afford. At the lower level, they cannot afford and mostly want everything for nothing. So we open Mzansi accounts which is something completely different. We then say, if the client wants the relationship, then he will pay for it, in order to do so he has to start producing volume through his account. So, we look at if that client is profitable to us – the more he uses it, and he's paying, he starts to get benefits in other places – for example reduced interest rates or whatever the case may

be. The lower end small business is mass business/volume driven – banks do not have the time to sit one on one - they are also uninformed. When they come in, they want to spend an hour with the relationship banker. They're not paying the fee, so there's not much return.

Bankers have become everything to everyone – we're now expected to give training, to make sure aftercare is there, to give advice on intellectual property rights and whatever. Why should banks be interested if a person asks me how to register his or her cc?

There are always opportunities and if you miss one you become a market follower not a market leader. The fact that we give all these support services – consumer education, training – as we progress, we will stumble and come across more opportunities. ABSA constantly looks at product innovation, but products are not the only solution for clients.

A successful entrepreneur is generally somebody who is tenacious, who won't accept no for an answer in the face of the many challenges coming his or her way, who has a relatively short temper to deal with all the rubbish in terms of support services, the lack of quality. In short, it is useful to be like a bulldog – get hold of it and not let it go – they often get messed around from pillar to post, everybody has an excuse as to why they cannot meet that entrepreneur's need.

Whether or not there is a ladder in terms of business graduating to greater levels, is hard to say. A business might start out in the home, the entrepreneur doesn't anticipate getting too big but this happens and the business is still going from strength to strength ten years later. A business owner might also want the business to grow as far as they want to take the responsibility, not all businesses want to be listed on the JSE. Businesses perform important functions, even at a very low level. There are some wonderful, informal, unsophisticated businesses out there, who don't want to be in the Carlton Centre or Sandton City. If you grow too much, some entrepreneurs might feel that they are then out of their comfort zones.

Some businesses do 'graduate' as their sophistication increases – it depends at what level the entrepreneur wants to operate. There is also a problem if a business keeps coming back to the bank for more capital due to too rapid growth – it is not great to hit the wall at 120kms per hour. If they get another contract or opportunity, they can, progress to another level, but there might come a point when they're comfortable where they're at and do not want to expand too much further.

An entrepreneur is established once he has reached breakeven continuously for about a year. The business could be five years old in terms of product, set up, market development but it could take a long time to reach success. Then you're dealing with a successful entrepreneur, it often takes around 5 years to get there. This is a long haul process, quite challenging.

3.3.4 Housing/housing finance and entrepreneurship

The house cannot be used to leverage a business opportunity if it has no equity in it, it can be used if there is equity in the property. Plain and simple, having a house that is fully bonded up to its market value means absolutely nothing to a bank when you apply for business finance.

Collateral is where you use the house as security and do not take out the equity in the bond and then put it into a business. The risk is confusion between the business and the personal, which happens a lot down in the consumption lending/lower market sector: people in their personal capacity borrow money when it is actually for business. Whatever you draw out of that bond has to be repayed – where does that money come from? The business. If you have the security, use your house, get the top up benefit, 60 months structured and you get the tax deduction. You're building the credibility of your business if you approach it this way.

In SA, it has always been a banking practice that if you have a house, we will take a second bond on that asset, whether or not there is collateral at that time. SA is a little behind the world in terms of entrepreneurial trends and understanding that market, although we have a first world banking sector. Because we don't have the experience of the entrepreneurial history as bankers, we're slightly tunnel-visioned. In Paris and Egypt – where they have a bubbling entrepreneurial sector,

been going for some 40 years – one of the guarantee schemes said that the first exclusion when you have a business loan is to exclude the residential property. Business is risky, you should not be punished and abandoned to the gutter just because you failed.

There might be an economic downturn, some corporate does not pay the entrepreneur on time, or somebody goes out of business that owes the entrepreneur fortunes and that entrepreneur goes down despite doing all the research/all the homework about the business, planning carefully. If the entrepreneur loses everything, it is going to take a whole lot longer to participate in the economy again – in a personal capacity or as a business. Let that person have some pride and dignity left after his business failure, he will then try again to be a successful entrepreneur. They mustn't be punished for their mistakes – there must be an even balance for economic development. Recklessness from a bank is not good.

Bankers could be sharper in terms of how financial services are structured. Overseas, in joint venture deals, the entity that benefits sometimes gets up to two years moratorium where they do not have to pay the bank back. This gives you a pretty good cushion to start gathering some wealth in the business, deferring that responsibility. The money has to be paid back at some time. In my life as a banker in SA, I've never encountered more than a three month moratorium or 'breathing space'. Banks should give more 'breathing space'.

I want to make it a written policy internally that no cheque account will be open to a client unless it has a 10-20% overdraft based on his operating expenses, whether or not he uses it is his business, but it's there as a cushion. No entrepreneur should start repaying his loans sooner than 3 months. These requirements allow breathing space and provide an automatic overdraft should he need it.

People are still getting used to owning title to their property and now you want them to give it away? Is this the right approach?

There should be a level and fair playing field in terms of using the house as an asset – people should not hoard their assets, use the bank's money, put the bank's or Khula's money at risk. The attitude that the entrepreneur hoards his house, his Persian carpets, Kruger coins, but uses the bank's money to test his business concept, which if it does not work, it's really the bank that loses. There has to be an equitable give and take on both sides. It comes to the limited or unlimited suretyship. Unlimited suretyship means that the bank can get hold of the other assets if it needs to. It is not fair to risk your capital when others are not risking theirs.

Use of the access bond facility has ups and downs. Depending on how the business is registered – there is no tax benefit by using private equity/my house or whatever. If R100 000 is drawn out of a bond, put into the business as own contribution – the asset is being used but also risked. The entrepreneur might usefully keep things separate.

If there is equity in that property, take a registered business loan, get the tax benefit of taking that loan. If an asset is being financed, the entrepreneur can write it off through income/expenditure statements, if the entrepreneur has the asset he can get the depreciation. There is no value of using the personal and putting it into the business.

3.4 David Morobe: Gauteng Enterprise Propeller

3.4.1 Extent of support

The Gauteng Enterprise Propeller is the latest agency of the Gauteng province, under the auspices of the Department of Finance and Economic Affairs. Gauteng determined that there is a need to bolster what national agencies are doing in terms of SME development at a provincial level. Gauteng's idea was to provide a one-stop-shop where people can get access to non-financial support programmes such as that provided by Small Enterprise Development Agency, but also financial support programmes. This is the Gauteng Province's approach – to combine financial and non-financial support, as well as co-ordinate all SME activity. The economy of Gauteng per

capita has more businesses than any other Province in the country. SME's often complain that they are not being serviced sufficiently by other agencies.

Specifics under non-financial services include 'how to' types of assistance – how to manage your cash flow etc. GEP also provides sector specific training when there is a critical mass of entrepreneurs from a sector, training is arranged for them on the business component that relates to that specific sector.

GEP was launched in April 2005, over the last three months about 1 000 entrepreneurs registered on their portal. GEP is busy following up on them to see what sorts of assistance can be provided. Some entrepreneurs are at the start-up phase, they sit with a brilliant possibility, GEP can help to assess that possibility. Entrepreneurs don't pay, but when they register on the portal, they get access to the factsheets, the business planning tools, cash flow forecasting – these are free. If you're an existing enterprise and you need to be helped to draw up a business plan or another aspect of their business – GEP would share the cost with the SME, so that they have some sense of responsibility in terms of achieving what is needed.

GEP is a Section 21 company trying to inculcate a business culture amongst the SMEs that it interacts with. The other direct form of intervention is financial support, although GEP has not begun dispersing funding.

GEP is in the process of assessing those SME's that have registered on the portal, making sure GEP complies with all legislation that relates to a government agency providing financial support to SME's. GEP's funding takes the form of grants and loans to SME's.

GEP will consider only loans up to R500 000 initially. These would be for those SMEs that have a tender from the Gauteng Provincial Government. GEP will provide them bridging finance and

if needs be act as a guarantor. GEP is currently looking at the legislative requirements to be able to provide that service to SMEs.

There needs to be a balanced portfolio, start-ups need help, some of it just on the feasibility of their businesses - which could end up proving that it is not a viable business that they are pursuing afterall. GEP also works with existing businesses to ensure that they are stable.

3.4.2 Interest in providing support

Yes, GEP wants to give SME's the support they require to enable them to participate meaningfully in the economy. We need to increase the number of entrepreneurs in the economy.

3.4.3 Challenges

Business failure is not just a South African phenomenon, it happens worldwide. Start-up businesses fail because many entrepreneurs underestimate the challenges that they face. We need to inculcate a culture where failure does not discourage people from ever trying again. Some of the failures can be avoided if you have non-financial support – how do you manage your cash flow, how do you keep your books, how do you separate business and private aspects – there are important features of a support package.

A challenges lies in the possible duplication in the number of agencies providing similar support services to SME's which points to the need to work together and co-ordinate activities.

How do we ensure the quality of support services? Sometimes we draw up a business plan that the SME cannot talk to.

So long as we have a low entrepreneurial threshold, there's a big opportunity to get a lot of people who were not initially aware of entrepreneurial opportunities, to become aware of them.

The GEM report shows SA is not a high performer in terms of entrepreneurship. In addition, there is a majority in the second economy.

There are educational limitations, the apartheid legacy, cultural aspects, entrepreneurship needs to be exposed to many people, and they must be helped to sustain their businesses. There have been a few individual entrepreneurs that have stood out – black and white, Cecil John Rhodes for example, who was pivotal in terms of the creation of the Anglo American. Rhodes and Rupert have entrepreneurial flair about them. But we need a culture of entrepreneurship not just enterprising individuals, we need to encourage this culture, engender that calculated risk-taking propensity.

The skills level of the entrepreneur is the decisive factor in terms of whether or not the business will 'graduate' into a bigger more successful business. These skills are in the sector that the business operates in, but it is important not to overlook the business skills issue. Both 'doing' and 'business' skills are particularly important, so too the passion and vigour with which you do what you do.

Entrepreneurship is not just a question of age – this misconception is unhelpful - it is about the energy. Colonel Saunders started Kentucky Fried Chicken when he was a pensioner. He had still had the energy and vision to build a great business. Sometimes your energy is better focused when you're at a later age.

GEP is currently negotiating with financial institutions to relax some of their traditional requirements in terms of helping SMEs. Most entrepreneurs do not have the collateral that is required of them – if this remains the condition, these people will still be locked in the second economy. GEP is looking at innovative ways of mitigating risk – if somebody has the Gauteng tender can this not be used as a risk mitigation vehicle rather than your property? Maybe a co-operative approach would be useful in terms of risk management – we need to try a variety of avenues in terms of reducing individual exposure.

Every avenue that can be explored to galvanise the second economy is welcomed. We need to bridge the gap between the first and second economy, this is a critical challenge.

3.4.4 Housing/housing finance and entrepreneurship

The property ownership environment in this country was thwarted by the Land Act of 1913 – where the majority of people were not allowed to own land - perhaps the foundation was laid two centuries earlier when there was communal property ownership, owned by the chief. To change this paradigm which affected the psyche of what people could leverage to start off their new enterprise, will take some time. Many people never had an asset against which they could offset some of the risk.

Society's attitude is informed by the level that marks self-actualisation. In Bali to have a set of beads means you're the prime person, you have these beads which will attract people to you. Shelter is at the lowest level of need according to the hierarchy of needs. In SA, where lots of people were not allowed to own property until the late 1980s, the newness of owning property works against using it to leverage it against a debt of something intangible, in a venture that may not work. This mindset will be difficult to change. Using the house to support your business is perhaps not the right approach for the risk-averse, given the high rate of failure of enterprises, to the detriment of one's family's comfort.

The financier would want to offset the risk of lending to a start-up businesses. The use of the house as collateral is not that widespread in the second economy, perhaps in the first. If you have a second house, some land you inherited, then you might risk this one on your business. If you only have one house in Soweto, the risk is just too high. Your sources of capital might be friends/family/inheritance – these resources don't exist in the second economy. Your family might be battling to survive, you don't expect your family to give you start-up for a business.

The booming property market has not really impacted on the second economy, it is not that easy to sell, particularly in areas that were red-lined. The house in these places is just shelter, your

children have a home, which given the massive shortage of housing, is valuable. You see millions and millions of shacks in Soweto. There is a massive need for housing.

Home-based business in the first economy is different from those in the second, for example. If you think spaza, you can only store so much. The guys who are backyard mechanics can be dangerous when children are around – welding equipment lying around etc. – there are a limited range of businesses that are suitable for the home. The incidence of people running businesses in townships are more biased towards retail, you might find a few garment making business.

This is largely driven through space and safety considerations. If it is a service business which is skill-oriented – such as an architect – this could work well in a home.

This points to the need to lift the skills bar of those in the second economy operating their businesses from home.

There should be other avenues for risk mitigation, using your house should be your last resort. Do not let your house be the first choice. The one thing you work towards – even in the white community – is to pay off the bond. Businesses do fail for a variety of reasons, even if you've developed your skills.

You need a sense of commitment from the entrepreneur, but you need also to look at the society in which you live. If somebody has three or four farms, he can take a second mortgage. But somebody who has been working towards owning a house for 20 years? Up to my mother's generation, there's never been a black SAn generation which knows what it means to pay off a bond. I was the first one in my family to get into having a mortgage bond. My offspring will have a better opportunity to start up then what I had.

3.5 Jo Schwenke: Business Partners

3.5.1 Extent of support

Business Partners provides finance and mentoring support to SMEs. There are a number of different products, for example Property Risk and Property Equity partners as well as Risk Royalty Partners and so on.

Mentoring is done through business units. We've understood the folly of our ways in terms of taking on retired executives and expecting them to be able to mentor straight away. Business Partners realised that they themselves often needed training. When we evaluate somebody who wishes to be a mentor it's not just skills we look at, the entrepreneur needs to be mentored by somebody they can relate to, who has the right personality attributes. Once we have a level of comfort in terms of these factors, then training is provided.

The relationship between that business and the mentor is critical – this can't be run off a website. We don't do internet dating at Business Partners, it's no lucky dip. We visit the business on a monthly basis, check that they have appropriate financial record keeping and so on.

We also draw on a pool of consultants who have specific expertise to solve a specific problem. This is a more expensive exercise. They know how to work in the business environment, are quite an elitist bunch, with enough skill and confidence to sell themselves.

It is understood that to deny the SME sector access to property ownership is totally misguided. It's where the big guys have their money after all. Having a place to do business is essential, people buy products from a particular place. A single standing commercial site probably costs some R5million. Our Property Risk product allows an entrepreneur to acquire a building with no deposit. Business Partners takes a shareholding, will sell it back at market value. This is generally

single tenant business. We tend to work with successful entrepreneurs who've been around for three years or so.

The Property Equity product is generally aimed at medium sized business. It might be a shopping centre or multi-tenanted, here the entrepreneur is in partnership with Business Partners. The value is in the R20-R50 million range. After establishing a fair price, Business Partners then goes to the bank, get 70-80% loan, then both partners contribute to the rest. It is important to get money for the cheapest price possible. Business Partners has a property management arm and the deal is on condition that Business Partners finds the tenants, collects the money, does maintenance and evicts tenants who play up. BP generally takes more than 50% in the property owning entity.

Capital, skill and knowledge and important ingredients in terms of business success. Note that when we interact with an entrepreneur we don't bother them too much with the intricacies of each different product. We rather discuss the deal and put a proposal to them v clearly and end up saying 'we will give you so much money, which will cost you so much'. The longest time a decision takes is one week – the good guys on my team do not want to lose a deal. Three or four people are involved in taking the decision – this is to overcome the potential problem of a bad egg who wants a commission for finance

3.5.2 Challenges

There are a number of players in this market now. Business Partners is not as unopposed as it used to be!

Our property management company has been working in shopping centres and industrial parks in townships for some 20 years now. Business Partners understands that market, it knows a thing or two about property and how to manage that asset class. When the economy is buoyant and a house goes on auction, then you get your money back. But if the economy is not buoyant, then there's a different story. There will always be some joker who tries to buy a house for R100. In terms of holding that asset, if you don't guard it and it is in a dodgy area, then it gets vandalised –

the kitchen appliances, the fencing, bricks, these all go. You must either hire a security company or find a tenant.

In SA, the cost of capital is quite high. There is also a challenge in that many Financial Institutions do not understand this market. Sometimes there is a challenge to the extent that even with mentorship and support, business failure might be driven by an external rather than internal cause, but the mentor is stuck with a challenge.

De Soto's thesis relates largely to the slums in Lima which make ours look small! In SA, some argue that it would be wonderful if the poorest of the poor had serviced land (in terms of water and sewerage) and property ownership.

There are a number of issues, for example the problem of tribal land in some areas; and in some areas – like Soweto – there is still the old apartheid property title. This tribal land needs to turn into private ownership.

The graduation of informal businesses into formal ones does not happen that often – the number of people who transcend is low, as is the number of businesses that graduate from small to medium sized businesses. Why is this the case? A number of factors help explain this: it could be that the talent for entrepreneurship is just not big enough, the willingness to take calculated risks is not sufficiently great. Or vision, innovation, passion, determination and energy are just not there – many people just couldn't be bothered, they might get to a point where they want 'quality of life' and 'more time with my family'. Older people can run out of energy – that is the decisive factor, not age. Remember that Ray Crock created Macdonalds at 67 years of age.

If you fail to evaluate the entrepreneur, then your intervention will fail. We look at the 6 P's:

- Product
- Price

- Process
- People
- Place
- Promotion

Having spoken about the problems and challenges, it is important to note that entrepreneurs tend to see problems as opportunities, something to work around.

3.5.3 House/housing finance and entrepreneurship

The house is a major source of collateral for the entrepreneur, and can be the premises of the business. For the majority of people, their house is their major asset – particularly for a first time business. BP takes bonds on houses and homes in line with the evalugelism of De Soto. The market value of the house is the collateral value it extends to you as an entrepreneur.

A sine qua non for an entrepreneur is to take calculated risk. If you have collateral and are not prepared to use it, you will be seriously constrained in your business. If an entrepreneur is not prepared to hypothecate a house he owns and will not sign unlimited suretyship, Business Partner is not that interested in the deal. If the entrepreneur signs unlimited suretyship, they have put their house on the line anyway. Smart entrepreneurs tend to put their homes in a trust or their wife's name. Business Partners always checks this out, we go and see the house, do a deeds search, and establish the willingness to take risks of the entrepreneur.

Business Partners is different to a normal bank. It has never mattered to us if the house is in a 'black' area, BP has never redlined. We value appropriately and do not sell on auction. It is often black entrepreneurs who buy the house back from us. The situation is now changing and banks are now trying to get into these areas. One practical issue is when there is no liquidity.

In Soweto a secondary market in homes is starting to develop slowly. There are the odd few estate agents, there have been a few sales. But there is a need to activate this market better, get over the inertia and get the wheel of the secondary market going. In poor areas, government provided homes have not been resold because there was no market price. The moment sales take place is when the value of property for sale will be unleashed.

Take a 55 year old guy who is prepared to risk everything – his pension, his house and so on. The effect of this on a financier, will be to eradicate any doubts about the entrepreneur's commitment to the business. If this commitment is not there, then why would the financier want to back him? He's not prepared to take a risk with his own money. Even with little value, to the entrepreneur that place is home. So Business Partners backs it – it has value for the entrepreneur and shows their commitment to the enterprise. We are not philanthropists, we want to see commitment. We like the attitude, this is what entrepreneurship is all about.

4 Key findings

This report sets out an overview of interviews conducted with key service providers facilitating entrepreneurship in South Africa to obtain an understanding of the extent and nature of support and the key issues and constraints within the sector. The following institutions/individuals were included in the survey:

- Marcel Newsome – The Business Place
- Tim Anderson – Tourism Enterprise Programme
- Dawn Jefferson-Green – Absa Bank
- David Morobe – Gauteng Enterprise Propeller
- Jo Schwenke – Business Partners

The findings of the survey are as follows:

(1) **Extent of support:** There are a number of Service Providers providing focused support to Entrepreneurs. The extent of the support varies and is influenced by the agenda of the Service Provider. The support includes both capacity building, access to services and funding. In many cases the support is relationship based and this is seen as a key success factor. An overview of the support provided is shown in the Table below.

Table 1: Overview of the support provided

Organisation	Type of support provided	Processes applied
The Business Place	- Business support - Referrals to financial services - Information on financial products and mentoring on the process of accessing financial support [strong focus on relationship with the entrepreneur]	Focus on Micro to small business providing a one-stop-shop environment including: - Three to four different financing companies - 3 consulting companies - 3-4 business training companies Almost all services are free but a nominal charge is required for some training programmes. Funded by the City of Johannesburg and Investec.
Tourism Enterprise Programme	- Acts as a facilitator - Provides support up to 50% of the cost to grow a business in the tourism sector	- Subsidies are provided for the implementation of a business plan brought to them by an Entrepreneur - Work with SME's - Links the SME to technical support etc.
ABSA	- A range of financial products are provided - Non – financial support is provided including training and mentorship.	- A needs analysis is undertaken to determine what is the most appropriate financial product. - Offer workshops, mentorship and business counseling on a broad basis [not sector specific] - SME's are required to pay for this support
Gauteng Enterprise Propeller	- Provides financial support in the form of grants and loans - Provides non financial support in the form of training, business mentorship	- SME's register - An assessment is undertaken and support provided
Business Partners	- Provides finance through a range of products - Mentoring support	- Help the SME raise finance and will share the capital/equity component with the SME - Mentoring is done through business units where mentors meet with the entrepreneur monthly - Also have a pool of consultants who have specific expertise to solve specific problems

(2) **Interest:** Some of the Service Providers are exploring new opportunities for expanding their activities as follows:

- **Business Place:** Business Place has developed two new ventures that are more proactive than their current activities. The first is encouraging SME's based on their interests in a specific sector and the second providing pre-packaged small businesses, for a nominal amount of money [mini – franchises]. Business Place is currently looking for resources for these programmes.
- **TEP:** TEP is focusing on developing cultural and business tourism. In this regard TEP focuses on promotion, providing information and developing services in each of these sectors.

(3) **Challenges:** Key challenges identified by the Service Providers include:

- Service Providers: The following challenges were identified in respect of the Service Providers themselves:
    - Lack of capacity and funding for the Service Providers
    - Lack of co-ordination of activities between Service Providers
    - Quality, monitoring and control of service providers providing support to SME's is a problem, as many are not accredited, are overcharging and provide bad services.
    - The Financial Services Charter could result in Financial Institutions lending recklessly so as to meet their targets.
    - Staff in Financial Institutions often do not have sufficient experience to provide information and support to SME's. The skills in these institutions is often problematic. In addition who in the Institution should review the application is also problematic and SME's are often referred from one Department to another.
- SME's: The following challenges were identified in respect of SME's themselves:
    - A key challenge is not just to provide funding but also support in terms of business and skills development/skills training and access to markets.
    - There is an issue around entitlement mentality in SA, where Entrepreneurs do not want to put any of their own finance at risk. For many Financiers unless

the Entrepreneur is prepared to provide capital they are not sufficiently committed.

- Most people are not entrepreneurs and have not desire to be an entrepreneur. If they are forced to become entrepreneurs they are likely to fail. The idea that everyone can run a small business is not true, many people would prefer to be an employee.
- Business failure of SME's is high and is often due to the Entrepreneur underestimating the challenges to be faced. Skills of Entrepreneurs is an issue as is passion and vigour. Access to capital is also a key issue.

(4) **Comments** on issues: The following comments were made by the service providers on the following issues:

- ***The ladder of development:*** The growth of a business from small to large or graduation form informal to formal does not happen that often and the number of businesses who transcend is low. The reasons for this vary for example Marcell Newsome of The Business Place believes that the growth of a business often depends on how much capitalization the business has. Jo Schwenke from Business Partners on the other hand believes it is related to the talent for entrepreneurship and the willingness to take calculated risks – vision, innovation, passion determination and energy are key factors. Marcell Newsone says 'Most businesses that start small generally stay small, medium sized businesses – unless they are able to find significant funding – tend to stay medium, and similarly larger ones tend to stay large. This does not necessarily relate to success or failure, businesses in each of these categories can equally fail or succeed'.
- ***Use of house as collateral:*** Service Providers identified the following uses of the house for businesses purposes:
  - The house is a useful business incubator in the initial phases of many businesses.

- The house can be used as collateral to raise capital for the business. Access bonds in outh Africa were seen as very useful in providing a line of credit for Entrepreneurs that is easily accessible and is a cushion against problems.
- The house can become the business for example Bed and Breakfast, means of production or conference facilities.

- The views of service providers in respect of the use of the house as collateral can be categorized into two components:
  - Those who believe that the use of the house is a sign of the entrepreneur's commitment to making the business work and therefore that it should be encouraged. Also that it is a safe and easy way to raise capital for a business and is not used sufficiently in South Africa.
  - Those who believe that the use of the house could result in the Entrepreneur losing everything if the business fails and therefore use of the house as collateral is irresponsible. This is especially so in South Africa where access to housing rights have only recently been obtained and the housing shortage is so significant.