

### Small Business Development in Cape Town, South Africa

*“Developing small black entrepreneurs and - through this - creating jobs has been identified as the single most important task to improve living conditions for the many Historically Disadvantaged Individuals (HDI) in South Africa. Poverty and crime will significantly be reduced once people can take care of their basic needs. Supporting entrepreneurs to start a business or to help them grow an existing operation is the most promising route to create new jobs.”*

Developing 100 entrepreneurs in South Africa and thus creating 1000 jobs by 2005 is the goal of ESM Development (ESM). Since early 2001, ESM has provided close to 30 entrepreneurs with funding to either start or expand their business. The selected businesses cover many industries but share one common criterion: they are viewed as “unbankable” by the financial institutions and therefore do not qualify for business loans.

The following list provides an overview of the businesses and how they are doing in terms of repayment, as per February 28, 2003: The amounts are in South African Rand ( 1 ZAR = 0.83 US \$ or 0.17 CHF)

Name of Business	Type of Business	Loan in ZAR	% Repaid
Tip Top	Food Shop	50'000	100%
Uncedo Pottery	Ceramics	45'000	90%
Dales Community Cleaners	Cleaning Service	20'000	78%
Outpost	Business Services	80'000	51%
Silimela Apleni	IT Services	10'000	48%
Thando Papers	Paper Manufacturing	15'000	45%
Peter's Car Wash	Service	25'882	40%
Gladys Zito	Tailoring	4'464	30%
Open Africa	Tourism	280'000	30%
CJ's Bakery	Bakery	50'000	27%
Valantine's	Refurbishing of AC's	4'000	11%
Kopanong B&B	Hospitality/Tourism	83'724	11%
Ncedisizwe Ceramics	Ceramics	40'000	10%
Blue Moon Spaza	Food Shop	46'000	6%
Basize Consulting	Consulting	26'000	4%
Dumani Locksmiths	Locksmiths	27'000	3%
City Bowl Runners	Courier Service	10'000	2%
Cycleosophy	Trailer Production	34'000	0%
African Leather Designs	Leather Goods	20'000	0%
<b>Total Loans</b>		<b>871'070</b>	<b>33%</b>



One of these entrepreneurs is Peter De Bruyen, founder and owner of Peter's Car Wash. He has created jobs for 10 people and won the 2002 Cape Argus Entrepreneurship Award. Above Peter is pictured at the weekly meeting with his Mentor/Coach Jeff Katz.

The average size of loan is ZAR 46'000 and has to be repaid within 2 years. Initial loans have been made available in June 02 and the most recent date back to October 02. No repayment is made during the first three months. The figures demonstrate that repayments take place in a positive way. However, working with entrepreneurs at the bottom of the commercial pyramid requires sensitivity, patience and understanding. Often the borders between business and personal/family needs are not very clear. A shortage in raw material, equipment failures, a customer delaying payment or a funeral in the family can create an immediate threat to the business. There are usually no reserves and the next crisis is never far!

When money from loan repayment becomes available it is reinvested in a new venture. Candidates for funding are selected from a network of sources that has been built up over the last two years.

The latest three loans have been granted to:

### City Bowl Runners

Hilmar Pietersen and Ronald Samuel spotted a gap in the delivery/courier market to serve customers in the Cape townships. With a loan of Rand 10'000 from ESM they were able to purchase a Kymco Scooter which has enabled them to grow their delivery business and be an independent company. They have an existing client base which includes advertising agencies, health food manufacturer and a design company. Hilmar and Ronald have worked as delivery drivers for companies, but are now able to operate and manage their own company. Since receiving their loan, they have employed another driver on a part-time basis and their customer base is growing.

Picture right: Hilmar and Ronald with their Scooter



### Valentines Comfort Cooling

Stephen and Glenda Valentine own and operate a small air-conditioning repair business in Kommetjie, near Cape Town. They service and repair refrigerators, air conditioners and other related products. With a loan of Rand 4'000 from ESM they have managed to stabilize their service offering and to buy stock of fridges which are repaired and sold to customers in the township areas around Kommetjie on a hire purchase mode. Stephen previously worked in the South African Navy and has been successful with tenders from the navy. Valentines Comfort Cooling looks forward to hiring additional staff.

Picture left: Stephen in front of purchased equipment

### CYCLEOSOPHY

Philippe Samouilhan has run and owned a bicycle repair and sales shop for years. Lately, he has been researching the design and manufacture of low cost trailers which attach to the seat post of bicycles. His aim and passion is to provide these trailers at a low price for the township market, where the carrying of goods is a critical component for people to earn a living. With a loan of Rand 34'000 from ESM Philippe has been able to start the manufacture of these trailers.

Picture right: Township biker with a CYCLEOSOPHY trailer



If a business idea or a specific entrepreneur can demonstrate growth potential, ESM makes an equity investment in the business or a combination of loan and equity. This has happened in the following cases:

### **Zarina's Biscuits – a Gift from the heart**

Zarina Sawant was an avid baker for her large family, but she had no idea that her baking would one day turn into a brand-name product. Initially all her baking was done in her home. Together with her husband Ebrahim and the support of the Graduate School of Business in Cape Town, Zarina developed a Business Plan. ESM invested ZAR 150'000 for 25% equity in the business. Zarina's has achieved break-even in 12 months and employs 10 full time staff and five part-timers in peak periods. They produce and sell up to 500 boxes of exquisite biscuits per week. ESM will help Zarina Sawant to grow her business and at some stage will sell back the equity to her. As a result of her track record, Zarina's has become "bankable" and secured a business loan from First National Bank of ZAR 20'000.



Dr. Mike Herrington of the Graduate School of Business and Zarina Sawant in front of the newly purchased second hand oven.

### **Glass House**

Wilma Coetzee began experimenting to fuse metal and glass in 1992. Since then she has developed the experiment into a veritable business that employs 5 people. They produce a full home ware range from dinner services to salad bowls, small collectable candle holders and bathroom accessories. Due to the mysterious transformations that happen at high temperatures in the kiln, the results are never exactly the same, each piece is a unique treasure. Over the last two years the business has grown significantly and operates profitably. ESM has provided ZAR 100'000 for 25% equity in the business and is helping to develop an export market.



Wilma Coetzee and her staff

### **Ceraminan**

This ceramics business came to life through a hobby of Wilna Lithgow, the mother of Nina De'Ath, and grew into a business that today employs 11 full time staff. They supply design house-ware shops worldwide with high quality functional ceramics. Innovative cutting edge designs are created in their studio, where previously disadvantaged people are trained in all aspects of ceramic manufacturing. ESM initially provided ZAR 161'000 funding for 25% equity. However the business run into difficulties and required additional ZAR 150'000 capital and a restructuring. Today ESM virtually owns 100% of the business but plans are on the table to sell the business back to Nina and the staff. This will happen as soon as Ceraminan has stabilized and makes a profit.



An example of **Ceraminan** quality products

Another very interesting project with a lot of potential is **The AFRICAN ART FACTORY (AAF)**. 12 entrepreneurs have located their business in a "recycled" part of the Old City Hospital in Cape Town. While all the businesses retain their own identity and autonomy, designing and technical skills are spread and shared amongst the producers. The AAF provides the shared services such as sales, marketing, product development, IT, packaging, shipping and administration. In addition the infrastructure of the building is maintained. This set-up allows the entrepreneurs to concentrate on the production and the important aspects of learning sound business principles.



The AAF building in Cape Town

**The values of the AFRICAN ART FACTORY are:**

- Fair trade & social accountability
- Sharing & cooperation
- Quality & reliability



Negotiating common interests



Learning to use the PC and email



Sharing know-how between entrepreneurs

Currently 71 people with various social, cultural and religious roots are working together in the AAF: 41 are females supporting 80 children; 22 are 25 years or younger; 30 are trainees; 21 have been unemployed or work for the first time in their life. Located close to the Victoria & Alfred Waterfront, the AAF has become a point of interest for tourists. Securing profitable business is a main task for the AAF. The recently launched website [www.africanartfactory.co.za](http://www.africanartfactory.co.za) will soon be an important tool to achieve this. In addition, a permanent show room has been set up in Zurich/Switzerland to facilitate the acquisition of international customers.

Financially, the AAF is still very much in start-up mode. Over the last 18 months the cash outflow for salaries, building improvements, marketing and general expenses has amounted to ZAR 1'500'000 million while income from services and trading reached ZAR 600'000. For 2003 the plan is to at least double the income and significantly reduce cost. The income for the AAF comes from a trading margin, revenue from operating the AAF Shop and the sale of services to tenants.

**Providing SMEs and low income households with Personal Computers**

At the very beginning of the whole project it was clear that entrepreneurs must have easy access to Information Technology. An experiment was started with one Entrepreneur who looked qualified to set up a PC reselling and support business. For a number of reasons the project failed, however the lesson learned was, that without IT support structure in place, any entrepreneur would fail. In exploring ways to partner with an IT company FreeCom Group was identified. Founded by Rob Packham and Sooren Ramdenee, this company is refurbishing used PC's in an ISO 9000 certified facility and loads the PCs with legal software. In addition FreeCom Group is providing learnership programs and educational modules to train IT entrepreneurs. According to the FreeCom Group business plan, over 5000 PCs will be refurbished, sold and supported within the first year of full operation.

Together with co-investor Andromeda Fund, ESM invested ZAR 1'500'000 in this business. In order to provide the necessary capital for the planned growth, the company is still looking for additional

ZAR 4'000'000 by March 31, 2003. This investment is very exciting and has a huge potential to make a real impact on how to supply SMEs and low income private households with PCs and internet access.



FreeCom Group's refurbishing site in Cape Town



Esther Lategan, FreeCom Group Director of Business Development and two future IT entrepreneurs.

### **Partnering with the Professionals: The relationship with Swisscontact!**

Developing entrepreneurs in South Africa requires more than financial resources. Without ongoing mentoring/coaching and the provision of adequate business services, most of the investments and loans made by ESM will not generate the expected results. This was the reason to search for a competent partner in this area. Swisscontact ([www.swisscontact.ch](http://www.swisscontact.ch)), a politically and denominationally neutral organization founded in 1959 by personalities of the Swiss private business sector and universities, assessed the ESM project in Cape Town back in September 2002.



Subsequently a joint proposal for funding was put forward to the Swiss State Secretariat for Economic Affairs (SECO). The proposal was approved in December and as a result, Swisscontact will set up a non-profit company in Cape Town. The objective of this company will be the facilitation of Business Service Providers and the promotion/support of occupational skills training. Hans Kuhn, who has been an advisor to the ESM project will relocate to Cape Town in March 2003 and set up the new organization. Hans is a graduate of the Swiss Federal Institute of Technology in Zurich. For many years he served

in various positions in the Family Business until he started his own consulting company specialising in social accountability.

One of the conditions that Swisscontact and ESM had to agree in order to get the funding from SECO was to redirect the projects towards opportunities that can create a bigger impact in the market and reduce the activities in the area of micro businesses (loans below ZAR 25'00).

### **What went wrong?**

Apart from our experiment with the IT Entrepreneur, two loans had to be written off.

**FairExchange:** Our original idea with the AAF was to set up an independent business that would be responsible for marketing and sales. This concept did not work because of lack of skills and the structure of the AAF. Write off: ZAR 78'000

**Mercs-for-All:** The business idea was to buy second hand Mercedes Benz cars, upgrade them and sell with a profit. Unfortunately the entrepreneur had personal finance problems and used funds intended to buy cars to settle personal debts. This breach of trust created a conflict with the mentor and subsequently the relationship was terminated. Write off: ZAR 19'000

**Ikamva Labantu:** The intention was to work with this NGO to build some income generating businesses around an existing shelter. Organisationally this project got too complex. A number of positive results have been achieved, but it does not make sense to keep it alive as a commercial initiative. Therefore the only interest free loan of ZAR 272'620 that has been granted will be transferred into a donation.

**What has been achieved?**

- Since inception 27 projects have received a total funding of ZAR 3.9 million (100%). Of these
  - 24 companies are still alive
  - 26 % of the performing loan amount has been repaid
  - 4 loans are not performing with more than 3 installments in arrears (total ZAR 94'000 or 2.4 %)
  - 2 loans have been written off (total ZAR 97'000 or 2.5%)
- close to 150 jobs have been created

There is still a lot of hard work required until the project becomes self sustainable and starts to pay a dividend that will be reinvested into new ventures. While there is not yet a return in financial terms the social gains are significant. It would have been impossible to achieve what has been presented in this update without the help of the entrepreneurs, the AAF tenants and staff, our friends from Mallinicks Attorneys, the Graduate School of Business of Cape Town, the Andromeda Fund, ResponsAbility and last but not least the directors and advisors of ESM. We appreciate their support and look forward working with all of them in 2003.

Sincerely

ESM Development AG



Eric Meier-Ruegg

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