THE SMALL AND MEDIUM ENTERPRISE (SME)

CATALYST FOR GROWTH
INITIATIVE IN SOUTH AFRICA:
FINAL REPORT

Dalberg

J.P.Morgan
The Small and Medium Enterprise (SME) Catalyst for Growth (C4G) Initiative in South Africa:

Final Report

In February 2012, the JPMorgan Chase Foundation, in collaboration with Dalberg Global Development Advisors (Dalberg), launched the SME Catalyst for Growth (C4G) programme in South Africa to support the growth of small and medium-sized enterprises (SME). Through this partnership, the JPMorgan Chase Foundation supported the provision of business development services (BDS) to 20 South African enterprises through two leading BDS providers, Aurik and Raizcorp, over the course of two years. The initiative aimed to stimulate job creation and economic growth, as well as to systematically gather evidence on the value and impact of BDS for SMEs.

SMEs in South Africa need targeted, effective support if they are to survive, grow and make a meaningful dent in the country’s unemployment rate. The C4G Programme has shown that BDS represents precisely this type of support. In two short years, BDS has strengthened key business systems and instigated greater focus, prioritization and strategic thinking amongst SMEs. This has led to growth in revenue, employment and customer reach; as well as enhanced access to capital. Participating SMEs have been vocal about their support of the programme, many after considerable initial scepticism.

Through this programme, the JPMorgan Chase Foundation and Dalberg have come to believe that high-quality support for small business can play a key role in reducing unemployment in South Africa. To carry on the work, an independent non-profit organisation, Catalyst for Growth, has been created. Over the coming years Catalyst for Growth will build an analytics platform to gather performance information on BDS across the country. By enhancing transparency and competition within the sector, this will make it easier for SMEs to access high quality services and for investors and corporates to better allocate investments intended to support entrepreneurs.

This report summarises the results and lessons of J.P. Morgan’s C4G pilot initiative. It was commissioned by the JPMorgan Chase Foundation and developed in collaboration with Dalberg.
The need for business support for growing SMEs

SMEs in South Africa are pivotal drivers of job creation, providing approximately 70% of national employment. Approximately 50% of SMEs, however, fail within the first two years - 85% within the first ten years. Further, 67% of SMEs provide no employment opportunities other than those of their owners.

Increasing the number of SMEs launched each year is one way to reduce South Africa's unemployment rate, currently 25.2%. With limited capital, capacity and market opportunities, however, this will be a slow journey. There are two other means of increased employment through SMEs: 1) reducing SME failure rates, which ensures job retention and 2) driving SME growth to encourage job creation.

Business Development Services (BDS) have been identified by SME experts and the South African government as key levers of this job retention and creation. Through its focus on strengthening the business systems of SMEs, BDS enhances their ability to both capitalize on growth opportunities and weather volatility that is often typical during the start-up phase of a business.

Still, BDS remains underutilised. 76% of South African entrepreneurs responding to a recent survey agreed that current business development services are insufficient to meet the needs of new firms. While 94% of small businesses have yet to make use of them. This is not due to a lack of availability, as many organisations provide BDS and investment in the space are large - Standard Bank, for example, spent R27 million on enterprise development in 2013, a significant portion of which was spend on support to entrepreneurs. The problem is transparency: there is currently no way to distinguish high from low quality providers, which makes BDS a gamble. An effective means of identifying impactful BDS is required if its contributions to the SME sector are to be realised.

The SME C4G Programme, which ran for two years from early 2012, aimed to validate that high-quality support makes a difference in both the survival and growth of entrepreneurial ventures. The programme supported 20 entrepreneurs through two leading BDS providers, Aurik and Raizcorp, while rigorously measuring the impact of BDS support on their businesses. The Programme aimed to (1) provide evidence on the impact of BDS support and (2) develop a knowledge base that could be used to assess and identify high quality BDS providers.

At the close of the Programme, BDS was found to be instrumental in driving revenue and employment growth, strengthening business systems and sharpening SME focus and strategy. Following these results, J.P. Morgan and Dalberg launched an independent non-profit - Catalyst for Growth - to develop a public BDS analytics platform that will help to (1) identify high quality providers, (2) create an incentive for providers to improve the quality of their services, (3) help SMEs and enterprise development funders better allocate their time and money, and (4) help investors identify high potential SMEs for investment.

This report presents findings after the two-year Catalyst for Growth Programme pilot.

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1. This is an estimate calculated using SME age data in the Finscope 2010 SME survey, assuming similar numbers of businesses are started each year.
2. These BDS providers selected SMEs out of a total pool of 355. The providers themselves were selected based on four core criteria: (1) focus on early to growth stage enterprises, (2) reputation for high quality services, (3) track record of success, and (4) existing offerings that combine BDS, access to finance and access to markets.
**Key findings**

To assess the impact of C4G, three key questions need to be addressed. First, **have participating SMEs survived and grown their businesses?** If BDS is working, we would expect to see SMEs both remaining in business and improving on key indicators such as revenue, employment and customer reach.

Second, **do SMEs see value in the BDS provided to them?** If BDS represents a valuable product that contributes meaningfully to growth, we would expect its beneficiaries to say so. While this study lacked a statistical control group, it is possible to get a sense of how much BDS attributed to the SMEs’ positive results by understanding the impact the entrepreneurs believe the programmes have had on their business.

Third, **has BDS strengthened the capacity of the SMEs to support further growth?** While successes to date are important to note, we would also want to ensure that SMEs have been primed for further growth through improvement in the business systems required to monitor and manage their businesses. Annex 1 provides an overview of how progress was measured.

**Evidence of the impact of BDS was found in 3 categories**

<table>
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<th>Improvements in business growth</th>
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<tr>
<td>Revenue growth</td>
<td>27% median annual growth</td>
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<td>Employment creation</td>
<td>50% of SMEs growing employment</td>
</tr>
<tr>
<td>Customer growth</td>
<td>49% median annual growth</td>
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<td>Access to growth capital*</td>
<td>Rose from 5% to 20%</td>
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<th>SME perceptions of value</th>
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<tr>
<td>Satisfaction</td>
<td>85% of SMEs recommending BDS</td>
</tr>
<tr>
<td>Impact on businesses</td>
<td>88% citing impact on growth</td>
</tr>
<tr>
<td>Mindset changes</td>
<td>Greater structure and focus and a more strategic orientation</td>
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<tr>
<th>Strengthening of business systems</th>
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<tbody>
<tr>
<td>Financial planning</td>
<td>Improved accounting/budgeting</td>
</tr>
<tr>
<td>Human resource management</td>
<td>Enhanced training and performance review systems</td>
</tr>
<tr>
<td>Cash flow management</td>
<td>77% reduction in average days sales outstanding</td>
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</table>

* Long-term debt (>12 months) and private equity capital are considered growth capital.

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“I can honestly state that if I knew beforehand what I know today... I would have paid ten times what we’re paying for the programme”

“It was about moving from me being the face of the business to putting systems in place to move the business forward without relying only on me”

“They teach you to simplify your business so you can manage it better. And it’s not about giving up opportunities, but about asking which ones are worth going for.”

“We’ve got a better financial standing. We know where we are financially.”
I. Revenue and growth

All 20 SMEs were still in business at the close of the programme, which is impressive given that about 18% of their peer firms fail each year. Moreover, 75% of SMEs participating in C4G experienced revenue growth from their baseline levels in 2012, while in contrast, only 60% of SMEs tracked in the SME Growth index - the largest survey tracking SMEs over time in South Africa, with approximately 500 SMEs included – experienced revenue growth during the same period. C4G SMEs saw a median annual growth of 27% between Financial Years 2011 and 2013, a number substantially above the 10% threshold that the SME Growth Index classifies as ‘high growth’.

A note on calculating revenue growth

In this report, median growth rates are reported. While many in the industry have historically reported mean average rates of revenue growth, this practice skews results because more businesses experience extremely high growth figures than extremely low growth figures (revenue cannot drop below 0). Thus, in statistical terms the distribution is not “normal”. As an illustration, two C4G SMEs experienced revenue growth of over 1,000%– primarily because they began from very low bases.

In situations such as these, the median is a more appropriate measure. By finding the ‘midpoint’ growth figure (half of the organisations saw growth rates above this midpoint, half below), it provides a much better picture of what we might consider ‘typical’ SME growth.

3. The median age of the firms in Catalyst for Growth is 4 years, 18% yearly failure rate for 4 year old firms calculated by looking at age distribution of South African firms and assuming similar numbers started each year.

4. Growth was calculated using a Compound Annual Growth Rate (CAGR) formula, which smooths annual growth in a given period and thus controls for volatility. The median CAGR across all SMEs was chosen so as not to skew results in favour of particularly fast growing SMEs.
Total revenue of all SMEs, FY 2011-2013

<table>
<thead>
<tr>
<th>Millions of Rands</th>
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<tbody>
<tr>
<td>FY2011</td>
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<tr>
<td>FY2012</td>
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<tr>
<td>FY2013</td>
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Growth spur Systems consolidation

Revenue growth, FY 2011-2013

<table>
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<th>Compound Annual Growth Rate, percentage</th>
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<tr>
<td>C4G SMEs</td>
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<tr>
<td>Annual growth*</td>
</tr>
<tr>
<td>27%</td>
</tr>
<tr>
<td>33%</td>
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<tr>
<td>75%</td>
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</table>

* The C4G figure of 27% refers to median annual growth. The SME Growth Index does not contain the individual SME data needed to calculate this median; annual growth in total SME revenue is thus quoted for these SMEs

** The proportion of SME Growth Index SMEs citing revenue growth was 51% between 2011-2012 and 68% between 2012-2013. This gives an average of 60%

Source: Dalberg analysis; SME Growth Index, 2013 and 2014

The majority of C4G SMEs experienced a large growth spurt in Year 1 (2012), with revenues in Year 2 being lower than Year 1 but still significantly higher than the baseline. One explanation for this could be that 2012 was simply a good year for SMEs generally; however, the experience of the SME Growth Index entrepreneurs suggests that this is not the case. Three explanations seem most plausible.

5. Aggregate growth for these SMEs was around 9% in 2012, considerably lower than the 13% obtained in 2013. Further, their aggregate employment shrank by 6% in 2012.
First, SMEs may have experienced once-off ‘unlocking’ effects of certain BDS interventions that allowed them to access revenue streams previously unavailable to them – ‘low hanging fruit’, one could say. For example, strengthened marketing efforts may have initially brought in a host of easy-to-reach new customers, with subsequent growth dependent on those that are more difficult to capture. Second, BDS may have led SMEs to utilise their enhanced capabilities for long-term business strengthening rather than short-term revenue generation in Year 2. There is evidence, discussed in the following section, that such a shift in mindset has occurred. Third, BDS providers may have selected SMEs that were poised for a growth spurt. This needn’t diminish the positive finding, as it may indicate that high quality BDS providers are good at selecting strong SMEs – encouraging for those looking to best allocate scarce resources in a sector where information is hard to come by.

**SMEs have increased their customer reach.** Between 2012 and 2014, 60% of SMEs managed to increase their number of customers, with median growth at 49%. This not only implies growth in the reach of SMEs’ products and services, but also that they have been actively expanding their businesses rather than simply relying on their existing pools of customers - a good diversification strategy.

**SMEs have also enhanced their ability to access capital.** Successful applications for finance rose by 14% between 2012 and 2014. More strikingly, while only 5% of the businesses had accessed growth capital before entering the programme, 20% of SMEs had accessed growth capital by the close of the programme. There are also indications that entrepreneurs are making better use of public capital, as the number of businesses accessing government grants increased from 0 to 4. This is encouraging evidence that SMEs are accessing an expanded pool of resources to use for investment in further growth.

**Finally, employment growth among SMEs has been encouraging:** 50% saw an increase in staff between 2012 and 2014, with median permanent staff growth of 5% across all SMEs. In contrast, only a third of SMEs in the Growth Index managed to grow their staff numbers – including part-time staff - during the same period. SMEs that experienced turnover growth were more successful at creating employment: median growth was 9%, or 1 additional permanent staff member, between 2012 and 2014 for these firms. This revenue-employment link is consistent with findings in the SME Growth Index and, since 75% of C4G firms grew their revenue, bodes well for the employment generation effects of BDS.

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6. Long-term debt (>12 months) and private equity capital are considered growth capital.
The link between BDS and employment generation deserves further attention. **50% of South African SMEs fail within their first two years and 70% within the first five.** At year ten, only about 15% will have survived. Put another way, if 100 SMEs were started today, in ten years 85% of them will have failed.

As noted, all of the C4G entrepreneurs that began the programme are still in business today. And these were not old firms: 70% of them were less than 5 years old in 2012, while 4 were less than 2 years old. They survived, moreover, during tough economic conditions: 35% and 29% of firms in the aforementioned SME Growth Index experienced a ‘survival threat’ in 2012 and 2013 respectively, with their aggregate employment shrinking by 6% in 2012. GDP growth was 2.5% in 2012 and 3.8% in 2013.

The implications of this survival are significant because failure is expensive - for the entrepreneur, yes, but also for society. In the last five years, approximately 800,000 SMEs were lost. The 100% survival rate of C4G need not be replicated for significant impact to be had. If high-quality BDS increased the 5 year survival rates of South African SMEs by just 10 percentage points – from 30% to 40% - 0.3 million jobs could be created, equating to a 1.5 percentage point decline in unemployment. This is not an unrealistic increase; the five-year survival rate in the USA is 45%.[viii] On average, C4G SMEs gained one job each, which may seem small. However, if just one job was added to 15% of existing SMEs, 0.8 million jobs could be created, leading to a 4.2 percentage point drop in unemployment. Combining both interventions would yield growth of 1.2 million jobs – 24% of the 5 million envisioned by the National Development Plan – and decrease unemployment by 5.9 percentage points to under 20%.

The Catalyst for Growth (C4G) initiative in South Africa

SMEs experiencing employment growth, 2012-2014

<table>
<thead>
<tr>
<th>Percentage SMEs increasing employees</th>
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<tbody>
<tr>
<td><strong>C4G SMEs</strong></td>
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<tr>
<td>50</td>
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C4G staff growth is underestimated here: the C4G figure includes only full-time staff, while the SME Growth Index figure includes part-time staff as well.

Source: Dalberg analysis; SME Growth Index, 2013 and 2014

Median permanent employee growth, 2012-2014

<table>
<thead>
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<th>Percentage growth in permanent employees</th>
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<tr>
<td><strong>All SMEs</strong></td>
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<table>
<thead>
<tr>
<th>Percentage</th>
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<tbody>
<tr>
<td>10</td>
<td>0</td>
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<tr>
<td>8</td>
<td>1</td>
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<td>6</td>
<td>2</td>
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<td>4</td>
<td>3</td>
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<td>2</td>
<td>4</td>
</tr>
<tr>
<td>0</td>
<td>5</td>
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</table>

Source: Dalberg analysis; SME Growth Index, 2013 and 2014

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7. Source: Finscope, 2010. This estimate was calculated using the average number of jobs per SME in 2010: 2.08 (~5.6m SMEs creating ~11.6m jobs).

8. This is an estimate calculated using SME age data in the Finscope 2010 SME survey, assuming similar numbers of businesses are started each year.
The types of BDS showcased by the C4G Programme, then, are more than ‘best practice’ examples of what to aspire to. They are critical levers of the national project of job creation.

II. Perceptions of BDS

Moving on to the second key finding of the programme, the views of SMEs themselves are important measures of whether the C4G programme has had a significant positive impact. Not only do they provide direct evidence of the value of BDS to its intended beneficiaries, but they also indicate whether or not growth has been caused by BDS.

According to participating SMEs, the C4G Programme has been instrumental in strengthening their businesses. 85% of entrepreneurs indicated that they would recommend their specific programme to others. 88%, meanwhile, felt that BDS had a positive impact on business growth specifically, with half of these claiming that such impact was high. SMEs also identified notable impact on business and financial training, business systems development and support, business strategy support and mentorship and networking.
Most SMEs were sceptical of BDS before they entered the programme, but quickly realised its value once C4G began. “There was no attraction initially because there was no understanding of what it was,” said one entrepreneur. “We didn’t know what we didn’t know.” “I’m loath to come to a session,” said another, “but once I’m in it I enjoy it and when I leave I’m elated”. SMEs spoke highly of their experiences and indicated a strong willingness to pay for the services they received – a notable finding, considering that 75% of SMEs identified access to Finance as a critical business need at the outset of the programme. As one entrepreneur stated, “I’ve been pleasantly surprised… I was blown away… now if we have a strategy sessions my co-director says ‘what is our strategy guide thinking?’”

Interviews revealed that, in addition to offering tangible improvements to entrepreneurs in areas such as revenue and systems development, the C4G Programme also improved the way they approach and think about their businesses. Key benefits included the following:

1. Structured approaches to management and planning.

“Initially, we had a very static view of our finances - just the income statement and balance sheet, you know - but we moved to more of a focus on planning and projection and developing 3, 5 and 7 year plans”

“The programme brings method to the madness”

“We’ve got a better financial standing. We know where we are financially”

Coming into the programme, many SMEs struggled to deal with their day to day activities in a structured fashion. This meant that budgeting, financial planning and business strategy were often approached in an ad hoc way, which made it difficult to anticipate opportunities and weather unexpected shocks. BDS equipped these SMEs to put in place systems that allowed for more focused, forward-looking management and analysis of their businesses.
2. Ability to prioritize and develop enhanced focus

"Before seeking BDS, I had 16 locations, I now have 6. But I’m just as profitable"

"They teach you to simplify your business so you can manage it better. And it’s not about giving up opportunities, but about asking which ones are worth going for."

Prior to receiving BDS, the entrepreneurs were almost wholly preoccupied with generating revenue. This made it difficult to turn down new opportunities, even if they had little to do with building long-term core business, since the idea of any foregone revenue was unpalatable. BDS helped entrepreneurs separate opportunities for business from opportunities for business growth by allowing them to define the bundles of products and services most valuable for their businesses.

3. Shift in mindset from survivalist entrepreneur to strategic enterprise

"It was about moving from me being the face of the business to putting systems in place to move the business forward without relying only on me"

"Before we embarked on this programme we were basically running a business to survive"

"Beforehand I was all about closing deals rather than building business. It’s been a very good way to develop more structure"

At the outset of the programme, survival was the primary imperative for most SMEs, making it difficult to focus on more strategic, longer-term issues. There were real difficulties in keeping their businesses afloat, yes, but mindsets were also a challenge: entrepreneurs found it difficult to separate their businesses from themselves. Time spent engaging in any activities not directly involved in short-term business generation seemed dangerous. "[With your business], it’s like you’ve just had a newborn baby and you’re leaving it in day care", said one entrepreneur of the time taken away from his business to attend BDS sessions. Through BDS, entrepreneurs learned to apply themselves to making their businesses less dependent on their individual efforts so that they could spend time seeking out new opportunities for improvement and growth.

Entrepreneurs also emphasized the benefits of engaging and reflecting with individuals that offered novel insights into their businesses during BDS. Such reflection, SMEs noted, was both a source of new ideas and of comfort during difficult times.

III. Business systems

It is clear that, within its brief two-year lifespan, BDS has driven business growth, instigated more strategic and focused SME thinking and awakened entrepreneurs to the benefits of BDS. But is this progress sustainable? Otherwise put, have SMEs improved the business systems required to weather volatility, monitor their businesses and manage for future growth? Considering that 65% of SMEs listed business systems development as a critical business need at the outset of the programme, this question is particularly relevant and will be the third and last key finding explored in this report.

There have been noticeable improvements in SMEs’ systems, particularly in terms of financial management and training, with positive results most notable in the following areas:
1. **Compliance with accounting standards and the use of budgeting and financial planning** for monitoring the financial health of the business

2. **Performance monitoring and training** to strengthen human capital and retain key talent

3. **Management of accounts receivable** to reduce delays in payment that may lead to cash flow shortages

SMEs are taking a more structured approach to, and are in better control of, their finances, as highlighted in the graphs below.

1 Better accounting procedures and enhanced budgeting and financial planning mean that SMEs are in better control of their financial positions

Compliance with GAAP/IFRS accounting standards increased from 50% to 80% between 2012 and 2014. The use of accounting software – a key tool in effective accounts management – increased from 70% to 90%. This has been accompanied by a strengthening of financial planning and budgeting. **90% of SMEs now engage in financial planning, compared with 75% at the onset of the programme.** 95% engage in regular budgeting, up from 65%. There have also been gains in the proportion of SMEs measuring profitability, which increased from 70% to 75%, though these are small.

2 SMEs take a more structured approach to human resource development

**Compliance with GAAP/IFRS accounting standards increased from 50% to 80% between 2012 and 2014.** The use of accounting software – a key tool in effective accounts management – increased from 70% to 90%. This has been accompanied by a strengthening of financial planning and budgeting. **90% of SMEs now engage in financial planning, compared with 75% at the onset of the programme.** 95% engage in regular budgeting, up from 65%. There have also been gains in the proportion of SMEs measuring profitability, which increased from 70% to 75%, though these are small.
With respect to human resource management, we see that SMEs have become more focused on monitoring, developing and rewarding good performance since the beginning of the C4G programme. They make greater use of performance based compensation, and hold more regular performance management reviews and meetings. Notably, SMEs have greatly increased the amount of training they offer. While only 45% of participants offered formal training in 2012, this figure has increased to 70%.

The final area in which we have seen improvement is in the management of accounts receivable. While it previously took SMEs over four months on average to collect debts, it now takes 30 days. Interestingly, we’ve seen a corresponding increase in the time taken to pay accounts payable, indicating that C4G SMEs have adopted cash flow management techniques that enable them to make the most use of their working capital.

almost all systems consistently improved between the baseline and Year 2. Only a small number (the measurement of profitability using ratios, financial planning and formal training) were utilised more in Year 1 than in Year 2, though the difference is negligible and Year 2 numbers are still well above the baseline. This could indicate that certain systems are more difficult to maintain than to initiate, which is to be expected, but it could also indicate that SMEs are simply adjusting their focus areas according to their particular business needs. Overall, results indicate that lessons regarding business systems are being learned, applied and retained.

Conclusion and next steps

SMEs in South Africa need targeted, capable support if they are to fail less, grow more and meaningfully deliver on the national development imperative of job creation. The Catalyst for Growth Programme has shown that BDS represents precisely this type of support. In two short years, BDS has strengthened key business systems and instigated greater focus, prioritization and strategic thinking amongst SMEs. This has led to growth in revenue, employment and customer reach; as well as enhanced access to capital. This success is not transient: BDS has strengthened the underlying organisational capacities of C4G SMEs and, in so doing, transferred both the experience and fundamentals of growth. Participating entrepreneurs agree; they see immense value in the programme, many of them after considerable scepticism.

Going forward, Aurik and Raizcorp will continue to provide leading BDS support to grow South Africa’s SMEs. But the country, clearly, needs more like them that keep the quality of their services as their top priority. The
answer is in increasing the quality, not the quantity of BDS providers in South Africa. J.P. Morgan and Dalberg have already taken steps to deliver the long term C4G vision of building a public BDS analytics platform. They have founded an independent not-for-profit organisation – Catalyst for Growth - with the sole purpose of delivering this platform. A beta methodology has been developed, which combines both objective measures of SME and BDS provider success with qualitative evidence related to SMEs’ experience of BDS. The refinement and implementation of this methodology will raise the bar of the quality of BDS to the level demonstrated by Aurik and Raizcorp throughout the C4G Programme. It will also (1) help to allocate scarce resources to the best providers, (2) improve the quality of the BDS pool by introducing transparency and competition, and (3) attract investment into BDS by demonstrating its impact. Further, it will provide even non-participating SME support initiatives with a clear methodology for assessing and improving their impact.

With more entrepreneurs accessing a greater number of better quality services, the increase of high quality BDS can bring significantly more SMEs and significantly more jobs across the one-, two- and ten-year thresholds of survival. In so doing, it can aid in building a stronger foundation of South African innovation, economic growth and job creation.

9. See Annex 2 for a fuller explanation of this beta methodology

Get involved

The JPMorgan Chase Foundation is excited to continue its commitment to the Catalyst for Growth programme by working closely with partners in South Africa to realise the shared vision of job creation and economic growth through small and medium enterprise development. For ED funders, Catalyst for Growth offers data on BDS providers to improve the impact of Enterprise Development initiatives; for BDS providers, it offers a means of attracting clients through enhanced visibility; and for SME investors, it offers a pipeline of investment-ready SMEs supported by high quality BDS.

Catalyst for Growth is actively signing up SMEs investors to join on as investment partners, new incubators and accelerators to sign on to beta test the analytics platform, and enterprise development programmes utilise the analytics platform.

Should you be interested in getting involved in this initiative, please visit www.catalystforgrowth.org or contact Catalyst for Growth at info@catalystforgrowth.org.

Endnotes

This report was written by Matthew MacDevette, Cl Fonzi, and James Mwangi of Dalberg Global Development Advisors with Rafia Qureshi from the JPMorgan Chase Foundation.
Annex 1: Monitoring and Evaluation (M&E) Framework for C4G

Four tools were used to assess the impact of the C4G Programme: (1) a baseline survey of all 20 SMEs in 2012; (2) follow-up surveys in May 2013 and 2014; (3) in-depth interviews and focus groups with entrepreneurs and BDS providers conducted in May 2013; and (4) detailed quarterly and annual reports provided by BDS providers.

Three categories of indicators were assessed, providing a combination of qualitative and quantitative evidence: (1) improvements in business growth; (2) SME perceptions of the value of BDS; and (3) improvements in the underlying business systems supporting SME management and growth.

Four tools were used to gauge the impact of the SME Catalyst for Growth Programme:

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<th>Indicators</th>
<th>Tools</th>
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<tr>
<td>1. Improvements in business growth</td>
<td>1. SME Survey data comparison: 2012-2014</td>
</tr>
<tr>
<td>2. SME perceptions of value</td>
<td>2. BDS provider quarterly and annual reports</td>
</tr>
<tr>
<td>3. Strengthening of business systems</td>
<td>3. Interviews with SMEs</td>
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<tr>
<td></td>
<td>4. Interviews with BDS providers</td>
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Annex 2: Beta methodology – Catalyst for Growth Analytics Platform

Catalyst for Growth, an independent non-profit organisation founded by Dalberg and J.P. Morgan, will guide the development of the public BDS analytics platform first envisioned by the C4G Programme. The analytics system will categorise BDS providers by type of SME served and BDS provider model. Both quantitative and qualitative data will be gathered to gauge (1) objective progress in SME and BDS provider indicators, and (2) SME experiences of the BDS they receive. The figure below illustrates this.

The BDS analytics platform will measure success of BDS services through success and experience metrics.

<table>
<thead>
<tr>
<th>Dimension &amp; source</th>
<th>Description</th>
<th>Aspect</th>
</tr>
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</table>
| **Success** | **SME** | Objective measurement:  
- Quantifiable changes in financial and operational aspects of the SME following BDS  
- Use of various systems by the SME following BDS |  
- Improved business growth  
- Investment readiness  
- Improved access to markets  
- Improved systems  
- Workforce development |
| **BDSP** | Objective measurement:  
- Quantitative data on efficiency and sustainability of BDSP portfolio of SMES |  
- Efficiency  
- Sustainability |
| **Experience** | **SME** | Subjective measurement:  
- Perceived business value of the BDS by the enterprise |  
- Relevance  
- Effectiveness |

Source: Dalberg analysis; Stakeholder interviews; Desktop research

Over time, input from key industry stakeholders - including private sector companies, bilateral and multilateral donors, government entities and BDS providers themselves - will refine this methodology and allow for its use as a rigorous foundation for gathering information on BDS providers across South Africa.
Annex 3: C4G Investment Partners

In the second year of the programme, Catalyst for Growth began adding investment partners to the programme. These partners have the funding, interest, and capability to invest in SMEs in South Africa, and have committed to consider C4G SMEs for investment. As the programme enters the next phase, and begins collecting data from an ever increasing number of SMEs, there will be an even bigger role for investment partners to play.

Current investment partners include:

Catalyst for Growth has also added its first corporate partner, Anglo American, through its enterprise development arm, Zimele. Corporate enterprise development (ED) investments, such as those made through Anglo American's Zimele, play an essential role in building a vibrant South African business community and creating employment for South Africans. Committing to use Catalyst for Growth when buying BDS is a cost-free way to maximise the impact of the ED contributions already made by corporate South Africa. Catalyst for Growth looks forward to expanding its network of corporate partners and further strengthening the linkages between South African entrepreneurs, both small and large.
Annex 4: C4G Enterprise profiles

Aurik

Aurik Business Accelerator (Aurik) established in 2001, offers business growth programmes for entrepreneurs in start-up and growth businesses with turnovers up to R80m per annum. Having worked with over 760 companies located throughout South Africa, Aurik has developed expert capability and tool sets for the sourcing, selection and support of high impact entrepreneurs. Aurik business development programmes are practical, high-impact and growth focused ensuring that client companies exit the programme with increased growth, market access and fundability outcomes, a term Aurik refers to as an “Asset of Value”. Today, Aurik works directly with established business owners wanting to grow their businesses to the next level, business funders and investors wanting to support their underlying investees performance and with South African big business through Enterprise and Supplier Development Programmes. www.aurik.co.za

Destiny Cuisine

Destiny Cuisine was established in 2007 by experienced hospitality professional Titus Makoro, later joined by Andrew Kamanga, with the aim of becoming the best catering services company in the industry. Destiny specialises in the provision of on-site food and beverage services for gatherings that range from 500 to 10 000 people. It offers completely customisable menus and has dedicated staff in its industrial kitchens in Gauteng, Limpopo, KwaZulu-Natal and the Eastern Cape. It has recently added fine dining, pop-up coffee shops and mobile corporate canteen services to its offering.

Firestring

Firestring is a Private Social Network for companies. It offers an award-winning out-the-box Enterprise Social Network (on-premise or hosted), and consulting services to align staff social business processes and strategy, and ensure staff are trained and adopt the company’s collaboration platform to drive business benefits. With a proven track record in delivering Enterprise 2.0, Social Business and KM 2.0 solutions, Firestring leads the market with the Firestring Enterprise Social Network. Its enterprise platform is easy-to-use, easy-to-train and quick to set up, either on-premise, where security and data confidentiality is a concern, or in-the-cloud. Backed by the largest IT Group in Africa, Firestring is a proud member of the Britehouse Group of Companies, the leader in delivering SAP, Microsoft, Mobile and Social Business Solutions. Firestring is lit by Tal Nathan and Alison Jacobson.

FOX Innovations (FOXit)

The group is focused on providing agile approaches to the difficult and complex problems encountered in project management, mining and minerals processing industries. The Agile Group strategy focuses on the utilisation of technology to improve risk management, governance and performance to enhance its value proposition. Dierdre Strydom heads up FOXit.

Galeboe Professional Services

Galeboe Professional Services is a well-established BEE system integration and telecommunications focused organization. With technology becoming commoditised, it differentiates itself through certified people and the quality of its ICT solutions and resources. This is achieved through strong partnerships with our customers and the provision of cost-effective and strategic solutions. With 95% of Galeboe’s business coming from the public sector, Galeboe sees itself as a critical link in enabling government across all 3 spheres of government. Galeboe believes that its partnership with government is crucial for the establishment of a mutually beneficial relationship. It envisages future growth being achieved through expansion into the private sector.

Kushesh Trading

Kushesh is a niche courier service company specialising in the distribution of medical products nationally. Established in 2008 by husband and wife team Ashley and Tania Mulligan, Kushesh services around 10% of the 200-strong medical suppliers in Gauteng and focuses on “last mile” distribution: taking finished products from suppliers to hospitals, pharmacists and doctors. The industry being highly competitive, Kushesh prides itself on excellent customer service, flexibility and a state-of-the-art delivery
Catalyst for Growth (C4G) initiative in South Africa is working vigorously to establish operations nationally, thereby reducing reliance on a national supplier network.

**MBS Air Conditioning and Refrigeration.** A mechanical engineer by training, Mabaka Monakgisi pieced together MBS Air Conditioning and Refrigeration in 2004. MBS specialises in new installation, design, maintenance, back-up service and repairs of air conditioning Systems and Refrigeration Systems, and prides itself on its flexibility and ability to manage difficult clients. The company has some exciting growth plans, including continental expansion, and has shifted from handling mostly government contracts to receiving 90% of its business from the private sector.

**Mr. Sandless.** Mr. Sandless offers a revolutionary means to seal hardwood floors without the need for dusty, disruptive sanding. The process is cheaper and quicker than traditional sanding; moreover, it protects the floor better against wear and tear. Richard Bentley founded Mr Sandless in the US in 2010. After extensive testing over 12 months in Johannesburg, he was awarded the master franchise for the sub-Saharan African market in 2011. Bentley's experience in wood flooring spans more than a decade, and his plan is to take Mr Sandless throughout South Africa and to other African countries including Mauritius, Kenya, Ghana and Nigeria.

**Rexus Trading.** With over 200 municipalities, 17 water boards and numerous mines in South Africa in need of water supply and waste water removal, the market for piping is huge. However, most suppliers specialize in a particular pipe or fitting, making it difficult for contractors to get what they need. That's where Rexus comes in, offering a one-stop-shop for valves, pipes and fittings for the water and wastewater industry. It serves South Africa and Zambia. Expansion is planned into the Middle East and rest of Africa. Allistair Balutto, who has over 23 years’ industry experience, fits Rexus together.

**Studio 05 House of Fashion.** Studio 05 is a niche fashion design school started in 2003 by Cecilia Mungofe, who has 25 years of experience in the fashion industry, and her two sons Bruno and Nashville. It has grown its initial one-year course offering to a full three-year diploma recognized by the South African Qualifications Authority. While universities offer courses in fashion design, Studio 05 prides itself on the one-on-one attention it gives students - it tries not to have more than 10 students per class - and its strong focus on pattern making, a vital skill for students looking to bringing their garment designs to life.

**ValuationUp.** ValuationUp is a financial analysis and strategy tool for SMBs: by comparing the financial performance of a business to its Database of nearly one Million financial statements across over 1000 industries, ValuationUp can identify areas of under-performance and quantify the benefit from fixing each area (in terms of cash flow and valuation). This generates a prioritised list of projects for the business owner to focus on. ValuationUp is used by investors, advisors and business owners. The team is led by Gareth Ochse and Kenneth Kalmer.
Annex 4: C4G Enterprise profiles

Raizcorp

Raizcorp is an unfunded for-profit business incubator model, which provides full-service business support programmes that guide entrepreneurs to profitability. Raizcorp was founded in 2000, and has since become Africa’s premiere business incubator model. Raizcorp has developed a rigorous selection process that ensures that those who make it into the various programmes are indeed those with the highest potential to succeed. Once selected, the entrepreneurs are exposed to a high touch support programme that continues to produce excellent results. Raizcorp has worked with over 1,500 businesses and currently supports in excess of 500 businesses across 8 locations in 2 countries. Approximately 86% of Raizcorp’s partner companies have a growth rate in excess of 15% per annum. Over a period of 1 to 2 years, Raizcorp has managed to increase the turnover and profitability of over 95% of its partner companies. www.raizcorp.com

Action Cameras. Action Cameras is an E-commerce specialist retailer of action sports technical gear. As the founder and managing director of the company, entrepreneur Warrick Kernes remains in control of the day-to-day running of the business, addressing matters as they arise. He is working with the Fast Forward team to position Action Cameras as the leaders in the ecommerce space for the supply of action sports technical gear. Having been awarded London’s Outstanding Young Businessman in 2009 after 18 months in the UK, Warrick attributes his success to his action-oriented approach to doing business.

Basadi Underground Contractors. The Managing Director and Owner of Basadi Underground Contractors is Zanele Matome. Basadi Underground Contractors supplies secondary support services to the mining sector – they build underground structures, such as roofs, within the mines. Zanele envisions Basadi growing into the premier mining secondary support services company in Southern Africa, employing a large number of staff. Basadi is the only woman-owned company in the local industry. Zanele says of being an entrepreneur: “even though it’s tough, the key is just to get up in the morning and carry on.”

Cardz Group Africa. Cardz Group Africa imports PVC card products, which form the basis of the plastic cards in people’s wallets. Managing Director Paddy Janneman has led the company’s growth, since its inception in 2009, to a point where it is now employing seven people. Having established a solid reputation for the company over the past four years, Paddy now envisions Cardz Group expanding throughout the African continent. As an avid road runner with four Comrades Marathons under his belt, Paddy thanks his dogged determination as an entrepreneur for his success, which kept him chasing after the markets for his product even through the worst days of the recession.

Ignite Products. As manufacturers and distributors of charcoal products, Ignite Products aims to be an innovative provider of hassle-free, easy-to-use braise fuel products. Managing Director Bernd Klingenberg sees Ignite Products being the national brand leaders within five years, and has a twenty-year vision that sees his company being the global leader in the braise fuel market. Bernd has a simple personal philosophy that has filtered through into how he manages his company’s success: constant, never-ending improvement in everything he does.

Isaacson Ladders. Isaacson Ladders is a manufacturer and distributor of aluminium stepladders. Dorian Isaacson is the owner and Managing Director of the company; he focuses on sales and marketing while covering any operational aspects as needed. His perseverance and tenacity as an entrepreneur is inspired by the example set by his late father. These traits will stand him in good stead as he leads his company to his vision of being listed independently or through bundled products within five years.

Kriel Occupational Health and Wellness Centre. The Kriel Occupational Health and Wellness Centre, started in 2008, is the brainchild of Dr Lindi Mokwena. The Centre offers medical surveillance services for the local
community. Dr Lindi completed her post-graduate degree in Occupational Health in record time at the University of the Witwatersrand in 2006-7. Her vision for the Centre is one of continued growth, supporting ever greater numbers of clients. Her passion for occupational health is the reason she gives for the Centre’s success, as well as for her extensive work with local charities and orphanages.

**Naledi Rail Engineering.** Dr Jackson Mphafudi and Wahed Rasool, the entrepreneurs behind Naledi Rail Engineering, are playing a meaningful role in the revitalisation of the rail industry in South Africa. Wahed has more than 25 years of experience in the rail industry, and Dr Mphafudi was involved with the listing of the second black-owned company in South Africa in 1994. They started Naledi Rail Engineering in 2008 and envisage the company becoming the rolling stock service provider of choice, creating sustainable jobs in an industry that lacks skills and technology.

**Outsource Logistics.** Elzanne van Lill, the owner and Managing Director of Outsource Logistics, believes that her success as an entrepreneur is based on her ability to build strong interpersonal relations with her clients and translate these into good customer relations experiences with her company. Outsource Logistics is a boutique clearing and forwarding agent for the wine industry. Elzanne continues to work in the operational side of her company; she envisions the company having a bigger product offering within two years and building up a strong international reputation for the company within five years.

**Pavati Trading 41.** The three entrepreneurs behind Pavati Trading 41 have a unique understanding of distribution in the informal sector. Mthobisi Nhleko, the Managing Director, is an avid soccer player and was the main goalkeeper for the “Two Touch” Discovery soccer team that won the Summer 2012 Season Cup. He is a born leader and with his wife, Ntombenhle Nhleko, and partner, Ashley Langa, seeks to make Pavati Trading 41 the biggest informal trade distributor in South Africa by 2020.

**Totally Kosher.** Richard Pearce is the Chef Patron – owner and Managing Director – of Totally Kosher, a food manufacturer and outside catering company. Totally Kosher’s services are aimed at religious communities, particularly the Jewish and Muslim communities, offering completely kosher and halaal meal choices. “Always fall forward” is Richard’s advice to aspiring entrepreneurs, and a philosophy he believes has contributed to his success as he seeks to lead his company to domination of its market.
Notes: