

Concept Document for:



Executive Summary

The Business Link Network (“Blink”) is a financial and business support services network proposed for South Africa to enhance the small and medium (SME) sector by articulating stakeholders, harnessing knowledge structures and facilitating financial flows. The Network does not exist yet in South Africa and aims on connecting stakeholders that at present seem to operate disjointed or only connect at high transaction costs.

Of foremost importance is the notion that it does not create an additional market player but rather facilitates and lubricates information flows between the existing ones enhancing their performance. The Network as a transfer station of information flows building on knowledge structures and intricate knowledge of SME sectors – this, in short, constitutes its competitive advantage and market justification.

The Network’s progenitor, AniCap Venture Partners, propose that the Department of Trade and Industry (DTI) undertake a feasibility study to determine whether the Network is an appropriate solution for Government and South Africa.

Introduction and Objectives

Given the diversity and depth of problems encountered by historically disadvantaged SME’s (financial, technical, organizational, institutional), the need clearly exists to enhance and strengthen the entire SME value chain.

AniCap Venture Partners proposes that the Department of Trade and Industry create or sponsor a Network where various SME support institutions (hereafter stakeholders), such as banks, social investors (NGO’s, donors, government agencies, etc) and corporate buyers work together to support SME’s in new ways. It would build on similar recent initiatives developed abroad.

It does not exist yet in South Africa and aims to connect stakeholders that at present seem to operate disjointed or only connect with high transaction and information costs. For instance, corporate buyers could have difficulties in finding suitable SME’s as business partners, and the Network could assist in short listing and identifying suitable partners. Or, SME’s could be daunted by the application forms needed for governmental or donor subsidies, and the Network could assist in this. A final example, is the Network’s potential role in connecting



business service providers (BSP's) and SME: the SME's advantage is that they are advised on a suitable BSP and the BSP is given an additional business opportunity.

The word Network is chosen as it reflects its main idea: stakeholders cooperating in it remain their independence and pay for services rendered; a transaction action based payment structure. It brings together stakeholders and facilitates and enhances their performance and, eventually, the SME sector at large. It is not a virtual Network but will have its own physical office and professional staff rendering its services but, of course, will make intensive use of an internet portal and facilities.

Using an analogy, the Network can also be compared to a University divided into departments (SME market sectors) and professors (the Network's stakeholders). The University exists to educate Students (SME's in the Network) but it is professors who teach but not the University. Without the University framework, there would be a lot of disenfranchised and independently operating professors, and students would have a difficult time locating them. In the Network's context: stakeholders engage with SME's and deliver their services but it is the Network that facilitates these connections.

Network's Proposed Objective

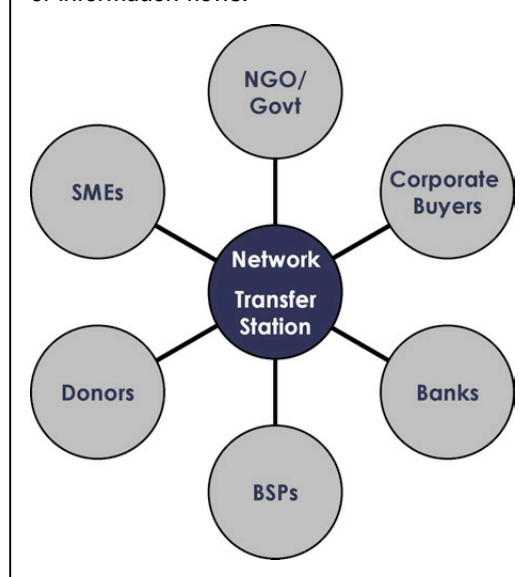
The Network's objective is: to enhance the SME sector by articulating stakeholders, harnessing knowledge structures and facilitating financial flows. It facilitates communication to and understanding by stakeholders. Broken down, the Network:

1. **Articulates stakeholders:** The Network does not pretend to create new stakeholders, it simply intends to harness and articulate existing ones, and herein lies its competitive advantage: knowledge of offerings of a stakeholder that might be useful to others.
2. **Harnesses knowledge structures:** Congruent with a resource- or knowledge-based view of the network, knowledge structures are at the heart of its competitive advantage. Underpinning the need for a specialization on certain SME sectors only as a prerequisite to building up the organization's Body of Knowledge and its managerial skills.
3. **Facilitates financial flows:** This may be either commercial loans (through commercial banks) or non-commercial subsidies and grants (from government or international donors). It is thought working capital – and CAPEX financing – impose chief impediments to the SME sector's growth and its amelioration potentially unlocks significant advantages in other functional areas, too (e.g. technical, marketing, organizational).

Figure 1 depicts the Network in the middle of six stakeholders' categories. Channeling information flows to and from stakeholders, it can also be depicted as a transfer station of information flows. It does not create a new player in the SME market – which could possibly distort the market or intensify competition – but merely lubricates existing decision making processes.

As such, the Network does not constitute a final destination in itself as this would result in becoming an active market player, too, but exclusively links one

Figure 1: The Network is a transfer station of information flows.





stakeholder with another one(s). Information flows are at the heart of the transfer station concept as it adds new information, insights or recommendations and then dispatches to other stakeholders.

For instance, information on SME's and BSP's is condensed in a short-list for ease of decision-making by a corporate buyer. Or, SME's financial needs are grouped and, in close cooperation with a corporate buyer, financing packages are negotiated with a bank. A final example, the Networks links SME's with donors and assists in filling out applications for subsidies. These examples, too, point to the need for a market sector specialization, enabling adding value to information flows flowing through the transfer station.

Organisation

For the Network's organisation form, a private organization is recommended as this is more likely to ensure its required agility and decision-making swiftness. However, strong links with public bodies (e.g. Department of Trade and Industry, National Treasury) are crucial and they should be represented in the Service Centre. Also, Small Enterprise Development Agency (SEDA) should have a permanent representation in it given their prominent roles in the SME market and the need for a close cooperation with them.

A small, agile and manageable Service Centre is recommended with a maximum of five representatives from five stakeholders categories:

1. **NGO's and government agencies:** Those organizations catering the SME market including stakeholders in the micro-finance sector.
2. **Donors (bilateral and multilateral):** The major donors present in the South African market, e.g. USAID, FinMark Trust and a wide array of bilateral donors.
3. **Corporate buyers:** these are the companies that buy products and services from SME's (suppliers) or use SME's as distributors (vendors).
4. **Business Services Providers (BSP's):** The consultants providing all sorts of services to SME's: taxes, technical assistance, managerial services, etc.
5. **Banks:** Catering the SME market, these could be specialized SME banks or more general banks with an SME desk.

The Service Centre should be considered as a decision-making platform assisting the Network's management in its strategic decision-making.

Finally, the need for adopting sound and proven managerial concepts is stressed, such as the preparation of annual business plans, strategic objectives and annual work plans with quantifiable and attainable output objectives.

Market Sector Specialization

Building on the Network's depiction as a transfer station of information flows (see Figure above), specialization and focus on certain market sectors is needed. Covering too many market sectors requires substantial investments and time to build up knowledge. Note that it is believed the Network's competitive advantage should be knowledge based and it is difficult to build this up in a blanket coverage of all SME sectors.

Additional services (e.g. accreditation and certification) could be added in a later phase but only after knowledge structures and organizational processes are in place.



Internet Portal

The Network should use intensively an Internet-based portal, offering various services to its stakeholders, in addition to the standard Internet-based communication tools. Examples abound in developing and developed countries where similar networks have comprehensive and easy to use portals in place (see section below for precedents). See the MyDonor initiative also proposed by AniCap Venture Partners.

BSP Development

There is need to uplift South African BSP level and quality of delivery. BSP development is a crucial component of the Network, too, but it will pursue a modest approach. Listing of reliable BSP's and linking them with potential clients (SME's and corporate buyers) is already a step forward.

The Network could include certification of BSP's and SME's in the medium or long term, but only after it has build up its organization and knowledge structures. It is not recommended to include certification of BSP's or SME's in the pilot project.

Services Proposed

The Networks proposed services are linked to its objectives, i.e.: to enhance the SME sector by articulating stakeholders, harnessing knowledge structures and facilitating financial flows. They are:

1. Subsidies and grants;
2. Matchmaking;
3. Financial services;
4. Public policy consultancy.

Firstly, a brief overview of these services is depicted in the table below, followed by a more detailed explanation.

Table 1: Proposed services' link with the Network's objective.

Subsidies & Grants	Matchmaking	Financial Services	Public Policy Consulting
<p>Strong link; available funds to enhance the SME market often remain untapped currently</p> <p>It articulates public agencies, donors, SME's and BSP in an unprecedented and efficient way</p> <p>Increased usage of funds is likely to foster SME market' growth and maturity level</p>	<p>Strong and comprehensive link; it articulates SME's corporate buyers, BSP and government/donors</p> <p>It enhances the sector's efficiency by offering services that lubricate the operation of actual players'</p>	<p>Strong link; it ties together banks, SME's and corporate buyers</p> <p>Use of purchase order factoring and Letters of Comfort to steer away from conventional drafts and collateral based financing</p>	<p>Strong link; government agencies and donors are vital stakeholders</p> <p>Builds on first hand market information generated in the other 3 services to assist government and donors in their policy making</p> <p>Knowledge management is vital</p>

1. Subsidies and grants. Donor and governmental funds are often overlooked by SME's or BSP's or they are simply unaware of their existence. On top of that, filling out applications to tap these financial sources seems a daunting exercise to many of them. The main advantage



of this service is that it helps to develop the SME market by tapping subsidies and grants that are available but often remain unused by SME's who need it most.

Therefore, a service that gives information on available funding and assists in its application process could be an attractive market proposition. Income for the Network could be based on a success fee for each granted subsidy. This service is congruent with MyDonor, a proposal recently launched by AniCap, which would run as an independent activity to the Network.

Demand for this service could come from various sources: individual SME's; BSP's linked to SME's or even donors themselves linking their applicants with the Network. In time, this service could also include evaluation and appraisal of applications for third parties. Strong demand is expected both from supply - (donors/government) and demand side (SME/BSP's).

2. Matchmaking. Building on a deep knowledge of stakeholders in a limited number of market segments, the Network could assist in matching demand and supply for services and goods. Match making in this sense enhances transparency and efficiency of the SME market facilitating the connection of supply and demand.

The Network could function as a first filter for short-listing appropriate business partners for corporate buyers, SME's and donors. The actual selection will ultimately be done by business partners themselves, of course, but the Network can facilitate in the selection process. This facilitation should commence relatively simple and straight forward but can be up-scaled to BSP and SME certification commensurate with demand and gained experience.

It should be made clear to stakeholders that the Network is not a public good and that users should pay for its services based on actual delivery of services (transaction based revenue generation). This suggests long-term relations and transparency will pursue matched stakeholders to pay the Network a success fee, either on a fixed or variable basis.

It is not expected though that corporate buyers, donors or banks will circumvent the Network and not pay for the services rendered – as these allegedly operate on a high professional level and their number is limited.

Table 2: Matchmaking opportunities.

Matchmaking Opportunity	Likelihood of Income Generation	Description
Corporate buyers – BSP	High	Corporate buyers can use the Network to short-list BSP's for consultancy or training assignments acting as a first filter; this service hinges on a deep knowledge of the sector and its technicalities
Corporate buyers – SME	High	Business leads from corporate buyers for SME's can be listed and the Network assists in filtering out the good ones; here, too, its competitive advantage hinges on sector knowledge; number of leads increases in time as its added value is proven in the market
BSP – SME	Medium	SME's use the Network to link them with individual BSP's who meet their specific demand for consultancy or training assignments; its success is likely to increase if this service is linked with subsidies and grants
BSP – Donors	High	Local BSP's offer a wealth of knowledge and experience that can be tapped by donors; robust and reliable BSP's often remain unknown and by providing this service their business volume increases



3. Financial services. A recent market survey suggests interesting financing schemes (e.g., PO factoring) are currently in place tying together banks, corporate buyers and SME's. It is recommended to adopt these schemes and extend them further in the market, i.e. a bottom-up approach. The Network's added value lies in assisting corporate buyers and SME's in negotiating deals with banks offering concrete deals to the bank.

The Network would steer away (at least, in the short term) from more elaborate financing schemes, such as securitization, as these are technically complex and require a substantial number of underpinning legal documents.

Another important financial service is the Network's ability to link South African private equity funds with financing demand from individual SME's. Anecdotal evidence suggest these funds are actually in need of increasing their deal flow and are short in investment opportunities. This service is expected to generate revenues for the Network as the number of equity funds is limited, they operate at a high professional level and are likely keen on building long term relations.

Finally, the Network's financial value capture lies in obtaining success fees from the loan uptakers as these benefit from obtaining commercial loans with a lower than market interest rate.

4. SME public policy consultancy. This is the only service which does constitute actual delivery of services as compared to the other three services. Steering away from often used elusive concepts such as "advocacy" or "transparency enhancement", difficult to define and pin down, this service aims on offering concrete consultancy services to public policy makers, both national (e.g. SEDA, NGO's) and international (international donors).

This service builds on lessons learned and the actual market experience generated within the other three services thus provides policy makers with first-hand market information on what works; what does not work; sector/company technicalities; SME market's development needs; market deficiencies or opportunities; and, finally, risk profiles of specific interventions and risk mitigation strategies.

Synergies with the other three services are vital to unlock its consultancy potential, for instance from international donors in formulating SME interventions at sectoral, program and project level. The table below presents a summary of the recommended services with their expected value creation potential. Financial values are hard to pin down, however, and therefore relative labels are used: "low", "medium", "high".

Table 3: Recommended Services and value capture

Services	What is it?	Value Capture	Transaction-Based Revenue
Subsidies & Grants	Assist individual SME's and BSP in grant/subsidies identification and its application process	Medium	Use of a success fee for value capture, easy to lock in the process
Matchmaking	Match making of corporate buyers, BSP's and SME's	Medium	Success fees are easy to circumvent and depend on stakeholders' reliability
Financial Services	In combination with corporate buyers and SME's, negotiate financing packages with banks	Medium/ High	Use of a success fee for value capture easy to lock into the process
Public Policy Consultancy	Using first hand market information to assist government and donors in their policy making	Low/ Medium	Transaction based fee based on granting of order and contract



International Examples: Some Pointers for Consideration

International examples exist that accommodate SME's, BSP and banks in one system aiming on bundling individual loans and application appraisal for third parties. Often these examples describe strategies or plans ready for implementation though. The number of similar networks that actually have been implemented and do generate profit seem scant however.

Business services in Western countries tend to focus on specific services, for instance matchmaking with BSP's and facilitating in subsidy applications. Moreover, these service networks are often funded with public funds.

An Indian example is the SME network (www.SMEnetwork.org) focusing on SME's and dissemination of business leads. It is funded with public funds and linked with national public entities enhancing SME development.

Another relevant example of a business services network is the Ethiopian Business Development Services Network (www.BSP-ethiopia.net). They specialize on a limited number of sectors and a deep understanding of its players to link corporate buyers, SME's and BSP's. They have a state-of-the-art web based portal offering a wide array of services.

Also trainings and consultancy are delivered but they contract external suppliers for this. Financial services are limited to listing names and contact persons of various financial institutions only on their website. They have not opted for a certification program for SME's and BSP's but limit themselves to listing the good ones only.

Another relevant South African example, EMPRETEC, links credit delivery to the business development requirements of SME's. The program is designed to build the capacity of SME's, transform them over time into creditworthy borrowers, and make them more attractive to financial institutions and venture capital funds. Enterprise Africa, a BSS program of UNDP modelled on EMPRETEC, has developed a joint credit delivery scheme or a credit window that is a joint initiative by Enterprise Africa and a partner financial institution.

Credit decisions take into account not only the basic credit appraisal criteria, but also the capacity building services provided to the SME by Enterprise Africa, thus improving the SME's chance of gaining access to credit. Furthermore, Enterprise Africa assumes responsibility for the loan referral and monitoring process, thus reducing lending costs for the partner financial institutions and improving the quality of the monitoring process.

Conclusion

AniCap Venture Partners believes that the Network is a clear example of innovative breakthrough thinking addressing the plethora of existing problems and bottlenecks in the SME sector in South Africa by articulating various stakeholders and offering new services. It embodies a wide array of numerous intangible and strategic value creation opportunities such as the creation of a platform enabling future SME development opportunities and ample learning experiences. Also, from the perspective of the latest thinking in strategic decision-making, such as Value Based Management and Balanced Score Card, the Network scores high banking on its numerous intangible value drivers.