



STARTING

YOUR OWN BUSINESS

A Guide for Young Entrepreneurs



**SERIES**

**SELF EMPLOYMENT**



*Make it happen!*

## CONTACT, INFORMATION AND COUNSELLING

*Umsobomvu Youth Fund's (UYF) Contact Information and Contact Counselling (CIC) programme enables access to economic participation by providing information and counselling support on career development, employment and entrepreneurship. This information is provided through Youth Advisory Centers (YACs), a Call Centre and an Internet Portal dedicated to youth.*

## PURPOSE

*The guide, **Starting Your Own Business: A Guide for Young Entrepreneurs**, is part of the Umsobomvu Youth Fund: Youth Information Kit publications. The series was developed to provide young people with information on career development, employment, entrepreneurship, citizenship and health and wellbeing. The guide was compiled by the Development@Work/ LINK Consortium.*

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## THE UMSOBOMVU YOUTH FUND YOUTH INFORMATION KIT ALSO CONTAINS THE FOLLOWING PUBLICATIONS:

INFORMATION CATEGORY	TITLES
<b>EMPLOYMENT</b> 	Finding Work: A Guide for Young People You and the Workplace: A Guide for Young People Using Labour Market Information: A Guide for Young People Special Public Works Programmes: Fact Sheet Industry Profiles
<b>SELF EMPLOYMENT</b> 	From Idea to Opportunity: A Guide for Young People Getting Business Finance: A Guide for Young Entrepreneurs Starting Your Own Business: A Guide for Young Entrepreneurs Writing a Business Plan: A Guide for Young Entrepreneurs Starting a Co-operative: A Guide for Young People Networking Your Way To Business Success: A Guide for Young Entrepreneurs
<b>EDUCATION AND TRAINING</b> 	Career Planning and Development: A Guide for Young People Education and Training Options in South Africa: A Guide for Young People A Learners Guide to Higher and Distance Education Careers and Occupations Directory for Young People
<b>CITIZENSHIP</b> 	Establishing and Running Community Committees: Fact Sheet Types of Organisations Working In and With Communities: Fact Sheet How to Raise Funds: Fact Sheet Public Participation – Getting Involved in Decision-Making that will Affect Your Community: Fact Sheet What are My Rights and Responsibilities as a Volunteer? Fact Sheet Why Should I Volunteer? Fact Sheet Making Use of Volunteers: Fact Sheet Is my Community Project Working? A Basic Guide to Evaluation Let's get Involved with Our Communities: A Guide Understanding my Community's Needs: A Guide Developing Life-Skills for Citizenship: A Guide Get Active: You're A South African! My Rights and Responsibilities as a South African Citizen What Does Democracy Mean for Me? The Nuts and Bolts of a Volunteer Programme and Policy Understanding Volunteering: A Guide for Young People
<b>HEALTH AND WELLBEING</b> 	Coping with Teenage Pregnancy: A Guide for Young People Dealing with HIV/ AIDS in the Workplace: A Guide for Young People Substance Abuse and Addiction: Fact Sheet Do I Have a Substance Abuse Problem? Fact Sheet How Substance Abuse Affect Your Life: Fact Sheet Sexually Transmitted Infections: Fact Sheet Preventing HIV/ AIDS: Fact Sheet Voluntary Testing and Counselling: Fact Sheet Positive Living: Fact Sheet Healthy Eating: Fact Sheet The ABCs of Good Health: Fact Sheet Leisure and Fitness: Fact Sheet Safe Sex Revolution: A Guide For Young People



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## NOTES

## STARTING YOUR OWN BUSINESS

Starting your own business... For some it may be a dream. For others it may be the result of years of hard work. For others, it may be the only choice you have. Whatever your reasons for starting your own business may be, there are a number of factors you need to consider when you are starting out. Two of the most important considerations are:

- ▶ The registration of your business; and
- ▶ Running your business.

We'll walk this journey with Gloria, who is on the verge of starting her own hair salon. She needs to register her business, decide what is going to be the most appropriate type of business and what she needs to consider when starting out.

## REGISTERING YOUR BUSINESS

One important decision that Gloria needs to make is whether to register her business or not. Lets explore the benefits of registering your business:

### The benefits of registering your business

Most clients want to do business with a legal entity that has a name, a registration number and where applicable a VAT registration number, which shows that the business pays value-added tax. Also in order to access tenders you will have to be a registered business.

A registered business, such as a company or a close corporation has limited legal liability. This means that the owners of the company are not liable for the debts incurred by the business. There are exceptions however, where owners can be held personally liable for the business debts if it was a result of their own negligence.

One of the conditions for accessing business finance, especially through a bank or financial institution, is business registration. Most transactions, such as applying for a business telephone, require business registration. It is a legal requirement to pay tax on any income received – both as an individual taxpayer and as a business. A registered business has some tax advantages over a non-registered one.

**Therefore, the benefits that Gloria would enjoy by registering her business are:**

- ▶ She will be able to open a business account and have access to other facilities like an overdraft which may be required for working capital in the short-term;
- ▶ Have limited liability;
- ▶ It will be easier for her to obtain business finance; and
- ▶ The business will have some tax advantages.



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## What form of business should she register?

Before you register a business you will have to consider what form your enterprise will take. There are four main forms of business namely sole proprietorship, partnership, close corporation and company. Let us look at the advantages and disadvantages of each.

### SOLE PROPRIETORSHIP

This form of business is a sole trader where there is one owner. The business trades under the owner's name. The advantage of this form of business is that there are no formal documents required. The major disadvantage of a sole proprietorship is that it does not have limited liability. This means that the owner's assets are not separate from the business and they can be attached should the business go bankrupt. Examples of sole proprietors are shopkeepers or the owner of a butchery.

### PARTNERSHIP

A partnership is a business consisting of at least of two partners and no more than 20 partners. Each partner is expected to contribute money, skill or labour. Like a sole proprietorship, a partnership does not have limited liability; every partner is personally and jointly liable for any debts. No formal registration is required to form a partnership. However, a partnership agreement is essential as a guiding and management document between partners. One problem with a partnership is that if one member resigns or dies, a partnership dissolves. This means that you have to start from scratch in forming another partnership.

### CLOSE CORPORATION

A close corporation or CC was created especially to cater for small businesses. A close corporation must have a minimum of one owner or a maximum of ten owners. Members of close corporations enjoy limited liability. Registration of a close corporation is simple and less expensive as compared to a company. Audited statements are not required, only production of financial statements once a year.

### COMPANY

A company is more complicated and has more administrative formalities and legal requirements. There are three types of companies namely a public company, a private company and a Section 21 company.

**Public companies** are usually large businesses such as Telkom, Edgars and Pick 'n Pay. They are called public companies because the public or shareholders who have bought shares in them own them. A public company is able to raise capital required for its operations by selling shares to the



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public through a stock exchange. The members of a public company should not be less than seven and it must have at least two directors. Every public company is required to publish audited financial statements at the end of its financial year.

A **private company** is different from a public company in that it cannot sell shares to the public and therefore cannot list on a stock exchange. Examples of private companies are Cell C, MWeb and Black Like Me. Members of a private company are between 1 and 50. A private company has to prepare audited financial statements, but unlike a public company it is not required to publish them.

A **Section 21 company** is an association not for gain or profit. Most non-governmental organisations (NGOs) are Section 21 companies as their purpose is mainly developmental. These organisations generally deliver services, in particular in the education and development sectors. A Section 21 company must have at least seven members. It enjoys legal protection and some tax benefits.

What form of business should Gloria choose? A company may not be relevant and appropriate for the type of business she wants to start. What about a partnership? Gloria does not want to start looking for someone who shares her vision at this late stage of starting her business.

Gloria is more interested in registering a close corporation because she wants to enjoy legal protection, run a more formal and professional business and enjoy tax benefits.

You have to consider all your options when you start your business and weigh up the costs and benefits. Gloria eventually decides to register a close corporation. Let's look at how we go about registering a close corporation.

### How to register a close corporation

There are two options when registering your business. You can decide to use a service provider or you can do it yourself. If you decide to use a service provider to register your business you will have to pay for it.

When you use a service provider, the cost of registering a CC ranges from R600 up to R2000 depending on the type of provider you use and the quality of service provided. So if you decide on this option, you will pay the provider the agreed amount and provide them with six possible names for your business in order of preference. You will then leave the rest to be done by the provider.

Gloria decided to register the business herself and had to take the following steps:



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**STEP 1: RESERVE THE NAME**

Reserving a name is the first step in registering a close corporation. What you need to do is to buy a CK7 form at any stationery store and a R50 revenue stamp at any Post Office. Fill in the following details on a CK 7 form:

Indicate if the name is a proposed name, or translated name or shortened name;

List six names in order of preference;

Principal business of the corporation;

Name of applicant;

Your address where the form should be returned to; and

Signature of applicant;

**You can address the application to:**

Registrar of Companies & Close Corporations  
P.O. Box 429,  
Pretoria, 0001

or

**You can hand in the application forms personally at:**

Zanza Building, 116 Proes Street, Pretoria

or

**You can contact the office at:**

Call Centre: 086 184 3384  
Fax Number: (012) 328 3051  
Web Site: [www.cipro.gov.za](http://www.cipro.gov.za)

**Note:** A name may not be approved if there is a similar one already registered or if the registrar believes that the suggested name is undesirable or offensive. That is why six possible names are required. Your application for the reservation of a name can take about a month to be processed. If a name has been reserved for you, you have two months to lodge a founding statement.

**STEP 2: LODGE THE FOUNDING STATEMENT**

Once a name has been approved, you will have to lodge the CK1, which is the founding statement. You will need to buy a CK1 form at the stationery store and a R100 revenue stamp at the Post Office. You will also need a letter from an accounting officer with a practice number. This letter will state that the accountant has accepted appointment as accounting officer for the business. The letter from the accountant can cost you between R200 and R350.

As with the CK 7, you should send the CK 1 form to the above-mentioned address. Once the CK1 or Founding Statement has been approved it will



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become the official document of your close corporation. So you need to keep it safe because you will need to produce it many times during the course of running your business.

The founding statement includes:

The full name of the corporation. In addition, a literal or shortened name may be given.

The principal business to be carried out by the corporation.

postal address for the corporation

physical address of the office of the corporation

▶ The full name of each member and their identity numbers or, if he/she has no such number, the date of birth.

The size, expressed as a percentage, of each member's interest in the corporation.

Particulars of the contribution of each member to the corporation including:  
any amounts of money

a description and statement of fair value, of any property, or any service

The name and postal address of a qualified person or firm that has consented, in writing, to its appointment as accounting officer of the corporation

The date of the end of the financial year of the corporation

Gloria has now registered her business as: **Glorious Hair Design cc**. The company's registration number is 2003/077777/23. It is required by law to indicate the name of the enterprise, its registration number and members in any correspondence and on all letterheads.

Now that Gloria has registered her business, she needs to know what registration means in terms of legal requirements like paying taxes and record-keeping.

## Paying taxes

Registration means that the business is a legal entity and it has to abide by relevant legal requirements. One of the important legal requirements is the payment of taxes.

## PAYING INCOME TAX

The moment your business is registered it becomes a taxpayer. As a registered business your enterprise will have to pay income tax to the South Africa Revenue Services (SARS). At present the company tax is 30% of net profit. Net profit is the difference between your annual income and expenses. If your income is more than your expenses you have to pay 30% of that difference.

## PAYING VALUE ADDED TAX

Value Added Tax (VAT) is the amount that your clients pay over to you in the course of supplying them with goods and services provided that you are



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a registered VAT vendor. Not all enterprises qualify for VAT. Only those whose turnover is more than R300 000 per year or R20 000 per month must register for VAT.

However, an enterprise can register as a voluntary VAT vendor if it does not qualify under the VAT requirements. VAT registration allows you to claim some money back on any expenditure that included VAT.

### PAYING LEVIES

A levy is a form of tax that any person who starts a business and employs a person within a specific region must pay. In most regions this kind of levy is called Regional Services Council (RSC) levy and in Kwazulu-Natal is known as Joint Service Board (JSB) levies. There are two types of levies: the service levy and the establishment levy.

The service levy is paid out of a portion of the remuneration of an employee or income of a sole trader and partnership. The establishment levy is paid out of a portion of the turnover derived from a business within a region.

#### What does paying taxes for Gloria mean?

- ▶ By registering as a close corporation Gloria's business automatically becomes a taxpayer
- ▶ Gloria as an owner and employee in her business must register as an individual taxpayer
- ▶ If Gloria believes that her turnover will be more than R300 000 per year she will have to register for VAT
- ▶ Gloria will have to pay a RSC levy to her local council; and
- ▶ It also means that Gloria must keep good financial records

#### A note on record-keeping:

The process of paying tax implies that your record-keeping must be accurate and up to date. At the end of each financial year, you are required to submit financial statements and this can only be done if you were keeping proper records.

Record-keeping is essential not only for tax purposes, but will assist you in assessing the performance of your business. Good record-keeping will also enhance your chances of obtaining finance from lending institutions like banks. If accounting is not your strength it may be necessary to give that task to a competent accountant.

Even if you are not an accountant, you will need to keep records such as your receipts and invoices or what is known as source documents. These are documents that your bookkeeper or accountant will need to prepare financial statements.



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## STARTING YOUR OPERATIONS

In this section, we highlight some of the important issues that Gloria needs to consider when she starts her business.

### Operations: Setting up office

#### CHOOSE AN APPROPRIATE LOCATION

In her business plan, Gloria indicated that she would locate her business in a small shopping centre in the township where most of her potential clients will find it easy to come to her.

However, at the time she was preparing her business plan and conducting market research, many things changed. The rental at the shopping centre has been increased from R1 500 per month to R1 800 per month. Also, another hair salon has just started up in the shopping centre. This means that she will have competition. In deciding where to locate, Gloria needs to consider the costs of rental, convenience for customers and competition.

#### Some questions to ask about the location of your business:

- ▶ Is the location convenient and safe for my customers?
- ▶ Are the premises suitable for the kind of business I intend running?
- ▶ Are the premises adequate for the short to medium term?
- ▶ Am I going to rent, lease or pay the bond for the premises and can I afford that?

#### ACQUIRE SUITABLE EQUIPMENT, FURNITURE AND FITTINGS

To run any business you will need appropriate equipment, furniture and fittings. Your knowledge of appropriate equipment for your business is important for you to do a good job and satisfy your customers. Your furniture and fittings should also be suitable for the type of business you want to start.

Examples of equipment relevant for Gloria's hair business are: hairdryers, scissors and combs, tongs of different sizes, and clippers. Furniture and fittings include: basin chairs, mirrors and washing basins. Other equipment may include a desk, computer and filing cabinet to perform administrative functions.

It is therefore necessary to know what equipment and furniture are needed for you to start and run your business. Equipment does not necessarily have to be new, you can get good second-hand furniture and tools at a reasonable price at pawn or second-hand shops.



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**What you need to do is to:**

- ▶ Make a list of equipment, furniture and fittings your business will need to start-up;
- ▶ Draft a budget for the items you need to purchase; and
- ▶ Ask yourself if more items will be needed in future, and if yes, when they will be needed.

**KEEPING STOCK**

Each business will require different stock or material while others may not need materials at all. Stock is what you use to provide your services. It can be something ready for consumption like bread and tea for salon staff or it can be something used in the process of rendering your service like creams and gels to be applied to the customers' hair. What is important about stock is that you must have sufficient stock available according to the demands of your customers. This means that you will have to know how much stock is being used per customer per day. If you cannot determine how much stock you will need in the beginning, you can estimate how many customers you will have per day.

**Tips on keeping stock:**

- ▶ Do not buy when demand is dropping;
- ▶ Do not buy if the product is to be discontinued;
- ▶ Do not buy in quantity merely to obtain better prices;
- ▶ Ensure correct pricing and promotion to move stock; and
- ▶ Do not be tempted by special deals when you really do not need the stock.

**Human resources: Recruiting staff**

In many cases and depending on the type of business, entrepreneurs' start on their own without hiring anyone until it is necessary to do so. First, you will have to ask yourself if you need to hire any staff or not, and if yes, whether it is on a part-time or full-time basis. The hiring of staff will be determined by the load of work you may have.

Gloria decides that she needs to hire two people: a stylist, who will assist her in doing customers' hair; and a general worker to keep the place clean and attractive. She realizes it will be difficult for her to do all the work by herself. There are a number of laws you need to consider when you are recruiting staff:

▶ **The Basic Conditions of Employment Act**

This Act sets out the basic conditions of employment for workers. It sets minimum standards that employers must adhere to, to respect workers' basic labour rights.

▶ **The Labour Relations Act (LRA)**

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The Act protects the right of workers to fair labour practices; to form and join a trade union; to organise and bargain collectively or as a group; and the right to strike.

▶ **Skills Development Act**

The main purpose of this Act is to provide an environment for skills development in South Africa as a way of promoting and increasing employment opportunities. All employers, except very small employers and those who pay all their employees in total less than R250 000 a year, must pay a skills levy to the Receiver of Revenue.

▶ **Occupational Health and Safety Act**

The main purpose of this Act is to protect your health as a worker by ensuring that employers make work environments healthy and safe.

## Finance: Managing cash flow

Cash flow to a business is like blood to a human body. Without blood to transport the oxygen through the body, the body will die. Similarly without cash your business will collapse. This indicates how important managing cash flow in your business is.

What really matters in cash flow is actual money received and actual money going out, and not outstanding invoices or unconfirmed orders.

Managing cash flow means ensuring that your expenditure does not exceed your income. It also means having enough cash to pay your rent, staff, bank loan and suppliers at the end of each month. Otherwise if you don't, the landlord may evict you, staff may not come to work, your assets may be attached or your suppliers may refuse to give you stock on credit and that will be the end of your business. How can you avoid this from happening?

- ▶ Keep your costs to a minimum;
- ▶ Increase your sales (get more customers);
- ▶ Increase the number of days to pay your suppliers;
- ▶ Pay wages at the last day of the month; and
- ▶ Provide your service or sell for cash.

## Marketing your business

Marketing your business is a continuous activity that can ensure that new customers are attracted and old ones stay. The 4 P's of marketing (Product, Pricing, Promotion and Place) can assist you in the implementation of your marketing plan. Let's see what the 4 P's mean for Glorious Hair Design cc.

## YOUR PRODUCT

For Glorious Hair Design, products are the range of hairstyles that customers want such as S-curl, relaxer, perm, cut, plaiting, dreadlocks, etc. What is important about a product or service is that it should be available and be of good quality. Ensure that what you list as products is available when your customers want it.




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## YOUR PRICE

Pricing is the cost of a product or service to a customer. Gloria will have to make sure that she prices her products correctly and in a competitive manner. Some of the factors that will influence her pricing will be:

- ▶ The pricing of her competitors;
- ▶ The cost of the product; and
- ▶ How much her clients are willing to pay.

## INCREASE YOUR PROMOTION EFFORTS

Promotion is about how customers get to know about your products or business. Various promotion strategies can be used depending on the target market, the size of the company, and the cost of promotion. This includes advertising, publications, word of mouth and so on. Some of the promotion strategies that Gloria can use may include a signboard, brochures, business cards and organising a launch party.

## YOUR PLACE

Place is about how your product or service can reach your customers. It is a distribution channel to your customers. There are various distribution channels that are used by businesses and all of them are aimed at making their product or service available to customers. Examples of distribution channels are call centres where a phone is the main channel of providing a service. It is therefore important to know what channel of distribution your business uses. For Gloria's business, the place or channel of distribution is the salon where customers come to do their hair.

Gloria can consider the following to provide a convenient and attractive environment for customers:

- ▶ Interior decorating;
- ▶ Playing music in the background; and
- ▶ A salon setting with mirrors and posters with attractive hairstyles

## CONCLUSION

Starting a business takes courage and great self-belief. Getting to the point where you consider starting your own business is further than most people get to. This guide provides basic information on what to consider when you take the step of starting out. Don't be afraid to ask, keep your eyes open and learn from others! **GOOD LUCK IN YOUR VENTURE!**



## NOTES

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## Organisations

Name of organisation	The Umsobomvu Youth Fund (UYF)
<p><b>What does the organisation do?</b></p>	<p>The organisation was established to facilitate and promote the creation of jobs and skills development for South African youth through the implementation of three programmes focusing on providing information and counselling, skills development and entrepreneurship support.</p> <p>As part of entrepreneurship support, the UYF is implementing a Business Development Services Voucher Programme as part of its Youth Entrepreneurship Programme activities. The Voucher Programme is aimed at assisting young entrepreneurs to acquire business support services through the use of a voucher that can help them start or improve their enterprises. The Voucher Programme is implemented through Allocating Agencies. The Allocating Agencies assess the business support needs of young people, market the programme and monitor the services provided by service providers. A range of business development services is provided and includes:</p> <ul style="list-style-type: none"> <li>▶ Business plan development;</li> <li>▶ Market research;</li> </ul> <p>Marketing plan development</p>



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<b>Physical Address</b>	Block P, Central Park 16th Road, Midrand South Africa	<b>Postal Address</b>	P.O. Box 982 Halfway House 1685
<b>Youth Line</b>	0860 0 96884	<b>Youth Portal</b>	www.youthportal.org.za

<b>Name of organisation</b>	<b>Ntsika Enterprise Promotion Agency</b>		
<b>What does the organisation do?</b>	<p>The organisation facilitates the provision of business development services to small, medium and micro enterprises (SMMEs) through a broad range of intermediary organisations. The intermediary organisations implement the following national programmes:</p> <ul style="list-style-type: none"> <li>▶ The Local Business Service Centre Programme (LBSC) The LBSC Programme facilitates the provision of business advice, counselling and information to small, medium and micro enterprises.</li> <li>▶ The Tender Advice Centre Programme The Tender Advice Programme facilitates the provision of information, tender advice, awareness and counselling to SMMEs to access private and public sector markets</li> </ul> <p>Contact Ntsika and find out if there is a Local Business Service Centre or Tender Advice Centre close to you. These organisations can provide you with business information and advice that includes the development of a business plan.</p>		
<b>Physical Address</b>	5 <sup>th</sup> Floor Pencardia Building 509 Pretorius Street Arcadia, Pretoria	<b>Postal Address</b>	P.O. Box 56714 Arcadia Pretoria, 0007
<b>Telephone</b>	(012) 483 2056	<b>Fax</b>	(012) 483 2072
<b>Web Site</b>	www.nepa.org.za		

<b>Name of organisation</b>	<b>NAMAC Trust</b>		
<b>What does the organisation do?</b>	<p>The Trust contributes significantly to the continuous economic transformation of South Africa by improving the competitiveness and growth of SMMEs. The organisation provides high quality advisory and information services to new and existing SMMEs through appropriate SMME support structures. The Trust coordinates several programmes on behalf of the Department of Trade and Industry:</p> <ul style="list-style-type: none"> <li>▶ The Manufacturing and Advisory Centre Programme This is an outreach programme that provides advisory services to improve the performance of existing SMMEs with fewer than 200 employees.</li> </ul>		



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	<p>▶ Business Referral and Information Network (BRAIN) The programme aims to improve the competitiveness of South African SMMEs through the supply of relevant, value-added business information.</p> <p>▶ Franchise Advice and Information Network (FRAIN) The Franchise Project is aimed at supporting existing franchise systems as well as rendering support to new franchise systems.</p> <p>NAMAC, through the Manufacturing and Advisory Centres and the Business Information and Referral Network, will provide you with information on business opportunities, starting your business as well as growing your business.</p>		
<b>Physical Address</b>	Building 23 CSIR Campus Meiring Naude Road	Postal Address	P.O. Box 395 Pretoria, 0001
<b>Telephone</b>	(012) 349 0100	Fax	(012) 349 2851
<b>NAMAC Trust Web Site</b>	<a href="http://www.namac.co.za">www.namac.co.za</a>		
<b>BRAIN Web Site</b>	<a href="http://www.brain.org.za">www.brain.org.za</a>		
<b>FRAIN Web Site</b>	<a href="http://www.frain.org.za">www.frain.org.za</a>		

<b>Name of organisation</b>	<b>Franchise Association of South Africa (FASA)</b>		
<b>What does the organisation do?</b>	FASA promotes the franchising concept by collecting and disseminating information on franchising; offering guidelines on how franchise schemes should work; providing education on franchise related subjects; and represents the industry.		
<b>Physical Address</b>	Werksmans Chambers, 3 <sup>rd</sup> Floor, East Wing, 22 Girton Road, Parktown Johannesburg	Postal Address	PostNet Suite 267 Private Bag x30500 Houghton 2041
<b>Telephone</b>	(011) 484 1285	Fax	(011) 484 1291
<b>FASA Web Site</b>	<a href="http://www.fasa.org.za">www.fasa.org.za</a>		





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**For more information contact:**

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Contact, Information and  
Counselling Programme**

**P O Box 982  
Halfway House, 1685**

**Block P, Central Park  
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