

# FinScope South Africa Small Business Survey 2010



Making financial markets work for the poor

**FINSCOPE**

## Introduction

Small businesses have been identified as key in driving South Africa's economic growth. Broadly, the South African government's strategy is to:

- curb unemployment through job creation
- alleviate poverty, and
- redistribute wealth

Despite government's efforts to increase support to the small business sector, the SMME Business Confidence Index, a survey of SMME perceptions, has suggested that these initiatives have not had the intended impact.

In order to develop effective interventions, it is important to first have a comprehensive understanding of the small business sector; the specific challenges small business owners face and the capacity they have to deal with these challenges. Any intervention strategy should take into account that a 'one size fits all' approach will not be effective. Interventions should be targeted, and in order to achieve this, reliable and accurate information is needed to identify the specific challenges affecting specific small business sub-sectors.

This information is not available in many developing countries. To address this need, FinMark Trust developed the FinScope Small Business Survey. FinMark Trust is a not-for-profit independent trust established in South Africa in 2002, with core funding from the UK's Department for International Development (DFID). FinMark Trust's purpose is to make financial markets work for the poor by promoting financial inclusion and regional financial integration. FinMark Trust uses evidence-based information in its engagement with the public and private sectors across Africa, to bring about systemic change in making markets work for unserved and underserved consumers.

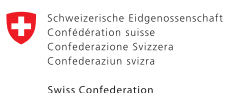
The FinScope small business survey has the following objectives:

- To describe the **size and scope** of the small business sector
- To **segment the small business market** into homogenous market segments and to identify the development and financial needs of the different market segments in order to stimulate segment-related development and financial product innovation
- To **serve as a baseline** against which the impact of interventions can be assessed over time

In pursuit of the FinMark Trust purpose to 'make financial markets work for the poor', the FinScope Small Business Survey has the following specific financial inclusion objectives:

- To determine **levels of financial access** (formal and informal) for the small business sector
- To describe the **landscape of financial access** for the small business sector i.e. type and extent of financial product (bank and non-bank) utilisation
- To identify the **barriers** to financial access for the small business sector

## The syndicate members



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs FDEA  
State Secretariat for Economic Affairs SECO



# FinScope South Africa Small Business Survey 2010



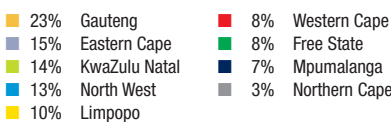
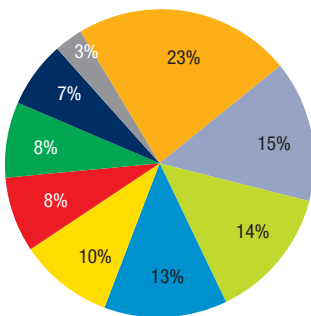
## The FinScope survey approach

In implementing FinScope surveys, FinMark Trust collaborates with a wide range of stakeholders, from both the public and private sectors. This approach is mainly followed to facilitate stakeholder buy-in and support for the survey, and also to ensure that the information gathered addresses relevant issues.

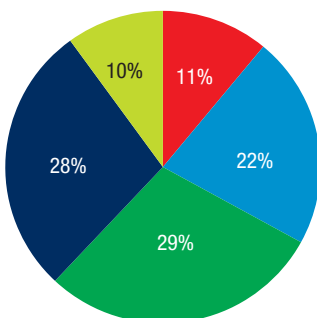
For the purposes of the implementation of the FinScope South Africa Small Business Survey 2010, a syndicate approach was followed. Syndicate member participation entailed:

- Financial contribution towards the costs of implementation
- Input into the survey instrument design
- Contextual interpretation of the survey findings

### Geographical distribution



### Age distribution



### Survey methodology

- Universe = business owners in South Africa, 16 years and older, with less than 200 employees
- 5676 face-to-face interviews conducted
- Sample representative at national, urban-rural, and provincial levels
- Sampling methodology entailed random sampling at three levels:
  - Primary sampling unit – enumerator areas (EA) – 1000 selected using a probability proportioned to size (PPS) approach
  - Secondary sampling unit – households within selected EAs with members qualifying in terms of selection criteria (business owners, 16 years and older, employing less than 200 people)
- Respondent selected at random from qualifying household members in selected households
- On average, six interviews were conducted per EA
- Sample data weighted back at provincial level to population aged 16 years and older

### Small business landscape in South Africa

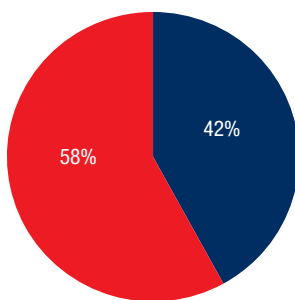
- 5 979 510 small businesses in South Africa
- 5 579 767 small business owners, 16 years and older, in South Africa (one in six individuals, aged 16 years and older, generate an income through small business activity)
- Seventeen percent of small business owners have registered businesses
- Seventy nine percent of small business owners are traders (sell products)
  - Of these, 62% sell their products in the same form they bought it (they do not add any value)
  - A further 16.5% are dependent on nature, in that they grow what they sell, rear livestock/poultry for sale, sell by-products of animals, or sell what they collect from nature
- Twenty one percent of small business owners are service providers. Of these, five percent render professional services (e.g. accountants, doctors, lawyers, etc.)
- Of the population 16 years and older, small business owners comprise 31% in the North West Province; 23% in the Free State province and 20% in the Northern Cape province. Although most small business owners reside in Gauteng in contrast to the small provinces, only 17% of the population aged 16 years and older in Gauteng are small business owners

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## Profile of the small business owner

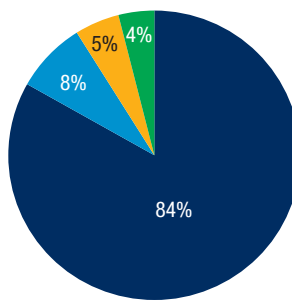
- Females, are more likely to be small business owners than males
- For 67% of small business owners, the small businesses they own are their sole source of income
- Two-thirds of small business owners have not completed secondary school education
- One in two small business owners started the business either because they could not find jobs or because they lost their jobs
- Eighty two percent of small business owners in South Africa started their businesses on their own

Gender distribution



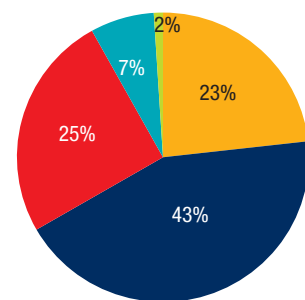
■ Female ■ Male

Race distribution



■ Black ■ Coloured ■ White ■ Asian/Indian

Education level distribution



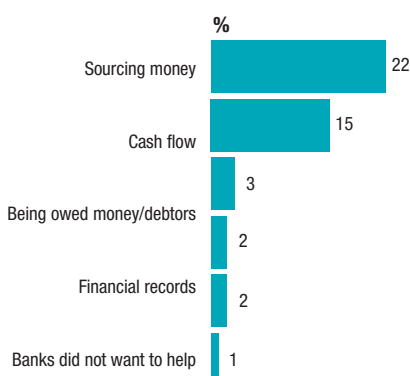
■ Primary School or less ■ Apprenticeship/Diploma ■ Some high school ■ University Degree ■ Matric

## Challenges faced by small business owners

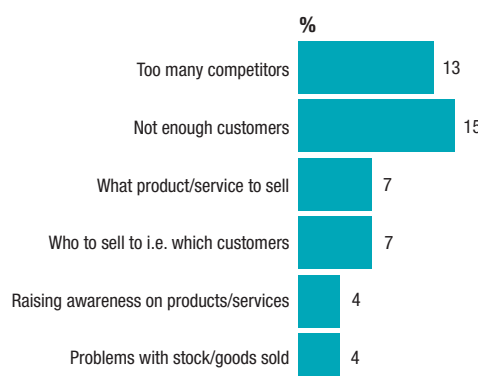
When starting up

- Thirty nine percent of small business owners cite money-related matters as the main obstacles they faced when starting up their businesses; 34% cite business strategy issues as their main obstacles (determining and finding what to sell, finding their target market, dealing with competitors, etc.)

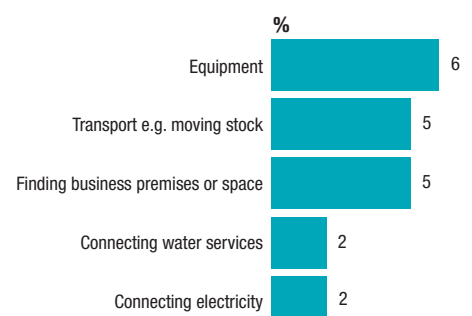
Money-related (39%)



Strategy-related (34%)



Infrastructure and Equipment (17%)

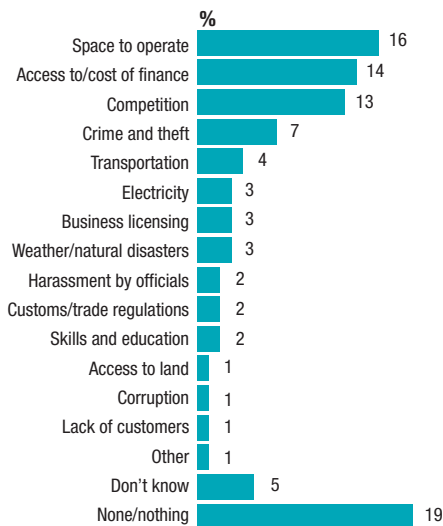




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## Obstacles to growth



## Growing the business

- The diversity of small businesses most likely explains the wide-ranging nature of obstacles to growth cited by small business owners

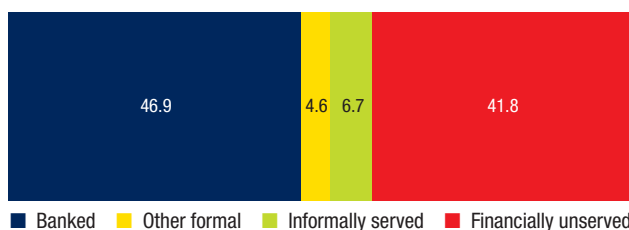
## Access to financial services

The FinScope survey uses the Financial Access Strand to compare access to financial services across countries. In constructing the Financial Access Strand, it is assumed that every individual will fall into one of three broad segments:

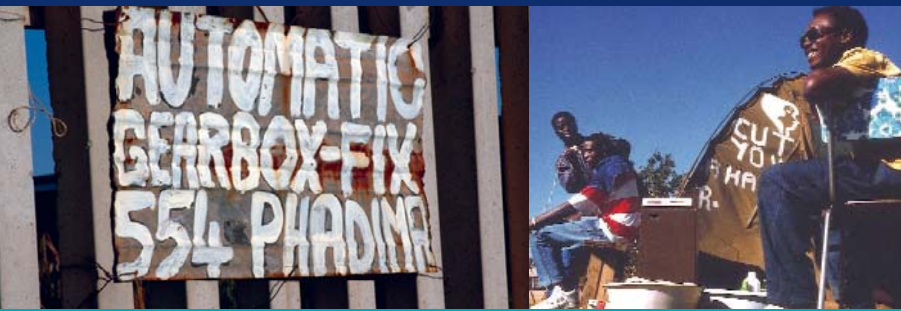
- **Formally served/included** – individuals who have/use financial products provided by formal financial institutions (i.e. financial institutions regulated by an act of law)
  - **Banked** – individuals who have/use financial products provided by commercial banks
  - **Other formal** – individuals who have/use financial products provided by formal financial institutions which are not commercial banks (e.g. insurance companies, microfinance institutions, credit-providing retail stores)
- **Informally served/included** – individuals who have/use financial products which are not provided by a formal financial institution (e.g. savings with a savings group, credit from a private moneylender, burial society membership)
- **Financially unserved/excluded** – individuals who do not have/use financial products – neither formal nor informal. These individuals typically save by keeping money at home, and borrow only from friends and family

In terms of the FinScope Small Business survey, small business owners are categorised in the Financial Access Strand segments according to their use of financial products for business purposes.

## South African small business owner Access Strand 2010

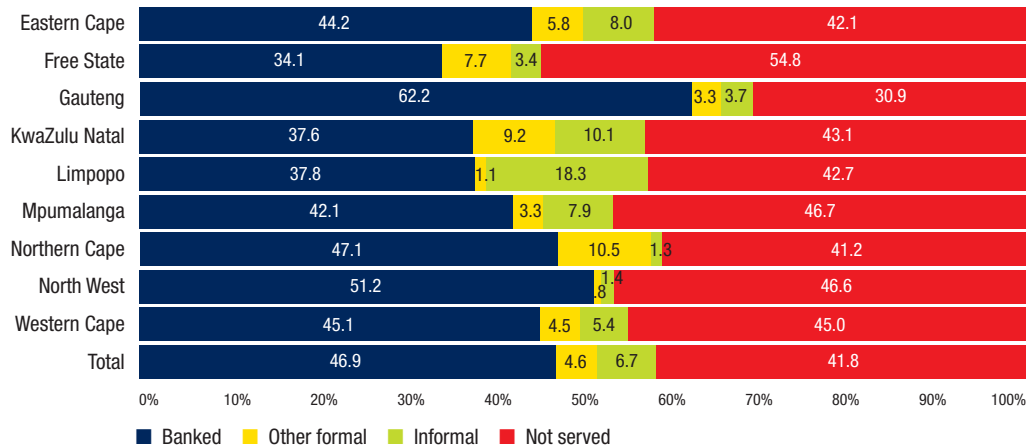


- 58.2% of small business owners are financially included i.e. use financial products (either formal or informal) for business purposes
- 51.5% of small business owners are formally included i.e. use formal financial products for business purposes
  - 46.9% use bank products
  - 22% use formal insurance products
  - 8% use formal credit products
- 6.7% of small business owners do not use formal financial products for business purposes but rely on private money lenders, burial societies, savings clubs/stokvels, and stores for credit and savings
- 41.8% of small business owners do not use formal or informal products for business purposes, but rely solely on family and friends for borrowing, and saving money at home



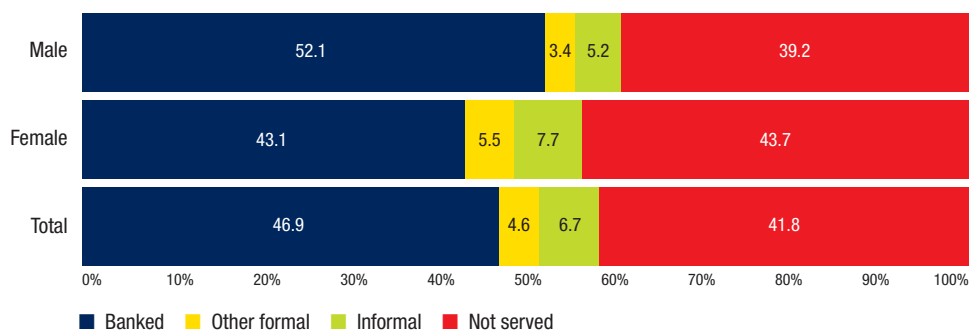
# Making financial markets work for the poor

## Comparing the small business owner access strand across provinces



- Small business owners from Gauteng are significantly more likely to be financially served (69.2%) than small business owners from other provinces
  - Small business owners from Gauteng are most likely to be formally served (65.5%)
  - Small business owners from Gauteng are most likely to be banked (62.2%)
- Small business owners from the Free State province are more likely to be financially excluded (54.8%) than small business owners from other provinces
  - Formal financial inclusion is the lowest amongst small business owners residing in the Free State Province (41.8%)
  - Small business owners from the Free State (34.1%), KwaZulu Natal (37.6%) and Limpopo (37.8%) provinces are least likely to be banked
- The role of non-bank formal financial institutions in extending formal financial inclusion for small business owners is most pronounced in the Northern Cape and KwaZulu Natal provinces and least pronounced in Limpopo and the North West provinces
- There is a significant difference between Limpopo and other provinces in terms of the role of the informal financial sector in extending financial services to small business owners

## Male and female small business owner access strand



- Female small business owners are significantly more likely to be financially excluded (43.7% of female business owners vs. 39.2% of male business owners)
- Female small business owners are significantly less likely to be banked (43.1% females banked vs. 52.1% males banked)
- There is a significant difference between male and female small business owners in terms of their reliance on non-bank formal financial institutions and the informal financial sector to meet their financial needs; female small business owners are more likely to rely on these

# FinScope South Africa Small Business Survey 2010



## In terms of banking:

- There is a significant difference between urban and rural areas in terms of the bank status of small business owners
  - In urban areas one in two small business owners are banked for business purposes whilst in rural areas two in five are banked
  - Convenience seems to be the most significant driver of bank choice for those small business owners who are banked for business purposes
- Thirty eight percent of small business owners who are banked for business purposes tend to choose the banks they use for their personal banking (banks they have experience with)
- In addition, 17% choose their bank based on convenience of location
- Small business owners who are not banked appear not to see the value of having a bank account for business purposes
- One in two of those not banked perceive their income from the business as insufficient to justify having a bank account for their business
- For 31.6% of unbanked small business owners, their reason for not being banked is that they do not have a regular, consistent income

## Drivers of bank choice

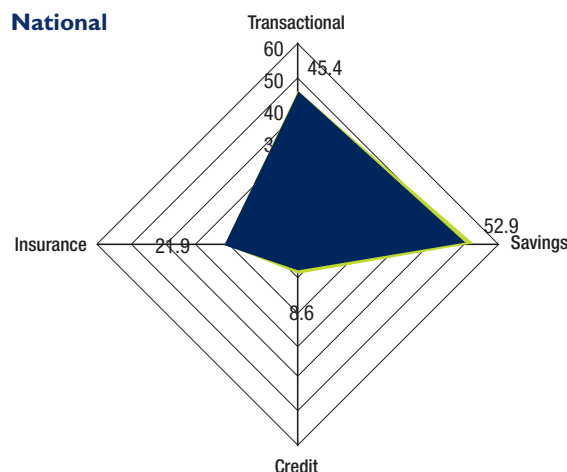


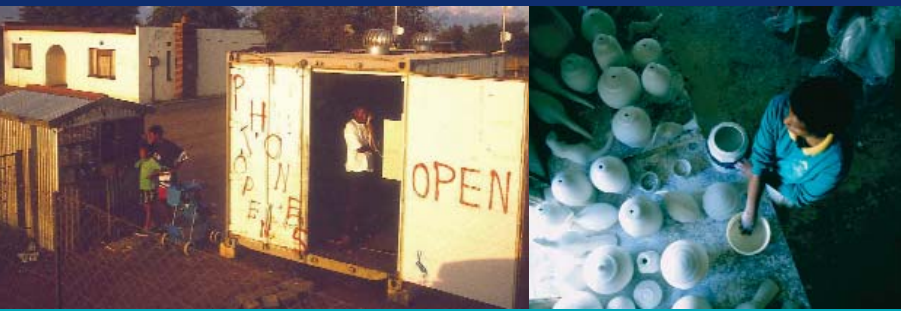
## Small business owner Landscape of Access

The FinScope approach uses the Landscape of Access to compare usage of financial products across entities.

The Landscape of Access serves as an indicator to describe:

- Transactional: the proportion of small business owners with a secure mechanism through which funds can be deposited, transmitted and withdrawn to meet regular transactional needs
- Savings: the proportion of small business owners with a means of accumulating money, whether on a contractual or discretionary basis
- Credit: the proportion of small business owners with funds/services having been provided in advance against a committed repayment stream
- Insurance: the proportion of small business owners with a product/products covering a defined risk event in return for a premium (includes life, burial, health and short-term insurance)





# Making financial markets work for the poor

- Product usage is transactional and savings oriented
- In most provinces, the informal sector does not play a significant role in increasing the financial inclusion levels
- In the provinces with larger proportions of rural populations namely Limpopo, Mpumalanga, Free State, KwaZulu-Natal and Eastern Cape, the role of the informal sector in increasing financial inclusion levels is more significant. This however, seems to be mainly in terms of providing small business owners with alternative savings products/mechanisms
- In general, the usage of credit products by small business owners is low with Gauteng and Western Cape small business owners more likely to use credit products than small business owners in other provinces
- In terms of the usage of insurance products, small business owners in Northern Cape and Gauteng are more likely to have insurance for business purposes than small business owners in other provinces, whilst in Limpopo and Mpumalanga small business owners are significantly less likely to have insurance

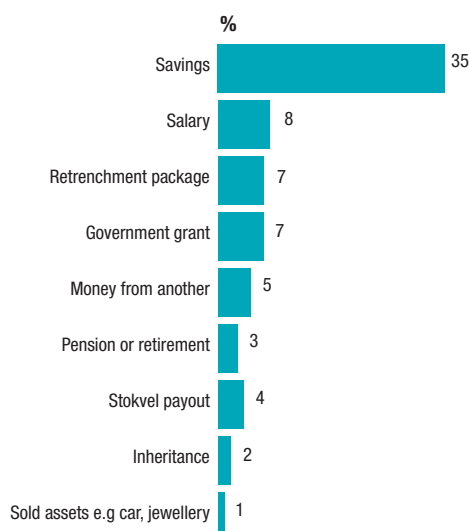
## Access to credit and start-up finance

- Ten percent of small business owners have/use credit products
  - Nine percent of small business owners have/use formal credit products
  - One percent of small business owners do not have formal credit products, but make use of the informal sector for credit borrowing from money lenders (mashonisas), burial societies and/or savings clubs
- One in two small business owners who borrow money for the use in the business, borrow from family and friends
- Most small business owners claim not to borrow for business purposes, with the most significant reasons being attitudinal:
  - Thirty six percent claim not to believe in borrowing money
  - Thirty five percent regard borrowing as too risky

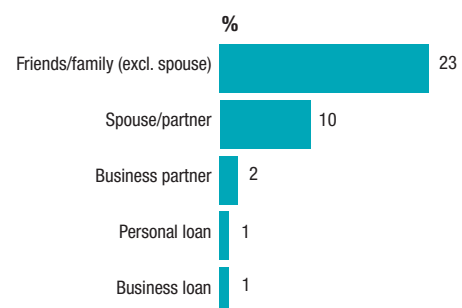
## Source of start-up funding

- Sixty five percent of small business owners did not borrow money to start their business
- Most business owners who did borrow money to start their businesses, did so from family and friends

**Own money sources (65%)**



**Loans/money from others (37%)**







## Perceived business risks

- Traders – theft of stock
  - Those who grow or rear what they sell, sell by-products of animals, or collect something from nature to sell, perceive natural disasters as an additional major risk facing their businesses (floods, drought, diseases, etc.)
- Service providers – although theft of stock is regarded as a major risk, additional perceived risks centre around the business owner's ability to provide the service. Unlike trading businesses where the business can continue in the absence of the business owner, this is not the case for service related small businesses, where the skill required to render the service rests with the business owner
- Coping mechanisms for perceived business risks:
  - Less than one in ten of small business owners are insured against the specific risks they face
  - One in four use (or would use) personal savings or sell assets to cover their losses
  - One in ten borrow (or would borrow) money to cover their losses
  - One in two either do not know what they would do, or have nothing in place to cover their losses

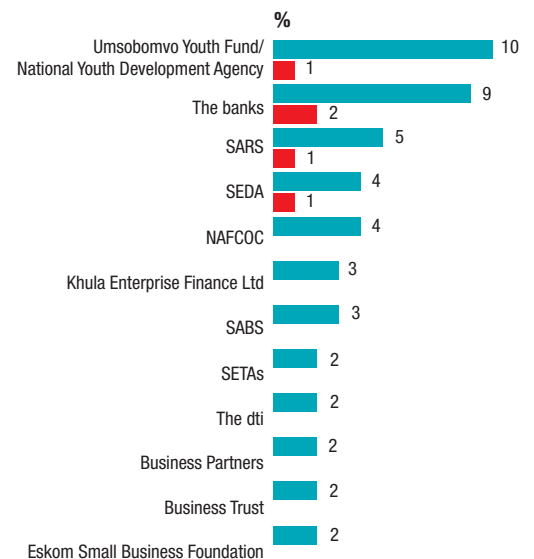
## Employment opportunities

- Two in three business owners operate their own businesses and do not have any employees
- Thirty two percent of small business owners provide between one and ten employment opportunities per small business
- One percent of small business owners provide more than ten business opportunities per small business
- Service-related small businesses are more likely to provide employment opportunities than other small businesses
- Apart from the 5,6 million small business owners, small businesses in South Africa provide an additional estimated 6 million employment opportunities

## Support

- Small business owners in general are not aware of support organizations that they could turn to
  - Seventy six percent of small business owners were unable to name any organisation that gives help and/or advice to small businesses
  - Ninety four percent of small business owners have never used any support organisations
- Ten percent of small business owners are aware of the National Youth Development Agency as a source of support, whilst nine percent identify banks as a source of support. In terms of making use of these organizations however, only one percent of small businesses owners have turned to the National Youth Development Agency for support whilst two percent have turned to banks

### Awareness of support organisations



## Key findings

- Small businesses create an estimated additional six million employment opportunities
- Females are more likely to own businesses but less likely to be financially served than males
- Although small business owners face a number of risks, most are not insured, opting to use savings and the selling of assets in the event of a loss
- Small business owners claim not to borrow for business purposes citing reasons such as lack of belief in borrowing money and regarding borrowing as too risky
- There is a higher prevalence of small business owners in the North West, Free State and Northern Cape provinces than in Gauteng