

FinScope MSME Survey Zimbabwe 2012



Republic of Zimbabwe



Zimbabwe Multi Donor Trust Fund



THE WORLD BANK



FINMARK TRUST
Making financial markets work for the poor



Introduction

The Government of Zimbabwe recognises the micro, small and medium enterprises (MSMEs) as important contributors to job creation, poverty alleviation and development. While there is common interest in leveraging this potential, the lack of accurate and reliable information about the sector and the challenges it faces obstructs the development of targeted and evidence-based strategies to promote MSME growth. In recognising this, the Ministry of Small and Medium Enterprises and Cooperative Development in conjunction with FinMark Trust and the World Bank embarked on a FinScope MSME survey.

The FinScope MSME survey is a research tool which was developed by FinMark Trust. It is a nationally representative survey focusing on small businesses and their financial services needs.

Objectives

The FinScope MSME survey has the following objectives:

- To assess the size and scope of the MSME sector in Zimbabwe
- To describe the levels and landscape of access to financial products and services (both formal and informal)
- To identify the most binding constraints to MSMEs development and growth with a focus on access to financial markets (identifying the barriers to financial access for small business owners)
- To identify and describe different market segments with specific development needs in order to stimulate segment related innovation
- To propose recommendations regarding financial assistance to MSMEs and financial policies
- To serve as a baseline against which the impact of interventions can be assessed over time

Partners

FinScope MSME Zimbabwe is designed to involve a range of stakeholders engaging in a comprehensive consultation process, thereby enriching the survey and ensuring appropriateness and buy-in. The survey was carried out under the auspices of the **Ministry of Small and Medium Enterprises and Cooperative Development** and funded by the Multi Donor Trust Fund headed by the World Bank. A **Steering Committee** chaired by the Ministry of Small and Medium Enterprises and Cooperative Development was set up which comprised representatives from FinMark Trust, ZIMSTAT, Ministry of Industry and Commerce, Ministry of Finance, Ministry of Youth Development, Indigenisation and Empowerment, Ministry of Gender, Women Affairs and Community Development, Ministry of Tourism, Bankers Association of Zimbabwe, Insurance Council of Zimbabwe, Insurance and Pensions Commission, Reserve Bank of Zimbabwe, Zimbabwe Association of Microfinance Institutions, Confederation of Zimbabwe Industries, Zimbabwe National Chamber of Commerce, and Zimbabwe Council for Tourism. These stakeholders performed an integral role in the design of the survey questionnaire and provide valuable insight into the MSME sector. The survey was implemented by Research Continental Fonkom (research supplier) with support from Africa Corporate Advisors (local project coordinator), ZIMSTAT and FinMark Trust.

Methodology

In this survey, MSMEs are defined by the number of employees (according to the Small Enterprises Development Corporation Amendment of 2011) including individual entrepreneurs (0 employees), micro (1-5), small and medium size businesses (6-75)*. A nationally representative sample of small business owners was drawn, including those who:

- Are 18 years or older
- Perceive themselves to be business owners/generating an income through business activities
- Employing 75 people or less as well as entrepreneurs without any employees

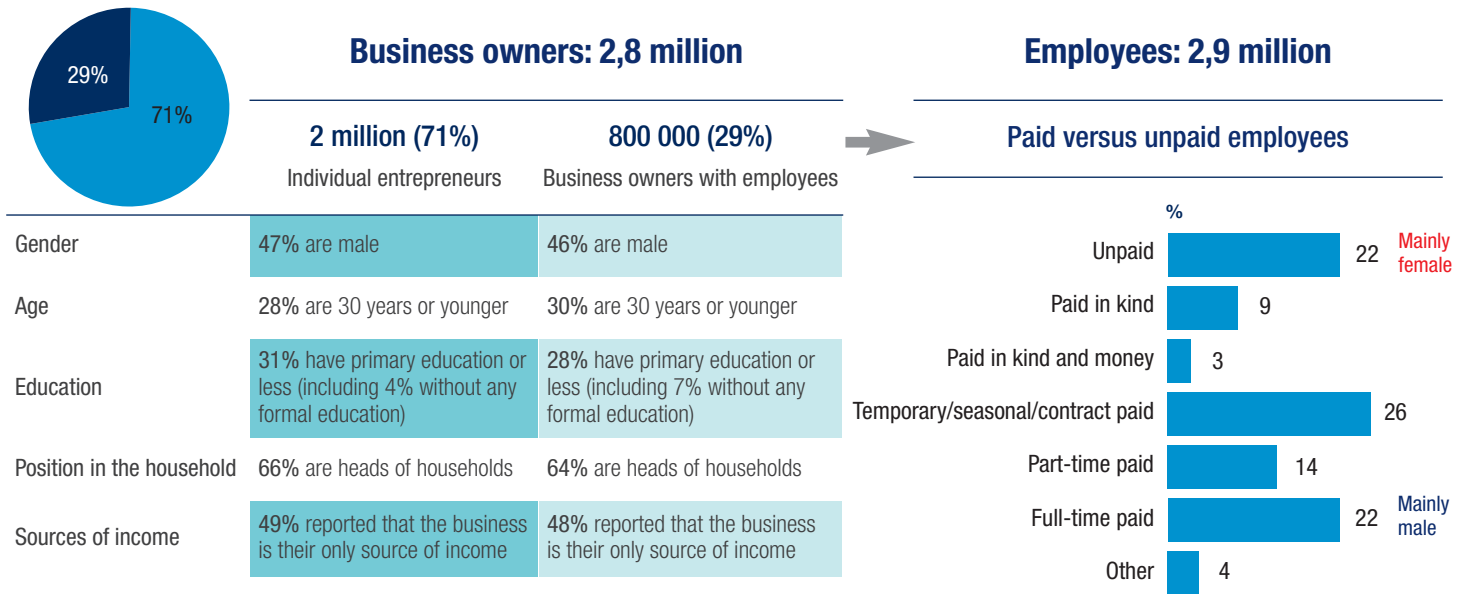
Following a multi-stage sampling process and comprehensive listing exercise (listing over 57 000 households in 500 Enumerator Areas, identifying 15 906 business owners), a total of 3 222 face-to-face interviews were conducted by Research Continental Fonkom (September 2012). The sample frame and weighting of the data was conducted by ZIMSTAT. In addition, ZIMSTAT played a vital role in the training of enumerators and quality control process during fieldwork.

*Note: The definition for small and medium size businesses depends on the sector and has been taken into consideration here (small: 6 to 30/40 employees, medium: 30/40 to 75 employees)

People

MSME sector's contribution to development:

- **Employment:** 5.7 million people are working in the sector
- **Poverty alleviation:** modest contribution to poverty alleviation (40% of MSME owners earn less than US\$ 200 per month) BUT vital role of survivalist businesses as a buffer against slipping deeper into poverty, reducing individual and household vulnerability

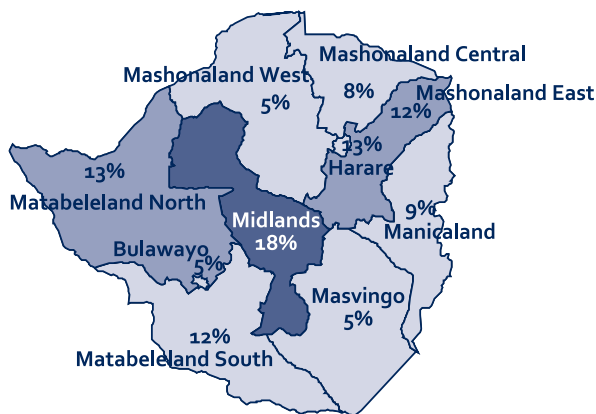


Working hours and sources of income

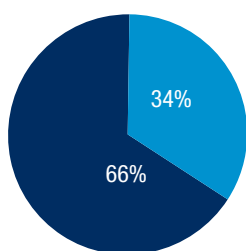
- Long working hours but low levels of income
- 50% work 8 hours or more a day, 69% work 6 to 7 days a week
- But 40% earn less than US\$ 200 per month, and a further 11% reported that they do not have a monthly income

Distribution of business owners population

Province

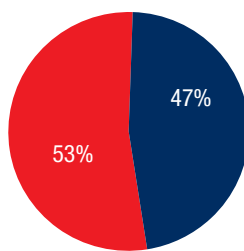


Urban/rural



- 34% Urban
- 66% Rural

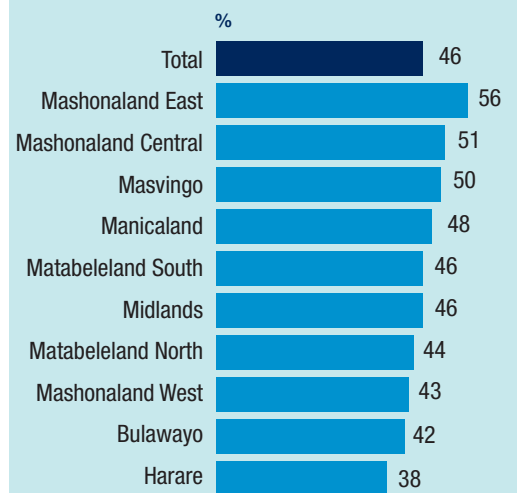
Gender



- 47% Male
- 53% Female

Percentage of business owners among total adult population per province*

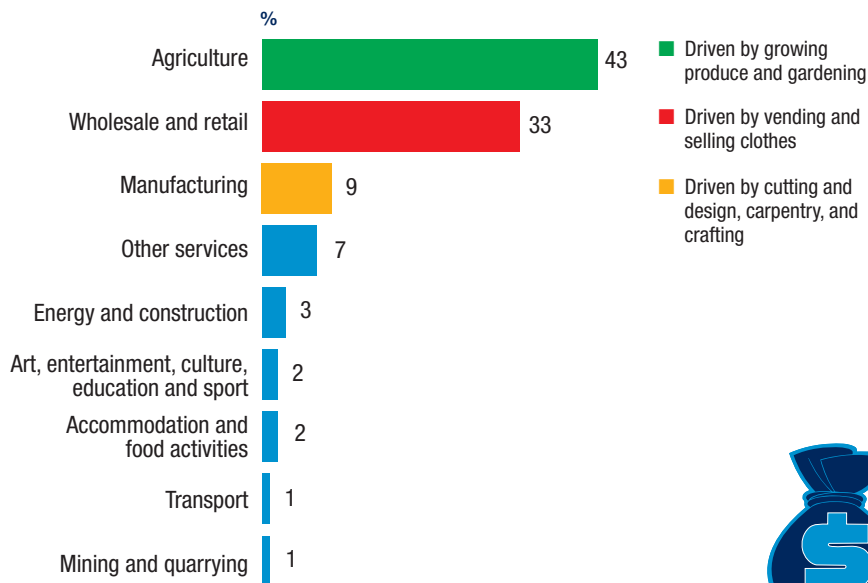
- 46% of the adult population (18 years and older) in Zimbabwe are MSME owners
- Mashonaland East has the highest proportion of MSME owners compared to the total adult population (56% of adults are MSME owners)
- Harare has the lowest proportion of MSME owners (only 38% of adults are MSME owners) – probably due to the availability of other income generating activities/salaried jobs



*Using population figures per province from the FinScope Consumer Survey Zimbabwe 2011

Businesses

Business sector (self classified)



3,4 million businesses		
	Number of employees	Percentage of business owners
Individual entrepreneurs	0	71%
Micro businesses	1 – 5	24%
Small businesses	6 – 30/40	4%
Medium businesses	30/40 – 75	1%

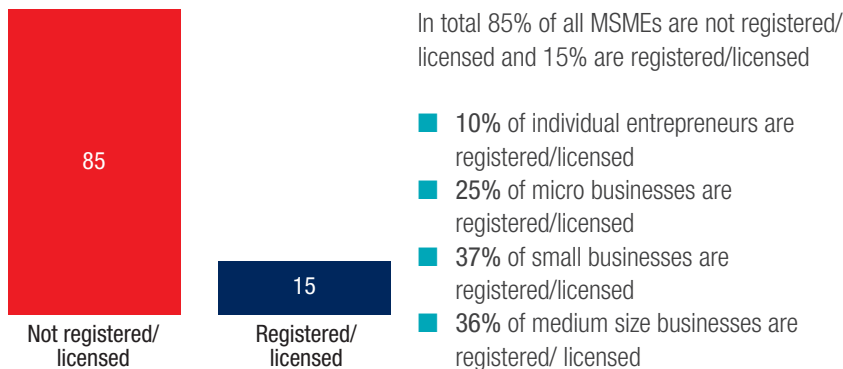
Turnover of the sector is estimated to be at least

US\$ 7,4 billion in 2012

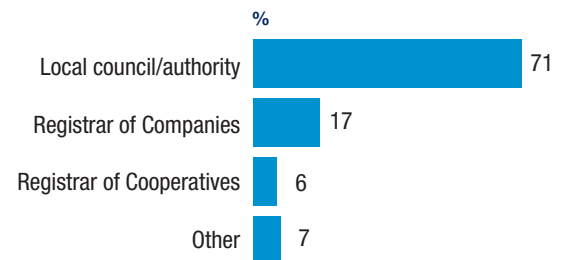
(only 65% of MSME owners reported turnover)



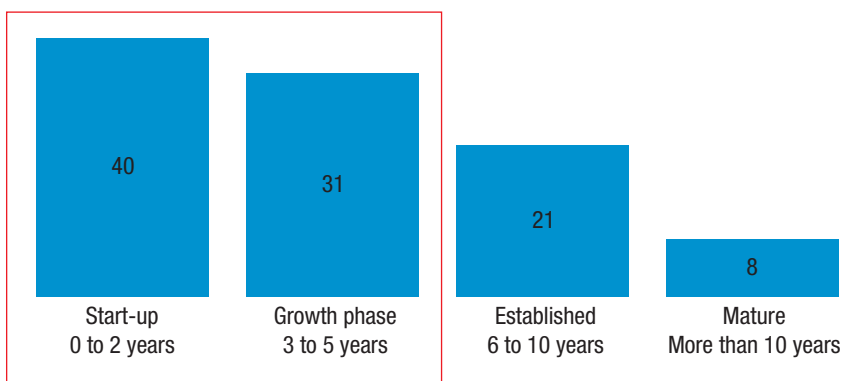
Registration/license



Of those who are registered



Age of the business



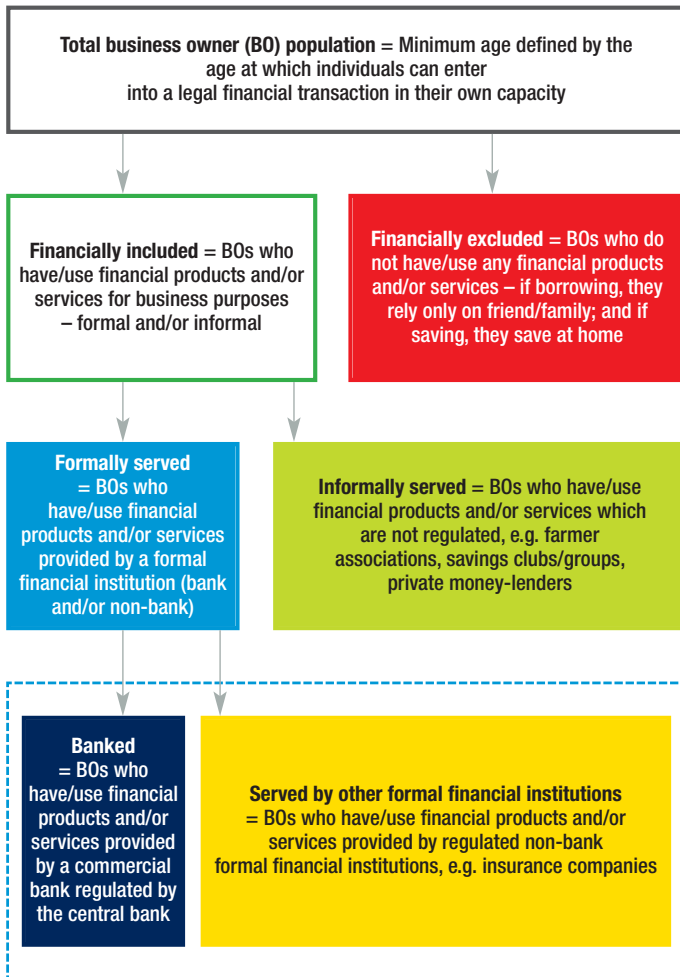
Main operating locations



Young businesses

71% are in operation for 5 years or less

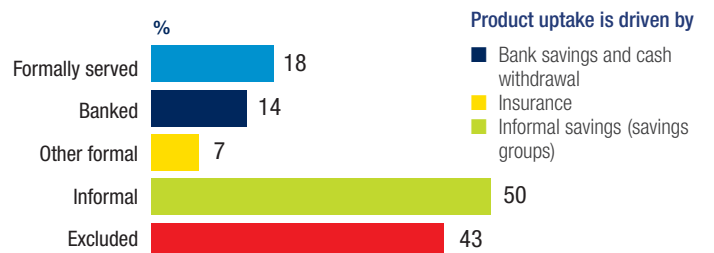
Analytical framework



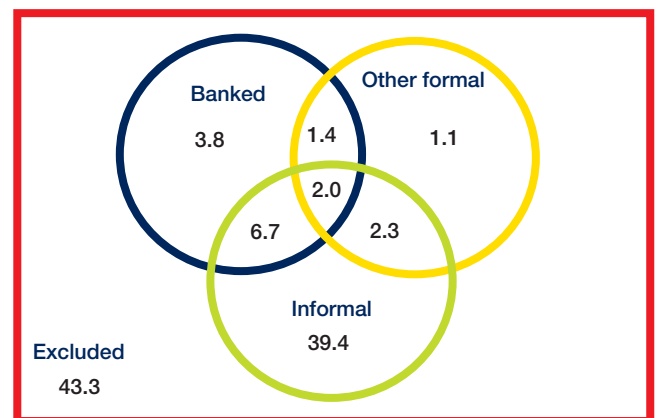
Overview

Only a quarter of business owners are financially included:

- 43% of business owners (1,2 million) are financially excluded, i.e. they do not use any financial products or services (neither formal nor informal) to manage their business finances
- 50% of business owners (1,4 million) have/use informal mechanisms to manage their business finances
- 18% of business owners (475 000) are formally served, including both banked and other formal non-bank products/services
- 14% of business owners (382 000) are banked
- 7% of business owners (186 000) have/use other formal non-bank products/services



Overlaps



Access Strand

In constructing this strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- Financially excluded business owners (43%)
- Business owners who have/use informal products/services but NO formal products (39%)
- Business owners who have/use formal non-bank products/services but NO commercial bank products (4%)
- Business owners who have/use commercial bank products (14%)



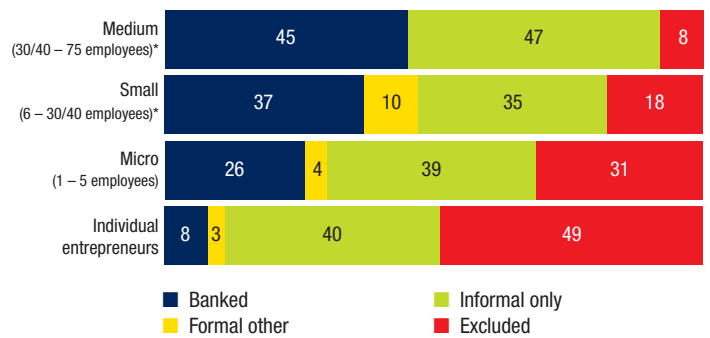
Access Strand – location

Rural/urban



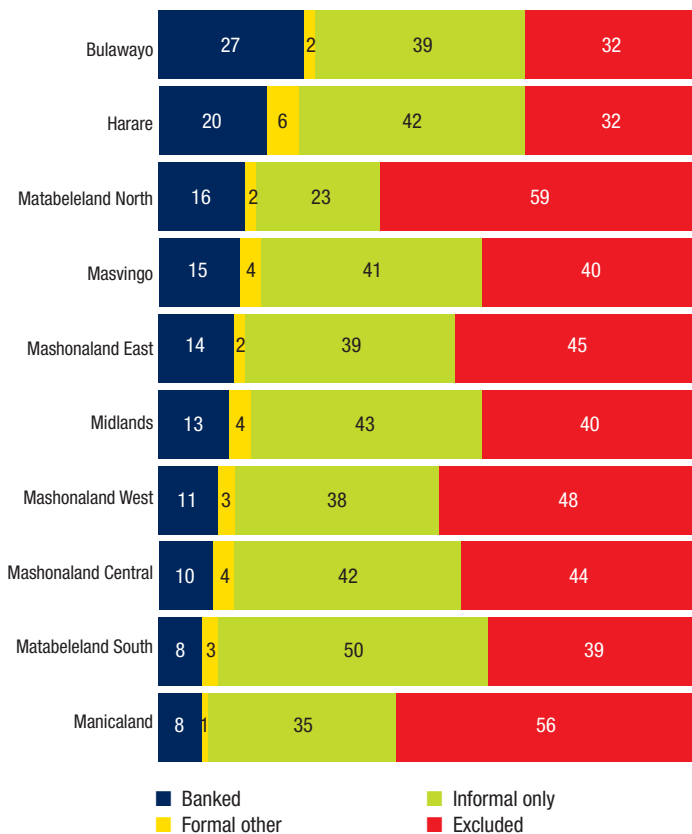
Access Strand – business

Business size

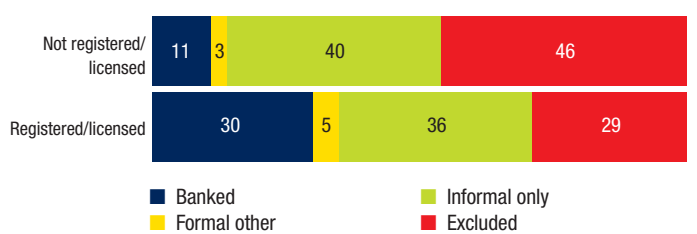


*Depending on the sector

Province



Registration/license



Gender



Key take-outs

Comparing the Access Strand across location, provinces, business size, and gender reveals that levels of financial inclusion are higher

- In urban areas (64%) compared to rural areas (53%)
- In the main urban centres Bulawayo and Harare (both with 68%) compared to more rural provinces such as Matabeleland North with 41% inclusion
- Among medium size businesses (92%) compared to small (82%) and micro businesses (69%) as well as individual entrepreneurs (51%)
- Among registered/licensed businesses (71%) compared to those that are not registered/licensed (54%)
- Among women (58%) compared to men (56%)

Banking

- Only 14% of MSME owners are banked, i.e. use formal financial products and services offered by a commercial bank
- The majority of business owners do not use/have a bank account for business purposes
- In fact, only 3% use a bank account in the name of the business

Product uptake

Of those who use a bank account for business purposes:

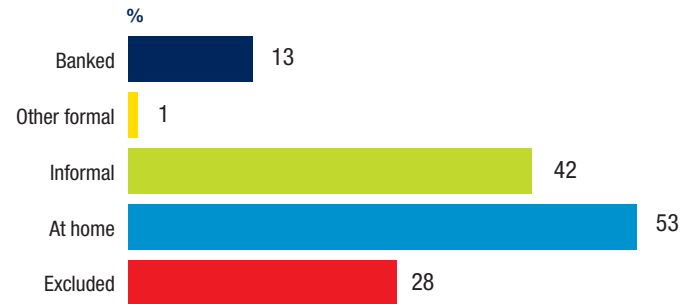
- Cash related transactions are the most common
- 99% of MSME owners pay their employees in cash



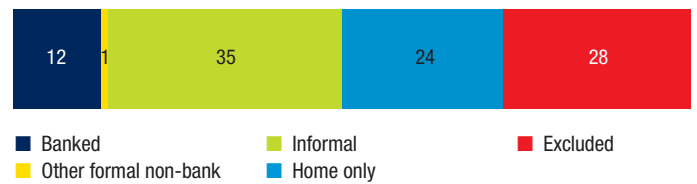
14% of business owners are banked <small>BUT only 3% use a bank account in the name of the business</small>	86% of business owners are not banked
Drivers	Barriers
Drivers for banking choice mainly relate to availability and referrals:	Main barriers to banking relate to monetary reasons (affordability):
<ul style="list-style-type: none"> 34% chose the bank because they already have a personal account there 25% because of convenience 20% chose a bank because it was recommended by friends/family Only 16% chose the bank because of its product offering = lack of appropriateness of banking services/products 	<ul style="list-style-type: none"> 69% are not banked because the income/business is too small 34% reported that they are not banked because the business is not making enough money 21% are not banked because their income is irregular 9% do not know anything about banking = lack of financial literacy

Savings and investments

Overview



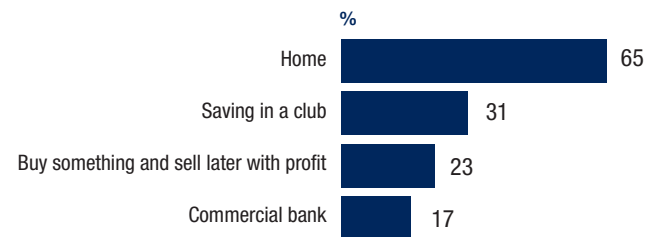
Savings Strand



Main savings mechanisms

Of those who save:

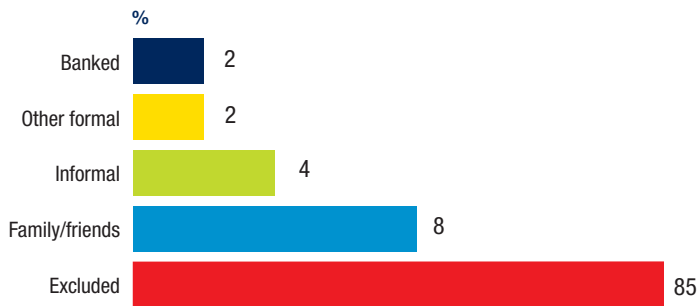
- 65% keep their savings at home
- 21% save with a club
- 23% buy something and sell it later for profit
- 17% save with a commercial bank



72% of business owners save <small>(mainly at home)</small>	28% of business owners do not save
Drivers	Barriers
Main reasons for savings relate to managing and growing the business	Main barriers to savings relate to monetary reasons:
<ul style="list-style-type: none"> 49% save to have the money when they need it 40% save to grow/expand their business 32% save for the future 25% save for day-to-day running of the business 	<ul style="list-style-type: none"> 74% do not save because the business is not making enough money 23% put all the money back into the business and hence do not save

Borrowing and credit

Overview



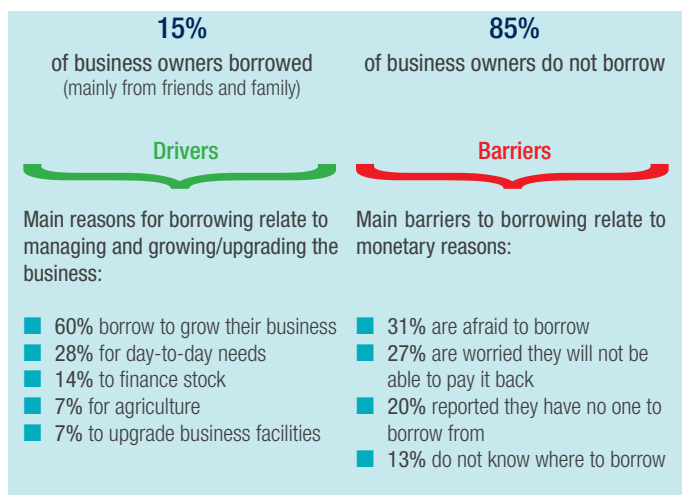
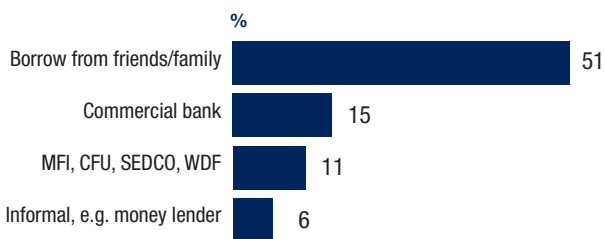
Credit Strand



Main borrowing mechanisms

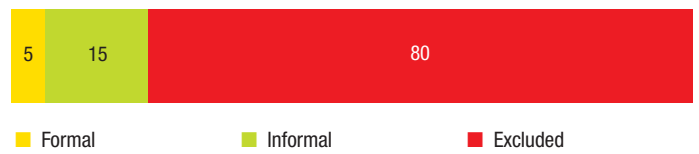
Of those who borrow:

- 51% borrow from friends and family
- 15% borrow from a commercial bank
- 11% borrow from MFI, CFU, SEDCO, WDF
- 6% borrow from informal sources, e.g. money lenders

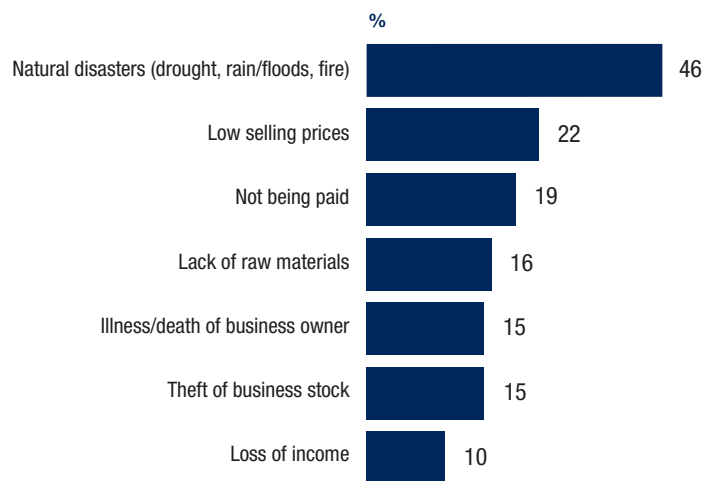


Insurance and risk management

Insurance Strand



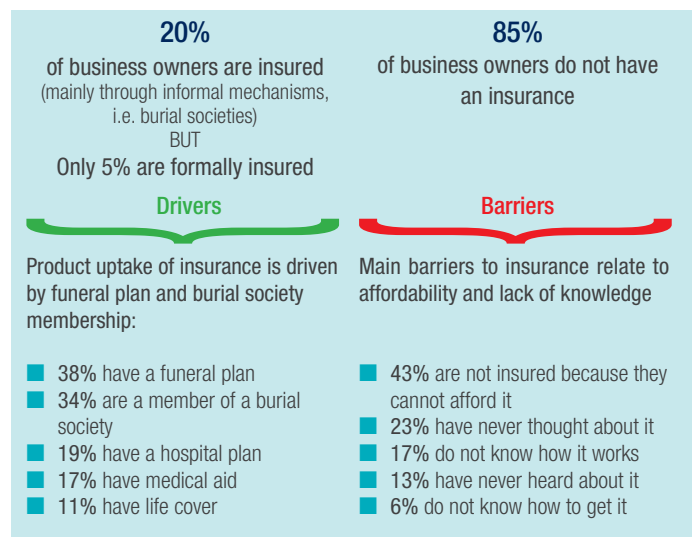
Main risks



Main coping mechanisms

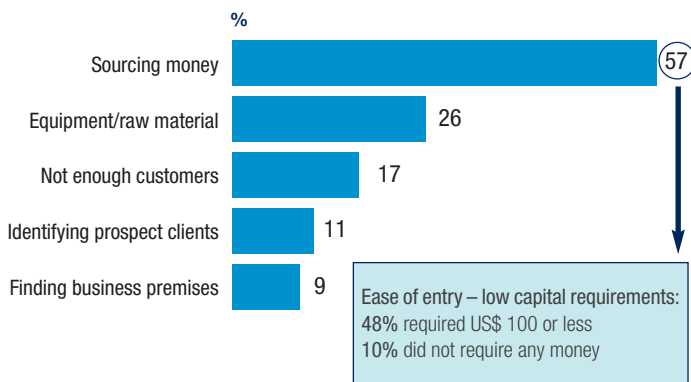
63% of MSME owners did not have any strategies in place to cope with potential problems

Only 2% claimed insurance

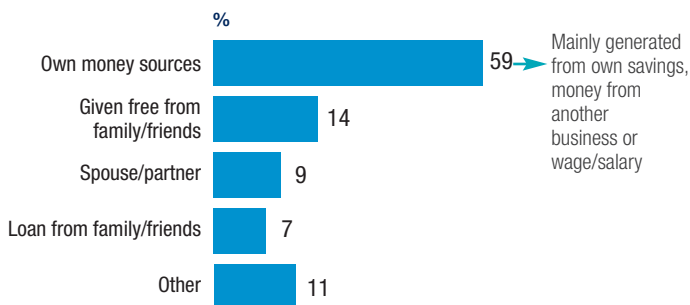


Start-up

Main constraints starting the business



Main source of money to start the business

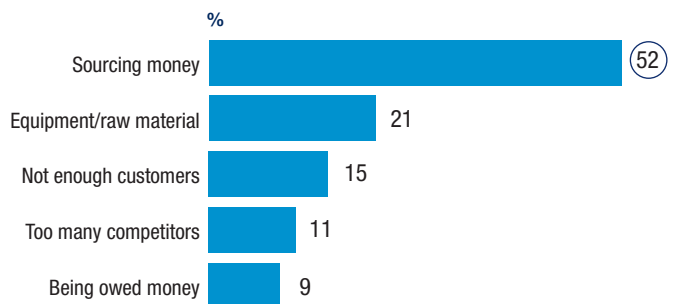


Necessity driven

Motivation to start the business	63% reported their main motivation to start their business was driven by economic need (poverty, unemployment, provide for the family, make more), and 34% actually saw an opportunity
Low levels of income	40% have a personal monthly income of less than US\$ 200
High dependency	49% reported that their business is the only source of income 66% are heads of households and often the main income earner
Sustainability	23% would close their business if they were offered paid employment

Operation and management

Main constraints operating/managing the business

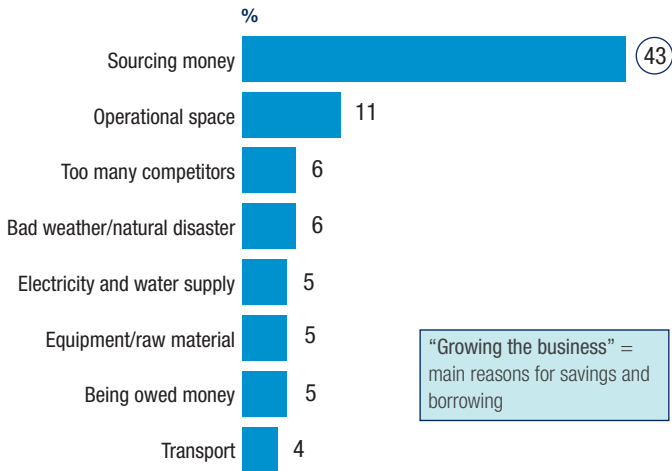


Business acumen

Education and skills training	31% have primary education or less (including 5% who have no schooling) 73% acquired the necessary business skills informally (through informal networks such as family and friends, previous job, or while managing the business) while 27% acquired the skills formally (through a training programme, school, university/college)
Business experience	28% are 30 years or younger
Understanding of financials	49% do not keep financial records Only 8% have up-to-date financial/accounting records 29% did not know their turn over 6% have a written business plan
Access to formal financial services	Only 3% have a separate business bank account in the name of the business
Informality	85% are informal, i.e. they are not registered/licensed
Limited use of sophisticated marketing strategies	82% rely on word-of-mouth to advertise their business 14% do not market/advertise their business at all
Positive attitudes	83% are decisive (agreed with the statement: if you make up your mind to do something you do not let anything stop you; and you are happy to take charge of and see things through) 68% are flexible if further change is warranted in the future (agree with the statement: you would easily consider venturing into a new business) 75% regularly assess their competitors

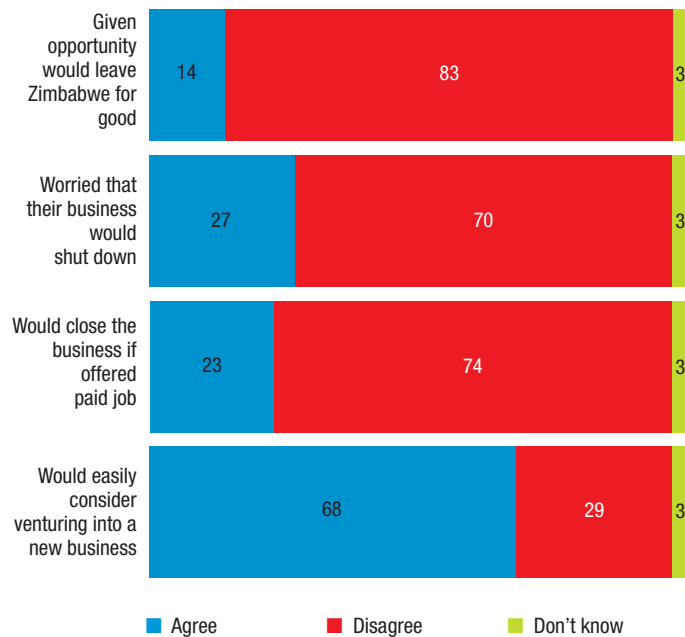
Growth

Main constraints to grow the business



Sustainability versus risk diversification

Survivalist entrepreneurs might prefer to invest in new business(es) instead of growing the existing one



Business support

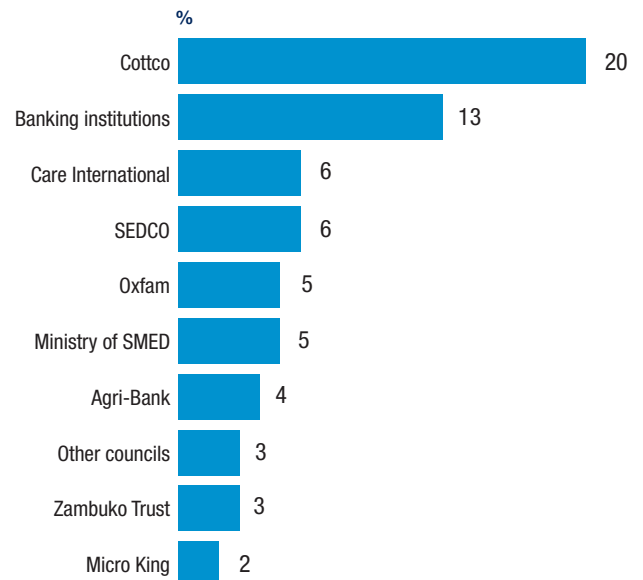
Only 9% of MSME owners have ever used business support

Of those who used business support, 72% reported that the help they received was useful

Business support mechanisms

Of those who used business support:

- 20% used support provided by Cottco
- 13% used bank institutions
- 5% used the Ministry of Small and Medium Enterprise and Cooperative Development



Recommendations and conclusions

Key take-outs

PEOPLE: 5,7 million
2,8 million MSME owners and 2,9 million employees



- Employees: mainly male, but unpaid workers are mainly female
- MSME owners: middle age, mainly female, good levels of education, usually heads of households
- Often, income from entrepreneurial activity is supplemented by other sources of income such as other business(es) or job
- Main motivation to start the business is driven by need: survivalist rather than opportunists
- Largely positive attitudes towards the business BUT worried about sustainability
- Long working hours but low income

BUSINESSES: 3,5 million



- Mainly individual entrepreneurs and micro businesses
- Working mainly in agriculture, wholesale and retail
- Most of the businesses are located in the rural areas
- Operating mainly from residential premises and farm
- Mainly cash based
- Largely informal (not registered or licensed)
- Young businesses (mainly start up and growth phase, younger than 5 years)

FINANCIAL INCLUSION: 57% (formal 18%)



- 43% of MSME owners are financially excluded, i.e. they do not use any financial products/services (neither formal nor informal) to manage their business finances
- Informal sector pushes out the boundaries of inclusion
- 14% use products/services from commercial banks – used mainly for cash related transactions
- Savings: mainly at home; Borrowing: mainly from family/friends
- Main drivers: grow/expand the business
- Main barriers: monetary reasons (low/irregular income)
- Although MSME owners face a number of risks, most are not insured
- Financial inclusion is higher among:
 - Small and medium size businesses
 - Women
 - Registered/licensed businesses
 - In urban areas and main urban centres (Bulawayo and Harare)

CHALLENGES: Finance, raw material, operational space



- Challenges affecting financial inclusion:
 - Affordability (income from MSME is too low/irregular, bank charges are too high, insurance is too expensive)
 - Appropriateness (many MSMEs lack required formality and documentation such as address and financial records)
 - Accessibility/proximity (banks are too far away)
- Other challenges: informality, limited use of sophisticated marketing strategies, necessity driven

Conclusions

- **Development:** The MSME sector plays an important role in addressing unemployment in Zimbabwe with a total of 5.7 million people working in the sector (including the MSME owners). Further, the sector contributes significantly to poverty alleviation. Although effects on wealth creation are limited given the low levels of income among the majority of MSME owners – survivalist businesses play a vital role as a buffer against slipping into deeper poverty, reducing individual and household vulnerability
- **Growth and sustainability:** The majority of businesses are young (in operation for 5 years or less). Sustainability and upward mobility is influenced by numerous factors:
 - Policy and regulations directed at the MSME sector (e.g. labour laws that affect hiring and firing of employees)
 - Macro economic environment (e.g. availability of wage employment versus need to take up self-employment)
 - Industry specific factors (e.g. vulnerabilities MSME owners face who engage in agricultural activities)
 - Individual characteristics (e.g. motivation to start the business, risk tolerance, education and training, networks, etc.)
- **Product uptake:** Low levels of access to and usage of (formal) financial products and services, and high dependency on internal networks (especially for credit) indicate that the current product set does not adequately address the needs of MSME owners
- **Education and training:** Entrepreneurial action is linked to business acumen and sound business management skills. Although the majority of MSME owners in Zimbabwe have good levels of education, many of them rely on their own networks to acquire the necessary business skills. Challenges with financial management, record keeping and accounting, marketing and cost assessment indicate the great need for support mechanisms and training programmes, especially with regard to financial capability
- **Formalisation:** The majority of businesses are not registered/licensed. Uncertainties, the scale of business activities, as well as the costs and complexities of registration affect the motivation to formalise the business. That could be a stumbling block in terms of identifying and designing appropriate support programmes, determining policy direction and relevant financial products and services to address the needs to the MSME owners in Zimbabwe
- **Operational space:** The majority of MSME owners operate from residential premises, often due to the nature of businesses but also due to the lack of operational space. The lack of operational space was reported as a key challenge when growing the business
- **Marketing:** The majority of MSME owners do not use sophisticated marketing strategies. However, many of them reported that they have challenges identifying new clients, having too many competitors and not enough customers, which indicates great need for support
- **Informal mechanisms:** Every second MSME owner in Zimbabwe uses informal mechanisms to manage their business' finances. As such, informal services such as savings clubs play a vital role in the financial services continuum especially in areas that are not served by formal financial institutions

Recommendations

- **Enabling environment:** Given this crucial role of MSMEs, and especially of survivalist businesses, it is imperative to create an enabling environment by putting into place strategies to support upward mobility and growth of these businesses to mature into more sophisticated formalised enterprises
- **Enabling policy and regulations:**
 - To enable credit flow, create an environment that leverages relationships and links between financial institutions and informal enterprises
 - A focus on policies and technologies that contribute to improving the information available about borrowers to reduce lending constraints (e.g. SMME credit bureaux)
 - Examine the use of partial credit guarantees (PCGs), these can be a mechanism of risk transfer and risk diversification
 - Address bureaucratic bottlenecks (e.g. during registration processes), harassment and corruption – which affects all businesses, but particularly micro enterprises
 - Formulate a financial education strategy with a focus on interventions in the micro enterprises sector
- **Product development needs to go hand in hand with consumer empowerment:** Providing appropriate savings and credit products, i.e. affordable (given the low levels of income), flexible (given the irregularity of income and seasonality), short-term – but at the same time promoting record keeping and future focused planning
- **Education and training:** Addressing financial education at school level to unleash entrepreneurial talent among the youth and contribute to upward mobility for the next generation (intergenerational effects). In addition, focus on financial capability for MSME training programmes
- **Promoting registration:** In order to promote registration, MSME owners need to understand the process of registering their business as well as the benefits it comes with. It is important to ensure that the process is transparent and easy, and that the cost is affordable. There is an opportunity to come up with incentives and a formalisation model which would suit the needs of the sector while contributing towards their financial inclusion, the use of micro franchising, loan booths, the advent of ninety nine year leases and the formation of SACCOs
- **Local economic development and network support:** Connect smaller entrepreneurs to larger, well established businesses (greater potential especially in urban areas) who can act as mentors and create a relevant business network, providing contextual learning opportunities/partnerships = this network support also increases the probability of survival and growth of newly formed businesses
- **Need for marketing:** There is a great need to support MSME owners in their venture to market their products and services. Common marketing techniques for small business include networking, customer referrals, local business directories, local radio, road side billboards, pamphlets and local newspapers.
- **Leverage informal mechanisms:** There is a great potential to leverage informal financial services, e.g. to establish a level of credibility (credit history etc.) for the MSME owners.

About FinScope MSME

FinScope MSME is a nationally representative study focusing on small businesses and their financial services needs. FinScope assists in establishing credible benchmarks and indicators of financial inclusion, while at the same time providing insights into market obstacles to growth and highlighting opportunities for policy reform and innovation in product development and delivery.

FinScope findings can therefore be of value both to policymakers who wish to develop policy aimed at improving the functioning of financial markets, and to private service providers who are able to design product strategies around the segmentation and trends highlighted by the data, and to donors and non-governmental agencies who wish to support increased financial inclusion to specific regions or population groups.

The FinScope Small Business Survey was first piloted in South Africa in 2006 and since then the survey methodology has been applied in Zambia (2008), South Africa (2010), Tanzania (2010), Malawi (2012), and is currently underway in Mozambique.



Contact

For more information on FinScope MSME Survey Zimbabwe 2012, including a detailed report on the findings and access to the dataset, please contact:



Making financial markets work for the poor

Dr Sabine Strassburg
sabines@finmark.org.za

Tel: +27 11 315 9197
www.finmarktrust.org.za

Mr Jabulani Khumalo
jabulanik@finmark.org.za

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002, and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. This is done by promoting and supporting financial inclusion, regional financial integration, as well as institutional and organisational development, in order to increase access to financial services for the un-served and under-served. In order to achieve this, FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust developed the FinScope tool, including both the FinScope MSME Survey and the FinScope Consumer Survey.