

FinScope South Africa Small Business Survey 2010



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I Introduction

I.1 Background to the FinScope Small Business Survey

In order to develop effective interventions for the small business sector, it is important to have a comprehensive understanding of the sector; the specific challenges faced by small business owners, and the capacity they have to deal with these challenges.

Any development or intervention strategy should, however, take into account that a “one size fits all” approach will not be effective. Interventions should be targeted and evidence-based. Availability of reliable and accurate information with regards to the specific needs of specific segments of the small business sector is therefore a key guide to the development of an intervention strategy.

In most developing countries, this kind of information is not available. While many financial sector providers and government departments/agencies are engaged in defining strategies, sometimes collaboratively, to support small business development, the reach of many well-intentioned support interventions is often perceived to be low. The lack of quality information to guide intervention strategies significantly contributes to this situation.

In recognising this, FinMark Trust developed the FinScope Small Business Survey. The survey is a comprehensive, nationally representative survey with the following objectives:

- to describe the size and scope of the small business sector;
- to segment the small business sector into homogeneous market segments, with the intention of identifying the development and financial needs of the different market segments in order to stimulate segment-related development and financial product innovation; and
- to assess the impact of interventions through conducting repeat surveys.

In addition to these objectives, and in pursuit of FinMark Trust's purpose of making financial markets work for the poor, the FinScope Small Business Survey specifically aims to:

- determine levels of financial access for the small business sector;
- describe the landscape of financial access for the small business sector (i.e. the type and extent of financial product utilisation); and
- to identify and describe the drivers of, and the barriers to, usage of financial services and products for the small business sector.

I.2 The FinScope survey approach

The FinScope Small Business Survey methodology was first piloted in South Africa in 2006. It has since been implemented as a nationally representative survey in Zambia (2008), Tanzania (2010) and South Africa (2010). The survey will also be conducted in Malawi, Zimbabwe and Mozambique in 2011.

In implementing the FinScope Small Business Survey, FinMark Trust collaborates with a wide range of stakeholders from both the public and private sectors to ensure that the survey is relevant, and that the survey instrument addresses relevant issues. FinMark Trust further regards stakeholder buy-in and support for the survey as essential in ensuring that the information it provides is used to guide intervention strategies.



Established with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose business is controlled by trustees from countries in Southern Africa. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. It does this by conducting 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 plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

1.3 The FinScope South Africa Small Business Survey 2010

For the purpose of the implementation of the FinScope South Africa Small Business Survey 2010 a syndicated funding model was used. Syndicate members contributed to the costs of survey implementation, provided input into the survey instrument design, as well as into the contextual interpretation of the findings. Syndicate members included:

- Swiss Confederation (State Secretariat for Economic Affairs (SECO))
- Business Trust
- Absa
- Tourism Enterprise Partnership
- Department of Trade and Industry (the dti)
- Standard Bank



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2. Survey Methodology

2.1 Implementation structure

The FinScope South Africa Small Business Survey 2010 was implemented by FinMark Trust. As the implementing agency, FinMark Trust was responsible for the following deliverables:

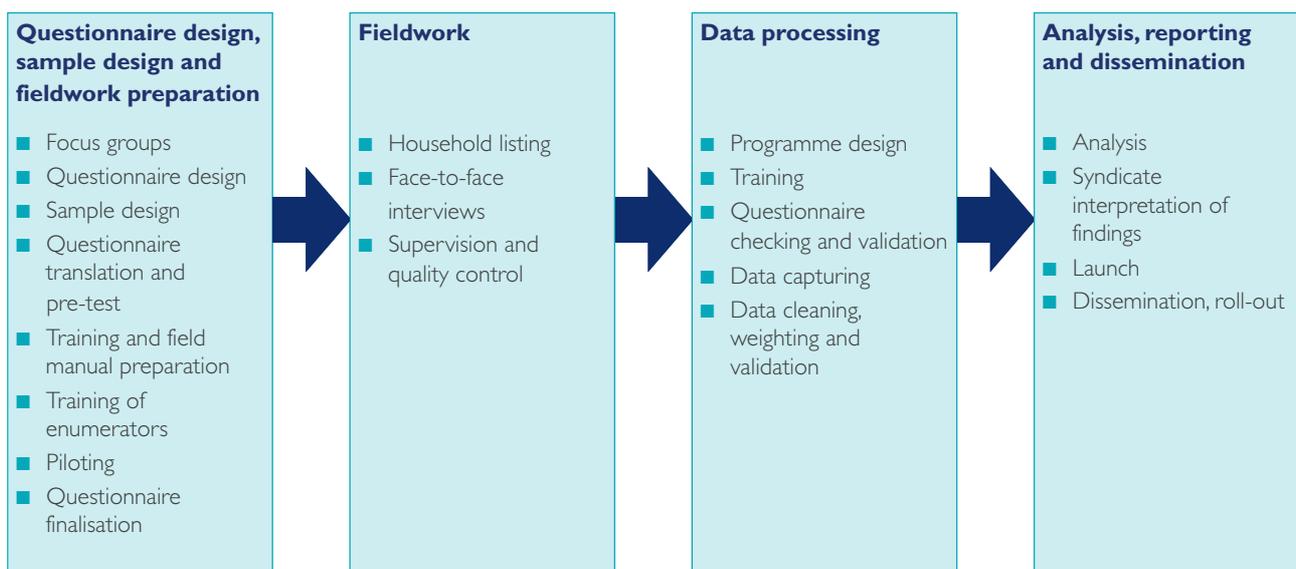
- Developing and publishing the Terms of Reference (ToR) for a research company to conduct the survey, capture and analyse the data;
- Ensuring a competitive procurement process;
- Contracting the selected research house to conduct the survey;
- Overseeing the technical implementation of the survey in terms of:
 - Sample, survey design and methodology
 - Questionnaire development
 - Data capture
 - Data analysis
- Implementing independent quality control measures during the data collection phase and assessing the quality of the data provided by the research house;
- Developing dissemination material;
- Launching the topline findings of the survey;
- Conducting dissemination workshops;
- Making the data available to stakeholders.

TNS Research Surveys was contracted to conduct the survey - administering 5676 face-to-face interviews during the period April-May 2010. Topline findings were launched during October 2010.

2.2 Implementation stages

FinScope South Africa Small Business Survey 2010 was implemented in the phases summarised by Figure 1.

Figure 1. Survey implementation stages





2.2.1 Focus groups

The questionnaire design phase included conducting 15 focus group discussions with small business owners from both urban and rural areas. A summary report of the focus group discussions can be obtained from FinMark Trust.

The focus group discussions provided rich contextual background information which led to a better understanding of small business owner needs and challenges. This was essential for effective questionnaire design.

2.2.2 Questionnaire design

The survey instrument was a structured questionnaire with mainly closed questions aligned with the survey objectives. The questionnaire was designed by TNS Research Surveys in collaboration with FinMark Trust taking into account lessons learned through the implementation of the Gauteng pilot survey and the Zambia Business Survey, as well as qualitative information obtained from the focus group discussions and stakeholder engagement.

The questionnaire was translated into Afrikaans, Xhosa, Zulu, Tswana, Sotho and Northern Sotho. Translated versions of the questionnaire were tested by conducting a number of interviews prior to commencement of the training of enumerators to administer the questionnaire.

2.2.3 Sample design

The validity of any survey depends on the statistical reliability of the sampling framework. The challenge with the small business survey is that in most countries this framework (i.e. records of all small businesses (formal and informal)) does not exist. Establishing the universe for the small business sector for statistically valid sampling purposes therefore presents a unique challenge in conducting the small business survey. Absence of a sampling framework necessitates a small business listing exercise to be carried out before the survey can be conducted. The FinScope survey methodology, therefore, entailed:

- Identifying the geographical areas of the country where the survey will be conducted – i.e. drawing a sample of enumerator areas (EAs) representative at national, urban-rural and regional level (the level of representativeness being determined by the required reporting domains);
- Identifying all small business owners per geographical area/creating the universe of small business owners per geographical area – i.e. listing demographic details for every member of every household in each of the sampled EAs, and at the same time identifying small business owners;
- Drawing a random sample of small business owners for the purpose of interviewing per geographical area from the universe created – i.e. drawing a random sample of small business owners to be interviewed (using the listing information) for each of the sampled EAs.

For the purpose of the FinScope South Africa Small Business Survey 2010, a sample of 1000 EAs was drawn from an EA sampling frame based on the 2001 population census and benchmarked to StatsSA's released 2009 midyear estimates of population numbers per province, race, five-year age groups and gender. 'Province' and 'EA type' were used as explicit stratification variables. Within each of the strata, EAs were selected based on probability proportionate to size (i.e. the number of households in that EA).

A negative binomial listing approach was used to identify six qualifying households per sampled EA. A qualifying household was identified as a household with one or more small business owners – small business owners, for the purpose of the South African small business survey 2010, being defined as individuals:

- 16 years or older;
- who were self-perceived business owners; and
- employed less than 200 people.

For qualifying households with more than one small business owner, a respondent was selected at random (the qualifying individual with a birth date closest to the date of the interview was selected to be interviewed). Where an interview could not be secured with the selected respondent, the household was replaced and a substitute respondent selected.

It was not possible to achieve six small business owner interviews in all of the 1000 sampled EAs. This was due to the fact that the listing exercise illustrated that in some EAs there were less than six small business owners whilst in other EAs there were none:

- If less than six interviews were recorded for a specific EA, the validity of the listing exercise was evaluated before a field team was allowed to move on to another EA;
- If a specific EA yielded no (0) interviews, an additional EA was sampled at random and added to the original sample of 1000 EAs to ensure that this reality did not affect the planned sample size of 6000 interviews too significantly.

By the end of the survey, data was collected from 1075 EAs yielding 6 450 potential respondents; 5 676 interviews were achieved whilst for 774 potential respondents the interview could either not be conducted (as a result of the respondent refusing an interview or not being available for interviewing purposes) or was only partially conducted (these interviews were not included in the final data set).

2.2.4 Fieldwork

2.2.4.1 Quality control

The FinScope South Africa Small Business Survey 2010 was regarded as the first study being able to provide credible sense of the size and dynamics of the South African small business sector. The quality of the data provided by the survey therefore needed to be exceptionally reliable.

TNS Research Surveys, as the research partner, put in place extensive and comprehensive quality control measures. These measures were aimed at not only ensuring the quality and accuracy of the data collected during interviews, but also ensuring that the survey methodology was effectively implemented so that the validity and accuracy of extrapolation of the survey data could not be questioned.

To supplement and verify these quality control measures, FinMarkTrust carried out additional independent quality checks which included:

- Questionnaire spot checks to assess completeness and logic of submitted questionnaires. This was done independently of work done by TNS Research Surveys;
- Independent, unannounced field visits to verify field teams' implementation of the survey methodology and the interviewing process;
- Independent back-checks on completed Enumerator Areas (EAs), to validate the data contained in completed questionnaires, as well as the listing information.

Once satisfied that the data was collected using the correct survey methodology, and could be regarded as valid and accurate in terms of representing the small business situation in South Africa, FinMarkTrust signed off on the dataset provided by TNS Research Surveys.

Quality control measures implemented by TNS Research Surveys included:

- A detailed field briefing was conducted to ensure that field teams fully understood the requirements of this study. This interactive briefing served to take all field managers and their regional managers through each question within the questionnaire and provided an opportunity for specific routings and instructions to be explained. The briefing was also used to explain all instructions around the sampling approach to be followed in field. Overall, 18 field managers and 355 interviewers worked on this study;
- Following the intensive briefing session, fieldwork commenced. After the first 100 successful interviews had been completed, the questionnaires were checked and debriefed. Common areas of confusion or error were then identified and a full re-brief of the questionnaire with the field teams took place;



- While interviewing took place, field managers were required to ensure that fieldworkers received on-the-job coaching on necessary issues as they arose. This was done either by the field manager or by a field supervisor. Each completed questionnaire was debriefed by the field manager; a task which included going through the questionnaire to ensure that all relevant questions had been correctly filled in and that the sampling approach had been implemented correctly in field;
- Field managers were required to conduct spot-checks on fieldworkers. This approach helped to ensure that fieldworkers followed the correct procedures and that corrective action was taken timeously, where necessary. Each field manager was furthermore responsible for conducting back-checks on at least 10% of each fieldworker's work completed;
- No interviewer was allowed to do more than 50 interviews. In this way, interviewer bias was limited;
- In addition to the checks conducted by the field manager on each interviewer's work, a further set of telephonic checks was done when completed questionnaires were submitted;
- From the total sample of 5 676 completed interviews, 2 729 independent back-checks (48%) were carried out;
- An independent task team of senior research executives and support managers was set up during the latter part of fieldwork to carry out audits on a total of 205 EAs. The task of the auditors was to ensure that the random walk had been adhered to in relation to the numbering and street names on the map; that the listing forms were comprehensively completed; and that all visiting points had been sufficiently exhausted where a qualifying respondent was not successfully interviewed.

2.2.5 Data processing

Any discrepancies picked up on completed questionnaires before data capture or during data capture were sent back to field to resolve.

All questionnaires were captured and coded using SurveyCraft. Data specifications were set up according to the questionnaire and questionnaire instructions, which allowed for a clean data entry system.

Data capture was verified to ensure quality data. Data capture supervisors verified approximately 10% of each capturer's work. Verification took place during the capturing process so that potential errors were identified and dealt with at an early stage. Verification was done by recapturing entire questionnaires.

Once the entire dataset was made available, extensive forensic checks were carried out. Several demographic variables were selected and looked at in relation to one other. Any apparent anomalies were then reviewed and if necessary, back-checked to establish their validity.

2.2.6 Sample weighting

The weighting process combined the following three different components to ensure that the weighted data is a true reflection of the South African small business sector:

- The inclusion probability of an EA in the small business sample;
- The inclusion probability of a household in an EA;
- The inclusion probability of a small business owner in a household.

The weighting process produced a clean weighted dataset in SPSS format. The weighting of the data was conducted by Dr Ariane Neethling, a sampling and weighting expert from South Africa.

2.2.7 Data analysis and reporting

The FinScope South Africa Small Business Survey 2010 data was jointly analysed by TNS Research Surveys and FinMark Trust.

Professor Jacky Galpin, University of the Witwatersrand, was contracted by FinMark Trust to develop a segmentation model based on the level of sophistication of small businesses in South Africa – the Business Sophistication Model (BSM). For the complete BSM Technical Report refer to Annexure I of this report.

3. Size and Scope of the Small Business Sector in South Africa

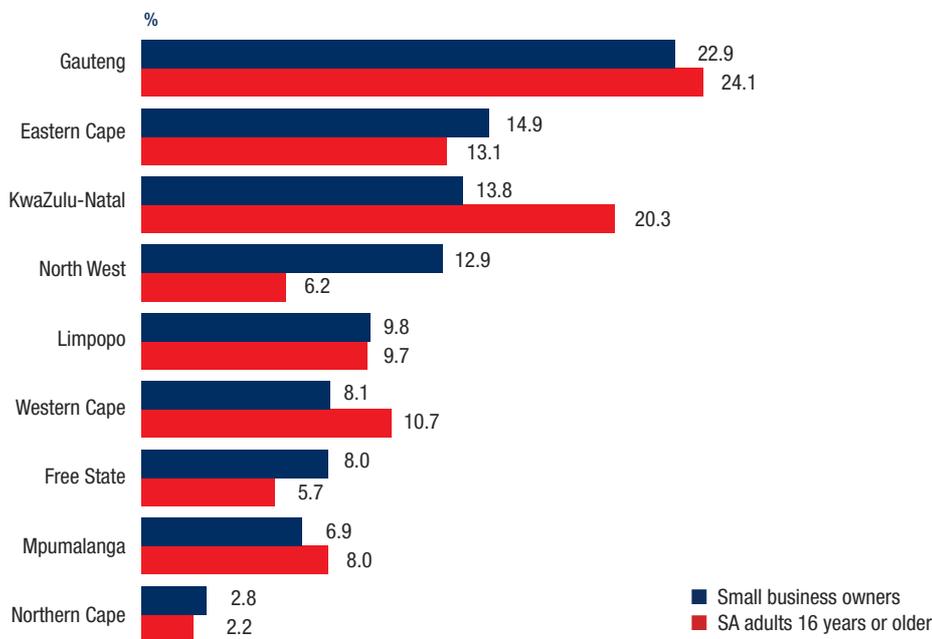
3.1 Size of the small business sector

Defining small business owners as individuals who are:

- 16 years or older;
- perceiving themselves to be business owners/generating an income through small business activities; and
- employing less than 200 employees.

The findings of the FinScope South Africa Small Business Survey indicated that, during 2010, there were 5 579 767 small business owners in South Africa owning 5 979 510 small businesses. Figure 2 gives an overview of the geographical distribution of small business owners in South Africa in comparison to the provincial distribution of adults 16 years or older:

Figure 2. Geographical distribution of small business owners in South Africa



In terms of the findings summarized by Figure 2, most small business owners (23%) resided in Gauteng – which was not a surprising finding as most adults 16 years or older (24%) resided in Gauteng.

The following provincial findings were significant in terms of the proportion of small business owners being less than would be expected based on the population distribution:

- 20% of adults 16 years or older resided in KwaZulu-Natal whilst only 14% of small business owners resided in this province;
- 11% of adults 16 years or older resided in the Western Cape whilst only 8% of small business owners resided in this province.

Provinces for which the proportion of small business owners were higher than would have been expected based on the population distribution included:

- Eastern Cape – with 15% of small business owners but 13% of adults 16 years or older;
- North West - with 13% of small business owners but 6% of adults 16 years or older;
- Free State - with 8% of small business owners but 6% of adults 16 years or older.

3.2 Small business landscape

Defining small business owners as individuals who are:

- 16 years or older; and
- perceive themselves to be business owners/generating an income through small business activities.

3.2.1 Nature of small businesses in South Africa

Figures 3, and 4 and Tables 1 and 2 give an overview of the nature of small businesses in South Africa, indicating that a significant majority (78.7%) offered retail services whilst only 21.3% provided services to their clients.

The bulk of small business owners (one in two) bought products and sold the product in the same form. Less than two in five retailers added some value to a product before it was sold to their clients.

Only one in five small business owners provided services to their clients – 62% of service providers rendering a skilled service such as plumbing or hairdressing; 6% rendering a professional service such a medical or legal services; 5% rendering building and/or construction services; 3% rendering tourism related services and the rest (24%) rendering other kinds of services such as car wash, gardening, etc.

Small business owners from Gauteng (34%), the Western Cape (33%) and Mpumalanga (26%) were significantly more likely to render services than their counterparts in other provinces, as well as most likely to render professional services. Small business owners from the Eastern Cape, Northern Cape, Free State, KwaZulu-Natal and the North West provinces were the least likely to render services.

Small business owners from the Eastern Cape, Western Cape and Mpumalanga were the most likely to provide building/construction services whilst business owners from the Western Cape, Northern Cape and North West were the most likely to render tourism-related services.

Figure 3. Nature of small businesses in South Africa

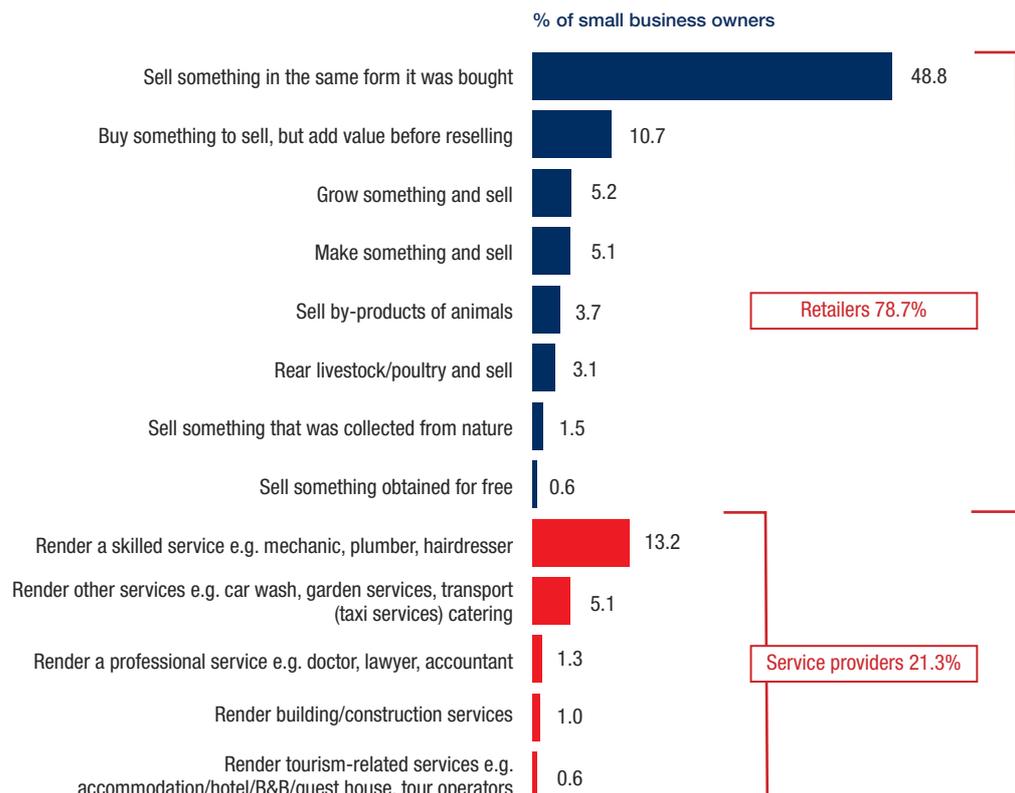


Figure 4. Nature of small businesses in South Africa per province

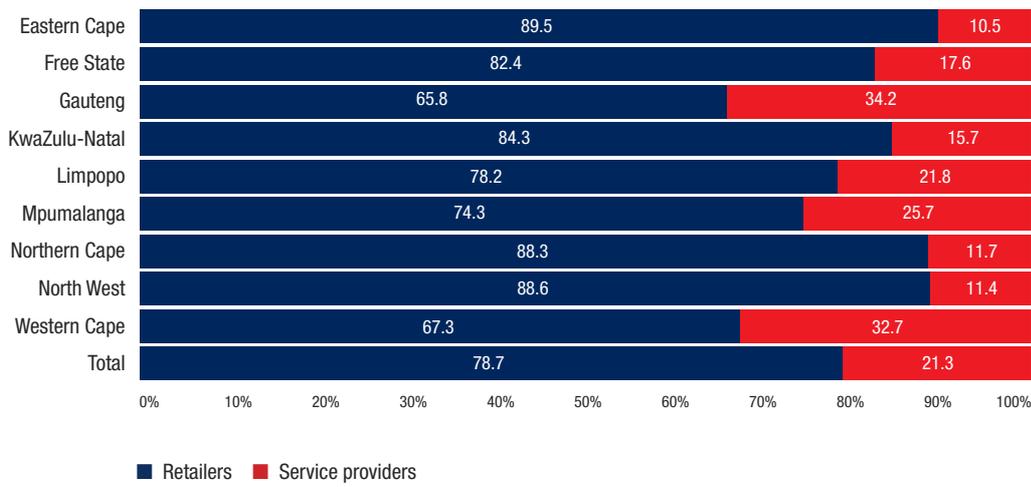


Table 1. Distribution of retail small businesses in South Africa per province

Retailers	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Sell something in the same form it was bought	65.7%	54.2%	60.4%	51.8%	66.7%	44.6%	55.5%	80.5%	63.7%
Buy something to sell but add value before reselling	9.6%	8.4%	17.4%	14.2%	20.3%	24.3%	15.7%	4.6%	16.9%
Make something and sell	8.0%	3.1%	6.4%	13.3%	6.3%	5.4%	5.9%	0.3%	7.0%
Sell something that was collected from nature	3.0%	3.6%	1.2%	3.0%	0.4%	2.5%	1.4%	0.0%	2.4%
Sell something obtained for free	0.4%	0.3%	1.3%	0.4%	0.4%	1.5%	3.4%	0.0%	2.4%
Rear livestock/poultry and sell	3.6%	8.7%	1.9%	7.4%	3.4%	3.8%	5.8%	1.2%	2.3%
Sell by-products of animals	3.8%	9.8%	4.1%	0.2%	0.4%	2.1%	5.6%	12.2%	3.9%
Grow something and sell	5.9%	12.0%	7.4%	9.8%	2.2%	15.9%	6.7%	1.1%	1.5%

Table 2. Distribution of service providing small businesses in South Africa per province

Service Providers	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Render a professional service	5.3%	2.2%	10.4%	1.1%	5.9%	1.8%	5.0%	1.6%	6.3%
Render a skilled service	57.5%	68.5%	58.9%	68.6%	75.3%	58.9%	63.0%	55.8%	59.9%
Render building/construction services	15.8%	1.2%	2.6%	6.4%	3.1%	7.0%	5.6%	3.0%	7.2%
Render tourism-related services	3.2%	3.9%	2.7%	1.4%	0.4%	2.0%	5.4%	5.1%	5.4%
Render other services	18.3%	23.9%	25.3%	22.8%	15.5%	30.3%	20.8%	34.3%	21.0%

3.2.2 Business registration

In terms of business registration, 17.3% (965 875) of small business owners claimed that their businesses were registered. In this regard a significant difference between service-providing and retail businesses was illustrated – 29.3% of owners of service providing businesses claimed that their businesses were registered whilst 14.1% of owners of retail businesses claimed that these businesses were registered.

If claimed registration is explored further, only 8.3% (465 632) of small business owners claimed that their businesses were CIPRO registered – once again a significant difference between service-providing and retail businesses was illustrated – 15.9% of owners of service providing businesses claimed that their businesses were CIPRO registered whilst 6.3% of owners of retail businesses claimed that these businesses were CIPRO registered.

Business owners from Gauteng (15.5%), North West (15.2%) and Northern Cape (9.5%) were most likely to claim that their businesses were registered with CIPRO whilst those from KwaZulu-Natal were less likely (1.9%).

Business owners who claimed to have registered their businesses did not appear to see much value in registering their businesses:

- 54.1% claimed that registering their businesses meant “compliance with the law”;
- 14.1% claimed that they registered their businesses to “avoid harassment from authorities”;
- 7.1% claimed that they registered their businesses to “avoid fines”;
- 6.5% claimed that registration held “no benefits” for their businesses.

The most frequently mentioned reasons by small business owners who claimed not to have registered their businesses included:

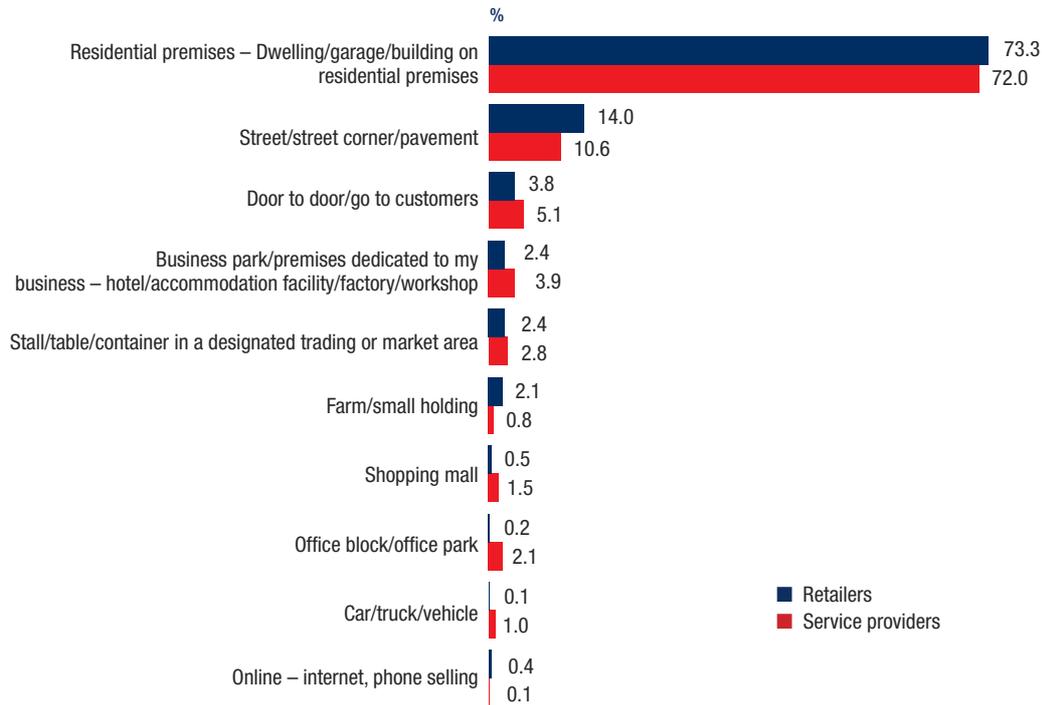
- “the business is too small to register” – 49.4% of owners of unregistered businesses;
- “don’t know how to register” – 18.0% of owners of unregistered businesses;
- “don’t have money to register the business” – 17.8% of owners of unregistered businesses;
- “it is too complicated” to register the business – 8.8% of owners of unregistered businesses.

3.2.3 Operating location

Most small business owners (7 in 10) in South Africa operate their businesses from residential premises (Figure 5). While there were no significant differences between retail businesses and service-providing businesses in terms of the locations from which they operate, service providing businesses were slightly more likely to operate from business parks, shopping malls and/or office blocks than retail businesses, whilst retail businesses on the other hand were slightly more likely to operate from street corners or pavements than service providing businesses.

Owners with registered businesses were more likely to operate from business parks, shopping malls and/or office blocks than owners with unregistered businesses, whilst those with unregistered businesses were significantly more likely to be operating from street corners or pavements than those with registered businesses.

Figure 5. Locations from which small businesses in South Africa operate



3.2.4 The Business Sophistication Measure

The data from the 2006 pilot survey of small businesses in Gauteng was used to create a Business Sophistication Measure (BSM). The BSM aims at segmenting small businesses along a “business sophistication continuum” – from informal street vendors to more sophisticated businesses.

The 2006 BSM was refined using the South African Small Business Survey 2010 data. Questions included in the 2010 segmentation model were similar to those used in 2006, together with a number of new questions. At the base of this methodology was identification of core questions relating to what the businesses had and did, rather than questions that related to a business owner’s perceptions, attitudes, opinions and/or concerns about the business:

- Business registration
- Compliance with VAT, income tax, UIF, PAYE, etc
- Ownership structure
- Customer base
- Business premises
- Access to facilities (water, electricity, sanitation, etc)
- Business equipment (fax, computer, cell phone, etc)
- Some money management variables
 - Record keeping
 - Usage of financial services
- Credit
- Insurance

The 2010 BSM segmented small businesses in South Africa into eight sophistication segments, the main sophistication characteristics of which are summarised in Table 3.

Table 3. Description of businesses in BSM segments

	BSM1	BSM2	BSM3	BSM4
Number of businesses	1,116,447	1,121,429	1,111,089	555,876
Registration	1%	3%	6%	13%
Compliance	None	1% VAT	1% VAT	3% VAT; 1% income tax; 1% return on earnings
Ownership	2% with partners (no contract)	11% with partners (no contract)	11% with partners (no contract)	18% with partners (2% with written contract)
Customers	99% private	3% other small businesses; 1% government	4% other small businesses; 1% larger businesses	5% other small businesses; 1% larger businesses; 1% government
Premises	65% residential; 28% street/market stall	73% residential; 16% street/market stall	77% residential; 16% street/market stall	74% residential; 13% street/market stall
Electricity	30%	58%	67%	69%
Toilet facilities	27% outside	37% outside 8% inside	41% outside 25% inside	38% outside 27% inside
Running water	24% outside 3% inside	42% outside 17% inside	47% outside 34% inside 10% hot	45% outside 44% inside 15% hot
Access to kitchen	2%	22%	23%	31%
Access to storage facilities	1%	1%	8%	22%
Cell phones	27%	46%	61%	65%
Landline			5%	3%
Company car			3%	4%
Security system				
Computers				
Internet/email				
Fax/Photostat facilities				
Credit card machine				

Table 3. Description of businesses in BSM segments

	BSM5	BSM6	BSM7	BSM8
Number of businesses	557,651	562,526	275,872	278,878
Registration	19%	54%	74%	90%
Compliance	6%VAT; 1% income tax; 1% UIF;	13% VAT; 15% income tax; 3% UIF; 4% PAYE; 1% return on earnings	33% VAT; 37% income tax; 18% UIF; 20% PAYE; 6% return on earnings 1% SETA and skills development	64% VAT; 73% income tax; 51% UIF; 56% PAYE; 25% return on earnings 20% SETA and skills development
Ownership	12% with partners (2% with written contract)	16% with partners (4% with written contract)	24% with partners (17% with written contract)	31% with partners (20% with written contract)
Customers	13% other small businesses; 3% larger businesses	15% other small businesses; 4% larger businesses; 3% government	31% other small businesses; 11% larger businesses; 7% government	46% other small businesses; 28% larger businesses; 13% government
Premises	78% residential; 13% street/market stall; 3% business park/factory/ office block/mall	83% residential; 8% street/market stall; 7% business park/factory/ office block/mall	72% residential; 6% street/market stall; 15% business park/factory/ office block/mall	60% residential; 3% street/market stall; 31% business park/factory/ office block/mall
Electricity	79%	90%	91%	96%
Toilet facilities	45% outside 29% inside	53% outside 58% inside	49% outside 70% inside	43% outside 91% inside
Running water	58% outside 52% inside 19% hot	61% outside 70% inside 30% hot	67% outside 81% inside 60% hot	67% outside 96% inside 80% hot
Access to kitchen	32%	41%	61%	77%
Access to storage facilities	16%	28%	50%	65%
Cell phones	76%	87%	92%	82%
Landline	6%	12%	28%	75%
Company car	5%	15%	26%	44%
Security system	4%	10%	45%	68%
Computers		9%	36%	78%
Internet/email		1%	10%	58%
Fax/Photostat facilities		4%	10%	69%
Credit card machine				13%

Table 4. BSM distribution per province

BSM	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
1	19.6%	23.5%	8.8%	28.3%	29.2%	26.5%	18.9%	27.0%	7.6%
2	24.1%	24.9%	14.9%	22.9%	31.4%	20.5%	18.7%	10.7%	19.5%
3	22.0%	17.2%	16.9%	24.6%	15.8%	18.5%	20.5%	22.1%	21.6%
4	13.6%	7.8%	12.0%	5.8%	13.9%	10.1%	8.1%	6.1%	8.6%
5	11.1%	9.4%	12.1%	6.9%	4.3%	5.8%	8.5%	15.8%	9.8%
6	5.3%	10.7%	14.6%	5.5%	3.5%	11.0%	9.7%	14.1%	14.2%
7	2.3%	3.6%	9.0%	4.0%	0.7%	5.0%	7.6%	3.0%	8.4%
8	2.0%	3.0%	11.8%	2.0%	1.1%	2.5%	8.0%	1.3%	10.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

From table 4 it is clear that:

- The probability for BSM 1 type small businesses was significantly lower in Gauteng and Western Cape than in other provinces;
- The probability for BSM 7 and BSM 8 type small businesses was significantly higher in Gauteng, the Western Cape and the Northern Cape than in other provinces:
 - In Gauteng, BSM 7 businesses were most likely to be retailers who buy and sell without adding any value or businesses rendering skilled services such as plumbing, hairdressing, etc.; BSM 8 businesses were most likely to be service rendering businesses – businesses rendering skilled services and businesses rendering professional services;
 - In the Western Cape, both BSM 7 and 8 businesses were most likely to be businesses rendering skilled services such as plumbing, hairdressing, etc., while other services such as gardening services, transport services, etc. were more likely to be rendered by BSM 7 businesses;
 - In the Northern Cape, BSM 7 businesses were most likely to be retailers who buy and sell without adding any value, whilst BSM 8 businesses were most likely to be businesses selling agricultural produce
- The probability for BSM 5,6,7, and 8 type small businesses is significantly lower in Limpopo than in any of the other provinces.

Figure 6 and Table 5 describe the nature of small businesses per BSM segment.

Figure 6. Nature of small businesses per BSM segment

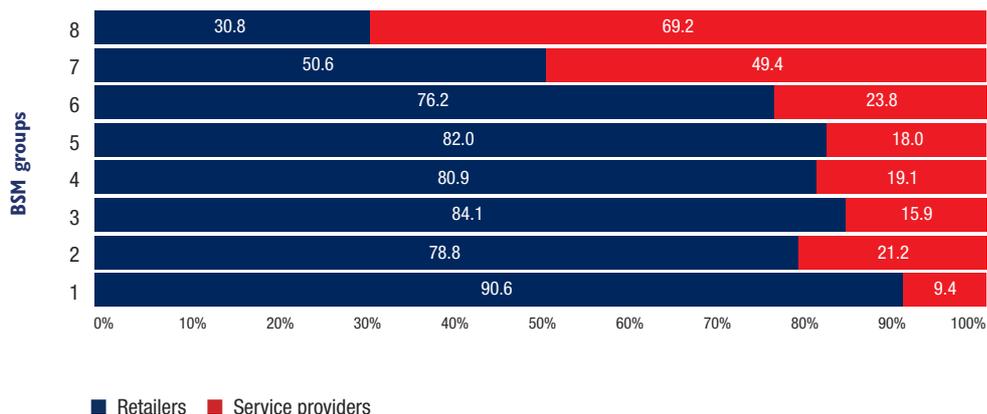


Table 5. Nature of retail and service provider businesses per BSM segment

Nature of the business		BSM segment							
		1	2	3	4	5	6	7	8
Retailers	Sell something in the same form it was bought	62%	62%	64%	64%	69%	55%	62%	31%
	Buy something to sell but add value	14%	14%	15%	14%	11%	13%	10%	20%
	Make something and sell	7%	5%	8%	4%	5%	5%	7%	29%
	Collect from nature and sell	3%	2%	1%	2%	1%	1%	3%	4%
	Obtain something for free and sell	1%	0%	0%	1%	1%	2%	1%	3%
	Rear livestock/poultry and sell	5%	5%	3%	3%	1%	3%	4%	3%
	Sell by-products of animals	1%	4%	2%	5%	5%	20%	9%	1%
	Grow something and sell	8%	8%	7%	7%	7%	2%	4%	9%
Service providers	Render a professional service	–	–	–	1%	1%	6%	8%	27%
	Render a skilled service	71%	79%	77%	72%	57%	51%	46%	39%
	Render building/construction services	5%	5%	1%	2%	5%	2%	10%	8%
	Render tourism-related services	–	–	0%	1%	0%	1%	3%	14%
	Render other services	25%	17%	21%	24%	36%	38%	33%	12%

In summary, the findings in Figure 6 and Table 5 indicated that:

- The probability of service-providing small businesses increased significantly in BSMs 7 and 8;
- The distribution of different types of retail businesses across BSM segments did not differ significantly with the exception of:
 - BSM 6 – where the probability of businesses selling by-product of animals was significantly higher than in other BSM segments and the probability of a retail business selling products without adding value was lower than in other BSM segments;
 - BSM 8 – where the probability of manufacturing businesses (making something and selling it), as well as the probability of retail businesses adding value to their products before selling, were significantly higher than in other BSM segments.
- In terms of the distribution of different types of service providing businesses across BSM segments:
 - Businesses rendering professional services were only prevalent in the upper BSM segments – the likelihood of these businesses increased from 1% in BSM 4 to 27% in BSM 8;
 - The likelihood of businesses rendering skilled services (such as plumbing, hairdressing, etc) decreased in the upper BSM segments;
 - Businesses rendering construction/building services were most prevalent in BSM 7 and 8;
 - Businesses rendering tourism related services were most prevalent in BSM 8.

3.2.5 Size² of small businesses in South Africa

Figure 7 summarises the findings of the South African Small Business Survey 2010 results with regards to the size of small businesses in South Africa:

- Micro enterprises – small businesses with less than five employees:
 - 67% of small businesses did not create any employment opportunities other than for the business owner;
 - 27% of small businesses created between one and four employment opportunities in addition to the business owner;
 - Businesses with less than five employees represented 94% of small businesses in South Africa creating 7,935,972 employment opportunities:
 - 5,274,735 business owners;
 - 2,664,237 additional opportunities.
- 6% of small businesses had five or more employees – creating 3,666,320 employment opportunities:
 - 305,032 business owners;
 - 3,361,288 additional opportunities.
- Small businesses in South Africa created 11.605 million employment opportunities in 2010.

2 'Size' refers to the number of employment opportunities in a business

Figure 7. Size of small businesses in South Africa

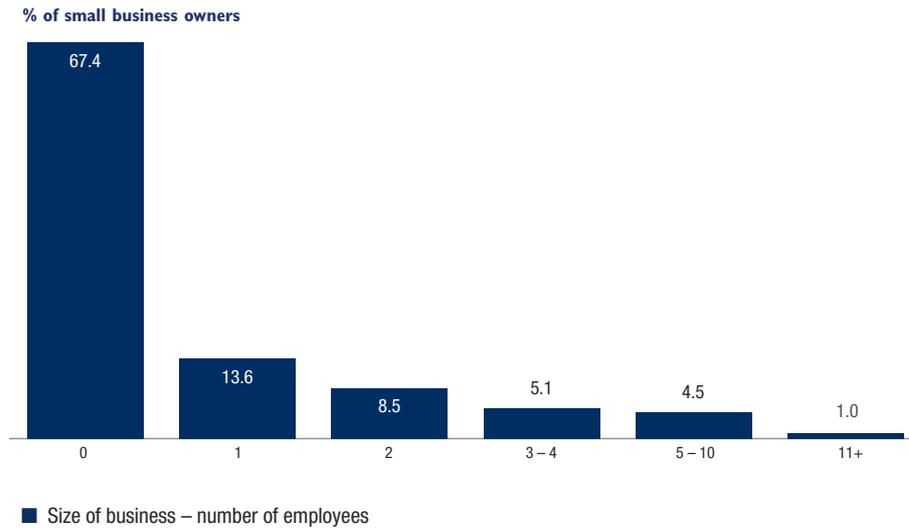


Table 6. Business size and employment opportunities per province

Business size	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
0 employees	76.0%	76.8%	52.9%	76.4%	77.2%	64.1%	79.6%	65.4%	57.9%
1 employee	13.6%	7.7%	19.0%	13.3%	15.0%	15.5%	4.9%	6.0%	16.5%
2 employees	4.6%	3.2%	13.0%	3.4%	4.2%	13.2%	5.2%	12.5%	12.4%
3 – 4 employees	3.3%	8.3%	7.9%	3.1%	2.6%	4.0%	3.8%	3.6%	7.4%
5 – 10 employees	1.7%	3.5%	5.1%	3.6%	0.6%	2.7%	3.3%	11.9%	4.5%
More than 10 employees	0.8%	0.5%	2.1%	0.2%	0.4%	0.6%	3.2%	0.6%	1.2%
Total	100.0%								
Employment opportunities	1.315 million	.773 million	3.691 million	1.235 million	.877 million	.735 million	.388 million	1.631 million	.962 million

Table 7. Business size and employment opportunities per BSM segment

Business size	BSM segment							
	1	2	3	4	5	6	7	8
0 employees	92.9%	82.5%	75.9%	71.2%	47.3%	32.5%	26.9%	13.3%
1 employee	6.2%	12.2%	14.6%	13.1%	17.0%	24.6%	18.3%	12.7%
2 employees	0.7%	2.8%	6.0%	8.9%	26.0%	13.7%	15.3%	18.5%
3 – 4 employees	0.2%	2.0%	3.1%	4.2%	6.9%	12.3%	19.5%	14.2%
5 – 10 employees	0.1%	0.4%	0.4%	2.6%	2.7%	16.8%	15.6%	25.9%
More than 10 employees					0.1%	0.1%	4.3%	15.4%
Total	100.0%							
	1.212 million	1.421 million	1.557 million	.925 million	1.176 million	1.673 million	1.139 million	2.503 million

Table 8. Business size and employment opportunities per type of business

Business size	Retail businesses	Service providers
0 employees	72.4%	49.0%
1 employee	12.7%	17.1%
2 employees	7.6%	11.7%
3 – 4 employees	3.3%	11.8%
5 – 10 employees	3.7%	7.3%
More than 10 employees	0.4%	3.2%
Total	100.0%	100.0%
Employment opportunities	7.672 million	3.933 million

In summary, from the findings summarised in table 6-8:

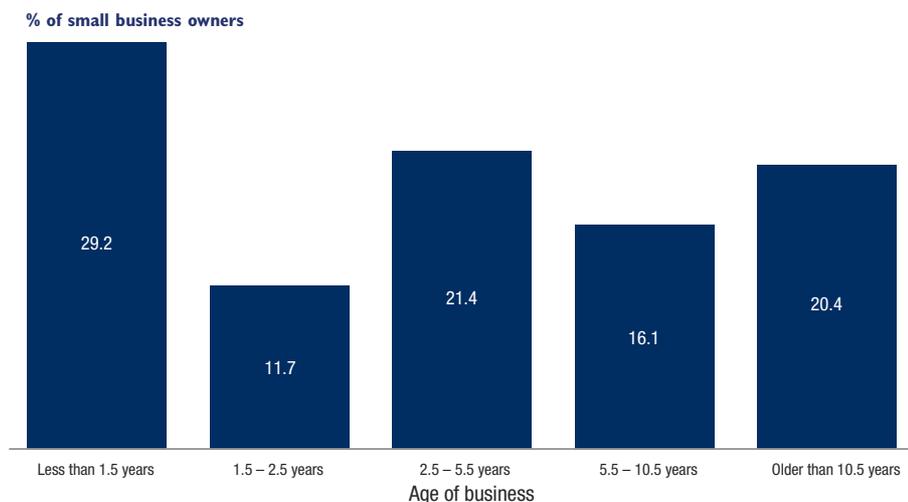
- Small businesses in Gauteng and the Western Cape tended to be larger than small businesses in other provinces;
 - In terms of the small business sector contributing to job creation in South Africa, its contribution was most significant in Gauteng (3.4 million employment opportunities).
- As the size of the business was taken into account in developing the BSM segmentation model, the size of small businesses increased significantly across BSM segments – businesses in the upper BSM segments being more likely to have more employees;
 - BSM 8 businesses created 2.5 million employment opportunities in 2010.
- Service providing businesses tended to be larger than retail businesses – i.e. individual service providing businesses were more likely to create employment opportunities than retail businesses.

3.2.6 Age of the business

The findings summarised by Figure 8 indicate that during 2010:

- almost half (40.9% or 2.3 million) of the businesses in the small business sector of South Africa were in their start-up phase – having been established in the period 2008-2010;
- one in five (21.4% or 1.2 million), having been in operation for between 2.5 and 5.5 years, have demonstrated the ability to survive the challenges associated with starting a business (we call this the 'growth phase'); whilst
- 36.5% (2 million) were 'established' – having been in operation for more than 5.5 years.

Figure 8. Age distribution of small businesses in South Africa



Figures 9-12 explore the relationship between the business cycle and the nature of the business, the location from which the business operated, business registration, and the level of sophistication of the business. These findings indicated that:

- Almost half (43%) of retail businesses were in the start-up phase; service providing businesses were more likely than retailers to be in a growth phase;
- Start-up businesses were most likely to be in BSM 1-3 whilst growing and established businesses were more likely to be in higher BSM levels; established businesses were most likely to be in BSM 6-8;
- Irrespective of the business stage most small businesses operated from residential premises. Established businesses were least likely to operate from street corners/or pavements and most likely to operate from formal premises such as a shopping mall, office park or dedicated premises;
- There was a positive correlation between the business stage and business registration – growing and established businesses were more likely to be registered with CIPRO.

A possible explanation might lie in the macroeconomic climate in South Africa in 2008. With the tough economic environment, the easiest, quickest and cheapest business to get into, in order to generate income (be it income for those who had lost their jobs or for those in need of extra income), would have been one of a retail nature. This might explain the high proportion of retail businesses in the start-up phase at the time of the survey.

Figure 9. Relationship between the nature of the business and the business stage

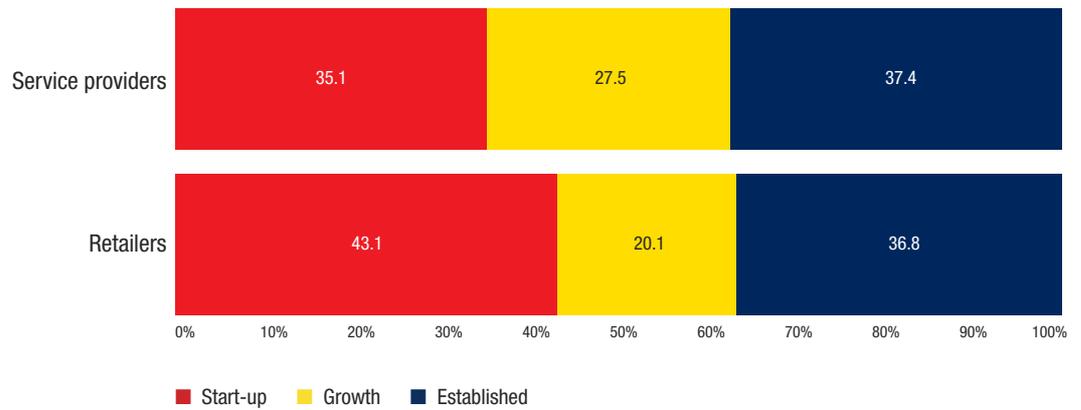


Figure 10. Relationship between the business stage and the level of sophistication of the business

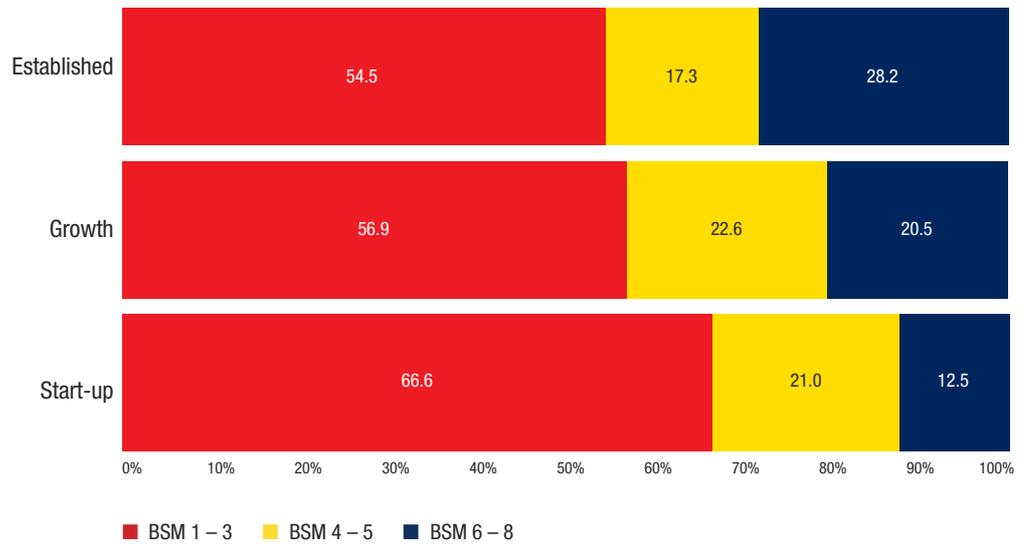


Figure 11. Relationship between the business stage and location from which the business operated (main locations only)

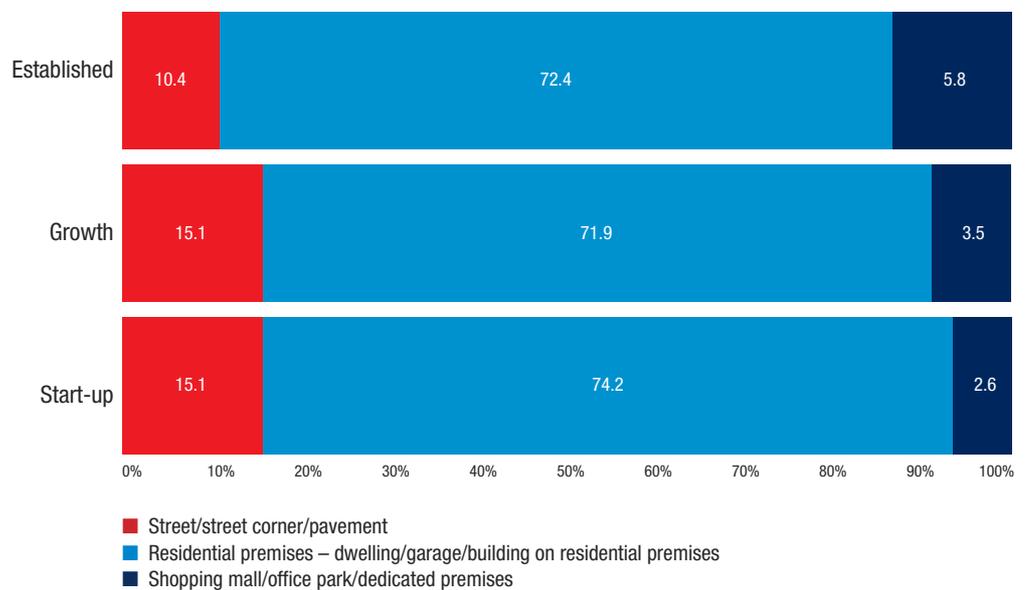
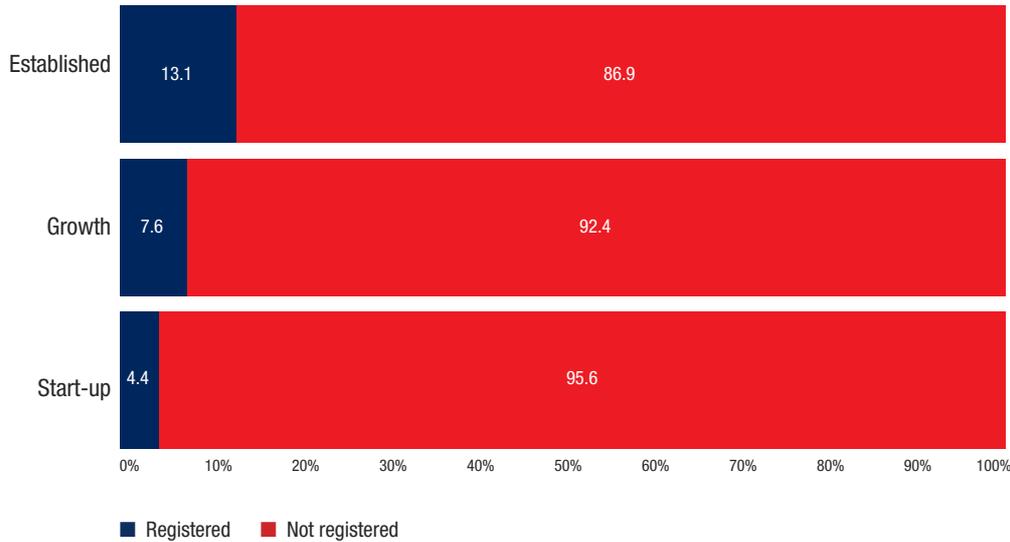


Figure 12. Relationship between the business stage and business registration with CIPRO



3.3 Profile of the business owners

3.3.1 Demographics

Figures 13-16 give an overview of the demographics of the small business owner in South Africa:

- Small business owners were most likely to be heads of households (one in two) or partners of heads of households (one in three) – the business therefore likely to have been an important source of income for the household;
- The average age of a small business owner in South Africa was 41 years – the age range covered by the FinScope South Africa Small Business Survey 2010 being between 16 and 94 years. A further look at the incidence of small business owners per age group revealed that individuals in the age group 35-59 years were most likely to be small business owners:
 - 1 in 14 individuals in the 16-24 year age group were small business owners;
 - 1 in 7 individuals in the 25-34 year age group were small business owners;
 - 1 in 3 individuals in the 35-44 year age group were small business owners;
 - 1 in 4 individuals in the 45-59 year age group were small business owners;
 - 1 in 7 individuals in the 60+ year age group were small business owners.
- Small business owners were more likely to be female (58% of small business owners) than male (42%). In terms of the population 16 years or older, one in seven males were small business owners vs. one in five females;
- 84% (4,7 million) of small business owners were black.

Figure 13. Position of the small business owner in the household

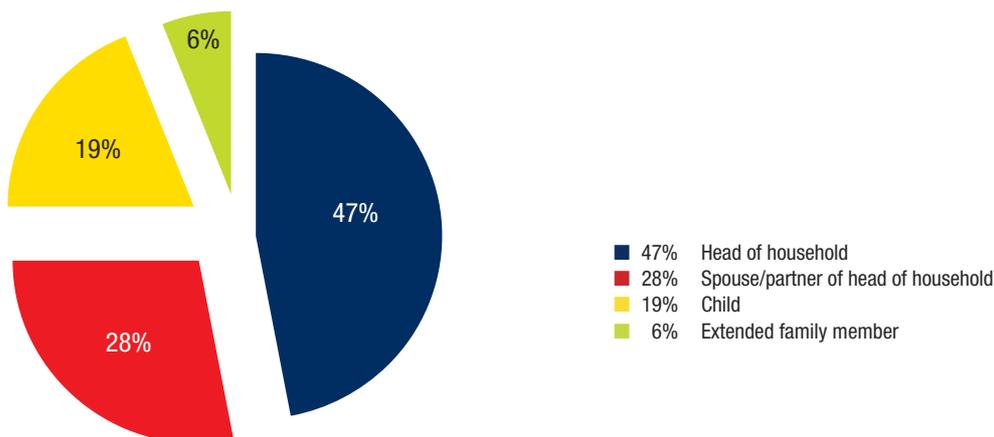


Figure 14. Age distribution of small business owners

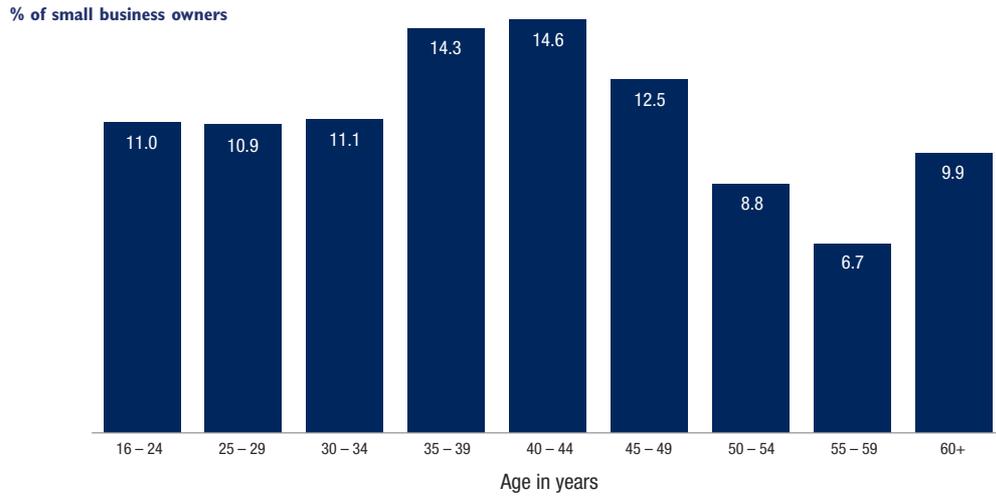


Figure 15. Gender distribution of small business owners

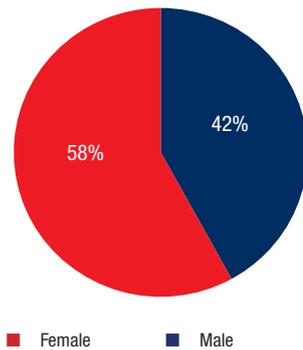
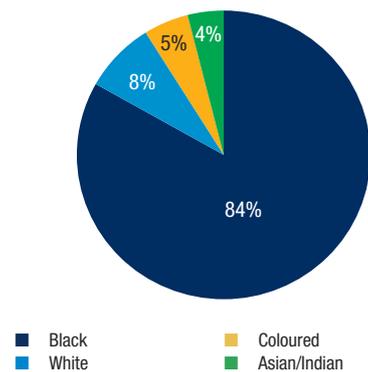


Figure 16. Race distribution of small business owners



3.4 Capacity to grow

For every stakeholder with an interest in the small business sector, their particular objectives – whatever they may be – will be achieved through the growth of these small businesses. In order to gain the biggest return on investment in the development of small businesses, it is important that this investment be made in those with a high likelihood of growing. Therefore, investment needs to be in businesses (and business owners) with clear indications of capacity to grow.

In terms of the capacity of small businesses to grow in South Africa, the following factors were considered:

- The profile of the business owner
 - Level of education
 - Skills training
 - Motivation and attitude towards the business
 - Attitude towards money and money management
- Sources of information, advice and support
- Obstacles to growth

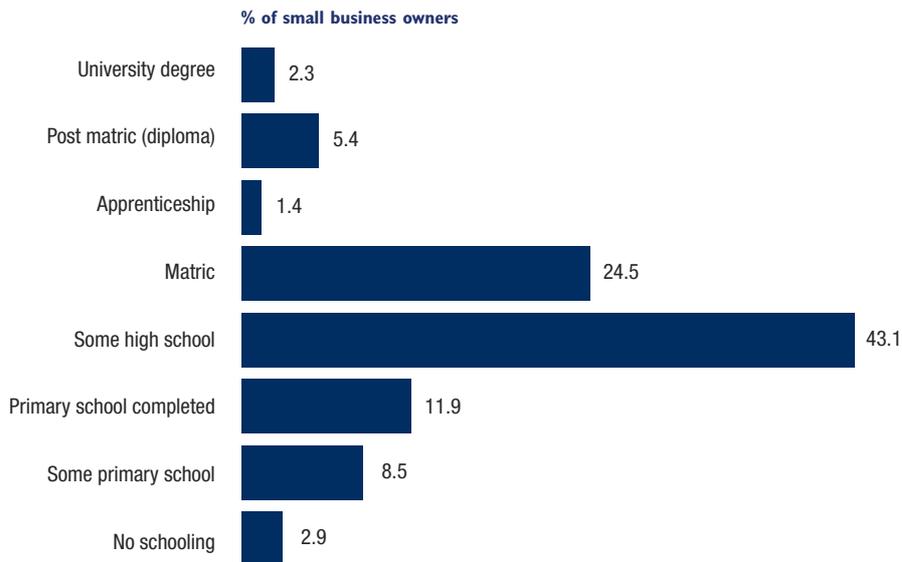


3.4.1 Profile of the small business owner

3.4.1.1 Level of education

In terms of the highest level of education of small business owners in South Africa, survey findings indicated that 23% had achieved, at most, primary school level; 69% secondary school level or apprenticeship training; whilst 8% had achieved post-matric education.

Figure 17. Level of education distribution of small business owners



A further look at the education levels of small business owners revealed that:

- Small business owners in Gauteng had the highest likelihood of having post-matric qualifications;
- Whilst small business owners in the North West had the lowest likelihood of having achieved at most primary school levels of education, those in Limpopo, Northern Cape and KwaZulu-Natal had the highest likelihood of having achieved at most primary school levels of education;
- Small business owners of retail businesses tended to have lower levels of education than small business owners of service providing businesses (one in five of whom had post-matric qualifications against 1 in 20 amongst owners of retail businesses);
- There is a significant positive correlation between the highest levels of education of the business owner and the level of sophistication of the small business.

Figure 18. Level of education of small business owners per province

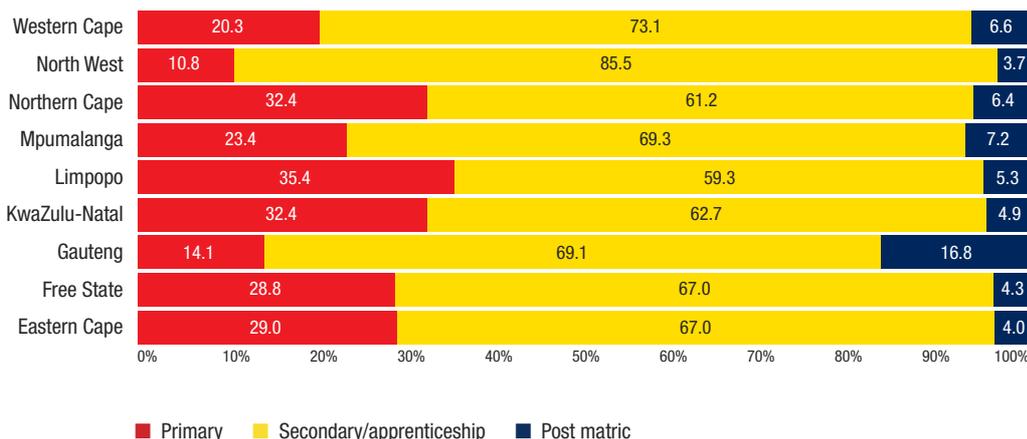


Figure 19. Level of education of small business owners per type of business

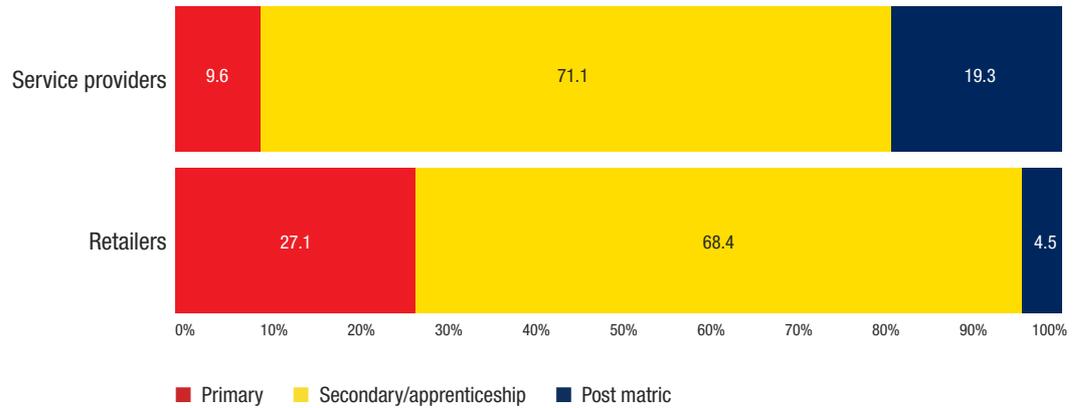
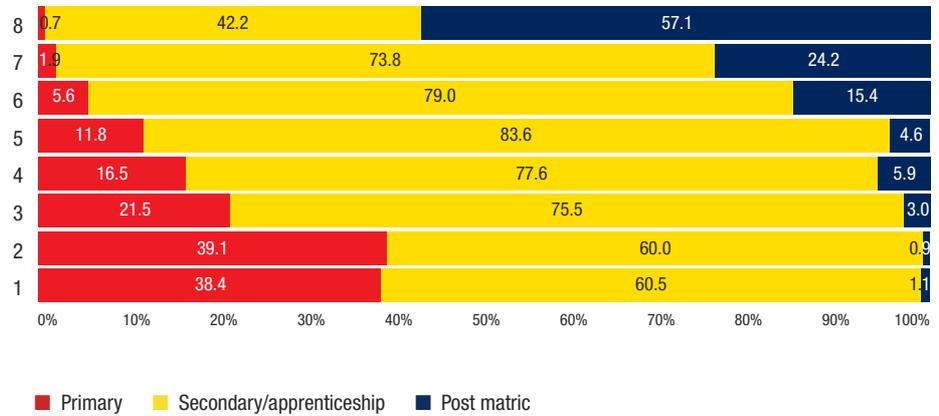


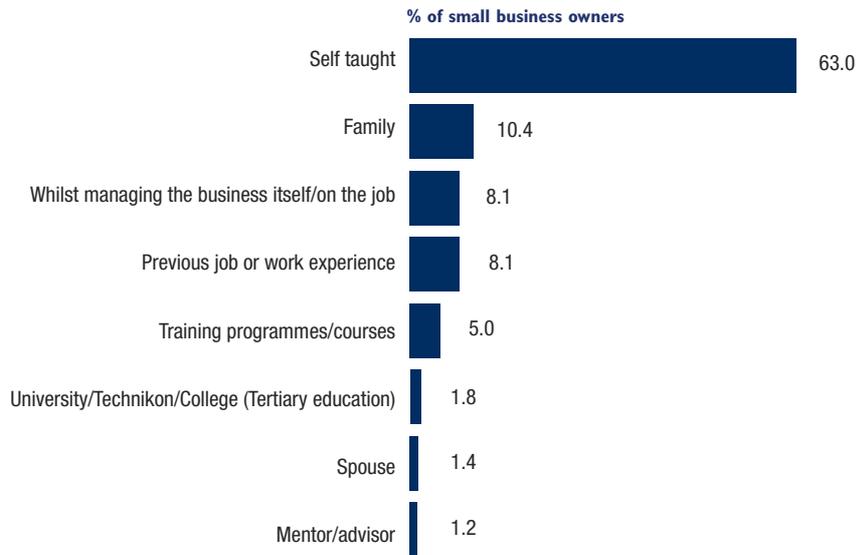
Figure 20. Level of education of small business owners per BSM



3.4.1.2 Skills training and company resources

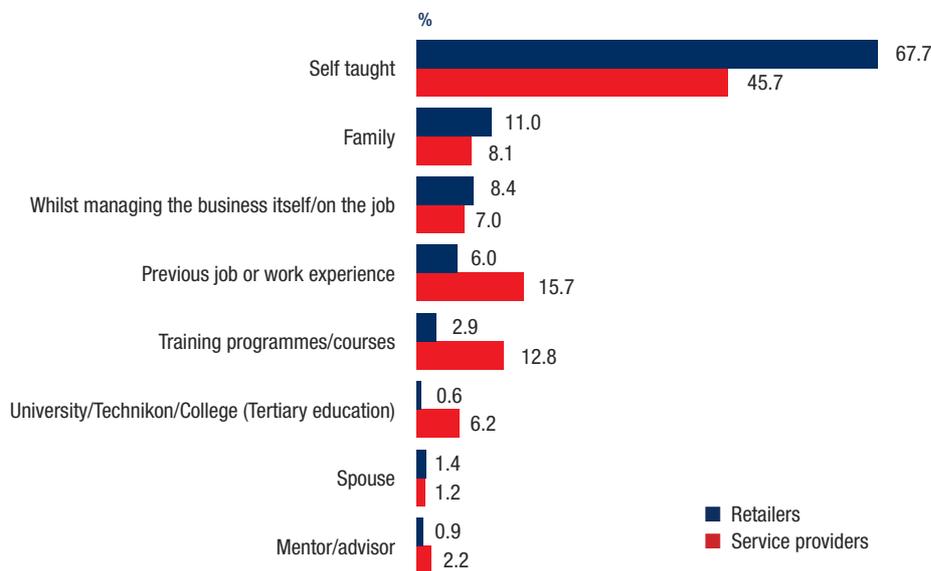
More than 70% (Figure 21) of small business owners in South Africa claimed that they acquired the skills they needed for their businesses through teaching themselves or whilst managing the business.

Figure 21. Skills training resources of small business owners in South Africa



Retailers were more likely to have taught themselves the skills needed for their business whilst service providing small business owners were more likely to rely on previous job experience, training programmes and courses and tertiary education.

Figure 22. Skills training resources for small business owners in South Africa per type of business



With regard to BSM segments, small business owners in BSM 1-5 mostly taught themselves the skills needed for their businesses although there was a secondary reliance on family members. Although business skills were still regarded as self-taught by business owners in the upper BSMs (BSM 6-8) the role of previous job experience, training programmes and courses and tertiary education became more significant.

In terms of company resources such as IT, accounting, secretarial, public relations, marketing and sales, customer management, debt management, recruitment, human resource management and legal services, more than 90% of small business owners indicated that they did not use or have such services.

3.4.1.3 Motivation to start the business and attitude towards the business

In terms of their motivation for starting their businesses, the majority of small business owners responded that they could not find employment (41%) or they lost their jobs (17%) and therefore started the business out of necessity to earn money to provide for their families. The following responses were, however, regarded as indicative of a more 'entrepreneurial orientation':

- "saw an opportunity";
- "interested in a particular product or service";
- "wanted to/it makes me happy/was interested/wanted to use my skills";
- "to be my own boss/have my own business".

Almost half (44.8%) of small business owners in South Africa started their businesses for one or more of the reasons above. This kind of motivation was more prevalent amongst:

- Business owners with higher levels of education or who had some form of apprenticeship training (Figure 23);
- More service providers (64%) than retailers (39%), and specifically amongst:
 - Providers of professional services such as medical or legal services – 86.9%
 - Providers of tourism-related services – 80.0%
 - Business owners rendering construction or building services - 79.5%
- Business owners from the upper BSM segments – BSM 6-8 (Figure 24).

Figure 23. Relationship between the level of education of business owners in South Africa and the prevalence of 'entrepreneurial orientation'

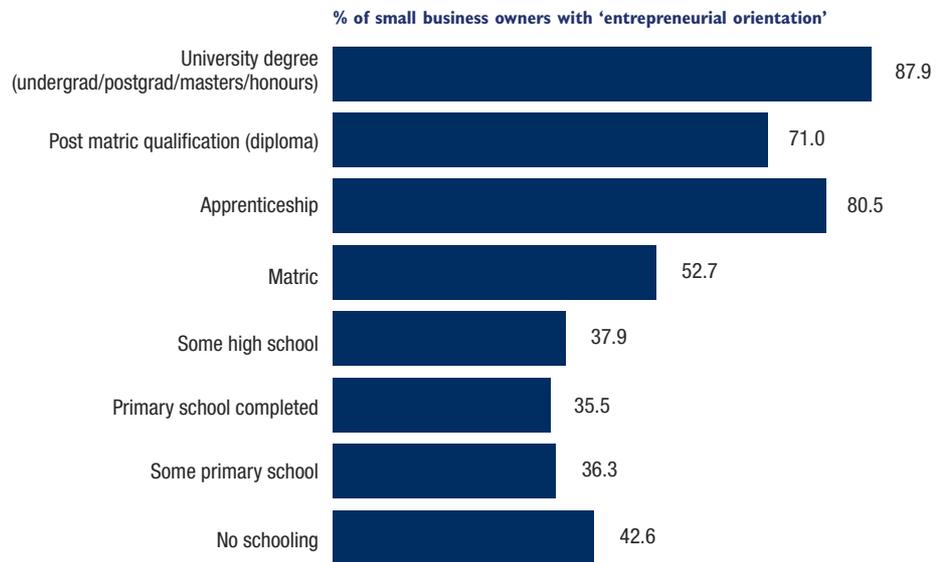
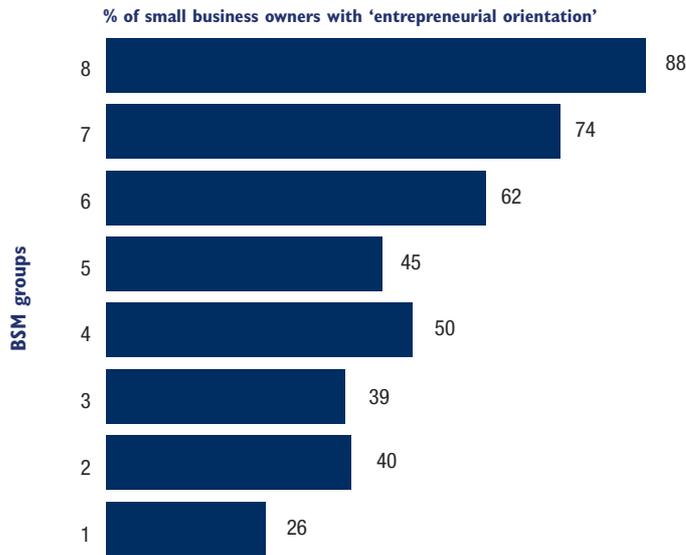


Figure 24. Relationship between business sophistication levels (BSM segments) and the prevalence of ‘entrepreneurial orientation’



In addition to start-up motivation, which indicated that almost half of small business owners in South Africa could be regarded as ‘entrepreneurial’ in terms of their motivation for starting their businesses, the percentages of small business owners agreeing to statements that would substantiate an ‘entrepreneurial orientation’ is depicted by Figure 25.

These findings strongly suggested that an ‘entrepreneurial’ attitude was indeed present amongst at least half of the population of small business owners in South Africa.

Figure 25. ‘Entrepreneurial’ attitudes amongst small business owners



3.4.1.4 Time spent in the business

The number of hours spent by small business owners working on their businesses varied between 14 and 105 hours per week with an average of 63.8 hours (i.e. on average 9 hours per day, 7 days per week):

- The average number of hours spent working in the business differed significantly between retailers and service providers – retailers spending on average 66.3 hours per week on the business whilst service providers spent on average 54.5 hours per week on the business:
 - Retail business owners spending most hours per week working on the business included:
 - Those who bought stock without adding value – 70.6 hours per week;
 - Those who sold by-products of livestock/poultry – 69.7 hours per week;
 - Those who grew/produced something to sell – 62.8 hours per week.
 - Service providing business owners spending most hours per week in the business were those rendering tourism related services – 62.6 hours per week;
- The number of hours spent working in the business was neither significantly affected by the stage the business was in (i.e. whether the business was in start-up, growth or established phase), nor by the size of the business:
 - The number of hours spent by the business owner working in the business per week did drop significantly for business owners in BSM 7 (56.5 hours) and BSM 8 (52.4).

3.4.1.5 Financial literacy and money management

In terms of financial literacy of the business owner and the way money is managed within the business, the following variables were considered:

- Financial record keeping;
- Offering credit to customers and management of outstanding debt.

One in two (46.1%) small business owners indicated that they kept financial records for their businesses and 81% of these business owners did not get assistance to do so – it was done by themselves.

- Service providers (53.8%) were significantly more likely to keep financial records for their businesses than retailers (44%)
 - In terms of service providers, those who rendered professional services (96%) and those who rendered tourism-related services (93%) were significantly more likely than other service providers to keep financial records.
- As “financial record keeping” was one of the variables used for developing the BSM segmentation model, there is a significant positive correlation between financial record keeping and BSM segments (Figure 26);
- Small business owners who keep financial records are most likely to keep record of (Figure 27):
 - Total sales – 64% of those who keep records;
 - Stock – 53% of those who keep records;
 - Cost of sales – 51% of those who keep records.

Figure 26. Financial record keeping per BSM segment

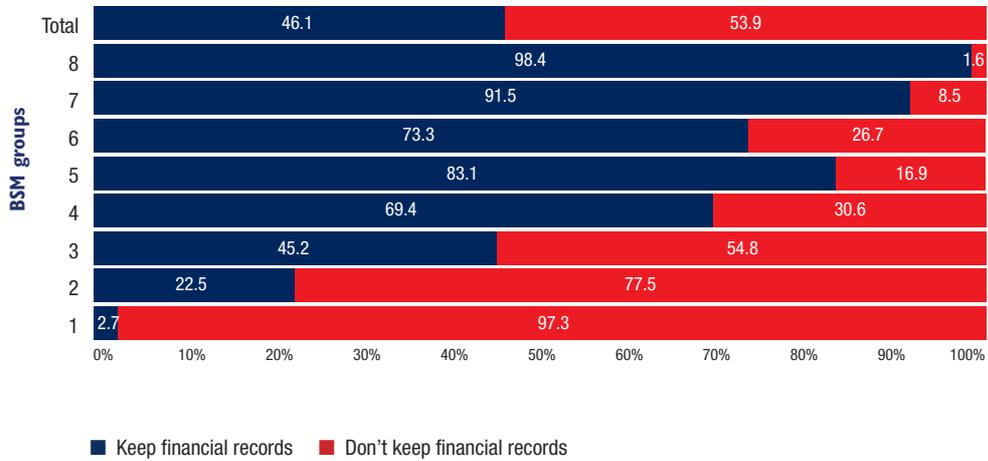
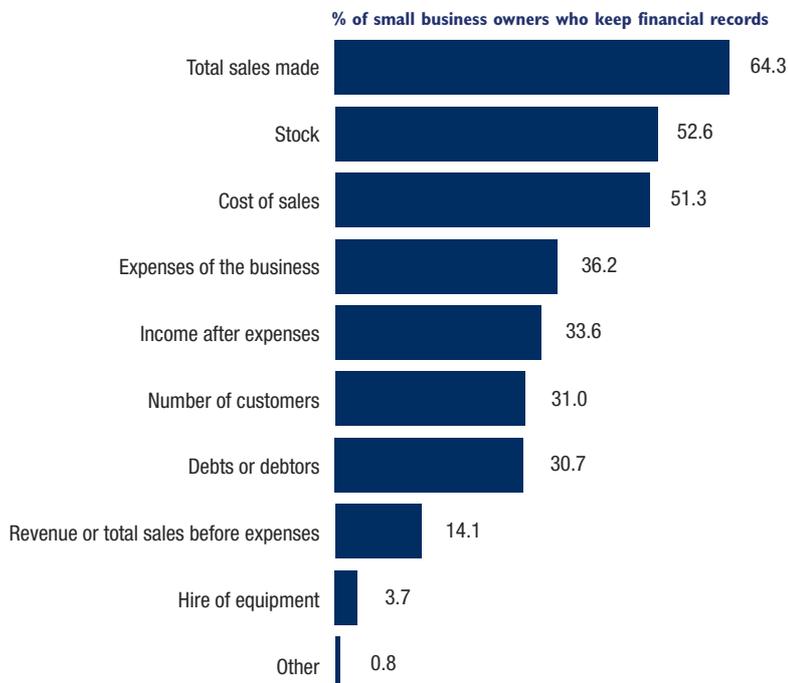


Figure 27. Financial records kept by small business owners



Two in five small business owners offered credit to their customers (Figure 28).

- Retailers (42%) were significantly more likely to offer credit to their customers than service providers (33%):
 - Retailers who reared and sold livestock were significantly more likely than other retailers to offer credit – 62% of these business owners offered credit;
 - Service providers offering building and construction services were the most likely to offer credit (54%) whilst tourism related service providers were the most unlikely (15%).
- Although there is a positive correlation between BSM segments and the percentage of business owners offering credit in the lower BSM segments (1-5), this is not true for the higher BSMs. Business owners in BSM 6-8 were less likely to offer credit to their customers (Figure 29). This however might be related to the interpretation of what constitutes credit. As these businesses were more likely to be service providers, delayed payment might just be regarded as payment terms rather than offering credit;
- Seven in ten business owners who did offer credit kept written records of payments owing and detailed the payment period, whilst only 18% had a policy for handling late or non-payments and only 14% charged interest on credit sales and late payments (Figure 30).

Figure 28. Percentage of small business owners offering credit to their customers

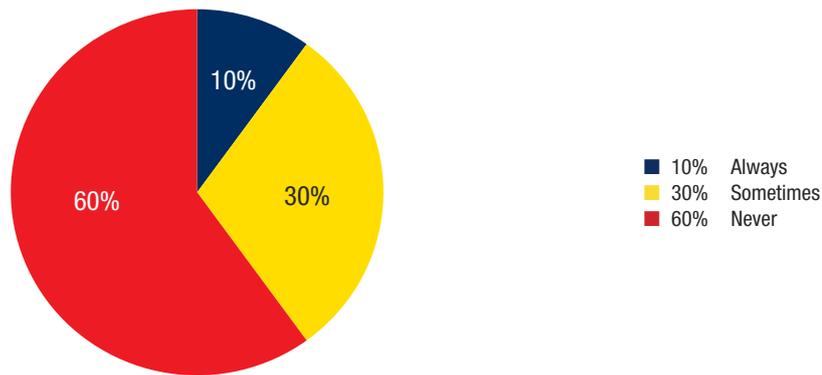


Figure 29. Percentage of small business owners offering credit to their customers per BSM segment

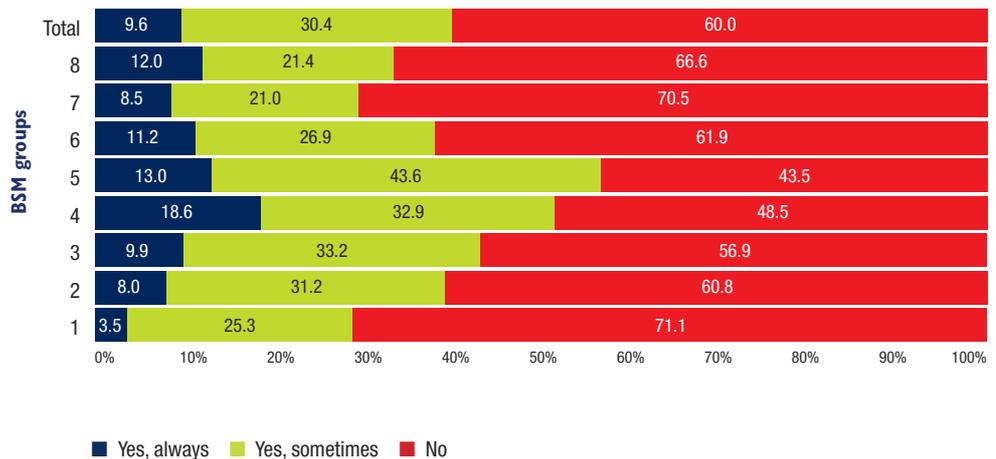
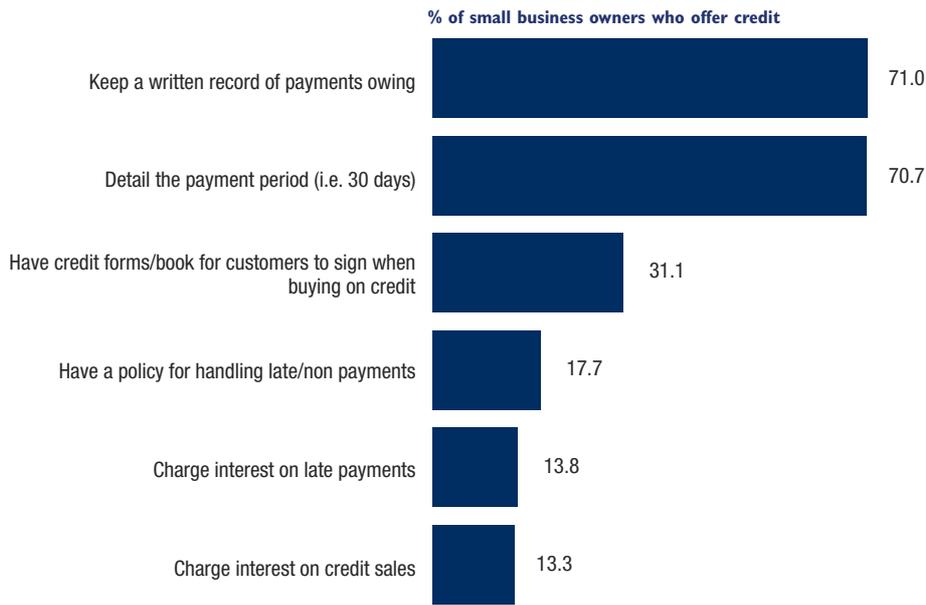


Figure 30. Credit record keeping habits of small business owners who offer credit



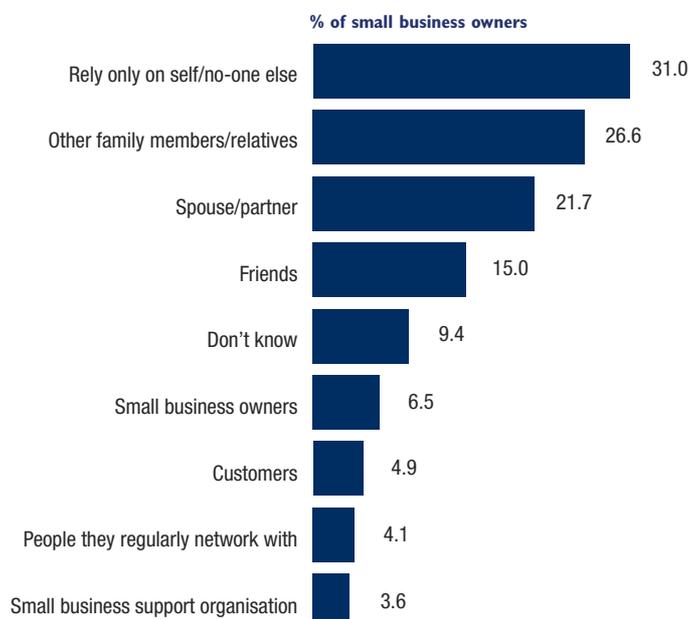
3.4.2 Sources of information, advice and support, networks

3.4.2.1 Sources of information

Most small business owners (31%), relied on themselves rather than turning to other sources for business information. Those that did turn to other sources for information were most likely to have turned to family and friends (Figure 31).

- 9% of small business owners did not know where to turn to for business information
- 7% turned to other small business owners
- 4% turned to small business support organisations

Figure 31. Main sources of business information for small business owners

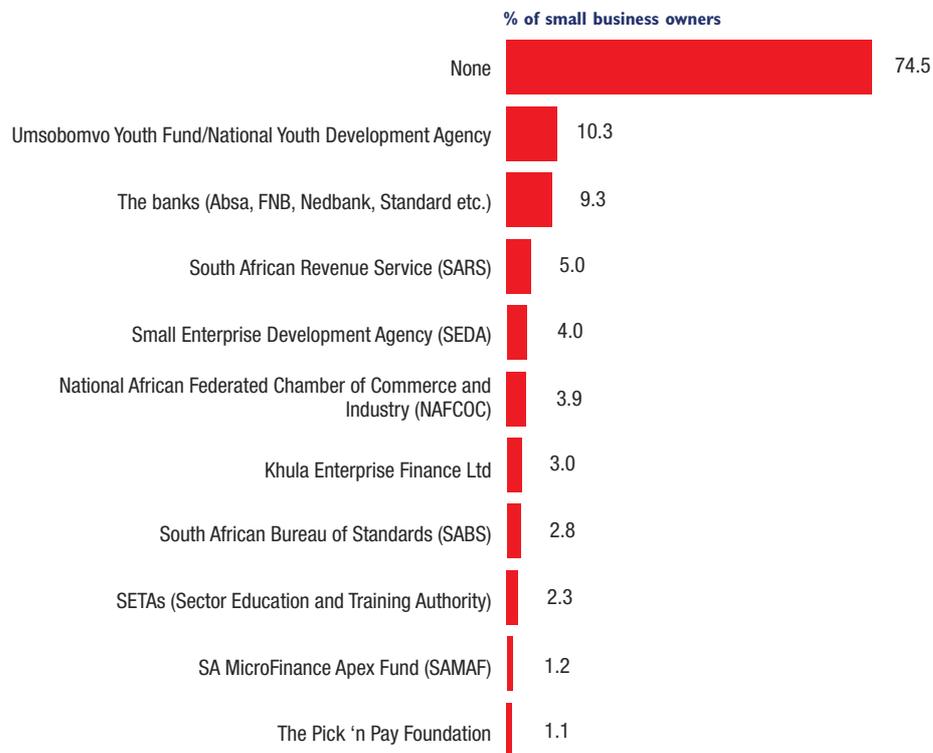


3.4.2.2 Advice and support

Most small business owners (75%) were not aware of any organisations that give support and advice to small business owners.

- There was higher awareness in the following provinces however:
 - Northern Cape – where 58% of small business owners claimed no awareness;
 - Western Cape - where 61% of small business owners claimed no awareness;
 - Gauteng - where 62% of small business owners claimed no awareness;
 - Free State - where 64% of small business owners claimed no awareness.
- Service providers (65% claimed no awareness) were more likely to be aware of support organisations than retailers (75% claimed no awareness).
- Business owners in the upper BSM segments (6-8) were significantly more likely to be aware of support organisations than their counterparts in lower BSM segments:
 - BSM 8 - 30% of small business owners claimed no awareness;
 - BSM 7 - 43% of small business owners claimed no awareness;
 - BSM 6 - 62% of small business owners claimed no awareness.

Figure 32. Awareness of organisations that gave support and advice to small business owners



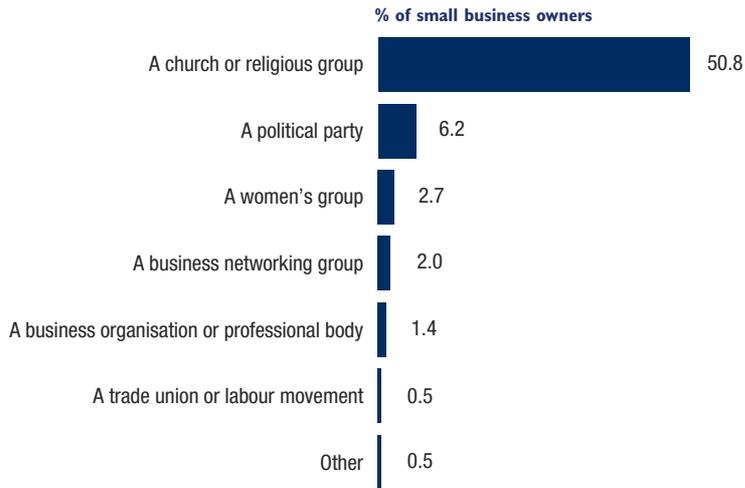
Small business owners who did make use of support organisations were most likely to get support and advice relating to starting up a small business. The sample of small business owners who did make use of these organisations is, however, too small for further analysis in this regard.

3.4.2.3 Networks

Although 54% of small business owners belonged to groups/organisations (Figure 33) only 2% belonged to business networking groups and 1% to a business organisation or professional body:

- 84% of business owners who belonged to business networking groups were of the opinion that membership had advantages for their businesses whilst 73% who belonged to a business organisation or a professional body felt that membership had advantages;
- 56% of business owners who belonged to a women's group claimed to benefit from being a member.

Figure 33. Group/organisational membership

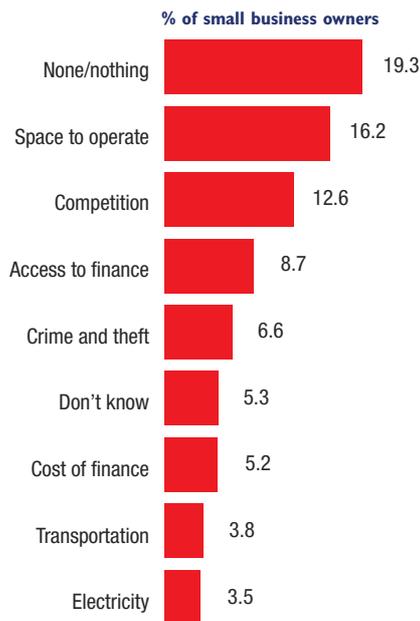


3.4.3 Obstacles to growth

When requested to identify the single most significant obstacle to growth of their businesses, one in five small business owners responded that there were no obstacles to growing their businesses.

The diversity of small businesses however most likely explains the wide-ranging nature of obstacles to growth cited by business owners who did identify obstacles to growth – space to operate and competition being the most mentioned (Figure 34).

Figure 34. Obstacles to growth



When exploring obstacles to growth within provinces it was found that:

- Space to operate was more likely to be identified as an obstacle in Gauteng than in other provinces;
- Crime and theft was more likely to be identified as an obstacle in Limpopo than in other provinces;
- Access to finance was more likely to be identified as an obstacle in Mpumalanga and Northern Cape than in other provinces;
- Access to electricity was significantly more likely to be identified as an obstacle in North West than in other provinces whilst space to operate was less likely to be identified than in other provinces.

In terms of the nature of small businesses, it was clear that retailers were more likely to identify competition as an obstacle to growth than service providers, whilst for service providers on the other hand, space to operate was more significant as an obstacle than for retailers.

3.5 Risk profile

The main consideration for credit providers in determining who to grant credit to, and how much, is the risk of repayment. For a business looking for a reliable supplier or partner, it is the risk of the potential partner or supplier going under that will be a major consideration. The determination of risk profiles, particularly for credit providers, tends to be very narrowly focused. In this section, we take a broader view to determining risk profiles.

In terms of the risk profile of small businesses in South Africa, we consider the following factors:

- Income sustainability
 - Customer base
 - Consistency and variability of income
 - Alternative sources of income
- Attitudes to risk
- Perceived risks to income
- Risk mitigation

3.5.1 Income sustainability

3.5.1.1 Customer base

Almost all small business owners (99%, Figure 35) reported that they have private individuals as customers. Only 2% claimed to have the government as a customer; whilst for 9% their customers included other small businesses, and for 3% their customers included larger businesses:

- There was a significant difference between retail and service providing businesses in the sense that service providers were more likely to serve other small businesses, larger businesses and government (Figure 36):
 - Retail businesses most likely to serve larger businesses were those who collected something from nature to sell (12% claiming to serve larger businesses). In terms of service providers, those rendering tourism-related services (33%), as well as building and construction businesses (22%) were most likely to serve larger businesses;
 - Small businesses most likely to serve government or government institutions were those rendering tourism-related services (19%).
- With regard to BSM segments (Figure 37), serving the government became a likelihood from BSM 6 upwards, whilst serving larger businesses became a likelihood from BSM 5 upwards.

Figure 35. Type of customers of small businesses in South Africa

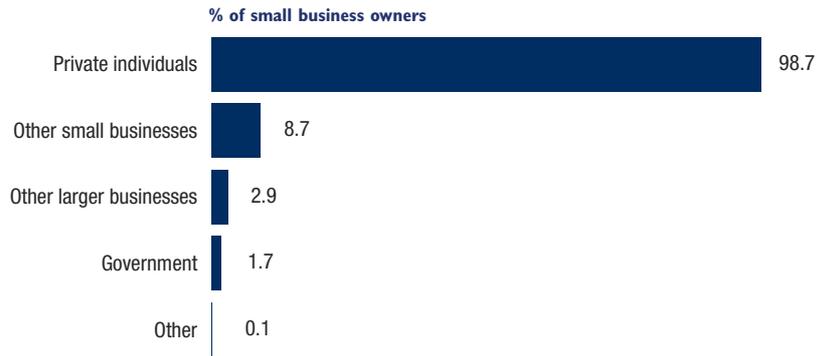


Figure 36. Type of customers of small businesses in South Africa per type of business

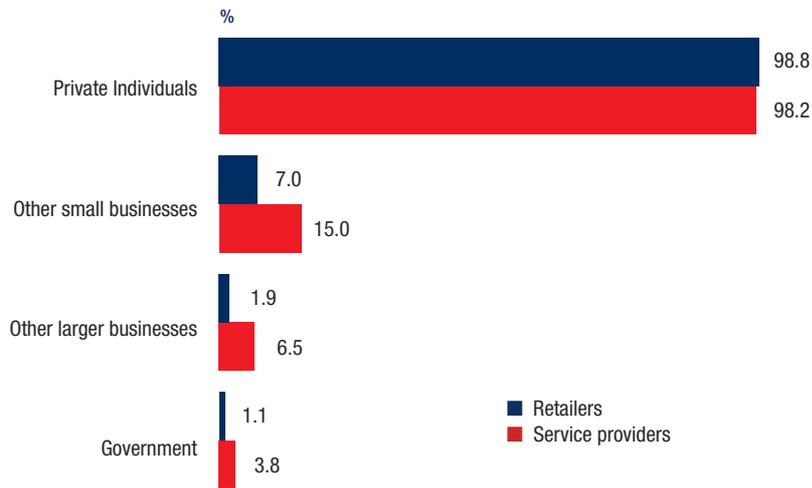
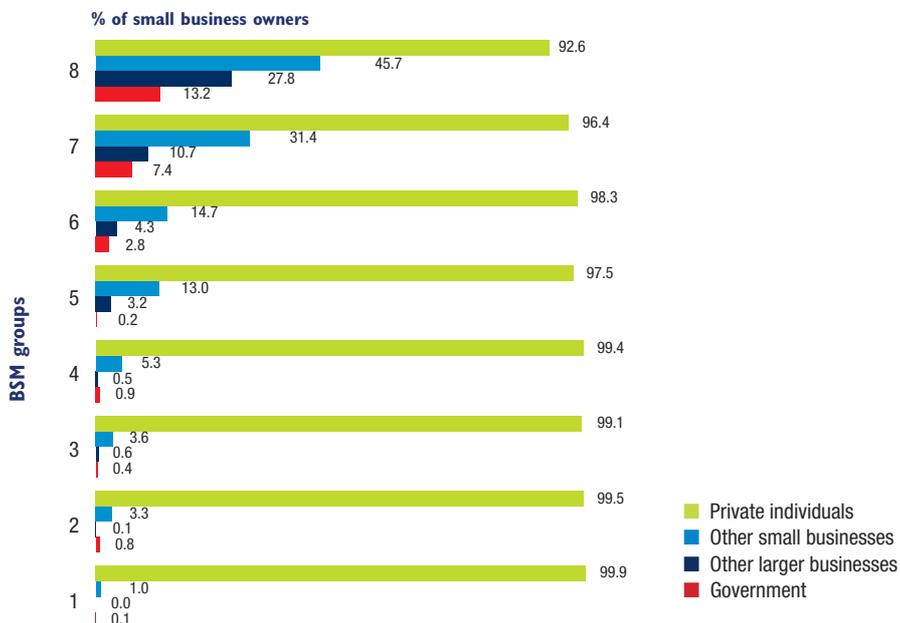


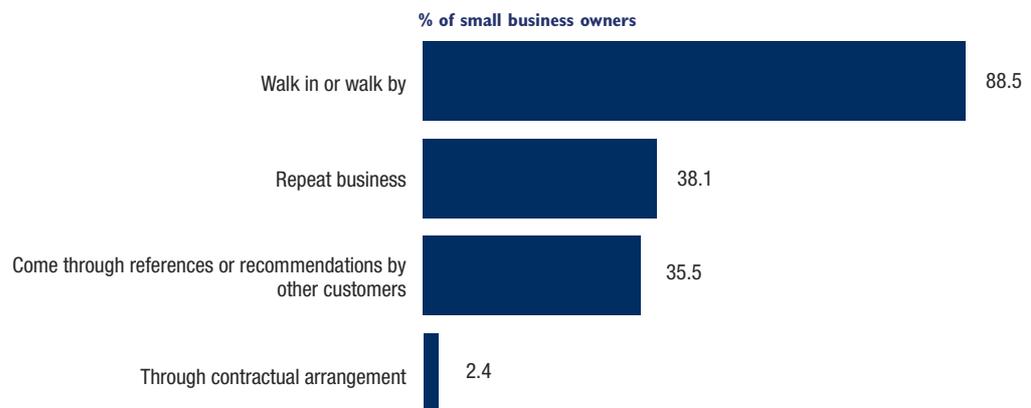
Figure 37. Type of customers of small businesses in South Africa per BSM segment



In terms of customer acquisition, most small business owners' (89%, Figure 38) customers comprised private individuals walking into the business; two in five claimed that they had repeat customers (i.e. customers returning) and one in three claimed that their customers were referred to them by other satisfied clients:

- Service providers were less likely to rely on walk-in customers (78%) than retailers (91%) and more likely to have repeat customers (47% vs. 36% of retailers), as well as have customers referred to them (54% vs. 30% of retailers):
 - Building and construction businesses were least likely (44%) to rely on walk-in customers whilst those rendering professional services were also significantly less likely than other businesses to rely on walk-in customers (66%);
 - Building and construction businesses and tourism-related businesses were most likely to have repeat customers (three in five);
 - Tourism-related businesses and those rendering professional services were most likely to have referred customers (four in five).
- There was significantly less reliance on walk-in customers by small business owners in BSM 7 and 8 than those in lower BSM segments although the reliance on walk-in customers seemed to start decreasing from BSM 6:
 - Business owners in BSM 7 and 8 were the most likely to have customers referred to them (seven in ten) and also most likely to have repeat customers (seven in ten).

Figure 38. Customer acquisition



3.5.1.2 Consistency and variability of income

Most small business owners (93%) reported that their businesses operated all year round. In exploring which month of the year small business owners regarded as the busiest month of the year for their businesses, 49% indicated that they were equally busy all year round and that there was no specific busiest month (Figure 39). December was however identified as the busiest month for 38% of small business owners.

Table 9 explores the busiest time of the year per type of business.

Figure 39. Busiest month of the year

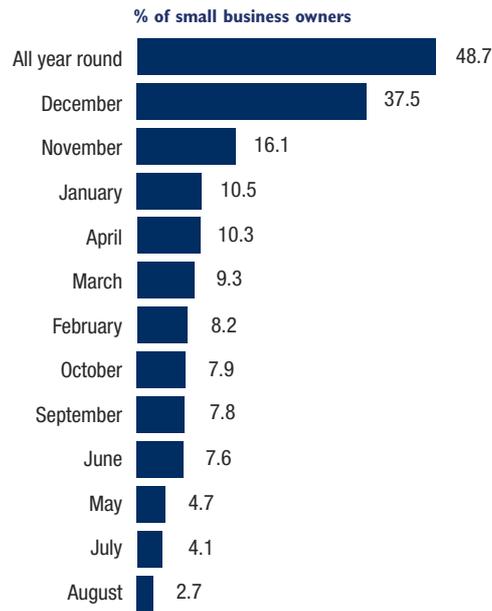


Table 9: Busiest time of the year for small businesses per type of business

Busiest month of the year	Sell something in the same form it was bought	Buy something to sell but add value	Make something and sell	Collect something from nature and sell	Obtain something for free and sell it	Rear and sell livestock/poultry	Sell by-products of animals	Grow something and sell	Professional service	Skilled service	Building/construction services	Tourism-related services	Render other services	Total
All year	46.7%	48.9%	50.6%	34.0%	36.6%	52.9%	67.2%	53.1%	37.3%	49.7%	38.8%	53.6%	52.5%	48.7%
January	10.9%	12.2%	8.8%	15.0%	9.8%	6.9%	5.8%	5.3%	5.0%	10.5%	4.8%	12.5%	16.2%	10.5%
February	8.2%	10.3%	3.9%	13.9%	9.0%	7.5%	7.8%	4.5%	10.6%	6.9%	2.0%	13.4%	14.2%	8.2%
March	9.7%	12.7%	7.7%	4.8%	2.8%	9.1%	5.1%	9.6%	3.2%	8.3%	5.7%	9.1%	9.2%	9.3%
April	11.2%	10.8%	9.2%	6.5%	4.4%	12.8%	8.3%	8.7%	15.0%	7.3%	6.7%	16.4%	10.9%	10.3%
May	3.5%	6.0%	3.7%	12.6%	3.8%	11.1%	5.2%	6.2%	10.7%	3.4%	8.8%	10.8%	6.6%	4.7%
June	5.4%	10.4%	12.5%	46.5%	12.9%	6.4%	5.7%	5.7%	14.7%	7.7%	19.8%	5.0%	6.3%	7.6%
July	3.5%	3.6%	5.0%	22.2%	13.2%	3.4%	2.3%	5.2%	16.6%	2.4%	15.5%	1.5%	2.5%	4.1%
August	2.2%	3.2%	4.1%	10.7%	2.7%	1.5%	0.7%	3.3%	8.9%	1.5%	14.8%	0.5%	3.3%	2.7%
September	7.3%	7.7%	10.4%	1.9%	3.5%	7.9%	4.7%	8.1%	13.9%	6.1%	15.2%	11.1%	14.8%	7.8%
October	8.0%	7.2%	9.5%	2.0%	4.3%	9.4%	1.0%	6.1%	2.5%	8.1%	15.8%	9.5%	13.2%	7.9%
November	17.1%	13.7%	13.7%	13.6%	7.2%	13.3%	4.7%	9.0%	8.0%	19.6%	23.6%	18.0%	23.4%	16.1%
December	41.2%	34.2%	35.7%	21.0%	48.2%	35.2%	22.1%	30.3%	14.6%	40.2%	30.8%	31.4%	35.2%	37.5%

Note: Marked cells indicates the busiest month for a significantly larger proportion of business owners in a specific segment relative to the Total

3.5.2 Alternative sources of income

For 67.2% of small business owners the business was their only source of income.

- Male small business owners were less likely to have alternative sources of income (22.7%) than female business owners (40%);
- Owners of retail businesses were more likely (34.3%) than owners of service providing businesses (27.5%) to have alternative sources of income (Figure 40);
- Individuals who had an entrepreneurial motivation for starting their businesses were more likely (38.8%) than other small business owners (27.9%) to have alternative sources of income rather than relying only on the business for an income.

Figure 40. Percentage of small business owners with alternative sources of income per type of business

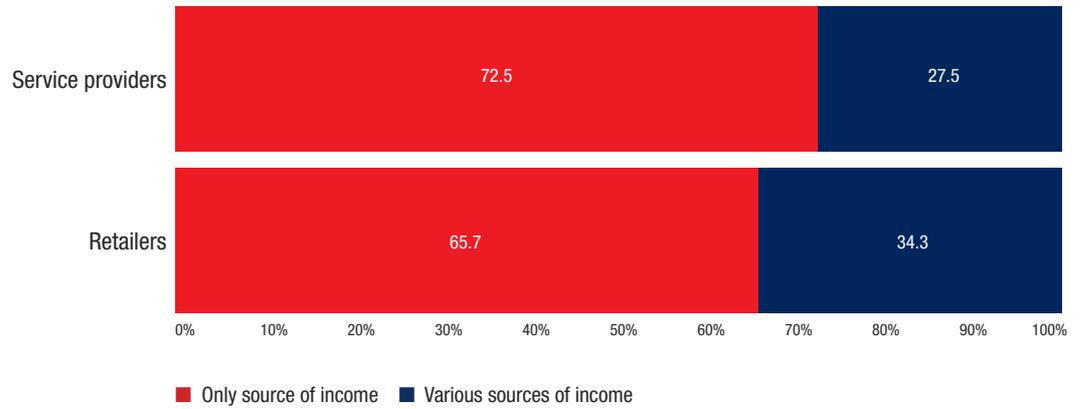
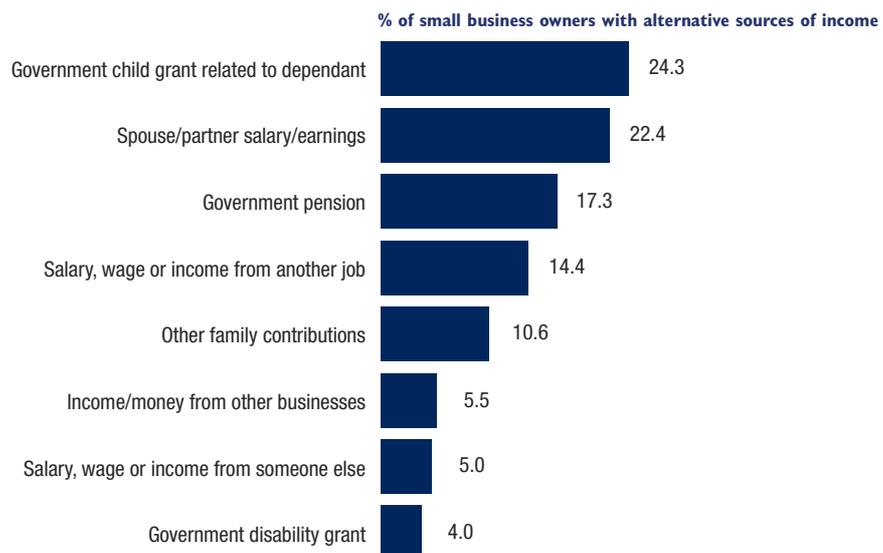


Figure 41 gives an overview of the alternative sources of income for those small business owners who had multiple sources of income, indicating that:

- For one in three (35.6%) of small business owners who had additional sources of income, this source was government support – either in the form of a child or disability grant or a government pension;
- For 14.4% of small business owners who had additional sources of income, this source was a salary from another job.

Figure 41. Alternative sources of income for small business owners with multiple sources of income

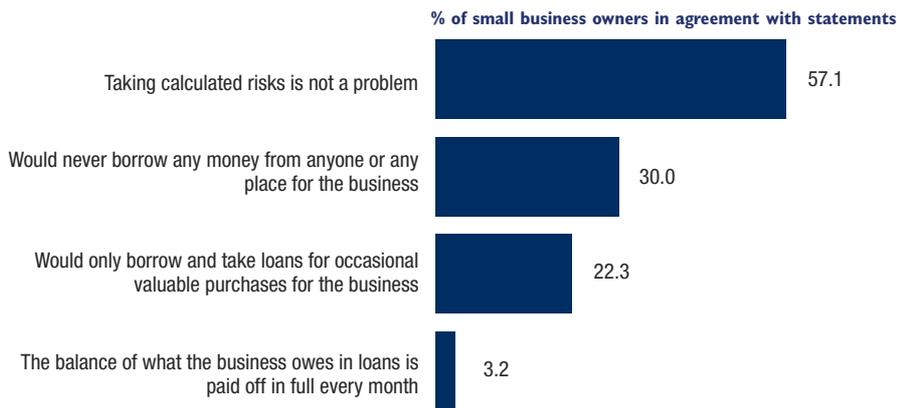


3.5.3 Attitude to risk

More than half of small business owners claimed that taking calculated risks was not a problem for them.

- This proportion increases to almost 7 in 10 for small business owners in the higher BSM segments (BSM 6-8)

Figure 42. Attitude to risk of small business owners



3.5.4 Perceived risks to income

In terms of perceived risks to the operation of the business or the business income, the main risks identified by small business owners are illustrated in Figure 43 indicating business stock, premises and equipment being of main concern to business owners. If the type of business is taken into account however (Figure 44) it is clear that:

- For retail business owners loss of their stock or premises were the most significant risks;
- For service providers loss of equipment was the most significant loss;
- Illness or death of the business owner were regarded as a more significant risk for service providers than for retailers – a likely picture given the inseparable nature of the service to be provided and the person possessing the skills required to perform the service. Unlike a retailer who can easily send someone else to man a store, for example, a hairdresser or a doctor would not be able to do that, as what their customers come to them for is inherent in their persons, and not a product like in the case of a retailer.

Figure 43. Main risks to the operation of the business or the business income

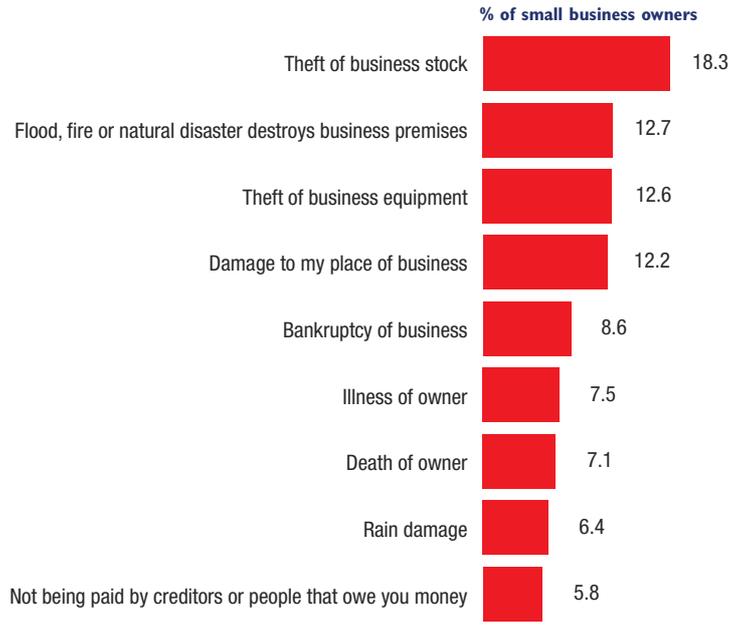
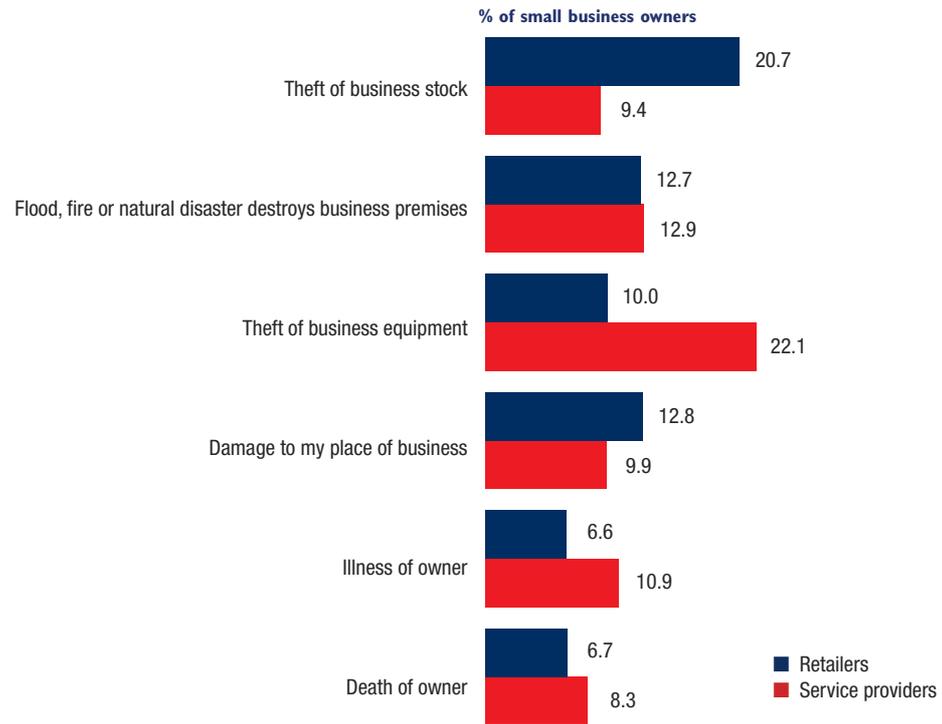


Figure 44. Main risks to the operation of the business or the business income per type of business



In terms of perceived risks to the operation of the business or the business income, the main risks identified by business owners per BSM segment is summarised in table 10. The more sophisticated the business was, the more diverse and significant the risks to the business operation and income became.



Table 10. Main risks to the operation of the business or the business income per BSM segment

Risk	BSM segment								Total
	1	2	3	4	5	6	7	8	
Death of owner	2.9%	6.2%	4.7%	3.5%	6.2%	18.8%	12.5%	16.5%	7.1%
Illness of owner	3.2%	8.3%	7.9%	6.5%	6.3%	8.2%	15.6%	15.2%	7.5%
Damage to my place of business	2.5%	2.3%	15.9%	8.3%	28.3%	23.1%	16.2%	25.3%	12.2%
Theft of business equipment	4.9%	9.1%	9.6%	13.9%	12.7%	18.2%	23.2%	44.4%	12.6%
Flood, fire or natural disaster destroys business premises	8.8%	9.6%	13.5%	9.9%	15.1%	13.7%	16.7%	33.0%	12.7%
Theft of business stock	12.2%	12.7%	16.3%	22.2%	22.7%	34.5%	19.8%	22.1%	18.3%

Note: Marked cells indicate the potential risk having been identified by a significantly larger proportion of business owners in a specific segment compared to the Total

3.5.5 Risk mitigation

In terms of the coping strategies of small business owners of **retail businesses** with regard to main perceived risks to business operation and income, findings summarised in Figures 45 and 46 indicated that:

- Most small business owners (35.3%) had nothing in place to help them cope should they experience theft or loss of their *business stock* and a further 13.8% did not know what they would do should they experience this – almost 1 in 2 therefore would be left extremely vulnerable should this occur;
 - Using savings was the most frequently mentioned coping mechanism for those who did have a coping strategy; less than 2% had insurance in place.
- 22.1% of small business owners did not know how they would cope if they suffered *damage to the premises* from which they operated whilst a further 16.5% indicated that they had nothing in place to help them cope should they experience this – leaving 2 in 5 extremely vulnerable should this occur;
 - Once again using savings was the most frequently mentioned coping mechanism for those who did have a coping strategy; 3.1% had insurance in place indicating that they were more likely to have insurance in place for a risk that entailed larger capital expenditure.

Figure 45. Coping strategies: Retailers – Theft of business stock

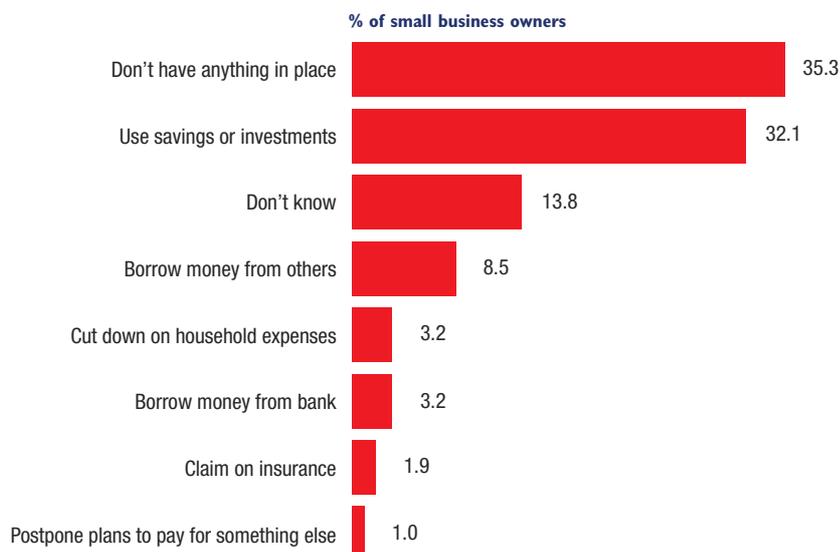
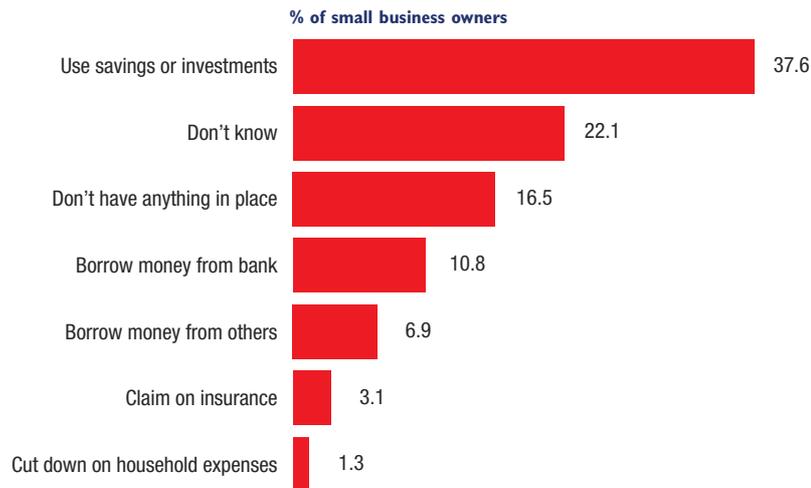


Figure 46. Coping strategies: Retailers – Damage to business premises



Tables 10 and 11 give an overview of coping mechanisms of retailers in terms of their main perceived risks to business operations and income.

Table 11. Coping mechanisms: Retailers per BSM segment – Theft of stock

Coping mechanisms	BSM segment							
	1	2	3	4	5	6	7	8
Apply for government grant	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	2.9%	0.0%
Borrow money from bank	0.2%	0.0%	3.7%	2.6%	10.0%	0.9%	8.6%	3.3%
Borrow money from others	9.1%	14.9%	10.1%	14.3%	6.5%	1.1%	0.5%	0.0%
Cash in other financial instruments e.g. shares	0.0%	0.0%	0.0%	0.0%	1.1%	1.2%	0.9%	0.0%
Claim on insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	9.0%	44.4%
Cut down on household expenses	2.3%	2.5%	3.4%	2.7%	3.6%	3.4%	6.0%	1.0%
Donations	0.0%	0.3%	1.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Don't know	21.6%	14.8%	20.4%	6.9%	9.4%	10.5%	5.3%	0.0%
Don't have anything in place	60.7%	52.1%	33.3%	26.7%	26.0%	16.2%	36.9%	19.7%
Postpone plans to pay for something else	0.2%	0.8%	1.0%	2.0%	0.3%	1.6%	0.4%	2.0%
Use savings or investments	5.0%	13.9%	20.4%	37.8%	38.9%	63.5%	29.5%	28.9%

Note: Marked cells indicates the coping mechanism for a significantly larger proportion of business owners in a specific segment relative to the Total

Table 12. Coping mechanisms: Retailers per BSM segment – Damage to premises

Coping mechanisms	BSM segment							
	1	2	3	4	5	6	7	8
Apply for government grant	0.0%	0.0%	0.3%	3.0%	0.0%	0.0%	4.5%	2.8%
Borrow money from bank	6.3%	4.9%	2.1%	9.7%	23.2%	8.2%	23.2%	6.4%
Borrow money from others	4.9%	7.0%	16.3%	13.9%	0.6%	1.4%	0.4%	0.0%
Cash in other financial instruments e.g. shares	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	1.4%	0.4%
Claim on insurance	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	12.4%	68.7%
Cut down on household expenses	5.7%	0.2%	0.2%	11.8%	0.4%	0.0%	0.0%	0.0%
Donations	1.3%	0.0%	0.0%	1.1%	0.0%	0.9%	1.6%	0.0%
Don't know	16.3%	34.0%	52.6%	19.1%	7.4%	2.2%	8.9%	0.0%
I don't have anything in place	63.7%	41.6%	21.9%	17.7%	5.9%	4.2%	29.5%	2.4%
Other	0.0%	0.0%	0.3%	0.0%	0.0%	1.7%	1.1%	0.0%
Postpone plans to pay for something else	0.0%	0.0%	1.1%	0.0%	0.0%	0.0%	0.7%	0.0%
Use savings or investments	0.3%	11.3%	5.0%	23.9%	62.4%	80.9%	16.5%	19.1%

Note: Marked cells indicates the coping mechanism for a significantly larger proportion of business owners in a specific segment relative to the Total

Interpretation of the summary of findings in Tables 11 and 12 leads to the conclusion that, in terms of coping mechanisms regarding the main risks retail businesses face (theft of stock and damage to the business premises):

- Business owners in BSM 1-3 were most likely not to know what they would do should these risks materialise;
- Business owners in BSM 1-4 were most likely not to have any coping strategy in place;
- Business owners in BSM 1-3 were most likely to borrow from others should these risks realise;
- Business owners in BSM 4-6 were most likely to use their savings to cope;
- Business owners in BSM 7-8 were most likely to have insurance coverage in place.

In terms of the coping strategies of small business owners of **service providing businesses** with regard to main perceived risks to business operation and income, findings summarised by Figures 47 and 48 indicated that service providers were better protected against risk than retailers:

- One in three service providers had insurance in place against the loss of business premises;
- Although one in three did not have a strategy in place to cope relating to the theft of business equipment (had nothing/didn't know how I would cope), service providers seemed more likely than retailers to have savings, shares or other investments that they could fall back on;
- Service providers would consider borrowing money from a bank should they experience loss of equipment and/or loss of their premises – a coping strategy not considered by retailers.

Figure 47. Coping strategies: Service providers – Theft of business equipment

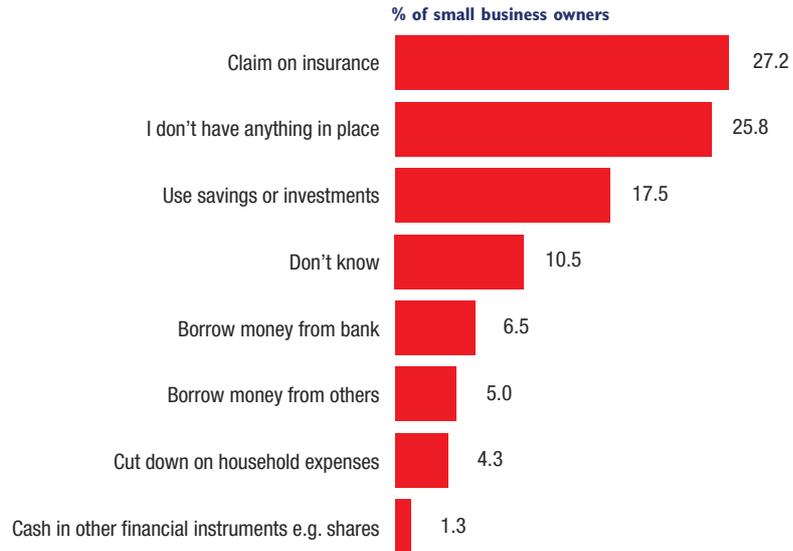
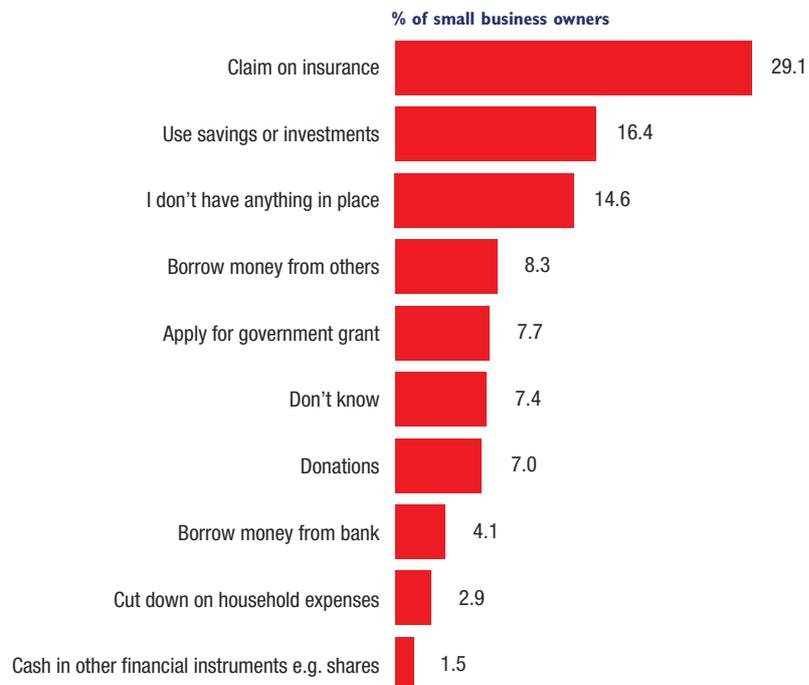


Figure 48. Coping strategies: Service providers – Business premises destroyed



Tables 13 and 14 give an overview of coping mechanisms of service providers in terms of their main perceived risks to business operation and income.

Table 13. Coping mechanisms: Service providers per BSM segment – Theft of business equipment

Coping mechanisms	BSM segment							
	1	2	3	4	5	6	7	8
Apply for government grant	0.0%	0.0%	0.7%	0.0%	0.0%	1.4%	0.0%	0.2%
Borrow money from bank	0.0%	0.0%	0.0%	8.7%	11.5%	2.5%	8.0%	11.2%
Borrow money from others	12.0%	4.1%	8.7%	0.9%	2.3%	19.9%	0.0%	1.0%
Cash in other financial instruments e.g. shares	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%
Claim on insurance	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	49.6%	60.2%
Cut down on household expenses	0.0%	0.0%	3.0%	0.0%	16.2%	17.3%	0.0%	1.9%
Donations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%
Don't know	35.5%	16.5%	30.9%	12.7%	23.7%	8.9%	1.7%	1.8%
I don't have anything in place	52.3%	75.2%	38.3%	53.8%	25.5%	28.0%	2.5%	1.4%
Other	0.0%	0.3%	0.0%	1.6%	0.0%	1.3%	0.0%	1.1%
Postpone plans to pay for something else	0.0%	0.0%	11.4%	0.0%	0.0%	0.0%	0.0%	0.1%
Use savings or investments	0.0%	3.7%	7.1%	22.5%	21.0%	19.4%	34.9%	18.6%

Note: Marked cells indicates the coping mechanism for a significantly larger proportion of business owners in a specific segment relative to the Total

Table 14. Coping mechanisms: Service providers per BSM segment – Premises destroyed

Coping mechanisms	BSM segment							
	1	2	3	4	5	6	7	8
Apply for government grant	96.0%	0.0%	3.2%	14.6%	4.8%	10.0%	0.0%	0.0%
Borrow money from bank	0.0%	0.0%	3.3%	0.0%	0.0%	1.0%	5.9%	7.4%
Borrow money from others	2.6%	12.9%	17.2%	0.0%	0.0%	28.5%	0.4%	1.3%
Cash in other financial instruments e.g. shares	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.8%
Claim on insurance	0.0%	0.0%	0.4%	0.0%	19.9%	5.3%	35.0%	60.6%
Cut down on household expenses	0.0%	0.0%	1.3%	0.0%	0.0%	16.5%	0.0%	0.0%
Donations	0.0%	25.5%	20.0%	31.2%	0.0%	4.3%	0.0%	0.3%
Don't know	0.0%	24.3%	26.2%	11.0%	0.0%	4.5%	1.2%	2.4%
I don't have anything in place	1.7%	23.5%	9.5%	10.3%	61.8%	7.1%	36.0%	10.9%
Other	0.0%	2.3%	1.2%	0.0%	10.8%	0.0%	0.0%	0.0%
Sell assets/dispose of agricultural crop/livestock	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%
Use savings or investments	0.0%	12.2%	18.0%	32.7%	2.4%	22.8%	21.8%	13.2%

Note: Marked cells indicates the coping mechanism for a significantly larger proportion of business owners in a specific segment relative to the Total

Interpretation of the summary of findings in Tables 13 and 14 lead to the conclusion that, in terms of coping strategies regarding the main risks service providers face (theft of business equipment and loss of business premises):

- Business owners in BSM 1-5 were most likely not to have any coping strategy in place;
- Business owners in BSM 4-7 were most likely to use their savings to cope;
- Business owners in BSM 5-6 were most likely to cut down on household expenses in order to cope with the loss of income as a result of the event;
- Business owners in BSM 7-8 were most likely to have insurance coverage in place.

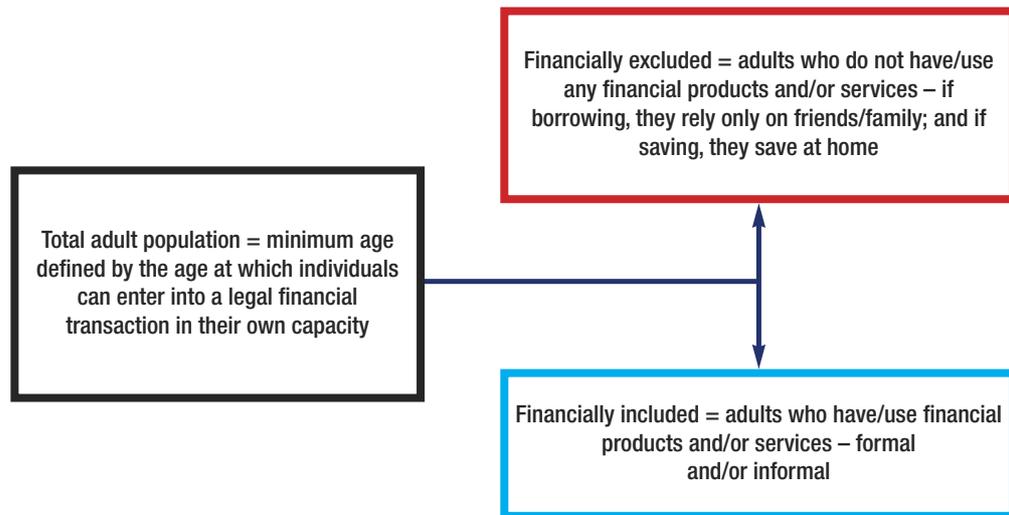
3.6 Financial inclusion

3.6.1 What is financial inclusion?

The concept financial inclusion is core to the FinScope methodology.

Based on financial product usage, the population is firstly segmented into two groups: the 'financially excluded' and the 'financially included':

Figure 49. Understanding financial inclusion: Step 1

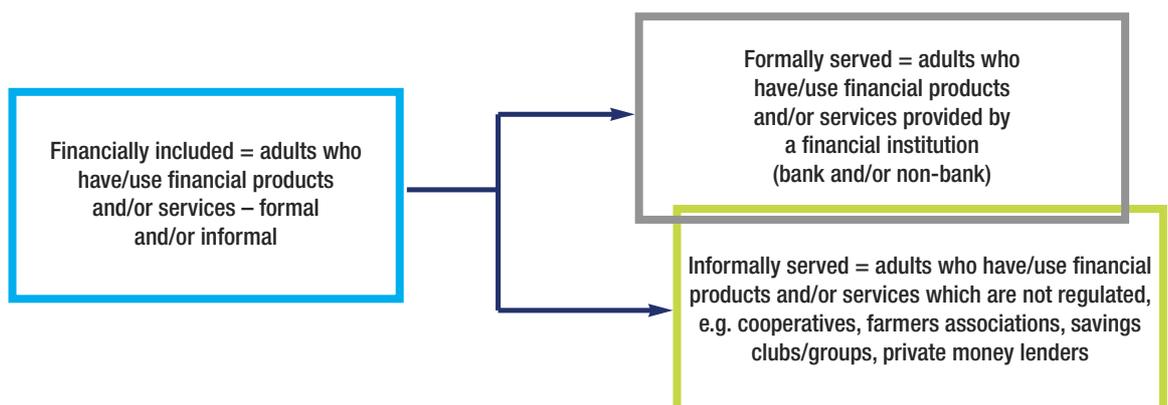


The 'financially excluded' segment therefore refers to individuals who manage their financial lives without the use of any financial products or mechanisms external to their personal relationships.

To further understand financial inclusion the 'financially included' segment of the population is taken through a further step of segmentation. As the 'financially included' segment of the population comprises individuals who have/use formal and/or informal financial products and mechanisms, this second step in the segmentation seeks to identify:

- Those individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions) – the 'formally served' segment of the population;
- Those individuals who have or use products or services from financial institutions that are not regulated (informal financial institutions and mechanisms) and/or use community based organizations/mechanisms to save or borrow money – the 'informally served' segment;
- Those individuals who have or use both formal and informal products or services.

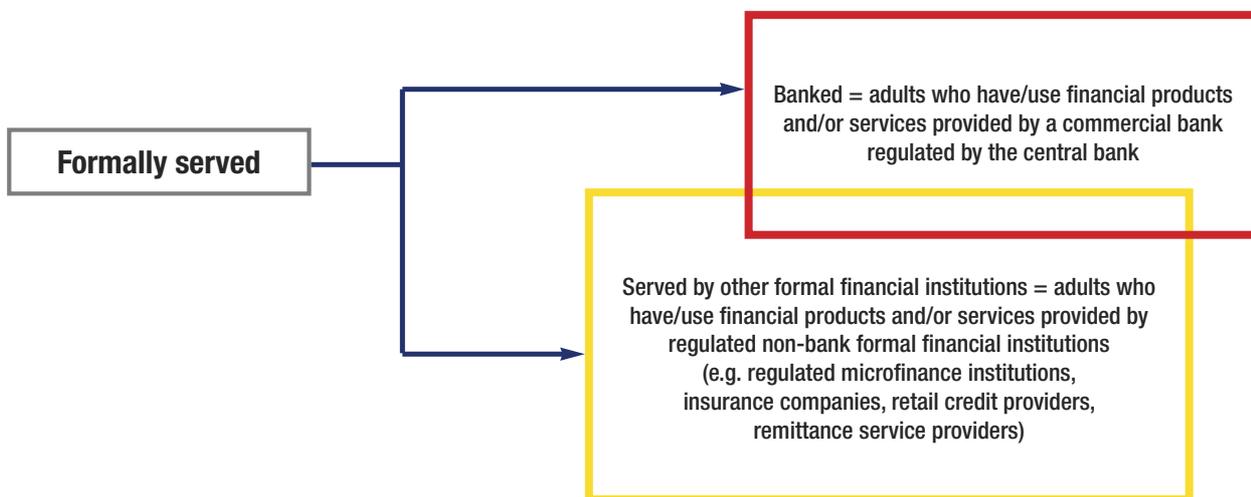
Figure 50. Understanding financial inclusion: Step 2



The next step in the segmentation seeks to better understand or unpack the 'formally served' segment of the population – i.e. individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions). This step further segments the formally served population into:

- Those individuals who have or use products or services from licensed commercial banks that are regulated by the central/reserve bank – the 'banked' population;
- Those individuals who have or use products or services from financial institutions that are regulated through Acts of law but which are not commercial banks. Those individuals who have or use products or services from such institutions, comprises the 'Served by other formal financial institutions' segment of the population (later referred to as 'other formal' segment);
- Those individuals who have or use products or services from both commercial banks and other formal financial institutions.

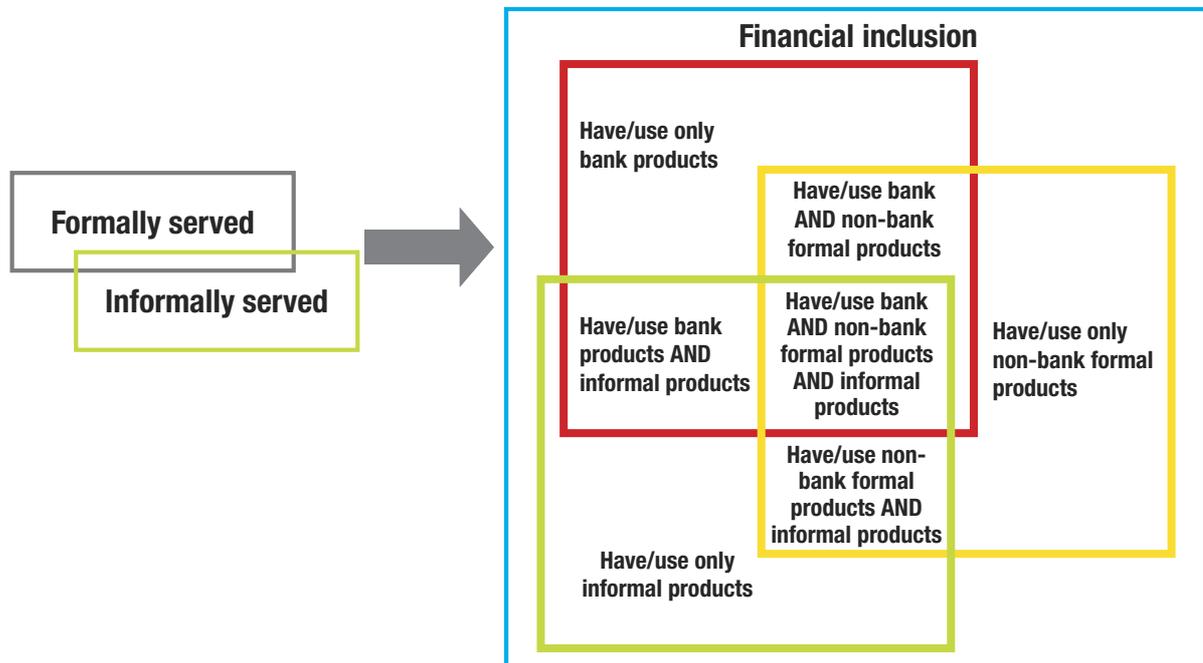
Figure 51. Understanding financial inclusion: Step 3



Finally the segmentation process looks at the overlaps between the different population segments allowing for a better understanding of the following population segments:

- Those individuals who have or use only bank products and services;
- Those individuals who have or use bank and other formal products and services;
- Those individuals who have or use bank and informal products and services;
- Those individuals who have or use bank and other formal and informal products and services;
- Those individuals who have or use only other formal products and services;
- Those individuals who have or use only informal products and services;
- Those individuals who have or use other formal and informal products and services.

Figure 52. Understanding financial inclusion: Step 4



3.6.2 Levels of financial inclusion of small business owners in South Africa

Figures 53 and 54, and Tables 15 and 16, explore overall levels of financial inclusion for small business owners in South Africa. They indicate that:

- 41.8% (2,334,439) were financially excluded i.e. used no financial products or services to manage their business finances;
- Contrary to what might have been expected, those who were financially served, were more likely to use formal financial services than informal services or mechanisms:
 - 51.5% (2,872,049) were formally served;
 - 15.3% (853,264) were informally served.
- In terms of formal financial services, small business owners were more likely to use bank services or products than non-bank services or products such as insurance, microfinance, etc:
 - 46.9% (2,615,729) of small business owners were banked.
- Overall, service providers were more likely to be financially served than retailers (Figure 54):
 - 42.8% of retailers were financially excluded vs. 38.3% of service providers;
 - Retailers were more likely to be informally served (16.8%) than service providers (9.9%);
 - Small business owners rendering professional services as well as those rendering tourism-related services were most likely to be formally served, most likely to be banked, as well as most likely to use non-bank formal financial services such as insurance;
 - Manufacturers – small business owners who made something to sell – were most likely to use informal financial mechanisms.
- In terms of overall financial inclusion per BSM segment:
 - Small business owners in BSM 1-2 were most likely to be financially excluded;
 - Small business owners in BSM 7-8 were most likely to be formally served, most likely to be banked and most likely to use non-bank formal services such as insurance;
 - Small business owners in BSM 5 were most likely to use informal mechanisms.

Figure 53. Overall levels of financial inclusion: small business owners in South Africa

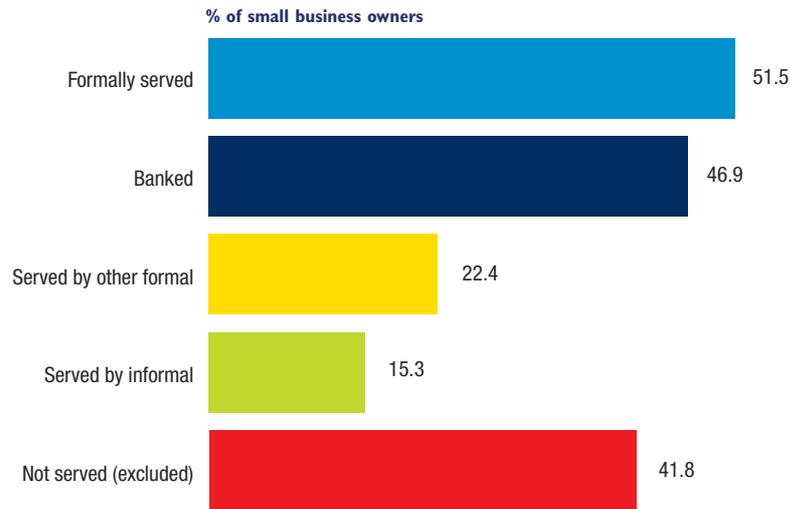


Figure 54. Overall levels of financial inclusion: small business owners in South Africa per type of business

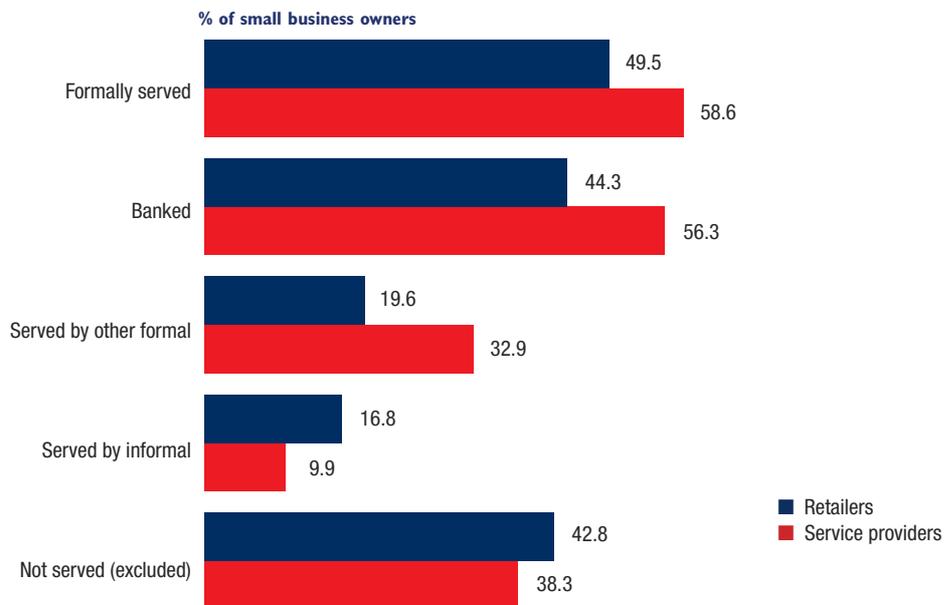


Table 15. Overall levels of financial inclusion of small business owners per business type

	Sell something in the same form it was bought	Buy something to sell but add value before reselling	Make something and sell	Sell something that was collected from nature	Sell something obtained for free	Rear livestock/poultry and sell	Sell by-products of animals	Grow something and sell	Render a professional service	Render a skilled service	Render building/construction services	Render tourism-related services	Render other services
Formally served	49.0%	44.6%	48.5%	50.9%	56.9%	49.6%	75.3%	46.4%	96.7%	51.4%	67.5%	94.9%	61.2%
Banked	43.5%	41.8%	44.4%	40.1%	53.2%	39.2%	69.4%	42.5%	94.1%	48.2%	67.5%	94.4%	60.7%
Served by other formal	17.4%	15.1%	23.4%	19.2%	36.1%	25.8%	54.4%	15.5%	76.1%	25.4%	43.1%	84.6%	32.9%
Served by informal	15.6%	20.1%	24.0%	8.0%	17.0%	19.4%	9.0%	20.2%	3.6%	11.3%	12.2%	12.4%	7.0%
Not served (excluded)	44.4%	45.9%	36.7%	41.4%	32.6%	42.2%	23.2%	42.8%	3.3%	44.8%	26.7%	5.1%	36.9%

Note: Marked cells indicates the significantly different levels of financial inclusion in a specific segment relative to the Total

Table 16. Overall levels of financial inclusion of small business owners per BSM segments

	BSM segment							
	1	2	3	4	5	6	7	8
Formally served	4.7%	24.7%	52.1%	74.9%	86.2%	92.0%	97.6%	100.0%
Banked	1.4%	16.1%	46.5%	72.5%	82.3%	88.7%	96.7%	99.0%
Served by other formal	3.3%	10.0%	12.9%	11.9%	26.4%	52.1%	70.4%	92.9%
Served by informal	13.5%	14.8%	16.0%	14.0%	23.2%	19.3%	10.1%	5.2%
Not served (excluded)	82.3%	65.2%	40.6%	21.8%	12.2%	6.7%	2.2%	0.0%

Note: Marked cells indicates the significantly different levels of financial inclusion in a specific segment relative to the Total

3.6.3 Landscape of access

The Financial Access Landscape of the FinScope survey is used to illustrate the extent to which individuals have or use financial products and services. It depicts, on its four axes, the percentage of adults that have or use:

- Transactional products/services (e.g. cheque account, debit card);
- Savings products/services;
- Credit products/services;
- Insurance products/services.

Figures 55-58, and Table 17, provide an overview of the landscape of access for small business owners in South Africa indicating that:

- The landscape of access was skewed towards savings products and, to a lesser extent, transactional products:
 - 52.9% of small business owners had/used savings products or mechanisms and 45.4% had/used transactional products or services;
 - 1 in 5 (21.9%) was covered by insurance.
- Figure 56 illustrates the role of the informal sector in pushing out the boundaries of access for small business owners in South Africa:
 - The informal sector played a role mainly in terms of savings products
 - 52.9% of small business owners had savings products;
 - 45.2% had formal savings products; the informal sector therefore provided savings products to an additional 7.7% of small business owners who would otherwise not have had access.

Figure 55. Overall landscape of access: small business owners in South Africa

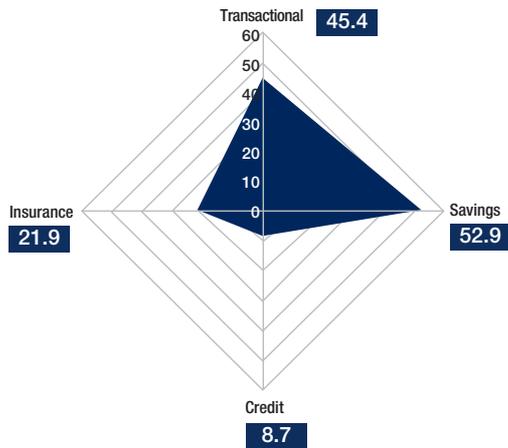
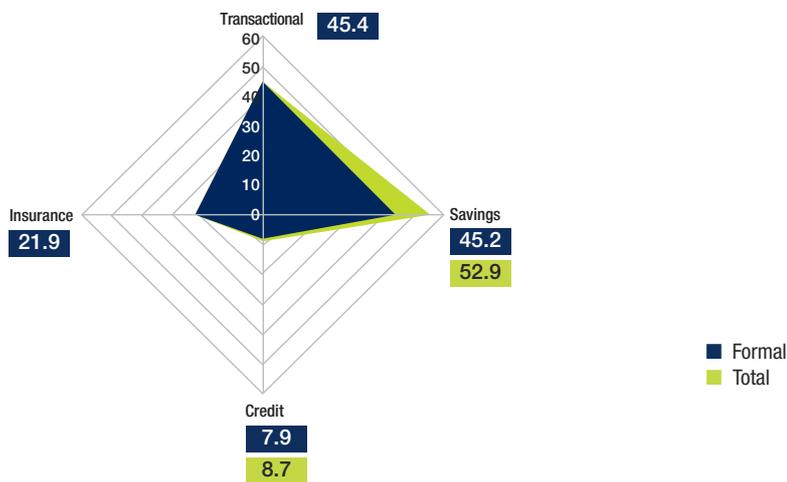


Figure 56. Overall landscape of access: small business owners in South Africa – the role of the informal sector



- Comparing the landscapes of access for retailers and service providers (Figures 57 and 58), illustrates that:
 - Service providers were better served than retailers in terms of transactional, savings, credit as well as insurance products;
 - The role of the informal sector in pushing out the boundaries of access (specifically in terms of access to savings mechanisms) was more pronounced for retailers than for service providers.
- The findings summarised by Table 17 illustrate the gradual increase in usage of financial products from BSM 1 to BSM 8 (which was to be expected as the financial product usage variable was used to build the BSM segmentation model).

Figure 57. Overall landscape of access: small business owners in South Africa: Retailers

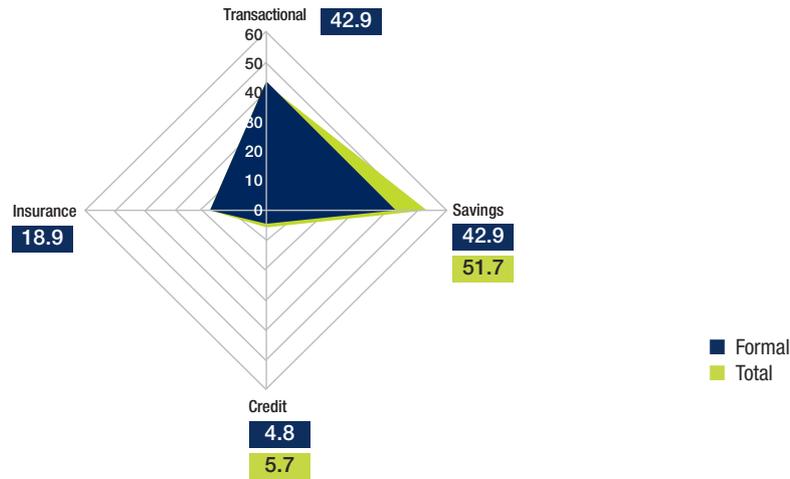


Figure 58. Overall landscape of access: small business owners in South Africa: Service providers

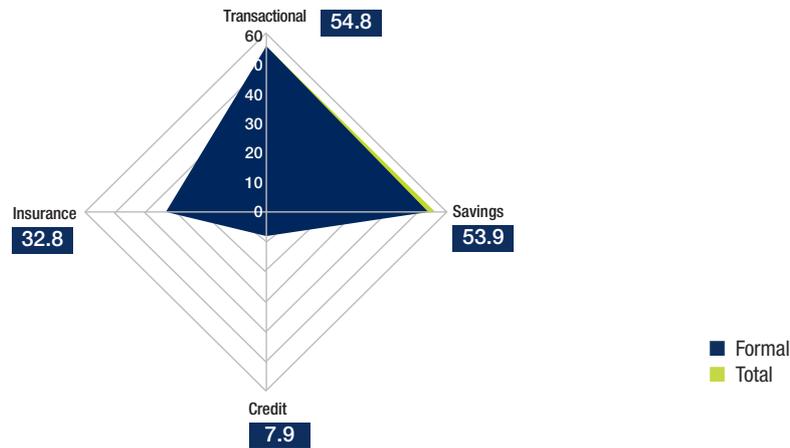


Table 17. Overall landscape of access per BSM segment

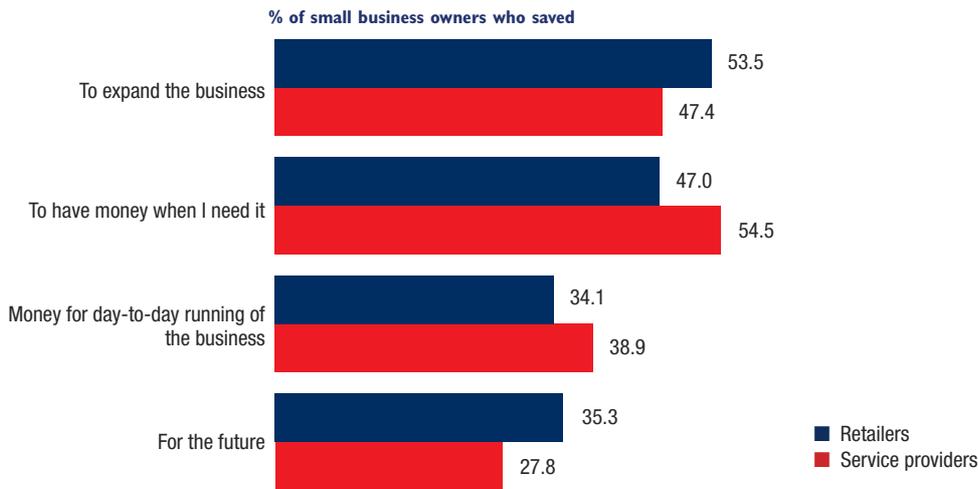
	BSM segment							
	1	2	3	4	5	6	7	8
Transactional	0.4%	14.6%	45.2%	69.5%	80.9%	86.6%	95.8%	98.9%
Savings	14.5%	26.8%	53.9%	74.1%	83.3%	90.5%	91.1%	90.5%
Credit	0.6%	1.4%	2.1%	2.9%	8.0%	10.4%	40.2%	75.0%
Insurance	3.2%	9.4%	11.9%	11.7%	25.3%	51.2%	70.1%	92.9%

3.6.4 Drivers of financial inclusion

In terms of exploring which small business financial needs would drive financial inclusion, reasons for saving, reasons for borrowing and transactional activities of banked small business owners were considered (Figures 59-61).

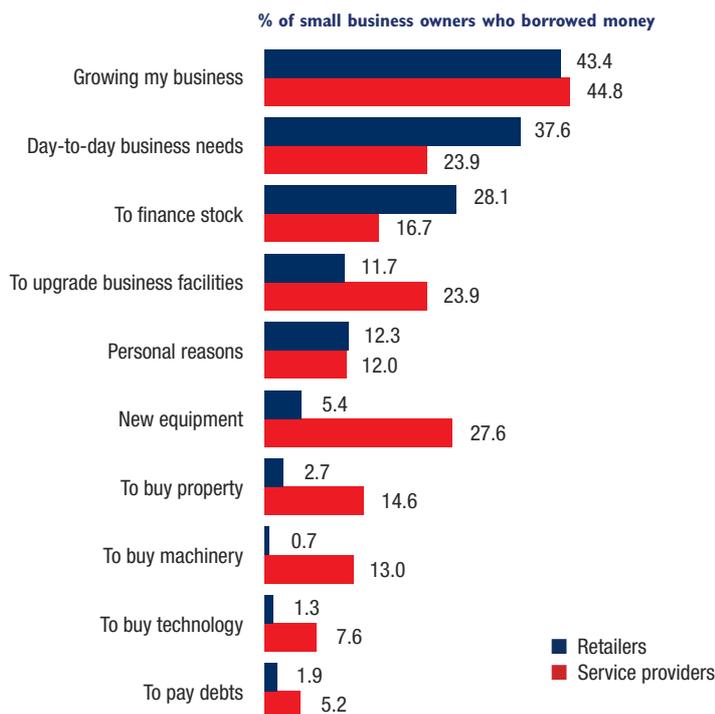
- In terms of savings (Figure 59):
 - 1 in 2 small business owners saved money for short term needs – for “when I need it”; “for when I don’t have money” whilst;
 - 1 in 3 retailers (compared to 2 in 5 service providers) saved money for the day-to-day running of their businesses;
 - In terms of a more longer term savings orientation,
 - 1 in 2 small business owners saved in order to be able to expand their businesses, and
 - 1 in 3 small business owners saved “for the future”.

Figure 59. Reasons for saving: small business owners in South Africa



- In terms of drivers of borrowing (Figure 60) there was a significant difference between retailers and service providers. Although “growing the business” was the most significant reason given for both sectors (2 in 5 business owners borrowing for this reason):
 - Retailers were most likely to borrow money for day-to-day business operations and buying stock;
 - Service providers were more likely to borrow for reasons related to investing in, or upgrading their businesses – upgrading facilities, new technology and equipment, etc.

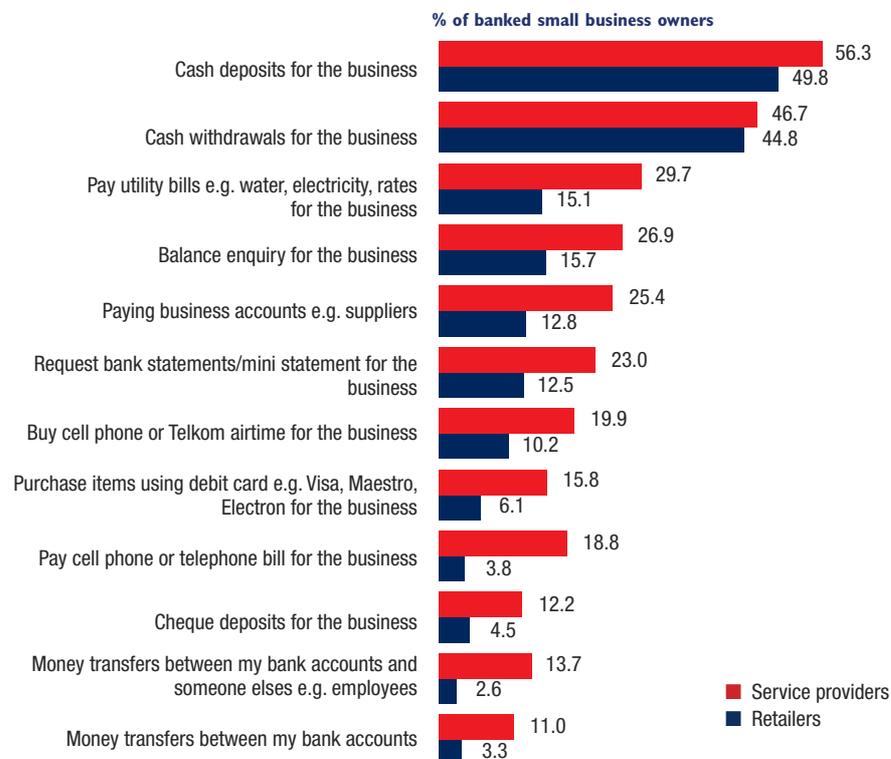
Figure 60. Reasons for borrowing: small business owners in South Africa



In order to explore banking needs, the monthly transactional activities of banked small business owners were explored (Figure 61):

- Both service providers and retailers were most likely to use their bank accounts for cash deposits and withdrawals. This is possibly indicative of the recognition of the bank as a safe place to keep money (the cash deposits), but also the requirement for hard cash in managing their businesses (the cash withdrawals). This is an important reality that banking service providers need to keep in mind when pricing their services for small businesses;
- There was however, a significant difference between retailers and service providers, not so much in terms of the mix of transactions performed by the business owners, but in terms of the level of activity within each sub-group. For each type of transaction, significantly more service providers performed it than retailers. This appears to indicate that for a product with similar transactional features, service providers are more likely to use more of the features of the product than retailers.

Figure 61. Transactional/banking activities of banked small business owners



3.6.5 Barriers to financial inclusion

In an attempt to identify the most significant barriers to financial inclusion for small business owners, reasons for not having business bank accounts and reasons for not borrowing money were explored (Figures 62 and 63):

- The most significant barriers to borrowing money were neither regulatory nor supply-side related. Results summarised by Figure 62 suggest that these were mostly either **attitudinal** or **perceptual** in nature, which is a significant indication of a need for financial education amongst small business owners.
- The need for financial education was substantiated by exploring the reasons for small business owners not having bank accounts for their businesses:
 - Most business owners regarded the irregularity and the size of their income as not justifying having a bank account;
 - Secondary to income-related reasons for not having bank accounts for the business were supply-side perceptions:
 - Not qualifying for an account (including the business not being registered); high bank charges; minimum requirements being too stringent.

Figure 62. Reasons for not borrowing money

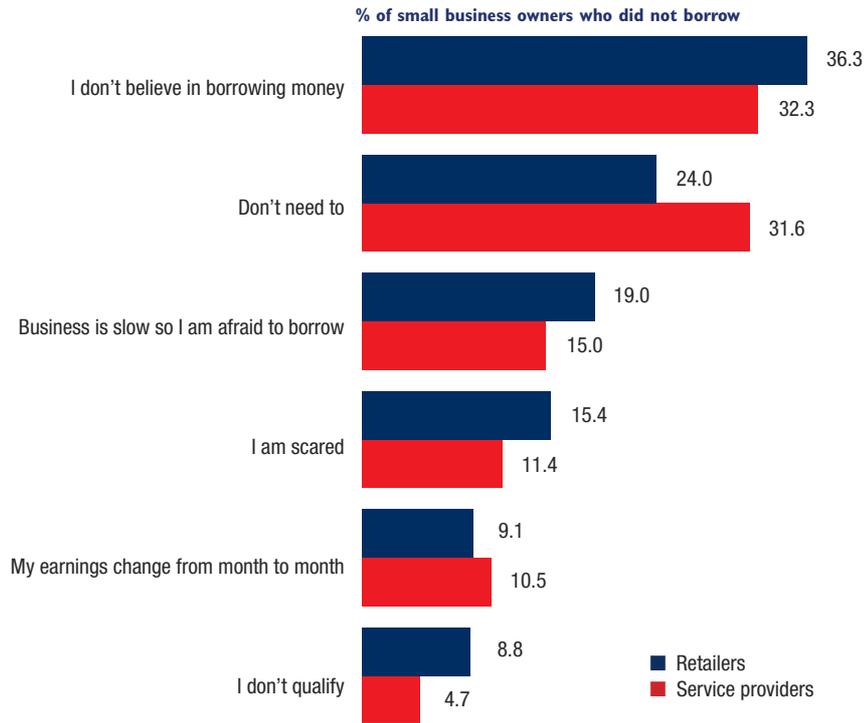
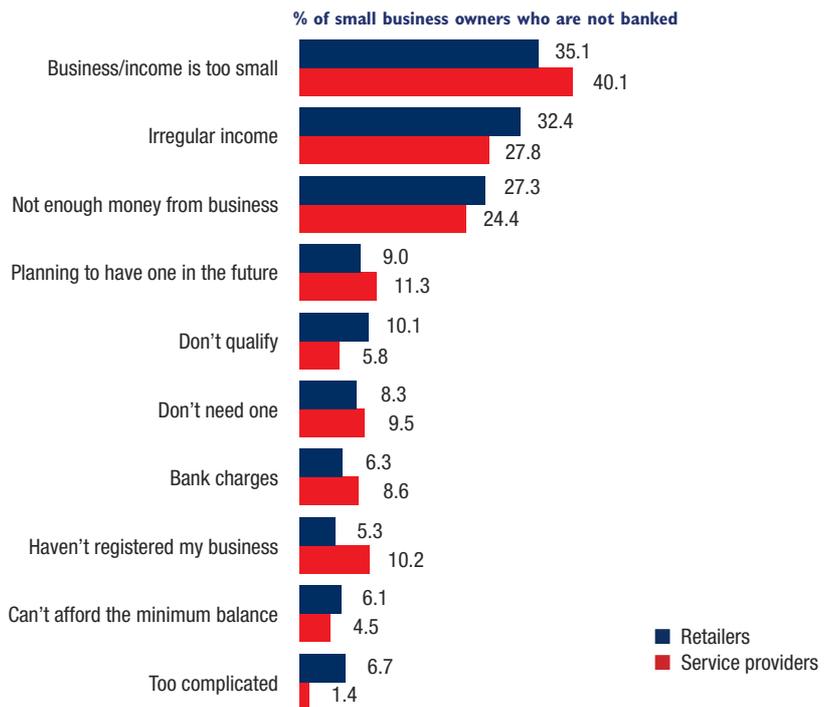


Figure 63. Reasons for not having a business banking account



4. Conclusion

The main objective of this report was to provide an overview of the small business sector in South Africa and to highlight the fact that, in order to develop this vital sector, a “one size fits all” approach would not be effective – interventions should be targeted in terms of the specific and unique needs of specific segments in the sector:

In order to guide intervention priorities in terms of the highest likelihood of success, an analysis framework based on the *capacity to grow, risk profile and level of financial inclusion* is suggested.

The FinScope Small Business Survey provides a vast amount of information about the sector. This report, by providing a broad overview of the findings, is an attempt to deepen the small business development debate and to emphasize the need for evidence-based action.



Contact

The FinScope South Africa Small Business Survey 2010 dataset offers a wealth of information that can be mined in greater depth. For more information, please contact:

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