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MAKING FINANCIAL MARKETS WORK FOR THE POOR

**PRESS RELEASE**

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## **NEW SURVEY SHEDS LIGHT ON SMALL BUSINESS SECTOR**

A groundbreaking survey of small businesses in Gauteng has shed new light on this critically important sector in SA's economy.

More than a million people, or one in six adults, in Gauteng run small businesses. The range is vast, from street hawkers to sophisticated and fast-growing enterprises. With small businesses accounting for 35% of Gauteng's employment, the economic and social contribution of this sector is significant.

The aim of the survey, commissioned by the Gauteng Enterprise Propeller (GEP) and the FinMark Trust, and supported by the dti, FNB, Standard Bank, Absa and TransUnion, was to remedy a lack of reliable and accurate information about small businesses, using Gauteng, South Africa's richest province, as a pilot.

The survey provides information on how to make it easier for small businesses to operate and access the financial system. In particular the researchers wanted to find out, using a truly representative sample, how many small businesses there were in Gauteng and to get a better understanding of their needs by segmenting the market in a totally new way.

The small business market is so varied that it requires a classification tool that does not merely look in a one-dimensional way at the formality, size or legal status of the business. It needs to look at the continuum of small business from informal street vendors to more formal, sustainable businesses. Hence a Business Sophistication Measure (BSM) has been created. This confirms, among other things, how critical it is for government and the financial sector to focus on the relatively small number of transitional companies that seem to be successfully moving out of sole trader status and becoming employment-generating entities of greater sophistication.

The survey found that:

- About 180,000 businesses were likely to be engines of economic growth and employment creation. Almost all are registered businesses and employ an average of five people each;
- 20% of Gauteng's small businesses make between R750 and R900 a month. Life for these "breadline businesses" must be considered precarious in the extreme;
- The number of small businesses seems to be growing, perhaps by as many as 200,000 in the past year, but most of these are trading business, including street hawkers and spaza shops, with no employees;

- Non-SA individuals are responsible for 88,000 of Gauteng's small businesses, and this number is likely to be higher;
- There are 10 times more service businesses than manufacturing businesses in Gauteng;
- 69% of small businesses surveyed operate from home;
- A quarter of small businesses report crime and theft as a problem;
- Only 8% of small businesses use government-support mechanisms, with Umsobomvu the market leader;
- Less than 10% of small business owners have a post-matric qualification;
- Black Economic Empowerment (BEE) awareness is extremely low; and
- Only 27% of small businesses had a plan for engaging with 2010 opportunities

On access to financial services the survey raises the question of how the banks will achieve their commitments on small business finance under the Financial Sector Charter when credit extension to Gauteng's small businesses is so low.

Other information gathered around access to finance included:

- Although more small businesses cited access to capital as a problem than anything else, credit extension to Gauteng's small businesses is extremely low – only 2% say they use loans;
- The desire for banking services (savings, payments, advice etc.) is real for most small businesses – only 27% of *unbanked* small businesses say they don't need a bank at all;
- The percentage of small business people who are unbanked in Gauteng (41%) is actually higher than the percentage of unbanked individuals in Gauteng (37% – FinScope SA 2005) even though attitudes to banks are generally positive;
- Although about 120,000 small businesses said they needed start-up capital of more than R5,000, most needed much smaller sums; and
- Cellphones are the most preferred form of communication with the bank and yet branches are heavily used, even for balance enquiries.

The survey contains a wealth of information, on the participation of women in business, access to finance, entrepreneurial attitudes of small business owners, the economic and social contribution of small business, banking needs and compliance with the law, to name but a few areas.

Almost a half of Gauteng's small business owners say they would take a formal job with regular income if they were offered it; however, 40% of formally registered business owners said they would not, suggesting a reasonably high level of commitment by those businesses with the greatest propensity to grow. There is a thirst for training and development among these same formal businesses with 42% saying they needed training and development to improve their business skills. 70% of formal businesses said that government support programmes were not working for them.

"When it comes to small business development, there are no simple solutions and multiple interventions are needed. Segmenting the market in this new way should allow government and the financial sector to target their small business strategies more effectively," said FinMark Trust CEO Mark Napier.

FinMark Trust says the survey points to some specific measures that might benefit small business development, including:

- Tax incentives for private individuals to invest in small businesses,
- Free SMSs for balance enquiries for small business clients,
- A basic insurance product to accompany a transaction account for small business victims of violent crime.
- A special permit that allows non-SA residents access to financial services, and
- Government procurement initiatives could be linked with support services or partnerships between big and small business. A strategy of firm linkages could assist small business in "learning by doing" and "learn while you earn".
- Business skills to be included in the educational curriculum, and education could help develop a mindset that is not averse to competition and risk-taking.

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