



Virtual Launch of FinScope MSME South Africa 2020 Results

Date: 29 July 2021

FinScope
MSME



Overview

- Objectives, background and methodology
- Size, scope and characteristics
- Access to financial services
- Challenges facing MSMEs (Covid-19 & Social unrest)
- Formalisation
- Digitisation
- Women and youth
- Discussion

Summary of the FinScope MSME 2020 data

Modules

- Section A: Nature of the business
- Section B: Getting involved in business
- Section C: Shareholders, Employees in business
- Section D: Customers and tendering
- Section E: Registration / Compliance
- Section F: Formal product penetration
- Section G: Banking penetration
- Section H: Credit and loans
- Section I: Savings
- Section J: Insurance and risk mitigation
- Section Ja: Impact of Covid-19 pandemic
- Section K: Money management
- Section L: Record keeping
- Section M: Imports and Exports
- Section N: Small business support
- Section O: Skills of business owner
- Section P: Psychographics and business performance
- Section Q: Demographics



FinScope Survey
instrument



Total – 18 modules
– 154 questions

Objectives & Methodology

Why FinScope MSME?

- Critical to developing local economies
- MSME presents opportunities for creating employment
- Flexible sphere of business to correct imbalances, poor communities, youth and women

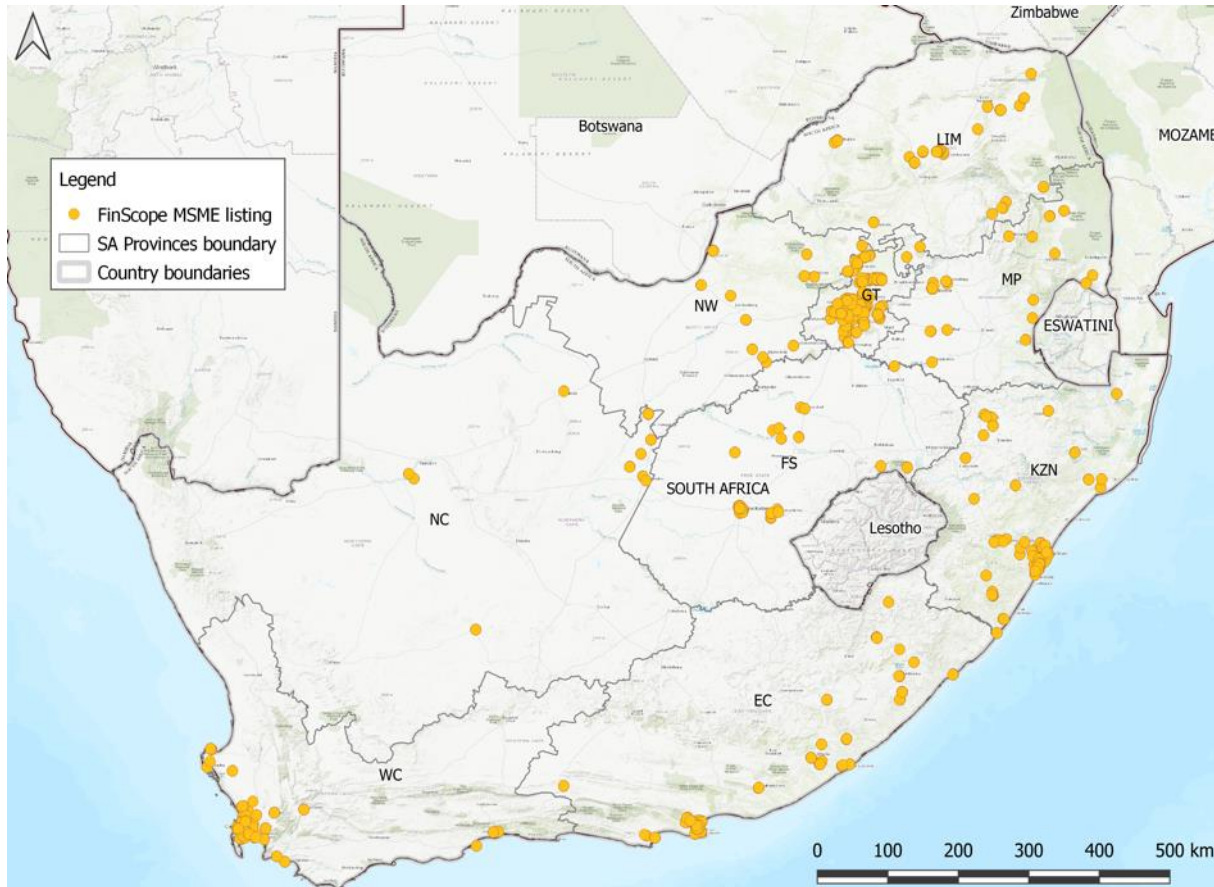


Objectives

- Size and scope of the sector
- Segment the sector
- Identify most binding constraints to MSMEs development and growth (both financial and non-financial)
- Track the progress
- Support evidence-based programs, evaluation of initiatives and contribution to critical studies on the sector



Areas of data collection and comprehensiveness



Sampled enumeration areas by geographical area 400 EAs

Nationally representative sample:

- 16 years or older Business owners
- Business owners/ generating an income through business activities
- Definition of MSME as applied in South Africa
- Completed 4 897 interviews

Methodology – adapting methodology to meet market needs

		2010 survey	2020 survey
Focus	Household based Business premises	✓ ✓	✓ ✓ ✓ ✓
Geospatial mapping (improved probability of EAs with MSME concentration)			✓ ✓
Increased sample on Small and Medium MSMEs			✓ ✓
Survivalists removed			✓ ✓

- Unclear definition used for MSMEs
- FS MSMSE 2020 figures comparable StatsSA figure
- Fragmented MSME data on MSMEs
- Data Gap-> irregular data collection in this space

Size and scope of the MSME sector – It employed 63% of the total formal labour force in 2010 (now 87%). Number of small business owners increased steadily over a decade

2010 (StatsSA)

MSME owners	2,2 m
Employment	9,7 m



2,615,751
MSME owners



Employing
12,947,125
Employees*

Full + Part time + Seasonal



Owning
3,223,001
MSMEs



Estimated
turnover
R3,1 trillion

*StatsSA and 2019 Annual Financial Statistics (AFS)
Estimated R2,6 trillion from MSMEs*

Please note that the AFS report on formal businesses only so
this compares with R2,9 trillion

MSMEs size by number of employees

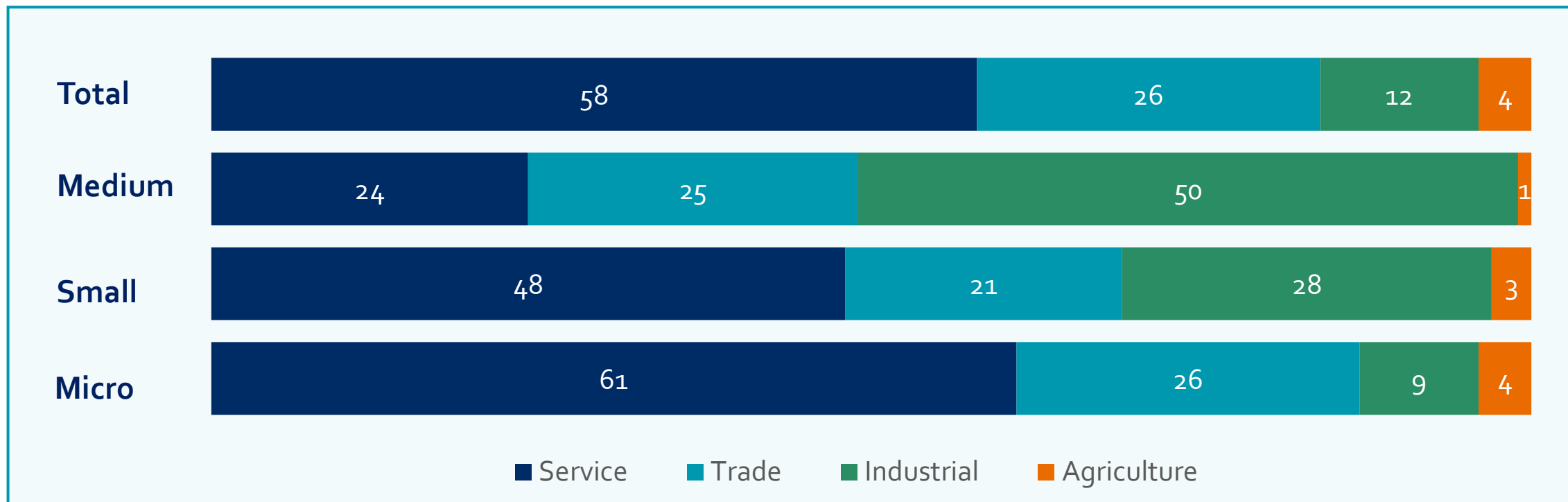
By the number of employees

Category	Employees	Size	No. of businesses
Micro-enterprise	0 to 10	84.8%	2,219,026
Small enterprise	11 to 50	14.4%	375,809
Medium enterprise	51 to 250	0.8%	20,916

Closed due to Covid-19

- Out of 15,977 residential premises who were willing to participate in this survey, 1,150 (thus 7.2%) indicated that their business closed due of Covid-19. Unfortunately, it can not be generalised to the MSME population.

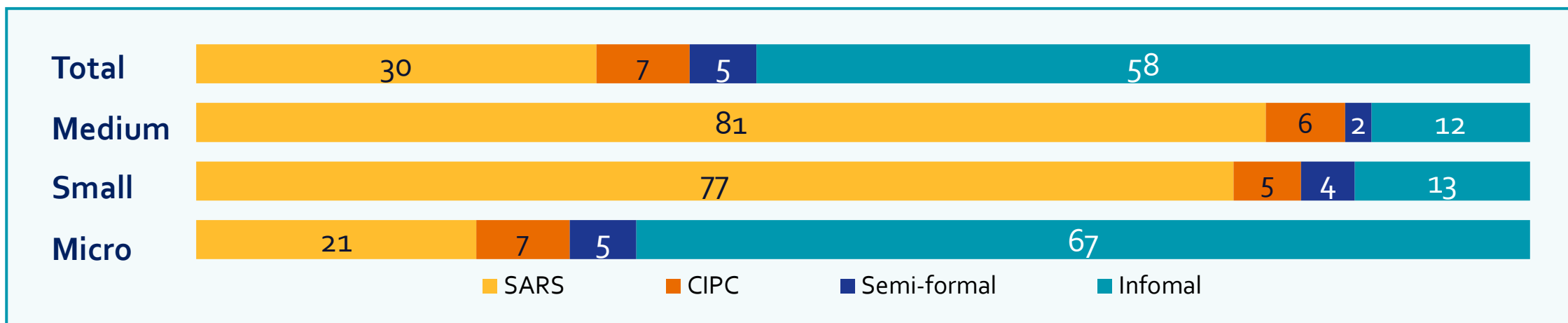
Sector view by business size - MSMEs operate predominantly in the service and trade sector



- **Service** == "personal services, education, financial and insurance, professional services...."
- **Trade** == "wholesale retail, accommodation, real estate activities"
- **Industrial** == "mining, manufacturing, construction, gas supply "

Small and medium business are likely to be formally registered businesses –

- Around 20% and 23% of small and medium business are not registered with SARS



37% Formal enterprises



5% Semi-Formal enterprises



58% Informal enterprises



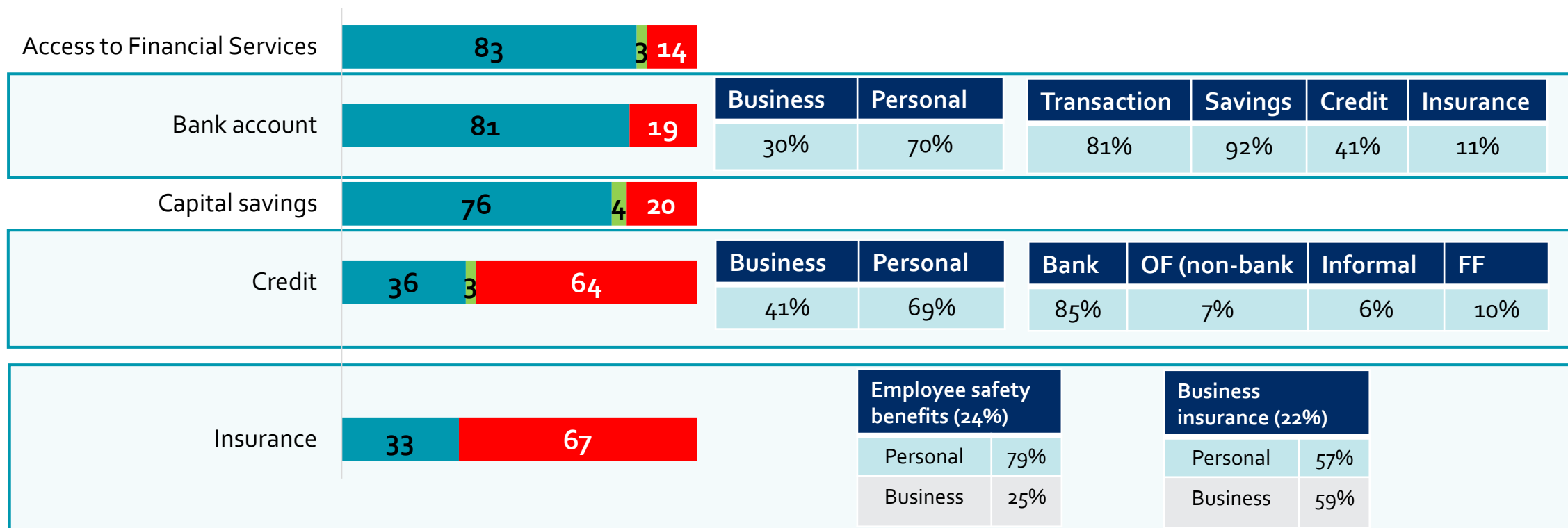
Access to Financial Services

To what extent do MSMEs use financial services?

Access to Financial service: Personal accounts usage and drivers.

Overall, only 34% or 729 000 business use formal financial accounts in business' name

Access to Financial Services (%)

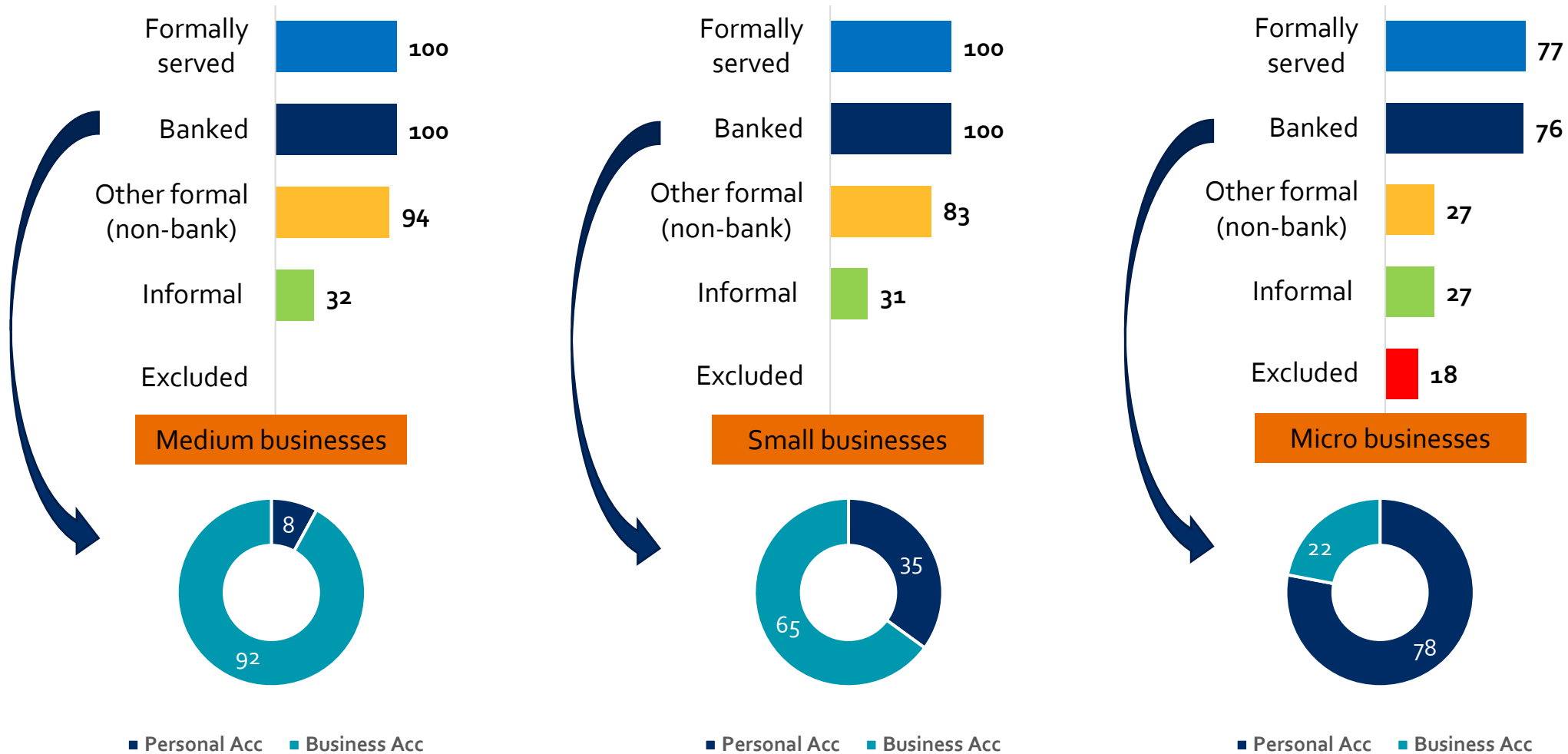


■ Formal Financial Services
 ■ Informal Only
 ■ Excluded

OF = Other formal (non-bank)
 FF = Family and friends

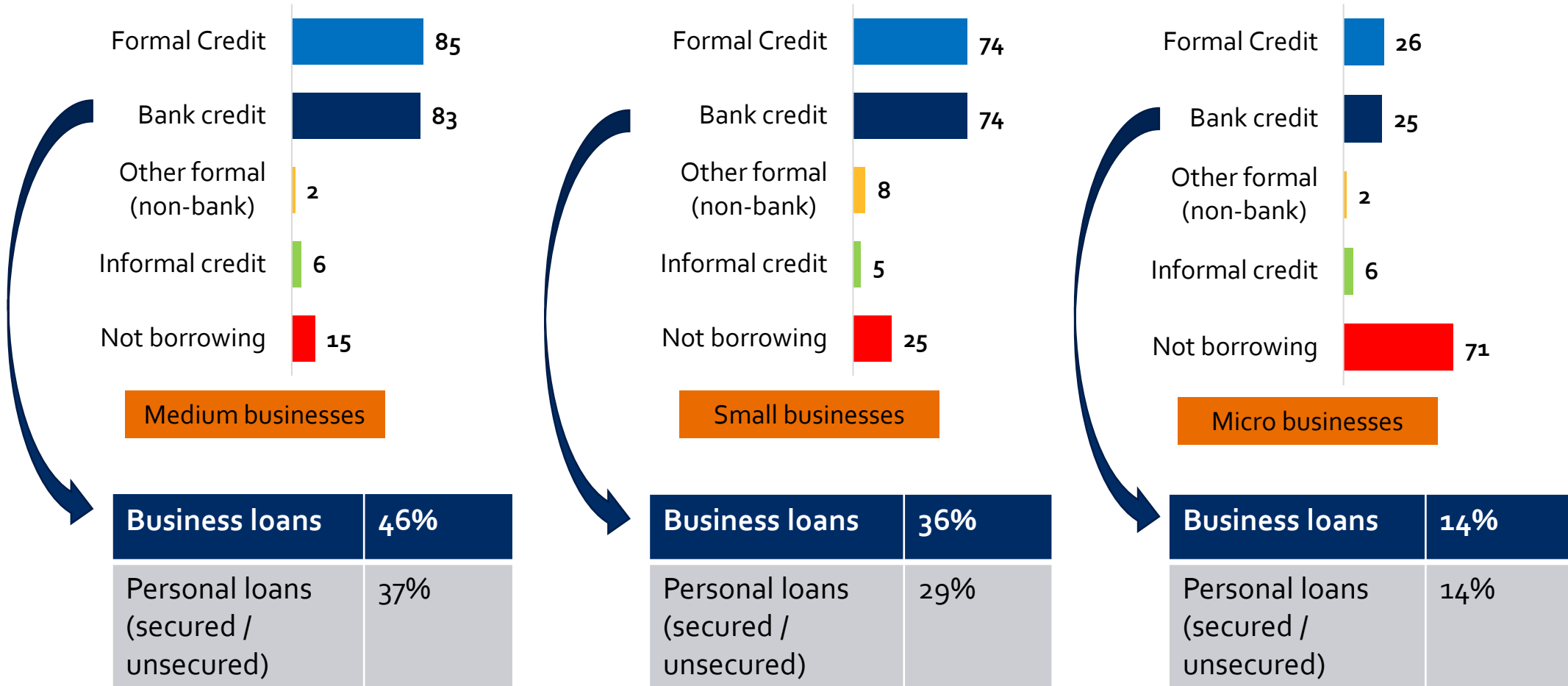
The use of personal accounts is troubling

- Is there no transition from starting of business to a fully operationalised business?



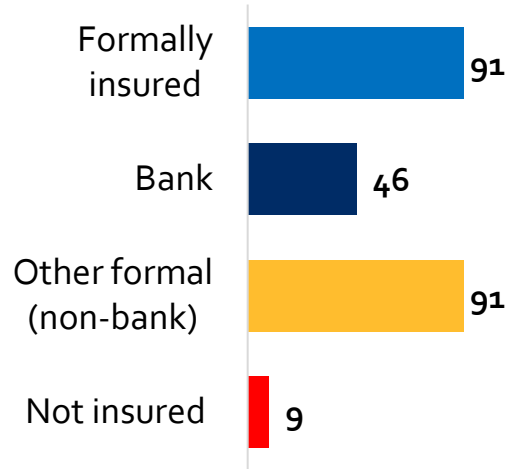
Credit usage

- Use of personal loans (secured / unsecured) is visible. Low uptake of business loans

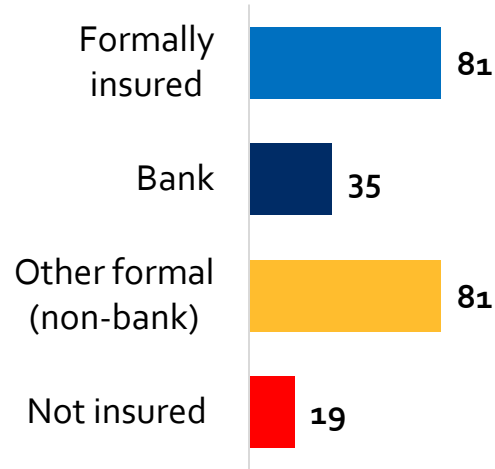


Insurance usage

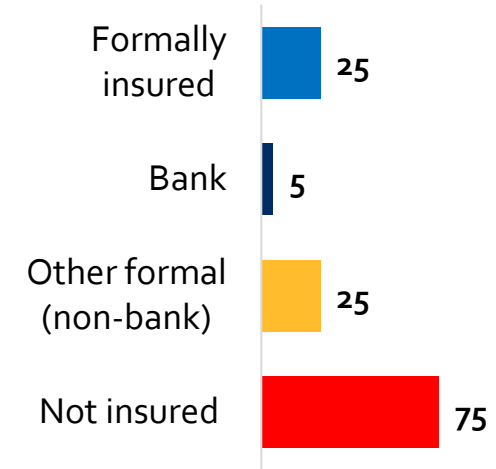
- Majority are not eligible for Sasria cover



Medium businesses



Small businesses



Micro businesses

Business insurance	80%
Property / business premise insurance	64%
Business contents cover – tools, equipment and machinery	59%
Eligible for SASRIA?	Mostly YES

Business insurance	56%
Property / business premise insurance	38%
Business contents cover – tools, equipment and machinery	46%
Eligible for SASRIA?	Yes

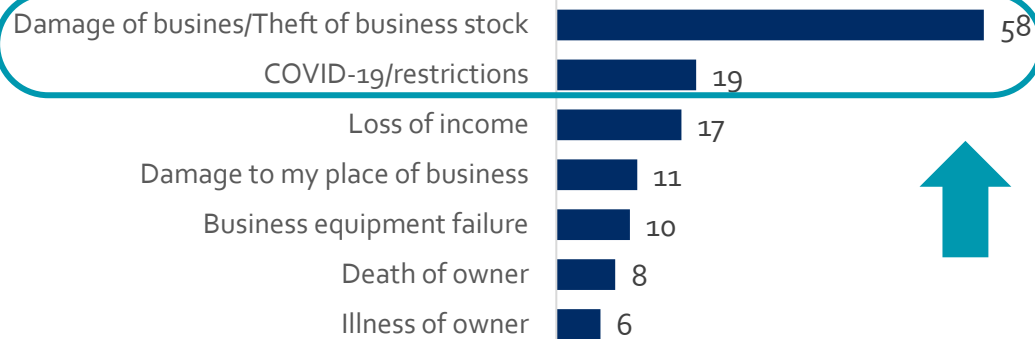
Business insurance	7%
Property / business premise insurance	4%
Business contents cover – tools, equipment and machinery	6%
Eligible for SASRIA?	Mostly NO

Impact of Covid-19 and Social unrest – double blow for MSMEs

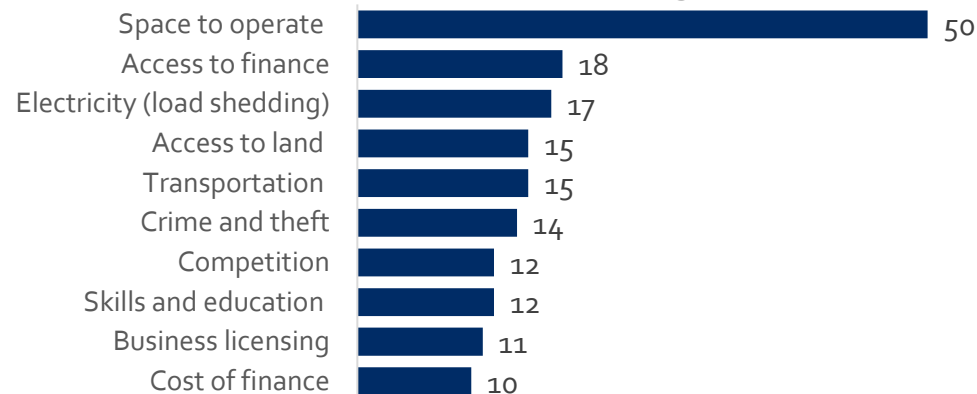
Using data to understand current challenges facing MSMEs

Risks, Challenges and Business Support: Current **lock down** and **unrest** exacerbate the situation

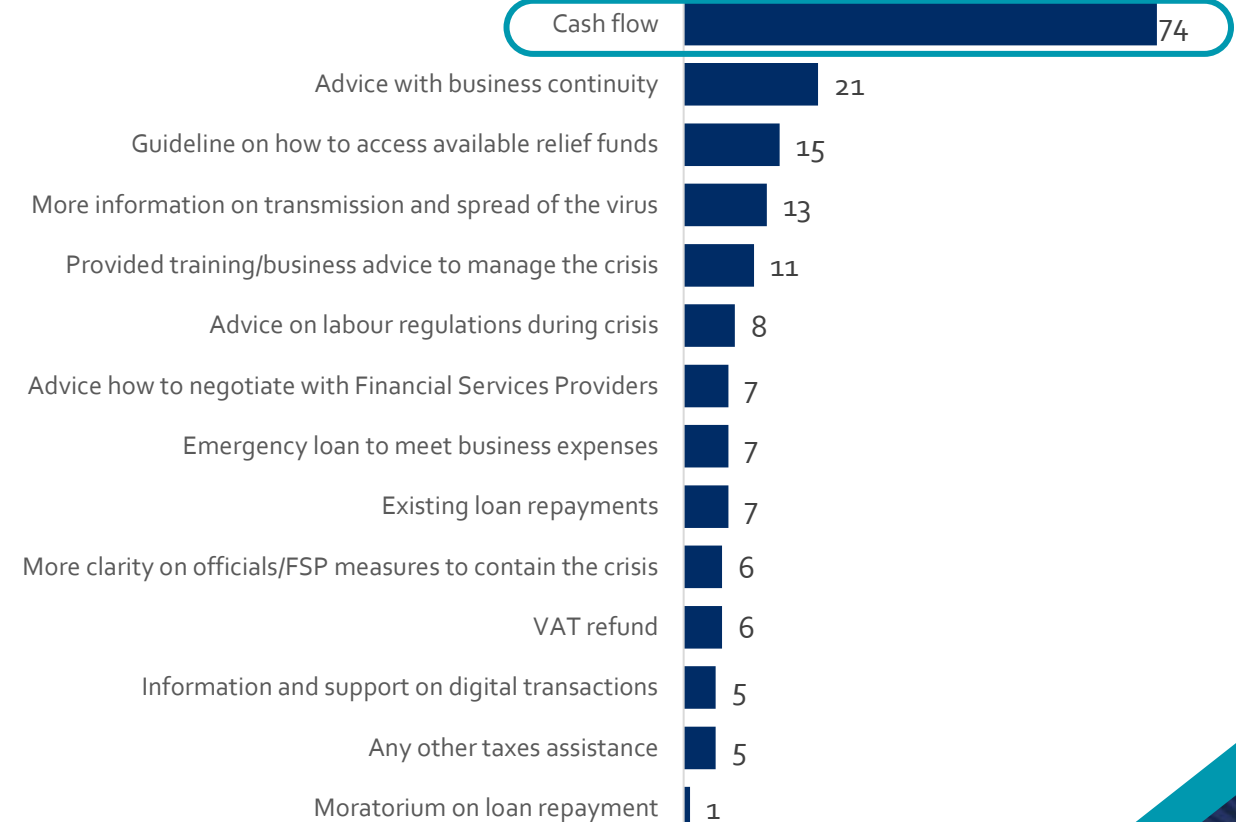
Biggest risks affecting businesses (%)



Support on TOP 10 challenges (%)

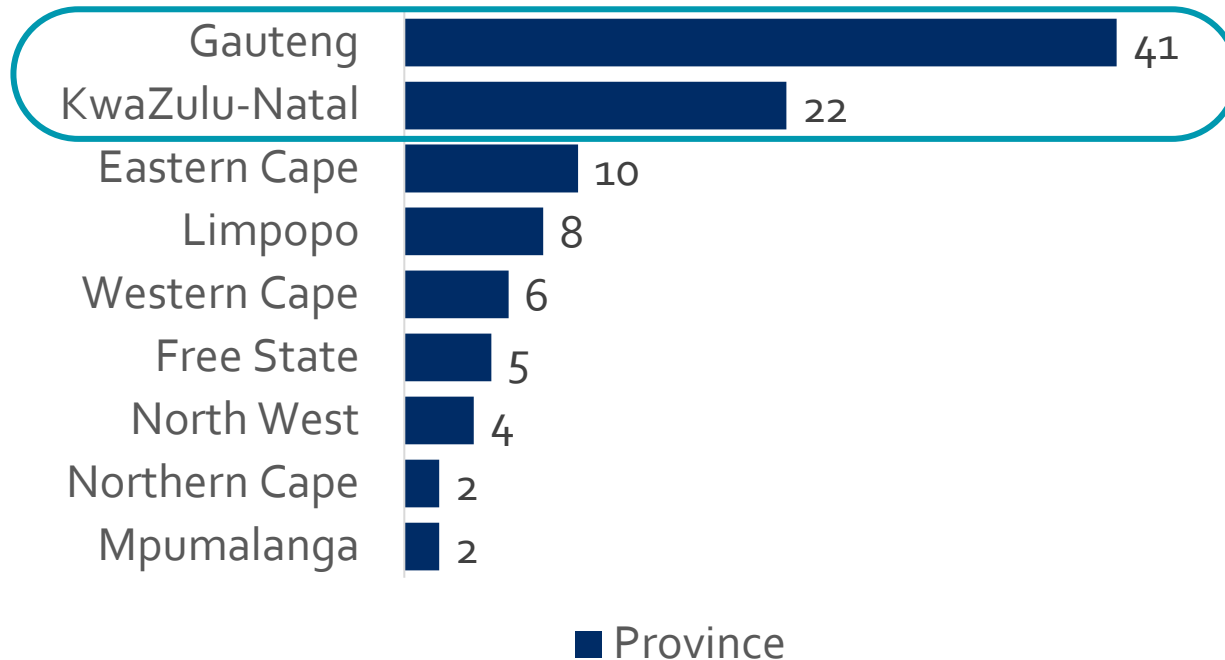


To survive COVID-19 (%)



Provincial distribution of businesses

Majority (63%) of business owners are in KZN and GP

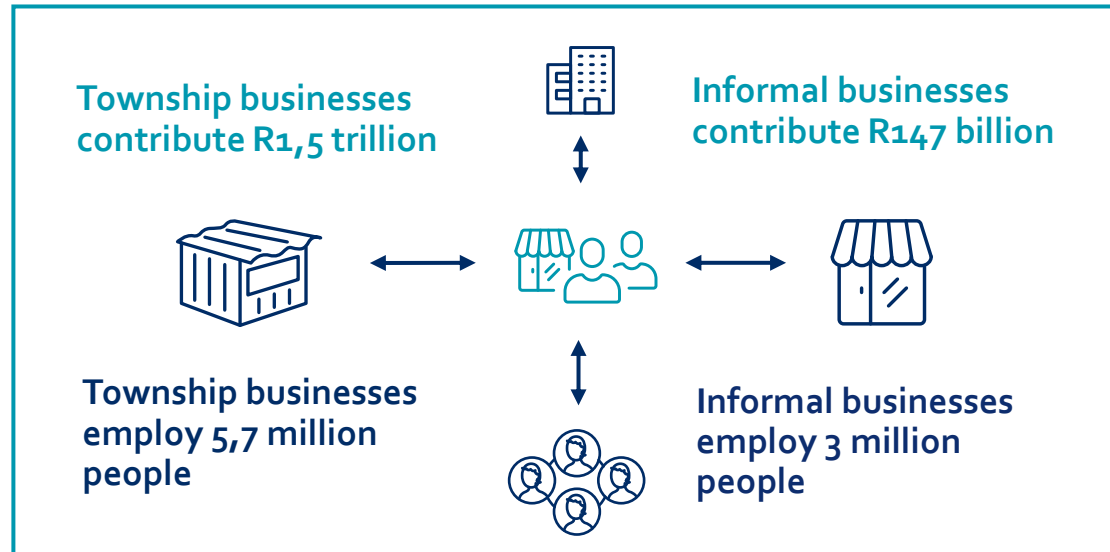


Coincidentally, these are the same provinces with “social unrest”.



About 2/3 of these business are from most affected provinces, expecting around 300,000 insured companies to make a claim for Sasria

Township/rural economy affected the most -> formal vs informal sector

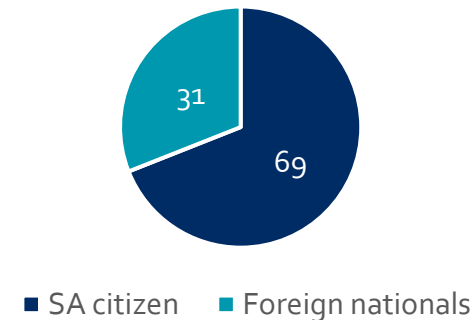
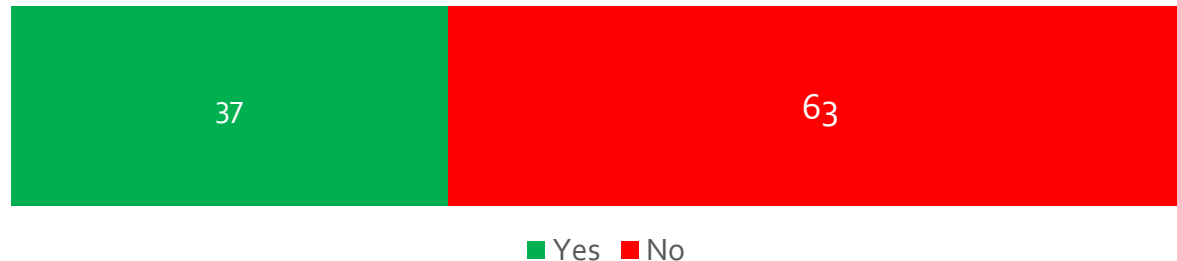


Township economy = About **283, 473** are insured, but only **6%** insured in business name

Township businesses = **283, 475** are registered

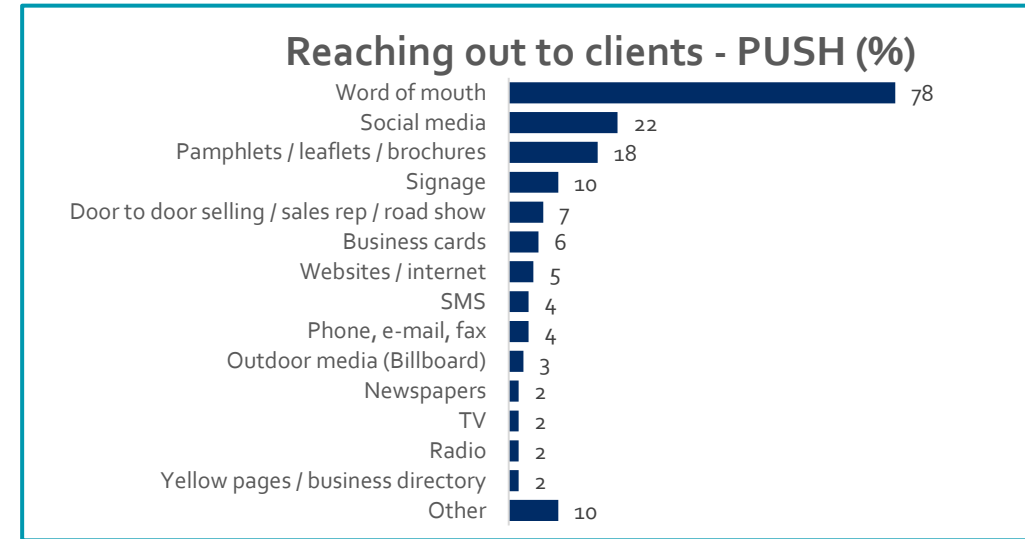
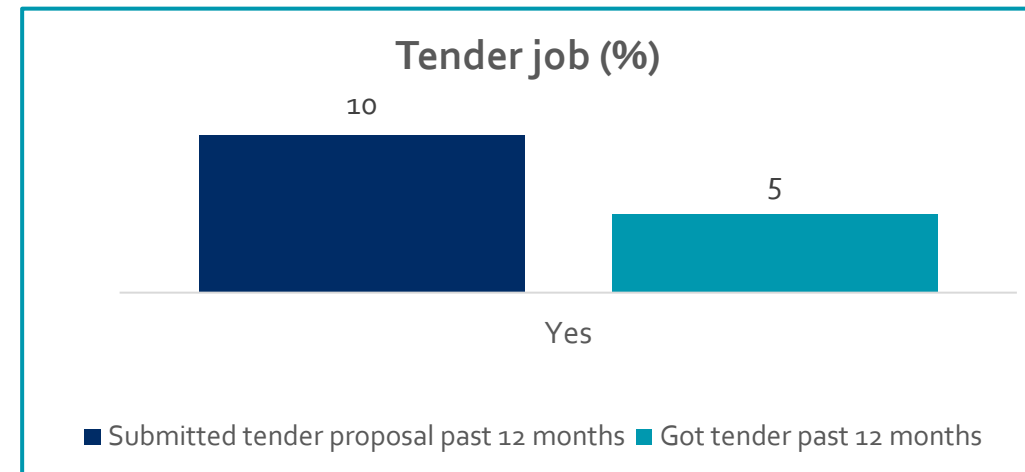
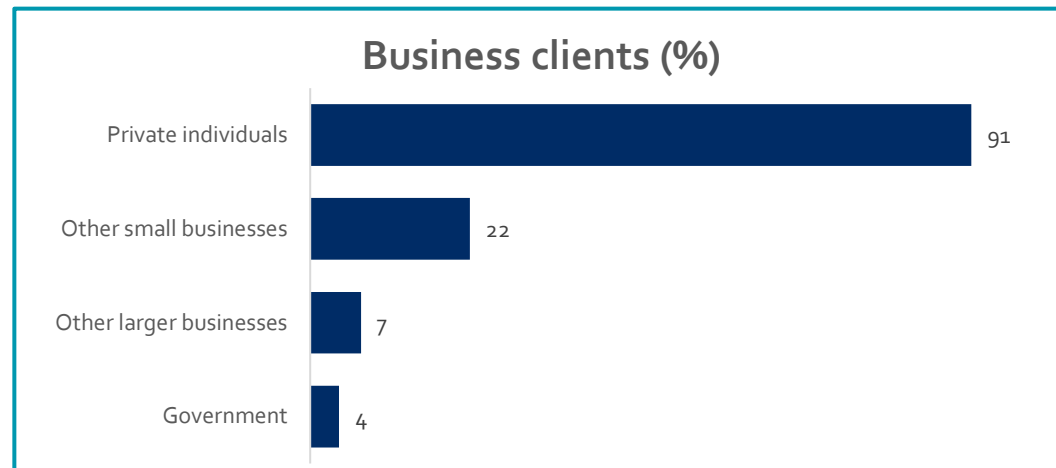
Around **57%** of township businesses experience damage and theft in the business, the unrest has made this number higher (2/3 are in Gauteng and KZN)

Awareness of organisations supporting MSMEs (%)



Digitisation

Access to markets → understanding MSME clients



Use of cash, digital payments and digital usage



97% use cash:

95% from clients	P2B transactions
74% to pay employees	B2P transactions
45% to pay suppliers	B2B transactions



58% use digital financial services:

54% from clients	P2B transactions
57% to pay employees	B2P transactions
60% to pay suppliers	B2B transactions

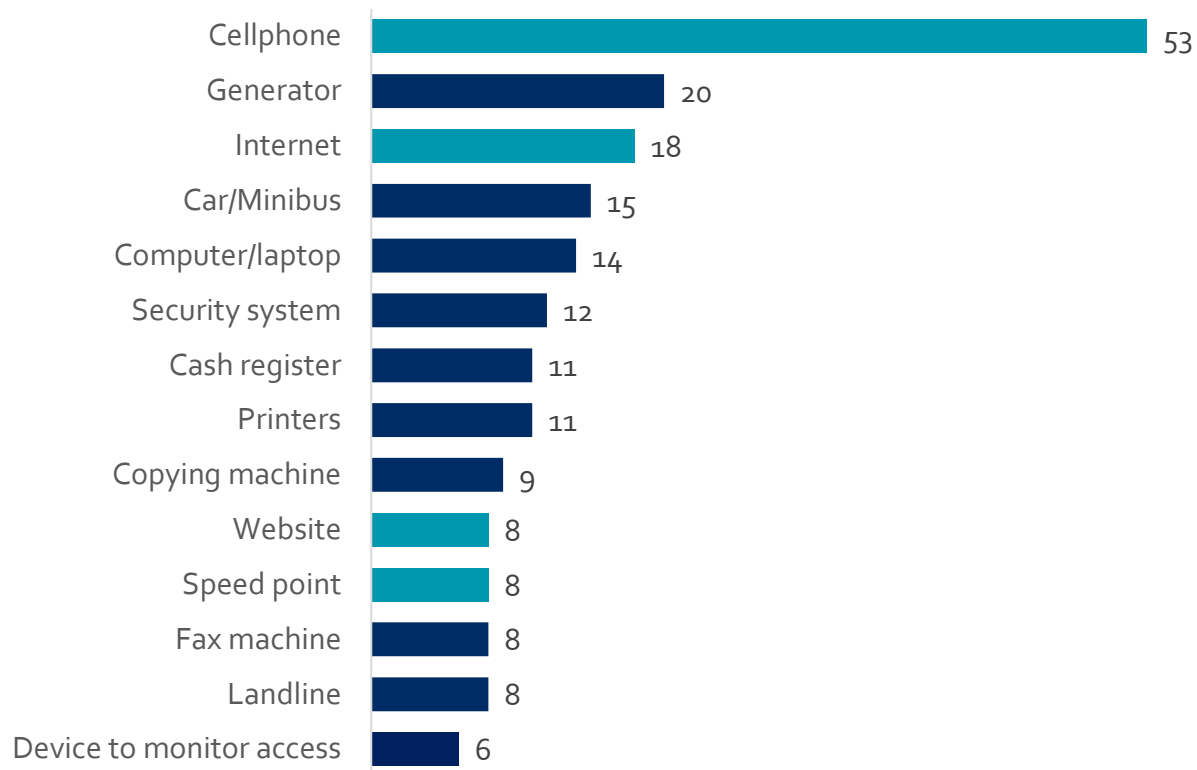


35% use digital media

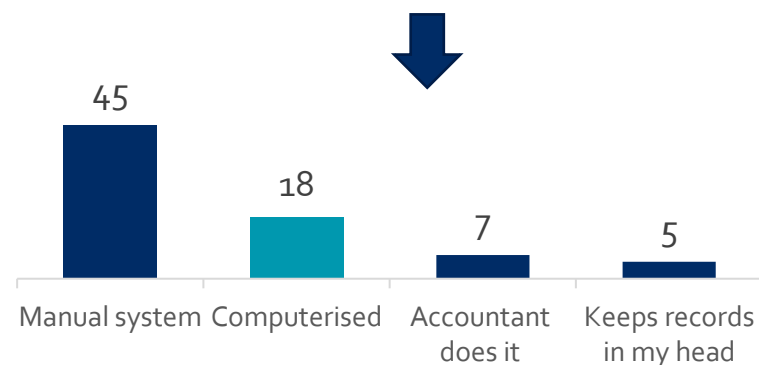
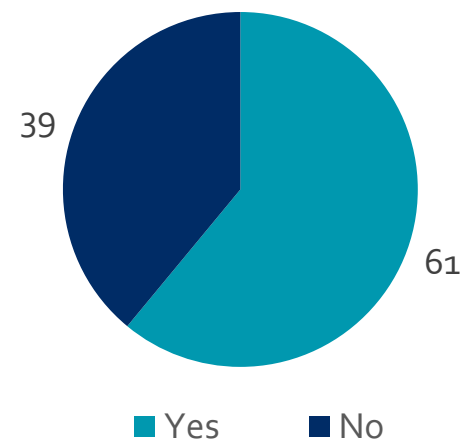
Could MSMEs pivot easily and take advantage of technology?

-> Formalise business operations

Business uses the following (%)



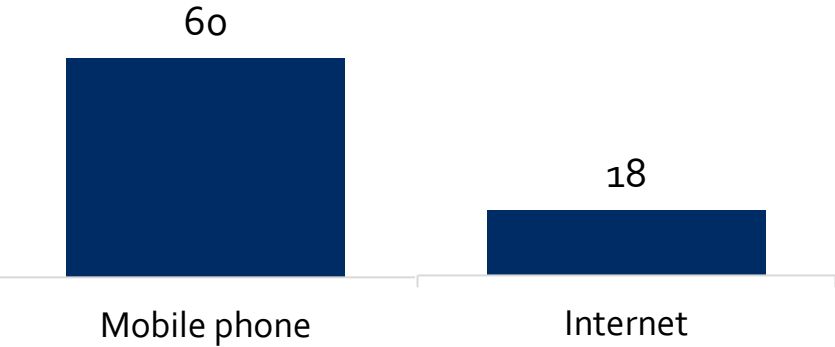
Business keeps financial records (%)



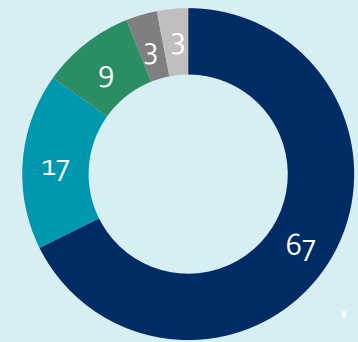
Cash remains dominant in MSME transactions



Claimed access (%)

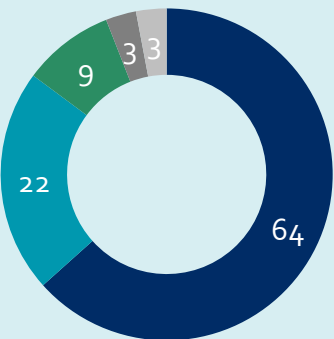


Share of mentions, payment from customers (%)



- Cash
- Internet bank transfer
- Bank telegram/payroll
- Wallet money
- Other

How full-time employees are paid (%)



- Cash
- Digital transfer
- Tap/swipe
- Wallet money
- Other / Don't know

Cash received in payment translates into paying, in this case employees, in cash

Women & Youth

MSME ownership is disproportionately against women and youth

Concern 1: South African population skews to female (52%) and youth (51%) yet disproportionately not able to start / own businesses

Concern 2: Rampant unemployment skews to youth and female

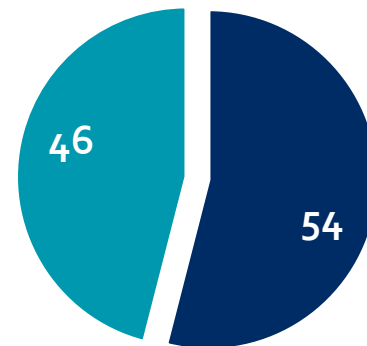
- SA Unemployment rate = 32.6%
- Youth unemployment = 46.3% -- but using the broad definition, it's 75%
- Age bracket 15 – 24 is the most vulnerable with an unemployment rate of 63%

Source: StatsSA QLFS Q1 2021/2022

Reality check

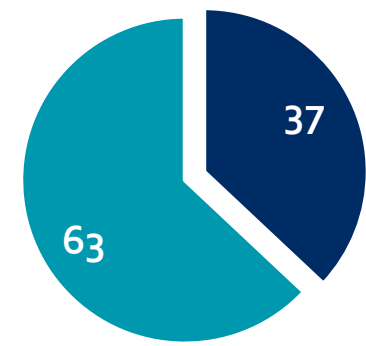
Fewer business owners are female or youth owned

Gender (%)



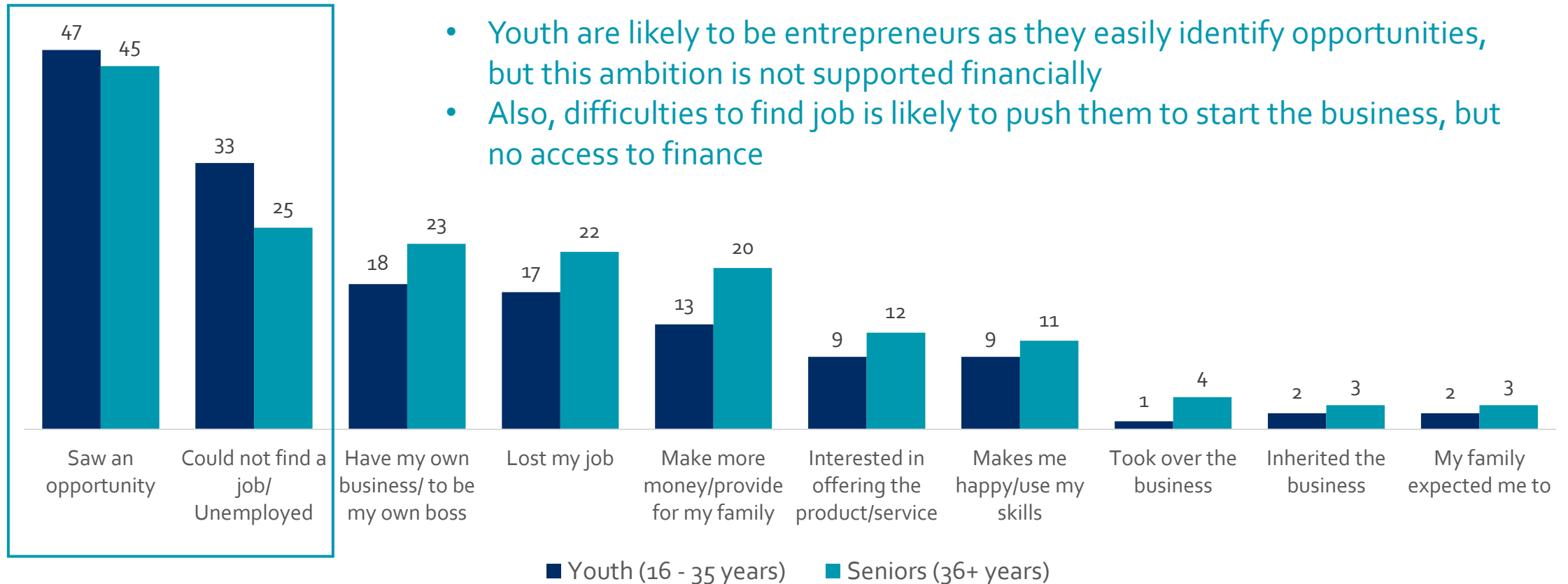
■ Male ■ Female

Youth vs Seniors (%)



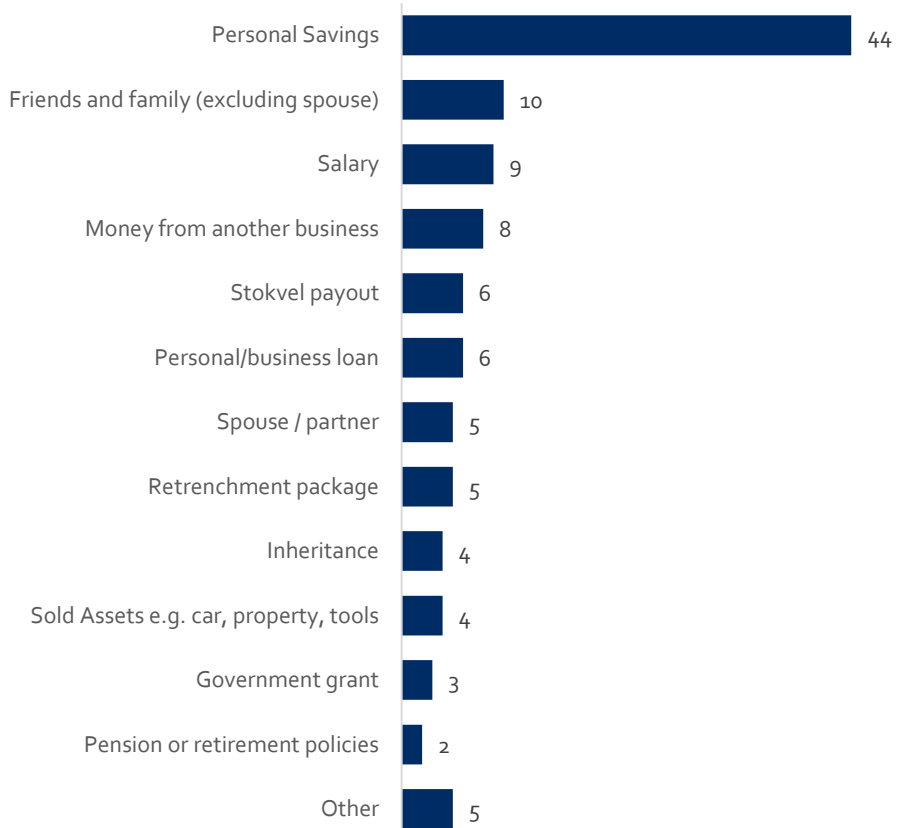
■ Youth (16 - 35 years)
■ Seniors (36+ years)

What are the drivers to start a business?

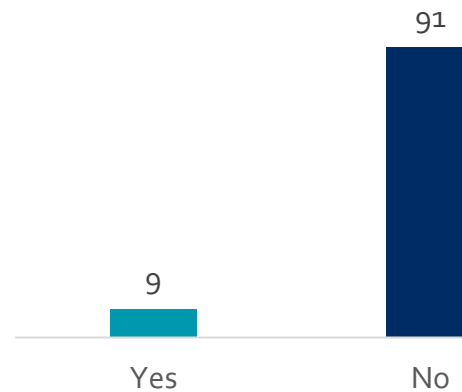


Sources of funding -> from this picture, women and youth are less likely to participate in the MSME sector

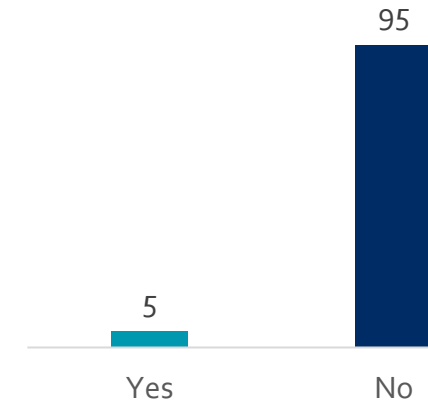
Funding to start this business (%)



Borrowed money past 12 months (%)

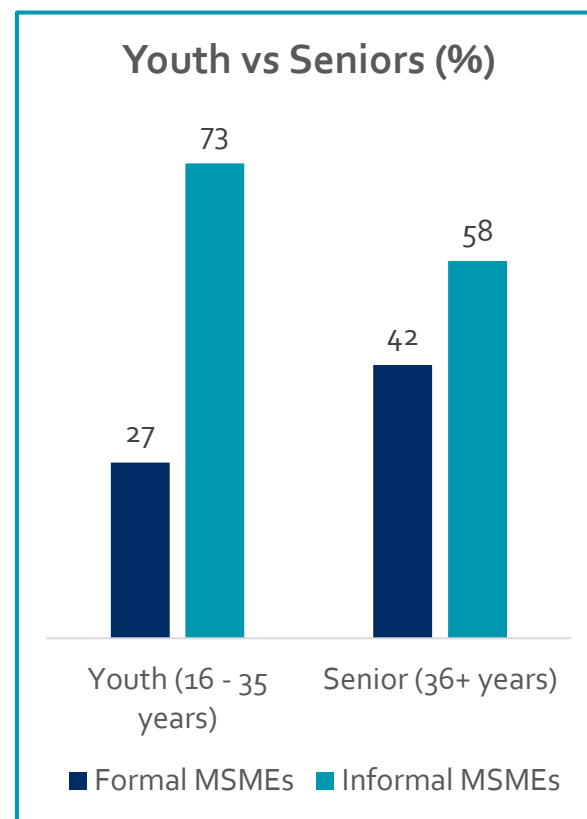
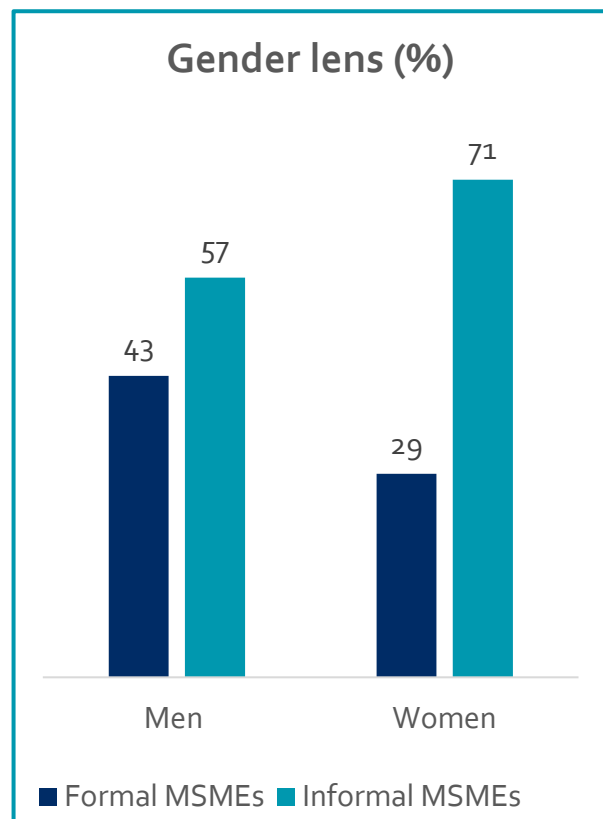


Currently repaying credit debt (%)



- Unemployed youth not able to accumulate savings to finance their businesses
- Unemployed youth not able to use 'salary' to finance business operations
- Youth generally not able to get finance from FSPs
- **Sets youth 3-steps behind**

Women and youth business are likely to be in micro business or survivalist (start up finance may be the influencing factor)



Category	Male	Female
Micro-enterprise (0 – 10 employees)	82.4%	87.2%
Small enterprise (11 – 50 employees)	16.6%	12.3%
Medium enterprise (51 – 250 employees)	1.1%	0.5%

Category	Youth	Senior
Micro-enterprise (0 – 10 employees)	90.1%	81.4%
Small enterprise (11 – 50 employees)	9.3%	17.8%
Medium enterprise (51 – 250 employees)	0.6%	0.9%

Discussion

Given the flexibility of the informal economy, MSMEs can provide opportunities for the poor, including women and youth , to earn money.	However, the unemployment rate in SA does show that the sector is not absorbing enough poor youth
While formalisation by itself does not promote enterprise growth in the short run, bringing more enterprises into the formal economy over the long term should.	However, the data shows that very few MSMEs comprehend the benefits
Many of the affected township-owned small and medium-sized enterprises (SMEs) are not likely to have the relevant insurance cover for recent unrests – not even through the state-run South African Special Risk Insurance Association (Sasria). This could lead to the permanent closure of such SMEs.	How can this forum come with innovating ways to assist and prevention for future challenges?
Micro, small, and medium enterprises (MSMEs), which are among the most vulnerable to economic disruptions brought about by the pandemic last year, have had to accept digitisation and adapt quickly to the shifting of the market by using digital tools — or lose business entirely.	Our cash-based society suggest otherwise



Thank you

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