

# Scope Document

## Savings and Transactions/Payment Models

### Research Topic:

Why are financial institutions in South Africa not attracting revenue generated by microenterprises in the form of savings?

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## Table of Contents

GLOSSARY OF TERMS	4
EXECUTIVE SUMMARY	5
SECTION 1: INTRODUCTION	8
SECTION 2: BACKGROUND	9
SECTION 3: DEFINITION OF MICROENTERPRISES	10
3.1 Global Definition of Microenterprises .....	10
3.2 Microenterprises' Contribution towards the South African Economy .....	11
3.3 The Profile of Typical Microenterprises in South Africa.....	11
3.4 Geographical Spread of Microenterprises by South African Provinces:.....	16
SECTION 4: PROBLEM STATEMENT & BUSINESS CASE	17
4.1 Problem Statement .....	17
4.2 Business Case.....	17
SECTION 5: LITERATURE REVIEW	18
5.1. Which options (other than formal financial institutions) are available to microenterprises to save their money? .....	18
5.2. Are financial institutions supplying products, especially savings products to suit the needs of the microenterprises? .....	24
5.3. What are the product needs of microenterprises? .....	27
5.4. Which options are available to microenterprises to access credit to finance their businesses? .....	29
5.5. How accessible are financial institutions for microenterprises? .....	31
5.6. Which regulatory changes are required to allow microenterprises to deposit their money in non-deposit taking financial institutions? .....	34
SECTION 6: RESEARCH METHODOLOGY	37
6.1 Primary Data: .....	37
6.2 Secondary Data:.....	37
6.3 Target Population .....	37
6.4 Data Analysis .....	38
SECTION 7: ANALYSIS OF THE RESEARCH FINDINGS	39

7.1	Where are the microenterprises putting their money.....	39
7.2	Are financial institutions supplying products to suit the needs of the microenterprises .....	40
7.3	Are financial institutions accessible to Microenterprises .....	41
7.4	What are the product needs of microenterprises .....	42
7.5	What can the banks do to attract Microenterprises.....	43
7.6	What have other countries done to serve the needs of microenterprises .....	49
SECTION 8: RECOMMENDATIONS		51
8.1	Regulatory reform in favour of non-deposit taking institutions .....	51
8.2	Agency Banking.....	52
8.3	Using savings transactional data to build the profile of microenterprises through collaboration between Non-Financial Savings Institutions and Credit Bureaus .....	53
SECTION 9: CONCLUSION		58
SECTION 10: RISK & MITIGATIONS		60
SECTION 11: BIBLIOGRAPHY		61
ANNEXURE “A”		66
TASKS & DELIVERABLES .....		66
ANNEXURE “B”		67
RESEARCH TOOL (INTERVIEW FORM) .....		67
ANNEXURE “C”		
COMPLETED INTERVIEW FORMS		

## GLOSSARY OF TERMS

To aid the research, the glossary of terms below list some the key stakeholders in our review:

Stokvel	A Stokvel is a savings or investment society to which members regularly contribute an agreed amount and from which they receive a lump sum payment
Microenterprises	Microenterprises could be defined as informal businesses owned by an individual operator
Informal Business	An informal business is an operation that is not registered with the relevant authorities (such as the South African Receiver of Revenue, Companies and Intellectual Property Commission (Cipro), Department of Trade and Industry (DTI), etc.
Survivalist	A survivalist business is a type of business that is not considered to have a potential to generate income and to provide employment.
Banks	A bank is a financial institution licensed to receive deposits and make loans. Banks also provide other financial services, such as payment services and currency exchange. There are two types of banks: commercial/retail banks and investment banks.
Co-Operative Banks	A <i>bank</i> that holds deposits, makes loans and provides other financial services to <i>cooperatives</i> and member-owned organizations
Micro-Finance Institutions	A Micro Financial Institution is a registered credit provider that provided small unsecured loans of maximum R8k repayable over 6 months
Savings Society	A savings and loan association (S&L), or thrift institution, is an informal financial institution that specializes in accepting savings
NASASA	The National Stokvel Association of South Africa - estimated 800,000 active Stokvel groups in South Africa, representing over 11 million South Africans, NASASA has collected a database of 125,000 Stokvel groups nationally.

## EXECUTIVE SUMMARY

“Financial inclusion refers to all initiatives that make formal financial services available, accessible and affordable to all segments of the population. To achieve this, it requires particular attention to specific portions of the population that have been historically excluded from the formal financial sector either because of their income level and volatility, gender, location, type of activity or level of financial literacy.

In so doing, there is a need to harness the untapped potential of those individuals and businesses currently excluded from the formal financial sector (underserved) and enable them to develop their capacity, strengthen their human and physical capital, engage in income-generating activities and manage risks associated with their livelihoods.

Financial inclusion goes beyond access to credit to incorporate access to savings and risk-mitigating products, a well-functioning financial infrastructure that allows individuals and companies to engage more actively in the economy, while protecting users’ rights”. (Thouraya Triki & Issa Faye, 2013, Financial Inclusion in Africa).

Seeking to better understand the savings patterns of microenterprises and what drives their behaviours, the group undertook research to understand *why formal financial institutions are not able to attract savings from microenterprises*. This question is important because microenterprises have been identified as one of the key drivers of employment and a large contributor to the financial wellbeing of households in the future.

### **Context of the study**

Our research comprised of desk top research, face to face interviews (with key individuals during the study tours to Tanzania, Ghana and Brazil) and a general survey to understand the high preference to save through Stokvels and savings societies instead of through formal financial institutions. We also conducted a general survey to understand why Stokvels are such a popular medium for savings in the informal sector.

While the developmental and financial services sector, in the three countries visited, is not without its challenges, there seems to be a concerted effort to grow microenterprises through innovative products and ways to build bridges between the formal and informal sectors. The microenterprises we visited seemed to have benefited from a clear strategy to support them to grow and diversify while increasing their levels of financial inclusion.

In all three countries visited, financial inclusion has mainly been driven by technological innovation that is supported by an enabling regulatory environment. Finscope Tanzania reports that mobile services scored the highest frequency of usage at 64% (30 days) and 82% (90 days). According to Max Mattern and Claudia McKay (2018) - “while Tanzania and Ghana are considered amongst the most successful digital financial services markets not only in Sub-Saharan Africa, but globally, this success did not happen overnight. It took nearly a decade of work by policy makers, funders, and the private sector to drive uptake and use of digital financial services” (Mattern & McKay, 2018).

In their article they report that Ghana has caught up with Tanzania in terms of the percentage of adults who use mobile money services (39% in both countries). They credit regulatory reforms that permitted mobile network operators to own and operate mobile money networks under the Central Bank’s supervision for this growth. These reforms allowed mobile network operators to invest in expanding their networks through agent training and consumer education, interconnected services and compelling use cases”. *Building Inclusive Payment Ecosystems in Tanzania and Ghana* (Mattern & Claudia, 2018)

In South Africa the high failure rate of microenterprises is well documented. Lack of access to funding is one of the key reasons why microenterprises have a very short life span. The microenterprises we encountered during our local study tour to Tembisa made a conscious decision to avoid the formal sector and have elected to save and borrow from Stokvels. This self-exclusion prompted us to ask why the formal sector is not able to attract savings from microenterprises.

### **Summary of Findings**

Microenterprise respondents had access and used a variety of formal and informal financial services available in the area. Below is a summary of the key findings:

- ✓ 71% of microenterprises prefer to keep money at home and it was also observed that 42% microenterprises use either burial or grocery societies to save; 21% of microenterprises save with Stokvels; 14% of the microenterprises interviewed use the Post Office to save.
- ✓ 60% Of the microenterprises interviewed stated multiple barriers to entry for why they elect not to save with a formal institution. From the interviews conducted, they noted that their preference is to save with community saving societies or Stokvels primarily because of ease of access and low cost of saving relative to formal institutions. The low interest earned from informal institutions are secondary to convenience, trust and “hassle free banking”.

- ✓ 77% of the 28 respondents said they were not aware of Stokvel savings products. The reasons advanced for non-use even when there is awareness, points towards lack of ease of access to funds, red tape, cost and convenience. An interesting comment made was *“I wish they advertised them as much as they advertise credit”*. The formal sector clearly needs to engage with Stokvels to assess their needs and design products and service that will be attractive to them
- ✓ The survey is evidence that a high percentage of microenterprises are not using formal financial institutions to save their money. The microenterprises indicated that they prefer saving with saving societies, Stokvels and at home. This is primarily because there is no cost associated to these mediums and also because it is very convenient for them to save and to have access to these funds at any time of need.

In conclusion, based on the responses, Stokvels clearly provide some benefits that the formal sector would find hard to replicate. The sense of a communal collective and the social and economic benefit that come with the sense of belonging to a group is quite strong. However, there is technology that could possibly be used to leverage on this group strength. The legal and KYC requirements that are required for the use of formal financial services products was mentioned as a barrier to entry. There is a strong believe amongst the microenterprises that Stokvels are more flexible and less risky, especially when it comes to borrowing money and accessing emergency funds. Unlike Ghana and Tanzania, South Africa is not very strong on group lending and savings models that can leverage from the strong need for individuals to belong to the savings community.

Our recommendation is informed by the realisation that microenterprises will continue to use informal means of savings while accessing other formal financial products. While the structure of their informal savings vehicles can be retained, our view is that through collaboration with credit bureaus Stokvels and savings societies can help their microenterprise members to build a financial footprint through having their savings recorded at the Credit Bureaus and being accessed by other financial services providers when assessing suitability and affordability for various financial products.

## SECTION 1: INTRODUCTION

The Banking Association of South Africa (BASA) (2018), identified the working definition of financial inclusion as “access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and under-banked”; in an appropriate but simple and dignified manner with the requisite consideration to client protection. They further state that accessibility should be accompanied by usage which should be supported through the financial education of clients.

BASA (2018) suggests that the definition of financial inclusion should embrace certain key principles, which BASA considers critical for delivering a broad range of quality financial services and products to the most vulnerable in our society, who comprise both the unbanked and the under-banked. These key principles are:

Access	Affordability	Simplicity	
		Consumer	Financial
Appropriateness	Innovation and Diversification	Education	
Usage	Quality		

In addition, BASA (2018) states that microenterprises have been identified as productive drivers of inclusive economic growth and development in South Africa and around the world. In an article published by the North-West University (2018), they state that some researchers have estimated that, in South Africa, micro and medium-sized enterprises make up 91% of formalised businesses, provide employment to about 60% of the labour force and total economic output accounts for roughly 34% of GDP. “They note further that whilst contributing significantly to the economy, microenterprises foster diversification through their development of new and unsaturated sectors of the economy.”

Microenterprises who are primarily focused on earning a living to support themselves and their families, are considered an important contributor to the economy as drivers for reducing unemployment, especially since the formal sector continues to shed jobs. The South African Government, cognisant of the importance of microenterprises, has built development and support frameworks for this sector. The Small Enterprise Development Agency Research note 2016, states that in South Africa, government recognises the importance of this segment of business activity, so much so that a new Ministry of Small Business Development was established in early 2014. The aim of the Ministry is to facilitate



the promotion and development of small businesses. The Small Enterprise Development Agency (SEDA) is an agency of the Department of Small Business Development, it was established in December 2004, through the National Small Business Amendment Act (Act 29 of 2004). It is mandated to implement government's small business strategy, design and implement a standard and common national delivery network for small businesses and microenterprise development, and integrate government-funded small enterprise support agencies across all tiers of government. The Small Enterprise Finance Agency (SEFA) was established to provide affordable funding to small businesses and microenterprises.

As evidenced by the above interventions, South Africa, like many other countries across the world have placed substantial focus on the influence that microenterprises have on the economic growth of a country, many are still faced with challenges to foster and deepen financial inclusion for this sector.

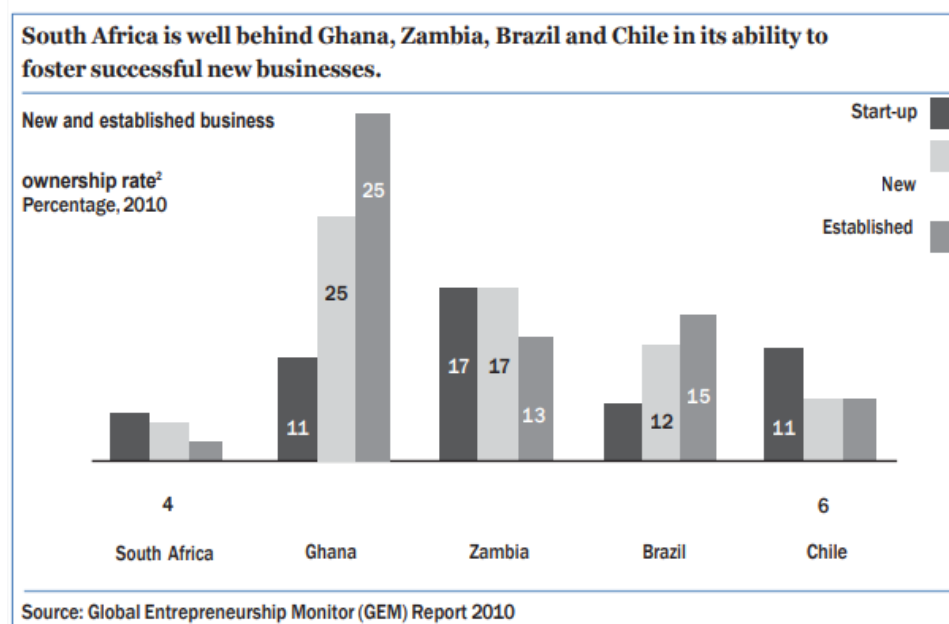
## SECTION 2: BACKGROUND

The Global Entrepreneurship Monitor (GEM) (2010), noted that South African microenterprises suffer from poor management skills, a result of lack of adequate training and education. This results in high rates of business failure (South Africa is known to have one of the lowest small and microenterprises survival rates in the world). According to the Department of Trade and Industry (2008) the majority of South Africa's microenterprises rarely survive beyond their nascent phases, lasting for an average of less than 3.5 years.

Limitations of access to finance for SMMEs are very common (Financial Services Regulatory Task Group, 2007). This is supported by the NCR 2018 report that developmental credit to microenterprises is about 2.61% of the credit issued in South Africa. There is not sufficient information on savings and other financial products taken up by microenterprises.

It is our intention to research why financial institutions in South Africa are not able to attract revenue generated by microenterprises to allow microenterprises to save and operate in the formal financial sector and therefore build and grow sustainable businesses. To obtain an understanding of what the barriers to entry are and to make possible recommendations of how changes could be affected in order to improve financial inclusion for microenterprises through increased savings and the accompanying product and service spin offs.

**Table 1: Global Entrepreneurship Monitor (GEM) Report 2010**



## SECTION 3: DEFINITION OF MICROENTERPRISES

### 3.1 Global Definition of Microenterprises

Investopia (world's leading source of financial content on the web) describes a microenterprise as a small business that employs a small number of employees. A microenterprise will usually operate with fewer than 10 people and is started with a small amount of capital. Most microenterprises specialize in providing goods or services for their local areas. In South Africa it is estimated that the income for a microenterprise is between R4,000 – R27,000 per month (as noted by Centre of Inclusive Banking, University of Pretoria, 2010). When referring to a “small business” financed by microcredit the term microenterprise is often used. Internationally, most microenterprises are family businesses employing one or two persons. Most microenterprise owners being primarily focused on earning a living to support themselves and their families. They only grow the business when something in their lives changes and they need to generate a larger income.

In South Africa, a microenterprise can consist of 1 person (normally a self-employed owner operator with no employees). They include, for example, spaza shops,

minibus taxis and household industries, these businesses employ no more than 9 people.

Created due to unemployment, and the necessity to make a living, microenterprises may have broken the poverty barrier line, but are still precariously close to it. They need support (such as access to microcredit, education on how to operate and financially manage a business with the aim to save for education, medical and any further needs) to grow their businesses to fully escape poverty and provide job opportunities to their disadvantaged communities.

### 3.2 Microenterprises' Contribution towards the South African Economy

According to the Small Enterprise Development Agency (SEDA), Small Micro Medium Enterprises Quarterly Update, 3rd Quarter of 2017, the microenterprise sector provides employment to nearly 9.1 million people in South Africa. Of these, only 2.25 million jobs represent microenterprises (owner operators) while the balance of 6.9 million jobs (or 75%) are employees linked to a microenterprise operation.

Of all jobs provided to others by microenterprises, an estimated 37% are female workers. According to Top Performing Companies and Public Sector article (12 May 2017), small businesses (which includes microenterprises) contribute 34% to South Africa's Gross Domestic Product – which is lower than developed countries where that figure is around 50% to the GDP and in Asia that figure is around 40%. Regarding employment, small, micro and medium enterprises in South Africa absorb about 70% to 80% of the employed population.

In the National Development Plan, the South African government highlighted the significance of small businesses (which includes microenterprises) for job creation, innovation and competitiveness, with the goal that 90% of new jobs will be created by small, micro and medium enterprises in South Africa by 2030.

### 3.3 The Profile of Typical Microenterprises in South Africa

Microenterprises usually lack formality in terms of registration, this is possibly due to difficulties with formalisation as well as attempts to avoid any government regulations and taxes. The formalisation of businesses in South Africa (as well as other developing countries) is a difficult process mainly due to a number of limiting factors in the formalisation process. These limiting factors include access to information, regulatory barriers, administrative barriers, the fear of the unknown and

the business being too small to reap the benefits of formalisation. Lack of formal registration could restrict a microenterprise access to credit, access to a greater market sector, access to formalised contracts and access to partnerships to expand and grow the business as per Finscope Small Business Survey (2010).

According to Finscope Small Business Survey (2010), the owner demographic of South African microenterprises are as follows:

- 50% female;
- 83% black;
- 43% have completed high school

These microenterprises operate primarily from the residential premises of the owner (78%), but may also be found on a footpath or travelling door to door (14%).

In South Africa, microenterprises are primarily concentrated in urban (formal and informal) areas (67%) and 33% are found in the rural/tribal areas. A majority (73%) have been in existence for three years or more. A high percentage of microenterprises are primarily informal (Finscope South Africa, 2010) due to the limiting factors noted above. The lack of skills and education, lack of job opportunities resulted in many of them resorting to the informal sector as a means of survival and source of living.

As noted in the FinScope Small Business Survey (2010), for the microenterprises, the business is the sole source of household income. According to Finscope Small Business Survey (2010), Government grants are a source of income for only 9% of the households, while 16% of households also benefit from a salary or wage.

According to Finscope Small Business Survey (2010, funding for the microenterprises for start-up capital has been personal savings. The second biggest source has been family and friends. For the small enterprises, the second biggest source has been retrenchment or pension pay-outs or retirement policies. Loans have played almost no role in funding business start-ups, except for small enterprises for which loans are the third biggest source. For microenterprises, 45% required less than R1 000 and another 37% required between R1,000 and R10,000, leaving just 18% requiring more than R10,000. A majority of small businesses (57.6%) required more than R10, 000 to start their business. Finscope Business report a very low rate of borrowing, which highlights the financing gap and indicates a massive market waiting to be served.

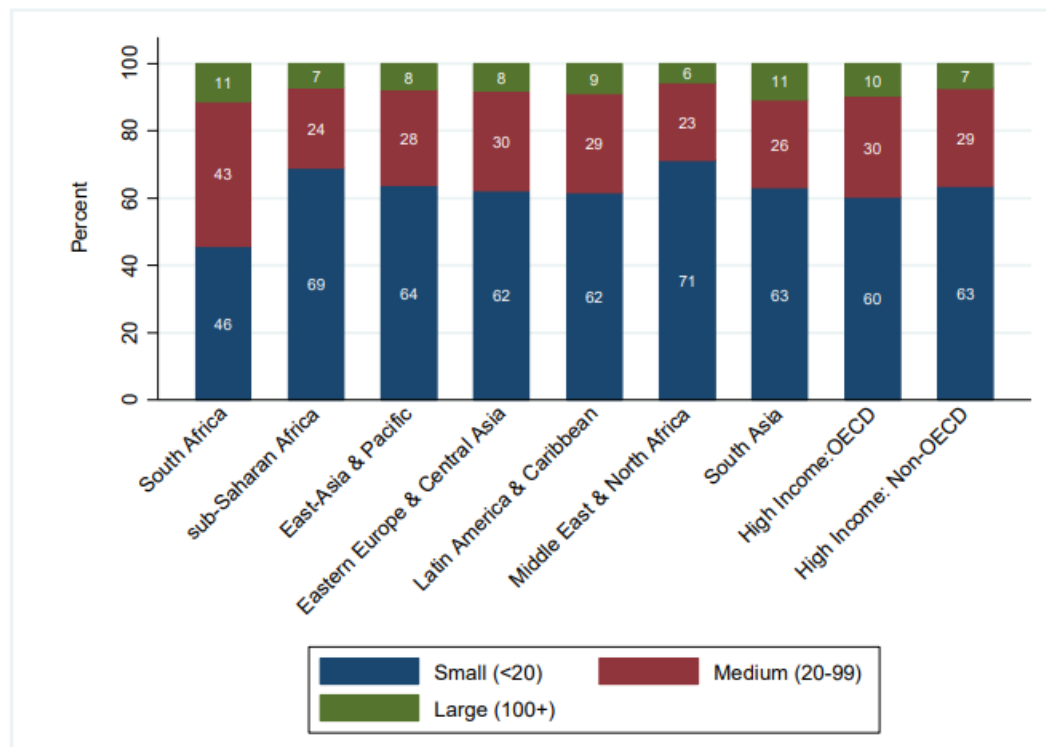
No more than 5% of microenterprises and survivalists (a survivalist business is a type of business that is not considered to have the potential to generate income or to provide employment) have ever borrowed for their business. Of those who have, friends and family are the largest source of loans, followed by the informal moneylenders for the survivalist cluster and Microfinance Institutions for the microenterprise cluster. Microenterprises need working capital, but a significant number also require longer term loans to upgrade premises (16.7%) or purchase machinery or equipment (9.5%). Microenterprise have three primary criteria for choosing a lender: speed, convenience and trust. (Finscope South Africa, 2010)

### *3.3.1 Current State for Microenterprises in South Africa versus Other Countries*

It is noted that the data used in the survey below is more than 10 years old, however The World Bank Group published a survey in 2007 using the manufacturing industry in South Africa as a comparison to other regions in the world. What is interesting to note in the graph below is that only 46% of businesses in the manufacturing industry in South Africa are small (this includes microenterprises) operating in the manufacturing sector – this number is considerably less than any of the other regional averages.

If the goal of the South African National Development Plan is that 90% of new jobs will be created by small, micro and medium enterprises in 2030, then it must be understood what the current barriers to entry are for microenterprises and why these microenterprises have such a short business survival rate. In addition, it would be interesting to see post further research, into the manufacturing industry in South Africa, how the 46% noted above has shifted in recent years and the reasons why it has shifted.

**Figure 1. Firm Size Share by Region: Manufacturing**



Source: World Enterprise Survey (2007).

It is noted that the data used in the report below is more than 7 years old, however the FinScope Small Business Survey (2010) determined that there are 5.6 million micro and small enterprises in South Africa, (it is noted that the current data may differ), which it then categorised into eight distinct Business Sophistication Measure (BSM) segments. In a subsequent report, Centre for Inclusive Banking (Pretoria University) 2010, combined these eight segments into the following three clusters:

Number of business per cluster (Source: Finscope Small Business Survey (2010)):

Clusters	Number	Percentage
Survivalist BSM 1-3	3 348 964	60%
Microenterprise BSM 4-6	1 676 052	30%
Small Business BSM 7-8	554 751	10%
<b>Total 769</b>	<b>5 579 769</b>	<b>100%</b>

### 3.3.2 Known Characteristics of Microenterprises:

The following table shows the characteristics of a microenterprise:

Understanding the make-up of a microenterprise	
Characteristics	Microenterprise
<b>BSM Level</b>	4 – 6
<b>Estimated Numbers</b>	1,676,052
<b>Proportion of Females</b>	50%
<b>Proportion of Blacks</b>	83%
<b>Finished High School</b>	43%
<b>Operational Area</b>	Home (primarily)
<b>Geographical Location</b>	Urban 65%
	Rural 35%
<b>Average Monthly Turnover</b>	R4,000- R27,500
<b>Average age in Business</b>	> 3 years
<b>Technology (Mobile Phones)</b>	76%
<b>Business Records</b>	
Yes	74%
No	26%
<b>Business Sole Source of House Hold Income</b>	72%
<b>Employment Creation</b>	Yes (40% have at least 1 employee)

Source: Centre for Inclusive Banking (Pretoria University) 2010

As per Centre for Inclusive Banking (Pretoria University) 2010, virtually all (99%) businesses in the microenterprise cluster are informal. An informal business is an operation that is not registered with the relevant authorities (such as the South African Revenue Service, Companies and Intellectual Property Commission (CIPC), Department of Trade and Industry (DTI), etc. The most common business types are service (hair salon, mechanic, car wash and catering), manufacturing (dress making, welding or steel works), retail (tuck shops/spaza shops, clothing, fruits and vegetables) and agriculture (poultry). A majority (53%) buy and sell in the same form, without adding any value.

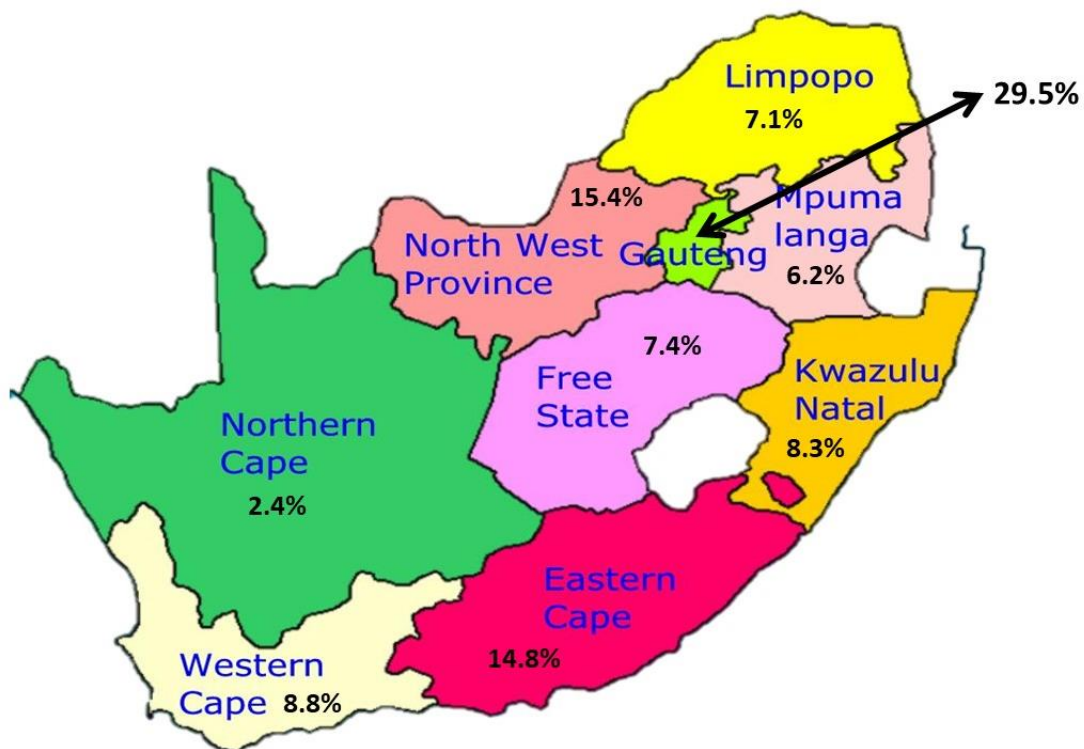
Of these microenterprises, 74% maintain some form of manual business record, and although 76% own a cell phone, there is little use of technology in the microenterprises business (computers and printers). The payment mechanisms of microenterprises are cash-based, they do not use credit card machines or digital payment facilities. They use cash to pay their creditors, and their debtors use cash to pay them.



### 3.4 Geographical Spread of Microenterprises by South African Provinces:

The graphic below depicts the geographical spread of microenterprises across South Africa. Nearly 30% of microenterprises are located in Gauteng, which holds two of the country's largest cities, Johannesburg and Tshwane. The North West province is the second largest microenterprises sector – this could be due to low levels of economic activity, and that this province is highly focused on agriculture and mining (StatsSA, 2017).

**Geographical Spread of Microenterprises in South Africa**



Data source: StatsSA 2017. Visual depiction done by IEDP 2018: Syndicate 1



## SECTION 4: PROBLEM STATEMENT & BUSINESS CASE

### 4.1 Problem Statement

Why are financial institutions in South Africa not attracting revenue generated by microenterprises in the form of savings?

### 4.2 Business Case

There are about 1,676, 052 microenterprises in South Africa, as referenced in 3.2 above. Thirty four percent of South Africa's Gross Domestic Product comes from the small business sector, which is less than the developed countries of around 50% or those in Asia of around 40%.

Trading Economics - South Africa (2017), shows the South African GDP as 349.42 billion US dollars.

If the South African microenterprise market was to grow its contribution to the South African GDP to at least that of the Asia at 40%. It could mean a further 10% to 20% contribution by the Microenterprises sector to the GDP of South Africa of about 10.48 billion US dollars to 20.97 billion US dollars as per Trading Economics – South Africa (2017).

The average monthly turnover for microenterprises ranges from R4,000 to R27,000 as referenced above in the table under 3.3.2. From interviews with microenterprises, we could estimate that an average of 10% of their turnover is used for savings. With the potential growth of about 10% to 20% in GDP, this could relate to a savings market that ranges from of R670 million to R4.5 billion.

Financial Institutions have an opportunity to attract these savings to assist microenterprises to build a financial profile and footprint that would allow them to access products and services to grow and sustain their businesses. The cost of creating products or channels to attract these savings of R4.5 billion would have to be explored further and would require further research. The South African financial sector consists of banks and non-bank financial services providers which are collectively referred to as financial institutions. Insurers, pension funds, unit trusts and collective investment schemes and micro finance institutions fall within the ambit of non-banks, however for the purposes of this literature review the focus is to determine if the existing

products/services offered by the financial sector in South Africa serves the savings needs of microenterprises.

## SECTION 5: LITERATURE REVIEW

The literature review approach followed for the purposes of obtaining an understanding of this section of our project. It has been narrowed down to 6 key focus areas/objectives.

The key review **objectives** are:

- 5.1. *Which options (other than formal financial institutions) are available to microenterprises to save their money?*
- 5.2. *Are financial institutions supplying products, especially savings products, to suit the needs of the microenterprises?*
- 5.3. *What are the product needs of microenterprises?*
- 5.4. *Which options are available to microenterprises to access credit to finance their businesses?*
- 5.5. *How accessible are financial institutions for microenterprises?*
- 5.6. *Which regulatory changes are required to allow microenterprises to deposit their money anywhere?*

### 5.1. Which options (other than formal financial institutions) are available to microenterprises to save their money?

As noted by Anneke van Aswegen SBSA BizConnect (2015), the hunt for finance in relation to both start-up and working capital, is an ongoing challenge for most small businesses in South Africa. A microenterprise start-up might require several rounds of funding before it can generate sufficient cash flow from sales to finance operations.

Often start-up microenterprises trade from their personal bank account, making it difficult to differentiate between personal expenses and business expenses. As a result microenterprises are unable to build up a credit risk and financial profile for the business, which is an important factor should the microenterprise ever want to approach a bank or other financial institution for financing.

Although some of the following options are deemed to be “formal”, we have reviewed them under the informal sector as they are non-deposit taking institutions and offer non-traditional financial options to microenterprises:

- Stokvels
- Co-Operatives
- Micro-Finance Institutions

### **Informal Savings through Stokvels**

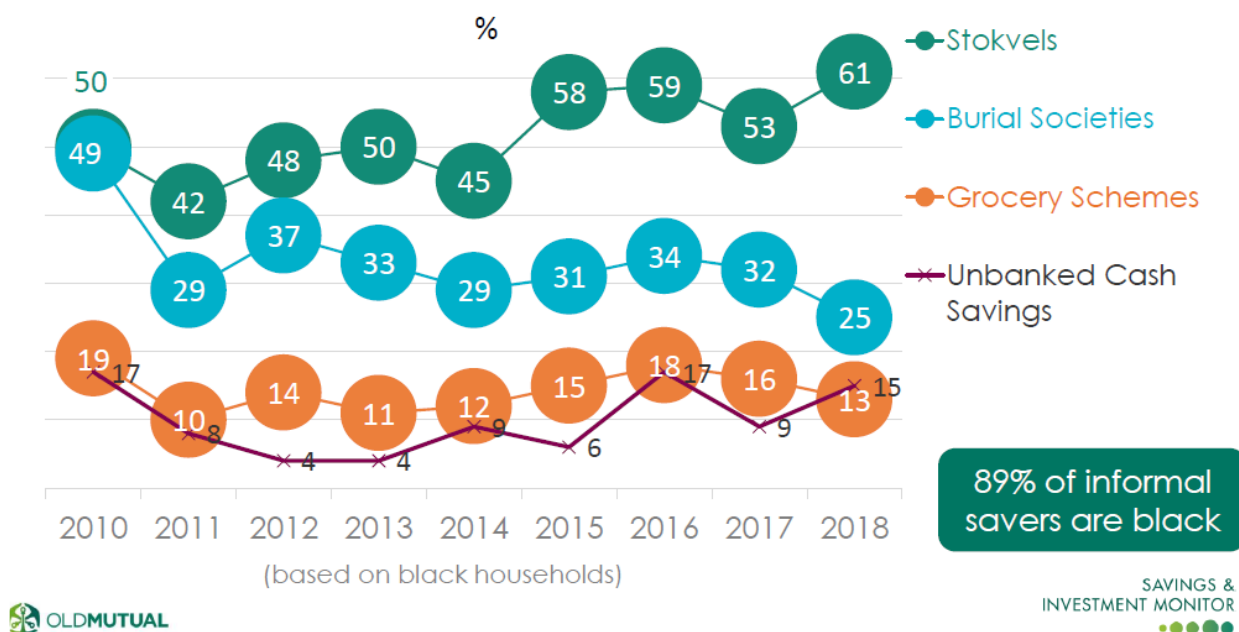
The National Stokvel Association of South Africa (NASASA) published (2018) that there is currently an estimated 800,000 active Stokvel groups in South Africa, representing over 11 million South Africans, NASASA reports that it has collected a database of 125,000 Stokvel groups nationally, with which it maintains contact through its communications platform.

According to Andrew Lukhele, a Stokvel, “is usually a small group of people who know one another and who contributed equal amounts of money on regular basis to pool. Be it monthly, fortnightly or weekly, the members get together to give money to one beneficiary, on a rotation basis, in the presence of others. He further states that “Stokvels usually have defined objectives for example, to buy each other household appliances, CD’s, groceries, or to enable one another to raise capital so as to avoid going for hire purchase or a loan. Members of Stokvel hold regular meetings to discuss their activities. According to the present laws of South Africa Stokvel is not allowed to exceed R9.9 million in its banks deposits. (A. Lukhele, Three Decades of Stokvel Banking, May 2018)

Currently there is an estimated R700 billion of formal savings in black hands – which include BEE share schemes, pension funds and direct shareholding. This does not even include the estimated R49 billion held in Stokvels. (A. Lukhele, Three Decades of Stokvel Banking, May 2018)

Recent publications that monitor savings in South Africa show a growing preference for informal savings through Stokvels (Old Mutual Savings Monitor, 2018, Finscope 2017). Informal savings are savings that are not deposited into formal financial institutions like banks and licensed financial services companies.

## INFORMAL SAVINGS



Informal Savings, Old Mutual Savings Monitor, 2017, Page 22.

Andrew Lukhele (Chairman of NASASA) noted that “South Africa’s black, “unbanked” community is struggling to come to terms with a banking system whose services are not equipped or geared to meet the community’s special credit and banking needs – a banking system that is perceived as being exploitative and geared towards white interests”. His commentary should be given further consideration as the Old Mutual Savings Monitor (noted above) indicates that 89% of informal savers in South Africa are black.

Stokvel Contributions:

Household Income	2017 Contribution	2018 Contribution	% Increase/Decline Year-On-Year
Less Than R6k	R339	R372	Increase Of 12%
R6k –R13 999	R622	R630	Increase Of 1%
R14k –R19 999	R978	R796	Decrease Of 19%
R20k –R39 999	R1 085	R873	Decrease Of 20%

Source: Old Mutual Savings Monitor, 2017, P.23

The preference for informal savings seems to be a worldwide trend. According to Seel (2018) “there is a tremendous, relatively untapped opportunity for the formal financial sector to extend their reach to the rural poor. Millions of people have joined informal savings groups in 75+ countries, with estimates ranging over \$1 billion in assets”.

South Africa is not unique in having group savings schemes or clubs similar to Stokvels. Global Findex (2017) states that “about half of adults worldwide reported saving money in the past year. In high income economies 71 percent reported saving, while in developing economies 43 percent did. People save money in different ways. Many save formally, such as by using an account at a financial institution. In high-income economies more than three-quarters of savers (55 percent of all adults) save using this method; in developing economies just under half of savers (21 percent of all adults) save this way. A common alternative is to save semi formally, by using a savings club—particularly common in Sub-Saharan Africa— or by entrusting savings to someone outside the family. And some save in some other way. This may include simply saving in cash at home (“under the mattress”).

## **Co-Operatives**

As noted by the Department of Trade and Industry (DTI) (2018), “the promotion of co-operatives, a flagship project of the DTI (2004/05), had the additional purpose of serving as an initiative to address the needs of the so-called 'second economy'. Within this context, the Co-operatives Act of 2005 and the Co-operative Banks Act of 2007 provide the legislative framework for promoting and regulating co-operatives in the country.

In 2007, the Co-operative Banks Development Agency (CBDA) was conceptualized in the Cooperatives Banks Act and established in 2009. Its mandate is to support the development and establishment of Cooperative Banks and Cooperative Financial Institutions (CFI). Once the CFI’s become banks then they are regulated by the South African Reserve Bank.

A CFI is the umbrella term used for member-based deposit taking financial co-operatives owned and controlled by their members who have a common bond. CFI’s therefore can also be described as Savings and Credit Co-operatives (SACCOS), Financial Co-operatives or Financial Services Cooperatives (“FSC’s”) or Credit Unions.

In his foreword to the 2016/2017 annual report of the Cooperatives Bank Development Agency, the then Minister of Finance, Malusi Gigaba, said that he appreciated the work that was being done by the Agency “in taking banking to the people of South Africa in order to fulfil governments mandate of inclusive economic growth and recognising financial inclusion as one of the critical components”. The facilitation of

CFI's to be able to accept deposits was further provided for under the Banks Act Exemption Notice of August 15, 2014.

However, as noted by the Cooperatives Development Agency Annual Report (2017) – since its establishment in 2009, the agency has only been able to register 2 Cooperative Banks with assets of only R112 million and deposits of R104 million. This does not give a sense that the strategy to develop Cooperative Banks and CFI's to advance financial inclusion has been achieved.

The membership of these Cooperative Banks stands at 2,392 which is miniscule when compared to the 11.4 million members of Stokvels. This possibly points to the failure to harness the large numbers of members of Stokvels and their R44 billions of savings. It also brings into question whether the structure and size of Cooperatives in South Africa can position them to service the microenterprise industry.

Table 1 Total Sector Metrics February 2017								
	2016	2017	2016	2017	2016	2017	2016	2017
	Numbers		Members		Deposits		Assets	
Co-op banks	2	2	2 258	2 392	R94.5m	R104.0m	R107.4m	R112.0m
Eligible CFIs <sup>1</sup>	14	16	21 978	24 066	R136.3m	R122.6m	R162.6m	R167.9m
Other	14	12	5 516	3 360	R3.0m	R987K	R9.6m	R3.2m
Total	30	30	29 752	29 818	R233.8m	R227.6m	R279.6m	R283.1

<sup>1</sup> These CFIs meet the minimum requirement for registration as a co-operative bank i.e. 200 members and R1 million in deposits, but fall short in terms of financial, human, prudential and/or operational requirements.

The CDBA report further states that it is working with 16 eligible Cooperative Financial Institutions (CFIs). Eligible CFI's are defined as "CFI's that meet the minimum requirement for registration as a Cooperative Bank (i.e. 200 members and R1 million in deposits), but fall short in terms of financial, human, prudential and/or operational requirements". Several commentators have indicated that the failure to register more Cooperative Banks has to do with the membership threshold and capital requirements. (Mushonga et al 2015, Department of Trade and Industry policy document on Promoting and Integrated Cooperative Sector in South Africa, 2012).

In an article "Drivers, inhibitors and the future of co-operative financial institutions, Mushonga et al argues that "the CFI penetration rate in South Africa is the lowest in the world at 0.06% compared to Kenya (13.3%), Rwanda (13.8%), Togo (26.7%),



Australia (17.6%), Canada (46.7%), United States (52.6%), Ireland (74.5%) and the worldwide average of 13.5% (WOCCU, 2016).

Unlike in Tanzania and Ghana only Cooperatives and Banks in South Africa can accept savings in the form of deposit taking. As a result, microenterprises can only save through formal financial institutions or informally through Stokvels, as Stokvels are exempt from deposit taking rules. “48.6% of adults in Tanzania are served by non-banks such as MFI’s, SACCOS, Financial NGOs, Insurance and Mobile Payments”, Tanzania Association of Microfinance Institutions (TAMFI) presentation (undated). The South African data shows that South Africa is not succeeding in growing Cooperative Banks which could possibly play a significant role in taking formal financial services to the poor and unbanked as is the case in other African Countries.

### **Micro-Finance Institutions**

In South Africa micro finance institutions are institutions that are registered with the National Credit Regulator and typically provide small loans. According to the National Credit Act these are loans up to a maximum of R8000 payable over six months with an initial interest of 5% per month and 3% per month for any subsequent loan taken within the same year. According to a microfinance review done by Bankseta (2013), there are seven categories of suppliers of primary microfinance services in South Africa:

- micro-enterprise lenders;
- salary-based micro lenders;
- co-operative financial institutions,
- primary banks;
- alternative banks;
- affordable housing finance suppliers;
- retailers

In comparison to Tanzania, the Tanzania Association of Microfinance Institutions (TAMFI) reports that the microfinance sector in Tanzania comprises of four types of financial service providers namely:

1. Licensed and regulated microfinance service providers such as banks and financial institutions;
2. Savings and Credit Cooperative Societies (SACCOS);
3. Non-licensed Microfinance Companies; Financial NGOs; Government Funds and Programmes;

4. Informal community financial groups such as Community Based Organizations - CBOs, VICOBA, Village Saving and Loan Associations – VSLAs, Rotating Saving and Credit Associations- ROSCAs, moneylenders, and other financial related service providers.

TAMFI further reports that there are five regulated Microfinance Institutions in Tanzania known as Microfinance Banks. Four out of the five Microfinance Banks are members of the TAMFI. In South Africa, for any institution to provide any type of credit, it has to be licensed by the National Credit Regulator and be subject to the provisions of the National Credit Act of 2004(NCA). The NCA prescribes categories of loans, quantum of charges and what minimum lending criteria should be applied. The NCA provides for a special category of loan termed “developmental credit” which requires the provider to obtain supplementary registration.

MFI's in South Africa are not allowed to take deposits, organisations like the Small Enterprise Foundation (SEF) can only facilitate savings, in that the microenterprises they lend to have to save with a formal institution and provide proof to SEF. This means that SEF and other similar organisations have no control over the savings products offered by financial institutions unless through collaboration, which at this point is not evident. Unless South Africa goes the route of other African countries like Ghana and Tanzania, in allowing non-bank Micro Finance Institutions to accept deposits, there will be continued reliance on banks and other formal financial services to provide appropriate savings products aimed at the excluded and microenterprises. The inability of Micro Finance Institutions to leverage savings to invest and grow could also be a reason why they are not able to attract investments and scale up their services for the benefit of their clients.

## 5.2. Are financial institutions supplying products, especially savings products to suit the needs of the microenterprises?

The Financial Education, Savings and Investment report (June 2013) reports that, the way people save can have a significant impact on the economy. Too much informal saving, or a preference for saving in property or livestock, for example, may mean insufficient financial investment for long-term growth. In general, people with higher incomes are more likely to save with financial institutions, and in countries with well-developed capital markets more likely to buy stocks and shares and make other financial investments.



People on low incomes are much more likely to save informally, most often keeping cash at home, or with family members. The report continues to state that formal saving requires access to financial products – at the minimum a bank transaction account or savings account. In developing countries, mobile telephone banking is revolutionising access to transactional banking, allowing users to receive payments into ‘mobile wallets’, send payments to other users, and obtain cash. These virtual accounts are of limited use as savings vehicles – they do not pay interest and usually have limits on the amount of money that can be held – but they do offer a potential route into formal financial products. Using savings products, therefore, requires access to the banking system. However, people on the lowest incomes, the microenterprises often cannot afford bank charges, or fear penalties if they go overdrawn.

The Financial Education, Savings and Investment report (June 2013) reports that banks do not actively seek low income and microenterprises current account customers, as they are not profitable and the opportunities to ‘cross-sell’ other products are very limited. Microenterprises, for example, value the ability to save small amounts, maybe irregularly. Instant access is usually important although, conversely, some may want the money locked in for a specific time so they are not tempted to spend it. Some microenterprises are also likely to prefer face-to-face contact.

An observation of informal Susu deposit collectors in Ghana was that microenterprises valued the convenience of door-to-door collection and the interaction with the individual Susu deposit collector. Convenience meant being able to deposit money on a schedule and amount that suited the microenterprise; the fact that the collector came to the client; and the speed of transactions (three minutes on average). Clients further appreciated that the Susu savings collectors came from the local area, spoke the local language, and demonstrated the qualities of a good person.

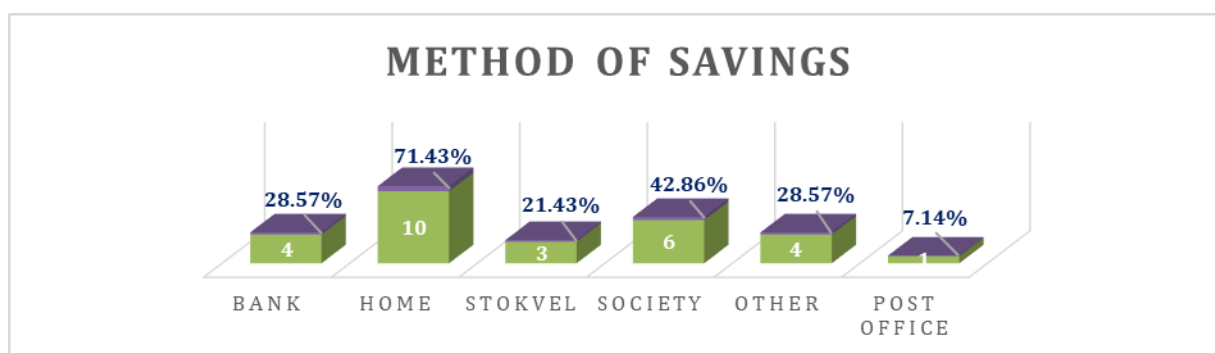
There is also complexity in the way financial services providers present choices can also act as a barrier to saving. Financial institutions make extensive use of jargon, and may interpret disclosure requirements in a legalistic way. This means that the ‘small print’ can run to dozens of pages, and be incomprehensible to the consumer. In consequence, products may look more complicated than they actually are, or microenterprises may not understand important product features, like charges and risks. Faced with information they do not understand, many microenterprises may be

deterred from using saving products which could be useful to them. Language may also be a problem. For example, around 60 countries have English as an official language, and disclosure and other financial documents are likely to be written in English. These documents are difficult enough to understand for native English speakers this is according to Financial Education, Savings and Investment report, June, 2013.

To understand whether financial institutions are supplying products, especially savings products to suit the needs of the microenterprises, it is important to understand how customer centric these financial institutions are. Tanaya Kilara and Elisabeth Rhyne stated that “customer-centricity is about providing solutions based on a deep understanding of customer needs, preferences, and behaviours. To effectively put the needs and aspirations of customers at the centre of business strategies and decision-making, financial service providers may have to rethink their operations and invest significant effort and resources to change not only business operations but also organizational mind-sets”. They further argue that “a customer-centric organizational approach is critical for solving a core challenge in financial inclusion: the access-usage gap. Many new inclusive financial products have seen rapid enrolment followed by low usage. Understanding this gap involves looking in detail at how the product appears to customers and how it fits into their lives”. Tanaya Kilara and Elisabeth Rhyne, 2014, “Customer Centricity for Financial Inclusion” CGAP, Washington DC.

From the responses received from the microenterprises and individuals who choose to save through Stokvels there is strong evidence that banks and other formal institutions are not as customer centric as they would like to believe and as a result are not able to fully meet the needs of the consumers.

Strategies to overcome barriers like cost, distance, trust and channels can be used to close the access versus usage gap. To increase financial inclusion, it is apparent that financial institutions have to focus on gaining the trust of microenterprises and also change the perception that their products are expensive and inaccessible. Financial Institutions should consider designing savings products that allows microenterprises to make regular (daily, weekly or monthly) savings without having to incur exorbitant administrative fees for such deposits. From our survey’s conducted across microenterprises in South Africa, 71.43% of them indicated that they save their money at home because of paperwork requirements, low returns and difficulty to access their money when they need it.



Syndicate 1 (2018) – Survey with 14 microenterprises in South Africa

Some of the key elements that the microenterprises look at when saving, is ease of access, minimal or no fees and minimal administrator/paper work.

### 5.3. What are the product needs of microenterprises?

To gain an understanding of the needs of the microenterprises, it's important to gain insights into the issues and challenges that they are currently facing. Across various reviews, it's clear that there are both internal and external challenges facing microenterprises. The table below depicts some of these challenges that we can think of:

Internal Challenges	External Challenges
Insufficient capital to support business	High crime rates
Lack of education on how to run a business	Financial challenges (access to funding)
Access to finance	Too stringent laws & regulations set by Government
Lack of infrastructure (skilled labour, machiner	Access to banking infrastructure unattainable
Cost of goods to supply demand	Lack of political stability in the country
Dealing with market competition	Cost of banking via formal financial institutions
Insufficient record keeping	

In a research article published by Labie (2006), he notes that most microenterprises start their existence without any institutional help. The entrepreneur usually obtains the small amount of finance he needs from his own savings or from his family. However, microenterprises then find it difficult to grow without the possibility to borrow

additional capital from lending institutions (Levitsky, p.1). The difficulty stems from the fact that, in developing countries, the banking system causes "imperfections in financial markets that constrain small borrowers access to credit" (Webster, vii).

The reasons are (Levitsky; OECD; Waterfield):

- a) Banks are biased in favour of lending to large enterprises.
- b) Lending to small and microenterprises is considered to be risky.
- c) The administrative costs of lending to small and microenterprises are high and can sometimes reduce the profitability of such loans to (almost) zero.
- d) Small and microenterprises are often unable (or unwilling) to give precise information about themselves.
- e) Small and microenterprises can rarely provide securities or collaterals for their loans.

When formal financial markets cannot fulfil the needs of small and microenterprises, informal markets will do so, but usually at usurious rates which jeopardize the survival of small and microenterprise businesses (Human Development Report, p. 44), Labie (2006).

Across all the literature accessed, it is evident that financial accessibility remains a big obstacle in the lives and operations of small and microenterprises. Not only do they find difficulty in obtaining financial resources to grow their businesses, majority of them do not make use of banking products which has placed them at a disadvantage. With their lack of savings (albeit that some of them invest in informal schemes) they are debilitated when money is needed to pay for education, health, death and other pertinent issues.

The current financial system in South Africa has made it near impossible for microenterprises to engage – based on the literature and previous researches done, the primary reasons for their exclusion is due to the stringent criteria set by institutions as a point of entry. In our review of other countries such as Ghana and Tanzania, we saw that regulation was enhanced to cater for greater inclusion by making banking more accessible.

The concept of taking “banking to the people” is what has been the key turnaround. The use of Susu’s (Ghana) and Wakala’s (Tanzania) has allowed microenterprises to save money on a daily, weekly or monthly basis. Institutions in these countries

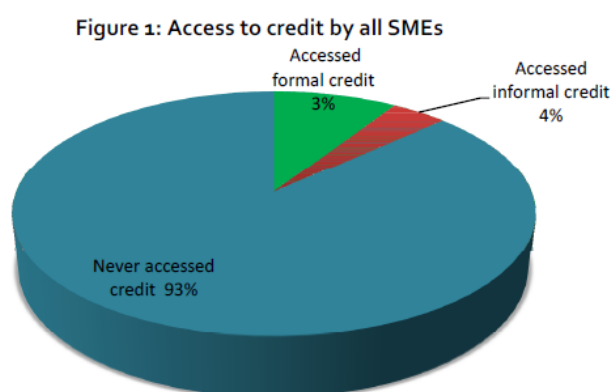
understood the needs and barriers faced by microenterprises and through that introduced products specific to those needs (as an example, creating a savings as collateral scheme which allowed them access to credit to build their businesses thereby providing for their futures. Most literature and research indicates that small or microenterprises require products that are easily accessible and low to zero administrative fees. They want to trust that institutions will take their best interest into account.

#### 5.4. Which options are available to microenterprises to access credit to finance their businesses?

Microenterprises need access to funding and credit in order to be sustainable in the long run. Having a financial track record of savings could possibly allow the microenterprise to meet the criteria required to access these products and services.

Banks and other credit providers play a critical role in providing financial access to microenterprises through the introduction of tailored products to meet their needs. The small and microenterprise sector is unable to access loans from the commercial banks due to lack of financial knowledge, collateral and credit history (Mutezu, 2015). Foxcroft, Wood, Kew, Herrington, & Segal (2002) indicate that lack of collateral security in South Africa emerged as an obstacle hindering the access to bank finance for small and microenterprises.

FinScope Survey (2010) of Small Business in South Africa reflects in Figure 1, 93% of firms (both formal and informal) never had access to either formal or informal credit. The trend is almost the same even among registered enterprises.



Source: 2010 Finscope survey

The table below indicates products offered by the commercial banks to microenterprises and indicates that generally microenterprises obtain unsecured lending, however the probability of being successful in obtaining more secured loans was very limited. Traditionally, microenterprises are considered high risk and banks have limited risk appetite to finance this type of the market.

**Table 6.2: Lending products offered to SMEs by banks**

Statement	Level of Extent				Sample Size	Rank
	To a very large extent	To some extent	To a little extent	Not to an extent at all		
Credit cards	90.9% (169)	3.8% (7)	1.1% (2)	4.1% (8)	186	1
Overdraft	87.1% (162)	8.6% (16)	0.5% (1)	3.8% (7)	186	2
Short-term loans	63.3% (117)	25.9% (48)	9.7% (18)	1.1% (2)	185	3
Vehicle and asset finance	55.7% (103)	28.1% (52)	11.4% (21)	4.9% (9)	185	4
Mortgage loan	29.10% (54)	40.5% (75)	21.6% (40)	8.6% (16)	185	5
Bond for premises	28.8% (53)	32.1% (59)	28.8% (53)	10.3% (19)	184	6

Source: Mutezu, 2015

As stated by the Financial Services Regulatory Task Group (2007), limitations of access to finance for microenterprises are very common. Given their highly conservative nature, South African banks and lenders are more inclined to put resources in small businesses (including microenterprises) in their later stages of development. They are less likely to lend to start-up microenterprises. The degree of these inclinations, however, can vary depending primarily on locational differences. For instance, Finscope's Small Business Survey (Finmark Trust, 2010) reported that microenterprises in Gauteng and North West tend to have greater access to finance relative to microenterprises in the other provinces. In Gauteng, the greater access to finance could partly explain why the province is home to about 48% of formal microenterprises (The DTI, 2008). Microenterprises in Mpumalanga and the Northern Cape, on the other hand, find it difficult to access finance. This is mainly due to the predominantly rural nature of these provinces.

According to the Global Entrepreneurship Monitor (GEM) South Africa 2014 report, lack of access to finance and poor profitability, are among the chief reasons for business discontinuance in South Africa. The GEM report also pointed to poor profitability, as a reason for discontinuance, was rising sharply. Typical hindrances towards microenterprise obtaining finance include: inadequate collateral on the part of the entrepreneur, a lack of credit history (Financial Services Regulatory Task Group, 2007), the inability to produce an acceptable business plan according to financial institutions, poor market research and the absence of a viable business idea, and lack of access to vibrant markets (GEM, 2014).

### 5.5. How accessible are financial institutions for microenterprises?

One of the ways in which financial institutions in other countries have dealt with accessibility is through Agency Banking. Agency Banking is a method through which traditional banks are enabled by legislation to deliver some of their services to low income customers located in remote areas through third parties. In Ghana, Tanzania and Brazil the banks use agents (e.g., Susu's, Wakala's, correspondents, etc.) to reach the microenterprises with various banking conveniences. For example the Fidelity Bank in Ghana offers a Smart Account which is accessed through what they call Smart Agents. Smart Agents are diverse and include grocery stores, supermarkets, pharmacies, phone shops etc. that are recruited, trained and certified by Fidelity Bank to conduct basic banking transactions on their behalf. Fidelity Smart



Agents are equipped with Point of Sale terminals (POS), with which they assist clients in making deposits, withdrawals, bill payments and other basic banking transactions. (Fidelity Bank Website and Site Visit).

According to the Oxford Group, despite the mobile revolution in Tanzania, agency banking was introduced to Tanzania with the publication of the Guidelines on Agent Banking for Banking Institutions by the Bank of Tanzania (BoT) in 2013. The regulations allow the BoT to issue approval for banks to conduct agency banking using a set of predetermined criteria. According to the BoT, by the start of 2016 a total of 13 Tanzanian banks had 3,299 agents working across the country. CRDB Bank had the largest number of agents (1,719), followed by Equity Bank Tanzania (333), Tanzania Postal Bank (301) and DCB Commercial Bank (138). The growth of this new channel has seen some rapid increases. In 2015 all but a handful of Tanzania's 31 regions saw a double- or triple-digit percentage increase in the number of agents, with the Manyara region posting 4500% growth over the course of the year. Even in Dar es Salaam and Arusha, where financial infrastructure is denser, growth rates reached as high as 67% and 58%, respectively.

Brazil also allows for what is called "correspondent banking". According to CGAP "with more than 400,000 agents as of December 2013 according to the Central Bank, Brazil has one of the largest agent networks in the world. 70% Of respondents regularly pay at least one bill through this channel. However, only a very small proportion of respondents use agents for transacting through a bank account or accessing new financial products: just 12% of banked respondents usually make their withdrawals at an agent, and 9% usually deposit at an agent. Even fewer have opened a bank account (4% of banked individuals) or accessed credit (6%) through the agent channel. Although the percentage of Brazilian respondents who use agents for financial services beyond bill pay is small, agents have reduced exclusion by serving traditionally underserved populations. Those who do use the channel are more likely to be poor, less educated, female, and to live in small towns, rural areas, and the Northeast, Brazil's poorest region" (Caitlin Sanford, 2014)

In South Africa non-banked customers are served by agents but mainly for remittances. Digital money transfer services are also widespread through what is called "e-wallet" or "cash send" offered by some of the banks. This is quite limited compared to other countries where clients can perform a wide range of transactions including account opening, deposits, balance enquiries, statements, airtime top up and payment of utilities.

According to Finmark report on mobile money in South Africa (2017), the payment of funds into a mobile money account would constitute a deposit because the



depositor will be allowed to withdraw the funds on demand. The entity offering the mobile money account by accepting deposits is conducting the business of a bank. Again re-iterating that MFIs does not have the authority to take deposits from the general public.

In a paper titled “Can agency banking improve financial inclusion in South Africa?” Dr Penelope Hawkins details the following reasons as being barriers to Agency Banking in South Africa:

- i. Lack of clarity regarding the application of regulations. Both Pakistan and India have endeavoured to establish clear guidelines for branchless banking. In South Africa, two of the biggest institutions appear to be taking a liberal (and possibly correct) approach to FICA regulations, while others (both big and small) appear to be taking a highly conservative (and possibly correct) approach. Clarity is needed. Lack of a mobile PCH13 for small inter-bank transactions – and hence reliance of the Card PCHs14.
- ii. In India, Brazil, Kenya, small merchants are keen to attract more customers into stores and service them. While there will be costs to this – such as having to maintain higher cash balances, visiting the bank more frequently, even having higher rentals, the benefits of drawing more custom into the store (or direct incentives) help outweigh the cost<sup>15</sup>. For example, in Kenya, M-PESA agents were remunerated upfront for each agent acquired<sup>16</sup>. In South Africa, labour agreements prohibit the possibility of exclusively offering incentives to the small group of store staff selling banking services. The outcome is that motivation to do the extra work is low, and initiatives in stores flounder. Agency costs and scale In other markets where correspondent banking is successful – such as Brazil, the model of agency management appears to be working successfully.
- iii. In South Africa, an agency network is costly – in terms of management, monitoring and servicing by the bank and this is only likely to be cost effective if economies of scale can be reached where a single bank employee manages a substantial number of agents. In the view of some, agency scale has been undermined with the large number of interoperable ATMs and Points of Sale distributed throughout South Africa.
- iv. Cash handling costs high Brazil – research into small merchants acting as banking correspondents suggest that cash handling is not a major cost to

agents<sup>17</sup>. In South Africa, retailers have long complained about cash-handling costs<sup>18</sup>, and interviewees suggested agents fall out of the system because they are now obliged to keep a certain float level or because agency banking arrangements mean they can no longer avoid cash handling costs.

- v. Difficulties of identifying appropriate agents while no one has specifically documented this, where community banking and correspondent banking is successful this barrier must presumably have been overcome. In South Africa, it is difficult to identify potential agents that have - or who will earn - sufficient trust from the community that they will be willing to deposit money with them. Moreover, many of the owners of spaza shops – and potential banking agents in the townships – are illegal foreigners. Since these foreigners don't have the prerequisite papers, they cannot be engaged to mobilise this service offering.

It is clear from the above that it is only through regulatory reforms that Agency Banking can take off in South Africa.

#### 5.6. Which regulatory changes are required to allow microenterprises to deposit their money in non-deposit taking financial institutions?

Section 22 of the Bank Act No.94 of 1990 makes the provision for the South African Reserve Bank (SARB) to approve the use of the name of a bank provided that it's used by a division, brand or product of that bank. Further, the SARB published a position paper on e-money in 2009 (NPS 01/2009) where it provided that only registered South African banks can issue e-money. A non-banking entity is prohibited from accepting deposits or issuing e-money unless a specific joint venture with a bank is approved.

Some banks attempted to issue e-money by partnering with non-banking entity such as the introduction of MPESA product however this did not materialise. In a report on the suspension of operations (Prinsloo, 2016), Vodacom Chief Executive Officer, Shameel Joosub, cited the following reasons for the decision: "The business sustainability of MPESA is predicated on achieving a critical mass of users. Based on our revised projections and high levels of financial inclusion in South Africa there is little prospect of the M-PESA product achieving this in its current format in the mid-term".

According to Finmark Report on Mobile Money in South Africa (2017), the following questions were explored with representatives from bank supervision (now the Prudential Authority) in a meeting held 21 April 2017:

- What is the primary risk being addressed through the definitions that resulted in the Mobile Network Operators partnering with a bank?
- Is there an opportunity to re-visit the definitions of deposits and the business of banking to enable a competitive offering to be launched without the partnership with a bank?

In response, the participants highlighted that the primary risk being addressed is to protect the depositor against the risk of institutional failure, followed by ensuring efficiency, integrity and transparency and improving financial inclusion. Additionally, any regulation that allowed for the launch of services outside of a bank would need to ensure a level playing field for all potential players and not unduly benefit any specific party.

According to Finmark Report of Mobile Money in South Africa (2017), there are a number of initiatives underway that may change the regulatory environment over the coming years. These include:

- A review of the National Payment System Act (NPSA) to strike a balance between the NPS and banking. This includes a review of the implementation of e-money and is covering remittances but has only recently been initiated and has not yet made any recommendations.
- There is a recognised need to revisit the banks frameworks, including mutual banks, co-operative banks and the concepts in the dedicated banks bill. A working group on virtual currencies has been established.
- The Financial Sector Regulatory Act will result in a shift of the focus to regulating the activity, service or product rather than the institution

According to CGAP - The South African regulatory framework gives wide discretion to banks to use non-bank third parties to offer banking services beyond their traditional branch network, either as agents or through outsourcing arrangements. The Banks Act allows a bank to contract agents “to receive on [the bank’s] behalf from its clients any deposits, money due to it or applications for loans or advances, or to make payments to such clients on its behalf”.

The only restriction is that a bank may not enter into an agency agreement until it has provisioned for the bank's organizational extensions, purchase of a business, losses (including any loss suffered from a sale of assets), and bad debts. (Update on Regulation of Branchless Banking in South Africa, January 2010.

## SECTION 6: RESEARCH METHODOLOGY

Our research uses both qualitative and quantitative methods of research. Due to time constraints the bulk of the research or investigation will be done by desktop which will be supported by information gleaned from face to face interactions with various stakeholders during the three country study tours as well as interviews with some service providers and microenterprises in South Africa.

Our research methodologies (listed below) and data collection will be applied against the following stakeholders: microenterprises, developmental lenders, savings groups and institutions, regulators and banks located in South Africa, Ghana, Tanzania and Brazil

### 6.1 Primary Data:

- 6.1.1** Conduct structured interviews with various stakeholders such as microenterprises, a general survey done with members of Stokvels and information collected from various study tours.
- 6.1.2** Conduct surveys with structured questions relating to why the formal financial sector is not able to attract revenue generated by microenterprises.

### 6.2 Secondary Data:

- 6.2.1** Desktop research will also be conducted mainly to assess the various savings products available in the various international markets by investigating and documenting best practices in serving the microenterprise sector.
- 6.2.2** Assess information on any previous studies done by key stakeholders such as government, banks and other financial services sectors.

### 6.3 Target Population

- 6.3.1** We will engage with key organisations and individuals that are directly involved or contribute to financial inclusion. These include central banks, financial services providers, developmental lenders, savings groups, associations and beneficiaries of the services or interventions, in this case being microenterprises. These were accessed mainly through the field visits that formed part of the study tour to Tanzania, Brazil, Ghana and Tembisa.

## 6.4 Data Analysis

- 6.4.1** We will collate all the data received. The data will then be categorised and put into qualitative data and quantitative data into order to be analysed accordingly. We will then look at the data to determine patterns, trends or relationships. This will assist in us better understanding the data.

## SECTION 7: ANALYSIS OF THE RESEARCH FINDINGS

This research analysis paper is a presentation of the findings relating to desktop, qualitative and quantitative research conducted to understand the key challenges and gaps present in the market to advance financial inclusion through savings for microenterprises. 14 Microenterprises were interviewed and 28 individuals replied to our general survey on Stokvels. The following questions were considered:

### 7.1 Where are the microenterprises putting their money

The table below indicates the response to the questions as to where microenterprises are putting their money. 14 Microenterprises were interviewed in South Africa and they were allowed to indicate more than one institution where they were saving their money.

Institution	No. of Contributors	Percentage
Home	10	71%
Burial/Grocery Society	6	42%
Stokvel	3	21%
Bank	4	28%
Post office	2	14%
Other	4	28%

The objective of this question was to get an understanding of whether microenterprises were saving, and if they are saving, which institutions were they using to save their money. The observation is that the interviewees don't use commercial banks to save money. According to the survey conducted 71% of microenterprises prefer to keep money at home and it was also observed that 42% microenterprises use either burial or grocery societies to save; 21% of microenterprises save with Stokvels; 14% of the microenterprises interviewed use the Post Office to save.

The survey is evidence that a high percentage of microenterprises are not using formal financial institutions to save their money. The microenterprises indicated that they prefer saving with societies, Stokvels and at home because there is no cost attached, and they also indicated that it is very convenient for them to save and to have access to these funds at any time of need, like a business emergency or when they run short of stock.

## 7.2 Are financial institutions supplying products to suit the needs of the microenterprises

From the research conducted across 14 microenterprises in South Africa, the table below shows the number of the microenterprises who have business bank accounts.

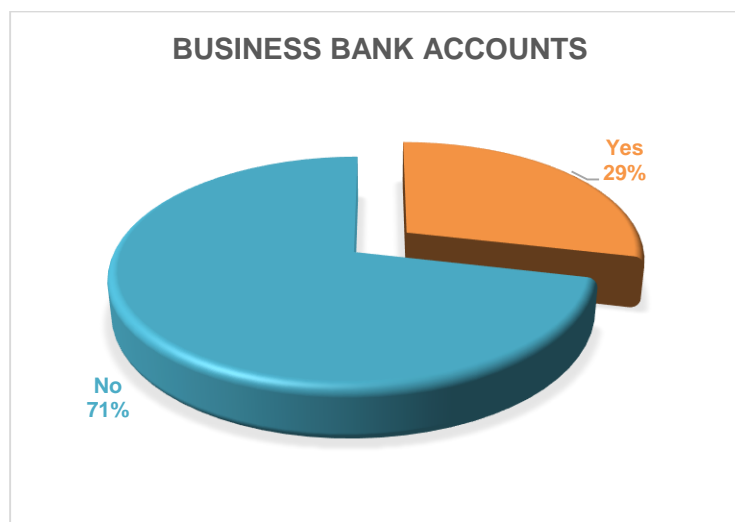
<b>Business Bank Account</b>	<b>No. of Contributors</b>	<b>Percentage</b>
Yes	5	36%
No	9	64%

This question was asked in order to gain an understanding and insights on whether microenterprises were operating business bank accounts. It was observed that only 36% of the interviewees operated business accounts. The majority of the microenterprises utilise either personal accounts or kept the cash at home. It is evident that 64% of the cohort interviewed have no business accounts. The microenterprises which had opened these business bank accounts did so because it was a requirement when they were requesting loans from SEFA and microfinance institutions. This aspect of formalisation demonstrates the role that savings can play in building the profile of the microenterprise and as a result lead to them accessing financial products that could help them grow their businesses. The microenterprises are not using, or not keen to operate business bank accounts, this can be interpreted to mean that the current business bank account offering by banks to microenterprises, are not meeting the needs of the microenterprises.



### 7.3 Are financial institutions accessible to Microenterprises

From the research conducted across 14 microenterprises in South Africa, 10 microenterprises did not have a business bank account. A business bank account is an account that is primarily used for the operation of the business and not for personal use.



The data further reflects the reasons why these microenterprises don't have a business account:

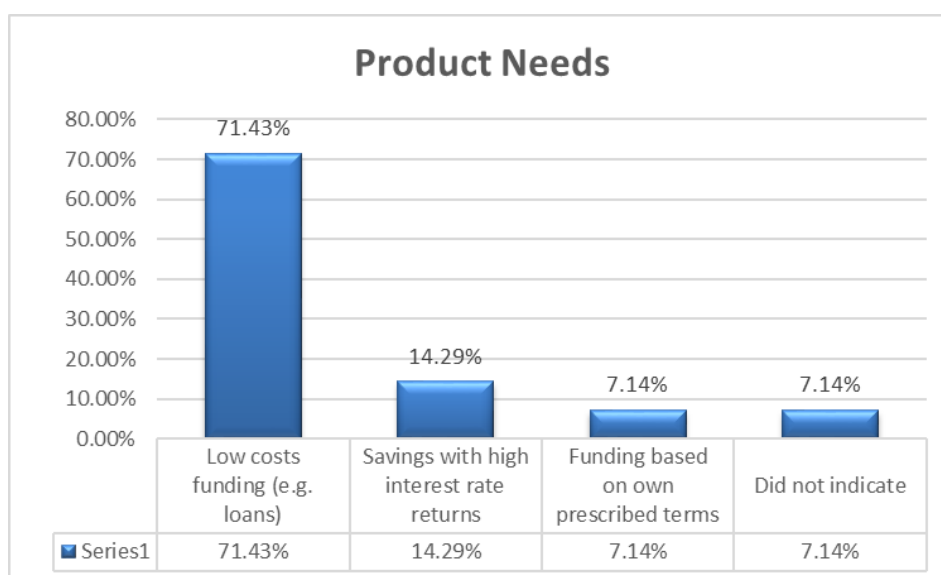
Why No Bank Account:	Percentage
Don't Trust Banks	10%
Too Far From Where I Live	0%
Too Much Paperwork	10%
Bank Charges Too High	10%
Low Interest Rates On Savings	20%
Other (Language Barrier)	10%
Did not give a response	40%

The above table shows that financial institutions are not accessible to microenterprises. There are multiple reasons why accessing finance at the commercial banks is still a challenge. The microenterprises indicated that there is a lot of paperwork to be completed at the banks before they can be assisted. 10% of the interviewed microenterprises are concerned about the charges. They all stated that they are required to pay for all transactions, and that therefore the services provided by the banks are expensive, which they cannot afford and hence they are not attracted to the commercial banking sector. The microenterprises also indicated that due to not having collateral and proof of employment, they cannot access funding from the commercial banks as they are considered as being very risky.

60% Of the microenterprises interviewed stated multiple barriers to entry for why they elect not to save with a formal institution. From the interviews conducted, they noted that their preference is to save with community saving societies or Stokvels primarily because of ease of access and low cost of saving relative to formal institutions. The low interest earned from informal institutions are secondary to convenience, trust and “hassle free banking”.

#### 7.4 What are the product needs of microenterprises

From the research conducted across 14 microenterprises in South African, they all identified their products needs as noted below:



It is evident that the majority (71%) require funding products as a low cost/charges. The microenterprises interviewed all indicated that they require the funds to grow their businesses, however the barrier to entry for obtaining a loan in too cumbersome hence they resort to borrowing funds from family and informal micro lenders.

## 7.5 What can the banks do to attract Microenterprises

A large percentage of the microenterprises interviewed kept their money at home or saved informally through different types of Stokvels (burial, grocery, cash, etc.). In this regard it was important to understand why Stokvels are a popular savings vehicle.

Since various studies in South Africa (Old Mutual Savings Monitor, Finscope and Boston Consulting) have shown that there has been a steady growth in informal savings, especially through Stokvels rather than through formal institutions, we conducted an online survey of Stokvel members to understand why they prefer this savings platform.

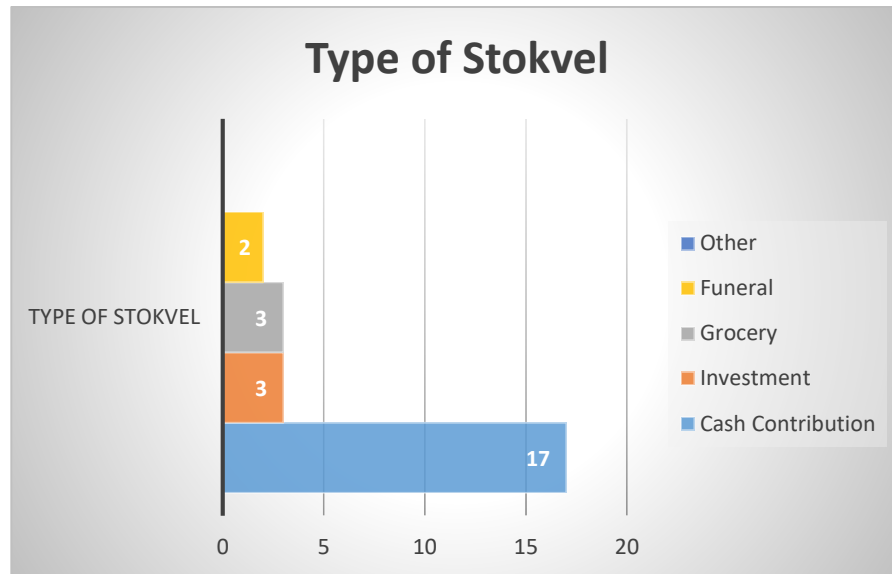
While our survey attracted more than just responses from microenterprises, it nevertheless gave good insights into relationships and behavioural patterns between individuals and their respective financial institutions be it formal or informal.

The survey was announced on Facebook and individuals were directed to a link where they could complete the survey. The survey contained seven questions as per the table below and was completed by 28 individuals:

<b>Question #</b>	<b>Question Asked</b>	<b>No. of Respondents</b>
<b>1</b>	Describe your Stokvel (what type of Stokvel do you belong to)	28
<b>2</b>	Does your Stokvel have a bank account in its own name? If not state why	28
<b>3</b>	Are you aware of savings products aimed at Stokvels and what is your view of them?	28
<b>4</b>	Why do you prefer to save in a Stokvel instead of a bank or other formal institution	28
<b>5</b>	To what extent does the bank help your Stokvel control its finances so you can meet your financial goals?	28
<b>6</b>	What would encourage your Stokvel to use formal financial services?	28
<b>7</b>	As an individual what formal financial products do you use	28

**Q1: Describe the type of Stokvel you belong to?**

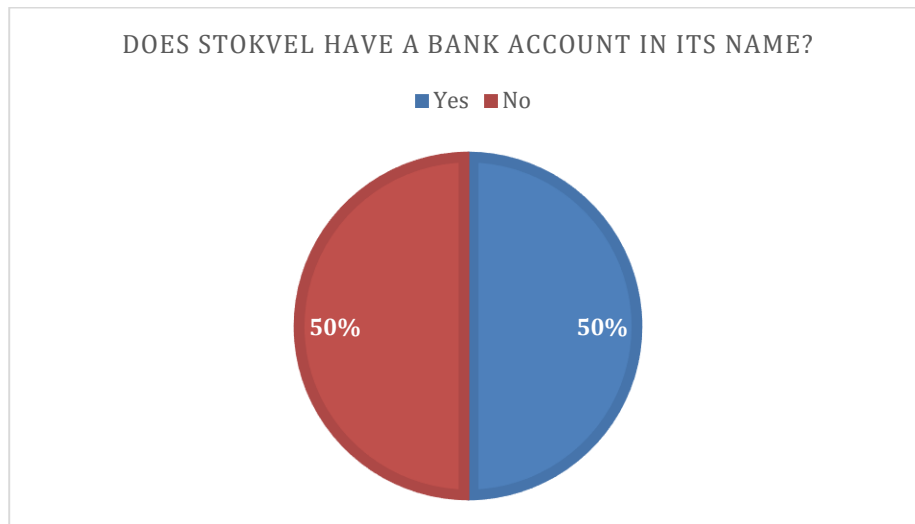
60% of respondents indicated that they belong to a cash contribution Stokvel while the remainder belonged to a funeral, grocery and other purpose Stokvel. The reasons why the majority belong to a cash contribution Stokvel will be seen in the questions that follow but there is a clear trend of self-exclusion from the formal financial services sector.



The above results are also corroborated by the Old Mutual Investment Monitor (2018), which also shows that a majority of Stokvels are cash contribution.

**Q2: Does your Stokvel have a bank account in its own name? If not state why?**

This question was asked to gauge the level of interaction with the formal financial services sector. Half of the individuals said they have a Stokvel account in the name of the Stokvel while half said they do not. The ones that use accounts are usually the investment type Stokvels as these are more formalised and structured.

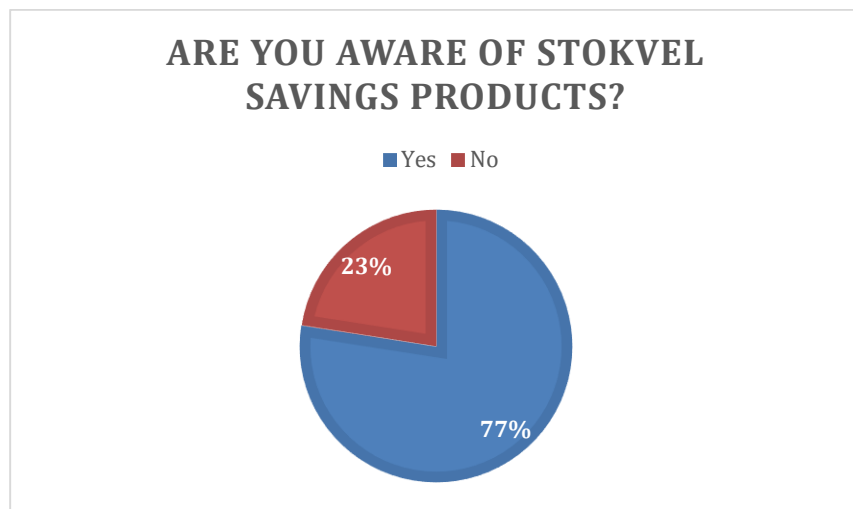


The following reasons were put forward as a reason for not having a Stokvel account in the name of the Stokvel:

- a) the members believe that the banks interest is small and there are banking charges;
- b) we contribute R500 monthly then loan out the money back to members to pay it with 12% interest;
- c) Too much admin;
- d) We contribute when there is a family occasion;
- e) No because we do not want to pay banking fees;
- f) Social meeting only. Contribute to host if meeting at home. Buy each other birthday gifts and assist each other financially at family funerals only;
- g) Contributions are to a person. They get paid into the person's account;
- h) we don't have a bank account we give R700 cash every month and there is 6 of us so your turn comes twice a year and there's no need to go to the bank;
- i) we don't want to deal with SARS;
- j) Given the nature of members making loans from the money saved, for accessibility bank would not be conducive.

**Q3 Are you aware of savings products aimed at Stokvels and what is your view of these products?**

77% Of the respondents said they were not aware of Stokvel Savings products. The reasons advanced for non-use even when there is awareness point towards lack of ease of access to funds, red tape, cost and convenience. An interesting comment was “I wish they advertised them as much as they advertise credit”. The formal sector clearly needs to engage with Stokvels to assess their needs and design products and service that will be attractive to them

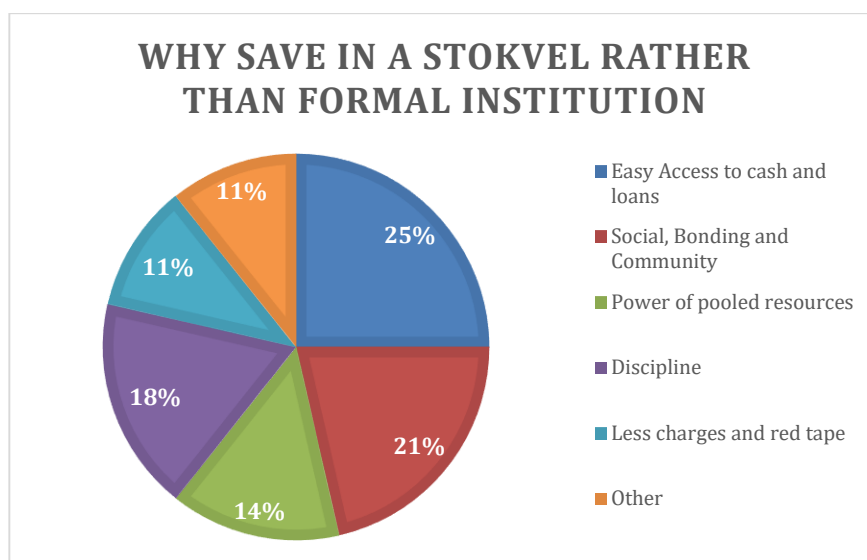


Those who were aware did not necessarily take up the products for the following reasons:

- a. They offer basic services, we in fact use a money market account because the interest higher on our balance;
- b. The interest rate is too low;
- c. No, I'm not aware of any benefits;
- d. Very backwards, they presume all Stokvel members are illiterate, the signatories can't view statements online;
- e. Not everyone can access the money;
- f. I know very little about them. But I suspect there are fees charged for keeping money at institutions;
- g. Yes, but everything has a price;
- h. Not flexible;
- i. They do not meet my needs;
- j. Just don't like anyone getting into our money. We use that for monthly cash injections;
- k. They need a lot of admin;
- l. Only two individuals saw value in the products offered for the following reasons:
- m. They offer these groups with savings/investment options;
- n. Yes, they very handy as you can take extra funeral policy for top ups.

#### Q4 Why do you prefer saving in a Stokvel rather than in a formal institution?

Based on the responses, Stokvels clearly provide some benefits that the formal sector would find hard to replicate. The sense of a communal collective and the social and economic benefit that come with the sense of belonging to a group is quite strong. However, there is technology that could possibly be used to leverage on this group strength. The legal and KYC requirements that are required to use formal financial services products are clearly a barrier of entry as Stokvels are seen to be more flexible and less risky, especially when it comes to borrowing money and accessing emergency funds. Unlike Ghana and Tanzania South Africa is not very strong on group lending and savings models that can leverage from the strong need for individuals to belong to the Stokvel community.



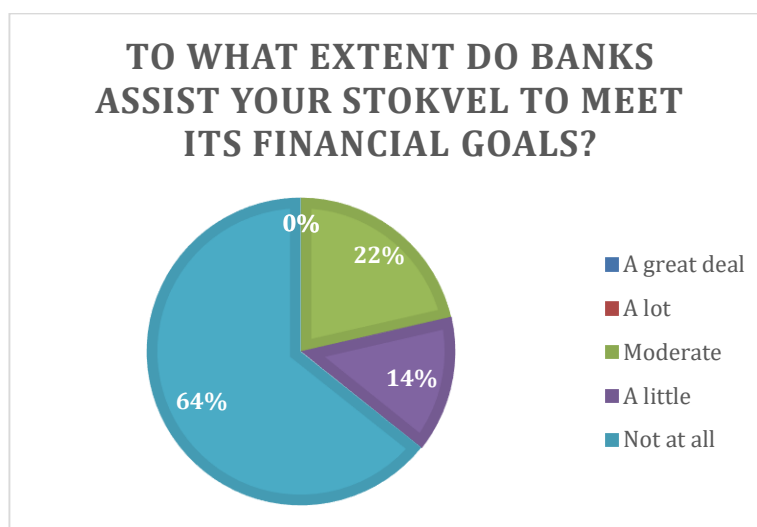
- a) Forces discipline;
- b) It meets multiple needs, funeral support, savings, travel & investment in one. It also offers sense of community;
- c) The charges are less;
- d) Because we lend out money with interest, so the money has to be readily available when someone needs it;
- e) It's quicker, easy to manage. No formal paper, red tape & complex regulatory rules;
- f) Stokvel serve a social purpose of camaraderie and there are no jugular service fees that erode the value of initial money deposited.
- g) Leverage the power of pooled resources Large amounts attract better interest rates. Combined contributions constitute large number it's a collective effort and that keeps me motivated.



- h) The reason I prefer Stokvel it's because I got all the money I put in, and during dark days I also borrow from the Stokvel without worrying of being blacklisted or decreasing my credit score.
- i)

**Q5 To what extent does the bank help your Stokvel control its finances, so you can meet your financial goals?**

64% of the respondents said that banks and other financial services are not meeting their needs, while 22% said moderately and 14% just a little. This is not surprising considering the reasons put forward for why they choose not to save in formal financial institutions.



**Q6: What would encourage your Stokvel to use formal financial services?**

About 2% of the respondents said they would never use formal financial services but a majority said they would use formal financial products only if they meet their need and requirements. Some of the needs and requirements they mentioned are listed below:

- a) We do but require good returns on our investment;
- b) If the savings benefits were good;
- c) Knowledge and simplified & less complex investment processes. Many of our members are ordinary rural women who are not sophisticated;
- d) If they were promoted and advertised as much as loans and other service
- e) Less banking charge, less admin, easy access to the funds, attractive benefits
- f) Be more educated or awareness within the communities that we live in;
- g) Yes, the investment must make sense and should be flexible.

From the above responses one can see that individuals and microenterprises are of the view that Banks and other formal financial institutions do not provide a good return and do not make it easy for microenterprises and individuals to place their savings.

From Ghana and Tanzania study tour, it was established that banks, including microfinance banks offered a wide range of specific products to meet the needs of the microenterprises. For example, microenterprises had to save for a certain period in order to qualify for a loan under the group lending model utilised. This encouraged a culture of savings and at the same time built a history on the means and affordability of the clients which feeds directly into the credit approval processes.

Further, both countries displayed an importance of relationship banking by conducting thorough research into understanding the client needs. In Tanzania, one of the micro finance banks, indicated that the credit assessment process not only checks the affordability of the loan applicant, however an assessment was made on the entire family to mitigate for any risk of default.

## 7.6 What have other countries done to serve the needs of microenterprises

In order to understand the financial inclusion landscape of Ghana and Tanzania, a study tour was undertaken where the following institutions were visited:

- a) The Reserve Banks of each country;
- b) Commercial and Micro Finance Banks;
- c) Micro Finance Institutions;
- d) Microenterprises;
- e) Savings Groups (SUSU, SACCOS);
- f) Industry Associations; and
- g) Universities

These visits provided an opportunity to obtain direct feedback from each of the entities and individuals visited on progress made against the financial inclusion strategy of each country.

Based on visits and interviews with key institutions, some of the successes that these two countries have achieved in closing the financial inclusion gap for microenterprises can be attributable to the following factors which were observed:

- A country wide financial inclusion strategy that is led by the Central Banks in close collaboration with Industry Associations, MNOs, Banks, MFIs and Research Houses;
- A flexible regulatory regime that has avoided a one size fits all approach and has instead applied a risk-based “wait and see” approach (Agency Banking and Tiered regulation);

- Strong cross sector industry associations that influence the direction of policy through targeted research, engagement with regulators and some delegated supervisory roles;
- Customer centric approach by the various service providers with a strong emphasis on customer research, education and support for microenterprises;
- Development focused lending and the ability to mobilize group savings, deposits and remittances;
- A strong working relationship between Banks, MFIs and Mobile Network Operators.

While the developmental sector in both countries is not without its challenges, there seems to be a concerted effort to focus on lending to microenterprises and the poor through leveraging alternative forms of collateral including group lending. The lending is based on supporting the knowledge and understanding of credit products as well as dedicated support to microenterprises to grow and sustain their businesses. The MFI's visited seemed to have a very intimate knowledge of their clients (microenterprises) and there was a clear strategy to support them to grow and diversify. The lending also addresses developmental needs outside of straight credit, for example in both countries some of the lending products related to access to water, renewable energy and farming which are meant to address real developmental needs.

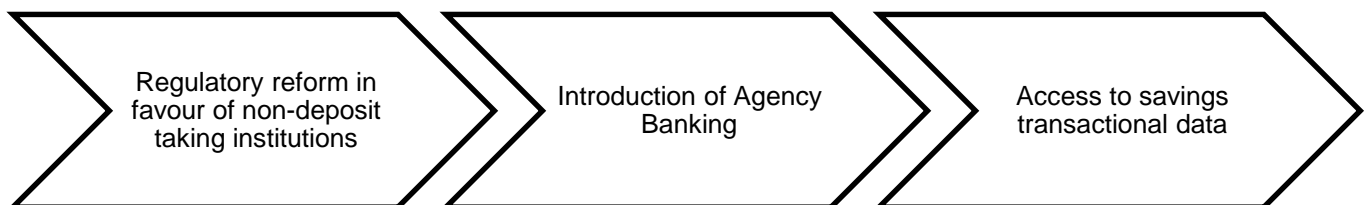
One of the main alternatives to collateral that MFI's use, is the saving patterns by microenterprises when lending to them. MFI's encourage savings of a fixed amount over a period of 6 months before lending to a microenterprise. This method provides information on the microenterprise's ability to make regular payments and creates disciplined behaviour. This creative alternative to assist microenterprises when collateral or proof of income is not available, could be very useful in South Africa.

## SECTION 8: RECOMMENDATIONS

From the extensive research on why financial institutions are not attracting income generated by microenterprises, it indicates that the main barriers to formal financial institutions, mobilising and leveraging the savings of microenterprises are:

- Absence of suitable products;
- Distance required to travel to access financial institutions;
- Bureaucracy and KYC requirements;
- Perception of no value and lack of trust;
- Preference for informal savings channels due to convenience, accessibility and flexibility

Our recommendations have been summarised as follows:



Leading from the recommendations noted above, our key recommendation is based on using savings transactional data to build the profile of microenterprises through collaboration between Non-Financial Savings Institutions and Credit Bureaus.

### 8.1 Regulatory reform in favour of non-deposit taking institutions

In South Africa, MFI's cannot take deposits unless they transform into Co-operative Banks. The Central Banks of both Tanzania and Ghana have taken a lead in liberalising deposit taking laws by extending this right to non-bank financial institutions. This has contributed to microenterprises having access to different types of institutions based on the location and specific needs. Regulatory changes have also encouraged competition and allowed formal financial institutions to collaborate with Mobile Network Operators to provide digitalised financial services (such as mobile money and agency banking).

As microenterprises noted that distances required to travel to access financial institutions (bricks and mortar) remains a primary challenge, it was investigated with the South African Prudential Authority whether they are willing to re-visit definitions of deposits and the business of banking to enable a competitive offering to be launched without the partnership of a bank.

It is noted that although the SARB wants to protect the depositor against the risk of institutional failure, followed by ensuring efficiency, integrity and transparency and improving financial inclusion, they are acting in favour of the economy of South Africa by ensuring that financial institutions are safe and sound and ensuring that the financial sector remains stable, however they are failing to take in account the financial and human impact on the depositor.

We recommend that further lobbying (possibly by Micro Finance South Africa (MFSA)) be done with SARB to allow MFI's to take deposits, as it currently stands the regulation does not favour microenterprises. The lobbying should be done on the basis of achieving the Government's National Development Plan which highlights the significance of small businesses (which includes microenterprises) for job creation, innovation and competitiveness. The National Development Plan aim to have 90% of new jobs be created by small, micro and medium enterprises in South Africa by 2030.

## 8.2 Agency Banking

In Ghana and Tanzania the banks use agents and or Wakala's to reach the microenterprises with banking products from taking deposits, withdrawals, paying bills, etc. From observations in Tanzania and Ghana, Agency Banking does not only take banking services to the excluded market, it also generated much needed income for microenterprises to grow and sustain themselves.

Considering that the South African regulatory framework allows formal financial institutions the option to use non-bank third parties to offer banking services beyond their traditional brick and mortar branch network, why are these outsourcing arrangements not more frequently used by these institutions. The Banks Act allows a bank to contract agents "to receive on [the bank's] behalf from its clients any deposits, money due to it or applications for loans or advances, or to make payments to such clients on its behalf".

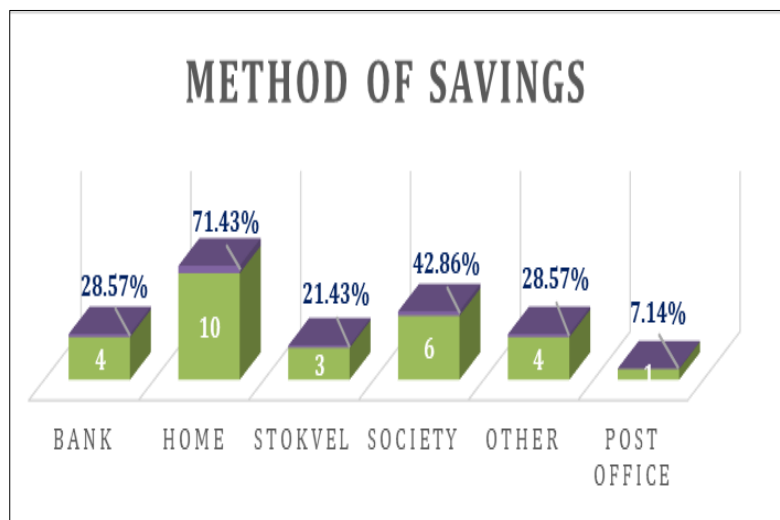
With the increase of new emerging banks (such as TymeBank, Bank Zero, etc.) entering the competitive landscape of the banking sector, they will all be competing to grow market share. The major banks of South Africa have an opportunity to use

agency banking in rural areas as an option to grow its client base and bring banking services to the people.

An opportunity exists for financial institution to partner with established major retailers to perform the services as an agent for the institution in areas where they do not have brick and mortar branches offering services. By providing services to communities in outlying areas, covered by the major retailers, it allows the bank extend its services at a low cost base compared to its traditional branch operations.

### 8.3 Using savings transactional data to build the profile of microenterprises through collaboration between Non-Financial Savings Institutions and Credit Bureaus

Our research shows that most of the microenterprises savings are done with non-financial institutions like Stokvels, saving societies and even at home. We are of the opinion that the current method of savings used by microenterprises will continue indefinitely unless formal institutions provide ease of access, lower barriers to entry and the appropriate savings products catering to the needs of the microenterprises.



Syndicate 1 (2018) – Survey with 14 microenterprises in South Africa

The preference for informal savings channels means that microenterprises are not able to build a financial profile that will allow them to access much needed capital to expand and sustain their businesses. Savings are not only important to assist microenterprises to manage cash flow crisis – it could be utilised as a form of collateral (proof of revenue) when applying for credit. Savings can play a critical role in building the financial profile and asset base of microenterprises.

We believe that an opportunity exists for informal savings mediums (e.g. Stokvels, Saving Societies, etc.) to be provided with software that will enable them to record the transactional data of the microenterprises utilising their saving schemes. This could be viewed as a central repository of information which formal institutions can access when microenterprises require access to funding. The recorded savings pattern of the microenterprises can be used as a “behavioural trend” that shows the likelihood of the microenterprise to repay any credit commitment they may want to enter into. If the behavioural pattern shows that there is a consistent savings ability then the probability of the microenterprise defaulting decreases. This opportunity could be presented to as a business case to formal financial institutions or possibly some of the credit bureaus in South Africa.

The National Credit Regulator (NCR) has made SACCRA (South African Credit & Risk Reporting Association - a not-for-profit voluntary association of members who share credit and risk performance data of their customers) the central data hub for all credit data. The requirement set by the NCR is that credit providers who accesses the SACCRA data hub must in return regularly update pertinent client information in the hub. Due to this possible disintermediation of the existing credit bureaus in South Africa, there exist an opportunity for them to leverage off this recommendation and to on-sell these behavioural patterns to financial institutions.

The report “Use of Alternative Data to Enhance Credit Reporting to Enable Access to Digital Financial Services by Individuals and SME’s operating in the Informal Economy” (International Committee on credit – ICCR, June 2018) states that most of the microenterprises operating in the informal sector do not have sufficient credit related information as the bulk of their financial and economic transactions are not recorded digitally. It is therefore ideal for a South African Credit Bureau to pursue a relationship with the Stokvels, saving societies, etc.

NASASA estimates that there are about 800 000 Stokvels with about 11 million South Africans of which it has 125 000 Stokvels registered with them. This means that if the Credit Bureaus have a business relationship with NASASA to share data, it will have access to savings data of approximately 1.7 million South Africans. The Credit Bureaus will use the data of the savings patterns to generate a credit or risk based score that can be used for credit granting. MFI’s



currently pay between R3 to R6 for credit risk scores per individual. The Credit Bureaus acquiring and digesting the data will be part of their operational expense budget set aside for acquiring alternate data. The other expenses would be a fee that would be paid to either NASASA, Stokvels, or saving societies.

The table below shows a high level turnover that the Credit Bureaus could make.

	Volumes	Turnover @ R3	Turnover @ R6	*Fee @ 10% of R3	*Fee @ 10% of R6
<b>NASASA members</b>	1,700,000	5,100,000	10,200,000	510,000	1,020,000
<b>SA estimated Stokvel Groups</b>	11,000,000	33,000,000	66,000,000	3,300,000	6,600,000

*\*Fee percentage is an assumption which could vary and it is based on an annualised costs*

The following sections of the National Credit Act will be relevant in allowing Stokvels to submit information to Credit Bureaus. Section 70 of the National Credit Act defines consumer credit information as:

70. (1): In this section, “consumer credit information” means information concern:

- a) a person’s credit history, including applications for credit, credit agreements to which the person is or has been a party, pattern of payment or default under any such credit agreements, debt re-arrangement in terms of this Act, incidence of enforcement actions with respect to any such credit agreement, the circumstances of termination of any such credit agreement, and related matters;
- b) a person’s financial history, including the person’s past and current income, assets and debts, and other matters within the scope of that person’s financial means, prospects and obligations, as defined in section 78(3), and related matters;
- c) a person’s education, employment, career, professional or business history, including the circumstances of termination of any employment, career, professional or business relationship, and related matters; or
- d) a person’s identity, including the person’s name, date of birth, identity number, marital status and family relationships, past and current addresses and other contact details, and related matters.
- e) accept the filing of consumer credit information from any credit provider

In terms of Regulation 18 of the National Credit Act, persons or entities other than registered credit providers can submit information to the Credit Bureaus. Where such an entity or individual is not included in the list of data sources the Minister can do it in terms of regulation. Regulations do not require a Parliamentary process and as a result, this is something that can be achieved in a short space of time.

Regulation 18 (7) stipulates – In addition to the sources of consumer credit information contemplated

in section 70(2), a registered Credit Bureau may receive consumer credit information in respect of a consumer from any person, provided the originating source of the information is one of the following persons:

- a) An organ of state, a court or judicial officer;
- b) Any provider of a continuous service as defined in the Act;
- c) A person providing long term and short term insurance;
- d) Entities involved in fraud investigation;
- e) Educational institutions;

- f) Debt collectors to whom book debt was ceded or sold by a credit provider;
- g) Other registered credit bureaus.

Stokvels can obtain consent from their members to submit their savings records to the credit bureaus so that the information can be accessed by other authorised entities.

The Association can play a role in managing and regulating the relationship between its members, the credit bureaus and the banks. The could also play a role in lobbying for any regulatory changes that might be required to allow Stokvels to submit data directly to the credit bureaus.

### **How will microenterprises benefit from the recording savings data?**

#### *1. Appropriate cost effective savings products*

Formal institutions will have the ability to study the behavioural patterns and will therefore be in a position to design products that is aligned to the needs of the microenterprises. As an example, if a microenterprise operates a seasonal business and is only able to save over these seasonal periods, a product that only attracts “fees” during these seasonal periods can be recommended. No charges whilst there is no income generated.

#### *2. Credit Risk Score*

The value of the savings data recorded through the system can be further analysed by the Credit Bureaus. This analysis can be used as score to determine the individual's propensity to repay any line of credit.

This in the South African Market will become very useful for microenterprises to gain access to credit from MFI's and other financial institutions.

The NCR reports that in 2018 only 2.61% of credit granted is for developmental purposes – this warrants an opportunity for MFI's or financial institutions to design a product that give microenterprises access to credit by using their savings as collateral or by using their savings patterns as an indication of their ability to repay such credit. As noted in point 7.6 above, it shows how Ghana and Tanzania uses savings data or patterns to enable credit to microenterprises.

Examples of microenterprises in South Africa





## SECTION 9: CONCLUSION

Triki & Faye (2013) notes that the concept of inclusive growth is multifaceted and has financial inclusion as one of its main building blocks. For sustained and inclusive development to thrive, a great deal of innovation and thinking is needed to ensure that appropriate financial services and instruments are put in place for the benefit of the poor and other vulnerable groups. Financial inclusion is a multidimensional concept that encompasses all initiatives, from both supply and demand sides, within the financial sector. They include provision of appropriate and quality financing that is both accessible and affordable to low-income and other vulnerable households. Notably they target groups traditionally excluded from the formal financial sector.

Our research has shown that microenterprises in South Africa do save but these savings are not facilitated by formal banks and other financial services companies. Money is kept at home or channelled to a Stokvel and other saving societies. The reasons given are that the formal sector is difficult to deal with and access because of formal document requirements as well as hurdles that have to be jumped when the microenterprise wants to access the savings. More than 40 billion rand is reported to be circulating within Stokvels.

Besides ease of access, Stokvels and saving societies plays a central role in building communities and friendships which motivates people to remain in these groups and continue to save through them. As documented earlier saving through informal mediums are increasing. This could be interpreted that even if banks and other formal institutions improved their service offering and channels, microenterprises will mostly likely continue to channel their savings through Stokvels and savings societies. Our primary recommendation is therefore informed by this assumption.

In the various study tours, we have seen how financial inclusion was deepened by creating synergies between the formal and the informal with digitization playing a central role. The relationship between various stakeholders with a common goal of improving financial inclusion yielded good results. Stakeholders included regulators, mobile operators, industry associations, financial services providers and communities.

Commercial Banks are not sensitive towards microenterprises as they don't have a clearly defined strategy of how to engage and retain microenterprises. The research also indicated that microenterprises generally deal mainly with cash. Cash deposits are currently dis-incentivised through very high cost deposit fees by the banks. Therefore microenterprises do not see it economical to deposit their money.

Our recommendation is that savings transactional data should be recorded at the Credit Bureaus and be used to build a financial behavioural pattern and a credit risk score that can be accessed by lenders and other service providers. This will not only improve the prospects of microenterprise to access capital but will improve financial inclusion.

## SECTION 10: RISK & MITIGATIONS

*Risk One:       Deadlines not being met*

It is understandable that each team member has a job and that contributions can only be made after hours. However, for the project to be delivered, it is important that there is strict adherence to the project timelines outlined above. In instances where work is allocated and a specific member is unable to contribute, the responsibility rests with the team member to liaise with the team leader and to make alternative arrangements. Team leader to communicate such changes to the rest of the group.

*Risk Two:       Lack or delayed responses to the questionnaires*

Use opportunity to speak directly to respondents during visits and send questionnaires in advance where possible

*Risk Three:     Face to face interview requirements*

With the members being spread across three South African provinces, it will become imperative that the allocation of responsibility is clearly understood. When interviews are required, there might be a need for these interview to only be done by the Gauteng based members (where necessary)

*Risk Four:      Non-agreement on strategy, frameworks or deliverables*

Any disagreement on strategy and working principles must be escalated to the Coach. Any mediation must be executed immediately (preferably via a telecom).



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# ANNEXURE "A"

## TASKS & DELIVERABLES

Tasks	Responsible	Deliverables	Start	End	Days	Status
<b>Phase One - Scope Document</b>						
Scope Discussion	All	Brainstorm all the possible methods of approach and agree of what question to answer	27 May	27 May	0	Complete
Draft Scoping Document	Jackie/Cate	Produce a 5 page document that outlines the objectives of what the group wants to achieve through this project	27 May	01 Jun	5	Complete
Scope Document First Draft	All	Clarify the expectations of what needs to be covered in the business case and research methodology	01 Jun	11 Jun	10	Complete
Send Scope Document First Draft to Coach for review	Basetsana	Team Leader to ensure that the document is emailed to Samali	04 Jun	04 Jun	0	Complete
Coach to review First Draft Scope Document	Samali	Coach to review first draft and to make any change recommendations to the Group	05 Jun	07 Jun	2	Complete
Amendments to be affected	Jackie	All recommendations to be considered and discussed and the draft document to be updated accordingly	08 Jun	10 Jun	2	Complete
Scope Document to be Submitted	Basetsana	Final Scope Document to be handed in (emailed) to Programme Director	11 Jun	11 Jun	0	In progress
<b>Phase Two - Research &amp; Analysis</b>						
Assign research topics	All	Each team member to be assigned a specific topic	11 Jun	12 Jun	1	Not started
Team to submit specific questions relevant to research topics	All	Each team member to submit proposed questions or investigations he/she will undertake in Ghana & Tanzania relative to the required research work	13 Jun	20 Jun	7	Not started
Create a framework to collate research Interviews (local & abroad) Surveys/Questionnaire Method for collection and collation of data Assessment of data Overall evaluation	Ashvan	A framework must be designed and delivered to each member. It must be agreed that all research work must be done and returned within the recommended framework to simplify collation	21 Jun	28 Jun	7	Not started
Sign off & distribution of framework	All	All members & coach to sign off the framework and all members to agree that there can be no deviations	28 Jun	30 Jun	2	Not started
Team Departs for Ghana & Tanzania	All	Each team member is responsible for ensuring that his/her topic is well covered and most questions are answered	14 Jul	28 Jul	14	Not started
Submission of Research and Analysis Done	All	Each team member to submit result of research in the agreed framework supplied	29 Jul	03 Aug	5	Not started
Collation of Research Frameworks submitted	Maguta	Consolidated document to be created and edited	04 Aug	06 Aug	2	Not started
Review of Research and Analysis Document	All	Team Members to review the document prior to submission to coach for final review	07 Aug	09 Aug	2	Not started
Send Research and Analysis to Coach for review	Basetsana	Team Leader to ensure that the document is emailed to Samali	09 Aug	10 Aug	1	Not started
Coach to review First Draft Research Analysis	Samali	Coach to review first draft and to make any change recommendations to the Group	11 Aug	12 Aug	1	Not started
Submit Research & Analysis Document	Basetsana	Final Research & Analysis Document to be handed in (emailed) to Programme Director	13 Aug	13 Aug	0	Not started
<b>Phase Three - Recommendations</b>						
Assessing and recording our recommendations	All	Documenting the recommendations	20 Aug	31 Aug	11	Not started
Coach to review Recommendations	Samali	Coach to review first draft and to make any change recommendations to the Group	01 Sep	04 Sep	3	Not started
Amendments to be affected	Jackie	Any changes recommended must be updated and co-ordinated accordingly	05 Sep	08 Sep	3	Not started
Coach to review second draft recommendations	Samali	Coach to review second draft and to make any change recommendations to the Group	01 Sep	04 Sep	3	Not started
Amendments to be affected	All	Any changes recommended must be updated and co-ordinated accordingly	05 Sep	07 Oct	32	Not started
Submit Recommendations	Basetsana	Final Recommendations to be handed in (emailed) to Programme Director	08 Oct	08 Oct	0	Not started
<b>Phase Four - Research Paper and Presentation</b>						
Discussions and documentation our Research Paper	Jackie	Collation of final decision on research and recommendation. Document to be designed and co-ordinated with content			0	Not started
Coach to review First Draft of Research Paper	Samali	Recommendations from coach regarding changes			0	Not started
Content and Slide Design for Presentation	Jackie	Design the Power Point slides			0	Not started
Presentation Preparation	All	Layout and amendments to be discussed within Group			0	Not started
Role Assignment, Timing and Rehearsal	All	Group will be given 30 minutes to present their research and recommendation. Allow an additional 20 minutes for Q&A			0	Not started
Presentation Execution	All	Presentation to be done in front of panel of judges & whole class	03 Dec	07 Dec	4	Not started

## ANNEXURE “B”

### RESEARCH TOOL (INTERVIEW FORM)

This interview form has been designed to assist the group with their research topic. The research topic is to assess whether there are opportunities to leverage the savings culture of SME's through appropriate savings products and transactions/payment models thereby facilitating financial inclusion. The results of the research will be used to make recommendations to our sponsors Bankseta and Wits University. As a group, we do not derive any form of payment from this research work.

Each participant will be asked to voluntarily participate in this survey which should take no longer than 15 minutes. All information provided by the participants will be treated with the utmost confidentiality. Permission to interview the participants will be established upfront – they can elect to retract participation post the interview.

#### **Key Analytical Insights:**

1. Usage of Financial Products
  - a. determine current usage of formal savings or any other method of savings products and whether a savings culture exist
2. Level of Financial Understanding
  - a. determine whether they understand the costs relative to operating a formal savings product or any other savings products
3. Level of Usage
  - a. determine the usage frequency of the formal savings or any other method of savings products
4. Platform of Usage (Technology)
  - a. determine whether they are familiar, use or interact with technology and which form of technology



# Interview Form

**Topic:** To conduct interviews with various SME's to understand their financial or banking process

**Responsible person:**

**Research Method:** Interviews

**Target Population:** Small Micro Enterprises (SME's)

## SECTION A: UNDERSTANDING THE MICROENTERPRISE BUSINESS

What is the name of business? \_\_\_\_\_

What type of products and services does the business offer?  
\_\_\_\_\_

Are you the owner of the business? YES ☐ NO ☐ Age:  Gender: Male ☐ Female ☐

Is the business registered with relevant authorities? YES ☐ NO ☐

How long has the business been in operation? 0-1 Year 2-3 Years 3-5 Years >5 Years

How many employees work in the business? 0-1 2-3 3-4 4-5 >5

How did you fund the start-up of your business? Own Savings Loan (Family) Loan (Friend) Loan (Bank) Loan (Micro Lender)

Do you earn a salary from your business?  
YES ☐ NO ☐

Do you have insurance in case of an emergency? YES ☐ NO ☐

Is your business a cash operated business only? YES ☐ NO ☐

Do you buy stock on credit? YES ☐ NO ☐

What length of credit normally? 30 Days 60 Days 90 Days >90 Days

Have you taken out more than one loan?  
YES ☐ NO ☐

Do you intend to grow or diversify your business and how do you intend doing that?

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What challenges are you facing as a business?

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What else would you need to make your business a success? More than one box can be ticked.

Education	Stock	Insurance	Other
Mentorship	Machinery	Employees	



## SECTION B: UNDERSTANDING THE FINANCIAL PROCESS IN THE BUSINESS

Do you operate a bank account for the business? YES ☐ NO ☐

What type of account do you have? Savings Cheque Credit >90 Days

Why those type of accounts?

What other financial products and services has your business taken up and why?

How do you receive payments from your clients?

How do you pay your creditors? Cash Credit Cards EFT Mobile Payments Other

Cash Credit Cards EFT Mobile Payments Other

Do you currently use the following devices to do banking (if at all)? Cellphone Computer

Do you currently save money? YES ☐ NO ☐ Daily Weekly Monthly Annually ☐ If yes, how often do you save

Which Institutions do you use to save? More than one can be chosen?

Bank YES ☐ NO ☐  
Stokvel YES ☐ NO ☐  
Micro Finance Institution YES ☐ NO ☐  
Post office YES ☐ NO ☐  
Community Society YES ☐ NO ☐  
Home YES ☐ NO ☐  
Other YES ☐ NO ☐

Do you understand the fees and charges to your accounts? YES ☐ NO ☐

How often do you withdraw your savings from the saving institution?

When I need Money YES ☐ NO ☐  
Monthly YES ☐ NO ☐  
Annually YES ☐ NO ☐  
Other \_\_\_\_\_

What financial products and services do you think would best serve the needs of your business?

If no bank account, why? (More than one can be chosen)

Don't Trust Too Far from Too much Other  
Banks Trust where I live paperwork  
Bank Charges Low Interest  
too High Rates

