



SME access to finance and FinScope Africa findings

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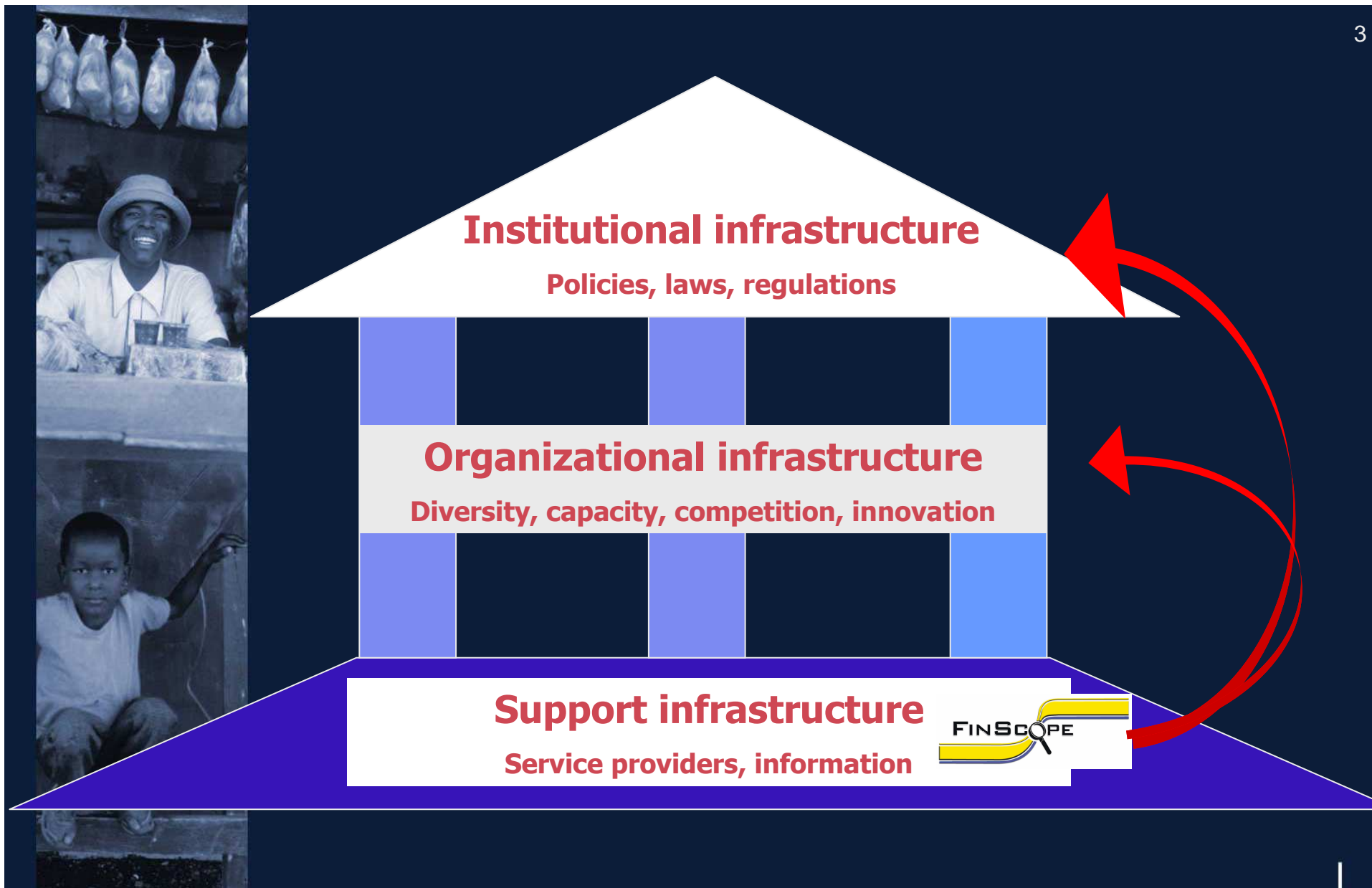
20 June 2007





- Independent, non-profit making trust formed in April 2002 with initial funding from DFID
- Mission - *"Making Financial Markets Work for the Poor"*
- SACU originally, now African continent mandate – (also Pakistan for FinScope)
- Facilitating and catalysing the next generation of development around access to financial services
- Transaction banking, insurance, housing finance - also savings, enterprise finance
- Research, facilitation, advocacy, innovation





FinMark Trust "house"



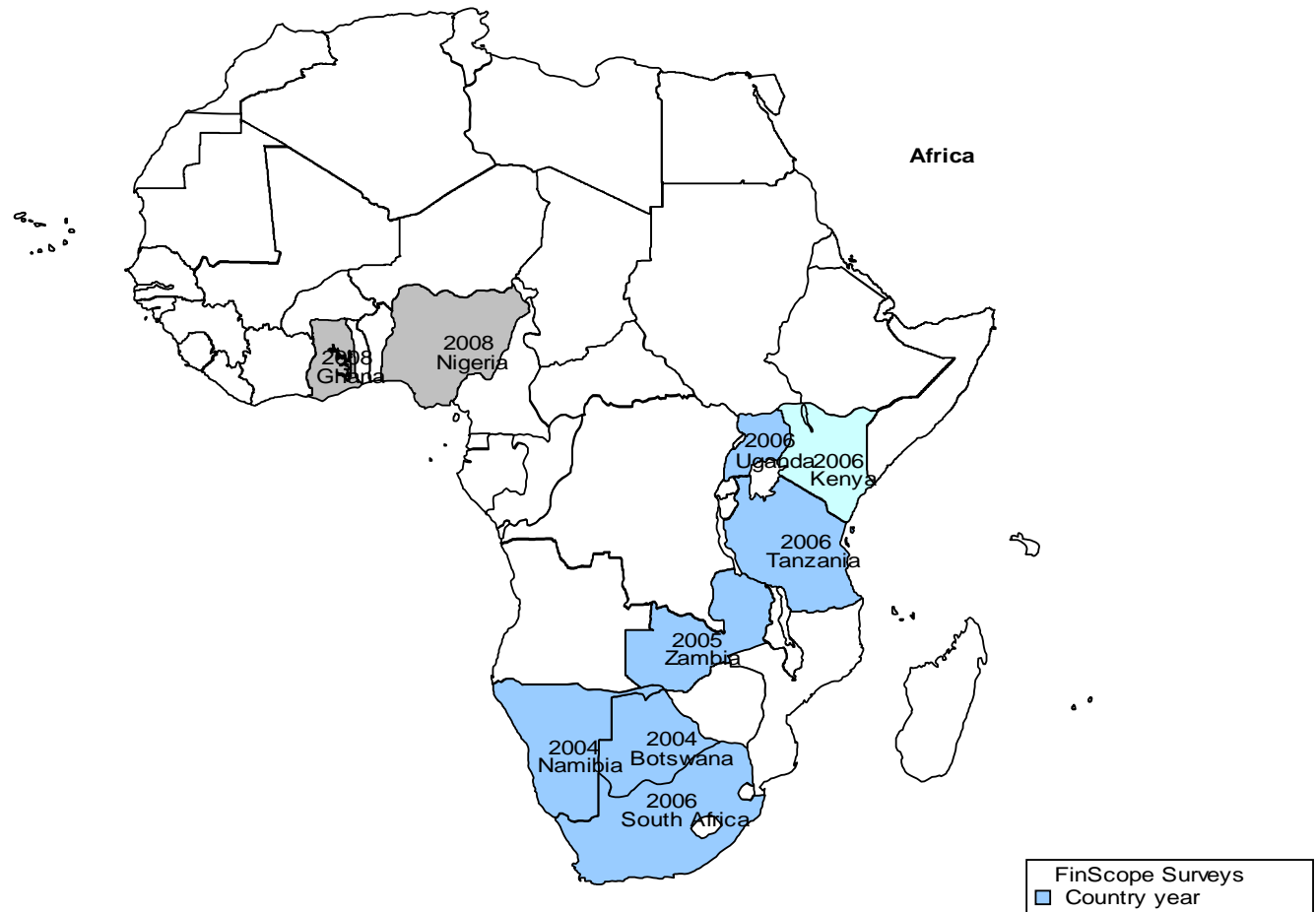
Comprehensive demand-side survey of
consumers, financial
Product usage, attitudes and behaviour

Recognises that information is central to the
sound functioning of financial markets,
relevant to policymakers and service
providers alike



FinScope Survey

FinScope Survey Countries





- Cross country comparability = important for regional expansion strategies
- Key indicators of financial access and obstacles
- Affords market insights to inform the process of policy and regulatory integration
- Informs service providers beyond their normal focus areas and niches

Facilitates stratified market interventions – public/private partnerships, co-operation and alignment

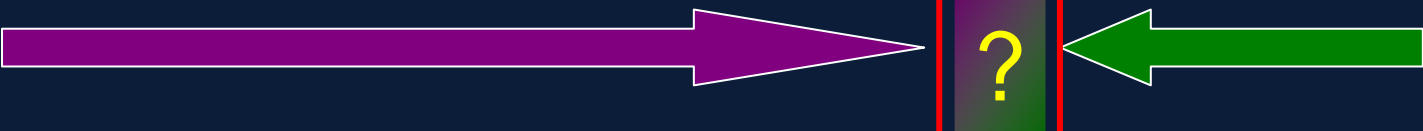


FinScope value proposition



MARKET PROVISION

STATE PROVISION

SAVINGS	Social Grants
CREDIT	Tax Relief
TRANSACTION BANKING	Subsidies
ENTERPRISE FINANCE	Development assistance
HOUSING FINANCE	
	
INSURANCE	



Stratified market intervention

Information *asymmetry* at the heart of poorly functioning markets

- In financial markets, must take into account:
 - Physical access
 - Appropriateness of products
 - Affordability
- Informal as important as formal – therefore demand-side measurement is key
- Should take into account the context in which financial decisions are made
- Spatial mapping completes the picture

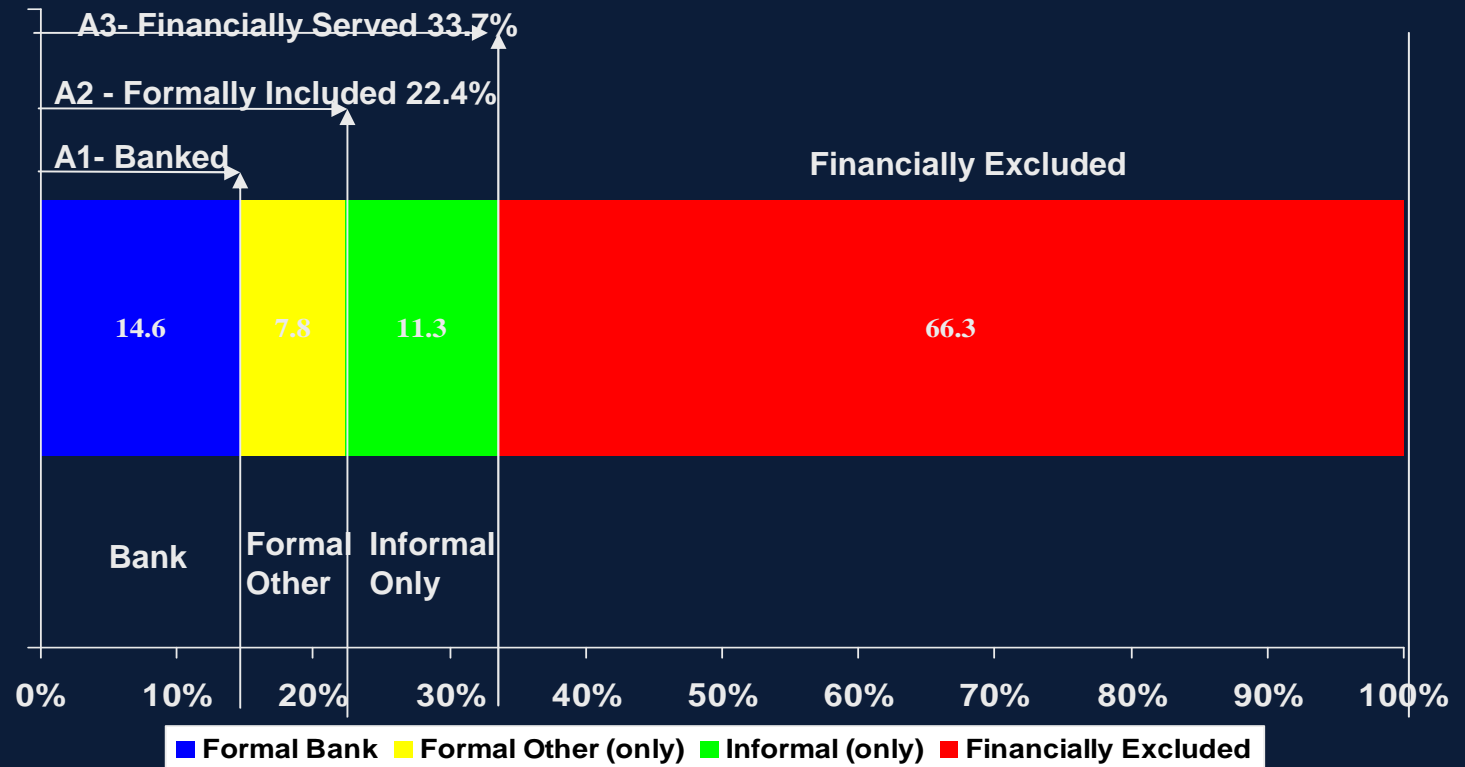




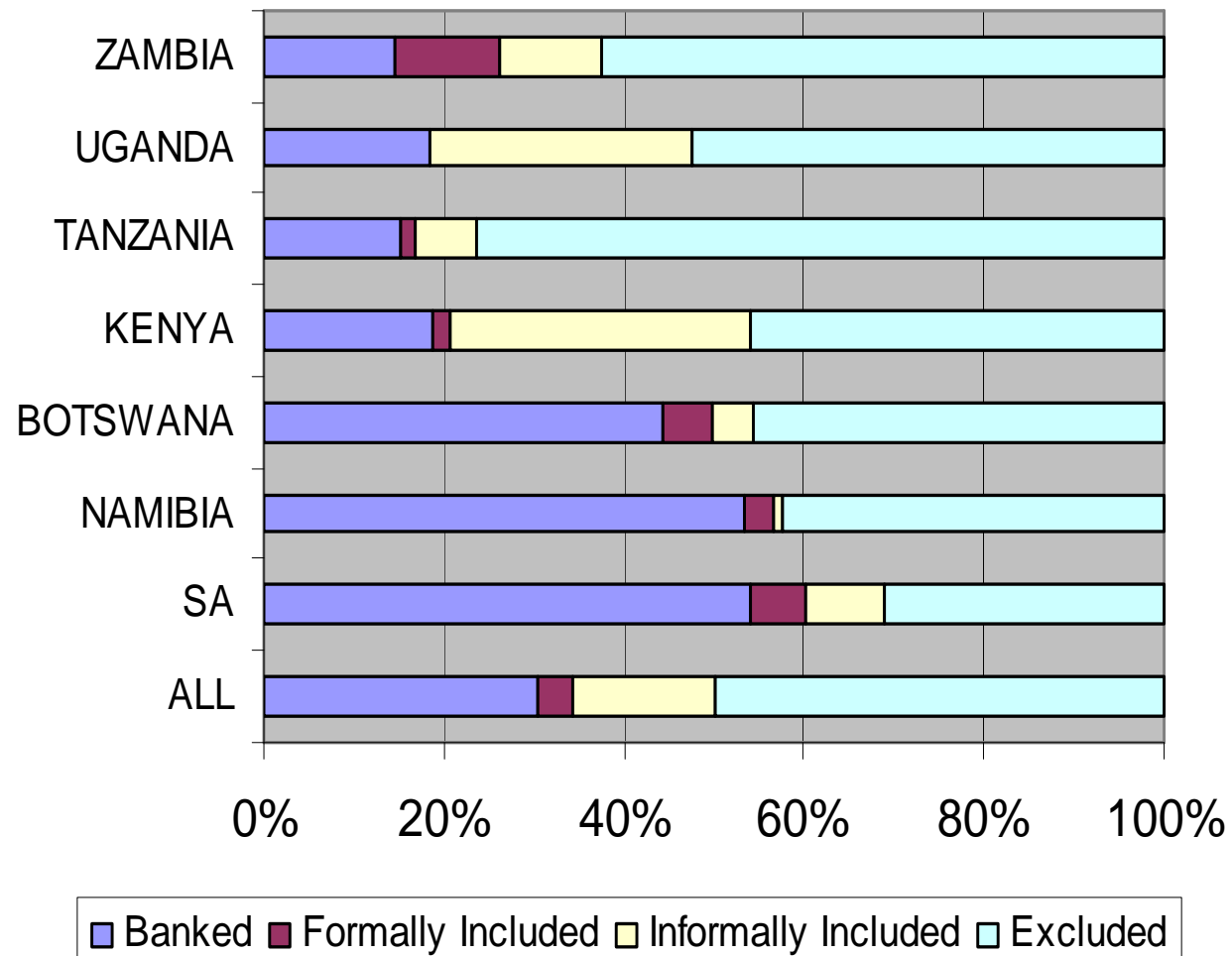
- FinScope Application examples
- The Access Strand



FinScope impacts and benefits



**Access Strand –
a continuum of the market**



Access Strands so far ...





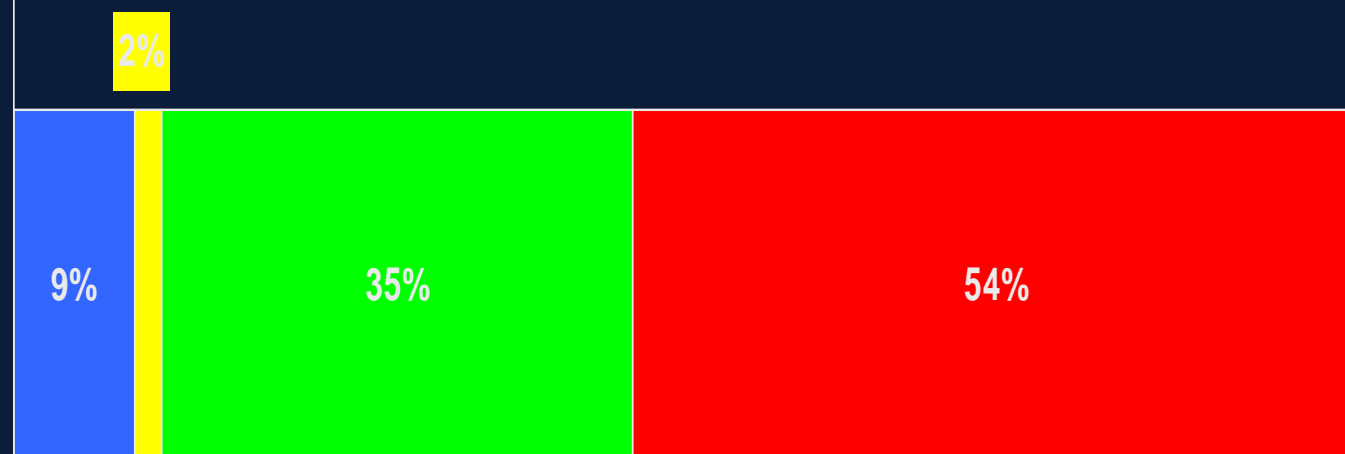
- Tanzania - Access Strands



■ FI - Formally Included ■ SI - Semi Formal

■ II - Informally Included ■ E - Excluded

Access to financial services by categories



■ FI - Formally Included ■ SI - Semi Formal ■ II - Informally Included ■ E - Excluded

Money from friends and family

Selling crops

Formal employment

Running own business



Access strand by income source





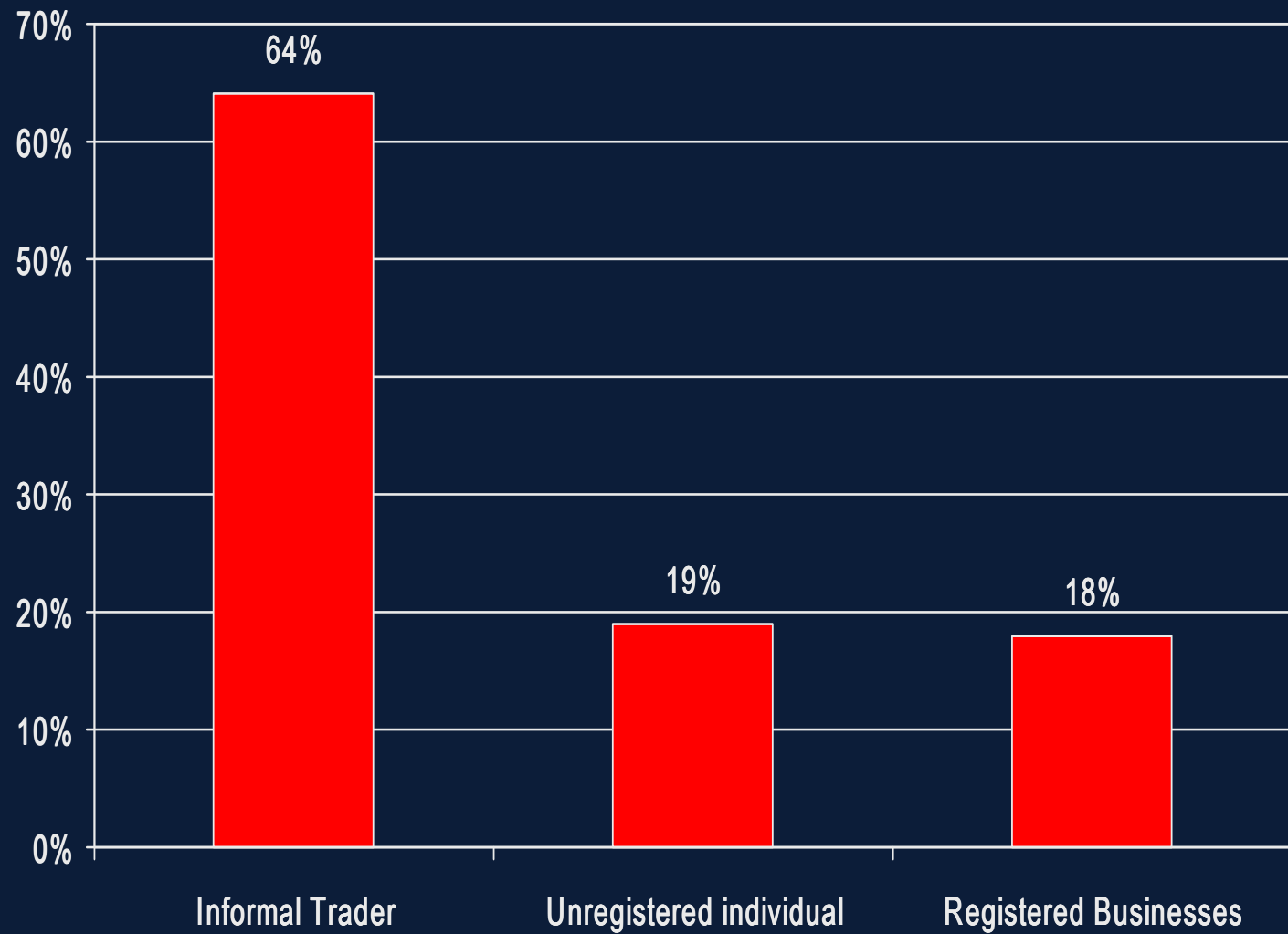
Access strand by income source South Africa



- FinScope SME Pilot Study
- Gauteng province South Africa
- Combined household/enterprise survey (ILO Methodology)
- Area based sampling methodology
- Sample 2000 respondents



FinScope impacts and benefits



Traditional Market View

The Scope of the Small Business Market



- Because the small business market is so varied and diverse it required moving away from a one dimensional sizing of the market that purely looked at the formality, size or legal status of the business
- A segmentation or classification tool was created to look at the continuum of small business from the informal street vendors to the more sophisticated and sustainable business practices
- A Business Sophistication Measure (BSM) was created to illustrate the principal axis of the small business landscape





- Market segmentation is based on the principle that groups of very similar people will behave in similar ways
- Segmentation creates new information about the people in the database in the form of clusters.
- People are classified into a number of segments or groups.
- Essential to be inclusive at questionnaire design phase
- Requirements
 - Valid internally
 - Valid externally
 - Grouping “like” people
 - Identifiable and manageable clusters



The Scope of the Small Business Market

BSM - Business Sophistication Model - Questions

Questions considered for the BSM were:

What type of business is it?

Do you sell the goods as you buy them or do you add value or both?

Do you have a written employment contract for your employees

What type of premises do you operate your business from?

Do you own, rent or just use the place where you trade / run your business from?

Services and equipment

Partners or shareholders

Do you have a written shareholders/partnership/ members agreement

Keep financial records or accounts?

Do you keep these financial records yourself/internally or does someone from outside help you?

Are your financial records audited?

Is this business a franchise?

Is your company / business a subsidiary / part of another company?

Do you have any affiliations with international companies?

Do you do any business / trade with anyone outside South Africa?

Import/ export/both?

Offer goods or services on credit?

Type of credit

Pay taxes

Compliance with acts

Professional services handled by staff

banks used

Type of banking services

Do you have any loans for your business?








From where did you get the loan?

Types of insurance paid for by the business



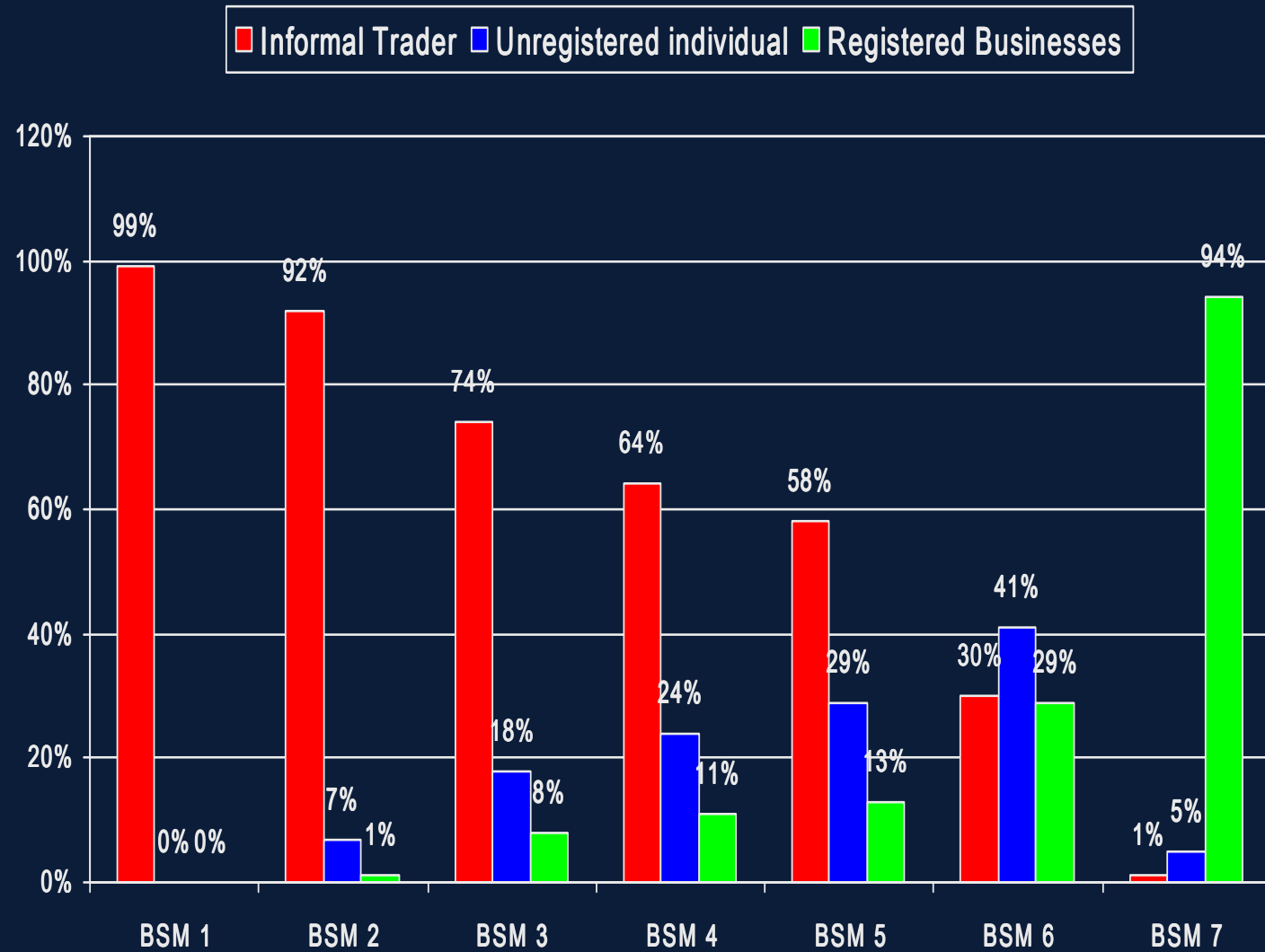
Introducing the Landscape of Small Business

The BSM identified 7 different segments plotting the growth of business sophistication

						
1	2	3	4	5	6	7
12%	9%	26%	23%	10%	10%	9%
123 522	97 370	278 291	247 075	110 512	100 171	96 876

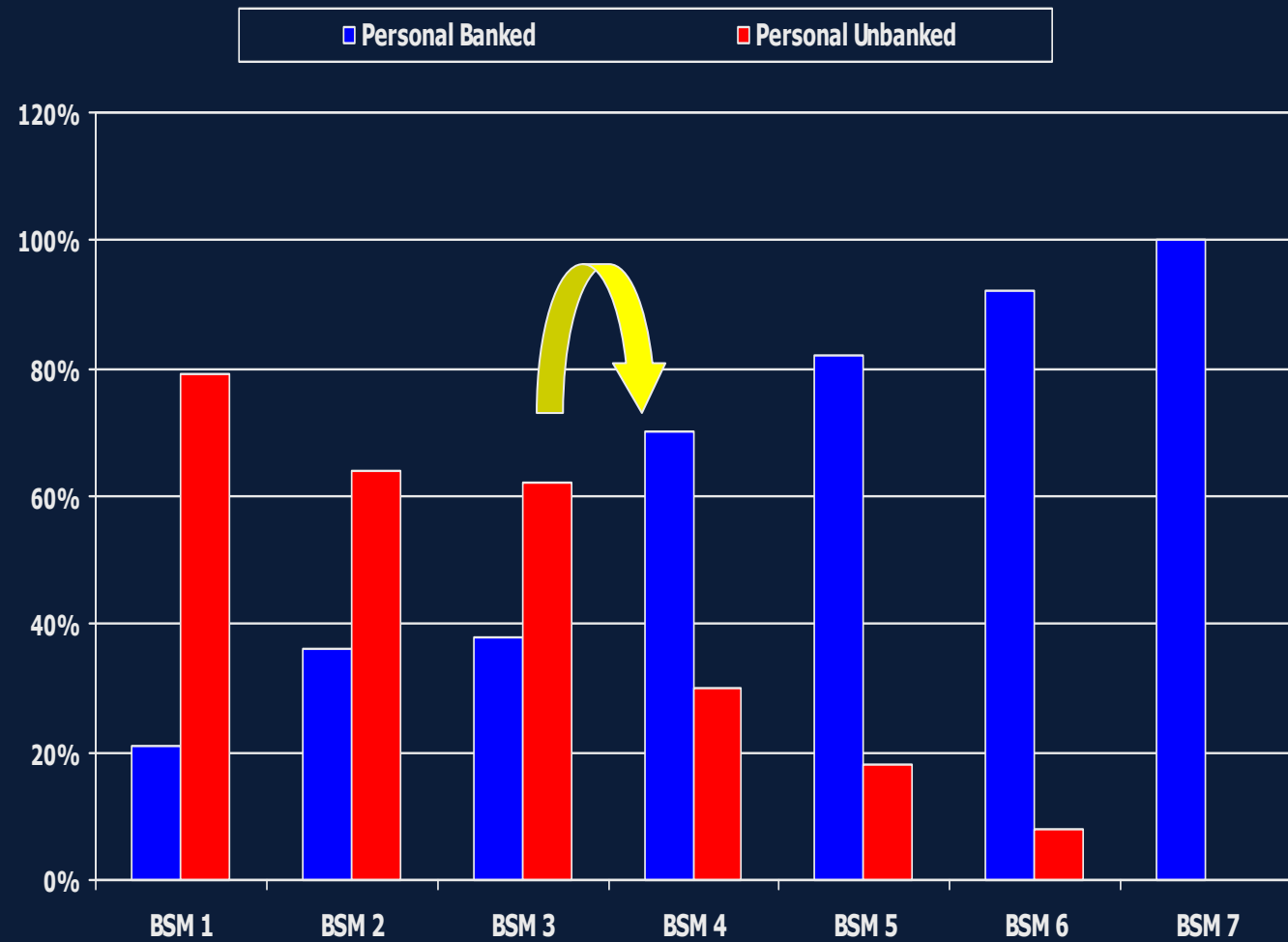
Total Market Size 1 053 818



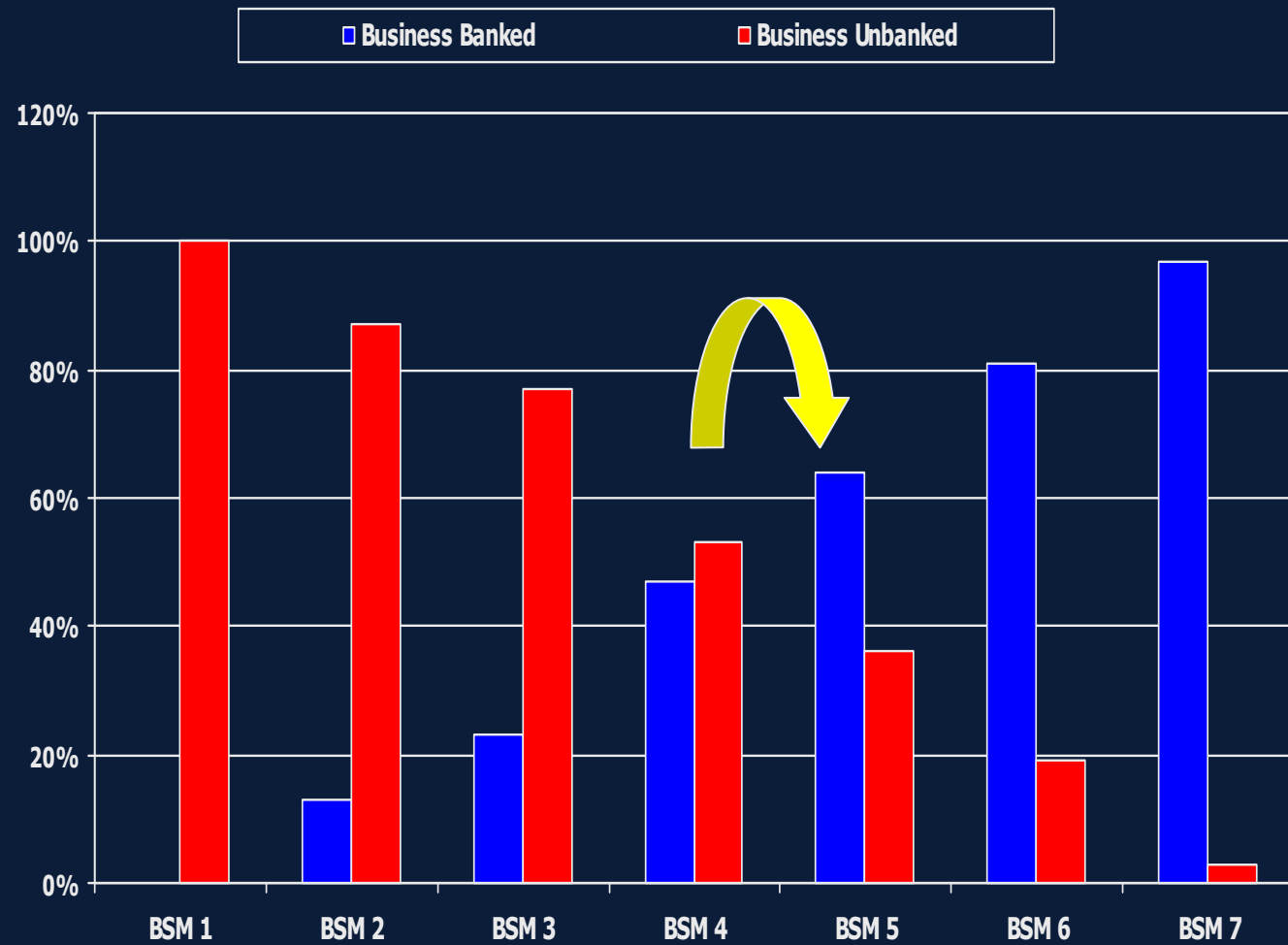


Small Business Market by BSM

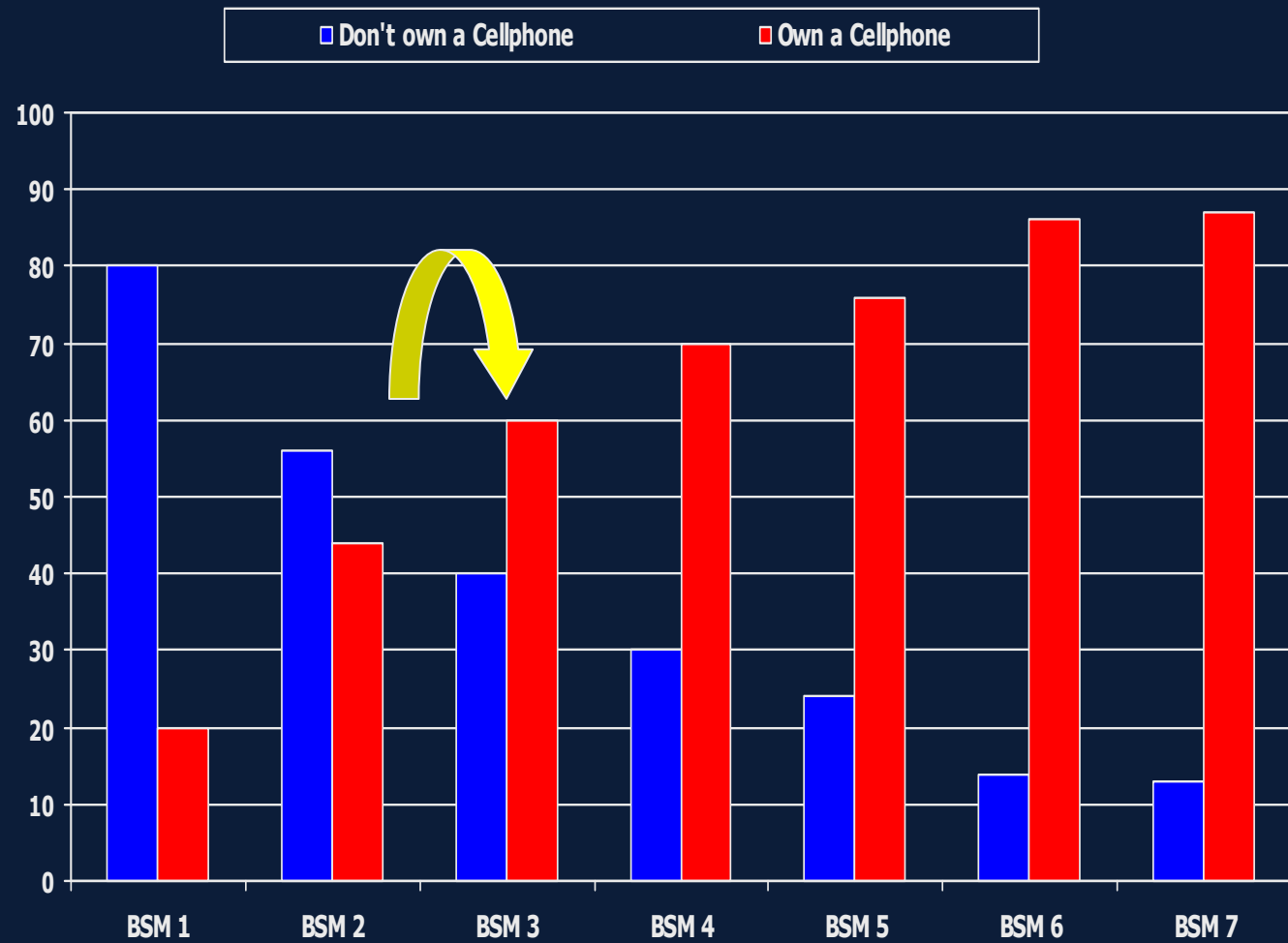




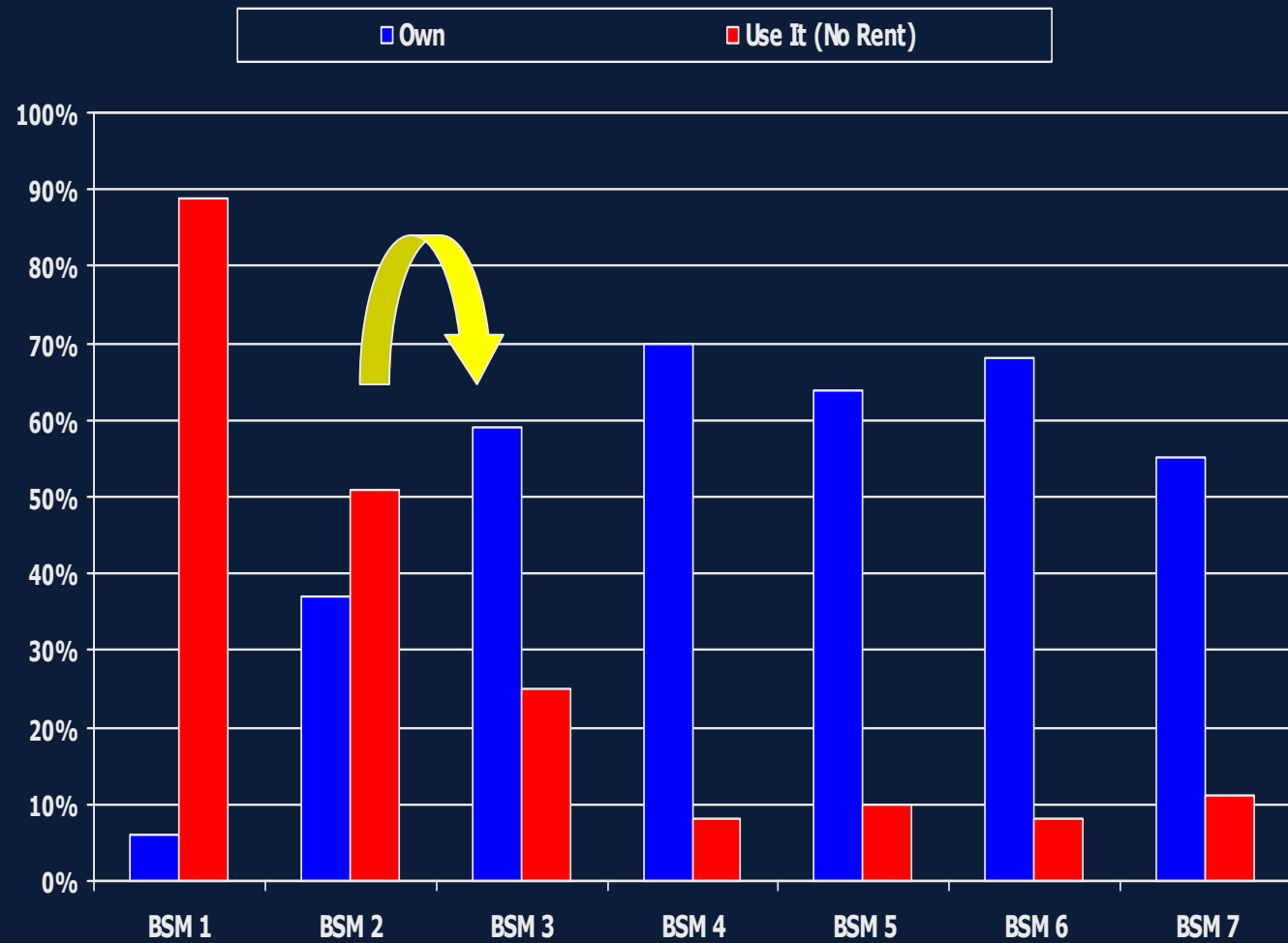
**Zone of Transition |
Using BSM**



**Zone of Transition |
Using BSM**

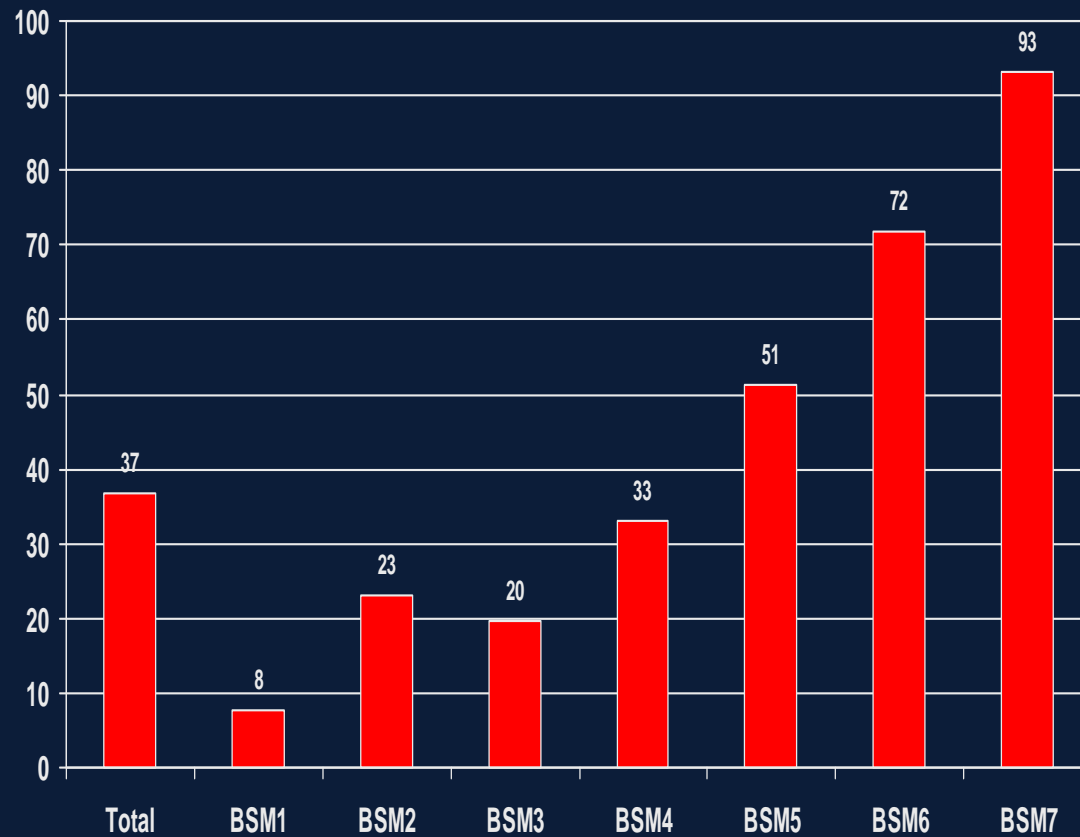


**Zone of Transition |
Using BSM**



**Zone of Transition |
Using BSM**

■ keep financial records

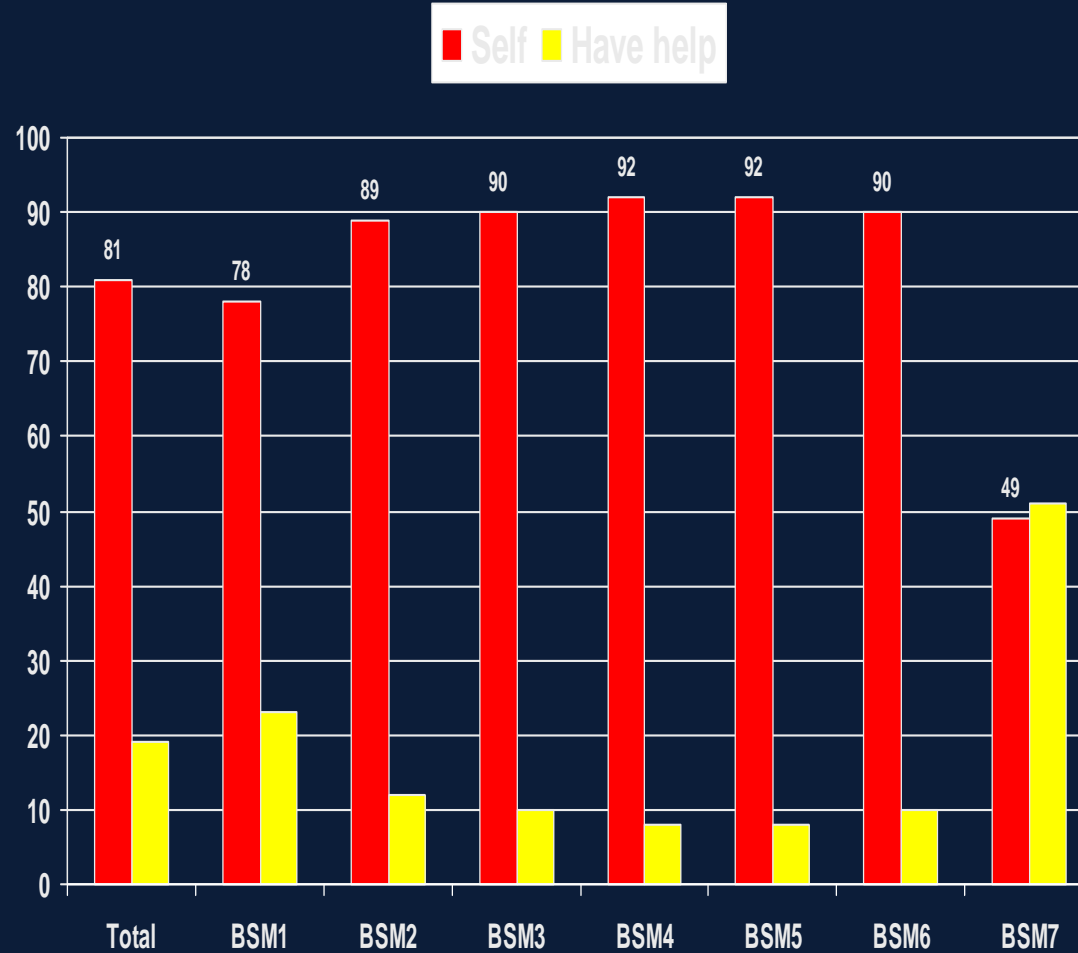


The Financial Institutions rely on the ability to access a business from financial records prior to granting access to financial products.

Yet, despite their relative sophistication, a surprising number of businesses in BSM 5 and 6 do not keep financial records.



Keeping of Financial Records



Where financial records are kept, they maintain financial records themselves.

Only in BSM 7 do the businesses have outside help in significant numbers when it comes to record keeping.



Keeping of Financial Records



- Access to finance remains one of the most critical hindrances to the further development of the informal market sector.
- Currently, banks are servicing the upper sector of the small business market only with a wide variety of products. The lower end of the market is only using a savings product.
- Business owners are looking for financial services that are conveniently located and are prepared to bank with whoever will accept them.
- The incidence of loans and borrowing from the formal financial sector is low.
- Family and friends are the main source of financial borrowing
- Most small businesses claim to require a minimal amount of money for start up. This start-up capital does not come from the formal financial sector.





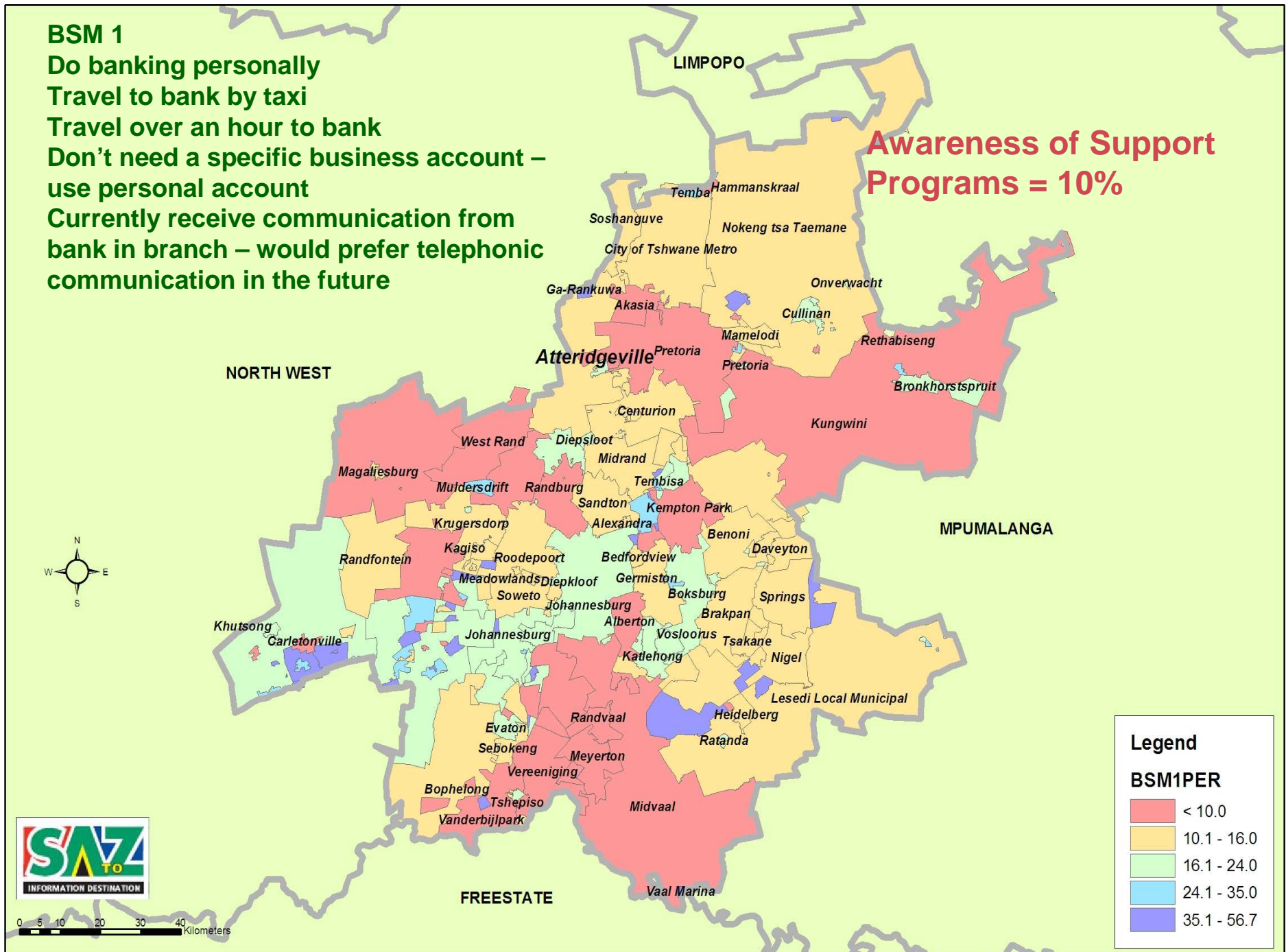
Spatial Mapping

Developing and Area Based Strategic Approach



Do banking personally
Travel to bank by taxi
Travel over an hour to bank
Don't need a specific business account – use personal account
Currently receive communication from bank in branch – would prefer telephonic communication in the future

Awareness of Support Programs = 10%



BSM 4

Travel to bank by taxi

Go to branch approximately twice a month

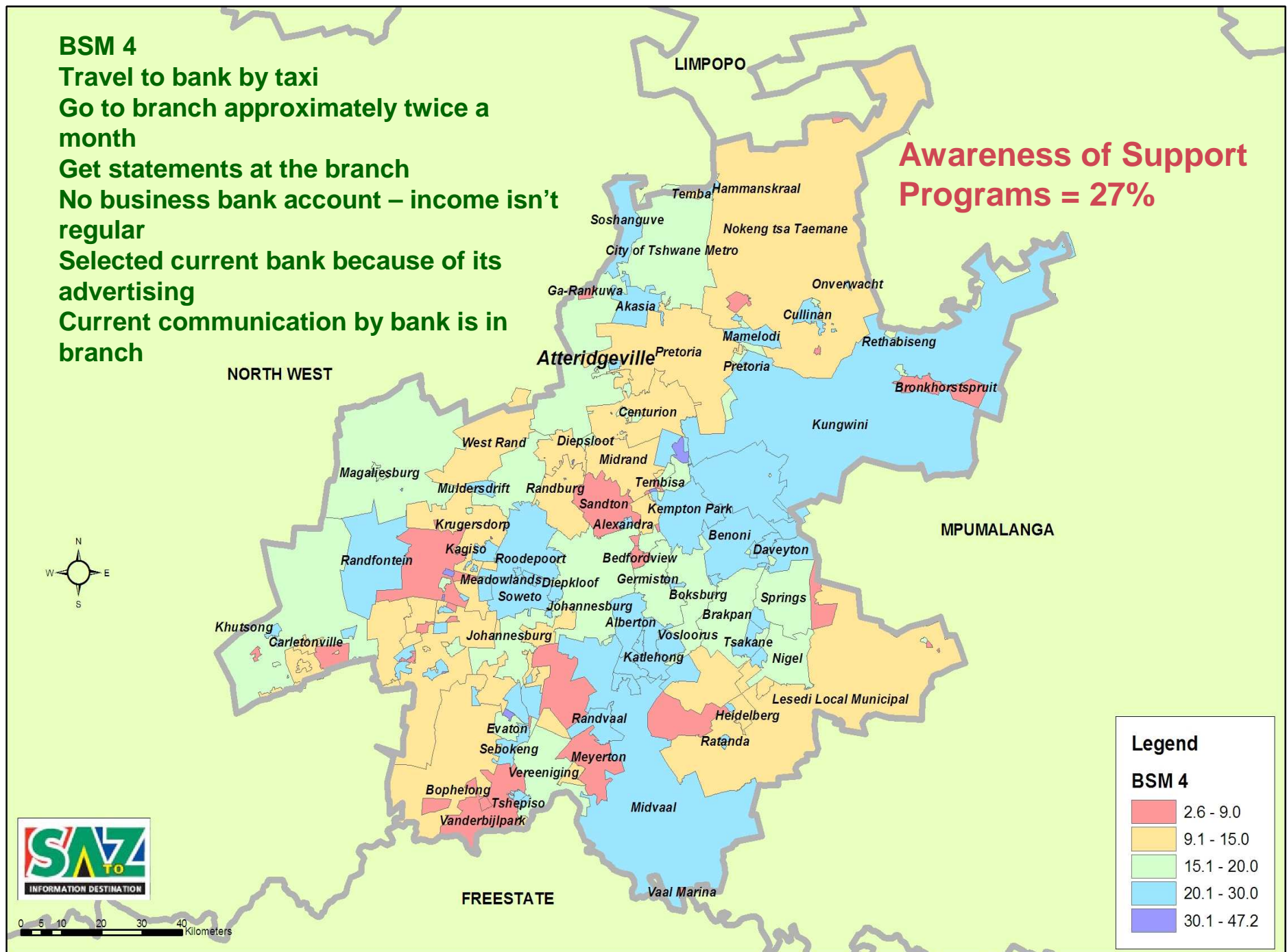
Get statements at the branch

No business bank account – income isn't regular

Selected current bank because of its advertising

Current communication by bank is in branch

Awareness of Support Programs = 27%



BSM 7

Internet banking used for balance enquiries, statements and payments to another person

Travel to bank in own car

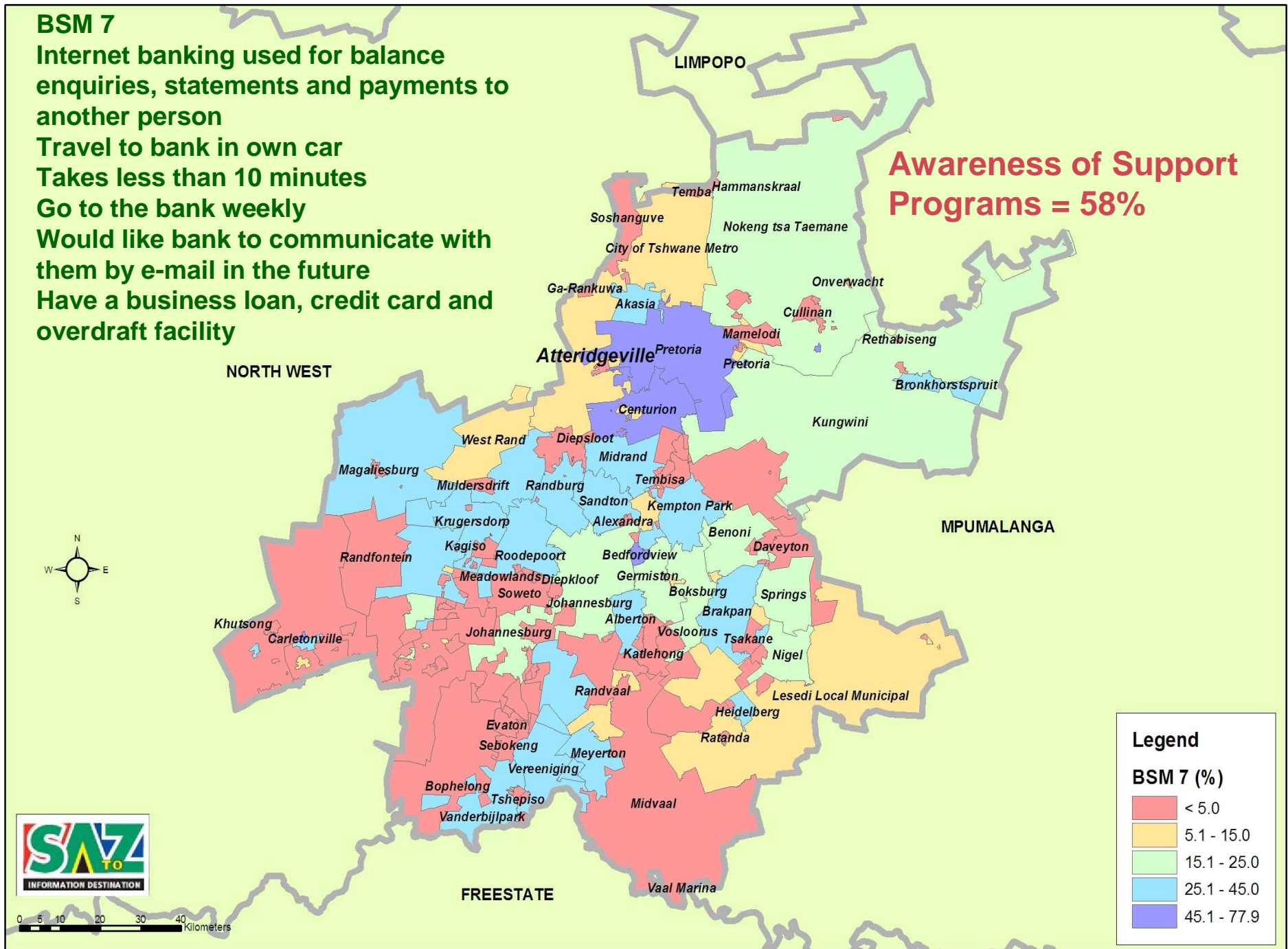
Takes less than 10 minutes

Go to the bank weekly

Would like bank to communicate with them by e-mail in the future

Have a business loan, credit card and overdraft facility

Awareness of Support Programs = 58%





- **SA National Treasury**
 - Review of financial inclusion
 - Policy making: pensions reform, tiered banking review
- **SA Financial Services Board**
 - Financial literacy programme
- **SA Department of Social Development**
 - Grant recipient knowledge & service delivery changes



**Impact depends on extent to which it is
used!**



- **FinScope Nigeria**
 - Currently scoping project
 - Targeted fieldwork start – September 2007
- **Contact Magnus Adiele**
- magnus.adiele@soc.kuleuven.be



**Impact depends on extent to which it is
used!**



Thank you
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