



LET'S TALK ABOUT

BANKS

FOR YOUNG ENTREPRENEURS

BY SA YOUTH TRADE
ASSOCIATION

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ABOUT THE AUTHORS



SA YOUTH TRADE ASSOCIATION

The South African Youth Trade Association is a member-based organisation that is focused on creating viable and sustainable opportunities for youth in trade. SAYTA serves an immediate intervention to the African Union Assemblies' adoption of key protocols and decisions affecting the continental free trade area. These protocols focus on empowering women and youth in trade, with the aim to promote sustainable and inclusive socioeconomic development in the intra-Africa Trade.

Access all areas

SAYTA's mandate is to lobby for a conducive trading environment for young entrepreneurs within the borders of South Africa. We achieve this in two ways.

Information Sharing

At SAYTA, we believe information sharing is one of the key pillars towards a transformed economy. We do this through our weekly newsletter to keep our members up to date as well as monthly webinars with key trade industry experts.

Capacity Building

Our capacity-building initiatives include export readiness programs aimed at enhancing the global trade capabilities of our members, helping them scale up and boost their companies.

INTRODUCTION

“I THINK ANYBODY WHO KNOWS ANYTHING ABOUT SOUTH AFRICA AND THE SOUTH AFRICAN ECONOMY WOULD KNOW THAT ONE OF THE BIG CONSTRAINTS TO GROWTH AND DEVELOPMENT IS SKILLS SHORTAGES. SO ALL OF US, NEED TO COME AT THIS THING AS VIGOROUSLY AS IS POSSIBLE AND, OF COURSE, THE PRIVATE SECTOR HAS THE CAPACITY TO TAKE IT ON BOARD.” – THABO MBEKI

Banks in their nature play a crucial role in being the support structure for local entrepreneurship in particular Micro, Small, Medium Enterprises. These businesses are vital for economic growth, providing approximately 60% of the country's employment and contributing significantly to GDP.

The Banking Association of South Africa highlights that “SMEs are considered an important contributor to the economy as drivers for reducing unemployment, especially since the formal sector continues to shed jobs.”

However, many MSMEs face challenges such as limited access to finance and business management resources and banks to their defence have introduced schemes to mitigate the challenges faced by businesses on the ground, as well as to curb the stigma and the harsh reality that small businesses fail within 5 years if existence.

For instance, Standard Bank is enhancing support for township entrepreneurs by offering financial literacy programs and tailored banking solutions to reduce the high failure rate of SMMEs. Meanwhile, FNB is actively fostering innovation through platforms that connect startups with investors, thereby facilitating collaboration within the entrepreneurial ecosystem.

CHAPTER I

THE INFORMAL SECTOR: WHY WE NEED TO PRIORITIZE THIS NEGLECTED SECTOR

Business Overview

Operating a business is more about just the products or services that you offer, you also need to establish how the business will operate and what kind of legal and regulatory requirements the business needs to meet. The formal sector is the part of South Africa's economy that includes all formal businesses that pay their taxes and are regulated. This sector is characterized the adherence to compliance by businesses. The informal sector presents an alternative for those looking to bypasses the headaches of formalizing their business.

Why Informal Trade

The informal sector accounts for approximately 18% of South Africa's GDP and employs over three million workers, many individuals often turn to informal businesses due to the lack of formal employment available, especially in rural and township areas.

These businesses often provide affordable goods and services, making them crucial for low-income communities. Despite its importance, the informal sector remains largely unregulated, leading to challenges in stability and social protections for workers.

However there has been a growing connotation that the informal sector is merely for survivalist and that the entrepreneurs operating in this sector lack the ambition needed to contribute towards the real economy of South Africa, this then leads to policy makers often overlooking the sector as a whole.

This is shown by the fact that at a point in time the NDP failed to include the informal sector in their projections even though the plan was to create almost two million jobs by 2030.

CHAPTER I

Apart from interventions from the Department of Small Business Development to formalize this sector, little inroads have been made to really tap into the potential of this sector.

A good place to start is by teaching enterprise owner-operators basic bookkeeping skills and providing them with suitable premises for their businesses – these are factors associated with employment growth. Such policies – instead of enforced formalization, which is often limited to tax registration and business licensing – could make a significant difference to the job opportunities, earnings and working conditions of the poor. ‘

Why Focus On The Informal Trade

Informal enterprises serve as a critical entry point into the labor market for many unemployed South Africans. The sector is characterized by a high level of entrepreneurship, with individuals establishing small-scale businesses in various sectors, including retail and services. However, the informal market faces significant hurdles such as limited access to financing and infrastructure

According to research, it is estimated that 80% of the 1.4 million informal enterprises are own-account workers, i.e. one-person enterprises, and 20% are multi-person enterprises (employing enterprises) (2013 data)

The informal sector, which accounts for about 18% of South Africa's GDP and employs over three million workers, creates a competitive landscape for formal businesses. Informal enterprises often offer goods and services at lower prices due to reduced overhead costs, which can attract customers away from formal retailers. This competition forces formal businesses to adapt their pricing strategies and improve service offerings to retain customers

The relationship between formal and informal sectors is complex. While informal businesses provide essential services and employment opportunities, they also challenge the stability of formal enterprises by operating outside regulatory frameworks. This lack of regulation can lead to issues such as unfair competition, where informal businesses do not bear the same tax burdens or compliance costs as their formal counterparts.

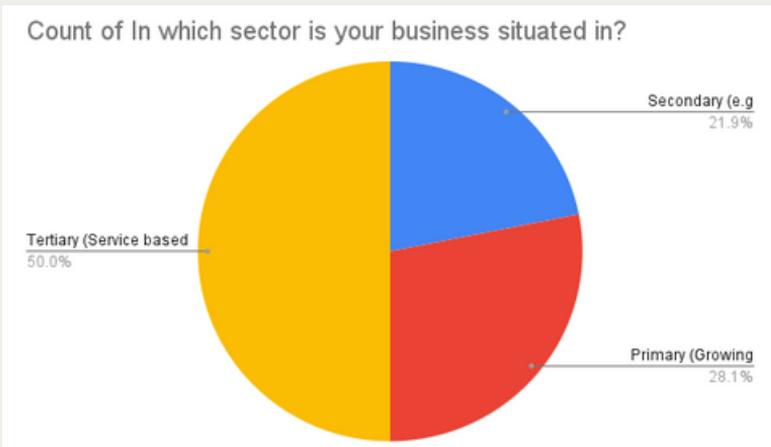
CHAPTER II

ENHANCING THE RELATIONSHIP OF BUSINESSES WITH BANKS

To understand more about the relationship young entrepreneur's have with their respective banks, SAYTA sent out a banking survey to over 100 businesses in it's database with seven specific tailored question to get a better understanding of how young entrepreneurs interact with businesses.

The survey can be accessed here: [SAYTA BANKING SURVEY](#)

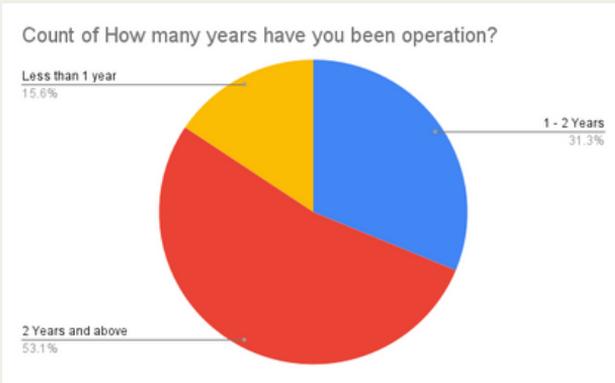
1. In which sector is your business situated in?



SOURCE: SAYTA BANKING SURVEY

- Out of the 32 responses over the 30 day period whereby the window for answers and feedback was allowed, this was the composition if the companies:
 - 16 were in tertiary services
 - 7 in manufacturing sector
 - 9 in the primary sector

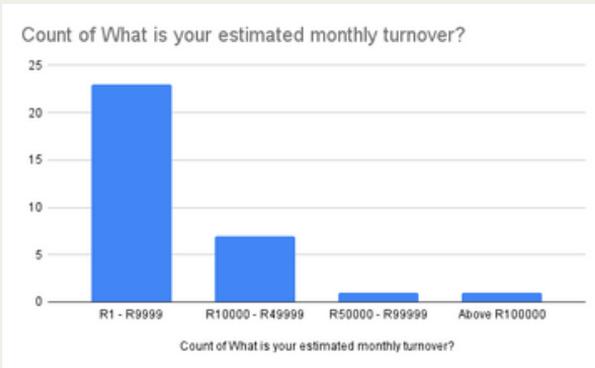
2. How long has your business been in operation for?



SOURCE: SAYTA BANKING SURVEY

- 5 businesses have been operating for less than a year
- 10 businesses have been operating between 12-24 months
- 17 businesses have been operating for more than 2 years

3. What is your monthly income ?



SOURCE: SAYTA BANKING SURVEY

The income disparity was a true reflection of the nature of the businesses (lower earlier phases of MSMEs) out of the 32 responses:

- 23 businesses make less than R10000.00 a month
- 7 make between R10000.00 and R50000.00
- 1 makes over R50000.00 but less than R100000.00
- 1 makes more than R100000.00

4. What challenges does your business face in accessing credit ?

The table below reflects the responses from the question above, access to credit remains a huge barrier for young entrepreneurs. At times, it becomes the defining hurdle prohibiting them from accessing opportunities presented by the market and in return hindering their growth, we have discussed this in detail in our blog about the “value added services”.

The table does not only take into consideration the challenges in unison but also groups them according to the likelihood of their interrelation with other problems young people face within the banking industry.

What challenges have you faced in accessing credit? (Select all that apply)	COUNTA of What challenges have you faced in accessing credit? (Select all that apply)
Credit score	1
Grant application	1
High interest rates	2
High interest rates,	1
High interest rates, Insufficient credit history	1
High interest rates, Lack of collateral, Insufficient credit history	2
High interest rates, Lack of collateral, Long approval process, Insufficient credit history	2
High interest rates, Long approval process, Insufficient credit history	2
Insufficient credit history	11
Lack of collateral, Long approval process, Insufficient credit history	1
Lack of collateral, Long approval process, Insufficient credit history, Black listed for clothing and telecommunications accounts	1
Long approval process	7
Grand Total	32

SOURCE: SAYTA BANKING SURVEY

5. What improvements or additional services could your bank offer to better meet your business needs?

What improvements or additional services could your bank offer to better meet your business needs?	COUNTA of What improvements or additional services could your bank offer to better meet your business needs?
Better customer support	2
Better customer support,	1
Capital build up and debt relieve assist	1
Enhanced digital services, Better customer support	1
Faster loan approval	2
Faster loan approval, Enhanced digital services, Better customer support	1
Faster loan approval, Enhanced digital services, Better customer support, Omit credit checks if we have a purchase order just authorise credit facility and debit their bank when the invoice is been paid is pai	1
Faster loan approval, Lower fees	2
Faster loan approval, More flexible financial products	1
Faster loan approval, More flexible financial products, Better customer support	1
Faster loan approval, More flexible financial products, Enhanced digital services	2
Faster loan approval, More flexible financial products, Lower fees, Better customer support	2
Faster loan approval, More flexible financial products, Lower fees, Enhanced digital services, Better customer support	1
Funding	1
Lower fees	6
Lower fees, Better customer support	1
More flexible financial products	4
More flexible financial products, Lower fees, Better customer support	2
Grand Total	32

SOURCE: SAYTA BANKING SURVEY

CHAPTER III

UNDERSTANDING THE FINANCIAL SERVICES SECTOR:

Having an understanding to how the financial services sector operates is crucial towards building a collaborative effort between the heartbeat of the South African economy which is your local entrepreneurs as well as banks which have the capacity to boost local entrepreneurship.

HOW TO ALIGN THESE SECTORS:

The partnership between banks and entrepreneurs is crucial towards the development of the sector. This is also shown by the interest of MSMEs in traditional banks. The ones who are operating informally do not see the need to formalize their companies as there is no real incentive, i.e., it doesn't guarantee the reality of being funded even if they do.

This takes away from the true ecosystem that can be created in this sector, equally so, banks do not seem to be kind towards the aspirations of the businesses on the ground, our survey reveals that the key problems customers face when interacting with banks are as follows.

- Need Faster Loan Approval
- Lack of Flexible Financial History
- Insufficient credit history becomes a challenge.



How to mitigate the funding challenges of youth owned enterprises?



1. Guarantor Backed Funding

As an immediate stop measure, the concept of guarantor backed funding has been a policy that traditional banks are open to collaborate and implement. How this is done effectively is that banks want their potential loans to be backed in the case of non repayment.



4. Business Support Programs

To effectively boost local entrepreneurship, it is essential to implement Business Activation Support Programs that bring services directly to the communities on the ground. These programs can facilitate access to resources, training, and funding opportunities for entrepreneurs, helping them navigate the challenges of starting and growing their businesses. (DTIC Business Activation Support)



2. Partnerships with Development Finance Institutions (DFIs)

Banks can collaborate with DFIs to create specialized funding programs aimed at informal businesses. DFIs can provide capital and risk-sharing mechanisms that enable banks to extend credit to SMEs with lower risk profiles, fostering growth in the informal sector.



5. Policy Reform in Supporting Entrepreneurship:

Policy reform is crucial to ensure that government initiatives align with current market demands. By understanding the specific needs of local entrepreneurs, policymakers can create a supportive environment that encourages investment and innovation. This includes streamlining regulatory processes and providing incentives for banks to lend to small and medium enterprises (SMEs).



3. Financial Literacy Programs

Offering financial literacy training can empower informal sector entrepreneurs with the knowledge needed to manage finances effectively and understand banking products. This education can help bridge the gap between SMEs and banks, making it easier for entrepreneurs to access credit. (FinFind)

CONCLUSION

THIS IS THE BEGINNING OF SOMETHING GOOD.

With funding becoming less of a constraint for MSME's, the net effect will be a considerable growth for this sector, both in terms of production and the ability to hire more labour which will drastically decrease the huge surge of unemployment.

REFERENCES

Small Medium Enterprises

Find out about Small Medium Enterprises, the challenges they face, their place within the economy and the support The Banking Association South Africa provides

 The Banking Association South Africa / Nov. 9., 2022

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Formal and Informal Business in South Africa
Learn how to create a formal or informal business in South Africa that meets all of the local regulations. Our guide will help you.
 SME South Africa / May 6, 2022



Standard Bank provides essential support aimed at enabling more township entrepreneurs to start, manag...
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