



## INVESTIGATING THE FINANCIAL LIVES OF THE POOR

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### FOCUS NOTE: The Financial Management of Survivalist Businesses

#### KEY POINTS:

- Financial Diaries households that run businesses tend to do retail trade rather than production or services.
- Service businesses tend to earn the highest amount of income.
- Many households started businesses during the study year, only to abandon them before the end of the year.
- Business rarely constitutes a large portion of household income.
- Credit policy appears to be important in the sustainability of survivalist businesses.

A key strategy to combat high unemployment is to promote SMMEs (Small, Medium and Micro Enterprises). However, the application of this strategy is highly complex. Not only do businesses need assistance across a wide range of problems – from skills transfer to access to finance – but the businesses in question range across different industries. They also range across different sizes and stages of development, which require different types of interventions.

Virtually all of the businesses in the Financial Diaries samples would be classified as survivalist businesses. These are businesses that fall well below the turnover levels required for VAT registration in South Africa. Rarely do these businesses have hired employees. And lastly, the cash flows from these businesses is not clearly separated (in the households' minds) from the rest of the households' cash flows.

Some businesses are run by business-minded people (such as Simon in Case study 1 on page 3), but many are started by households to supplement income or to “try to do something” to earn money.



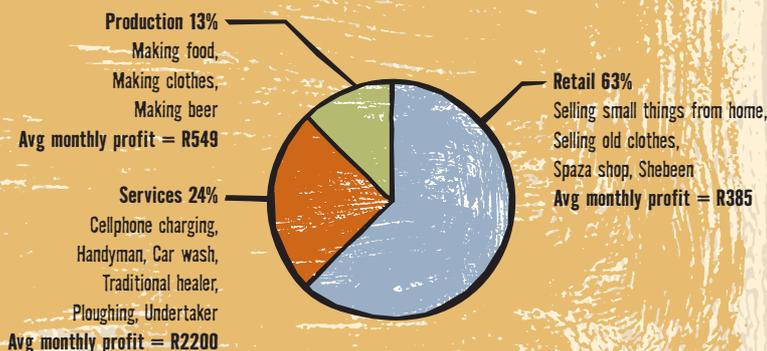
## WHAT TYPES OF BUSINESSES DO PEOPLE TRY TO RUN?

Most of the survivalist businesses in the sample depend on some type of retail trade. Over half of the businesses in the retail category involve selling goods from home. Households sell all sorts of things – frozen meat, sweets, ice cream cones, cigarettes. Included in this category are shebeens and spaza shops. However, they make up only 10% of retail businesses. Unfortunately, retail is also what tends to produce the lowest profit on average—only R385 per month.

The other two categories are not as concentrated in one activity. In the services category, households do everything from providing taxi services to phone services to being a talent agent. In the production category, households make food (two of our respondents cook and sell sheep intestines), make clothes (mostly aprons and dresses) and produce traditional beer.

While production tends to earn only a small amount more than retail, R549 per month, services tend to earn the most, on average R2200 per month. Service businesses, however, do generally entail a larger start up cost, averaging R9207 compared to R164 for retail and R82 for production. Therefore, the high level of start up finance needs would seem to constrain the growth of service businesses.

Types of Survivalist Businesses  
(% of businesses in sample)



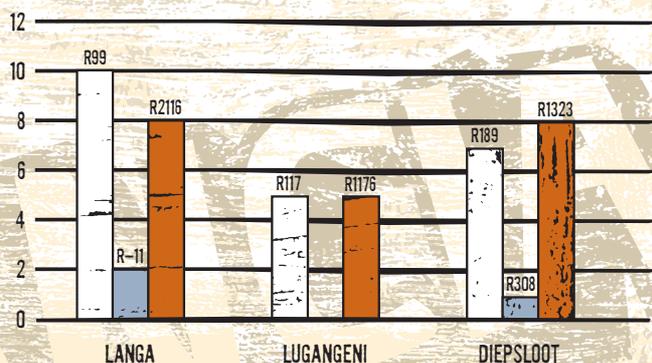
## THE SUSTAINABILITY OF SURVIVALIST BUSINESS

Many of the survivalist businesses that we encountered over the study year were not sustained.<sup>1</sup> Either they were started towards the end of the study year, or they were started and stopped within the study year. The chart below shows that more businesses were started and stopped in Langa than businesses that were sustained all year. In Diepsloot, just one more business was sustained than the number started

and stopped. As the average monthly profits above the bars suggest, profitability had something to do with this lack of sustainability. We found that many households would start a small business, mostly selling small things from home, to try to find a way to generate extra income, without a clear plan or any sense of whether the business would work.

<sup>1</sup> This observation is also reflected in a broader survey by the Graduate School of Business, University of Cape Town and reported in the Global Entrepreneurship Monitor (2004).

Sustaining Survivalist Businesses  
(Number, Average monthly profit above bars)



## CASE STUDY 1: A natural born businessman

Simon\* is a 28 year-old man from Durban, KwaZulu Natal living in a shack in a peri-urban area. Simon has been running a car wash business from home for the past 2–3 years, after he lost his job. Most of his customers are taxis. He has built up the business and now he employs three people to help him with the work.

Simon charges R25 per wash for a taxi and R20 for a private car or bakkie. He tends to wash between ten and twelve cars per day. He pays his employees roughly R380–R400 per month, but he only employs them on a casual basis. If business is slow, he pays them less, so his overheads are minimal. He buys soap, polish and sprays every week and spends roughly R120 per week. When asked, he wasn't sure what his monthly profit was. When we suggested that his monthly profit averaged roughly R2500, he thought that sounded right.

He has grown slightly concerned because others in the area have seen his success and he now has more competitors. It has not affected his business so far, however, as he has loyal customers. He says that despite other car washes charging less (sometimes R20 per taxi) he has an advantage because he has a "waiting room" with a sofa. He says that this is a big advantage – because taxi drivers are awake early and are tense from driving, they appreciate being able to relax.

He hopes that he can expand the business next year by buying vacuum cleaners. His area is only getting electricity in early 2005 – so this has

not been a step that he's been able to take so far.

Simon seems very aware of managing his cash flow. He does not permit credit from his businesses, but it is not a problem because taxi drivers always have cash. He also tends to hold back his employees' wages until after he buys supplies.

Despite his successful business, Simon does not have a bank account. All year, he kept saying that he knew he should keep the money in the bank, but he never managed to get there to open an account. It took a while to get the entire truth, but by the end of the study we realised that Simon tends to turn over more than R5000 every month in a hiding place!

Midway through the study year, he started a stokvel with three friends because he needed to save money to give to his mother in KwaZulu Natal for a traditional feast. Every month he contributes R300. Additionally, in May, he bought some boots on lay-by, which he had paid by the end of June. He admits that he had been in trouble with a retail account in the past. He had stopped paying the account when he lost his job and was surprised when he received a letter from a legal firm, demanding payment. He thought that they would "wait for you" when you lost your job. He paid this off and now doesn't like to take on more debt. He has lent out money to other friends and relatives (three times over the study year), but never takes loans from anyone else.

\*Names have been changed to protect the identities of the respondents.

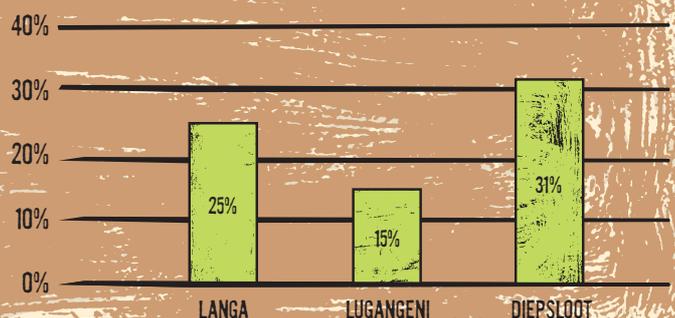
## HOW IMPORTANT ARE THESE BUSINESSES TO HOUSEHOLD INCOME?

Often studies of small businesses look at the business in isolation. However, we found that the majority of the businesses we observed did not separate business cash flows from other household cash flows. Simon (Case study 1) is therefore quite unusual because he relies solely on his business for income. It is important to look at the business in the context of the entire household.

How important are these businesses to overall household income? In general, although there are exceptions, this income tends not to be very important. Rarely does the business income, even if the business is relatively successful, account for 100% of the income. In Lugengeni, where it is difficult to make businesses work, business income only accounts for 15% of total household income. In more prosperous areas, such as

Diepsloot, business profits account on average to close to 31% of income. The majority of business owners have other family members who are earning a salary or receiving a grant.

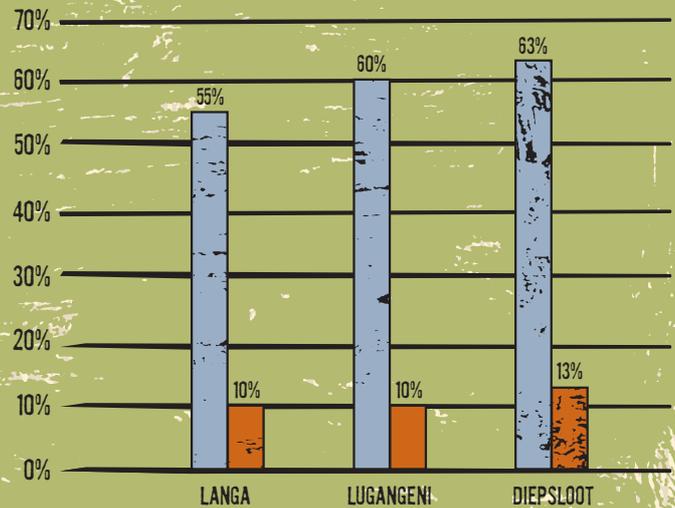
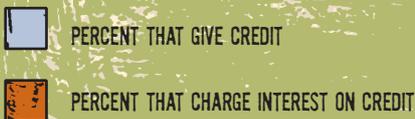
Business Profits % of Monthly Income  
(Using only households with business income)



## SUSTAINABLE BUSINESS: CREDIT IS PART OF THE KEY

Other than being able to choose the right business that is sustainable in the area, a key feature of success also appears to be the credit that is given to customers. The chart to the right shows that over half the small businesses in the sample give credit. However, only about 10% in all areas feel compelled to charge interest. Of those that do, many simply round up the cost of the product rather than charging an interest rate, as can be seen in the case study below.

### Giving Credit and Charging Interest (% of small business sample)



## CASE STUDY 2: Two beer sellers

Jonas\* and Mimimi\* live in a shack that is also a shebeen. Compared to other shacks in the area, this is a mansion. Two rooms are for the customers and have lots of seating space, a pool table and a jukebox. The other two rooms are a kitchen with a fridge and stove, and a bedroom. Mimimi serves the customers from the bedroom, behind a grill. She seems relatively unconcerned about the danger of working a shebeen. Thus far, the shebeen seems to have done well under her management. While Jonas went to work, she managed the shebeen business during the weekend. It was working well enough in the first year of their relationship for them to pay the first lobola instalment of R6500, which was paid in November 2001. They saved together, putting the money in the bank account that Mimimi suggested they open.

Her income from the shebeen comes from three different sources – selling beer on the premises, the jukebox and the pool table. She sells beer only on Friday, Saturday and Sunday. She usually buys six cases of beer on a Friday, ten cases on a Saturday and ten cases on a Sunday. Each case costs R58 and she needs to pay cash to the supplier when she makes the purchase. She will usually sell all the beers on each day that she buys them. She earns revenue of about R72 per case, which means that she makes a profit on each case of about R14. If her usual weekly stock is 26 cases, this means that she earns a weekly profit of about R360 and a monthly profit of about R1400 on selling beer.

The pool table and jukebox are coin-operated. She does not own either one and has a deal with the owner that they split whatever revenue is collected in the machines. She says that she tends to earn R300–R350 from the jukebox and about R700 from the pool table. This gives her an additional profit of about R1000 per month. From the entire business, she earns more than her husband in his full-time job.

One clear reason for Mimimi's success is her credit policy. She gets the bulk of her customers on Friday night, Saturday and Sunday. Her credit rules are very clear: she only gives credit on Sundays and you must pay by Friday or you don't get served that weekend. Also, she charges interest – instead of a beer costing R4,50 cash, it costs R5 on credit.

This differs significantly to Busi\* who makes and sells traditional beer several shacks away from Mimimi. She lives in a shack with her husband and daughter. She shares the drum in which she makes the beer with a relative. This relative has been in Cape Town longer than she has and she's trying to do Busi a favour. Busi therefore only sells every other week. When it's her turn, she buys the inventory that she needs to make the beer and it always costs her R280.

She then sells her beer for R1 per 1 pint (a small beaker) and R10 for a 5 litre beaker. She says that out of one batch of beer, she'll make R150 cash, but the rest is credit to her customers. Sometimes they pay and sometimes they don't.

\*Names have been changed to protect the identities of the respondents.

## CASE STUDY 2: Continued from page 4

She does keep track of the credit in a book, but it is very messy and it looks like she doesn't really know who has paid her and who hasn't. At one point in the study, we counted 16 people who owed her money. She doesn't charge any extra from those who take on credit. When the fieldworker pointed out to her that she might be losing money, she says that she's aware of this, but that selling beer is something to do rather than at sitting home.

Busi came to the city originally to join her husband who had been working here. He lost his job in 1992 when he became mentally ill and began to "require injections". They then moved to a shack. Her husband now receives a disability grant, while she tries to make money doing different things. They would like to move back to the Eastern Cape but they wouldn't have "anything to do to make money there". More importantly, they are scared that they would need to change doctors if they moved and that would interrupt the disability grant. They also started receiving

a child grant for their daughter in June 2004 during the study year.

Despite their limited income, they have a large number of financial instruments. They each have a Post Bank account, although neither of them used it over the year. They also have two burial societies, to which they contribute R20 each monthly. They also each belong to a stokvel. She contributes R100 to a rotating stokvel each month. She was paid out R400 in February and R500 in July. Both times she sent the money home to support her other two daughters at home in the Eastern Cape. Her husband also started contributing R300 out of his R740 disability grant to a stokvel in July 2004. He wanted to save money for when they went home for holidays in December. Busi was concerned about how tight this left them, but she was relieved when they started receiving the child grant. Nonetheless, she still had to borrow R100 from a relative in August to buy inventory for the business. She managed to pay off the loan when the child grant money came in.

\*Names have been changed to protect the identities of the respondents.

## FURTHER RESEARCH TO COME

- 10 The focus of policy support for survivalist businesses tends to be on loans. What other types of financial products do survivalist businesses need?
- 10 How much do the other income sources in the household support the business?
- 10 How can the cash flow of survivalist businesses be better managed with financial instruments?
- 10 Should these businesses receive policy support or is it a waste of time

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