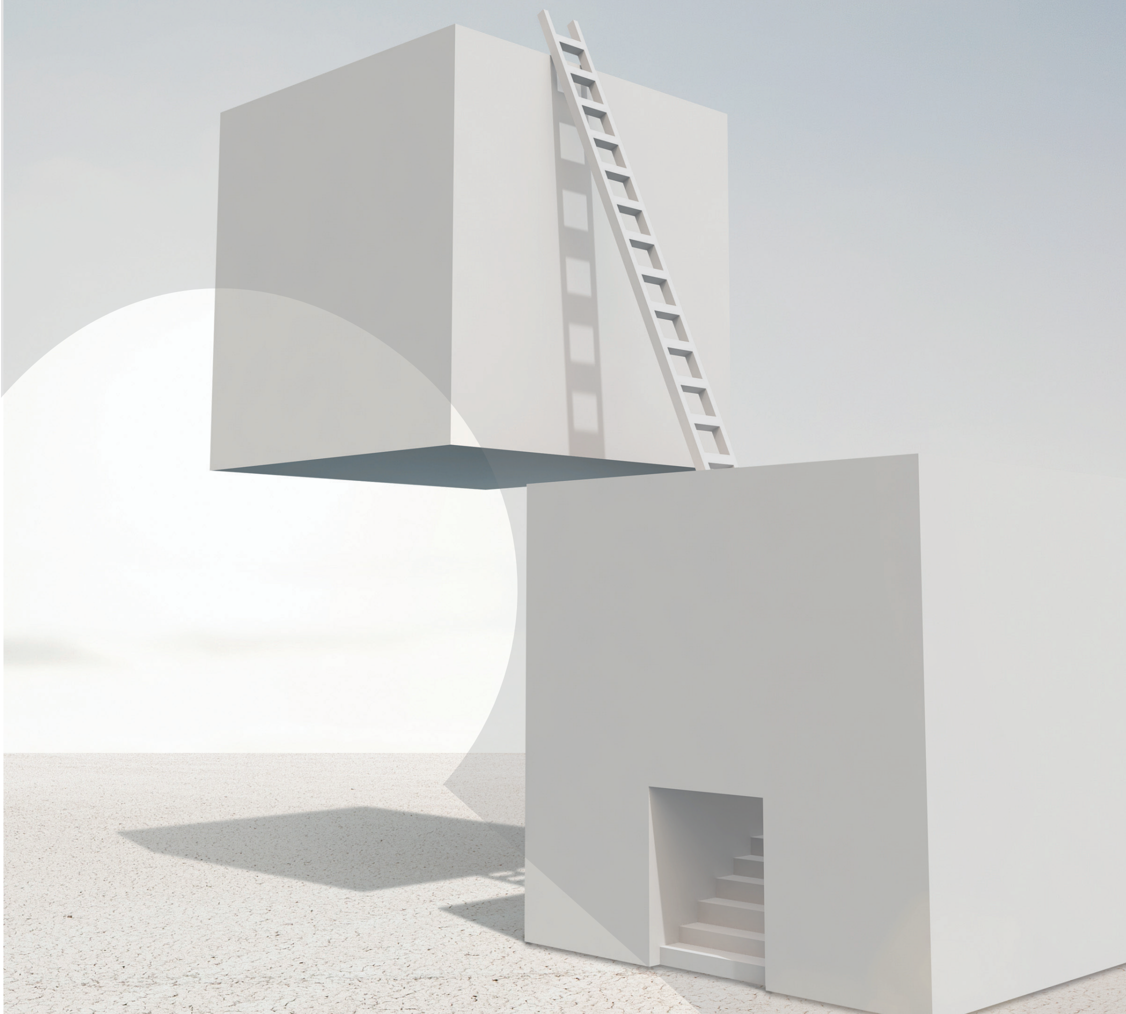
momentum

# SCIENCE OF Success

## MOMENTUM | UNISA SCIENCE OF SUCCESS INSIGHTS REPORT

**2021**



momentum
Here for your journey to success

UNISA
university of south africa

# TABLE OF CONTENTS

# FOREWORD

*Charlotte Nsubuga - Mukasa*

**Head of Marketing: Momentum Brand**

*There is a science to financial success.*

*Over the last 10 years the Momentum and UNISA report has given South Africans the right tools to understand and manage their financial health. Our partnership is here to help you spring clean your headspace and think clearly about your next money moves.*

We know that many factors play a role in a household's financial success. Two of them, which are rarely focused on in the financial world, are the state of households' mindsets and their behaviours around money decisions in the home. A myriad of macro-economic and day-to-day challenges, such as juggling home schooling, endless online calls and keeping your small business afloat during COVID-19, invite indecision or may cripple ordinary South Africans from realising what the right choices are for them. At Momentum, we want to give South Africans the discernment advantage by helping them reframe their thinking towards their financial success, so that they can make better financial decisions.

Over the last two years, households have faced countless new challenges that absorb their brainpower that would otherwise go to long-term planning and problem-solving. "Less mind", as a result, has contributed to tunnelling on many problems, focusing on the most immediate, low-value tasks right in front of us, rather than long-range strategic thinking that would help keep us on track to achieving better financial success.

While today's situation may feel permanent, making moves based on current conditions can lead to regrets later because financial success is about achieving short-term goals in pursuit of long-term ones. Yes, that's right, we value and see the science of them working together to make up two sides of the same valuable coin.

Life can be "a lot"! But financial success is sweeter with a focused mind. We hope that the insights provided in the report will help South Africans recognise this thinking, see the pitfalls of tunnelling, and slowly put clear behavioural measures in place that can help them reach their financial goals. These insights serve as a tool to sharpen your awareness and give new solutions for progress on your journey to financial success.

#SuccessIsAScience. So, go on. Give your money game the edge with the Science of Success 2021.

CHAPTER ONE

# HOUSEHOLD FINANCIAL WELLNESS INDEX

TOWARDS THE SCIENCE OF FINANCIAL SUCCESS

# WHAT HAVE WE LEARNED?

## A decade of purposeful partnership

*The journey to successfully understanding South African households has been enlightening. The Momentum/Unisa Household Financial Wellness research project is now in its 10th year. It has sometimes been disheartening but even more encouraging to better understand the state of, and changes in South African households' finances, and how they are navigating a changing world. Here are some of the key learnings that our journey has uncovered:*

1. The economic environment of the moment matters — a lot. Favourable macroeconomic conditions (strong economic and employment growth with low inflation) improve the financial wellness of households, and vice versa. Policies that enable households to improve their financial wellness contribute to a more resilient macroeconomy.

2. Most households do not benefit from economic growth to an equal degree. The benefits of economic growth and employment creation mostly benefit a small minority, namely the skilled and those employed in the formal sector, which contributes to their financial wellness.

3. A household's ability to generate wealth plays a pivotal role in improving their financial wellness. Most households are unable and incapable of using their resources optimally to generate wealth from their existing income.

4. Some low-income households have been found to generate more net wealth, while many high-income households possess a negative net wealth position. Investigations revealed that, despite their financial position, some low-income households have positive attitudes towards their finances and tend to feel personally empowered.

5. Households' low levels of personal empowerment (social capital) prevent them from benefitting financially from a favourable economic environment.
6. When a good education and strong sense of personal empowerment is combined with certain financial activities such as setting goals, undertaking comprehensive financial planning, regular budgeting and making use of financial expertise when needed, households tend to be more resilient to external political and economic changes.
7. A better understanding of households' emotional and financial needs is critical for better financial planning and long-term financial wellness and success.
8. Many South Africans are financially unwell because of poor decisions and/or financial illiteracy. Households that make use of financial expertise, conduct detailed and continuous financial planning, manage their debt well, and stay informed on financial matters are in a better position to turn the tide of their financial outcomes in their favour.
9. A major shortcoming in the financial planning process is the lack of implementation. A clear financial plan should provide all the activities that must be undertaken, including the time at which it must be done, to achieve long-term goals. A solid financial plan will also empower households to guide their emotional reactions during volatile times.
10. A difference exists between financial wellness and financial success, but they are strongly connected. Financial wellness is a holistic reflection of the financial reality of households, while true financial success is about households achieving their goals. The degree to which financial success is achieved affects households' financial wellness.

## The science of financial success

### What is financial success?

Before we can determine whether we are financially successful, we need to understand what financial success is.

Our research, as well as that of international institutions, revealed that true financial success should be assessed in terms of each individual's and household's unique financial goals, and not by simply looking at how much they earn or how wealthy they are. These unique goals are influenced by variables, such as circumstances, environments, values, etc. – and can be short- and long-term in nature. This means financial success is about achieving short-term goals in pursuit of long-term goals.

This tells us that financial success can't be pursued, achieved or measured if a person does not have one or more financial goals. Financial success is therefore inextricably linked to setting financial goals and actively working towards achieving them.

### Setting financial goals

It is not difficult to set financial goals. Just decide what you need and want, and these will guide you to setting your financial goals. It is important to be realistic when setting financial goals — to ensure that they are attainable. Furthermore, as households' circumstances change, their goals and number of goals will evolve. For instance, some households start with one goal and gradually set new goals, while others begin their journey with many goals.

When setting financial goals, it helps to simplify the process by categorising them. There are four broad groups of financial goals, namely:

- affordability, which relates to budgeting your income, spending and saving;
- specific saving and investment goals;
- loan repayment goals; and
- insurance goals.

We will explore each of these below.

### Long- and short-term goals

When setting financial goals, differentiation between short-term and long-term goals is necessary. Long-term financial goals are what you want to achieve over a long time period. This could include goals such as:

- saving for retirement (which could potentially be a 40-year period);
- saving and investing for wealth building (this is normally over a longer term);
- saving for a child's education (could be more than 10 years);
- purchasing and investing in more than one property;
- repaying a home loan (normally 20 years);
- repaying a vehicle loan (should not be longer than six years); and
- covering and protecting you and/or your household through certain insurance solutions such as life, disability, critical illness, vehicle and, household content and building insurance (which may all be over long periods).

Short-term financial goals are about what you want to achieve over a shorter period of time and may be linked to some long-term goals. They could include the following:

- ensuring that payments for expenses such as medical insurance, rent, school fees and municipal bills are made on time;
- spending less than you earn every week, or month;
- saving for other goals, such as a holiday;
- saving for emergency expenses;
- paying all contributions towards saving (for emergencies, retirement and other goals) and insurance (life, disability, vehicle, etc.) goals are made on time;
- to have affordable debt (not borrowing more than you can afford to repay) and insurance; and
- ensuring that all loan payments are made on time.

Many short-term goals form part of long-term goals. For instance, the short-term goal of ensuring home loan repayments are made on time forms part of the long-term goal of repaying a home loan in 20 years. Likewise, the short-term goal of ensuring retirement saving contributions are made on time forms part of the long-term goal of saving enough for retirement. And the short-term goal of making contributions to insurance on time forms part of the long-term goal of covering and protecting you and/or your household against unfortunate events.

### Assistance with setting, pursuing and achieving goals

There are many tools available to assist with the setting and pursuance of financial goals. These include a budget, a financial plan, a financial adviser or expert in the goal-setting process, saving and loan calculators, etc. Most importantly, though, households should not try to set these goals alone if they don't have the necessary skills to do so.

### The Theory of Change

Households live in a constant changing environment, which affects their ability to achieve their financial goals. However, there is a recipe that can make financial success attainable, even when circumstances change for the worse. This recipe is the Science of Financial Success.

The Science of Financial Success evolved from The Theory of Change, which places the household in a political, social, and economic environment where it must deal with factors that either are within, or beyond its control (refer to graphic illustration 1). There are many factors in the macro-environment that are beyond the control of the household, such as the COVID-19 pandemic and lockdowns, which had extensive financial and social impacts on millions of households.

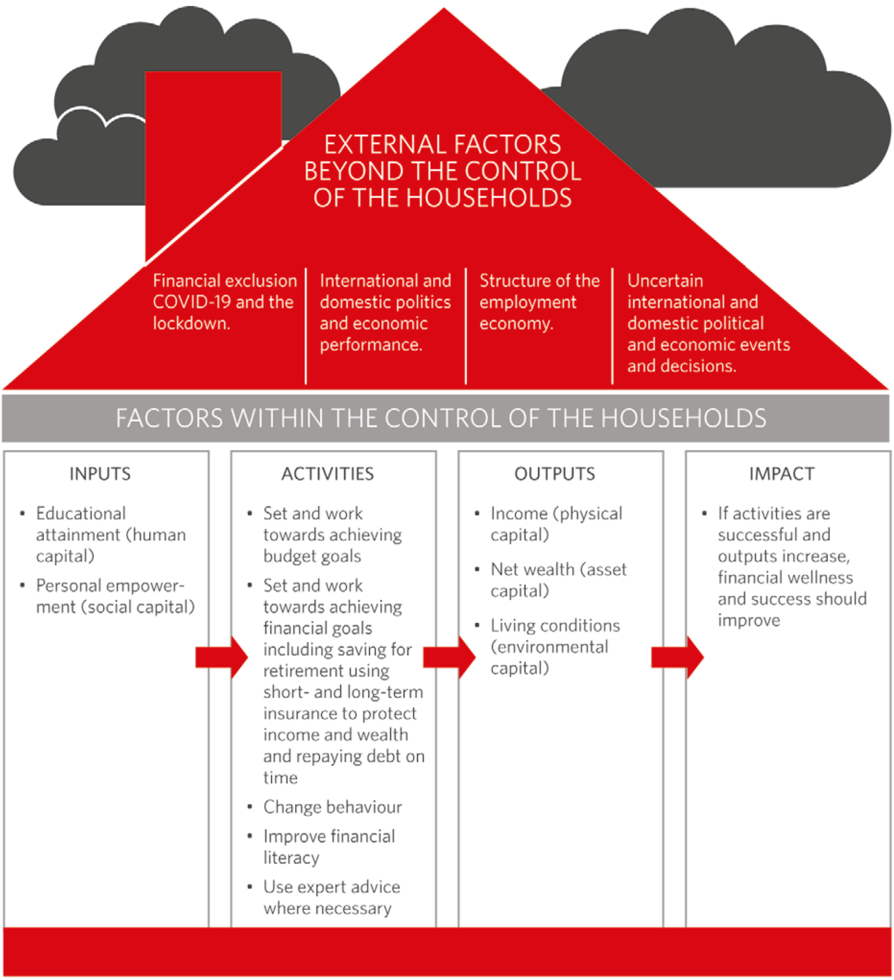
To be better prepared for the journey towards financial success, households must identify and understand the factors within their control, and those they don't have any control over. There will always be factors that are beyond a household's control, but as will be discussed later on, there are ways to limit the damage that may be caused by these factors.

In this respect, the foundation or first layer of the Theory of Change, focuses on the household's own capabilities that affect their income and wealth-generation potential. These are what we refer to as a household's human and social capital.

Educational attainment (or qualification achieved) is used as an indicator of a household's human capital. Although it is not always the case, our research revealed that higher education improves the income and wealth-generation potential for most households. Income potential is not limited to salary income, as entrepreneurial success also benefits from higher levels of education.

On the other hand, social capital indicates whether households feel in control of their financial situations. Do they feel like victims with no hope in sight? Or, do they have self-belief or self-confidence that they can find solutions to challenges and improve their income and wealth-generation potential, possibly with the help of an expert?

*Illustration 1: The Science of Financial Success as explained via the Theory of Change*




Households with high levels of human and social capital typically have a better chance of reaching financial success if they follow the second layer of the Theory of Change (Activities). This second layer outlines the things that households can do to manage their finances, become more resilient to factors beyond their control and progress towards achieving their own goals, whatever those might be.

These include:

- setting short- and long-term financial goals;
- compiling a comprehensive financial plan — the roadmap that includes their goals;
- implementing the financial plan (the journey), including budgeting for expenses, insurance, saving, and debt repayment aimed at reaching their goals;
- adjusting the financial goals in the short run with a commitment to revert to the original goals when conditions "normalise" (should changing conditions warrant it);
- obtaining professional advice in the budgeting and financial planning process. Such advice will help to answer the "how much" question; namely, "how much should I save towards retirement?" "How much should I contribute to life insurance?" "How much debt is enough?", etc. It will also assist with identifying and understanding financial products that will assist in reaching their goals, and ensuring that payments for these products are up to date; and
- empowerment through financial education programmes to become financially capable and embracing positive financial behaviour.

Performing these activities will assist in reducing the damages that may be caused by factors beyond a household's control.

When households combine their human and social capital, which we refer to as inputs, with the activities applicable to them, it will produce a specific output, which is visible in the output layer. This layer consists of their three output capitals, namely physical, asset, and environmental capital.

Physical capital is reflected in a household's income statement. This shows what a household is earning, what it spends its money on and how much it is saving, having followed the activities mentioned in the Activities layer.

Asset capital is revealed in a household's balance sheet. The balance sheet summarises all household assets (usually residential and financial assets such as savings for retirement and other investments) and liabilities (usually debt). It is used to measure the net wealth generated by a household. The level of a household's net wealth (assets minus liabilities) is an essential indicator of financial prosperity and stability over the household's lifetime (including in retirement). Residential assets show the value of a household's residential property. Financial assets indicate the value of the cash a household should have readily available, retirement savings (in a pension fund) and long-term insurance and investments.

Having money readily available is an important indicator of whether households will be able to cope during a financial emergency, such as quickly paying for unforeseen expenditure, or having enough income in times of hardship (such as the one caused by COVID-19 and the lockdown). The value of household's retirement assets and investments are two other crucial indicators to determine what the wealth of a household is. It shows whether households would receive enough income during retirement or buy things they saved for. In turn, the level of a household's debt not only reduces its wealth but should also be monitored to ensure that households don't borrow more than they can afford.

Lastly, environmental capital is reflected in the household's living environment as indicated by the type of housing and the surrounding environment. High environmental capital suggests safe housing, good housing amenities, hygiene and safety.

*These three layers are closely linked. Together, they reflect the long-term financial state of the household, namely their state of financial wellness. A high level of financial wellness also indicates a high level of financial success, as financial wellness can't be achieved without successfully reaching specific short- and long-term goals.*

Many factors therefore play a role in a household's financial success and financial wellness. One of them, which is rarely focused on in the financial world, is the state of a household's mind. Lots of issues, which include a shortage of money or unnecessary societal pressures, can affect individuals and their household's state of mind and thinking that can lead to inaction or wrong decisions. This effect will be the focus of the next section.


FINANCIAL
SUCCESS IS
SWEETER WITH
A FOCUSED MIND

# WHAT IS THE REALITY OF HOUSEHOLDS?

## Less mental bandwidth affected financial success

### The effect of "less mind"

*In their book Scarcity (2014), Sendhil Mullainathan and Eldar Shafir describe how a shortage of something can change us physically and mentally. Similarly, when we are troubled by something, it can capture our minds to a point where it can overwhelm our whole being — no matter whether we are poor, middle class or rich.*

If this shortage or problem is not resolved amicably and quickly, they found that the problem can:

- exhaust us physically and mentally;
- capture our minds to the extent that we start to neglect other important things in life;
- adversely affect our moods and behaviour towards others;
- impede our ability to solve problems; and
- cause us to become unproductive at work.

It means that a strong focus on the shortage or problem can limit the ability of a household to direct its efforts towards being financially successful or prevent them from accelerating their financial success.

Essentially, households need as much mental bandwidth as possible to avoid the negative effects of their difficulties and improve their chances of achieving financial success. Ways to overcome this will be discussed later on, but first, a real-life experiment will show how shortages and problems can consume us and change our thinking.

## A short story on hunger

During the Second World War, the Allied Forces crossed the German border and found people on the verge of starvation. The Allied Forces, who had an abundance of food available, did not know whether the people should eat as much as they can, or whether they should start with small portions and gradually increase their calorie intake. Years later, the University of Minnesota did a research study aimed at finding the correct feeding method. They also measured how starvation changed the mental state and abilities of the 36 participants who they involved to measure the results.

The results are fascinating. Physically, participants lost so much fat on their bottoms that it was too painful for them to sit down. They also accumulated 6kgs in extra fluids, their metabolism slowed by 40% and they lost strength, and endurance.

Apart from that, the hunger changed them mentally. They became impatient when waiting in a line and became obsessive about the little food they had. They were silent and concentrated on their food when they were eating, and their dislike for certain foods disappeared. Furthermore, they became obsessed with cookbooks and menus, spending hours comparing food and dish prices. They even grew a desire to go into the restaurant business. They became so fixated with food that everything else was pushed down their priority ladder.

Interestingly, food was not their main issue. Rather it was their minds which were captured by the problem, namely hunger, which caused changes in thinking, attention and behaviour. They illustrated how scarcity of food could absorb people's minds and cause them to neglect the other important things in life. Mullainathan and Shafir termed this focus on a problem or unfulfilled need "tunnelling", meaning people tunnel on the problem, while other important things are shifted out of the tunnel.

Tunnelling is an "immediate-needs-focus" with little mind going into long-term consequences. For example, expensive loans are more attractive to solve an immediate need, but it may cause several bigger problems such as not having enough money to repay the loan, which in turn may lead to lenders confiscating possessions, being blacklisted, etc. In these circumstances, tomorrow's scarcity is an abstract concept because people don't feel the reality of it yet. They only feel the pressure of today.

Research also revealed that this mind direction is instinctive, which means that it arises automatically from impulse or emotion, and not from thought or deliberation. When a problem or need captures our attention, it changes our way of thinking – what we notice and don't notice, how we decide and deliberate, and ultimately what we decide as well as how we behave. When we function under conditions of possessing "less mind", we represent, manage and deal with issues differently.

### Implications for financial success

The results of the Minnesota Starvation Experiment led to the state of hunger being replicated in other experiments such as examining how people's mental state changed when confronted with a shortage of money, time and companionship. The results were remarkably similar. The overwhelming theme accruing from these experiments was that tunnelling caused people to disregard other important things in their lives.

This finding has important implications for households who are working towards achieving financial success and becoming financially well. Most research thus far has focused on prescribing what households need to do in order to increase their chances of financial success, such as improving financial literacy, budgeting, making use of financial planning, saving for retirement and not borrowing too much.

However, this finding of "less mind" or less mental bandwidth, explains why many households struggle to follow the advice they know they need to follow. When confronted with a problem, they "tunnel" so much on solving it – many times on a temporary basis – that it causes them to neglect or disregard the financial advice and activities such as budgeting, financial planning, saving as well as the long-term implications of the "short-term solution".

To become better at achieving, or accelerating their financial success, households need more mental bandwidth and a wider focus on the important aspects that are necessary to make this journey easier.

### Mental bandwidth was challenged in 2020

2020 was certainly a year full of new challenges. Not only did it pose health and life risks, but also reduced many freedoms such as the freedom of movement and to purchase goods. It also caused many companies to close down, negatively affected workers' right to work and earn an income. Consequently, it contributed to households being challenged from many sides, decreasing their mental bandwidth, which in turn contributed to tunnelling on not one, but many problems. These challenges massively impacted households' financial conditions, including the macroeconomic environment, which will be discussed in the next section.

## Households' economic environment in 2020

In 2020, the performance of the South African economy was heavily influenced by the SARS-CoV-2 coronavirus which caused the COVID-19 disease, as well as by decisions of policymakers in their attempt to contain the transmission of the virus.

COVID-19 and these decisions created an economic environment which tested South African households' resilience to the limit. Although the damage caused by COVID-19 and lockdown decisions were to some extent alleviated by fiscal and monetary assistance, their effect on the economy remained extremely negative.

## Economy back at 2013 levels

In terms of the size of the economy, seven years of economic progress were erased by the COVID-19 pandemic. This measurement may overstate the magnitude of the damage as the economy performed poorly over the previous seven years. However, the fact remains that the economy experienced one of its worst performances in the country's history. Stats SA estimated that gross domestic product (GDP) shrank by 6.4%, or R294.2 billion in 2020 compared to 2019. This means the economy was roughly the size it was in 2013.

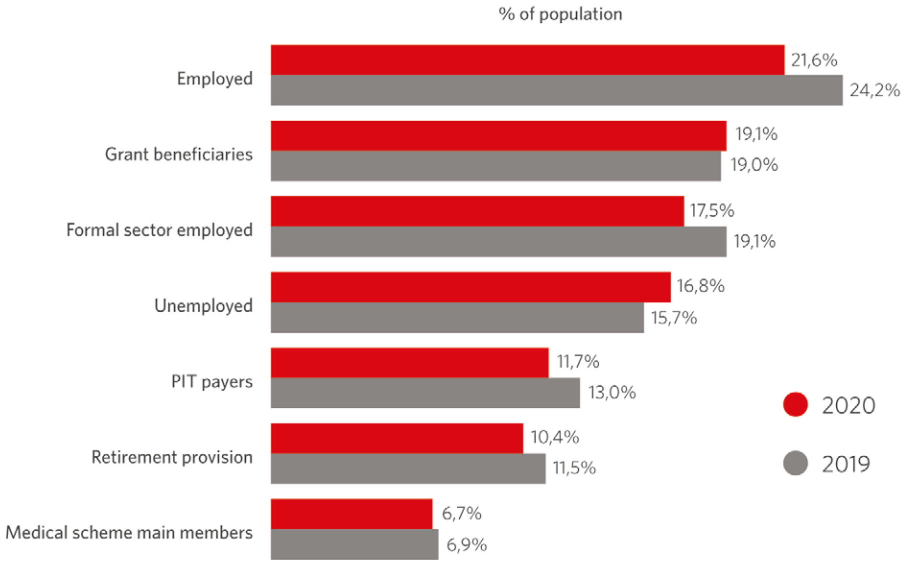
## Seven years of job growth lost

On the employment front, Stats SA measured 1.4 million less people in employment at the end of 2020 compared to the end of 2019. This puts the number of people with jobs at the same level that it was in the third quarter of 2013 (Q3 2013). The magnitude of job losses is by far the largest experienced in one year since measurement started in 2008. This decline in jobs translates into a substantial increase in the expanded unemployment rate, from an already high 38.7% at the end of 2019 to 42.6% in Q4 2020.

## Less participation and higher inequality

These adverse events affected households' ability to earn an income, pay their bills and save towards their goals. Put differently, and as chart 1 shows, more people have been excluded from participating in the economy, therefore increasing income and wealth inequality.

*Chart 1: Households' reduced participation in the South African economy*




Sources: National Treasury, Budget Review; Stats SA, Quarterly Labour Force Survey; Stats SA, Midyear Population Estimates 2020; SASSA, Social Grant Payment Report.

Chart 1 illustrates that of the total South African population:

- Just 22 out of every 100 people had a job by the end of 2020. This is extremely low by international standards.
- There were more grant beneficiaries in 2020 than people employed in the formal sector of the economy. In 2020, 19 out of 100 people were grant beneficiaries (excluding additional temporary social relief in distress grants), whereas only 17 out of 100 people were working in the formal sector.
- There were as many unemployed people as those working in the formal sector. The unemployed increased to 17 out of 100, while the formal sector workers decreased to 17 out of 100 in 2020.
- Just 12 out of 100 people earned enough to be personal income taxpayers in 2020.
- Only 10 out of 100 people made contributions to retirement savings in 2020.
- The number of medical scheme main members declined slightly, but on aggregate remained at 7 out of 100 people in 2020.

## Policy interventions to soften the blow

The South African Reserve Bank (SARB) and government introduced several policy interventions in an attempt to limit the damage of COVID-19 and the resulting lockdowns to the economy.

The SARB provided sufficient liquidity to the financial markets and lowered the repo rate by 2.75 percentage points to 3.5%. The government disbursed more than R50 billion under the COVID-19 Temporary Employee Relief Scheme (TERS) to employees who were prohibited from working, while millions of people received a social relief of distress grant (R350 per month).

## Higher budget deficit and future tax burden

However, as production slowed considerably and less people received an income, it meant government revenue from mostly taxes declined sharply. This was aggravated by bans on sales of alcohol and tobacco products, which further eroded government revenue. Less tax revenue and higher spending meant the main budget deficit was around R170 billion larger than the National Treasury initially planned in February 2020. As the government had to borrow money to fund the larger shortfall, it means the tax burden on the current and future generations will be higher than it would have been in the absence of COVID-19 and lockdowns.

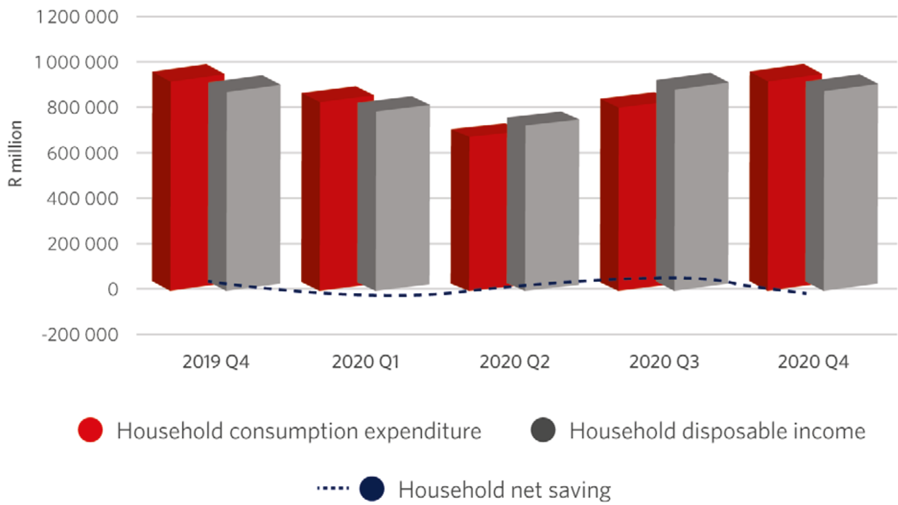
## Changing household financial behaviours

The pandemic and lockdowns affected households' income, spending, saving and borrowing behaviour. Some of the changes were forced, while others occurred by own choice. Forced changes mostly emanated from COVID-19 fears and lockdowns, which prevented many members of households to work and earn an income. It also vested new spending patterns as households were prohibited from buying what they normally bought. In addition, as many households were not able to spend, their savings (deposits) increased. At the same time, they could not borrow as much as they used to in the past.

## Changes in household disposable income and consumption spending

The "hard" lockdown commenced in the last week of Q1 2020. Many households, especially those dependent on a weekly wage, lost out on a week's income. The "hard" lockdown continued in the first month of Q2 2020, followed by moderate softening throughout the rest of the quarter. These lockdowns and COVID-19 fears, however meant that millions of people lost their jobs and therefore their income in Q2 2020. In addition, specific lockdown restrictions caused a sharp decline in household consumption expenditure. As the households who continued to receive an income were prohibited from spending by lockdown restrictions, the net effect was a further increase in deposits and household net saving. This is illustrated in chart 2.

*Chart 2: COVID-19 fears and lockdown affected household income, expenditure and saving*

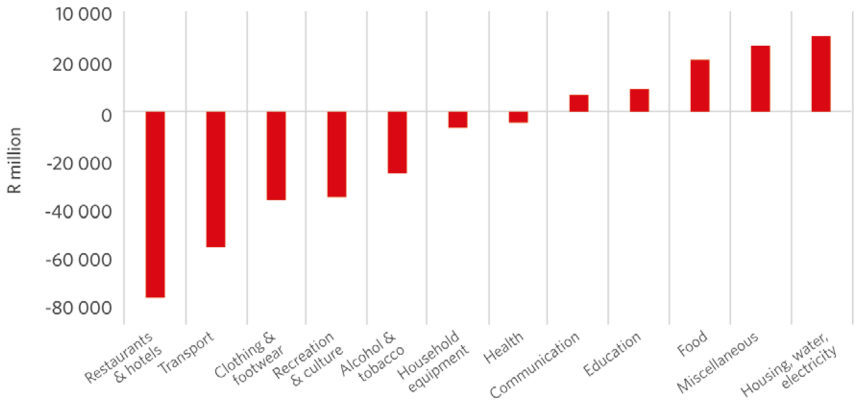



Source: South African Reserve Bank Quarterly Bulletin. September 2021.

## Changes in household consumption expenditure categories

According to Stats SA, households' consumption expenditure was R139.7 billion less in 2020 compared to 2019. This was caused by losses in income and lockdowns preventing spending on especially restaurants and hotels, transport, clothing and footwear, recreation and culture and alcohol and tobacco products (see chart 3).

*Chart 3: Changes in household consumption expenditure in 2020 from 2019*

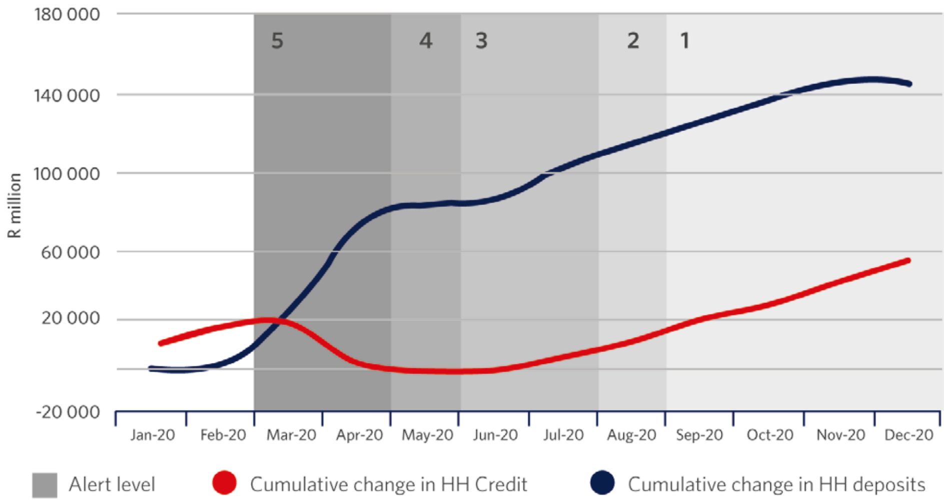



Source: Stats SA.

## Shifts in household savings and borrowing

Not being able to spend contributed to an increase in many households' savings in deposits. SARB statistics show the household sector's deposits at banks increased by R143.1 billion in 2020. As many households could not access more credit, it meant that households' deposits exceeded their uptake of new credit. In 2020 outstanding credit was only R55.5 billion more than in 2019 (refer to chart 4), with 71.3% of the increase emanating from a rise in mortgages as households took advantage of lower interest rates to purchase properties.

*Chart 4: Changes in household borrowing and deposits*




Source: South African Reserve Bank.

## Adjustments in the structure of household deposits

The increase in households' deposits was accompanied by an adjustment in the structure of their deposits. A combination of lower interest rates, loss of income as well as fear and uncertainty contributed to many households reducing their long-term deposits and switching to shorter- and medium-term deposits (see chart 5). Uncertainty about employment and future income, as well as the effect of COVID-19 on life and health, may well have caused many households to become more protective and "pain averse" towards their money, hence reducing their exposure towards long-term deposits.

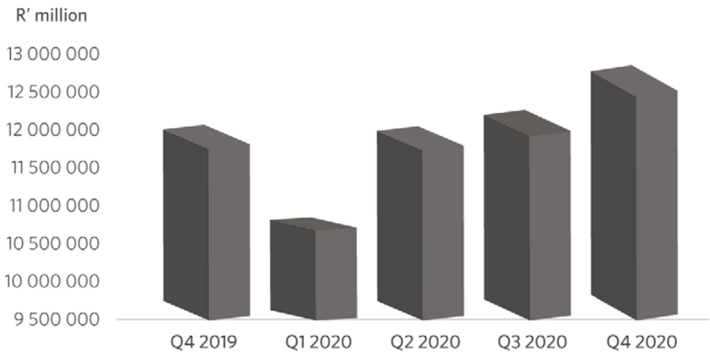
*Chart 5: Changes in the structure of households' deposits*


Source: South African Reserve Bank.

## Household net wealth decreased, but recovered

Uncertainty and fear brought about by COVID-19 and resulting lockdowns had an initial large negative wealth effect on households. Share prices declined sharply as investors sold riskier assets in response to the spread of COVID-19 and institution of lockdowns around the world. As the bulk of South African households' wealth is (via pension funds and retirement annuities) invested in financial assets such as shares, the decline in especially share prices eroded their wealth. Momentum/Unisa estimated household net wealth declined by R1.2 trillion between Q4 2019 and Q1 2020. In this time large switches occurred from riskier shares to safer investments such as money market funds and deposits. However, as governments around the world started supporting households with large transfers; central banks lowered interest rates; and when COVID-19 vaccines became a reality, share prices and that of other assets not only recovered, but increased from their pre-COVID-19 levels. Consequently, the value of South African households' net wealth not only recovered its initial losses, but ended 2020 some R730 billion higher compared to the end of 2019 (see chart 6).

*Chart 6: Household net wealth recovered and increased in 2020*




Source: Momentum/Unisa Household Net Wealth, South African Reserve Bank.

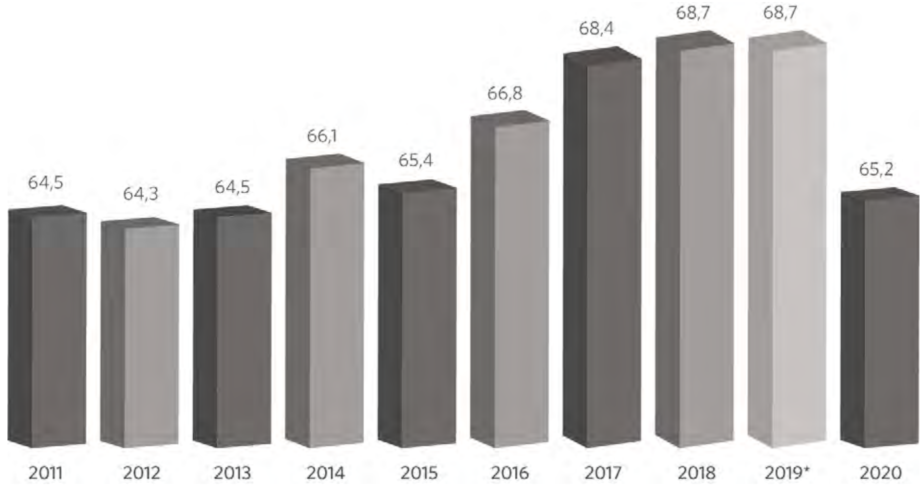
However, the effect of COVID-19 and the different forms of lockdown on households' finances were very unequal. Some households benefitted, others remained in more or less the same financial position, while many became poorer. Further analysis was done to determine which households were financially well and unwell. This will be uncovered in the next sections of this report.

## The state of South African households' Financial Wellness in 2020

### Overall scores

Chart 7 shows a gradual increase in South African households' overall Financial Wellness score between 2011 and 2018 followed by a steep decline from 68.7 points in 2018 (similar to the estimated level in 2019) to 65.2 points in 2020.

*Chart 7: The state of South African households' financial wellness over time*




* Estimate as no survey could be conducted due to lockdown

Source: Momentum/Unisa Household Finance Survey

The decline in the overall Financial Wellness score was mainly caused by the unfavourable impact of COVID-19 and resulting lockdowns on the economic (macro), community (meso), and consumer (micro) environments:

- Macro-level: In 2020, the global economy shrank by 3.2% in real terms. This contraction was mainly caused by the COVID-19 pandemic, which in turn led to lockdowns on an international scale. As mentioned earlier, this had a massive negative impact on the local economy as South Africa is heavily dependent on international trade for economic growth and employment. The negative effect on the South African economy was discussed in the previous section on the economic environment.
- Meso-level: Due to COVID-19 lockdown regulations several businesses and non-profit organisations (NPO) serving communities were compelled to close down or suspend their operations. This affected especially businesses considered to be providing non-essential services, leading to a loss of revenue and jobs cuts. Some businesses relied heavily on government COVID-19 relief funds in an attempt to survive. This situation gave rise to higher business vulnerability, especially small businesses and NPOs, which play an important economic role in terms of employment creation, contributions to economic growth and tax revenue, as well as catering for community needs.
- Micro-level: The factors that affected households' chances of financial success and financial wellness include the following: loss of employment and income; low net wealth and saving growth rates for especially low- and middle-income

households; low levels of financial literacy among consumers; households finding it more difficult to obtain affordable credit and to service existing credit; an increasing number of households being financially vulnerable; households not being able to visit restaurants and tourism destinations; households prevented from driving at certain times, or using some modes of transport; households not being able to buy what they wanted to.

### The component scores for 2020

The Momentum/Unisa Household Financial Wellness Index comprises of five components denoting households' capitals, which are resources that determine households' state of financial wellness namely:

- **The household's educational status (human capital – HC)** that is determined by the level of educational qualifications and skills of household members.
- **The household's personal empowerment capability (social capital – SC)**, reflects their ability to take control over their finances and their trust in institutions.
- **The income statement of the household (physical capital – PC)**, represents the household's income and expenditure.
- **The household's balance sheet (asset capital – AC)**, measured by the value of the household's assets, debt, and net wealth.
- **The quality of the living environment (environmental capital – EC)**, reflects the state and quality of the household's dwelling.

As all the capitals affect each other, the overall Household Financial Wellness index score is calculated using a multiplicative method based on the following definitional equation:

$$\log (HC \times SC \times PC \times AC \times EC)$$

*Table 1: The Financial Wellness component scores for 2020*

| | 2018 | 2020 | Change |
|---|---|---|---|
| Living conditions | 6.9 | 6.7 | ↓ |
| Education | 6.7 | 6.6 | ↓ |
| Net wealth | 4.9 | 5.2 | ↑ |
| Income | 5.5 | 4.6 | ↓ |
| Personal empowerment | 5.2 | 4.5 | ↓ |
| Financial Wellness Index | **68.7** | **65.2** | ↓ |

*No score available for 2019 as no survey could be conducted due to national lockdown*
Source: Momentum/Unisa Household Finance Survey

The general decline in the household Financial Wellness component scores was driven mainly by the impact of the COVID-19 pandemic and lockdowns. It had a larger adverse impact on households' income and personal empowerment levels opposed to their wealth, living conditions and education components. Table 1 shows the average income component score declined from 5.5 in 2018 to 4.6 in 2020, while the personal empowerment score dropped from 5.2 in 2018 to 4.5 in 2020. The inability to earn sufficient income, or a loss of income to finance debt and/or to spend on consumption gave rise to a sense of low personal empowerment where households felt that they had less control over their finances and less ability to solve problems due to, among others, strict lockdown regulations.

A marginal decline in living conditions from 6.9 in 2019 to 6.7 in 2020 was recorded, owing to changes some households needed to make in maintaining or selling their homes, or having to move and live with family or friends. The education component declined from 6.7 in 2018 to 6.6 in 2020 due to less classes and having to cope with issues brought about by "digital education".

The net wealth score was the only component that increased during 2020, from 4.9 in 2018 to 5.2. This was mainly due to the recovery and strengthening of financial markets, which assisted households with investments in pension funds and other financial products.

The Financial Wellness scores provide a macro-overview of the state of, and change in, households' financial wellness. However, as households differ it is necessary to categorise them in different groups to gain a better understanding of their financial wellness and the factors that affect them.

## Pursuing success: The financial wellness groups of South Africa

Households were divided into four clear groups based on the state of their financial wellness. Each group was further broken down and reflected in terms of a village, which provides a description of the main demographic characteristics of the groups. These groups and their own villages are:

### Financially Distressed (0 - < 30)

In this category, a household is deeply rooted in a Financially Distressed position. Most of these households live in extreme poverty and misery. They need major outside assistance, which may include government social security transfers, remittances, debt consolidation loans, debt counselling, etc. to improve the financial situation. These households are likely to miss payments and use high-cost credit including unsecured informal micro loans.

### Financially Unstable (30 - < 60)

A household in the Financially Unstable category is not as deeply rooted in financial stress as those in the Financially Distressed category. However, this type of household is very susceptible to adverse events (such as the loss of a weekly wage), and wrong decisions can change their status to Financially Distressed. A stable or higher income, good financial decisions, discipline, and planning may present some opportunities to become Financially Exposed.

### Financially Exposed (60 - < 80)

An adverse event may cause a Financially Exposed household to become Financially Unstable or even Financially Distressed. Many households in this group earn a low income, but most manage their finances appropriately, whilst some earn a lot, but manage their finances poorly. Expert financial advice and planning may present opportunities for many households in this category to drift towards the Financially Well position. That will entail a commitment to engage in financial capability practices to mitigate adverse events, take advantage of financial advice and opportunities (investments), and making decisions that will enable a household to become Financially Well.

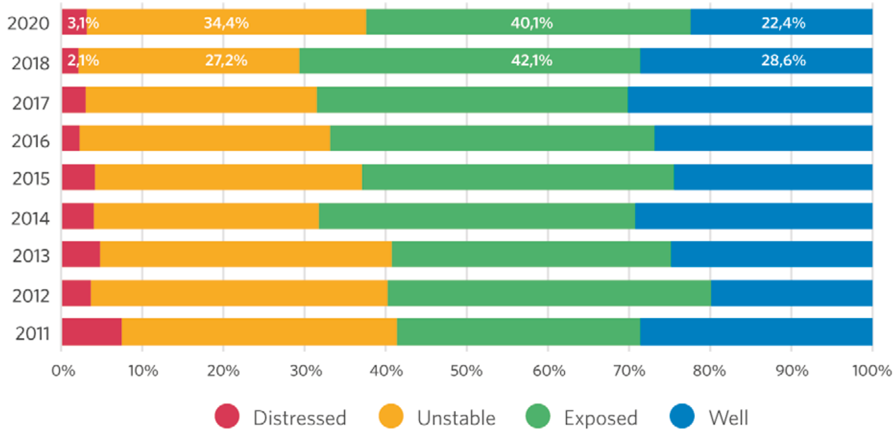
### Financially Well (80 - 100)

Households in the Financial Well category mostly do the right things and achieve their financial goals. However, negative COVID-19 and pandemic-related challenges contributed to several of these households gravitating from Financially Well to Financially Unwell categories. Although these negative developments are mainly outside the control of households, proper advice, goal-setting, and financial planning such as income protection measures, availability of emergency fund savings, and financial discipline may assist with mitigating the impact of adverse events.

## Distributional results of financial wellness groups (2011 – 2020)

The distribution of the results per financial wellness group from 2011 to 2020 depicted in chart 8 show a general downward shift away from Financially Well to the lower Financially Unwell groups. Compared to 2018, a smaller share of households were financially well in 2020, declining from 28.6% to only 22.4%. The number of households in the Financially Exposed group also declined – from 42.1% to 40.1%. Consequently, the share of households in the Financially Unstable and Financially Distressed groups increased from respectively 27.2% to 34.4% and 2.1% to 3.1%.

*Chart 8: Distributional results of financial wellness groups 2011- 2020*




Source: Momentum/Unisa Household Finance Survey

## Who is typically part of each of the financial groups?

The four financial wellness groups have their own unique village. The village is a representation of each group's demographic characteristics such as income, age, employment, marital and education status, gender and population group. For ease of understanding, a village is represented as consisting of 100 households. Where noted the characteristics of the Financially Knowledgeable Person (FKP) that completed our survey is reported. Basically, this is a person who can provide the most information on the household. They may not be the head of the family, but they get their hands dirty when it comes to the household's money management.

## Financially Distressed Village

The majority of the Financially Distressed consists of households in the lowest income group category, earning between R0 to R24 500 per year. More than half of these households have primary school as highest level of education in the household. More than 70% of the FKPs of these households are either unemployed or economically inactive, while nearly two-thirds of them are female and single. Households in this category are mainly dependent on government grants and part-time work in especially the informal sector.

| Age category of FKP | |
|---|---|
| 18 - 24 | 11.2% |
| 25 - 34 | 23.6% |
| 35 - 44 | 17.6% |
| 45 - 54 | 17.0% |
| 55 - 64 | 11.1% |
| 65+ | 19.5% |

| Employment status of FKP | |
|---|---|
| Employed | 29.9% |
| Not economically active | 17.0% |
| Unemployed | 53.1% |

| Marital status of FKP | |
|---|---|
| Never married / Single | 63.1% |
| Married / Living together | 26.6% |
| Single after marriage (divorced / separated / widow(er)) | 10.3% |
| Other | - |

| Household income groups | |
|---|---|
| Very low income (R0 – R24 500 pa) | 74.4% |
| Low income (R24 501 - R108 500 pa) | 25.6% |
| Low emerging middle class (R108 501 - R236 900 pa) | - |
| Emerging middle class (R236 901 - R495 400 pa) | - |
| Realised middle class (R495 401 - R995 500 pa) | - |
| Emerging Affluent (R995 501 - R1 882 200 pa) | - |
| Affluent & wealthy (R1 882 201 pa +) | - |

| Gender of FKP | |
|---|---|
| Male | 31.8% |
| Female | 68.2% |

| Highest level of education in household | |
|---|---|
| Some primary | 25.7% |
| Completed primary | 56.4% |
| Completed secondary | 17.9% |
| Tertiary | - |

| Population group of FKP | |
|---|---|
| African | 97.1% |
| Indian | 1.1% |
| Coloured | 1.8% |
| White | - |

| Main source of household income | |
|---|---|
| No income | 1.8% |
| Salaries & wages | 31.9% |
| Business income | 10.4% |
| Investments | - |
| Retirement benefits | - |
| Grants | 36.0% |
| Transfers received | 3.0% |
| Other / not specified | 16.8% |

### Financially Unstable Village

Almost 75% of the Financially Unstable households' FKP is single and more than half of the households have a member that at most completed secondary education. More than 90% are in the low- and very low-income categories earning below R108 500 per year. Nearly two-thirds of these households have women as the FKP, while less than half of the FKPs are employed. These households' FKPs tend to be a bit younger and despite some households being dependent on more than one grant as main source of income, just over half of the Financially Unstable households depend on salaries and wages as their main source of income (albeit very low).

| Age category of FKP | |
|---|---|
| 18 - 24 | 11.5% |
| 25 - 34 | 33.7% |
| 35 - 44 | 24.3% |
| 45 - 54 | 12.9% |
| 55 - 64 | 10.0% |
| 65+ | 7.7% |

| Employment status of FKP | |
|---|---|
| Employed | 44.5% |
| Not economically active | 16.7% |
| Unemployed | 38.9% |

| Marital status of FKP | |
|---|---|
| Never married / Single | 66.2% |
| Married / Living together | 25.2% |
| Single after marriage (divorced / separated / widow(er)) | 8.4% |
| Other | 0.2% |

| Household income groups | |
|---|---|
| Very low income (R0 – R24 500 pa) | 42.2% |
| Low income (R24 501 - R108 500 pa) | 50.6% |
| Low emerging middle class (R108 501 - R236 900 pa) | 5.7% |
| Emerging middle class (R236 901 - R495 400 pa) | 1.1% |
| Realised middle class (R495 401 - R995 500 pa) | 0.3% |
| Emerging Affluent (R995 501 - R1 882 200 pa) | - |
| Affluent & wealthy (R1 882 201 pa +) | - |

| Gender of FKP | |
|---|---|
| Male | 38.0% |
| Female | 62.0% |

| Highest level of education in household | |
|---|---|
| Some primary | 1.8% |
| Completed primary | 36.4% |
| Completed secondary | 56.5% |
| Tertiary | 5.3% |

| Population group of FKP | |
|---|---|
| African | 88.5% |
| Indian | 1.9% |
| Coloured | 6.4% |
| White | 3.1% |

| Main source of household income | |
|---|---|
| No income | 2.0% |
| Salaries & wages | 51.8% |
| Business income | 14.4% |
| Investments | 1.4% |
| Retirement benefits | - |
| Grants | 20.9% |
| Transfers received | 1.3% |
| Other / not specified | 8.2% |

## Financially Exposed Village

More than two-thirds of the households in the Financially Exposed village have at least one member that completed secondary education, while almost 20% possess a tertiary qualification as the highest qualification in the household. Just below two-thirds of these households' FKPs have never been married or are single, and a similar portion are employed. These households mainly earn between R24 501 and R108 500 annually, but some higher income households also fall within this category. Income generated through own businesses or from salaries and wages are mostly the main sources of income.

| Age category of FKP | |
|---|---|
| 18 - 24 | 12.3% |
| 25 - 34 | 32.8% |
| 35 - 44 | 26.1% |
| 45 - 54 | 14.5% |
| 55 - 64 | 8.6% |
| 65+ | 5.7% |
| **Employment status of FKP** | |
| Employed | 59.3% |
| Not economically active | 14.5% |
| Unemployed | 26.2% |
| **Marital status of FKP** | |
| Never married / Single | 61.9% |
| Married / Living together | 26.9% |
| Single after marriage (divorced / separated / widow(er)) | 10.9% |
| Other | 0.3% |

| Household income groups | |
|---|---|
| Very low income (R0 – R24 500 pa) | 10.1% |
| Low income (R24 501 - R108 500 pa) | 56.4% |
| Low emerging middle class (R108 501 - R236 900 pa) | 19.5% |
| Emerging middle class (R236 901 - R495 400 pa) | 10.4% |
| Realised middle class (R495 401 - R995 500 pa) | 2.3% |
| Emerging Affluent (R995 501 - R1 882 200 pa) | 1.2% |
| Affluent & wealthy (R1 882 201 pa +) | 0.1% |
| **Gender of FKP** | |
| Male | 43.6% |
| Female | 56.3% |
| **Highest level of education in household** | |
| Some primary | - |
| Completed primary | 14.0% |
| Completed secondary | 68.4% |
| Tertiary | 17.7% |
| **Population group of FKP** | |
| African | 78.2% |
| Indian | 2.9% |
| Coloured | 8.6% |
| White | 10.3% |
| **Main source of household income** | |
| No income | 0.7% |
| Salaries & wages | 58.8% |
| Business income | 23.8% |
| Investments | 2.9% |
| Retirement benefits | 2.1% |
| Grants | 9.0% |
| Transfers received | - |
| Other / not specified | 2.7% |

## Financially Well Village

Nearly half of the households in the Financially Well category earn more than R236 900 annually. Nearly half of them have at least one household member which completed tertiary education. More than half of the FKPs are males. Most of these households have an FKP who is employed, and mostly between the ages of 25 and 44. The role of a higher education and income on a household's financial wellness is evident from this group. The marital status also plays an important role in the financial wellness of these households as a large share of them are partner-based. They are often characterised by more than one source of income, which allows the benefit of the pooling of financial resources to better contribute to their household financial wellness.

| Age category of FKP | |
|---|---|
| 18 - 24 | 10.4% |
| 25 - 34 | 30.8% |
| 35 - 44 | 26.4% |
| 45 - 54 | 19.2% |
| 55 - 64 | 9.2% |
| 65+ | 4.0% |

| Employment status of FKP | |
|---|---|
| Employed | 77.8% |
| Not economically active | 11.6% |
| Unemployed | 10.6% |

| Marital status of FKP | |
|---|---|
| Never married / Single | 49.3% |
| Married / Living together | 40.0% |
| Single after marriage (divorced / separated / widow(er)) | 10.4% |
| Other | 0.3% |

| Household income groups | |
|---|---|
| Very low income (R0 – R24 500 pa) | 0.4% |
| Low income (R24 501 - R108 500 pa) | 20.0% |
| Low emerging middle class (R108 501 - R236 900 pa) | 33.1% |
| Emerging middle class (R236 901 - R495 400 pa) | 31.8% |
| Realised middle class (R495 401 - R995 500 pa) | 9.5% |
| Emerging Affluent (R995 501 - R1 882 200 pa) | 3.0% |
| Affluent & wealthy (R1 882 201 pa +) | 2.2% |

| Gender of FKP | |
|---|---|
| Male | 55.1% |
| Female | 44.9% |

| Highest level of education in household | |
|---|---|
| Some primary | - |
| Completed primary | 2.1% |
| Completed secondary | 49.9% |
| Tertiary | 48.0% |

| Population group of FKP | |
|---|---|
| African | 73.1% |
| Indian | 2.7% |
| Coloured | 6.2% |
| White | 18.1% |

| Main source of household income | |
|---|---|
| No income | - |
| Salaries & wages | 67.4% |
| Business income | 25.1% |
| Investments | 2.4% |
| Retirement benefits | 1.9% |
| Grants | 0.9% |
| Transfers received | - |
| Other / not specified | 2.3% |

## Component scores of the financial wellness groups – what are their main struggles and wins?

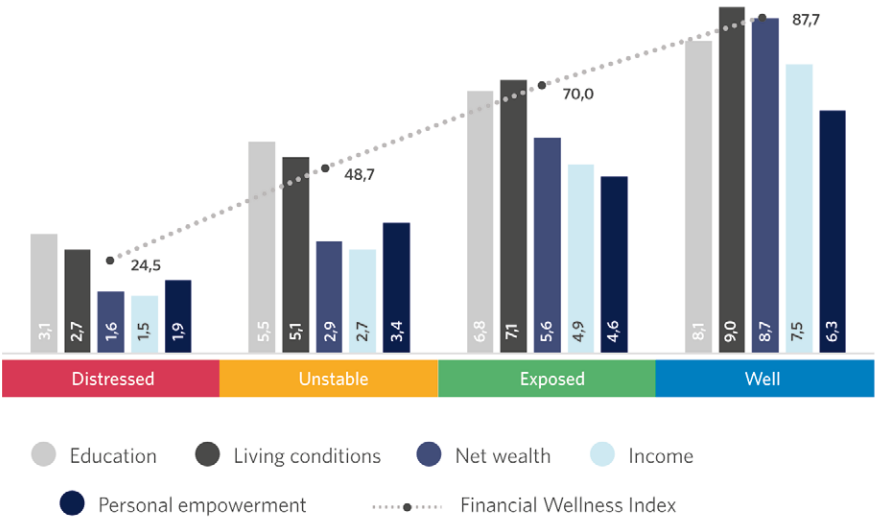
Chart 9 shows the component scores for each of the financial wellness groups. The Financially Distressed group comprises of the impoverished households with substantially lower income and net wealth than the other villages. Although education and living conditions appear to be able to provide some hope, these households have very low levels of personal empowerment, indicating low levels of control over their financial futures and limited hope.

The Financially Unstable group has better educational qualifications and living conditions but is still limited by lower income and net wealth positions. Low levels of personal empowerment constrain their ability to make sound financial decisions and use their inputs to create improved financial conditions.

Households in the Financially Exposed group have much better living conditions and educational qualifications that impact positively on their income and net wealth generating ability. These households feel that they are not in a stable financial situation and not as in control of their lives and finances as they could be, as shown by their low personal empowerment score. Improving their income, levels of confidence and financial behaviour (planning and decision making) may assist these households to become financially well. Some of these households regressed from the Financially Well group in 2020 as a result of the pandemic and other adverse events that mostly affected their income.

The Financially Well group has much better living conditions than the other groups – and this, rather than income or wealth, contributed to many of them being in the Financially Well group. Households in this group typically also possess higher net wealth and a higher education status. Many households (mainly entrepreneurs) previously in this group suffered a decline in their income levels resulting from COVID-19 and lockdown regulations. The pandemic and lockdowns also had an adverse effect of the remaining households in this group as even their Financial Wellness scores, especially that of personal empowerment, declined.

*Chart 9: The component scores of the different financial wellness groups*




Source: Momentum/Unisa Household Finance Survey

# Financial success in 2020

## Relationship between Financial success and Financial wellness

Households should strive for the ultimate position of being financially successful and financially well. In this position households are both successful with achieving all their goals and being financially well. It is possible, though, for a household to be financially successful, but not (yet) financially well, and vice versa. Our research showed exactly that. Many households in the financially well group actually rated themselves to be financially unsuccessful, while some financially distressed households deemed themselves to be financially successful (see table 2).

*Table 2: Financial success ratings of financial wellness groups*

| *Extent to which you have achieved financial success (1=not at all; 10 = fully)* | Financial wellness group | | | |
|---|---|---|---|---|
| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well |
| Low rating (1-3) | 47.6% | 33.7% | 23.1% | 13.0% |
| Medium rating (4-7) | 48.6% | 56.4% | 63.3% | 65.4% |
| High rating (8-10) | 3.8% | 9.9% | 13.5% | 21.6% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

Source: Momentum/Unisa Household Finance Survey

A few examples can explain the relationship between financial success and financial wellness.

Being financially well means a household has high levels of income and wealth, good living conditions, high education and high levels of personal empowerment. Achieving financial success means that goals are achieved on the road towards financial wellness. For instance, a household may be fully financially successful by achieving all its unique goals such as generating wealth, saving for emergencies, saving for retirement, some types of insurance, repayment of home- and vehicle insurance, etc. But at the same time the household may not yet be content with its particular level of income, wealth, living conditions, education and personal empowerment. So, the household may be financially successful, but not yet financially well or as financially well as it can be.

On the other side of the coin, a household may not have been on track with achieving all its goals but be financially well. This may occur when the household's financial goals are tough to reach, or when events such as COVID-19 and lockdowns prevent them from achieving all their goals, etc. However, the household may still be financially well even if all the financial goals were not achieved – as the household may, through being on track with achieving most of its goals, have reached the higher levels of income, wealth, living conditions, education and personal empowerment.

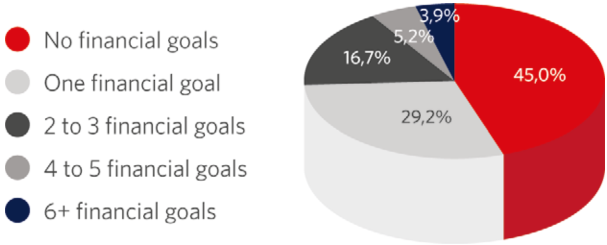
What the research revealed, is that the path to financial wellness is enabled by achieving financial success, as being on track with financial goals will increase the probability of becoming financially well.

### Financial success in reality

COVID-19 and the lockdowns – which manifested in a health crisis, many deaths, a steep economic contraction, closures of businesses and more than a million lost jobs – had a severe effect on households' ability to achieve their goals and therefore financial success.

However, 45% of households indicated they don't have financial goals (see chart 10). This may be due to a lack of or little income arising from being unemployed or living on social grants, or because some households just don't think of financial goals. The rest of the households indicated they had financial goals, but these ranged from one financial goal to more than 18 financial goals. 29.2% of households indicated they had one financial goal, 16.7% had 2 to 3 financial goals, 5.2% had 4 to 5 financial goals and 3.9% had six or more financial goals.

*Chart 10: Distribution of households with and without financial goals*



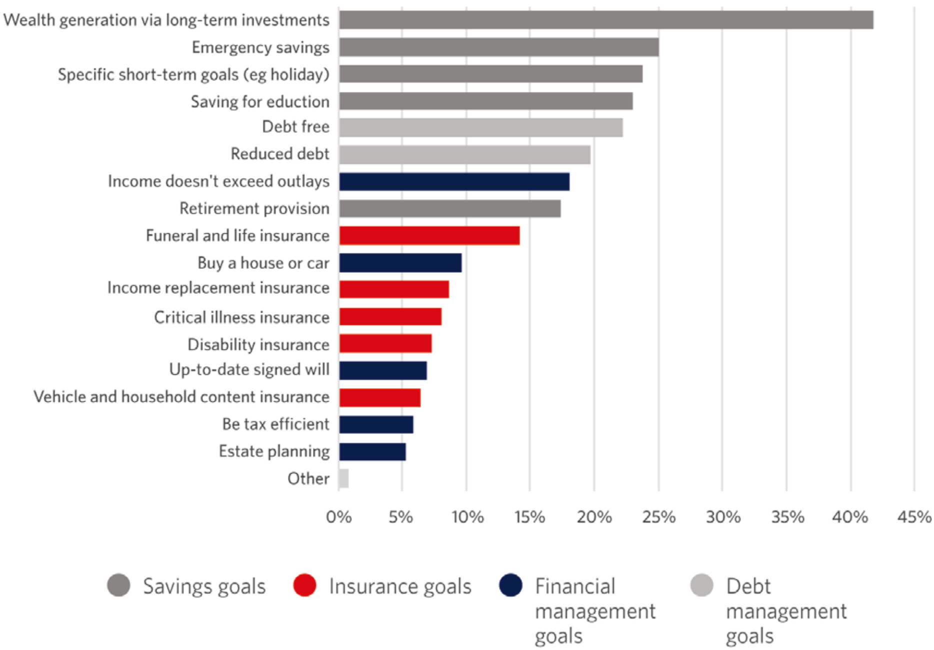

Source: Momentum/Unisa Household Finance Survey

The financial goals provided as options in the survey were clustered into 4 main themes, namely savings, insurance or risk management, financial management and debt management as follows:

- Savings
  - To generate wealth by investing over the long-term
  - To save for a specific short-term goal (e.g. a holiday)
  - To fund education (your own or someone else's)
  - To provide for your retirement
  - To have emergency savings
- Insurance
  - To replace your income (if you lose your job) (e.g. income protector)
  - To prepare for you or a family member's death (e.g. by getting funeral or life cover)
  - To be prepared if you become disabled (e.g. disability cover)
  - To be prepared if you become critically ill (e.g. critical illness cover)
  - To replace your assets if they are stolen or damaged (e.g. short-term insurance)
- Financial Management
  - To optimise tax benefits
  - To purchase assets (e.g. buy a house or car)
  - To have an up-to-date signed will
  - To do estate planning
  - To afford my monthly expenses (have enough money to pay for expenses)
- Debt management
  - To reduce your debt
  - To be debt free

Households with one or more financial goal indicated a clear preference for some specific goals. The most popular financial goal among households (goals that should be in a financial plan) is to generate wealth through long-term investments. Chart 11 shows 41.8% of households indicated a financial plan should incorporate wealth-generation as a financial goal. The second most popular financial goal (in a distant second place) is saving for emergencies, closely followed by saving for specific short-term goals, saving for education and becoming debt-free.

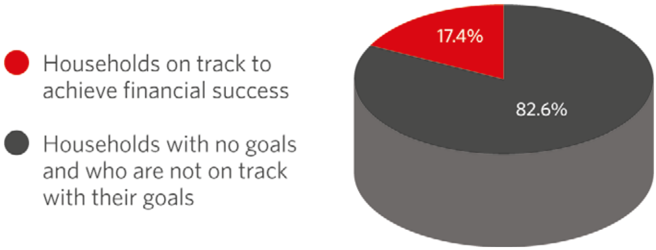
*Chart 11: Financial goals that should typically be in a financial plan*




Source: Momentum/Unisa Household Finance Survey

However, preferring a financial goal does not mean households were successful in achieving them. Only 31.7% of households who indicated they have one or more financial goals indicated they were on track to achieve all their financial goals (see chart 12). If all households are included (those with and without financial goals), it means that only 17.4% of all households were on track to achieve all their financial goals in 2020. Put differently, only 31.7% of households with financial goals, or 17.4% of all households, enjoyed full financial success by being on track to achieve all their financial goals in 2020.

*Chart 12: Percentage of all households on track to achieve financial success*

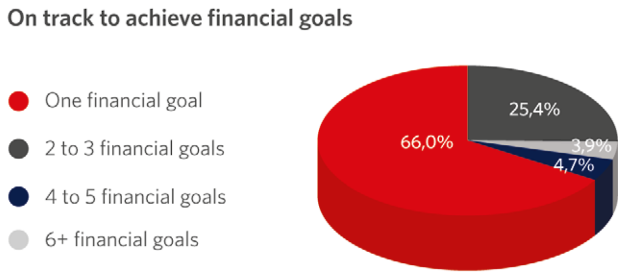


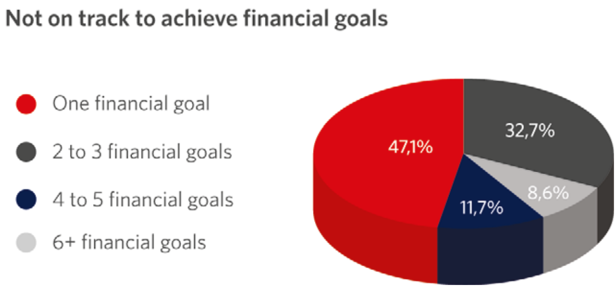

Source: Momentum/Unisa Household Finance Survey

A breakdown of the households with financial goals into those who were on track and not on track to achieve their goals revealed a similar pattern. Chart 13 shows that 66% of the 31.7% of households who were on track to achieve their financial goals had only one goal. A further 25.4% had 2 to 3 financial goals, 4.7% had 3 to 4 financial goals and 3.9% had 6 or more financial goals. Similarly, when examining the 68.9% of households who had financial goals, but who were unable to achieve all their goals, 47.1% had one financial goal. A further 32.7% had 2 to 3 financial goals, 11.7% had 4 to 5 financial goals and 8.6% had 6 or more financial goals.

The analysis suggests that households with 6 or more financial goals did not necessarily perform better than those with 5 financial goals. Further research is necessary before inferences on the appropriate number of financial goals can be drawn.

*Chart 13: Distribution of households' financial goal achievement*




Source: Momentum/Unisa Household Finance Survey

There are many reasons why households don't achieve their financial goals. One reason which will be explored in the next section, is the role that personal empowerment plays in financial success and financial wellness.

## Pushing back to become financially well – inputs and activities

The analysis on the Science of Financial Success showed that many households have the ability to optimise income and generate wealth if they combine a strong foundation of education and personal empowerment with the activities discussed above. From the previous sections the strong relationship between a high education and the Financially Well group was clear as the majority of the households in this village had a tertiary education. However, personal empowerment remains a thorn in the flesh of most South African households. As table 3 illustrates, even some Financially Well households feel they are not always able to deal with challenges and solve problems, are pushed around in life and not responsible for their futures.

*A feeling of helplessness in dealing with problems is a strong predictor of being Financially Distressed or Financially Unstable.*

This reflects the importance of mindset in personal finances, namely feeling empowered to deal with the financial problems that we encounter in life. It is a given that almost all households will experience financial challenges at one point or another. However, a household's way of responding to these challenges will strongly impact their financial success and financial wellness. The distinguishing principle is whether a person is a 'worrier' or a 'warrior', where 'worriers' feel they can't deal with problems and 'warriors' deal with difficult financial situations and problems.

Being, or not being pushed around in life, is also a strong predictor of a household's financial success and financial wellness. For instance, where a large share of Financially Distressed and Financially Unstable households feel that they are being pushed around in life, 44.6% of Financially Well households experienced that they are almost never pushed around in life. The "worrier/warrior" principle is also applicable in this context. 'Worriers' are pushed around in life while 'warriors' don't allow themselves to be pushed around in life.

*Table 3: Differences in the levels of personal empowerment of financial wellness groups*

| You are helpless in deadling with problems of life | | | | | |
|---|---|---|---|---|---|
| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well | Total |
| **Almost never** | 3,4% | 9,9% | 16,7% | 33,0% | 17,6% |
| **Seldom** | 2,9% | 9,9% | 12,2% | 18,7% | 12,6% |
| **Sometimes** | 43,5% | 40,0% | 39,4% | 27,3% | 37,0% |
| **Often** | 34,7% | 22,3% | 19,4% | 10,0% | 18,8% |
| **Almost always** | 15,4% | 17,9% | 12,3% | 11,0% | 14,0% |

| You are being pushed around in life | | | | | |
|---|---|---|---|---|---|
| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well | Total |
| **Almost never** | 6,3% | 18,0% | 28,0% | 44,6% | 27,6% |
| **Seldom** | 10,3% | 12,2% | 13,3% | 17,2% | 13,7% |
| **Sometimes** | 44,1% | 34,8% | 34,5% | 24,7% | 32,7% |
| **Often** | 24,3% | 22,5% | 16,4% | 9,5% | 17,2% |
| **Almost always** | 15% | 12,4% | 7,8% | 3,9% | 8,8% |

| You are responsible for your future | | | | | |
|---|---|---|---|---|---|
| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well | Total |
| **Almost never** | 4,8% | 3,4% | 1,5% | 1,0% | 2,1% |
| **Seldom** | 8,8% | 7,4% | 4,2% | 2,4% | 5,0% |
| **Sometimes** | 36,9% | 24,4% | 20,7% | 10,6% | 20,2% |
| **Often** | 23,5% | 25,3% | 22,8% | 17,9% | 22,6% |
| **Almost always** | 26,0% | 39,6% | 50,7% | 68,1% | 50,0% |

Source: Momentum/Unisa Household Finance Survey

Another factor which determines households' level of personal empowerment is the degree to which they take responsibility for their own futures. Less than 40% of Financially Distressed and Financially Unstable households stated that they almost always take responsibility for their own futures whereas almost 70% of Financially Well households always do so. In the case of many Financially Distressed and Financially Unstable households, the government is deemed to be responsible for the household's future, while Financially Well households would rather plan their own finances and execute on them.

Against this background it is appropriate to analyse the relationship between the setting of financial goals and the four financial wellness groups. Table 4 shows the degree to which households in different financial wellness groups put their minds into motion by either setting financial goals within a financial plan, or not. While 47.3% of Financially Distressed households have some sort of a financial plan, 66.6% of Financially Well households have financial plans. However, the Financially Well households' financial plans tend to be more comprehensive as it includes several financial goals.

*Table 4: Number of financial goals included in financial plan*

| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well |
|---|---|---|---|---|
| **No financial goals** | 52.7% | 50.1% | 46.6% | 33.3% |
| **1 financial goal** | 34.3% | 33.3% | 27.2% | 25.9% |
| **2-3 financial goals** | 9.9% | 13.4% | 17.3% | 21.4% |
| **4-5 financial goals** | 3.0% | 2.1% | 5.6% | 9.7% |
| **6+ financial goals** | 0.0% | 1.0% | 3.3% | 9.8% |

Source: Momentum/Unisa Household Finance Survey

Analysis of the type of financial goals of the different financial wellness groups paints a picture of the challenges faced by these groups, as well as their priorities. There are clear differences between the top 10 ranked financial goals of the four financial wellness groups. Table 5 shows the Financially Distressed group's focus is on addressing financial problems such as debt payments and being able to afford expenses. In contrast, the focus of the Financially Well is on investing and saving in order to generate wealth and to provide for retirement.

*Table 5: Top 10 financial goals included in financial plans of financial wellness groups*

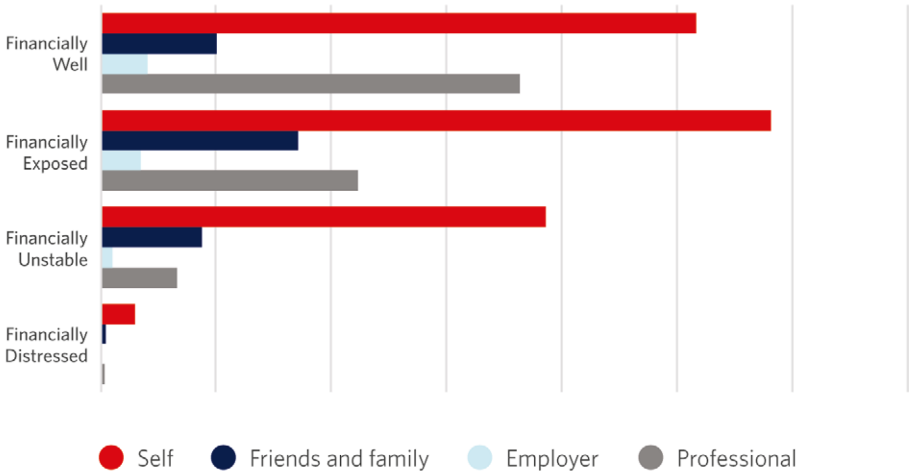
| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well |
|---|---|---|---|---|
| 1 | To be debt free | To generate wealth by investing over the long-term | To generate wealth by investing over the long-term | To generate wealth by investing over the long-term |
| 2 | To reduce your debt | To afford my monthly expenses (have enough money to pay for expenses) | To have emergency savings | To provide for your retirement |
| 3 | To afford my monthly expenses (have enough money to pay for expenses) | To have emergency savings | To be debt free | To have emergency savings |
| 4 | To have emergency savings | To be debt free | To reduce your debt | To fund education (your own or someone else's) |
| 5 | To prepare for your or a family member's death by taking out funeral policies | To reduce your debt | To fund education (your own or someone else's) | To save for a specific short-term goal (e.g. a holiday) |
| 6 | To fund education (your own or someone else's) | To fund education (your own or someone else's) | To save for a specific short-term goal (e.g. a holiday) | To be debt free |
| 7 | To generate wealth by investing over the long-term | To save for a specific short-term goal (e.g. a holiday) | To afford my monthly expenses (have enough money to pay for expenses) | To reduce your debt |
| 8 | To save for a specific short-term goal (e.g. a holiday) | To prepare for your or a family member's death by taking out funeral policies | To provide for your retirement | To afford my monthly expenses (have enough money to pay for expenses) |
| 9 | To replace your income (if you lose your job) (e.g. income protector) | To provide for your retirement | To prepare for your or a family member's death by taking out funeral policies | To prepare for your or a family member's death by taking out funeral policies |
| 10 | To provide for your retirement | To prepare for your or a family member's death by getting life cover | To prepare for your or a family member's death by getting life cover | To prepare for your or a family member's death by getting life cover |

Savings goals · Insurance goals · Financial management goals · Debt management goals

Source: Momentum/Unisa Household Finance Survey

When conducting financial planning, people in different households consult different sources for assistance when setting their financial goals. Chart 14 shows that most households tend to rely very strongly on their own insights when setting financial goals. The Financially Unstable and Financially Exposed households also resort to advice from friends and family to determine and set financial goals. Financially Well households tend to obtain professional financial advice (to a much larger extent than the other financial wellness groups) when setting their financial goals and constructing their financial plans.

*Chart 14: Guidance received in setting financial goals*




Source: Momentum/Unisa Household Finance Survey

Building on the goal-setting activity, the analysis revealed that a much larger share of Financially Exposed and Financially Well households engaged in financial activities compared to the Financially Well and Financially Unstable households. For instance, table 6 shows only 17.7% of Financially Distressed households have written (electronic/hand-written) household budgets compared to 54.8% of Financially Well households. Similarly, Financially Well households to a much larger degree undertake financial activities that allow them to cope with financial emergencies, as opposed to the Financially Distressed and Financially Unstable households.

*Table 6: Financial activities and behaviour of financial wellness groups*

| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well |
|---|---|---|---|---|
| **% contributing to short-term-insurance** | - | 3.5% | 14.4% | 33.7% |
| **% contributing to pension or retirement annuity** | - | 1.7% | 5.6% | 23.6% |
| **% contributing to funeral policy** | 50.9% | 51.5% | 58.3% | 65.8% |
| **% contributing to life insurance** | 0.9% | 7.7% | 17.1% | 38.4% |
| **% with a written budget (electronic/hand-written)** | 17.7% | 30.7% | 41.8% | 54.8% |
| **% regularly setting long-term financial goals and working to achieve them** | 47.6% | 40.9% | 52.3% | 58.6% |
| **% regularly setting short-term financial goals and working to achieve them** | 41.0% | 38.8% | 51.3% | 58.4% |
| **% able to cope with financial emergencies** | 39.6% | 42.6% | 54.4% | 69.8% |
| **% always carefully consider affordability before buying something** | 30.9% | 30.6% | 37.0% | 44.0% |

Source: Momentum/Unisa Household Finance Survey

However, in spite of the fact that many households did the ‘right’ financial things, COVID-19 and the resulting lockdowns had a strong negative impact on millions of households’ financial positions. COVID-19 and the resulting lockdowns had an impact on households in all four financial wellness groups. Table 7 shows the main financial challenges faced by households due to the impact of the national lockdown (red indicating the challenges highlighted by the most households and green indicating the challenges highlighted by some households). The biggest challenge for the Financially Distressed group was becoming unemployed. The other three financial wellness groups were mostly impacted by reductions in salary income. Some of the households in the Financially Unstable and Financially Exposed groups did not have sufficient money to cover monthly necessities or lost their jobs). The pressure of family and friends requiring financial assistance were reported to a large extent by the Financially Exposed and Financially Well groups.

*Table 7: Reported financial challenges due to COVID-19 and national lockdown*

| | Financially Distressed | Financially Unstable | Financially Exposed | Financially Well |
|---|---|---|---|---|
| Reduction in salary income | | | | |
| Family and friends requiring financial assistance | | | | |
| None of these | | | | |
| Not having enough money to cover monthly necessities | | | | |
| Becoming unemployed | | | | |
| Not having enough money to cover monthly luxuries | | | | |
| Missing payments on debt | | | | |
| Not having emergency savings to cover unplanned financial | | | | |
| Reduction in pension income | | | | |
| Medical costs not covered by medical aid | | | | |
| Death of an income earner in the household | | | | |

| | |
|---|---|
| Highlighted by most | Highlighted by some |

Source: Momentum/Unisa Household Finance Survey

Apart from job losses, many households' financial challenges were caused by other problems that were consuming them. This was discussed at length earlier in the report. The next section will focus on ways to increase a household's mental bandwidth, which should enable them to increase their personal empowerment.

# Increasing mental bandwidth: realising your unlimited potential

## Education alone is not the answer

Lots of research has been done on changing people's behaviour to make them cope better with life's problems. Most of this research proposed targeted education and skills development programmes as solutions to either avoid, or solve the problems. For instance, teaching financial literacy and soft skills are offered as solutions to financial and social competency problems.

Research has proven that education programmes do indeed help. But these programmes also use mental bandwidth as they provide additional things that require focus. They can therefore create problems of their own if a person does not have time to attend these programmes. And if they do attend these programmes, they may not focus in the classroom because they are tunnelling on the problems the education is supposed to solve.

## What can be done?

### Recognise what's decelerating your efforts.

The first step is to recognise the problem – and then deciding to do something about it as fast as possible, as it will not disappear.

Probably the most important way to address problems, finding solutions and thereby increasing mental bandwidth, is to share the problem with someone – preferably a trustworthy and knowledgeable person. Such person may not be able to solve the problem but may provide ideas or direct you to people who can assist. In financial terms, a financial adviser, broker, debt reviewer, investment specialist (or a combination of them) may be able to assist. So can knowledgeable and trustworthy family or friends. By just sharing the problem, it creates more comfort that someone else may be able assist. As such, it reduces the magnitude of the problem, releases some of the used mental bandwidth – and reduces the tunnelling effect. It then allows you to not only deal with the problem (more effectively), but also to focus on other issues.

### Automate financial obligations.

A second way is to create time to focus on a problem. In financial terms, time can be created by using technology. Bills can be paid via debit orders, internet banking, or using an app. By automating the payments, clients don't have to worry about paying bills or loans on time. This increases mental bandwidth and allows focus on other things.

### Financial products that cover multiple goals.

Thirdly, mental bandwidth can also be increased in a totally different way. This way has nothing to do with the behaviour of the consumer. Rather, it has everything to do with financial product designers. Financial product designers can make life much easier for consumers by recognising the problem of "less mind" and designing products for creating "more mind". One way to do this is to combine a few products so that consumers don't have to think about all of them.

The Science of Financial Success research shows that some consumers have more than 18 financial goals. However, the research also shows that when 5 goals are exceeded, the benefit of more goals is minimal – in fact, it becomes more difficult to achieve the goals. Although some of these goals are activities consumers have to undertake, such as budgeting and financial planning, the majority of the goals are about all the different financial products consumers need to buy.

There are savings products for emergencies, education, retirement and even to make it tax free. There are hundreds of unit trusts and other investment products to choose from for purposes of building wealth. Insurance products range from cover against household content, vehicle, and building damage or theft; against disability, critical illness, income loss, death; and for paying for funeral costs. And there are different types of loans such as purchasing a property or vehicle, credit cards, overdraft facilities and personal loans.

By combining some of the saving products – for example, consumers can contribute to one product for emergencies, education or other goals, but the product has for instance three accounts – one for emergencies, one for education and one for other goals. Or there can be contributions to one insurance product that makes provision for both disability and critical illness. One product satisfying several goals will increase consumers' mental bandwidth and allow them to focus on more issues.

*As the economy improved in 2021, it is likely that some South Africans' mental bandwidth increased, and this may have influenced their financial wellness positively in 2021. The next section deals with the financial wellness outlook in 2021.*

# CALIBRATE YOUR MIND TOWARDS FINANCIAL SUCCESS

# WHAT IS ON THE HORIZON?

## Household Financial Wellness outlook for 2021

*Following the economic recovery which continued in 2021, as well as the large adjustments Stats SA and the SARB made to the different components of the South African economy and therefore the economy in its entirety, it is fitting to estimate whether it may have had an impact on households' financial wellness in 2021.*

### Economy back at pre-COVID-19 levels in 2022

According to Stats SA the economy expanded by 7.5%, or R154.6 billion, in the first half of 2021 compared to the first half of 2020. However, South Africa's economic performance will be weaker in the second half of 2021, in part due to the magnitude of the riots and looting which happened in Kwazulu-Natal and Gauteng in July 2021, as well as electricity shortages. Nonetheless, economic growth of more than 5% is still possible in 2021. Should this happen, the size of the economy will be back at 2017 levels, having contracted to 2013 levels in 2020. Chances are good that the economy may surpass its pre-COVID-19 size in 2022.

### Employment recovery runs out of steam

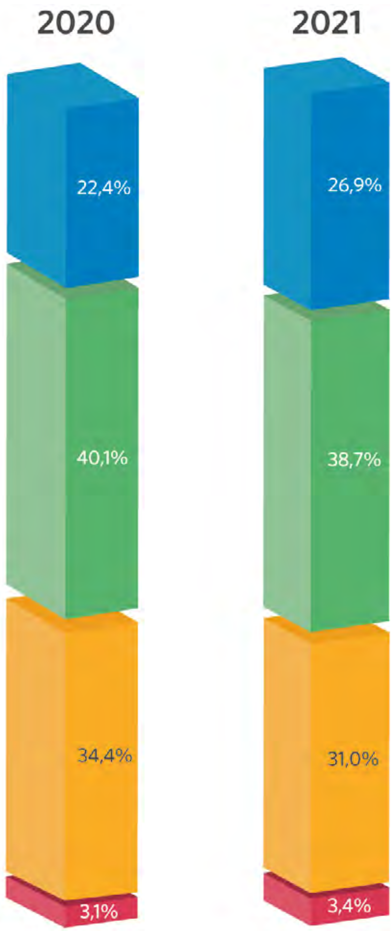
The recovery is, however, not running smoothly in the labour market. Stats SA estimated 2.2 million job losses in Q2 2020. In the second half of 2020, 875 000 jobs were recovered, or newly created, meaning a net loss of 1.4 million jobs in 2020. Unfortunately, the "jobs recovery" lost a bit of steam in 2021 as a further 82 000 jobs were lost in the first half of 2021 compared to Q4 2020. However, analysis by occupation shows that most job recoveries and creation occurred in the manager, professional and technician occupations, while job losses in the semi- and low-skilled occupations such as sales, clerical, craft and plant and machine operators failed to recover significantly.

### Financial wellness should improve in 2021

This suggests that the Financial Wellness Index score should have recovered in 2021, but only partly so. Crude analysis indeed points to an estimated increase in the Financial Wellness score to 66.6 from 65.2 in 2020. This estimate, however, is still substantially lower than the estimated 68.7 of 2019 and 2018 and closer to 2016 levels.

Further analyses suggest an increase in the proportion of Financially Well households from 22.4% in 2020 to an estimated 26.9% in 2021 (see chart 15). It should, however, be noted that these estimates don't account for the impact of the riots and looting and load shedding.

*Chart 15: Estimated distribution of financial wellness groups in 2021*




Source: Momentum/Unisa Household Finance Survey


THINK CLEARLY
ABOUT YOUR
NEXT MONEY
MOVES

# GROUPS WHO NEED A BOOST ON THEIR JOURNEY TO FINANCIAL SUCCESS

## Financially knowledgeable women

For purposes of our study the financially knowledgeable woman is a woman who could provide knowledgeable information of her household's finances. She may or may not be the head of the household, but she is at the forefront of her household's money management and therefore has an insight into her households' financial matters. Although we didn't focus on male vs female-headed households, our survey considered the Financially Knowledgeable Person (FKP) in the household. In our study, 56.1% of the households had a female as the FKP, and in 58.4% of these female FKP households the woman was also the head of the household.

Despite women's critical roles in households, they continue to face many challenges. In South Africa, gender discrimination remains a major problem in various settings – be it social or economic – including the workplace, the family and educational institutions. The country has made some progress with promoting gender equality. Women, woman empowerment and gender-based violence are receiving a lot more attention, both in the media and in campaigns.

Apart from having to cope with gender-based violence, women were further affected by the COVID-19 pandemic and the effect of lockdowns such as unemployment and reduced income. The analysis below focuses on the challenges that financially knowledgeable women had to face in their household.

### Unemployment and income inequality – a reality that intensified during 2020

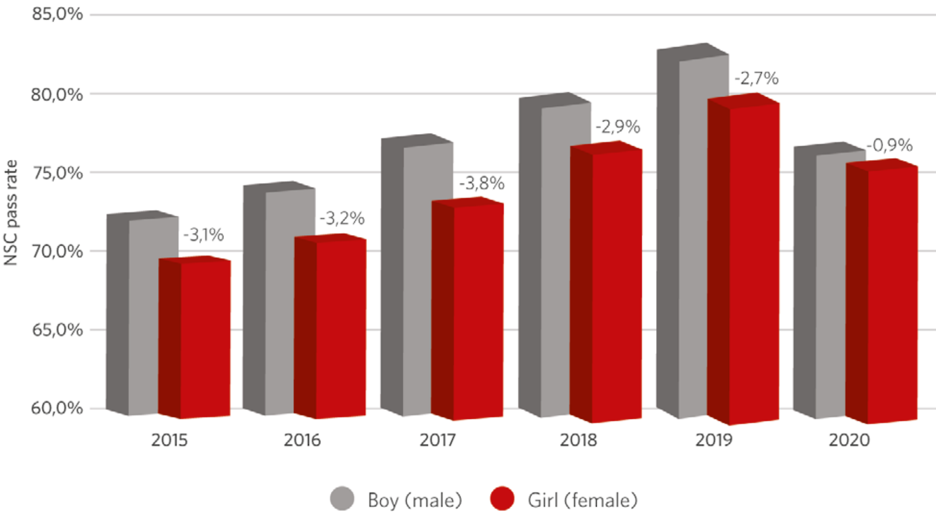
Official statistics show that men are more likely to be in paid employment than women, regardless of population group, while women are more likely (than men) to be doing unpaid work. COVID-19 and lockdowns caused more women (than men) to lose their jobs. According to Stats SA in Q2 2020 more than 1 million women lost their jobs, mostly those working in the trade sector, adding to their financial struggles. At the end of 2020, 46.3% of females that could work, did not have a job or did not even try to find a job.

Those that do have a job also face income discrimination in terms of a pay gap that is estimated to, on average, be between 19% and 37%, depending on the industry they work in (National Business Initiative, 2021). The gender pay gap across companies implies that for every R100 earned by men, women only earn on average R72. The spill-over effects of job losses and lower income are likely to have widened the overall gender-income inequality in the country.

## The girl-child at school

The pattern of more girls (than before) completing their matric continued in 2020. However, what is also emerging is that the share of girls who pass their national senior certificate exam is growing (see chart 16). Numbers released by the Department of Basic Education showed that the gap between boy and girl pass rates declined to below 1% in 2020 compared to 3.8% in 2017. Drop-out rates remain a concern, though, especially in the pandemic period when many girl-children were not sent back to school as they, among others, needed to take on household responsibilities or fell pregnant.

*Chart 16: National Senior Certificate pass rates of female and male learners*




Source: Department of Basic Education (2021)

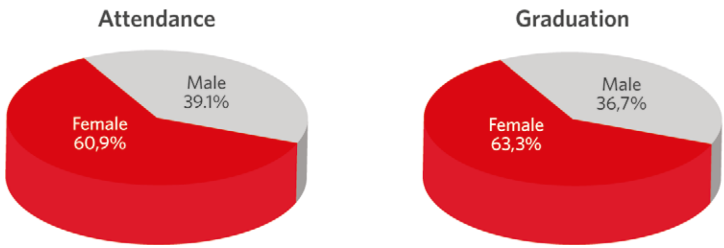
## Women achieving their tertiary education goals

Notwithstanding South African women's disadvantaged position in the South African economy, the accomplishments of especially the female youth in terms of their performance at tertiary education institutions are remarkable – when compared to their male counterparts.

Analysis of data (provided by the Department of Higher Education) on the enrolment and graduation from tertiary education institutions for 2019 reveals that females outperform their male counterparts. More females than males attend tertiary education institutions and more females than males graduate each year – the opposite of what is happening at school.

Enrolment and graduation numbers indicate that an average of 60.9% of all students who attended tertiary education institutions from 2017 to 2019 were female. In addition, an average of 63.3% of all students who graduated over the same period, were female (see chart 17). The female graduation rate exceeded their attendance rate, which suggests that females' pass rate exceeds that of males.

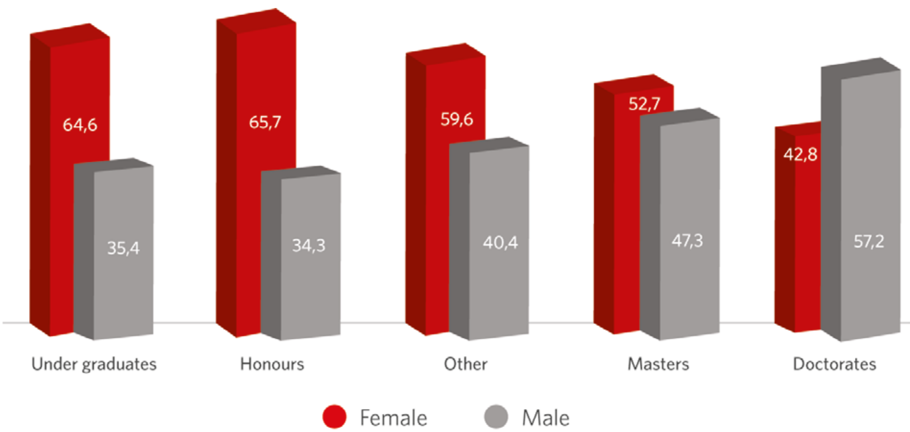
*Chart 17: Attendance and graduation rates (%) of female and male students*




Source: Department of Higher Education (2021)

Although females comprise the majority of graduates, analysis reveal that the proportion of female graduates decline in the post-graduate chain. Chart 18 shows female graduates still comprise the majority of Honours graduates (65.7%), but this declines to 52.7% of Masters and 42.8% of Doctorate graduates.

*Chart 18: Females obtaining post-graduate degrees, 2019*




Source: Department of Higher Education (2021)

Many factors may contribute to the declining proportion of post-grad female graduates, such as starting a family, lack of funding, etc. However, for women to take their rightful place in terms of specialisation, more can be done by policy makers and communities to increase the proportion of female Doctorate graduates to at least the level of Master's graduates.

### Women in skilled occupations

Stats SA estimated that women, on average, occupied about 44.2% of the skilled and managerial positions in the 2017 to 2019 period. Judged by the student enrolment and (tertiary) graduation statistics alone, where women's share exceeds 60%, this situation should over time gradually change in favour of women.

However, it should be borne in mind that males also follow different paths such as artisan training, which does not show in the tertiary education statistics. In addition, other factors such as experience and ever-adjusting skill needs also count in the employment process. Nevertheless, the numbers show that the share of women should increase over time especially in the higher-skilled occupations. This begs the question whether the existing pay gap (that is estimated between 20% and 30% for similar jobs) will be addressed to accommodate the increased share of women in skilled occupations.

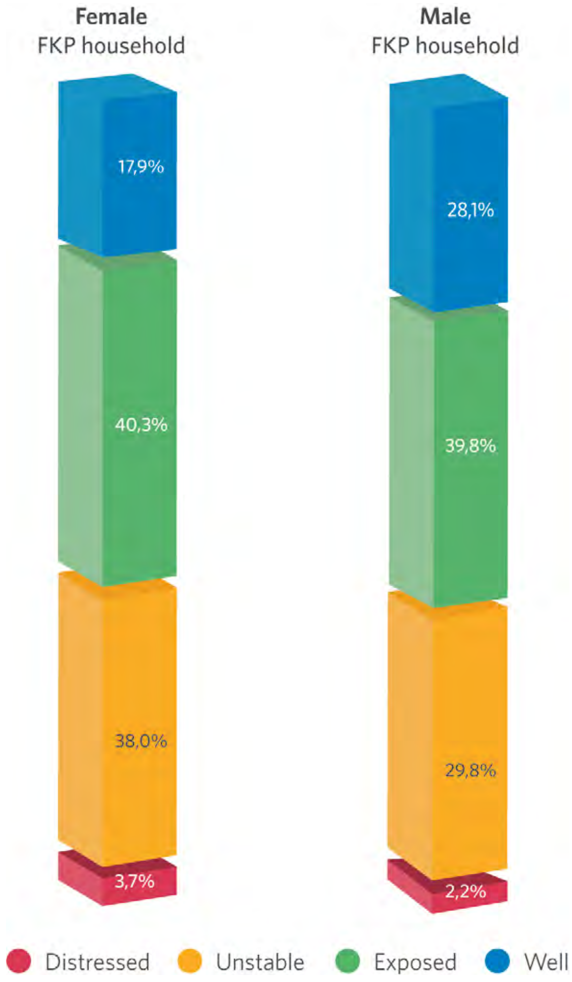
### Financial wellness of women

The unfortunate truth is, only about 18% of female FKP households are considered to be Financially Well, compared to 28% of male FKP households. This places male FKP households in more optimal positions to attain their financial goals (see chart 19). Households where the FKP is a female are more inclined (compared to males) to be Financially Distressed and Financially Unstable, and they may be likely to miss payments and use high-cost credit, including unsecured informal micro loans. For this reason, they may require major financial assistance, grants, loans, and debt consolidation intervention to improve their financial situation. The sudden occurrence of any adverse event, such as COVID-19, or a wrong financial decision, is likely to cause a large deterioration in the level of her household's financial vulnerability.

Women in Financially Unstable households who manage to stay goal-directed and seek informed advice before making financial decisions, have the potential to improve their households' financial position to the Financially Exposed category. With less gender-based discrimination, commitment, good financial practices, and guidance to mitigate adverse events, she may eventually enable herself and her household to become Financially Well.

Having to be in "fire-fighting" mode on a constant basis – meaning to simultaneously having to provide and care for the household, seeing that the bills are paid on time, that debts are managed effectively, etc. – is exhausting and disempowering, if sustained for long periods. These women would benefit both practically and psychologically from an enabling environment to guide them on their quest to achieve financial success and become financially capable and well.

*Chart 19: Female and male FKP households by financial wellness group*




Source: Momentum/Unisa Household Finance Survey

Although the financial wellness trend is similar for men and women, it is clear from chart 19 that female FKP households are still generally less financially well compared to male FKP households, and therefore require more guidance on their journey to financial success.

## The characteristics of female FKP households

Almost 73% of the female FKP households were from low-income groups (earning less than R108 500 per year). Most of the female FKPs were between 25 and 44 years old with a few being older. More than half (60%) of these women were single (including never been married), with about a quarter (26.8%) who are married or living together. Less than half (45.4%) of these women completed high school and very few (12.3%) obtained a tertiary qualification. Almost half (46.0%) were employed and over a third (35.2%) were unemployed.

Close to half of female FKP households have only one source of income (49.3%), while multiple-income sources are present in 47.6% of female FKP households. The top three main sources of household income are from salaries and wages (54.3%), grants (22.9%) and some business income (13.5%).

| Age category of FKP | |
|---|---|
| 18 - 24 | 8.5% |
| 25 - 34 | 29.1% |
| 35 - 44 | 26.8% |
| 45 - 54 | 16.7% |
| 55 - 64 | 11.4% |
| 65+ | 7.4% |

| Employment status of FKP | |
|---|---|
| Employed | 46.0% |
| Not economically active | 18.7% |
| Unemployed | 35.2% |

| Marital status of FKP | |
|---|---|
| Never married / Single | 60.1% |
| Married / Living together | 26.8% |
| Single after marriage (divorced / separated / widow(er)) | 13.0% |
| Other | 0.1% |

| Income groups of female FKP households | |
|---|---|
| Very low income (R0 – R24 500 pa) | 25.4% |
| Low income (R24 501 - R108 500 pa) | 47.5% |
| Low emerging middle class (R108 501 - R236 900 pa) | 15.5% |
| Emerging middle class (R236 901 - R495 400 pa) | 8.1% |
| Realised middle class (R495 401 - R995 500 pa) | 2.1% |
| Emerging Affluent (R995 501 - R1 882 200 pa) | 0.8% |
| Affluent & wealthy (R1 882 201 pa +) | 0.6% |

| Highest level of education of female FKP | |
|---|---|
| Some primary | 8.3% |
| Completed primary | 34.0% |
| Completed secondary | 45.4% |
| Tertiary | 12.3% |

| Number of income sources in female FKP households | |
|---|---|
| 0 | 3.2% |
| 1 | 49.3% |
| 2 | 36.1% |
| 3+ | 11.5% |

| Main source of income of female FKP households | |
|---|---|
| No income | 0.6% |
| Salaries & wages | 54.3% |
| Business income | 13.5% |
| Investments | 1.8% |
| Retirement benefits | 1.3% |
| Grants | 22.9% |
| Transfers received | 1.0% |
| Other / not specified | 4.7% |

## Financial habits of households with financially knowledgeable women

Financial literacy remains a global concern. The Momentum/Unisa research shows that only 35% of financial literacy questions were answered correctly by women in the role of household FKP. Men in the role of FKP did not do much better as only 36% of the financial literacy questions were answered correctly.

When it comes to financial activities (see table 8), the majority of the female FKP indicated that their households tend to contribute to a funeral policy (64%) compared to fewer male FKP households (49%). More female FKP households make use of a written budget, either electronically or hand-written (43%) compared to 37% of male FKP households. Female FKP households are generally less inclined to contribute to short-term insurance, pension or retirement annuity and life insurance. Almost half of the female FKPs stated that their household set long-term and short-term financial goals and work hard to achieve them. Only 47.7% of female FKP households will be able to cope with a financial emergency, which is significantly lower than the 60.6% of male FKP households.

*Table 8: Financial activities of female FKP households*

| Financial activity | |
|---|---|
| **% contributing to short-term-insurance** | 12.2% |
| **% contributing to pension or retirement annuity** | 6.6% |
| **% contributing to funeral policy** | 64.3% |
| **% contributing to life insurance** | 17.5% |
| **% with a written budget (electronic/hand-written)** | 42.6% |
| **% regularly setting long-term financial goals and working to achieve them** | 47.4% |
| **% regularly setting short-term financial goals and working to achieve them** | 46.1% |
| **% able to cope with financial emergencies** | 47.7% |
| **% always carefully consider affordability before buying something** | 34.7% |

Source: Momentum/Unisa Household Finance Survey

The majority of these female FKPs stated that their households have no financial plan (41.9%), followed by 32.0% who have only one financial goal as part of their household's financial plan (see table 9). Of these female FKPs, the majority (82.3%) confessed not being on track with their household's financial plan and goals.

Furthermore, almost 35% female FKPs indicated they find it difficult to stick to their household's budget.

*Table 9: Number of financial goals as part of the financial plans of FKP women households*

| Number of financial goals | |
|---|---|
| **No financial goals** | 41.9% |
| **1 goal** | 32.0% |
| **2-3 goals** | 16.2% |
| **4-5 goals** | 5.8% |
| **6+ goals** | 4.1% |

Source: Momentum/Unisa Household Finance Survey

### Financially knowledgeable women and financial success

When it comes to financial success, the largest share of female FKPs (28.1%) felt their household have not yet achieved financial success, while 12.7% felt that they have. It is clear that many don't fully grasp the concept of financial success. They don't realise they are in fact setting financial goals – as shown by the table below – and that they are working to achieve them. When asked what financial success means, they had the following to say:

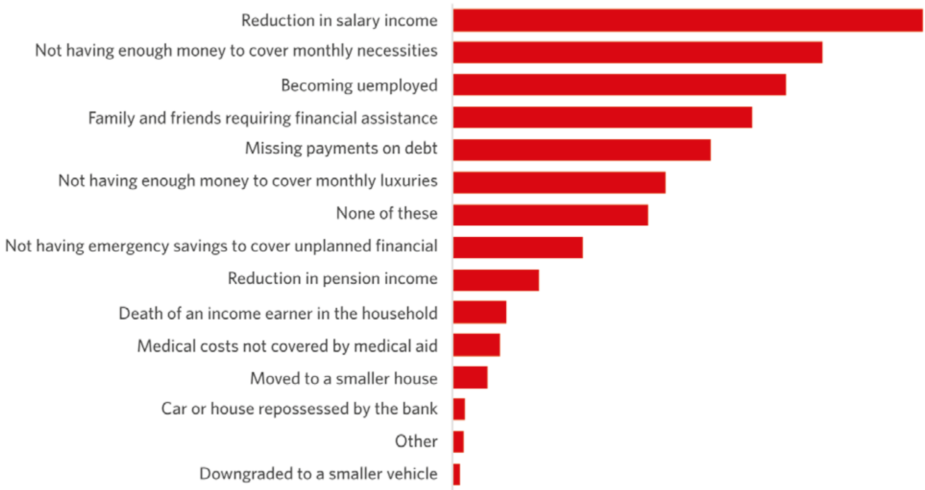
| | |
|---|---|
| **Secure job & income** | 'Stable income'<br>'A well-paying job'<br>'Having a permanent job' |
| **Afford necessities** | 'All my family to have food and clothing'<br>'Supporting your family'<br>'To have food on the table and we don't struggle' |
| **Afford luxuries / realise dreams** | 'Driving a nice car'<br>'Having lots of money and going on vacations'<br>'Living a luxurious life'<br>'To renovate my house' |
| **Own assets** | 'Having a house and spending your money on whatever'<br>'A brick house of my own'<br>'Buying furniture'<br>'Having a house and car that belongs to me' |
| **Being the owner of a business / Successful business** | 'Having a business that is doing well'<br>'A self-employed person who employs the community'<br>'Being able to open my catering company'<br>'To open my own business' |

| | |
|---|---|
| **Maintain one's lifestyle** | 'Afford your lifestyle'<br>'Stability in life and never going through poverty'<br>'To assist my husband' |
| **Enjoying life** | 'Not having to wake up at a fixed time'<br>'Doing something that you really love'<br>'Not needing anything' |
| **Being debt-free** | 'Financially healthy with no debt'<br>'Spending less than my income'<br>'Ability to pay bills in time'<br>'Not to drown in debt' |
| **Affording education** | 'Have all my children graduate'<br>'Being able to afford my kids' education'<br>'Being able to take my child to school'<br>'To finish school' |
| **Financial freedom / independence** | 'Being able to afford anything and everything without stressing about what is going to short'<br>'Retirement at an early age with lots of money'<br>'When money doesn't become an issue and you can work on your own terms'<br>'Being able to stand on your own without relying on others' |
| **Generating sufficient income** | 'Always having more ways of generating income'<br>'Being satisfied with your income and expenditure'<br>'Be able to sustain and manage many businesses with a daily income'<br>'Collecting more rent' |
| **Sound financial behaviour** | 'They have good budgeting skills and a good financial future'<br>'When you can keep your money and have a lot of investments'<br>'Being satisfied with your income and expenditure'<br>'Using money wisely' |
| **Secure financial future** | 'To have sufficient to cater for retirement'<br>'Being able to save'<br>'Earning more money and save for the future' |
| **Living a simple life** | 'All my kids to be working and my social grant to be mine alone'<br>'Being able to keep up with the cost of living'<br>'Less debt, less stress, less possessions, less complications' |

## Financial challenges due to COVID-19 and Lockdown

The FKP women alluded to a number of financial struggles their households faced due to COVID-19 and subsequent lockdowns. They were hit hard with reductions in salary income and unemployment. It however seems that female FKP households were generally more likely to be approached by friends and family requiring financial assistance. In addition, female FKP households were more likely to admit not having enough money to cover monthly necessities and luxuries.

*Chart 20: Main challenges faced by female FKP households due to COVID-19 and lockdown*




Source: Momentum/Unisa Household Finance Survey

In response to these lockdown-related financial challenges, the female FKP households resorted to some financial adjustments. Their households prioritised cutting back on expenses, especially luxury expenses, such as subscribed television channels, and reviewed and amended their household's budget. Female FKP households were more likely than male FKP households to borrow money from friends or family during financially difficult times.

## They rise above the challenges and own their success

### Confidence

The financial success rate of men is higher than that of women because they are among others, willing to take more risks, confidently. Women tend to not take risks unless really necessary and tend to generally have a calmer and accepting nature. Women are generally brought up to believe that they need to take the back seat when it comes to finances, that financial matters are associated with masculinity.

However, it's not. It is time for more women to be brave, to start somewhere when it comes to financial matters, to take baby steps if necessary. By advancing step by step, the steps will grow more and more. You can't change what you did before, but you can change what you do next.

### Stereotypes

Traditionally men are brought up to be regarded as the breadwinner and decision maker of a household. Some men would therefore not consider a woman as an ideal life partner if she were mentally strong, financially secure, knowledgeable and/or often called opinionated, and has so-called baggage – such as children, parents, or family members that she is taking care of. Women are slowly but surely placing themselves on the map as someone who can juggle being a caregiver, but also being a strong, independent person who does not need someone to rescue her.

### Self-care

Just as women are generally perceived to be the caregivers in society and households when it comes to physical health, so too should they start to step up to prioritise their financial health. Prioritising financial health as part of their self-care routine means that they need to determine what needs to be done and what would be nice to have. They will therefore sometimes need to place the nice-to-have items and fun things aside to pay for things that need to be paid, like paying off debt. The emotional relief of paying off debt will reduce stress, increase their mental bandwidth, feel good and give them the cash flow they need to reward themselves eventually. It will increase their mental bandwidth and allow them to do even more things previously thought to be out of reach.

### Read, read, read… then talk about it

Women, in general, need to familiarise themselves with general financial matters. Become familiar with the terms and phrases and what they mean. They should learn how certain concepts apply to their own situation, and how they could benefit their households. Read! As the old saying goes, "If you can read, you can succeed". Doing homework and talking to a professional financial adviser could guide them further.

### Become involved in your household's financial journey

The world is changing, but many women's attitudes toward finance remains stuck in the patriarchal past. Very often, women are left in dire straits following divorce or widowhood since they became accustomed to the husband's traditional role of taking care of the household finances. Regardless of the relationship category, the sooner women start accepting an active role with financial matters, the better equipped they will be in dealing with these matters confidently and become economically empowered.

# Young people and their attitudes towards financial success

Young people in South Africa have experienced a variety of challenges ranging from disruptions in their education endeavours due to the COVID-19 pandemic to struggling to obtain employment. The extremely high unemployment rate among young South Africans is one of the key challenges facing our society and necessitates a brief review of their financial habits and thoughts.

Although they are experiencing a lot of challenges, the one opportunity that they have is the benefit of time – if they could grasp the benefit of saving consistently (even a little) in the right financial products, it could generate positive financial outcomes for them in time through the magic of compound interest. Although June is traditional Youth Month in South Africa, we strongly recommend that every day should be Youth Day and that as a collective, we should support young adults with the relevant financial education and appropriate financial products to assist them in their journey towards financial success.

## South Africa's demographic dividend

South Africa has a high demographic dividend as more than 30% of the total population is 18 to 34 years of age, according to Stats SA recent mid-year estimates. The demographic profile of the households (included in our survey) that have a young person as the FKP show that such individuals are for the most part single or have never been married. Those in the older youth age group (25 to 34 years) are more likely to be employed and have completed a tertiary education than those in the younger group (18 to 24 years). The youth FKP households' main sources of income are mostly from salaries and wages, with business income as main source for some in the older group.

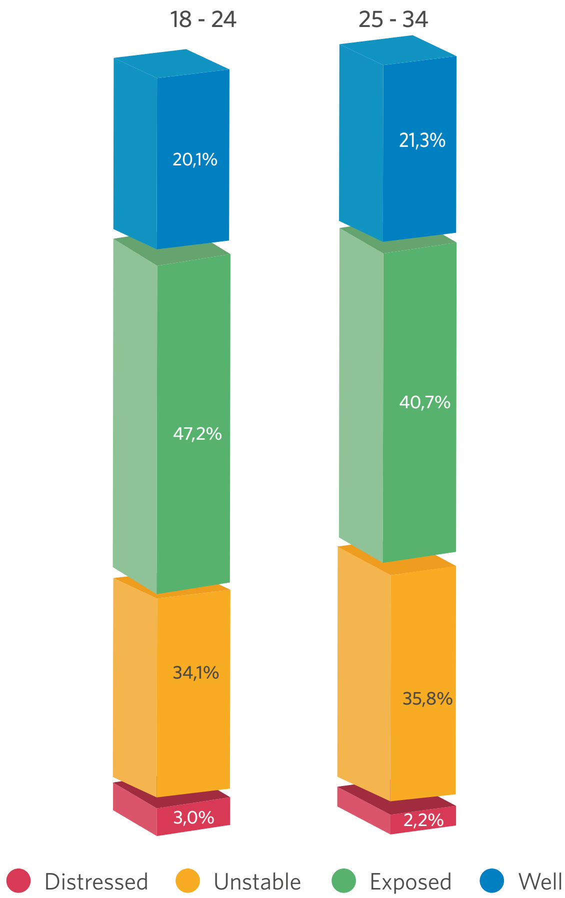
| | 18 – 24 FKP | 25 – 34 FKP | Total youth FKP |
|---|---|---|---|
| **Gender of FKP** | | | |
| Male | 58.4% | 49.5% | 51.9% |
| Female | 41.2% | 50.5% | 48.0% |
| **Employment status of FKP** | | | |
| Employed | 35.3% | 65.3% | 57.4% |
| Not economically active | 32.7% | 5.9% | 12.9% |
| Unemployed | 32.0% | 28.8% | 29.6% |
| **Marital status of FKP** | | | |
| Never married / single | 93.0% | 77.7% | 81.7% |
| Married / Living together | 5.6% | 20.1% | 16.3% |
| Single after marriage (divorced / separated / widow(er) | 0.8% | 1.8% | 1.5% |
| Other | 0.6% | 0.4% | 0.4% |

| | 18 – 24 FKP | 25 – 34 FKP | Total youth FKP |
|---|---|---|---|
| **Income group of household** | | | |
| Very low income (R0 – R24 500) | 23.4% | 18.4% | 19.7% |
| Low income (R24 501 – R108 500) | 43.2% | 48.1% | 46.8% |
| Low emerging middle class (R108 501 – R236 900) | 16.2% | 17.4% | 17.1% |
| Emerging middle class (R236 901 – R495 400) | 14.0% | 11.8% | 12.4% |
| Realised middle class (R495 401 – R995 500) | 2.4% | 2.9% | 2.7% |
| Emerging Affluent (R995 501 – R1 882 200) | 0.9% | 1.1% | 1.1% |
| Affluent & wealthy (R1 882 201+) | | 0.3% | 0.2% |
| **Highest level of education of FKP** | | | |
| Some primary | 0.5% | 1.3% | 1.1% |
| Completed primary | 27.1% | 25.3% | 25.7% |
| Completed secondary | 67.6% | 57.2% | 59.9% |
| Tertiary | 4.8% | 16.3% | 13.3% |
| **Main source of household income** | | | |
| No income | 0.7% | 1.0% | 0.9% |
| Salaries & wages | 63.4% | 61.1% | 61.7% |
| Business income | 14.7% | 18.7% | 17.7% |
| Investments | 1.5% | 0.9% | 1.0% |
| Retirement benefits | 0.1% | 0.3% | 0.2% |
| Grants | 14.7% | 12.4% | 13.0% |
| Transfers received | 0.0% | 0.9% | 0.7% |
| Other / not specified | 4.8% | 4.7% | 4.8% |

## Financial wellness positions of financially knowledgeable youth households

The majority of South Africa's young adults are in the Financially Exposed category, similar to the average for all South African households. The younger adults (18 - 24) have a lower index score, 64.4 compared to the 65.2 of the country, while that of the 25 - 34-year-olds are very similar to the national average at 65.3. Based on the distribution across the villages (see chart 21), the older group comprises of a larger share of households that are Financially Well compared to the younger group. However, a large share of the younger group may be on track to become Financially Well (given their status of Financially Exposed).

*Chart 21: Youth FKP household distribution per financial village group*




Source: Momentum/Unisa Household Finance Survey

The Financial Wellness capital scores shown in table 10 indicate that the youth's educational attainment is their best asset as it is their highest capital score. Their investment in obtaining a tertiary qualification may stand them in good stead as it improves their chances of earning a source of income for current and future consumption. However, as is the case for the country, their lowest score is on personal empowerment, which may negate their educational advantage, if not corrected.

*Table 10: Financial Wellness capital scores for youth FKP households*

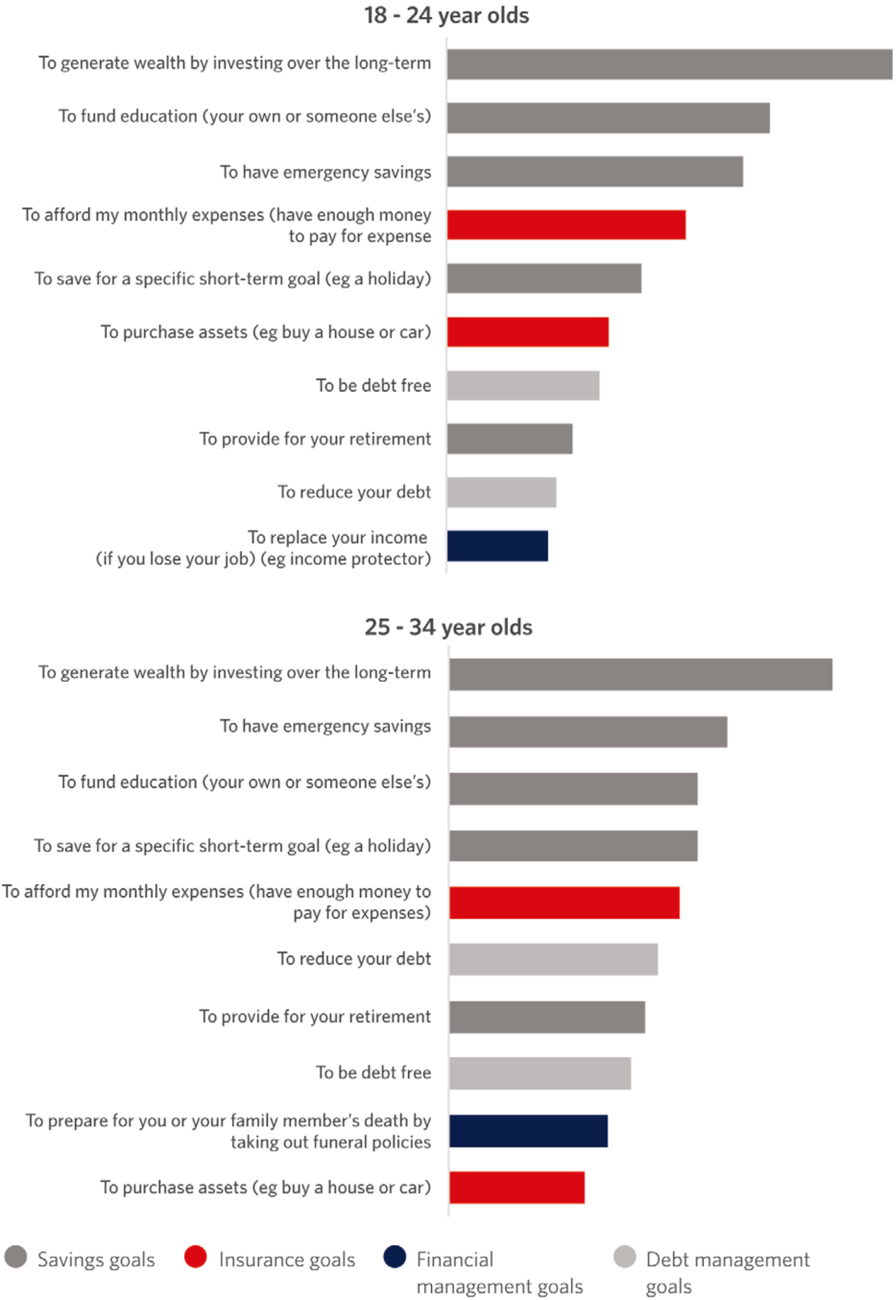
| | 18-24 year old FKP | 25 - 34 year old FKP |
|---|---|---|
| Living conditions | 6.5 | 6.2 |
| Education | 6.6 | 6.7 |
| Net wealth | 4.5 | 4.7 |
| Income | 5.2 | 5.0 |
| Personal empowerment | 4.2 | 4.7 |

Source: Momentum/Unisa Household Finance Survey

### Financial goals – focus on saving rather than risk

The most important financial goals that form part of the youth FKP households are shown in chart 22. The importance of having saving goals in a financial plan for both age groups is evident as five of the 10 goals are savings related. The savings goals include a mix of short- and long-term goals, although the priority between short- and long-term differs. Both groups have listed long-term investment to generate wealth as the most important goal. Given the early stage of their life, it is not surprising that education was listed as the second most important goal for the 18-to-24-year group. The 25-to-34-year group listed having money for emergencies as their second priority.

*Chart 22: Top 10 financial goals included in financial plans of youth FKP households*




Source: Momentum/Unisa Household Finance Survey

It is insightful that becoming debt free and/or reducing debt are not deemed to be important for the youth (compared to the country), albeit part of the top ten financial goals. It may be because they deem debt to be a necessity at this stage of their lives or that some of them don't have lots of debt as they do not have access as they are in the early stage of their careers. Or other things may just be more important to them at their current life stage. Another insight is that risk management in the form of, for instance life-, disability-, health- and vehicle insurance don't play major roles in their financial plans. Apart from funeral policies in the older group, other financial management activities such as having a signed Will, tax and estate planning, and planning for asset accumulation were not part of their top ten priorities.

Furthermore, almost 50% of both groups indicated they did not have financial goals (see table 11). The lack of a financial plan with financial goals could be a contributor to their low level of personal empowerment.

*Table 11: Number of financial goals as part of the financial plans of youth FKP households*

| | Age category | | Total Youth |
|---|---|---|---|
| | 18 - 24 | 25 - 34 | |
| No financial goals | 47.3% | 49.6% | 49.0% |
| 1 financial goal | 32.8% | 26.3% | 28.0% |
| 2-3 financial goals | 15.6% | 16.3% | 16.1% |
| 4-5 financial goals | 2.0% | 5.2% | 4.4% |
| 6+ financial goals | 2.3% | 2.6% | 2.5% |

Source: Momentum/Unisa Household Finance Survey

It is clear that the youth's financial plans are fairly simplistic with about 30% of the group having only 1 financial goal, around 15% has 2 to 3 financial goals and just over 5% has more than 4 financial goals. Another insight emanating from the analysis is that the youth's goal setting is unbalanced. Given that the goals can be grouped in four main themes namely savings, debt, risk and financial management, a more balanced approach would have been to have one financial goal under each of these themes.

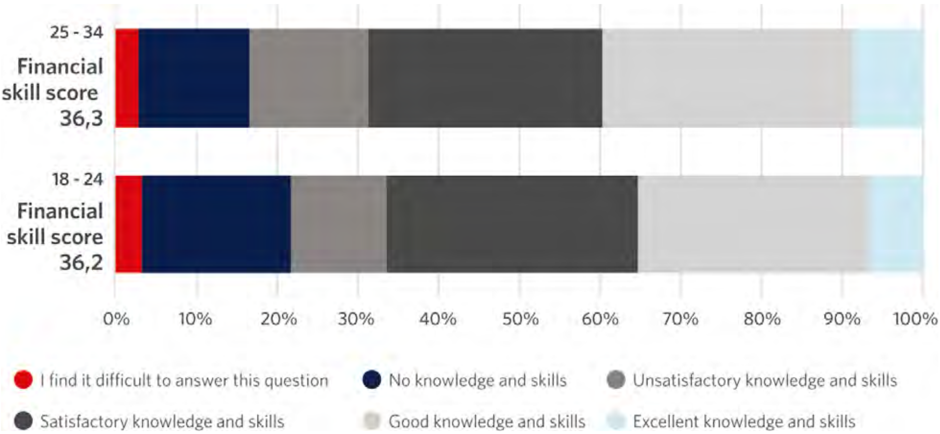
Analysis of the two age groups' sources of financial advice highlighted that the younger group mainly source their own information on all financial aspects, followed by engaging with friends or family. Very few of them consult a professional adviser, though a quarter of the older group tend to at least consult professional expertise on issues such as their retirement. The youth attach a high value to word-of-mouth advice from family and friends. This is evident from their strong reliance on them for information or advice on insurance or risk issues.

In terms of financial management, the data shows that especially the older youth group will engage professional expertise on the more complex areas such as estate planning, drafting of Wills and tax planning. Both age groups mainly rely on their own skills when it comes to debt management aspects.

## Financial literacy: over-confident but not over-literate

Based on their high level of self-reliance, one would expect a high level of financial literacy among the youth. However, a very basic financial literacy assessment (based on a five-question measurement instrument), revealed a very low average financial literacy score of 36 out of 100 for both groups. The confidence in their own abilities exceeds their actual abilities by far, which may contribute to wrong financial decisions. This over-confidence is further reflected in a self-evaluation of their financial knowledge and skills in personal financial management (chart 23).

*Chart 23: Self-evaluation vs actual financial knowledge of the youth FKP households*



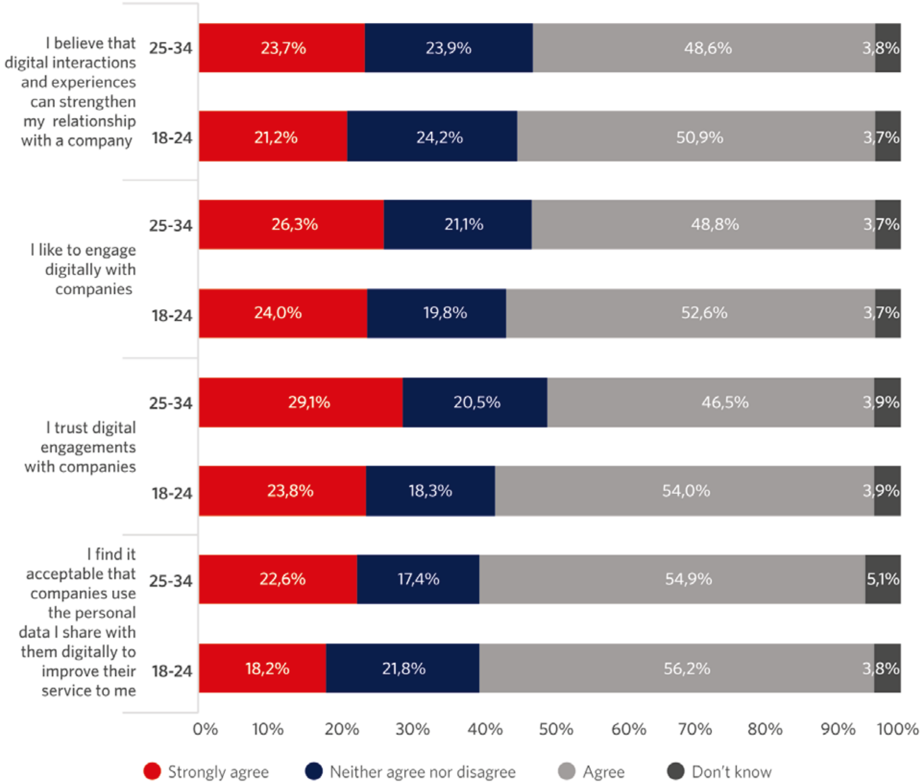

Source: Momentum/Unisa Household Finance Survey

For both age categories, more than 60% deemed that they have satisfactory to excellent financial knowledge and skills. However, their financial literacy scores were not higher than 40 out of 100 based on a very rudimentary financial literacy knowledge assessment. This over-confidence in their own abilities need to be addressed for them to realise that they need to engage with professionals when needed, but also to invest in their own financial education so as to empower themselves.

## An appetite for digital engagement

The youth segment seems to be quite willing to engage via a digital platform but they also have a high level of trust in those that they are engaging with. Given their low levels of financial literacy and the high occurrence of financial fraud and phishing, their high levels of trust in digital platforms should be supported with secured and trustworthy digital platforms that provide sound financial education so as to ensure they have the necessary knowledge and skills to avoid becoming victims of financial crimes.

*Chart 24: Digital engagement appetite of the youth FKP households*




Source: Momentum/Unisa Household Finance Survey

## Own their financial future

The young adults of South Africa do understand that a financial plan requires a variety of goals and activities. However, it seems as if they are not following their own advice. Furthermore, their level of over-confidence in their own financial management knowledge and skills is not reflected in a basic financial literacy assessment. It will take time to establish trust before they will engage with professionals to assist in this very important journey towards financial success.

In order for them to achieve financial success and become financially well, the well-seasoned but still relevant principles of George S. Clason in The Richest Man in Babylon (1926) (first published more than ninety years ago) will go a long way. The essence of his lessons is summarised in the following quote:

*"Learn these lessons thoroughly, that ye may also plant in your own purse the seed of wealth. First must each of you start wisely to build a fortune of his own. Then wilt thou be competent, and only then, to teach these truths to others."*

If the youth can adapt and implement Clason's simple rules to wealth accumulation (paraphrased here) it will assist them greatly on their journey to financial success:

- Do not spend more than what you earn – if there is still money left over at the end of the month, invest this to grow your wealth.
- It may take a mindset change to not fall foul of instant gratification and spend on wants rather than needs or not saving before acquiring expensive items. Make sure you know where every cent goes.
- Ensure that your savings are invested in the appropriate financial products that will deliver a good return. This will provide you access to the eighth wonder of the world, compound interest. Let your money work for you and not you for your money. Start as young as possible to save, even a small amount a month has the potential to become much more over time. Also, don't forget the golden rule – let your passive income (i.e., the money you earn on investments without you having to do any work) be more than your active income (i.e., the money you are working for, such as a salary).
- Take note of the old saying – "if something is too good to be true, then it probably is". Be careful about who you take financial advice from and take ownership of your financial journey by empowering yourself with knowledge and skills to safely navigate your finances during good and bad times. Ensure you have informed conversations with those you consult (such as a registered financial adviser).
- In a low interest rate environment, ensure that owning your own home is one of your goals and start saving for a deposit as soon as possible. Also remember, the one rule when investing in property is location, location, location.
- You are never too young to start saving for your retirement. There are a variety of products that allows for a small monthly amount or an annual lump sum investment, use your bonus wisely and invest in your retirement before you spend on the rest of your wants. Also remember that you are your biggest asset – ensure that you have income protection, disability and life cover when needed, especially when you have a family that is financially dependent on you.
- Invest in yourself. It doesn't have to be a formal qualification, make use of free courses available to equip you with the necessary skills required for the 21st century. Become a life-long learner to ensure you make yourself more appointable than the person next to you.

# Annexure A: Which households did we speak to? (n= 2 868)


| Province | |
|---|---|
| Eastern Cape | 9.4% |
| Free State | 6.6% |
| Gauteng | 18.8% |
| KwaZulu-Natal | 16.5% |
| Limpopo | 9.8% |
| Mpumalanga | 9.7% |
| North West | 8.3% |
| Northern Cape | 6.1% |
| Western Cape | 14.8% |
| **Area** | |
| Metro | 39.4% |
| Urban | 35.4% |
| Rural | 25.1% |
| **Highest level of education in household** | |
| Some primary | 1.5% |
| Completed primary | 21.4% |
| Completed secondary | 58.2% |
| Tertiary | 19.0% |

| Income group | |
|---|---|
| Very low income (R0 - R24 500) | 20.4% |
| Low income (R24 501 - R108 500) | 45.3% |
| Low emerging middle class (R108 501 - R236 900) | 17.5% |
| Emerging middle class (R236 901 - R495 400) | 11.9% |
| Realised middle class (R495 401 - R995 500) | 3.2% |
| Emerging Affluent (R995 501 - R1 882 200) | 1.1% |
| Affluent & wealthy (R1 882 201+) | 0.6% |
| **Gender of respondent (FKP)** | |
| Male | 42.8% |
| Female | 57.2% |
| **Age group of respondent (FKP)** | |
| 18-24 | 11.7% |
| 25-34 | 29.9% |
| 35-44 | 25.8% |
| 45-54 | 16.1% |
| 55-64 | 9.8% |
| Older than 65 | 6.7% |
| **Relationship status of respondent (FKP)** | |
| Never married / single | 58.1% |
| Married / living together | 30.5% |
| Single after marriage (Widowed/Separated/ divorced) | 11.5% |

# References


1. Clason, G.S. 1926. The Richest Man in Babylon. New York: Hawthorn.
2. Department of Basic Education. National Senior Certificate Examination Report 2020. www.education.gov.za
3. Department of Higher Education. HEMIS database. 2019.
4. Momentum/Unisa Household Finance Survey. 2021.
5. Momentum/Unisa Household Financial Wellness Index. 2018.
6. Momentum/Unisa Household Wealth Index. Second Quarter. 2021.
7. Mullainathan, S & Shafir, E. 2014. Scarcity. London: Penguin Books.
8. National Business Initiative. Gender Pay Gap Pilot Report 2021. www.nbi.org.za
9. National Treasury. Budget Review 2021. www.treasury.gov.za
10. SASSA. Social Grant Payment Reports. www.sassa.gov.za
11. South African Reserve Bank Quarterly Bulletin. September 2021. www.resbank.co.za
12. Statistics South Africa. Gross Domestic Product. Second Quarter 2021. www.statssa.gov.za
13. Statistics South Africa. Midyear Population Estimates 2020. www.statssa.gov.za
14. Statistics South Africa. Quarterly Labour Force Survey (various). www.statssa.gov.za

CHAPTER TWO

# SMME AND SIDE HUSTLE

FIRST EDITION

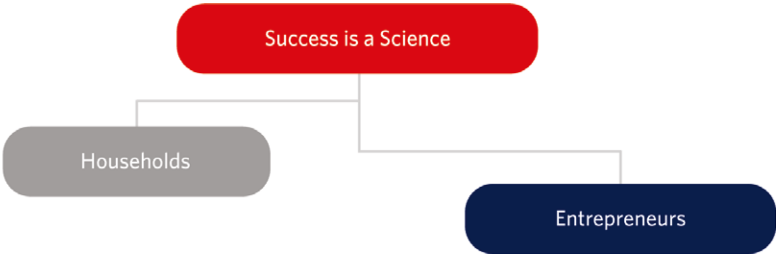
# SMME SUCCESS: NO SMALL MATTER

*Small, Micro and Medium Enterprises (SMMEs) are the* **backbone of the South African economy**. *They employ the majority of the country's workers, play a fundamental role in uplifting communities, drive innovation, provide fit for purpose products and services, amongst many other things. SMMEs bridge the gap often left by larger corporates by providing local knowledge, skills, solutions, and products.*

Communities create personal connections with these businesses and vice versa. It's impossible to imagine our cities, towns and even neighbourhoods without food and clothing stalls, hardware shops, nursery schools, plumbers, hairdressers, and the establishments that colour our streets.

Traditionally, the Science of Success research only focused on the financial realities of South African households, sharing insights extracted from an annual research study conducted by Momentum and UNISA. The insights from this long-running study have been used far and wide – from informing the Momentum Science of Success campaign, to inputs used to design government policies. However, in our engagements with stakeholders it became apparent that a key participant was missing in the "Success is a Science" dialogue – **South African entrepreneurs**. Especially entrepreneurs in the SMME landscape, including those with Side Hustles.

To ensure that the insights from the Momentum/Unisa Household Financial Wellness Index are not diluted, a separate study was commissioned to understand and unpack the realities entrepreneurs face daily. The research, conducted by Momentum Insights, ran concurrent with the household research. The main focus for the 2021 Science of Success campaign remains South African households. However, this year includes insights and findings pertaining to the **Science of Success for Entrepreneurs**.



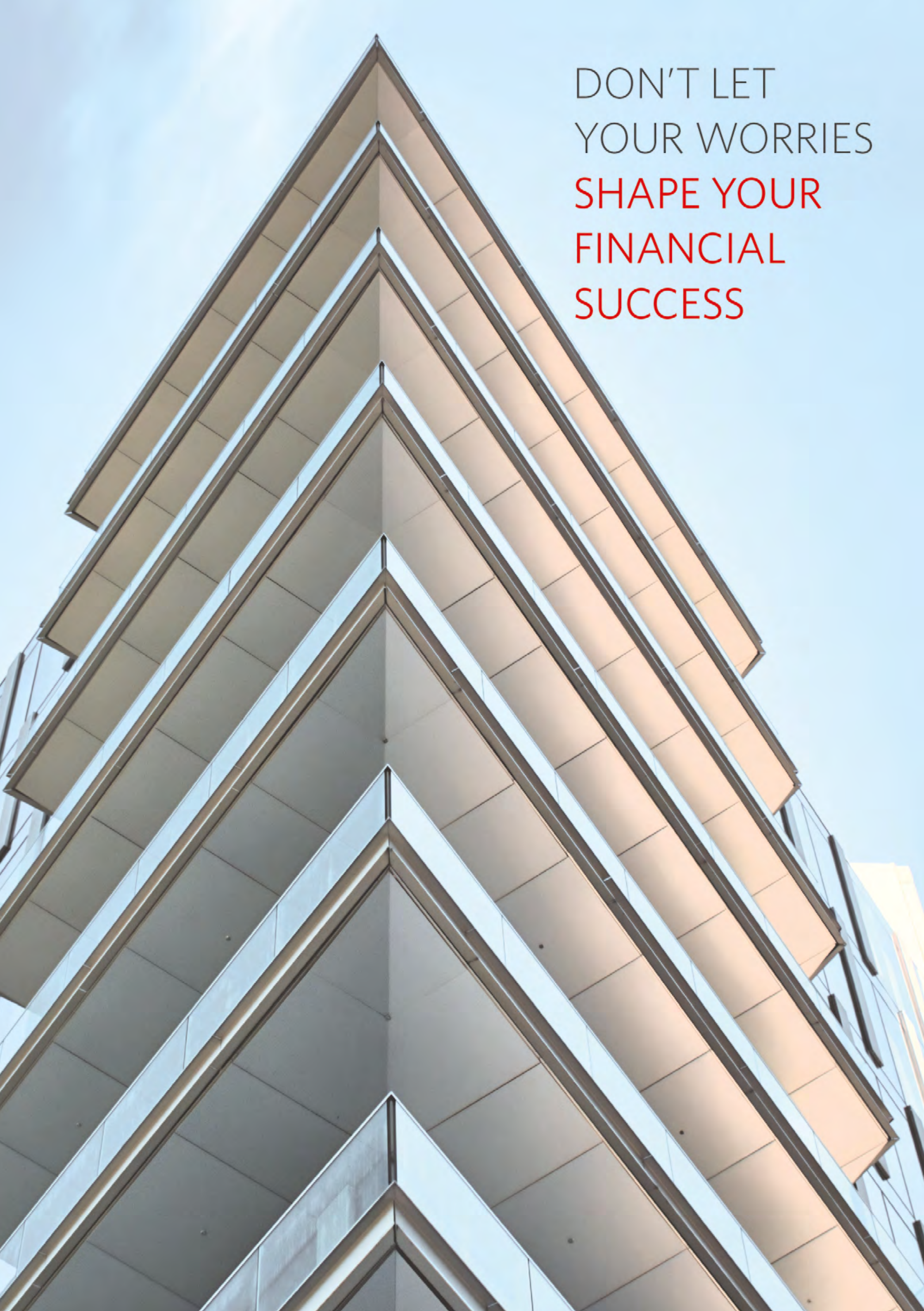

For purposes of this research (see details of the survey sample in the Annexure B), SMMEs are businesses in formal and informal sectors that result in an income or additional income for an individual or household, and it includes the Side Hustle. A distinction was made between SMMEs that are the **main or only source of income** for an individual or household versus those SMMEs that are providing a **secondary or additional source of income** for an individual or household. Although both are viewed as entrepreneurs, the research uncovered notable differences between these types of entrepreneurs. The following parameters were used to distinguish between them:

- **SMME entrepreneurs** are defined as a business owner with a formal/registered business with less than 500 employees. This business is their **main or only source of income.**
- **Side Hustle entrepreneurs** are defined as business owners with a formal or informal business providing them with an **additional source of income** over and above their main source of income. It is often referred to as a side business or a secondary income. We noted that the word **"hustler" has a negative connotation in the minds of the majority of entrepreneurs** that we interviewed. They regard it as something that's here today and gone tomorrow. For them it implies dodgy deals and something illegitimate. Individuals with a Side Hustle see themselves as entrepreneurs and want to be taken seriously.

The purpose of this research is to gain a better understanding of the needs and challenges faced by entrepreneurs, whether it be a main business or Side Hustle. Ultimately, as with the Science of Success for households, we are starting to construct a library of knowledge that we hope will drive dialogue and contribute to the success of entrepreneurs in South Africa.

The initial report will unpack the following four elements:

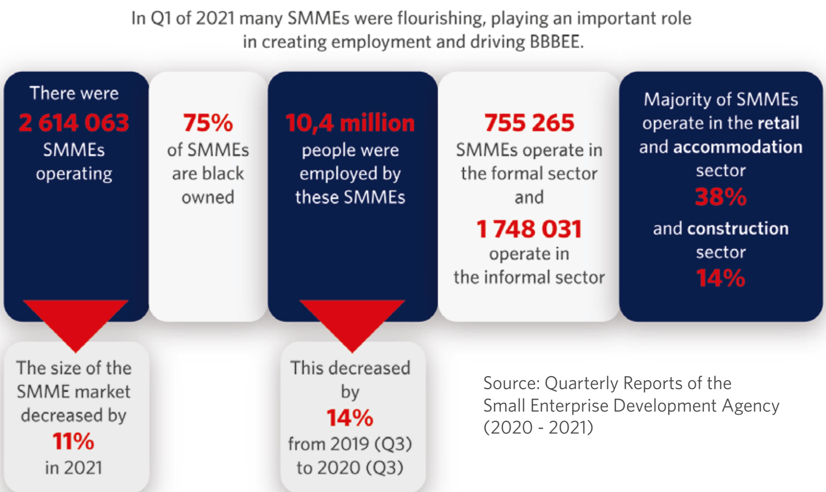
- The **Macro environment and SMME landscape** in which entrepreneurs operate and how it has impacted on their success.
- **Defining** and unpacking what **success** means for entrepreneurs in South Africa.
- Identifying and exploring the **enablers and barriers** entrepreneurs face on their journey to achieving success.
- Understanding how entrepreneurs have **weathered the storm** caused by COVID-19 and lockdown.


DON'T LET
YOUR WORRIES
SHAPE YOUR
FINANCIAL
SUCCESS

# THE MACRO ENVIRONMENT AND SMME LANDSCAPE

*SMMEs have to contend with the challenges of operating in the South African environment, such as low economic growth, a lack of access to funding and red tape. Unfortunately, as with households, all SMME businesses were impacted by the pandemic and resulting lockdown. The impact of the pandemic is evident when comparing pre-COVID numbers to current numbers available. The Small Enterprise Development Agency estimated that there are currently 2.3 million SMMEs operating in South Africa, a vast majority of them being informal. Irrespective of their Companies and Intellectual Property Commission (CIPC) status, SMMEs form a pivotal part of the South African economy, employing more than 8 million people. This has decreased from over 10 million people employed before COVID-19 and the hard lockdown which started in the first quarter of 2020 (Q1 2020) (see Illustration 1).*

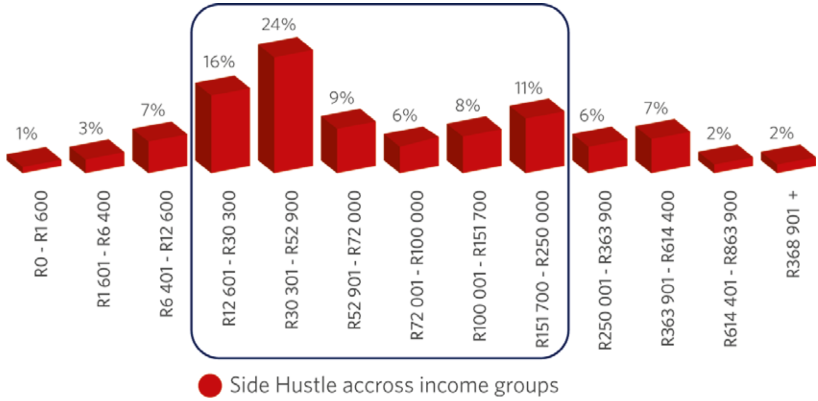
*Illustration 1: South Africa SMME landscape*



The Momentum/Unisa Household Financial Wellness Index revealed that an estimated 14% of households obtain an additional income from a Side Hustle. The majority (88%) of these households have one Side Hustle, with 12% having two or more Side Hustles within their household.

The highest concentration of Side Hustles (24%), from a volume perspective, is in households with an annual income between R30 301 to R52 900 (see chart 1).

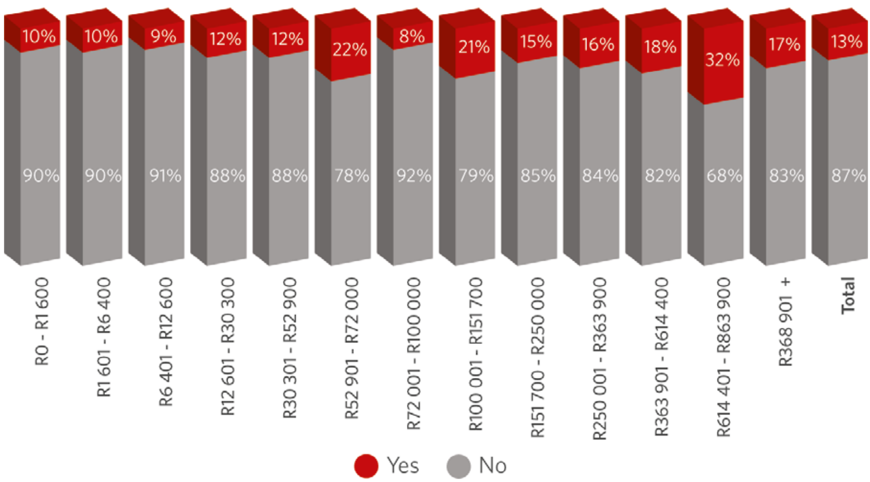
*Chart 1: Distribution of Side Hustles across income groups*




Source: Momentum/Unisa Household Financial Wellness Index 2021

However, when analysing Side Hustles within income groups (see chart 2), 32% of households that earn between R614 401 and R863 900 per annum have a Side Hustle. Across income groups, the function that these Side Hustles fulfil are very different and will be explored further in the report.

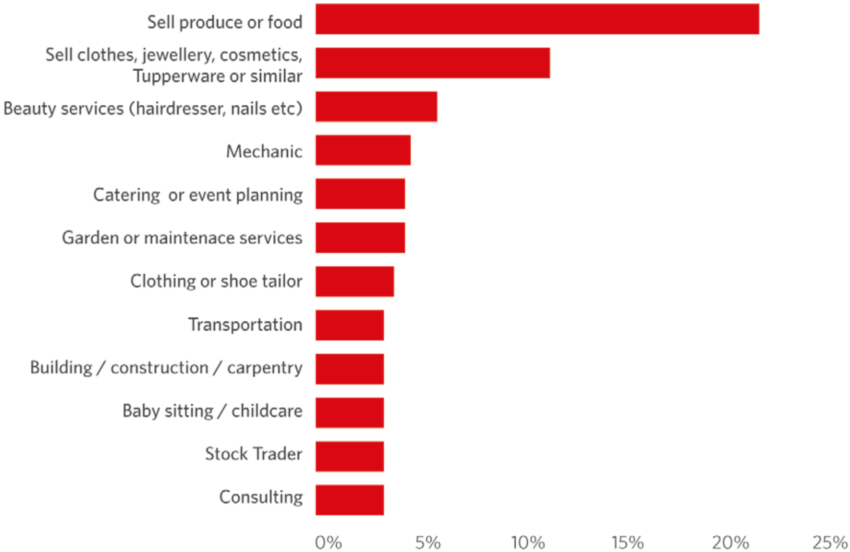
*Chart 2: Distribution of Side Hustles per income group*




Source: Momentum/Unisa household Financial Wellness Index 2021

Most Side Hustle businesses can be categorised in two groups. A vast majority fall into the trade, catering and accommodation industry, with many entrepreneurs selling produce or food (such as atchar, eggs, baked goods from their home or at the office), or clothing, jewellery, cosmetics, or similar products. The second is personal services such as beauty salons, nail technicians, mechanics, garden, and maintenance services. The detailed exploration in terms of type of business as per chart 3, highlights that the sale of perishable goods is the most prominent type of business.

*Chart 3: Prominent Types of Side Hustles*




Source: Momentum/Unisa household Financial Wellness Index 2021

## Operating an SMME in South Africa

COVID-19 and subsequent lockdowns were events completely outside the control of SMMEs. This aggravated an already difficult economic environment within which SMMEs had to operate. A nationwide survey performed by finfind® found that **76%** of SMMEs experienced a **decrease in revenue** in the first months of lockdown, with only **35% having cash reserves**. Their high levels of debt, lack of sufficient cash reserves, outdated financials, difficulty to access relief funding and inability to operate during the lockdown **resulted in downscaling, retrenchments, liquidations and forced closures.**

Access to **funding remains a major challenge** for SMME & Side Hustle entrepreneurs, as their applications often get rejected based on poor credit scores, lack of credit history, or simply for the reason that their business is informal. Financial institutions may need to investigate alternative ways to assess creditworthiness, determine credit scores, credit risk and potential among SMME & Side Hustle entrepreneurs. Many funding practices are still viewed as conservative and do not meet the needs of the present-day entrepreneur, who is often excluded from obtaining and accessing funding.

## Ever-changing realities of SMMEs

Many other barriers (apart from COVID-19 and lockdowns) which affect the chances of SMME and Side Hustle entrepreneurs' success, are outside of their control. The industry in which they operate, as well as their tenure influence how such barriers affect them. The findings from our study show that businesses that had been in operation for more than ten years were best able to deal with such barriers.

### The current difficulties include:

**Load shedding:** Impacting many businesses' operations and productivity.

**Reduction in disposable income of South Africans:** An increase in the cost of living coupled with reduced wages/salaries and high unsecured debt levels contributed to an increasing number of South Africans struggling to afford their expenses, causing a decline in SMMEs turnover.

**High crime rates and looting:** The continuous theft of products and damage to premises affected many businesses, more specifically the riots and looting that took place in July this year.

**Change in South African consumer buying behaviour:** Businesses needed to contend with a change in needs and preferences of South Africans i.e., a shift to online shopping, or consumers buying everything at one store due to health concerns, or convenience. In addition, consumers were more frugal with their money as they experienced hard times.

**Lockdown regulations:** Many businesses could not operate or operated under restrictions due to the nature of the business or place of operation i.e., markets/malls were closed, bans were instituted on the sale of certain products, social distancing led to a reduced capacity to accommodate clients, etc.

**Increase in "import costs":** The change in the rand exchange rate, scarcity of goods and increased cost of freight impacted many SMMEs.

**Shortage of supplies:** High demand and low supply of certain goods impacted many SMMEs negatively. A very high demand for products such as sanitary goods occurred when supply ran low due to border closures, suspension of shipments and panic buying.

**Low demand of certain products/services:** Limitations and restrictions imposed by government on the sale of several products (early in the lockdown) culminated in low demand and excess supply. Some restrictions continued for months, such as in the travel and tourism industry – and this had a negative knock-on effect on other SMMEs in the transport, catering, and leisure industries.

**Limited international trading opportunities:** Many of the restrictions implemented limited trading routes and operations as borders and ports closed.

**Requirement for additional health and safety protocol:** Many SMMEs did not have sufficient infrastructure, protocol, staff and training to adhere to the requirements set by government.

**Increase in inflation:** Businesses were not spared the increase in certain prices such as that of fuel, commodities and other raw products.

*In addition, the struggles of the formal sector had a compounding effect on informal trade, as the closing of offices and decreased activity on the streets negatively impacted the demand for the produce they sell, or the services that they offer.*

# A CLEAR MIND, AN INGREDIENT OF FINANCIAL SUCCESS

# SMMES' JOURNEY TO SUCCESS

> *"Specific solutions that meet my needs as a SMME, as my needs are different to that of bigger businesses, so distinguish between us."*

## A deeper understanding of SMMEs

*Before we can define and explore what success means for entrepreneurs in South Africa, we need a deeper understanding of their experiences and realities. These have changed over the last 18 months and are dependent on their goals, type of business, business size, sector, tenure, stage, know-how and skills.*

1. SMMEs persevere and empower others along the way

SMME & Side Hustle entrepreneurs' businesses are often born from their **passions, talents, needs, or interests.** They align these to their business ideas, with 32% of entrepreneurs indicating they were **pursuing their passion when starting their business.** They wanted to do something they love while making money for themselves.

> *"I don't want to be limited by a structured environment; I want to do what I want."*

Although passion is often a catalyst for starting a business, in South Africa it is **more often driven by the necessity or a desperation** to **alleviate** their or their household's **financial stress.** They start a business to make ends meet but as they reach success milestones, many start to give back. Underlying countless of these businesses is a higher order need for the **societal benefit** it may bring. They aim to empower themselves and others, in so doing contributing to society in a positive way.

**During the pandemic they have prioritised social good by:**

- Not retrenching their employees, but rather reducing work hours and salaries. Most (69%) businesses trying their best to retain their employees.
- Assisting employees that had to be "let go" to access unemployment insurance (UIF).
- Sharing basic resources like food with employees, in other words lengthening their table.
- Offering a helping hand to others in the community e.g. temporary work or food.

Entrepreneurs know they are not facing tough times alone and are **bound by a spirit of unity.** There is a sense of camaraderie between entrepreneurs, and so they **support fellow small businesses** in the supply chain and enable them to also contribute to society.

Informal SMMEs and small Side Hustles also have an important role to play in building communities, helping others by giving them work, forming referral networks, etc. They often can provide more fit for purpose and localised products and services in neighbourhoods – by the people for the people.

2. SMMEs are highly reliant on word of mouth to accelerate their momentum

> *"Word of mouth marketing to potential business partners about the services we offer."*

No matter the business stage, growth is defined as increasing their client base. Research highlighted businesses (19%) are very reliant on word-of-mouth recommendations to increase awareness and ultimately their client base. They rely on both direct and indirect word-of-mouth recommendations.

- **Direct** recommendations are referrals and recommendations by friends, family, community members and industry networks.
- **Indirect** word of mouth is done via social media tags, reviews, and ratings.

### 3. SMME & Side Hustle entrepreneurs self-fund their business

*"I started my business with just R1 500."*

SMME & Side Hustle entrepreneurs are very resourceful and often use their limited **personal funds** to start their business, as they struggle to get funding. Entrepreneurs (22%) in our study indicated they had to rely on friends and family for additional funding as they could not secure funding elsewhere. This often limits the ability to grow their business.

Once they have setup their business, they **aim to become profitable** to build and acquire assets, create visibility in the market, grow their workforce and upskill all employees.

Entrepreneurs are practical, so they resort to free online courses on platforms such as Udemy for skills development.

### 4. Growth is the only option

*"Just as important as the business, is the intention to make it a viable source of income."*

Although the distinction is often drawn between formal SMMEs and informal Side Hustles, the owners of these businesses feel that they should be **viewed as equals**. The goal of all these businesses is **sustainable growth** i.e., more clients, getting an office space, investing in more equipment, hiring employees and opening up at more locations. This is achieved through marketing, operational effectiveness and increased knowledge and skills.

Growth is nuanced for Side Hustle entrepreneurs, they wish to excel in their careers and their businesses, as both bring joy and have a specific purpose, be it financial or fulfilment. For many, their secondary income means they can make ends meet, or **achieve financial freedom** as they **diversify their revenue streams**.

### 5. Digitisation amplifies SMMEs

*"Adopting digital and innovation practices that enables us to flourish in a digital economy and being able to deliver services with increasing effectiveness, reach and impact."*

For many entrepreneurs, the restrictive environment in which they operate forced them to **diversify their marketing strategies** and create visibility and engagement through social media and instant messaging platforms such as Facebook, Instagram, TikTok, WhatsApp and Telegram. Successful businesses throughout the COVID-19 pandemic and lockdown periods attributed their accomplishments to digitisation.

They transformed their businesses by:

- Offering a better **client experience** via platforms such as WhatsApp for Business.
- **Increasing profitability** by reducing overheads, offering faster services and having greater market access. More tech-savvy entrepreneurs have started to explore local and international marketplaces and e-commerce platforms.

- **Improving** their **productivity** and helping them to manage their time effectively by creating a virtual workplace.
- **Automated leads and sales generation** through 'enquire now' page online.

Not all entrepreneurs, could capitalise on the digitisation trend. Many offer services or solutions that cannot be delivered digitally. Alternatively, they were faced with a lack of skills, resources or limited digital access in their client base.

6. **SMMEs want to feel valued and get appropriate financial advice.**

> *"To make sure that the business, no matter how big or small, is set up financially to best help it operate and achieve goals."*

SMMEs are craving financial advice and assistance for their businesses. Currently they engage their accountants (16%) and tax specialists (11%) to get financial advice.

They seek reciprocity in their relationship with financial service providers and want to be partnered with, in a way that makes them feel:

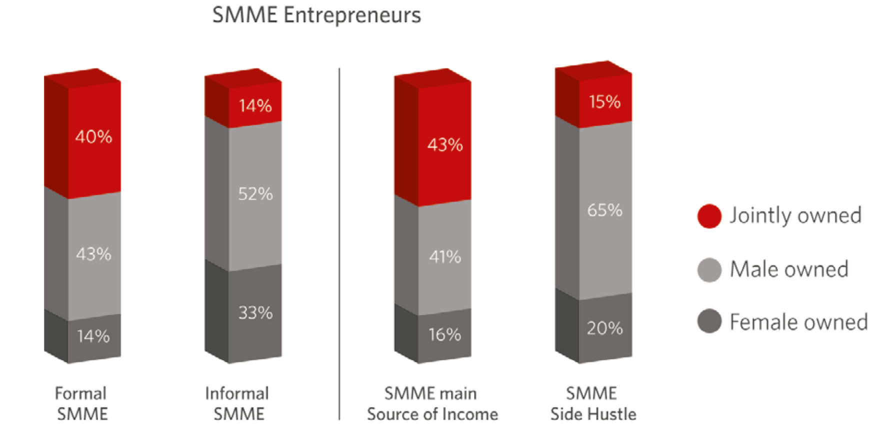
- **Important and valuable** i.e., if they grow, their partners grow.
- Financial Services companies support them and **have their best interest** at heart.
- They can count on financial services to lend a **helping hand**.

Side Hustle entrepreneurs want to receive the **same recognition** as formal businesses counterparts. They want to be taken 'seriously' and want to be afforded the same opportunities and benefits as bigger and formal businesses.

7. **Gender differences paint their own picture**

Female entrepreneurs differ from their male counterparts and are under-represented. From our research, it is apparent that although women are starting to take their place at the proverbial table, there is still lots of work to be done. 33% of informal SMMEs are wholly owned by women (mostly from a need to put food on the table), with this figure even lower (14%) in the formal sector (see chart 4). When unpacking the type of income a SMME provides to a household, women ownership is more prevalent in Side Hustles (20%) that serve as an additional income source for them or their household.

*Chart 4: SMME ownership and SMME income type*




Source: SOS SMME Study 2021

Another notable difference between male and female entrepreneurs stems from how they define growth and sustainability.

**Males** are more **future focused**, driven to achieve goals, attentive on operational efficiency and expansion, and rely on having networks and gaining retainers or contracts.

"*Forming healthy and long-lasting partnerships with clients.*

*Making a profit and being able to secure jobs,*

*Secure an efficient operating culture.*"

**Females** are more **focused on the impact they can make** on how they can contribute to their sector, community, employees and their families.

"*Being able to do more and assist our industry.*

*Being able to pay all staff reasonable salaries without stressing at month end.*

*Getting more clients or better rates of pay means I can pay all my bills and put my sons through university and eventually have a good holiday.*

*Secure an efficient operating culture.*"

However, both female and male owners seek growth and sustainability, specifically, wanting to increase their client base and gain job security for their employees.

## Defining success and how it's shifted for entrepreneurs in recent times.

**The COVID-19 pandemic and economic realities in South Africa resulted in entrepreneurs redefining success.**

*"Success means being able to adjust and pivot the business and personnel responsibilities at short notice."*

The journey and process to reach success is fluid but the end goal, whether it be survival or growth, is stable. Completing a step on the journey or a process is also a form of success (e.g., adjusting business at short notice) and is called success achieved on the journey. It is important to differentiate between success on the journey and success as the end goal as many SMMEs may achieve success on the journey, but not yet at the end goal. On their current journey, 71% of the SMME entrepreneurs felt that their business was **not performing optimally (but 29% did)**, and they **have not yet achieved success as an end goal**. Many of these (45%) have operated their businesses for more than 10 years.

The current realities entrepreneurs face have necessitated them to redefine their journey to success, at least on the short-term. For 41%, their focus shifted from **growth and innovation to simply stabilisation for survival**.

*"Currently the focus is on stability and survival in and for the business".*

*"Now it's simply a fight for survival."*

They are surviving by taking time to:

- Pause and rethink their business strategy.
- Re-evaluate operations and way of work i.e., Work from home.
- Streamline offerings.
- Search for opportunities to diversify i.e., adding new services.
- Access new markets i.e., online marketplaces.

Notably the definition of success for Side Hustle entrepreneurs has not shifted significantly, as success as a journey and final destination have always centred around **survival and growth**.

### The five dimensions of success:

The concept of success has 5 dimensions. Passion and innovation are viewed as input or building blocks to enable success, while recognition, sustainability and financial freedom are outputs or the end goal.

These dimensions are interconnected as well as integrated and collectively form the concept success, which includes financial success. Sustainability is the one dimension that most entrepreneurs are focusing on in the present day, as it is equated to survival.

For each dimension, we have identified and unpacked enablers and unmet needs/barriers that entrepreneurs face (see Illustration 2).

*Illustration 2: Success dimensions in the SMME world*

## Unpacking the dimensions of success

Entrepreneurs assisted us to unpack the various dimensions and what they mean in the context of their success journey (see table 1). *Table 1: Description of Success*

| | What it means |
|---|---|
| **Recognition** | "Say my name".<br>• Getting noticed.<br>• Getting recommended.<br>• Building their brand and reputation not only for their services or products, but also for the social good or community investment that they do.<br>*Ultimately their business is becoming more visible and there is an increased demand for their products or services.*<br>For Side Hustle entrepreneurs, word-of-mouth recommendations are critical for recognition and ultimately success, especially with limited funds and skills to do marketing. |
| **Sustainability** | **"Having a sustainable business that can meet its financial obligations, support its staff and generate an adequate income for us".**<br>• Sustained growth as the harsh reality is that many SMMEs have failed.<br>• A solid client base.<br>• To expand to new territories i.e., other provinces.<br>• Ability to manage finances.<br>*Sustainable businesses are in a better position to achieve financial freedom.*<br>For Side Hustle entrepreneurs, sustainability is extremely important. It means building a legacy, or access to the extra income that ensures they can make ends meet and maintain their standard of living. The extra income enables them to live comfortably and take care of their families, e.g., pay school fees and buy small treats. |

<table>
<tr><td>Innovation</td><td>“The art of adapting”<ul><li>New and fresh ideas.</li><li>Trial and error i.e., trying out new things and experimenting.</li><li>Reinvent and repurpose business, out of necessity.</li><li>Being able to adapt to the socio-economic environment (COVID-19).</li></ul>For those entrepreneurs with Side Hustles, innovation plays out on a smaller scale, it is about tweaking a processes, services, or products slightly.</td></tr>
<tr><td>Passion</td><td>“Grow my passion to grow with others and grow others”.<ul><li>Loving what they do.</li><li>Constantly learning and upskilling to perfect their products, services or solutions.</li><li>Taking pride in what they do.</li><li>Enjoy sharing their products and services with others.</li></ul>For Side Hustle entrepreneurs that need the extra income to make ends meet, passion plays out as the drive to support their families.<br><br>While those that started their business from passion, it is about pursuing their dreams, owning their journeys and making things happen.</td></tr>
<tr><td>Financial Freedom</td><td>“Being able to pay the bills”.<ul><li>Being in control of their finances and how they are utilised.</li><li>Maintaining a positive state of finances i.e., being debt-free, having good cash flow or simply breathing easy.</li><li>Making smart financial choices that enable them to afford business needs, while still supporting and saving towards business goals and dreams.</li></ul>For Side Hustle entrepreneurs, this means being able to breathe, even if it is slightly, edging forward and keeping their heads above water.</td></tr>
</table>

## The enablers and barriers of success for entrepreneurs

# Recognition

SMMEs noted they face numerous challenges in this regard (see Table 2). They want their businesses to be recognised by clients, the community and government. Many entrepreneurs require support in improving recognition:

- Only 25% indicated they feel they have good marketing knowledge and skills.
- 17% started to engage digitally to increase awareness of their business.
- 12% needed assistance to optimise digital/social media marketing and Search Engine Optimisation (SEO)

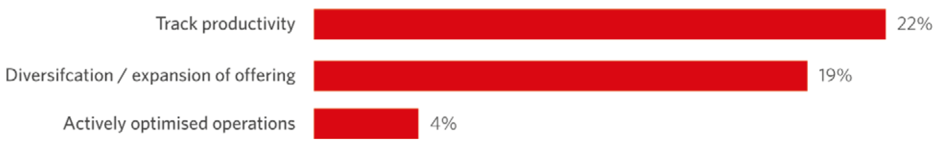
*Table 2: Enablers and unmet needs or barriers impacting recognition.*

| **RECOGNITION**<br>**"Forming healthy and long-lasting partnerships with clients".** | |
|---|---|
| **Enablers and motivators** | **Unmet needs or barriers** |
| • Positive word of mouth.<br>• Social media engagement i.e., tags, reviews, posts and check-ins.<br>• Promotions.<br>• Professional affiliations.<br>• Social responsibility and empowerment. | • Digital transition knowledge, skills, and resources.<br>• Marketing skills, knowledge, and resources.<br>• Market access and potential clients. |

# Sustainability

Sustainability is one of the key dimensions of success. Of late, entrepreneurs have made many changes to their business, in the pursuit of sustainability as chart 5 shows. They require support in terms of developing their operational skills and knowledge, 57% indicated their skills were not at the level they desired.

*Chart 5: Enablers and unmet needs or barriers impacting recognition.*




Source: SOS SMME Study 2021

Sustainability has taken centre stage stemming from the harsh realities that many entrepreneurs experience (see Table 3). Sustainability can be likened to survival but also includes "the ability to retain world-class skills", stock control and operational effectiveness.

*Table 3: Enablers and unmet needs or barriers impacting on Sustainability*

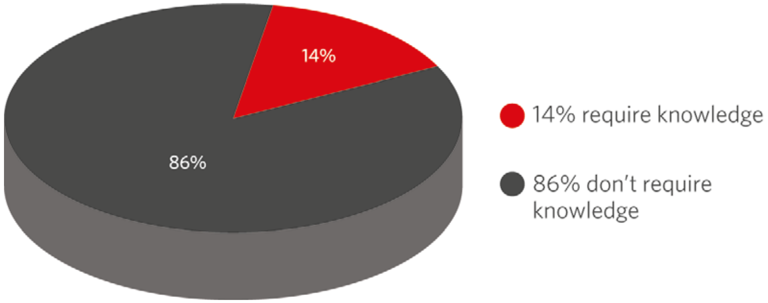
| **SUSTAINABILITY<br>"More clients mean you're more successful".** | |
|---|---|
| **Enablers and motivators** | **Unmet needs or barriers** |
| • High supply and demand.<br>• Diversification of products, services, and solutions which lead to diversification of markets.<br>• Value-added services or products.<br>• Growing current client base.<br>• Skills retention.<br>• "Sustainability is the ability to retain world-class skills"<br>• Low employee turnover.<br>• Leaving a legacy. | • Client retention.<br>• Funding for skill development, software and other assets.<br>• Cluttered market.<br>• Tools, skills and resources to enable operational effectiveness.<br>• Financial and operational impact of COVID-19. |

Although survival is dominating the current conversation, leaving a legacy is also important. As a Side Hustle entrepreneur with a photography business stated, "My daughter loves photography, I want to pass this on to her".

## Innovation

Entrepreneurs are known for their innovate mindset, their ability to think outside the box and take risks. COVID-19 and its aftermath necessitated an innovative and fresh approach to many businesses, which served as the pivot on their journey to achieve success (see table 4). Entrepreneurs needed to innovate and "become tech-savvy and efficient by using internet banking and Zoom/Teams for meetings". Access to funding prevented 41% of the entrepreneurs in their quest for innovation.

*Digital e-commerce knowledge / skills*




Entrepreneurs (14%) require knowledge on how to make their services and products available online.

*Table 4: Enablers and unmet needs or barriers impacting on Innovation*

| **INNOVATION<br>"Adapted to technological environment"<br>"Being able to adjust and pivot the business"** | |
|---|---|
| **Enablers and motivators** | **Unmet needs or barriers** |
| • Digitisation and use of technology.<br>• Upskilling and diversification.<br>• Growth mindset to learn from failure.<br>• Collaboration.<br>• Access to incubators. | • Financial investment to enable innovation.<br>• Big debtors' book.<br>• Limited access to mentors.<br>• Limited awareness of current business support offered such as incubators. |

## Passion

Passion and positivity are especially notable among entrepreneurs with a Side Hustle. The Momentum/Unisa Household Financial Wellness Index research highlighted that Individuals who live in household where there is additional income from a side Hustle appear to be:

- More positive than others that they can solve some of their problems.
- In control of their life.
- Certain they can do anything they set their mind to.
- Taking responsibility for their own future.
- Dealing with life's problems.
- In control.
- Taking ownership for their goals.

The way in which entrepreneurs unpacked passion (see table 5) showcased how passion is a critical input dimension that impacts on the success of a business.

*Table 5: Enablers and unmet needs or barriers impacting on Passion*

| PASSION | |
|---|---|
| **Enablers and motivators** | **Unmet needs or barriers** |
| • Determination and perseverance.<br>• Self-Improvement.<br>• Conducive work culture. "A place of respect, love, loyalty"<br>• Empowerment of self and others.<br>• Enjoyment. | • Support and guidance to equip self and others with skills.<br>• Creation of professional development plans and goals.<br>• Optimise productivity and utilising employee talents effectively.<br>• Improve work culture.<br>• Turning passion into income. |

## Financial Freedom

**Financial freedom** has become less attainable for many businesses due to COVID-19 and lockdowns:

- Almost half (48%) of businesses did not have the ability to pay their debts in the past six months.
- Only 6% of businesses had saved for emergencies, or had other financial products, like income protection which assisted them to weather a financial storm.

- Some (7%) entrepreneurs require guidance to implement technology that enables better management of finances and business resources.
- About 4% of entrepreneurs needed assistance with running their businesses.

Although the pandemic has created many challenges for entrepreneurs, there are other unmet needs and barriers that they also need to contend with (see table 6).

*Table 6: Enablers and unmet needs or barriers impacting on financial freedom*

<table>
<tr><th colspan="2">FINANCIAL FREEDOM</th></tr>
<tr><th>Enablers and motivators</th><th>Unmet needs or barriers</th></tr>
<tr><td>• Financial knowledge to manage business finances.<br>• Knowledge of and access to private, government or relief funding.<br>• Built up cash reserves.<br>• Good credit status.<br>• Increased turnover due to the implementation of digital solutions.<br>• Reduction in overheads.</td><td>• Professional business support mentorship, knowledge and skills. Entrepreneurs lack:<br>- Financial management know-how.<br>"Provide tips on how to do things better, manage business accounts and finances more efficiently".<br>- Development of pricing strategies knowledge.<br>• Access to funding.<br>• Holistic financial and business advice.<br>"I pay a friend for advice, It's dedicated wisdom to help me... I want to be that savvy someday".<br>• Guidance on where to invest or save for optimal growth and replenish eroded savings.<br>• Support to digitise financial records.<br>• Becoming debt free.</td></tr>
</table>

## STEADY YOUR MIND. YOUR FINANCIAL FUTURE WILL THANK YOU FOR IT

# VOICES FROM THE STREET, OUR ENTREPRENEURS' SUCCESS STORIES

*Meet three of the entrepreneurs* we spoke to and hear their stories*

**Bandile**

*"Success means creating something useful, filling a gap, your existence must be meaningful."*

**Pamela**

*"Using social media, I always post so people can see what I can do."*



**Nomsa**

*"For me it's being able to pay the bills."*

*Entrepreneur names and businesses have been replaced by pseudonyms to adhere to data privacy.

## Meet Bandile

Owner of Graphicmania,
Brand Design Agency.

### How Graphic Mania came about:

Bandile graduated top of his class at Vega and as a result landed an internship with a design agency in Cape Town. His talent was quickly recognised, and he spent hours on design work. While his work challenged him and gave him opportunities to embrace his creativity, he felt restricted by company rules and couldn't fund the lifestyle he envisioned. He slowly began freelancing to gain an additional income and built-up clients through word of mouth and referrals from friends. After four years, with the support of his entrepreneurial friends, he finally decided to take the plunge and start his own agency.

### The early days:

He began with a small client base and received work from other designers in his network. In the beginning he had minimal overheads as he used his personal laptop, worked from home, held his meetings in coffee shops and renewed software subscriptions on a monthly basis.

### The business journey:

His business has now been around for 5 years, and he has since expanded, hiring two other designers and a copywriter. He outsources the finances to a friend and hires freelancers when needed. His client base has grown since, and he now has monthly contracts with coffee shops, boutiques and restaurants in his neighbourhood for ad campaigns, menus, catalogues and brochures to name a few. Over the past two years he has ventured further into new industries, working with local beauty brands and beverage companies, expanding his service offerings to include digital capabilities in order to meet his clients' requirements.

### Ambitions and aspirations:

His future goal is to have his own office space with Graphicmania printed on the walls. He would also like to employ more designers and upskill the youth from his hometown of Khayelitsha. Offering them opportunities to get design exposure and teach them the foundation of entrepreneurship to enable them to gain financial freedom and escape the cycle of poverty.

### Reaching the destination of success:

His idea of success is to have an established client base of 10 or more monthly contracts, of which at least two are larger businesses, affording him a consistent revenue stream. To invest in state-of-the-art equipment to also offer more niche services like animation. This will give his business the competitive edge it needs and the recognition he strives for.

### The enablers:

He is driven by his passion for creating. Bandile loves receiving testimonials from satisfied clients for work he has created for them. As an entrepreneur he has a need to contribute to society through community employment and youth upliftment, so he can inspire the next generation and leave a legacy in his community.

### The challenges and dealing with change:

Before COVID-19, Bandile had started to see steady growth in clientele and an influx in work. However, with some of his clients in the food and beverage industry he experienced a decrease in work and revenue. Since his business was already used to the virtual way of work, he decided to expand his service offerings to gain an additional income and survive. This was achieved by upskilling and changing his business focus to digital content creation, social media marketing and engagement and Search Engine Optimisation (SEO), enabling his existing clients to make a smooth shift to digital and attracting new clients who seek such expertise.

### What's needed to achieve success:

Bandile is constantly looking for opportunities to leverage networks and gain market access so he can support more brands on their journeys and grow his client base. He would like to grow his business and create employment and feels mentorship and coaching in terms of finance management would really help create the legacy he envisioned. This will also enable him further to contribute to his community with the new knowledge he gains.

## Meet Pamela

Side Hustle entrepreneur and owner of Pam Bakes.

### How her Side Hustle began:

Pamela grew up in a home that always had freshly-baked goods especially during the holidays. From a young age she would help her mom mix the batter and cut out cookies. It was always something she loved and brought her joy, no matter how tough her day was. As she grew up, she developed other passions and her love for technology led her to a career as a software developer. However, she still pursued her baking on weekends and in her free time baked for family occasions, friends, church and even nieces and nephews' birthdays. Three years ago, when the baking requests began to pile up and family and friends were willing to pay for her treats, she thought of starting her own business on the side, so she could follow through on both her passions.

### The early days:

She began taking orders from family and friends on weekends – as she had a 9-to-5 job. On occasion she would take on orders in the week but that meant late nights. In the beginning her expenses were minimal as she used all the equipment she had and rented cake tins or borrowed her mom's baking equipment when needed. She would also only purchase supplies on a needs basis and worked from her kitchen to save on overheads.

### The business journey:

Since deciding to make a profit from her passion, her business started to develop through word of mouth and recommendations. She has since made business profiles on Facebook and Instagram, sharing all her work and getting her clients to engage by tagging her in their posts and expressing their experiences and thoughts (on her services). Over time she invested in baking equipment and realised it is more economical than renting in the long-term. However, she struggles to find the right price point for her cakes as clients are constantly asking for discount.

### Ambitions and aspirations:

She would love to have her own work-space with an industrial oven and more helping hands in the future. Her dream would be to have her own coffee and book shop, where she can create a comforting escape from a busy life for others.

### Reaching the destination of success:

For her it's all about getting that fine balance between her work which she enjoys (and pays the accounts) and this business which is her baby. She wants to grow her passion and share it with others, receive praise and be known for her creations. She will know that she has 'made it' when her cakes trend on social media, are identifiable and distinct to her brand, and people come to her for her unique and bespoke offerings. In living out her dreams she wants to 'lengthen the table', employ, and empower other women and gain the financial freedom that will support their lifestyles.

### The enablers:

She is driven by her passion, the praise she receives, the five-star ratings, the need to be financially free and afford her lifestyle. Pamela constantly invests in her own upskilling with various decorating courses. She is always introducing new cakes, experimenting with flavours and sharing on social media. Work from home has really given her the flexibility she needed to run her business and still be successful at her 9-to-5 job. She is now able to do both simultaneously, having a cake in the oven while she's in meetings, or icing an order at lunch time. It's also brought in a more consistent source of income as people are having more intimate celebrations during the week, so she has more bakes to deliver.

### The challenges and dealing with change:

Before COVID-19, Pamela struggled to juggle work and her business and could only focus on it during the weekends. The pandemic has worked in her favour, enabling her to pay more attention to her business. However, with increasing food prices, ingredients became more expensive, and she had to seek out cheaper options and discovered buying direct from suppliers is more economical. Based in KwaZulu-Natal, her business was impacted by the shortage of supplies due to the looting and she had to wait hours on end in supermarket queues to secure basic ingredients. With the pandemic, Pamela had to rethink her business offering and as such became innovative by offering smaller individually wrapped cakes.

Electricity shortages make it difficult to meet deliverables and she must work around the load shedding schedule, impacting the quantity of cakes she can bake and the freshness of her ingredients. With increase in demand, at times she was unable to meet the demand as she did not have an industrial oven, or extra helping hands to lighten the load.

### What she needs to achieve success:

Pamela needs guidance on optimising her savings and investments so she can buy new equipment and afford permanent bakery space. She needs assistance with financial management, particularly her pricing strategy, and how to optimise social media marketing to gain clients and build a brand.

## Meet Nomsa

Fruit and Vegetable Seller at Kerk Street Market, Johannesburg CBD.

### How her Side Hustle began:

For Nomsa, life hasn't been easy growing up in Alexandra in an RDP house. Raised by a single mother who had many mouths to feed, Nomsa was unable to get a formal education. From a young age she began doing odd jobs so she could contribute to the family. She was formally employed as a cleaner at a company in the CBD, which closed down during the pandemic, resulting in her losing her job.

Over the years she dabbled in a few things, from selling magwinya to pre-loved clothes, with the aim of making ends meet and giving her children better opportunities than she had i.e., a tertiary education. A few years ago, she began helping her mom out on weekends by selling vegetables at the market. With the pandemic, she has now turned to selling fruit and vegetables full time in the CBD, taking over from her ageing mother as she already knows the trade.

### The early days:

She began having everything set – knowing where to get the produce, having a spot in the market and even some regular customers who would pass by on their way home or to work. Each day would be different based on the amount of foot traffic and the produce available, which is weather dependent.

### The business journey:

Nomsa has been selling fruit and vegetables part time for four years now and since lockdown this has become her saving grace. Recently, she experienced a decrease in demand of produce and the market no longer attracts a crowd. She finds it difficult to compete due to other sellers undercutting her in an attempt to gain more customers. On good days she can buy groceries and medication for her mom and save for her kids' school fees. On bad days she barely affords the taxi home. The pandemic really threw a spanner in the works with both her mom and her being unable to trade and losing the income they were reliant on for basics.

### Ambitions and aspirations:

Nomsa wants to continue earning a living from selling produce but wants more good days where she sells enough and gets more customers. She would like to make enough money so that she doesn't need to worry about where her children's next meal is coming from.

### Reaching the destination of success:

For Nomsa, it is all about survival and just being able to go back to selling like she used to without the added pressure of hygiene constraints, reduced foot traffic and increased competition.

### The enablers:

Nomsa is driven by necessity that this is the only way she knows to take care of her family and give her children a better future. She engages well with passers-by, catching their attention with her loud voice and whistling and signing. She shares tips and recipes with her customers on how to make the vegetables go a little further.

### The challenges and dealing with change:

Before COVID-19, Nomsa had a place to trade on weekends and was just making ends meet with her full-time job as a cleaner. However, with losing her job and formal trade being closed, informal sellers like Nomsa were also impacted as markets too had to close. Nomsa couldn't return to her stall for five months and when she did, it felt like a ghost town. People were living in fear, and she was required to invest in masks, sanitisers and had to wear gloves when handling the produce. With most people working from home and others being retrenched or laid off, gaining customers became a major challenge. Additionally, when people resorted to panic buying, she struggled to secure enough produce to sell, but when she had eventually acquired enough, it spoiled because no one was buying. Navigating this new way of work was tough and she was forced towards making packaged pre-cut vegetables and then going door to door to sell her produce before it goes bad.

### What she needs to achieve success:

She needs to find a permanent and safe trading space that will give her access to more people in addition to safely displaying and storing her produce. Nomsa wants guidance on adhering to COVID-19 procedures and protocols as well as finding new and alternative ways to trade and package her produce.

# CLOSING THOUGHTS

These entrepreneurs' stories clearly show that they have the passion, innovation and the vision required to make their businesses a success. Unfortunately, the challenges they face are many and passion alone may not be enough to keep them going on their journey to achieve success. Entrepreneurs have many things that keep them up at night, the macroenvironment, policy changes, regulations, red tape, lack of access to financing, debt, minimal resources and forced shutdowns to name a few.

Big business, government and the communities in which these entrepreneurs operate need to play a more active role in supporting them as they strive to build a better South Africa for all of us.

The solutions and support provided by big business and government needs to be modular, customised and personalised.

# Annexure B: Which SMMEs are included in our research

For the initial wave of the SMME research project, various data sources were used, ranging from primary data collected by the Momentum research team to secondary data from previous studies on the topic, as well as administrative data obtained from other institutions. The exploration of administrative data highlighted the limited information available in the public domain covering success, the internal dynamics of SMMEs, their contribution to the economy, especially those in the informal sector.

| Data Source | Respondents |
| --- | --- |
| **Qualitative in-depth Interviews** | SMME businesses (n=11)<br>Incubator (n=1) |
| **Quantitative interviews** | Science of Success SMME survey (n=208)<br>Momentum/Unisa Household Financial Wellness Index (n=381)<br>Combined the two studies provide 581 responses, these responses are not nationally representative.<br>Main Business 35% and Side Hustle 65% of the total sample |

## Qualitative business interviews

| Role in Business | Type of Business | Tenure | Employees including themselves |
|---|---|---|---|
| Owner: Side Hustle | Catering: Baking cakes | 6 years | 1 |
| Owner: Main Business | Personal Services: Graphic design | 9 years | 2 |
| Co-owner: MB | Transportation: Shuttle service | 8 years | 13 |
| Owner: Side Hustle | Personal Services: Photography | 11 years | 1 |
| Owner: Side Hustle | Personal Services: Sanitation products | 4 months | 1 |
| Owner: Main Business | Personal Services: Garden and Home Services | 1.5 years | 11 |
| Owner: Main Business | Personal Services: Security | 24 years | 52 |
| Owner: Main Business | Construction | 12 years | 76 |
| Owner: Main Business | Construction | 10 years | 64 |
| Owner: Main Business | Construction | 28 years | 61 |
| Owner: Main Business | Construction: Plastering and maintenance | 25 years | 38 |
| **Incubators** | | | |
| Data and Reporting Analyst | Business Incubator: Innovation hub and think tank | 20 years | |

## Incubator

| Role in Business | Type of Incubator | Tenure |
|---|---|---|
| Data and Reporting Analyst | Business Incubator: Innovation hub and think tank | 20 years |

## Quantitative surveys Science of Success SMME survey

| Tenure | |
|---|---|
| 10 or more years | 66% |
| 5-9 years | 11% |
| 1-2 years | 9% |
| 3-4 years | 7% |
| Less than 6 months | 5% |
| 6 months to a year | 3% |
| **Size / number of employees** | |
| Micro (me) | 22% |
| Small (2-14) | 36% |
| Small (15-30) | 12% |
| Small (31-50) | 15% |
| Medium (51-100) | 5% |
| Medium (101-200) | 3% |
| Medium (201-300) | 1% |
| Medium (301-400) | 1% |
| Medium (401-500) | 1% |
| **Industry** | |
| Financial services | 18% |
| Manufacturing/production | 10% |
| Professional services | 9% |
| Retail and wholesale trade | 8% |
| Building and construction | 6% |
| Education and training | 5% |
| Government/local government | 5% |
| Transport and logistics | 5% |

| Industry (*continued*) | |
|---|---|
| Information and telecommunications (IT) and electrical | 4% |
| Hospitality and tourism | 4% |
| Medical professionals | 4% |
| Agriculture | 3% |
| Health and beauty | 3% |
| Real estate | 2% |
| Arts and Culture | 1% |
| General services | 1% |
| Other | 11% |
| **Role in business** | |
| Owner | 42% |
| Partner | 28% |
| Manager | 20% |
| Employee | 10% |

## Momentum/Unisa Household Financial Wellness Survey

| Gender | |
|---|---|
| Male | 56% |
| Female | 44% |
| **Population group** | |
| Black African | 74% |
| White | 12% |
| Coloured | 9% |
| Indian | 4% |

| Per annum household income of Side Hustle Entrepreneurs | |
|---|---|
| R nil | 1% |
| R801 - R1 600 | 1% |
| R1 601 -R3 200 | 1% |
| R3 201 - R6 400 | 2% |
| R6 401 - R8 500 | 2% |
| R8 501 - R12 600 | 5% |
| R12 601 - R30 300 | 16% |
| R30 301 - R52 900 | 24% |
| R52 901 - R72 000 | 9% |
| R72 001 - R100 000 | 6% |
| R100 001 - R151 700 | 8% |
| R151 701 - R250 000 | 11% |
| R250 001 - R363 900 | 6% |
| R363 901 - R614 400 | 7% |
| R614 401 - R863 900 | 2% |
| R863 901 - R1 million | 0% |
| R1 million - R2 million | 2% |
| R2 million - R4 million | 0% |
| R4 million - R6 million | 0% |
| R6 million - R10 million | 0% |
| R10 million or more | 0% |

# References

1. Bureau for Economic Research (BER). 2016.
2. finfind® SA SMME COVID-19 Impact Report. 2020.
3. Momentum/Unisa Household Finance Survey. 2021.
4. Small Enterprise Development Agency: Quarterly Reports. (date?)
5. Small Business Institute. Small Business Institute report South Africa. 2020.
6. United Nations Development Programme (UNDP). Impact of COVID-19 on informal and small businesses in South Africa. 2020.

# This research was compiled by

### Household Chapter

1. Ms Jacolize Meiring (Senior Researcher, Bureau of Market Research, Unisa)
2. Prof Bernadene de Clercq (M&D Coordinator: Department of Taxation, College of Accounting Sciences, Unisa)
3. Mr Johann van Tonder (Economist and Researcher, Momentum iX)
4. Prof Carel van Aardt (Research Director, Bureau of Market Research, Unisa)
5. Mr Arthur Risenga (Senior Researcher, Bureau of Market Research, Unisa)
6. Mrs Jacolize Poalses (Senior Researcher, Bureau of Market Research, Unisa)

### SMME and Side Hustle Chapter

1. Ms Monique Schehle (Insights Consultant, Momentum iX)
2. Ms Anika Akoobhai (Research Assistant, Momentum iX)
3. Mr Itumeleng Olien (Insights Analyst, Momentum iX)
4. Ms Thulisile Shinouda (Researcher, Momentum iX)

# Notes

# MY PLEDGE

I pledge my commitment to become financially successful based on my own personal financial goals. I understand that the path is as unique as I am, so it is up to me to see my dreams, goals and aspirations become a reality. I know that financial success is not something others can give me, nor is it something that the government or the economy can guarantee to provide me. I trust myself, my innate potential to succeed and the momentum I have built to achieve the financial success I envision for myself. I hereby pledge to embrace my journey with all its challenges and victories.

I am committed to stay true to my course as:

- I am committed to educating myself about personal finance, investing and wealth for the rest of my life
- I am committed to fully understanding my finances
- I pledge to live within my means and save for my future self
- I pledge to know the difference between my short-term as well as long-term needs and wants
- I pledge to take equal pleasure in saving as I do in spending
- I pledge to value anticipation over instant gratification
- I pledge to define myself by who I am, not what I have
- I pledge to align my spending with my values, vision and goals

Every thought I think, every word I speak, and every action I take from this day forward will reflect my commitment to this journey, which will lead to peace, fulfilment, empowerment, and financial security.

Signed

Date

SCAN ME

momentum.co.za