

# Financial literacy and its power to change the SA's economic landscape

By [Henry Sebata](#)

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Coco Chanel, the famed fashion designer, was once quoted as saying: *"There are people who have money, and there are people who are rich."*



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While many interpretations of this quote exist, one that is particularly pertinent is that while money may come into one's hands, those who do not understand how to control it, will never grow rich. This is especially true of the small business owner who is not financially literate.

Many micro and small businesses do not make it beyond the first or second year and even less reach the 5-year mark in operation. The many factors that contribute to the high failure rate is the subject of a lot of research. However, one of the factors that we easily overlook is the financial illiteracy of many smaller business owners. That coupled with the poor numeracy dooms most businesses failure from the resultant poor personal and business financial practices.

According to the latest Human Sciences Research Council (HSRC) report on financial literacy, financial literacy is defined as "a complex multi-dimensional concept that comprises a combination of awareness, knowledge, skills, attitude and behaviour."

The authors continue to explain that this combination of attributes can be effectively expressed by investigating four financial domains: a) financial control b) choosing and using appropriate financial products c) financial planning and d) knowledge and understanding.

Avocado Vision, is a social enterprise that is committed to giving grassroots communities the skills and insights to make better choices to support themselves and their families in a sustainable manner, is currently running a programme called the Green Business Value Chain (GBVC) with funding from the Department of Environment, Forestry and Fisheries.

The GBVC seeks to catalyse markets for restoring land and securing livelihoods through micro-business support and invasive alien clearing. This is enabled by the Avocado Vision virtual incubator that supports the start and growth of businesses in this sector, amongst others.

At the start of the journey with the GBVC entrepreneurs and business owners, it is found that most cannot provide reasonable estimates of revenue and costs even when they have been in business for several years. These are foundational business basics without which success will be limited.

### **Businesses are impacted by financial knowledge and understanding**

Indeed, in the HSRC report, the authors maintain that “the ability of an individual to start businesses, in particular, is impacted by their financial knowledge and understanding. Indeed, it could be argued that increasing financial literacy will help increase entrepreneurship among South Africans.” (p. 118)

Avocado Vision always starts business learning programmes with personal financial literacy. Unless a business person takes their personal financial health and wealth seriously, they are unlikely to manage a business to its full potential. So it is important to be clear about your personal life and financial goals: How much do you want to earn from the business? At what rate do you want an improvement in your income per quarter or per annum? How must the business perform to deliver that income?

In cases in which a small business is a side hustle, that must replace an owner's current income before committing to running it fulltime, the owner needs to be clear about those timelines. This approach ensures that they have the discipline to ensure a return like any investor would.

### **Keep personal and business accounts separate**

Many entrepreneurs do not see themselves as separate from the business and even use the same bank account for business and personal transacting. This may be detrimental to both the entrepreneur and the business. It sometimes can hide both the poor or great performance. Some people have been at the point of closing their businesses because they didn't consider the money that comes from a business which is funding personal expenses. In other instances, people don't realise the extent to which they are personally supporting a business that is not profitable.

It is important to separate personal and business accounts and have records that provide clear visibility of the performance of the business. The choice of the types of accounts must be aligned to the needs of the individual and the business respectively so that neither incurs unnecessary banking costs

When people understand how their business is performing through record keeping and knowledge of money coming in and out of the business, they can manage better and support the long-term sustainability of the business. They can see clearly which aspects of the business are working well and creating, instead of destroying, value. That astute handling of their business affairs coupled with responsible personal finance management is an important contribution to the long term success of the entrepreneur.

All these concepts and more are covered in Avocado Vision's Money for Sho financial literacy programme which follows four broad categories:

- Managing my Money
- Managing Risk
- Banks and Saving
- Managing Credit

Each of these curriculum categories also ensures that the four domains of literacy (as per the aforementioned HSRC report), viz. a) financial control b) choosing and using appropriate financial products c) financial planning and d) knowledge and understanding are adequately covered.

Then, as practised in the GBVC-funded programme of the Department of Environment, Forestry and Fisheries, mentorship is the glue that holds the theory together. This is a powerful intervention that ensures that theory is embedded in practice. Participants are encouraged to attend and contribute to Green Business Network meetings where they learn how to mentor, and access the mentorship thinking of their peers using simple but powerful business frameworks that drive strategic thinking and business growth mindsets.

In conclusion, if we believe that micro and small businesses are a key solution to the country's unemployment challenge, then we need to rally around them with meaningful and functional support. From Avocado Vision's experience, these small businesses are clearly languishing in their need for financial literacy improvement. And as the imperative fulcrum around which a business turns, good financial management is essential for the entrepreneur's success.

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