



Small business by the numbers

Input to TIPS Development Dialogue

18 February 2020

Overview

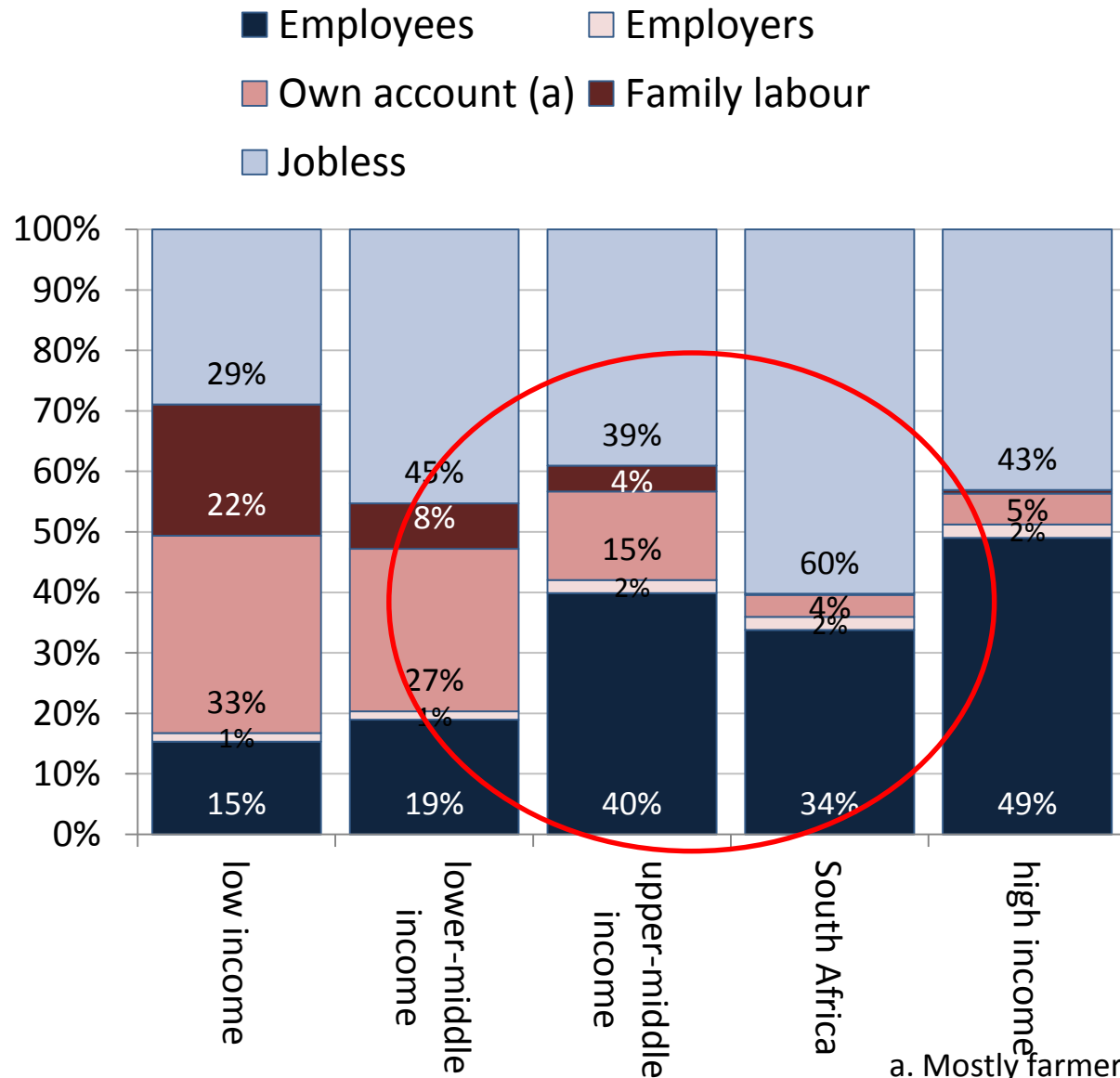
- Benchmarking small business
- Status in 2019:
 - Numbers
 - Share of GDP and return on assets
 - Sectors
 - Geography
 - Incomes
 - Race and gender
- Sources:
 - QLFS (data on employers and self-employed: sector, geography, income, race and gender)
 - AFS (share of GDP and return on assets)
 - ILO (comparison to international employment patterns)

Why small business?

- Why small business?
 - Backlogs on employment
 - More equitable ownership in class terms (but align with race and gender)
 - More dynamic and competitive economy
- Definition of problem defines emphasis, especially
 - Formal vs informal
 - Which industries
- Core findings:
 - Some growth in numbers, but relatively slow – no qualitative shift from apartheid
 - Mostly still in services and retail
 - Progress toward representivity by race, but less by gender

Benchmarking small business

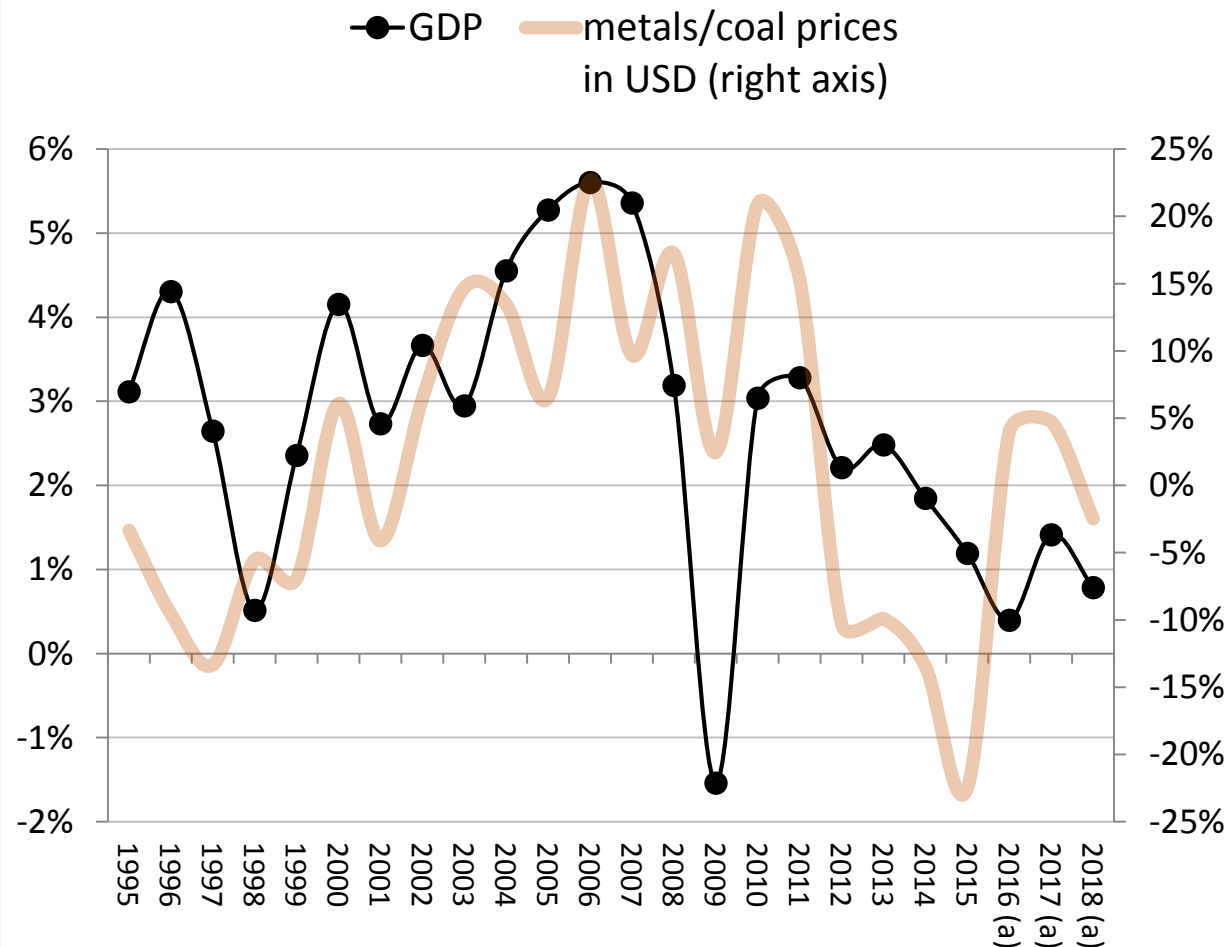
- Very low levels of self employment compared to other upper middle income economies
- Mostly due destruction of peasant agriculture under apartheid
 - Cannot simply reconstitute it
 - And is informal self-employment desired end state?
- No similar data to benchmark small formal business or extent of concentration
 - Historic support for larger businesses in mining and food VC
 - Key role for small formal businesses providing engineering and professional skills



The context: Slowing overall growth

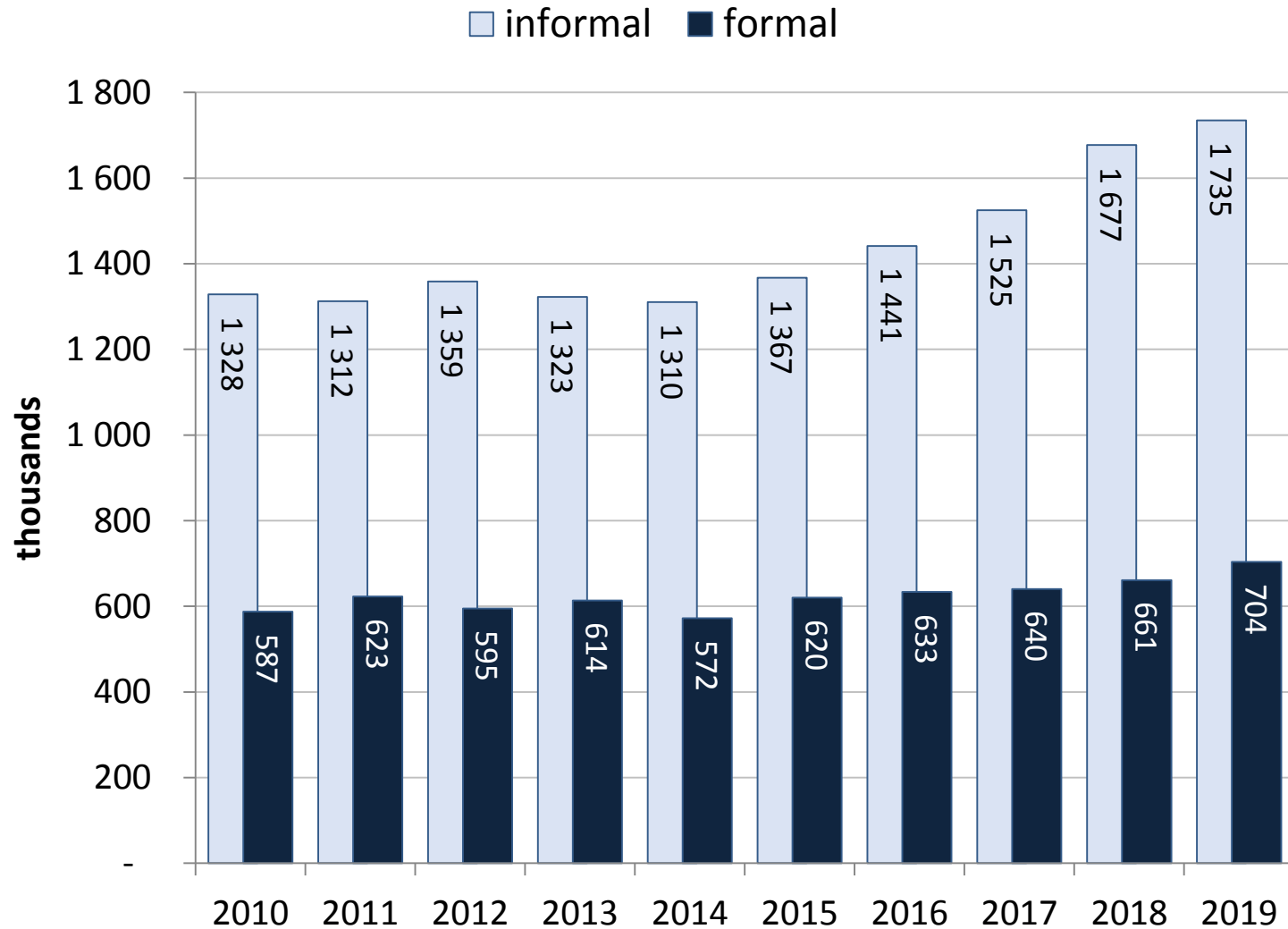
- Four main factors behind slower growth from 2015:
 - Sharp fall in metals and coal prices from 2011 to 2015
 - Constrained fiscal and monetary response
 - Unreliable electricity supply and concerns about macro-economic impact of Eskom finances
 - Loss of business confidence due
 - First state capture and
 - After political transition, unrealistic expectations government policies and impact on economy

% annual growth in GDP and export prices for mining value chain



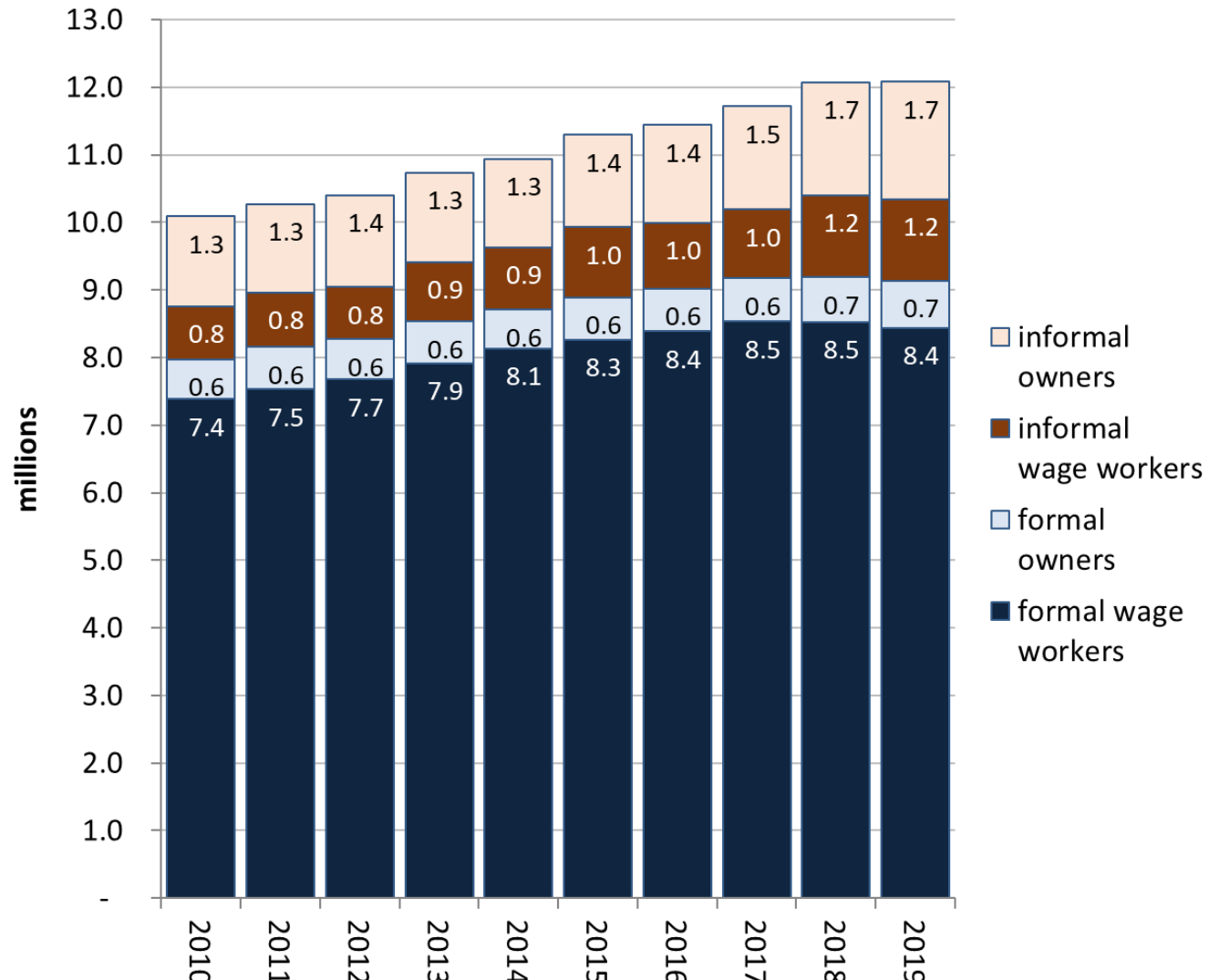
Numbers

- Substantial growth in recent years despite economic slowdown
- Formal sector grew 25% in past four years
- Informal grew 15%



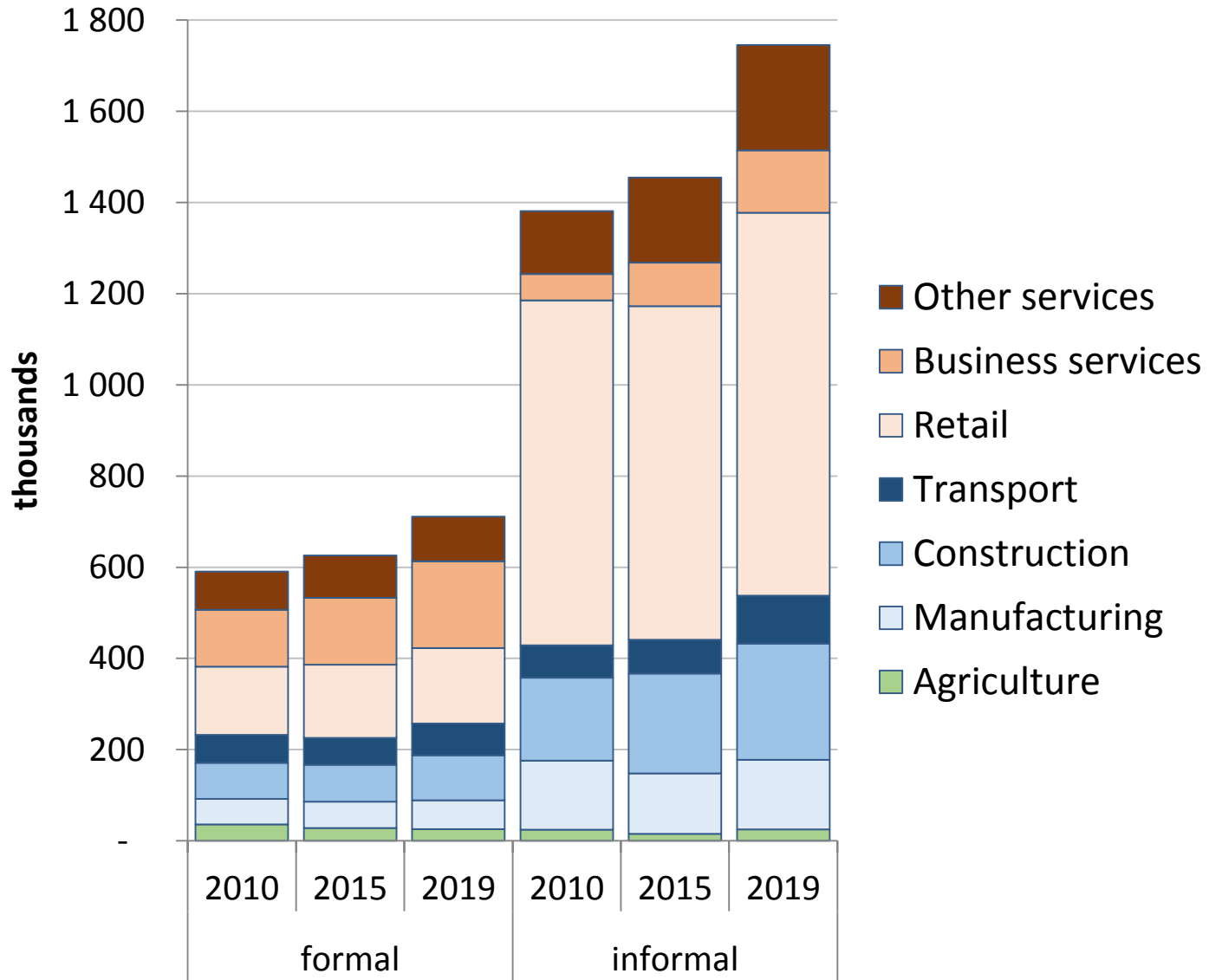
Employment creation

- Since 2015, formal employment has barely grown
- Disproportionately from business ownership – 30% of increase although 10% of employment
- Informal growing much faster (but data are not great)
- A quarter of employment but 2/3 of growth
- NB figures exclude domestic and family labour



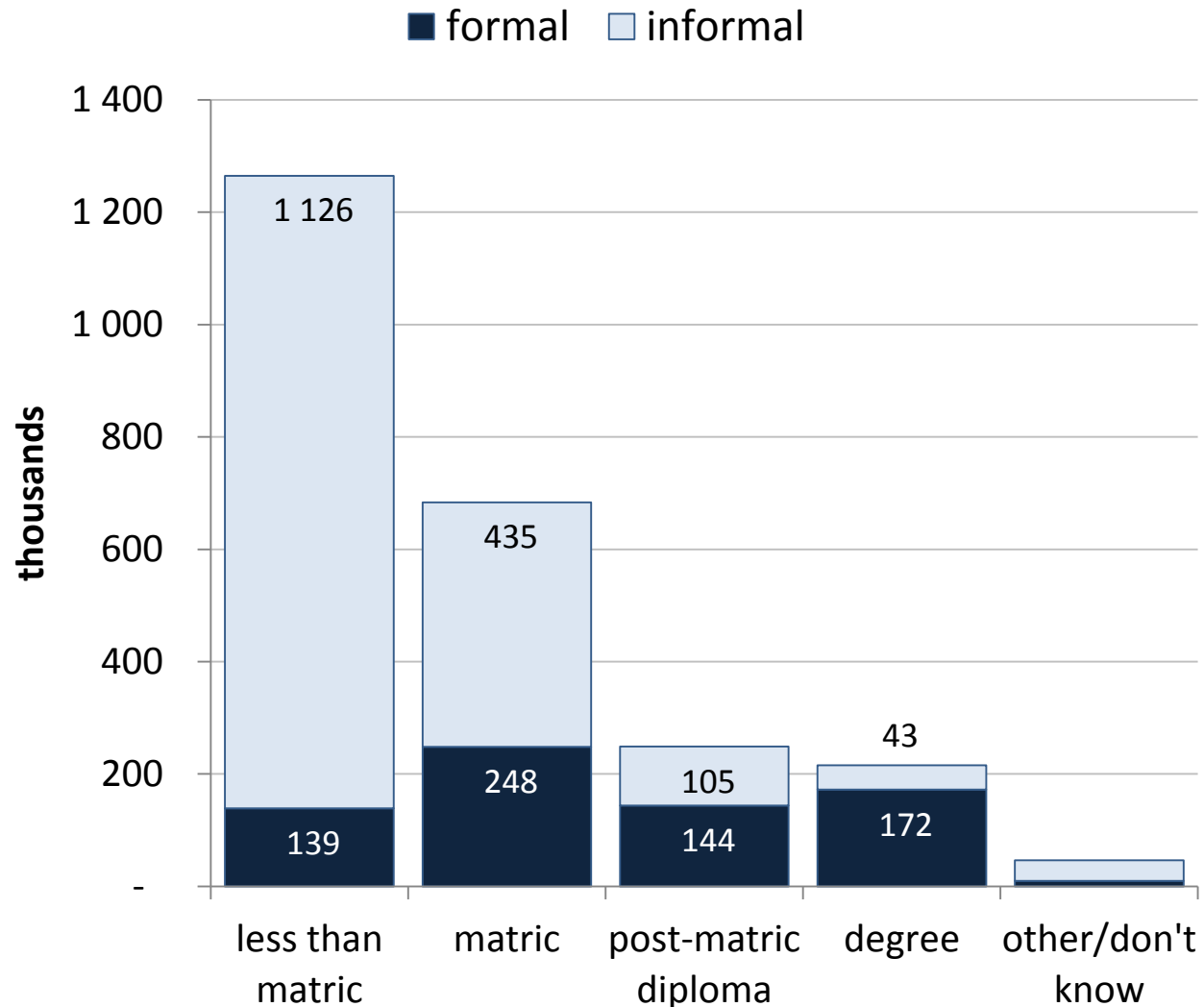
By industry

- Formal business:
 - A quarter each in business services and retail
 - A seventh each in construction and other services
 - A tenth in manufacturing
- Informal: Virtually the same proportional distribution *except* that half in retail and under a tenth in business services and retail



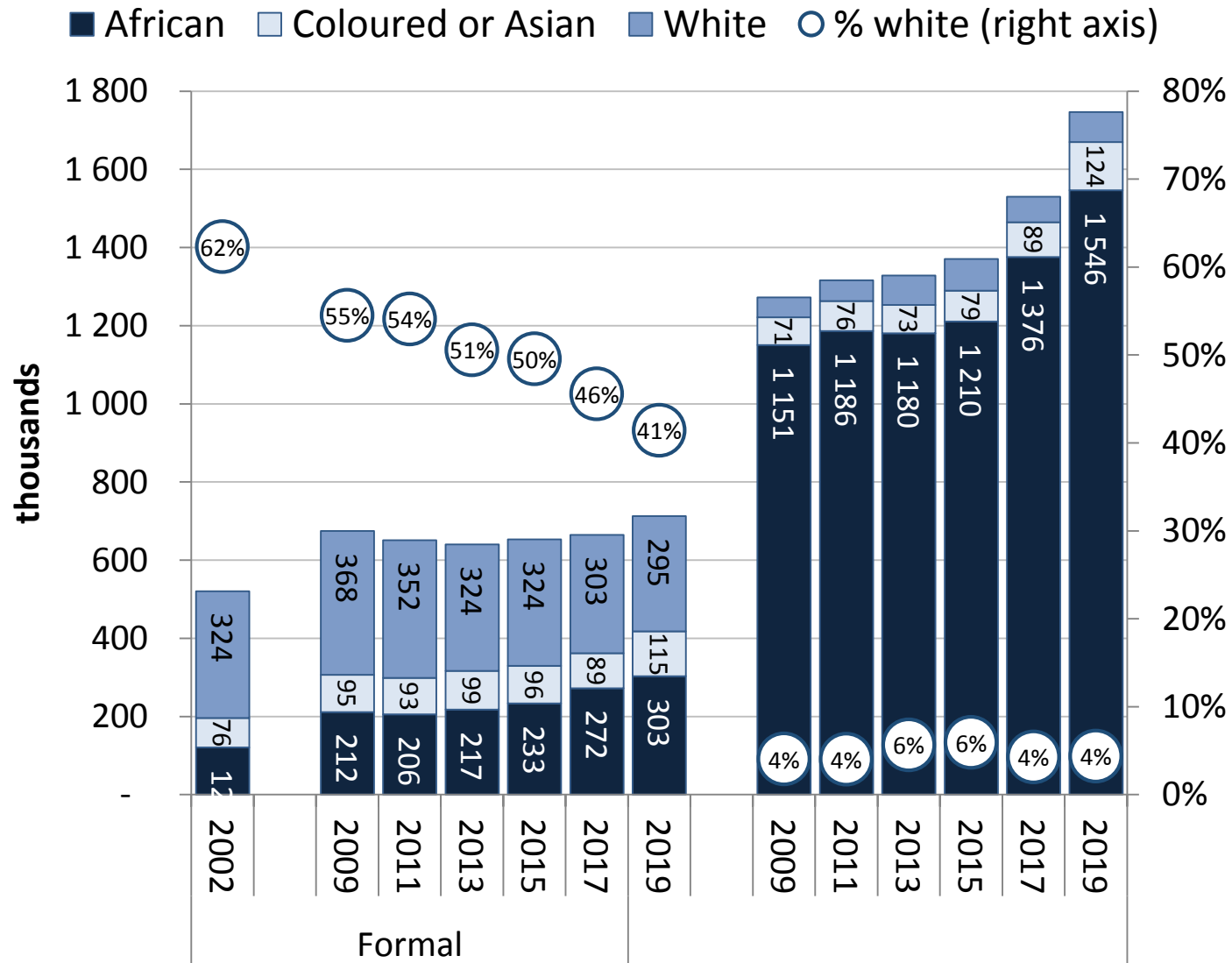
Education

- Formal business owners are more highly qualified than the norm
 - A quarter have a degree
 - A similar share has some post-matric
- Informal owners are less qualified than formal employees
 - Two thirds lack matric
 - 2% have a degree
 - 6% have post-matric

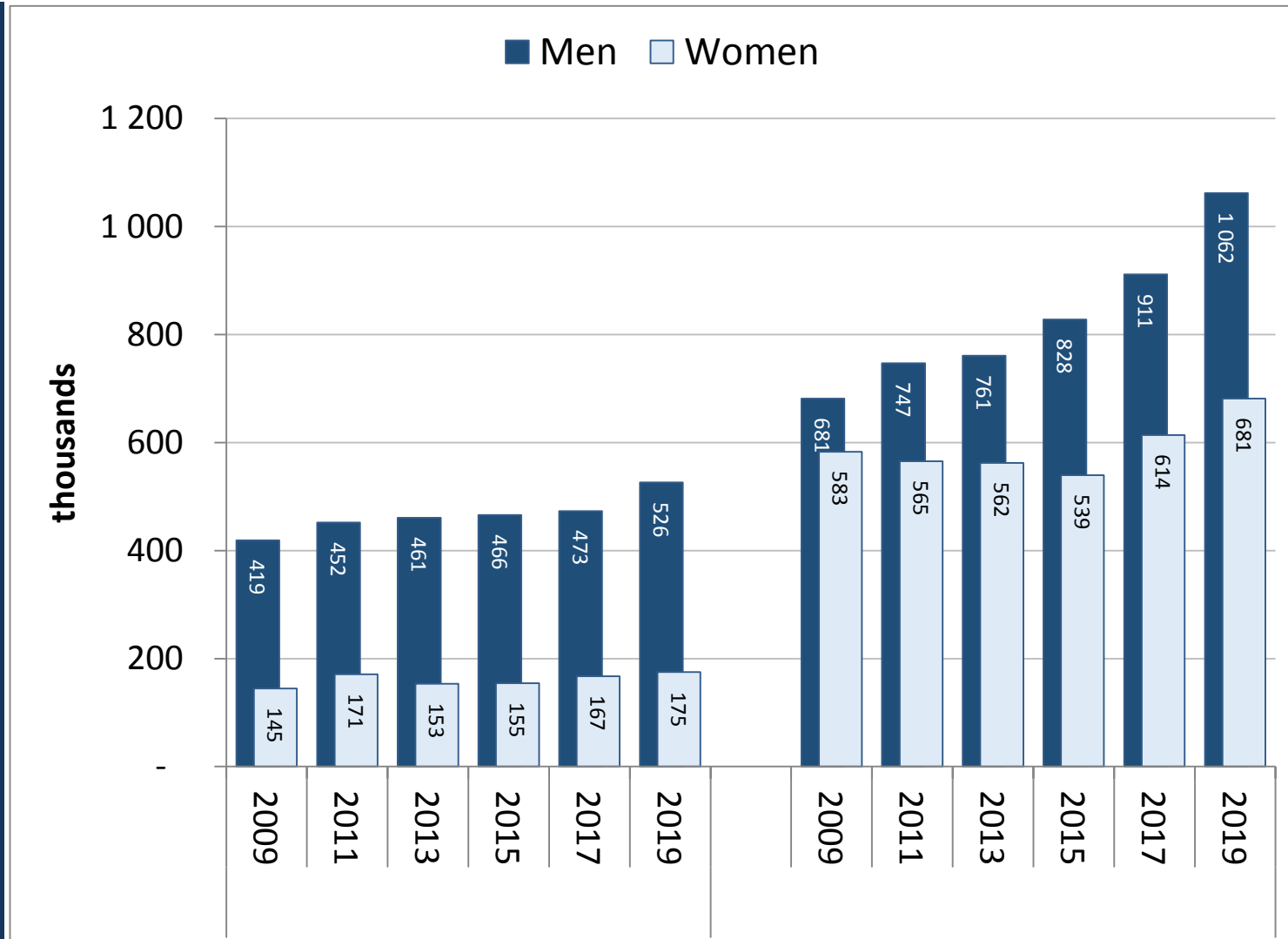


Business ownership by race

- Two fifths of small formal businesses are white owned
- From 2009, steady increase in black ownership and decline in white ownership in formal sector
- Virtually no white-owned businesses reported as informal



Business ownership by gender



- Women make up a quarter of formal business owners, but two fifths of informal
- For comparison, women comprise
 - a third of the formal labour force
 - virtually all domestic workers (almost a million)

Conclusions: What small business needs

- Apartheid left a qualitatively different landscape from peer economies
 - Especially informal and agriculture
 - But also small formal especially in food value chain
 - Strengths in engineering and professions, but very dualised

- Deficient ecosystem for small business
 - Economic support systems, from finance to training to infrastructure and regulations, prioritised large companies, especially mining and food value chains
 - Result: often no viable source of finance, training, inputs, services or marketing
 - Obviously worst for informal business but also lacking for new formal producers, especially in where breaking into new industries

- A qualitative shift requires a more holistic and large-scale effort to address gaps in institutions and systems
- Formal and informal small business have very different capacity and needs