NEVA MAKGETLA: The small business deficit

SA's huge jobs shortfall reflects the dearth of small business, and any effort to grow this sector won't work until the electricity crisis is solved

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At 40%, the share of SA adults in income-generating employment is among the lowest in the world. The international norm is about 60%. SA's huge jobs shortfall largely reflects the dearth of small business people. Of all employed people, in SA just 6% are business owners. In other upper-middle-income countries the figure is 20%.

This malaise has obvious roots. Apartheid policies shut down black-owned businesses through expropriation plus discriminatory licencing, education and financing. Yet the transition to democracy didn't spark a qualitative shift up to international norms. The reasons lie in the structure of the economy as well as the lack of resources for emerging entrepreneurs. That said, any effort to grow small business is pie in the sky until the electricity crisis is solved.

Before the pandemic the number of small businesses was gradually growing. According to labour force surveys, from 2010 to 2020 the number of small formal businesses rose from 585,000 to 670,000. Informal enterprises increased from 1.3-million to 1.6-million. Then the pandemic hit, followed by load-shedding.

Nonetheless, after an initial dip, by the third quarter of 2021 the number of small formal businesses had reached 710,000. This resilience was largely due to government help during the pandemic — help that is conspicuously absent for load-shedding. In the third quarter of 2022 there were 1.7-million informal enterprises, up from a low of 1.2-million in the pandemic lockdown.

The informal sector proved a critical fallback for working-class families in hard times, but earnings were low. The median informal entrepreneur earned R3,250 a month in 2019. Formal business owners made R12,000, and their employees R4,000. A third of informal entrepreneurs are street traders; 3% have a degree. In contrast, a fifth of small formal business owners are professionals and a quarter have a degree.

Gradual growth from 1994 was not enough to overcome the apartheid deficit in small business. A core reason is SA's bias towards heavy industry, largely the mining value chain, but also in food, paper and chemicals. The dominance of estate agriculture adds to the problem. Farming employs only 6% of SA's labour force, compared to a fifth in peer economies where family farms prevail.

In addition, SA's unequal incomes and high imports of consumer goods constrain demand for small businesses. In township housing, the median income is a quarter as high as in the leafy suburbs. Imports account for almost all sales of electronics, half of clothing and two-fifths of plastic products.

In this context, government systems are still largely geared to big business. Eskom's enormous (and deeply inefficient) electricity plants both facilitate and rely on big mining and refineries. Light industry would do better with more decentralised, affordable and reliable generation systems. Similarly, Transnet provides dedicated facilities for ores, coal and auto, but largely ignores smaller manufacturing and agricultural producers. In 2022 about 70% of equity investments by government's Industrial Development Corporation were in mining and metals.

The majority of potential entrepreneurs face these structural obstacles with only limited resources. Most of their families could not own formal businesses, which means they have limited inherited assets, operational experience and networks. Moreover, apartheid policies cut education short for many people, and limited access to basic infrastructure.

The democratic state has moved to remedy these inequalities, but it would have to scale its initiatives up immensely to achieve the expansion in small enterprises needed to catch up to the rest of the world. Efforts at the necessary order of magnitude would profoundly disrupt market institutions and government services, from finance to energy to retail chains to training.

To date, the government has simply shied away from the inevitable risks and costs. However, building a more inclusive economy requires that we stop simply avoiding the hazards that come with real change, and instead invest in capacity to manage them.

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