
THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

SPECIAL EDITION: SMALL BUSINESS AND THE POST COVID-19 RECOVERY

The unprecedented nature of the COVID-19 pandemic created the need for new areas of support and policy intervention. As the small business sector enterprises rebounded from the pandemic, policy attention has shifted to reconstruction, redistribution and recovery. This special edition of The Real Economy Bulletin examines the impact of COVID-19 on small sector enterprises together with the post COVID-19 recovery to end-March 2021. It provides a review of small business development, including the number of enterprises, employment and earnings, profitability, sectoral distribution, contribution to the GDP, representivity in ownership, and location.

SMALL BUSINESS BY NUMBERS

Small business encompasses a range of enterprises, from self-employed people eking out a precarious survival selling by the roadside to high-level professionals providing well-paid services to big business. This analysis of the small business sector considers the significant differences between formal and informal enterprises. Compared to informal business, formal small and micro enterprises typically have more capital, advanced technologies, more employees, and higher incomes. Self-employed people in the formal sector are mostly professionals or artisans, with skills and above-average incomes. Most self-employed people in the informal sector live with precarious and low earnings, and high failure rates. The nature of these enterprises has different implications for industrial policy.

The bulletin draws on two sources: Statistics South Africa's Quarterly Labour Force Survey and the Annual Financial Statistics, a survey of around 13 000 businesses by size and industry. The Labour Force Survey identifies employers and the self-employed in the formal and informal sectors, with an indication of the number employed in their enterprises. The Annual Financial Statistics provides an estimate of the aggregate financial statements of formal business outside of agriculture by size and industry.

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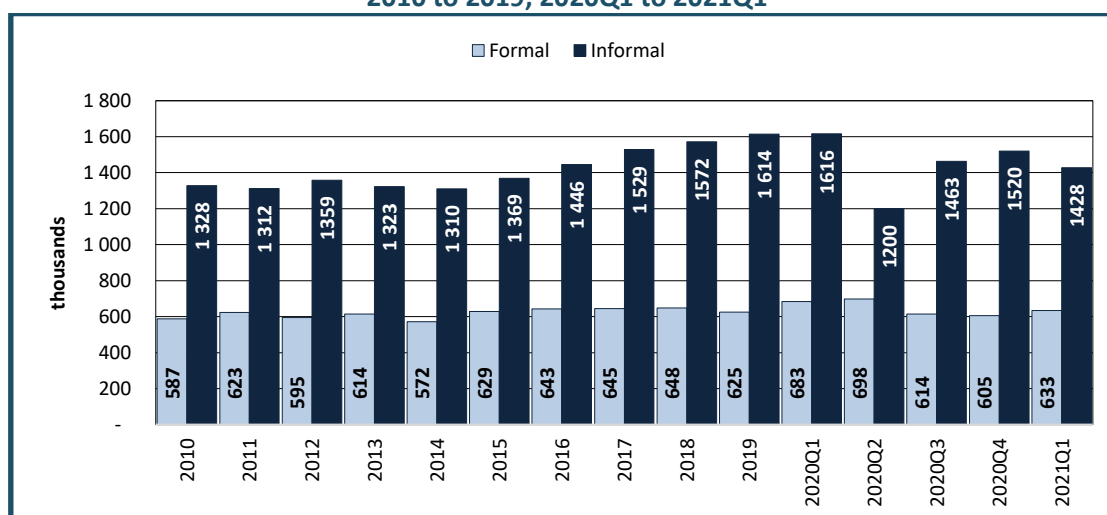
KEY FACTS ON SMALL BUSINESS POST COVID-19

- ◆ South Africa had an estimated 2.2 million small businesses in 2019. About 1.6 million were informal sector enterprises and 625 000 were formal sector enterprises.
- ◆ The impact of COVID saw informal enterprises decrease by 25% between the first and second quarters of 2020, or from 1.6 million to 1.2 million enterprises.
- ◆ The impact for formal enterprises was delayed. Registered small enterprises increased by 2% (15 000) in the first two quarters of 2020, before declining by 11%.
- ◆ The impact of the pandemic was most immediate for women-owned enterprises in the formal sector, which declined 16% in the first and second quarters of 2020.
- ◆ Employment in small enterprises remained a quarter below its pre-pandemic level by the end of the first quarter of 2021.
- ◆ In the first quarter of 2021, small formal business still accounted for 46% of all waged employment, and the informal sector for another 13% in the first quarter of 2021.
- ◆ Formal small and medium enterprises outside of agriculture contributed 38% of GDP. Most estimates put the share of the informal sector in the GDP at around 6%.
- ◆ There are geographical differences in the impact of the pandemic with both formal and informal businesses operating in historic labour-sending regions affected.
- ◆ The regional pace of recovery varied. Mpumalanga and Western Cape lagged, as many small enterprises in these provinces specialise in tourism and entertainment.

HOW MANY SMALL BUSINESSES ARE THERE?

The number of small enterprises, both within the formal and informal sectors, have demonstrated a relatively smooth pattern over the past decade, with a slight upward trend from 2014. The formal sector grew to almost 625 000 enterprises in 2019 and the informal sector to more than 1.6 million enterprises (see Graph 1).

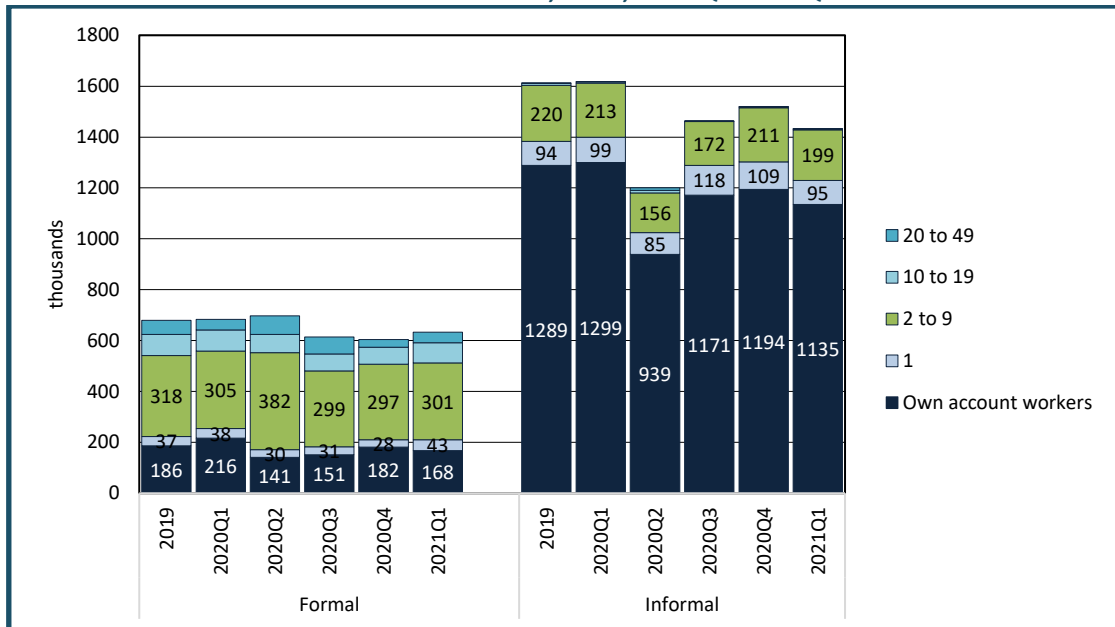
Graph 1. Number of formal and informal small business (under 50 employees), 2010 to 2019; 2020Q1 to 2021Q1



Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years, and quarterly labour force survey for relevant quarters. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

Figures from the second quarter of 2020 point to the lockdown’s disproportionate effect on informal sector enterprises (see Graph 2). On average, they saw their number drop by a quarter between the first and second quarter of 2020. While there was a partial rebound in the third and fourth quarters of 2020, informal sector enterprises remained below pre-pandemic levels at the end of the fourth quarter of 2020.

Graph 2. Small business by number employed in formal and informal sectors, 2019; 2020Q1-2021Q1



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey, 2019 and Quarterly Labour Force Survey for relevant quarters. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

The number of formal small business did not begin to fall until the third quarter of 2020 and had not recovered in the first quarter of 2021. This pattern reversed a trend toward substantial growth in the South African small business sector over the past decade, despite the period being one of slow economic growth.

The impact of the pandemic was not uniformly felt across small enterprises of different sizes. Figures from the first half of 2020 show that on average small enterprises with lower employment, and in particular own account workers, were significantly affected. Own account workers in the formal sector dropped by a third (75 000) between the first and second quarters of 2020.

While there was a partial recovery in the third and fourth quarters of 2020, the number of own account workers in the formal sector remained 15% below pre-pandemic levels at the end of the fourth quarter of 2020, and 22% below pre-pandemic levels in the first quarter of 2021. A disproportionate impact on formal sector enterprises that employed 20 to 49 people emerged in the second half of 2020. The number of formal small businesses in this group climbed 80% in the first two quarters of 2020, then declined 27% in the fourth quarter of 2020. They remained 2% below their pre-pandemic levels by the first quarter of 2021.

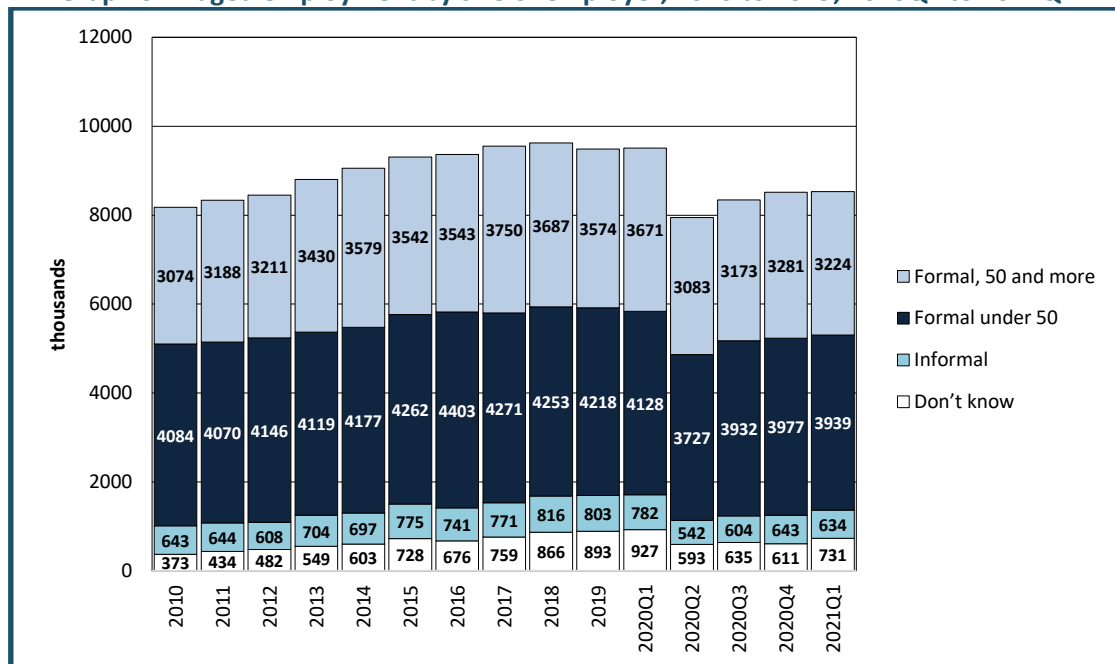
Informal sector enterprises grew 4% from the third to the fourth quarter of 2020, led mainly by enterprises with two to nine employees. The number of formal sector enterprises remained 11% below their pre-pandemic levels as of the first quarter of 2021.

The pandemic’s disproportionate effect on informal sector enterprises emerged in the second quarter of 2020. Similar to the trends observed in the formal sector, it was own account workers who were most affected. The number of enterprises owned by own account workers (with no employees) declined by 27% (360 000) in the first and second quarters of 2020. By the fourth quarter of 2020 all but 8% of the number recorded in the first quarter had been recovered. By the end of the first quarter of 2021, the number of informal enterprises was also 11% (183 000) lower than the first quarter of 2020.

EMPLOYMENT AND EARNINGS

Small formal business accounted for 46% of all waged employment, and the informal sector for another 13% in the first quarter of 2021. As Graph 3 shows, the share of small formal business increased from 2010 until 2018 then stagnated. Excluding workers who did not know the number of employees in their enterprises, the share of small formal business dropped from 50% to 45%; including them, it remained stable at 55% of the total. The relative labour intensity of small businesses as a group emerged from their expenditure figures. According to the Annual Financial Statistics, remuneration for small enterprises across all sectors, excluding agriculture and financial intermediation, accounted for 19% of total production costs, compared to 13% for medium-sized enterprises, and 12% for large enterprises in 2019.

Graph 3. Waged employment by size of employer, 2010 to 2019; 2020Q1 to 2021Q1

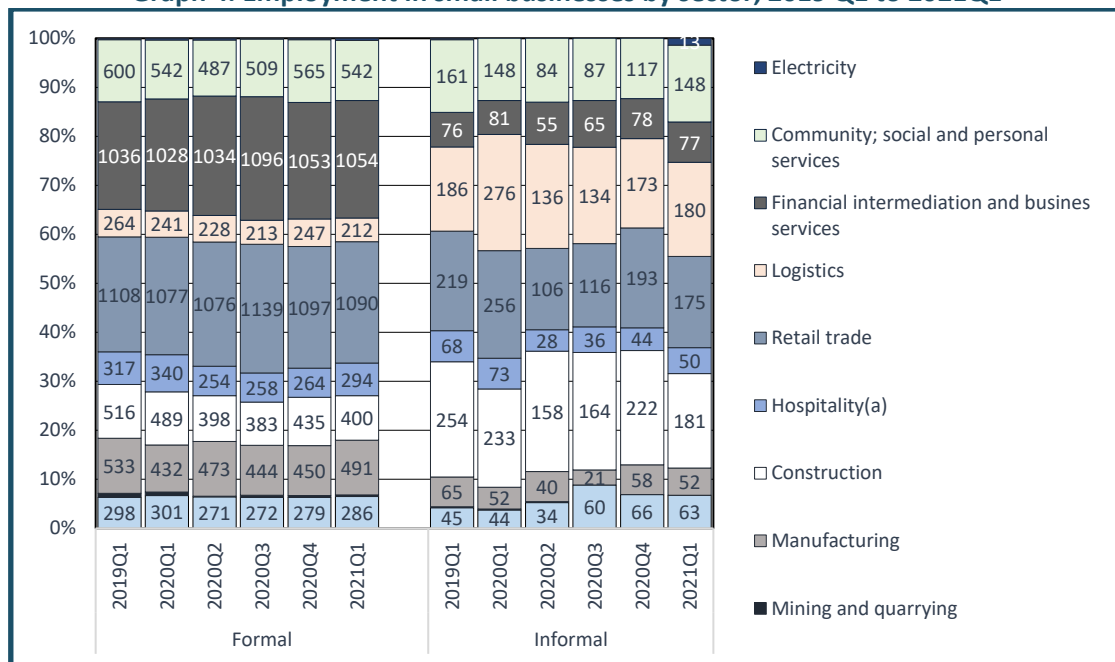


Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years, and Quarterly Labour Force Survey for relevant quarters. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; main work (working for someone else for pay); and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

Small businesses shed 641 000 jobs from the first to the second quarters of 2020, 13% of total jobs in the first quarter of 2020. They recovered 55% of those lost jobs (351 000) by the end of the fourth quarter of 2020. By the end of the first quarter of 2021, employment in small businesses remained 7% lower compared to the first quarter of 2021. Employment in large enterprises declined (16%) to 3 083 000 in the second quarter of 2020, from 3 671 000 in the first quarter of 2020. While there was a partial recovery in the third and fourth quarters of 2020, employment in large enterprises remained 12% below pre-pandemic levels in the first quarter of 2021.

The biggest declines in formal sector employment were in construction, which shed about 90 000 jobs from the first to the second quarter of 2020, and an additional 15 000 jobs in the third quarter of 2020 (see Graph 4). Although construction had restored about 2 000 jobs by the first quarter of 2021, total employment was still 18% lower than in the first quarter of 2020. The second largest decline in the formal sector was in hospitality, which includes restaurants, hotels and sheebens. These enterprises shed around 86 000 jobs in the second quarter of 2020 compared to the first quarter. By the end of March 2021, employment in hospitality was 14% lower than in the first quarter of 2020.

Graph 4. Employment in small businesses by sector, 2019 Q1 to 2021Q1



Note: (a) Hospitality includes restaurants, hotels and shebeen establishments. Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey for relevant quarters. Electronic dataset. Series on sectors including agriculture in formal and informal sectors; main work (working for someone else for pay); and number of employees; and main industry. Datasets downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

Union membership grew in proportion to the size of an entity and was much lower in small businesses than large businesses. In the first quarter of 2021, union membership rose to 7% in private companies with fewer than 10 employees, compared to 6% in the first quarter of 2020. It rose significantly higher for private enterprises with more than 50 employees, from 37% in the first quarter of 2020 to 42% in the first quarter of 2021.

Table 1. Number of union members and union density by employer size (private sector only), 2020 Q1 to 2021 Q1

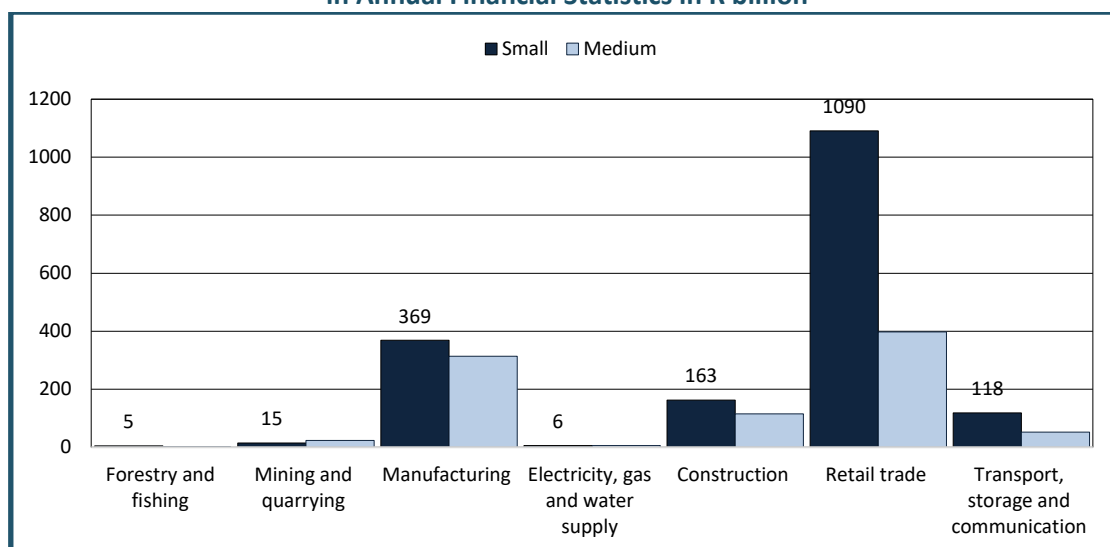
	2020 Q1			2021Q1		
	Thousands of members	Thousands of non-members	Members as % of total	Thousands of members	Thousands of non-members	Members as % of total
1 to 9	117	1 759	6%	111	1 464	7%
10 to 19	189	1 138	14%	239	1 042	19%
20 to 49	383	1 256	23%	489	1 169	30%
50 or more	1 340	2 243	37%	1 330	1 830	42%

Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey. Electronic dataset. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

CONTRIBUTION TO THE GDP

Statistics South Africa's Annual Financial Statistics survey provides data on balance sheet items by size of enterprise, excluding financial intermediaries (banks and financial institutions) and agriculture. It defines small and medium enterprise in line with the legal definition, using categories for turnover updated for inflation. The definition of medium-sized differs substantially by industry. As shown in Graph 5, small and medium sized enterprises (SMEs) are disproportionately in retail trade, followed by manufacturing, construction and transport.

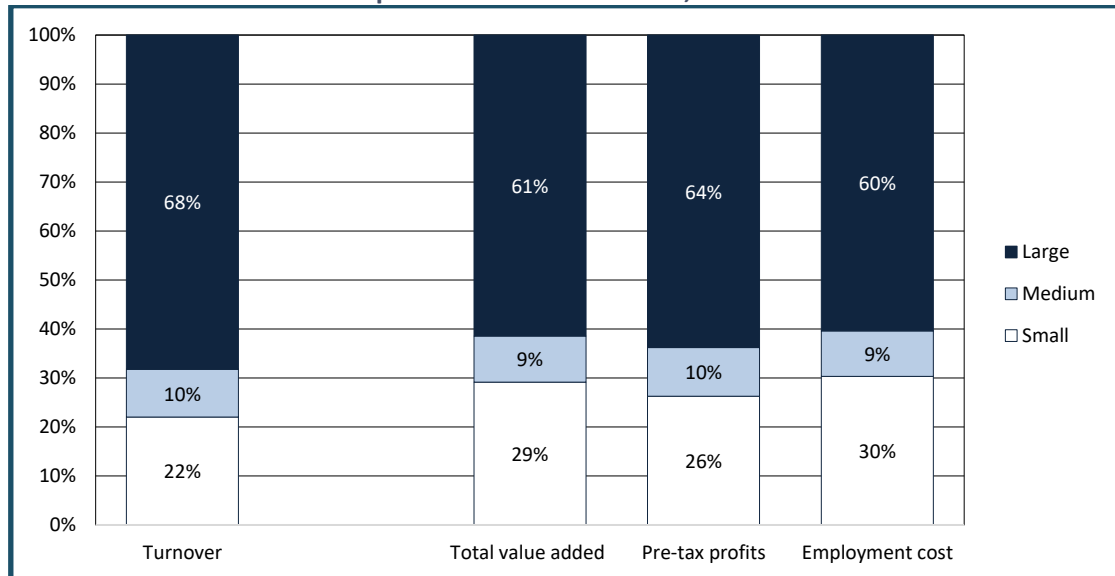
Graph 5. Maximum turnover for business size categories in Annual Financial Statistics in R billion



Note: Medium-sized enterprises fall between the maximum for small firms and the maximum for medium-sized enterprises. Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

Formal small and medium enterprises outside of agriculture contributed – estimated as post-tax profit plus employment costs – 38% of total GDP for formal private enterprises. Most estimates put the share of the informal sector in the South African GDP at around 6%.¹

Graph 6. Contribution of small and medium enterprise to total formal private turnover, profits and remuneration, 2019



Note: Medium-sized enterprises fall between the maximum for small firms and the maximum for medium-sized enterprises. Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

SMEs were relatively labour intensive compared to large enterprises. These accounted for 39% of total employment costs in the formal private sector, but only 36% of profits.

Official statistics on the revenue of small enterprises is not readily available; however, the Yoco Small Business Recovery Monitor² suggests that small business turnover had almost returned to pre-pandemic levels by December 2020. The monitor also points to large regional divergences in the pace of recovery, with Mpumalanga and the Western Cape lagging, since many small enterprises in these provinces are likely to specialise in tourism and entertainment.

The Yoco Small Business Recovery Monitor also shows significant differences in the pace of recovery in sectors. Small businesses operating within the healthcare, beauty and personal care segment remained 12% below pre-pandemic levels by the end of April 2021.

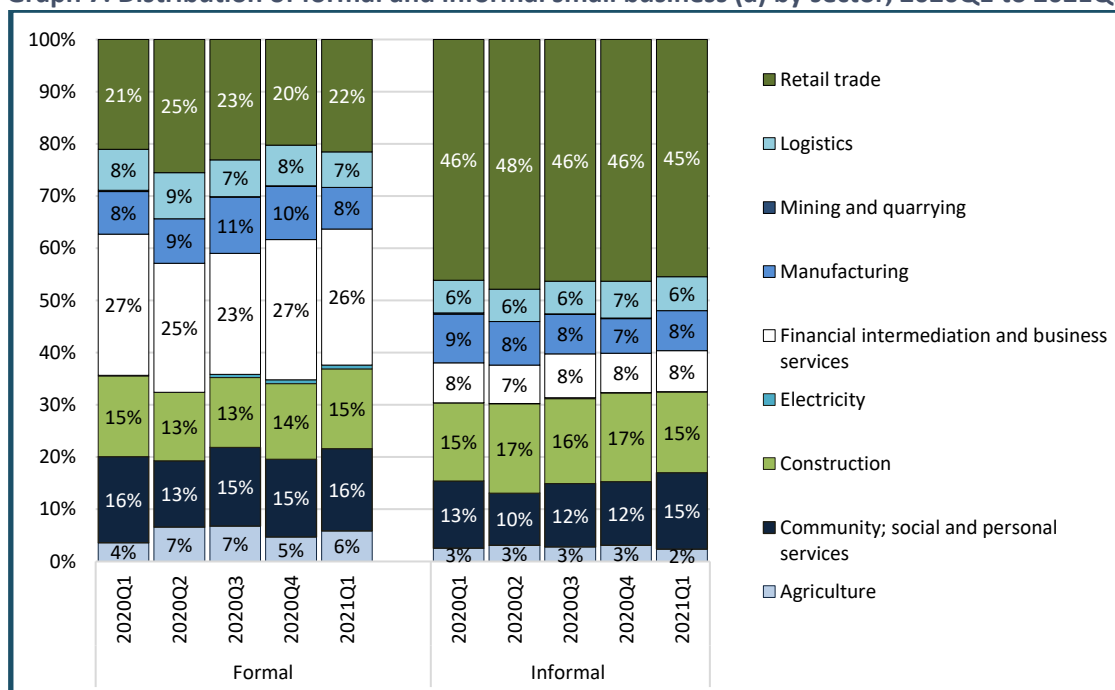
¹ Frederick Fourie. Informal sector employment in South Africa. In Frederick Fourie, ed. *The South African Informal Sector: Creating Jobs, Reducing Poverty*. With Caroline Skinner. HSRC. 2018.p. 113.

² <https://www.yoco.com/za/blog/covid-19-recovery-monitor/>

SMALL BUSINESS BY SECTOR

The number of formal businesses in almost every sector plunged from the first to the second quarter of 2020. Exceptions were the agricultural, manufacturing, logistics and retail trade sectors, which were classified as essential and thus were less affected by COVID-19 trade restrictions. As expected, non-essential sectors were heavily hit by the pandemic, with less-skilled sectors disproportionately affected. Less-skilled services, in particular those risky to contagion, including community, social and personal services, were especially hard hit, with losses of three percentage points of formal sector enterprises from the first to the second quarter of 2020. This sector, however, showed resilience in subsequent quarters, rebounding two percentage points in the third and fourth quarters, with an almost full recovery in the first quarter of 2021. Higher-skilled services, and those that do not require face-to-face interaction such as financial and business services lost 2% of formal sector enterprises in the second quarter of 2020, with an almost full recovery in the first quarter of 2021.

Graph 7. Distribution of formal and informal small business (a) by sector, 2020Q1 to 2021Q1

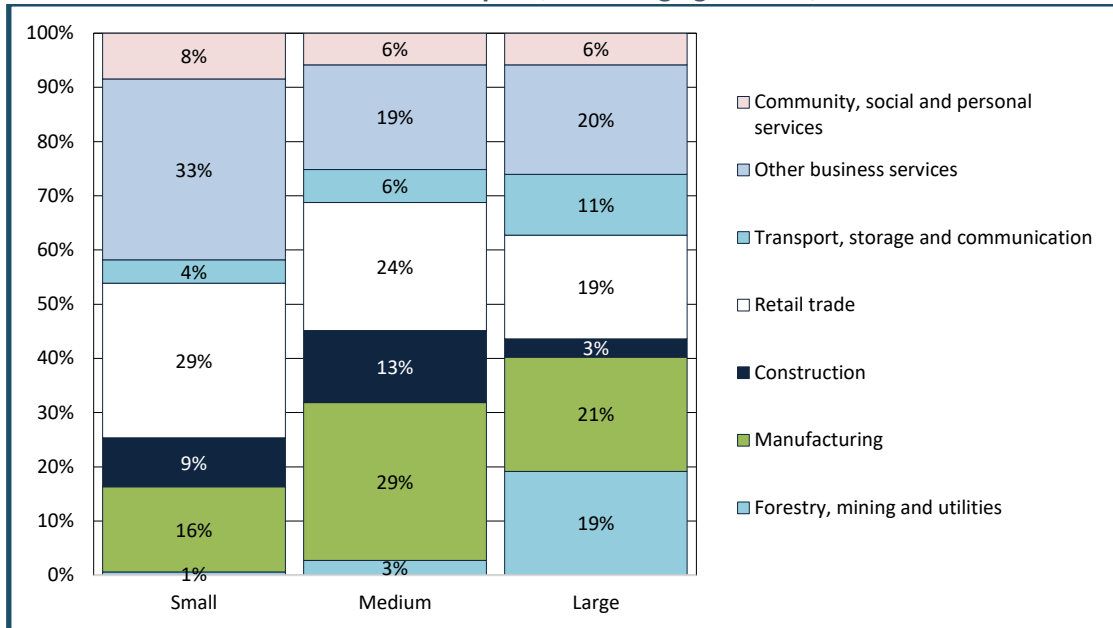


Note: (a) Defined here as businesses with fewer than 50 workers. Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey for relevant quarters. Electronic dataset. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and main industry. Datasets downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

The Annual Financial Statistics provides insight into the contribution to the GDP of small business by sector. Twenty-nine percent of small enterprise value added was accounted for by trade and business services, with manufacturing accounting for 16%.

For medium-sized enterprises, manufacturing was the most important sector, contributing just under a third of total value added. Small business had almost no presence in mining, forestry, transport and communications, which were significant sectors for large companies.

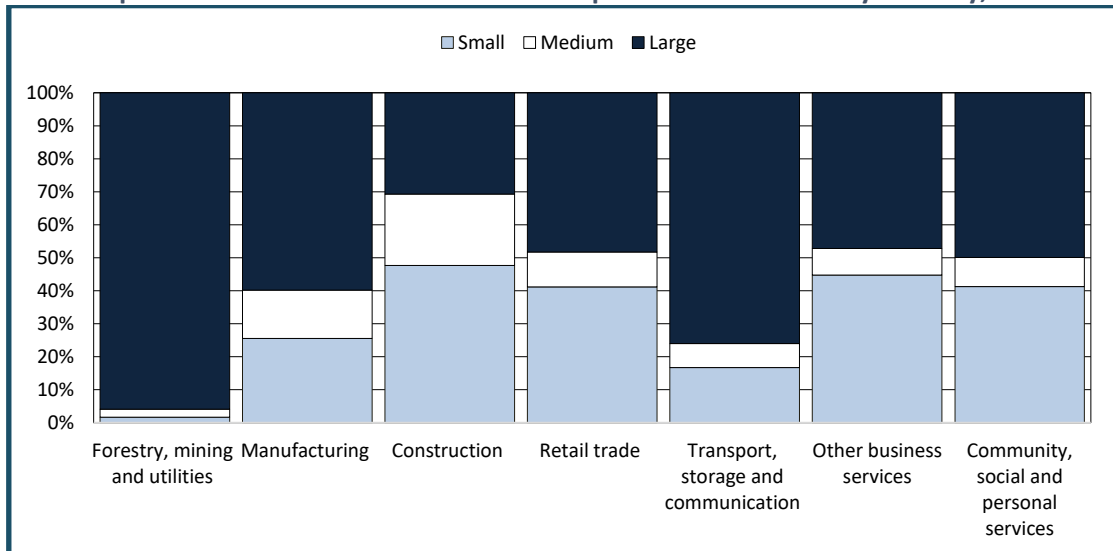
Graph 8. Value added (remuneration plus profits) by sector and size of formal enterprise, excluding agriculture, 2019



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in January 2019.

The share of small and medium enterprises in value added was largest in construction, business and personal services and trade, and practically non-existent in mining, forestry, and utilities.

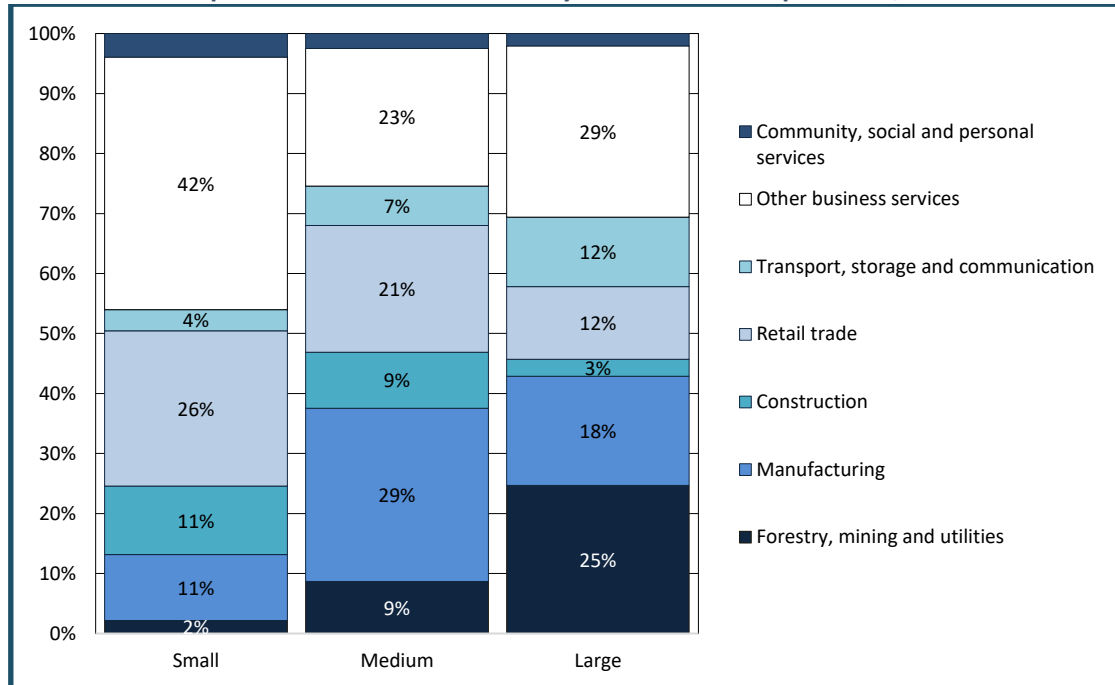
Graph 9. Share of small and medium enterprise in value added by industry, 2019



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

Forty-two percent of small enterprise assets were in business services and trade, with another 11% each in manufacturing and construction. Medium-sized enterprises were more heavily invested in manufacturing, which accounted for 29% of total assets. Large business had more of its holdings (25%) in forestry, mining, and utilities than small and medium enterprises.

Graph 10. Share of total assets by sector and enterprise size, 2019



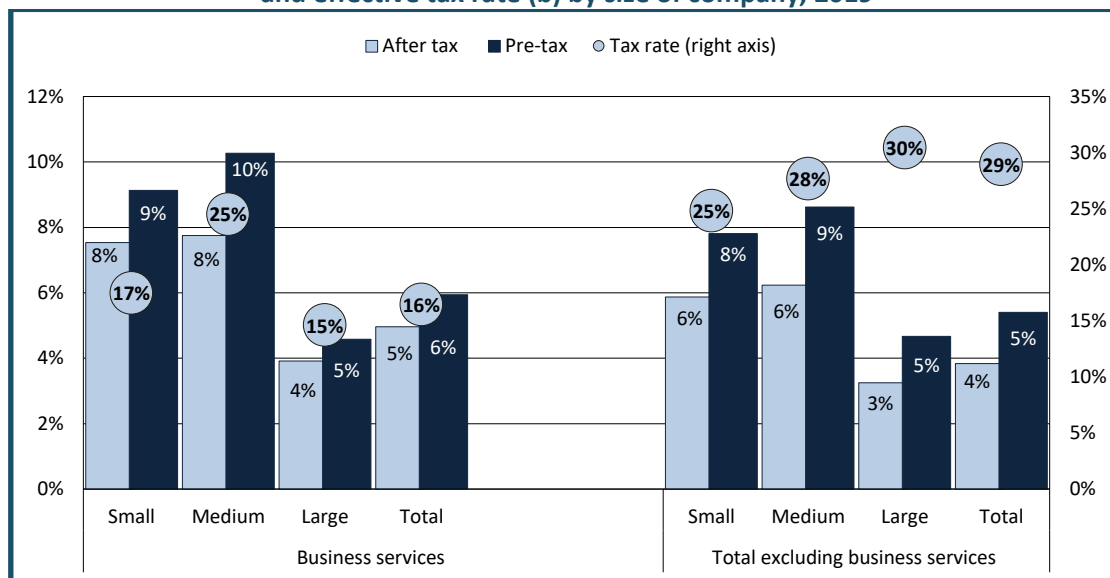
Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

PROFITABILITY AND EARNINGS

According to the Annual Financial Statistics, the pre-tax return on assets in 2019 for small and medium enterprises was slightly higher than for large enterprises. The figures are reported only to 2019, and the rate of closure in formal sector enterprises suggests that these figures may be significantly worse.

Reported taxes on profits were proportionately higher for small than for large business. In part, that resulted from low effective tax rates in mining, forestry and utilities. It also resulted from low reported taxes by large enterprises in business services, which might, however, result from an error in the survey data. Excluding business services – an important industry for small business – after-tax returns on assets was still larger for small and medium business than for large enterprise. While the differential was smaller, reported tax rates were higher in large enterprises.

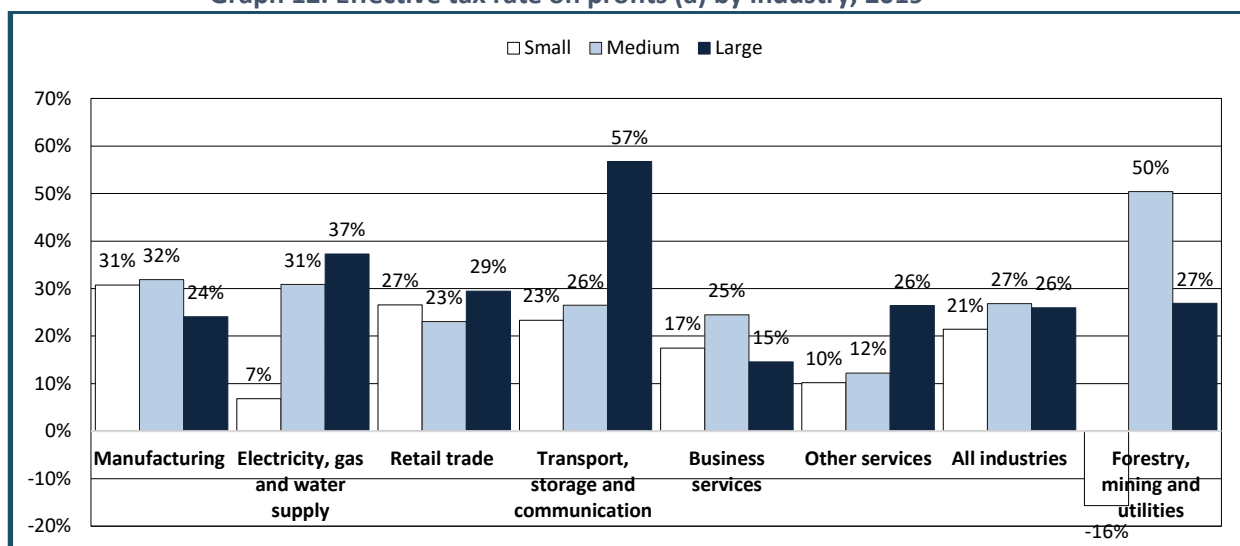
Graph 11. Pre-tax and after-tax returns on total assets (a) and effective tax rate (b) by size of company, 2019



Notes: (a) Return on assets is calculated as profits as a percentage of total assets. (b) Tax rate on profits is calculated as taxes as percentage of profits before dividends and tax. Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

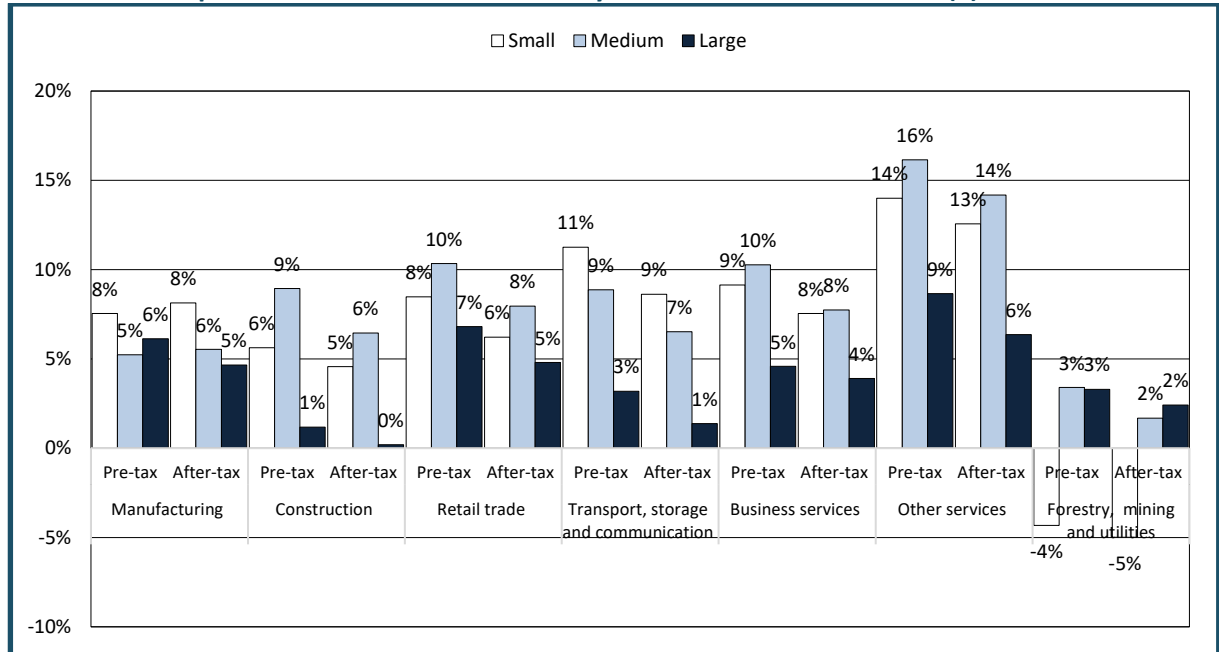
Effective tax rate on profits varied substantially across industries and business sizes (see Graph 12). Effective tax rates were significantly higher on large companies than small ones in all industries except manufacturing.

Graph 12. Effective tax rate on profits (a) by industry, 2019



Notes: (a) Effective tax rate on profits is calculated as taxes as percentage of profits before dividends and tax. Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

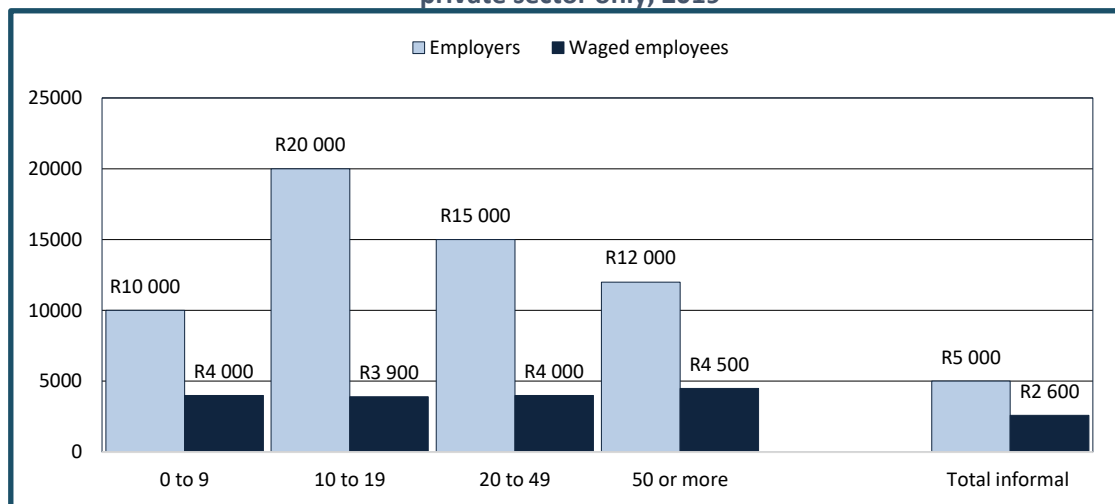
Graph 13. Rate of return on assets by sector before and after tax (a)



Note: (a) Return on assets is calculated as profits as a percentage of total assets. Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

As Graph 14 shows, the labour force surveys reported that earnings for employers were somewhat lower in smaller businesses than in larger ones. Formal small business owners who had up to nine employees reported a median income of R10 000 a month. This leapt to R20 000 for those employing 10 to 19 workers. Worker’s median earnings were around R4 000 for all formal businesses except large businesses, where it was R4 500.

Graph 14. Median monthly earnings for owners and employees by size of business, private sector only, 2019

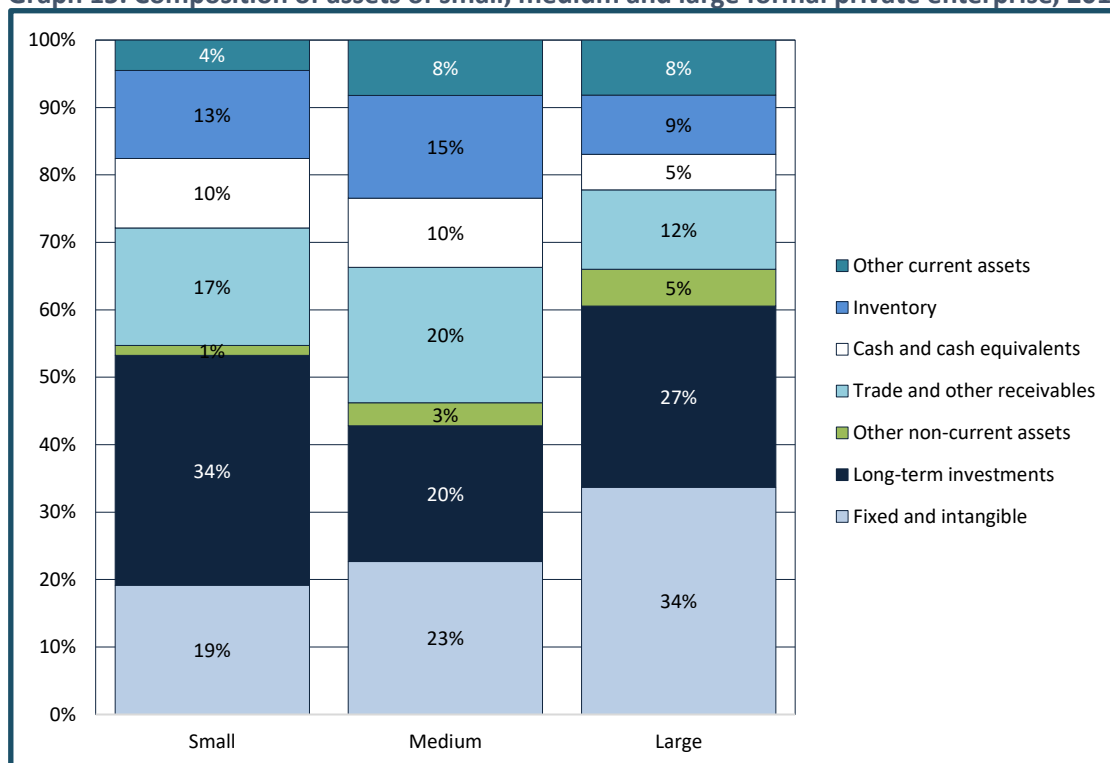


Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey, 2019. Electronic dataset. Series on sectors including agriculture in formal and informal sectors, type of business, and earnings of employers and the self-employed and of employees. Dataset downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

ASSETS AND LIABILITIES

Graph 15 details the composition of assets of small, medium and large private enterprises as of 2019 as reported in the Annual Financial Statistics survey. Small business tended to be relatively liquid. Ten percent of the current assets of small and medium formal enterprises was in cash, compared to 5% for large enterprises. Another 17% of small enterprise assets was trade and other receivables, compared to 20% for medium-sized business, and 12% for large firms. In contrast, fixed assets and intangible holdings plus investments accounted for just over half of the assets of small enterprises, but 61% of the total for large enterprise. For medium sized enterprises, fixed assets and intangible holdings accounted for 43%.

Graph 15. Composition of assets of small, medium and large formal private enterprise, 2019



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2019. Excel spreadsheet. Preliminary estimates for 2019. Downloaded from www.statssa.gov.za in May 2021.

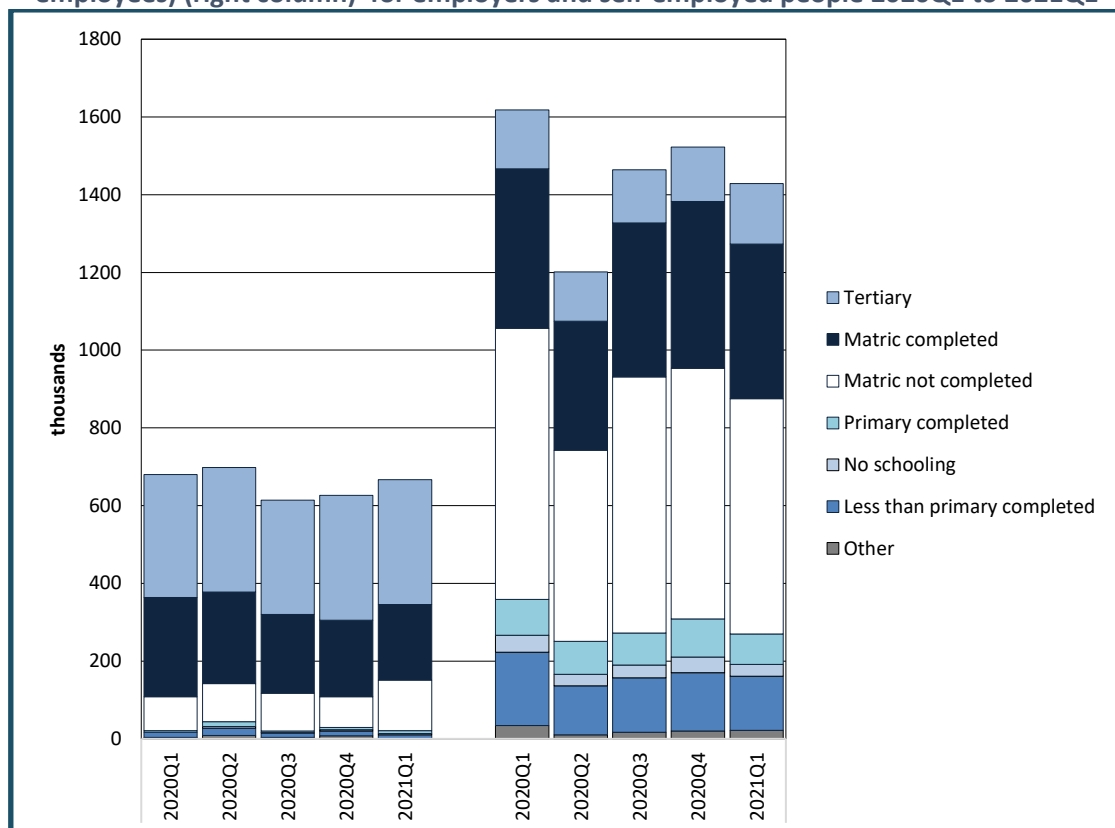
The Annual Financial Statistics combine fixed assets, such as property and equipment, with intangible assets, such as brand names. Taken together, they were substantially more important for large enterprises, but the figures do not indicate how much of the difference was due to branding and how much to fixed investments.

EDUCATION LEVELS

Both formal and informal enterprises owned by individuals with lower education levels were disproportionately affected, although through different trajectories. In the informal sector, enterprises owned by individuals with an education level lower than matric were disproportionately affected, and 28% (289 000) enterprises were shed by the second quarter

of 2020. This recovered by around 182 000 enterprises in the second and third quarters of 2020 and an additional 19 000 enterprises in the third and fourth quarters of 2020. However, by the end of the first quarter of 2021, the number of enterprises owned by individuals with an education level lower than matric remained 169 000 lower (17%) than the first quarter of 2020. In contrast, enterprises owned by relatively educated individuals, declined 16% (25 000) in the second quarter of 2020, from the first quarter of 2020. They recovered 8% in the third quarter of 2020, from the second quarter of 2020, and an additional 3% in the third and fourth quarter of 2020. By the end of the first quarter of 2021, the number informal enterprises owned by individuals with a tertiary education were 11% higher compared to the first quarter of 2020.

Graph 16. Education levels in formal (left column) and informal small business (under 50 employees) (right column) for employers and self-employed people 2020Q1 to 2021Q1



Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years. Electronic datasets and Quarterly Labour Force Survey for relevant years. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za. May 2021.

Formal enterprises owned by less-educated individuals did not see much of a drop initially but dropped by a quarter in the second and third quarters of 2020. These enterprises continued to lose jobs even though the overall economy recovered in the last quarter of 2020. Within the formal sector, the number of enterprises owned by less educated individuals declined by around 20 000 in the second and third quarters of 2020.

An additional 14 000 enterprises were shed between the third and fourth quarters of 2020. By the end of the first quarter of 2021, the number of formal enterprises owned by less educated individuals (lower than matric) had recovered by around 51 000 enterprises, compared to the first quarter of 2020. In contrast, formal sector enterprises, owned by individuals with a higher education level (tertiary), declined by 8% (25 000 enterprises) in the second and third quarter of 2020. They recovered by 26 000 enterprises in the third and fourth quarter of 2020, and an additional 1 000 enterprises in the first quarter of 2021.

Formal enterprises owned by relatively educated individuals have shown to be relatively resilient. They remained 2% higher than pre-pandemic levels.

OWNERSHIP BY RACE AND GENDER

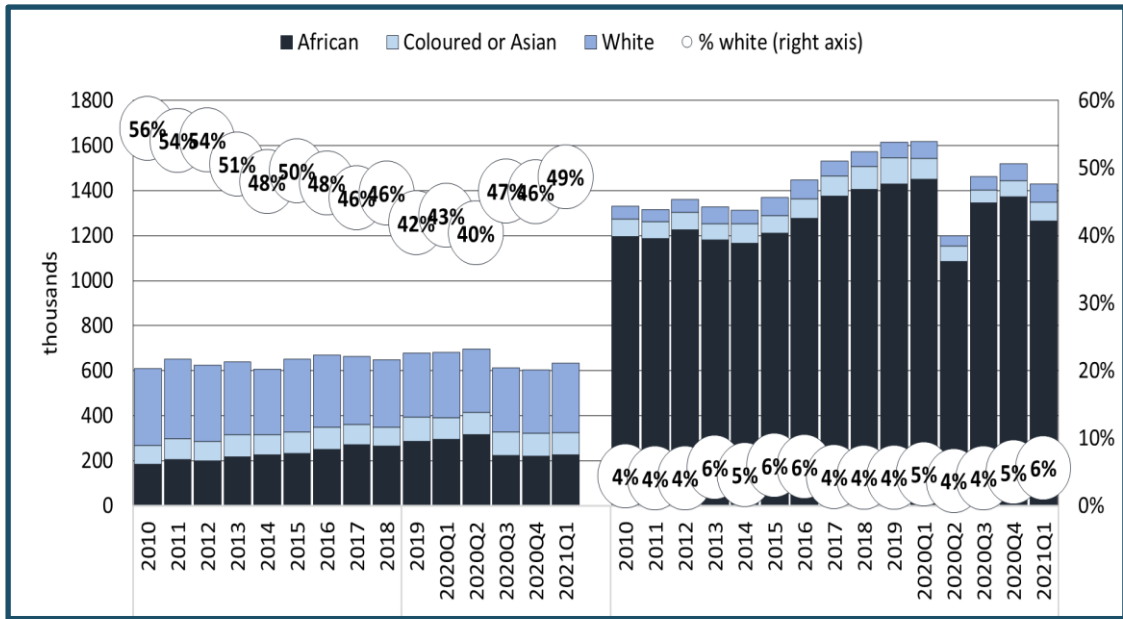
Graph 17 tracks the ownership patterns of small formal and formal enterprises by race from 2010 to the first quarter of 2021. The graph points to significant differences in the impact of the pandemic across both racial and sectoral lines with black-owned enterprises in the formal sector showing a particularly large drop in the second and third quarters of 2020.

Both White and Asian/Coloured-owned enterprises in the formal sector appear to be less affected than African-owned enterprises, having fully recovered by the fourth quarter of 2020. In contrast, the number of African-owned enterprises in the formal sector declined from 257 000 in the second quarter of 2020, to 232 000 in the fourth quarter of 2020, 10% below pre pandemic levels.

The bubble in the graph tracks the changes in the share of small enterprises owned by white people. The proportion of formal sector enterprises owned by white people declined steadily over the years, from around 56% in 2010 to 42% in 2019. In contrast, the proportion of formal sector enterprises owned by black people grew a steadily at 3% a year in the same period, with black and white people owning an equal share of formal sector enterprises in 2019. However, tracking ownership patterns within formal sector enterprises from the second quarter of 2020 points to significant shifts with black people's share of formal sector enterprises declining by over a quarter in the third quarter of 2020, and an additional 2% in the fourth quarter of 2020, presumably due to having less accumulated/inherited assets.

In contrast, white people's share of formal sector enterprises grew by a fifth in the second and third quarters of 2020, it declined by 1% in the fourth quarter of 2020. By the end of the first quarter of 2021, black people's share of formal sector enterprises remained a fifth lower than the first quarter of 2020, while white people's share of formal sector enterprises was 10% higher, with white people have far more assets and liquidity, sometimes built on inheritance.

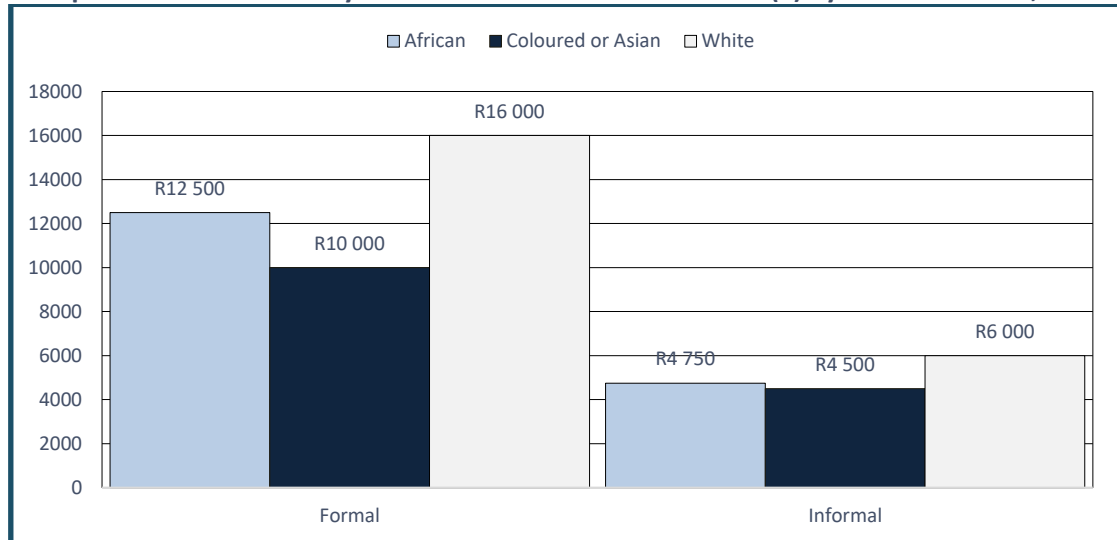
Graph 17. Ownership of small formal (left column) and informal business (right column) by race, 2010 to 2019, 2020Q1 to 2021Q1



Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years. Electronic datasets and Quarterly Labour Force Survey for relevant quarters. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; population group; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

White business owners in the formal sector had substantially higher earnings than black owners. In the informal sector, racial differences were comparatively small, but the number of non-Africans was also much lower.

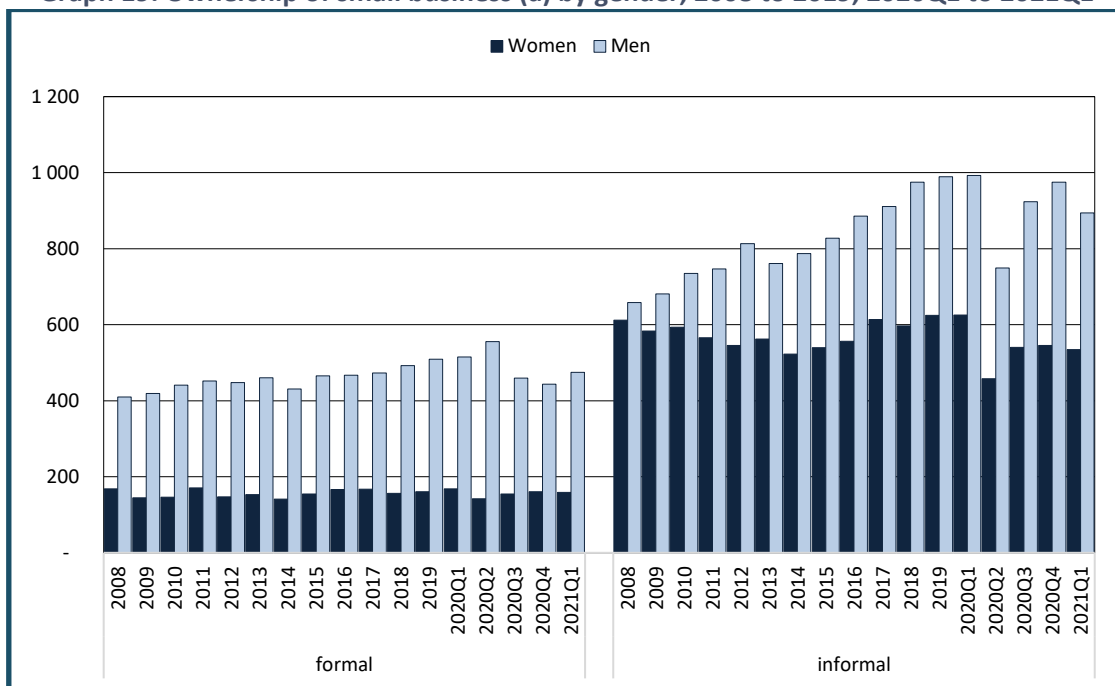
Graph 18. Median monthly income of small business owners (a) by race and sector, 2019



Note: (a) Defined as under 50 employees. Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2019. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; population group; earnings employers and self-employed; and number of employees. Downloaded Nesstar facility www.statssa.gov.za May 2021.

The impact of the pandemic was almost immediate for women-owned enterprises which, on average, declined 16% in the first and second quarters of 2020, and by an additional 5% from the first quarter of 2020 to the same quarter in 2021. In contrast, the earliest impact of the pandemic on formal sector enterprises owned by men was felt only in the third quarter of 2020, when the number of formal sector enterprises declined by a fifth compared to the second quarter of 2020. Notwithstanding the early impact of the pandemic on formal sector enterprises, they proved to be more resilient and recovered faster than formal sector enterprises owned by men. By the end of the first quarter of 2021, the number of formal sector enterprises owned by women was 5% lower than the first quarter of 2020. In contrast, the number of formal sector enterprises owned by men was 8% lower in the same period.

Graph 19. Ownership of small business (a) by gender, 2008 to 2019, 2020Q1 to 2021Q1



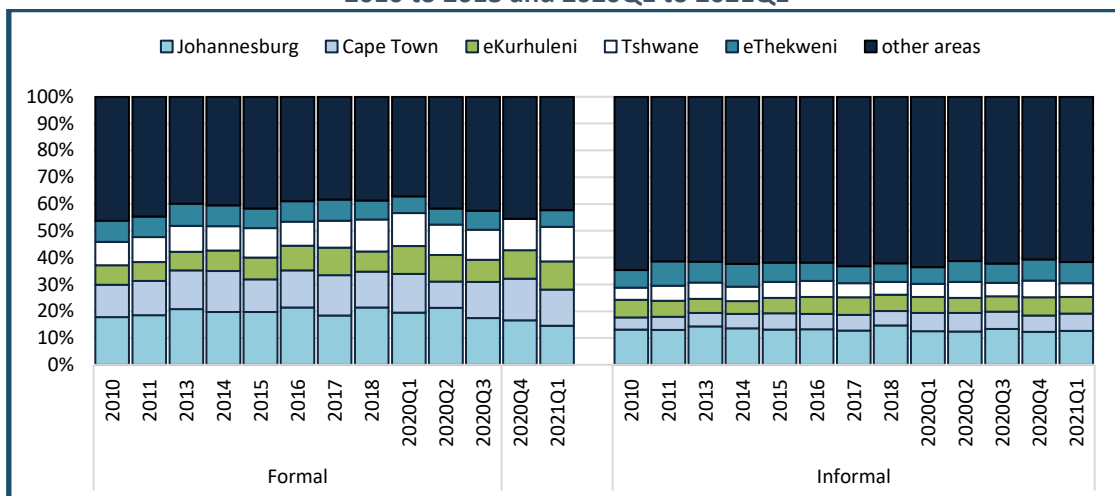
Note: (a) Defined as having under 50 employees. Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2019, and quarterly labour force survey for the relevant quarters. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; gender; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

THE GEOGRAPHY OF SMALL BUSINESS

Graph 20 demonstrates the geographical distribution of small enterprises across the main metro areas of South Africa. Metros, with the exclusion of Mbombela, accounted for three fifths of formal small business and two fifths of informal business. The share of small business in the major metros tended to increase in the informal sector and remained relatively stable in the formal sector. The geographical distribution of formal and informal businesses can be understood in how it is embedded in apartheid geography, where formal enterprises were likely to be located close to main economic centres, while informal enterprise was more evenly distributed in spatial terms.

Informal sector enterprises operating in the metros were less heavily hit, and proved more resilient with an almost full recovery by the fourth quarter of 2020. In contrast, formal sector enterprises operating in metros appear to have been heavily affected. Small enterprises operating in the Cape Town metro were particularly affected with a quarter of formal sector enterprises being shed in the first and second quarters of 2020, due probably to the challenges facing the tourism sector and travelling restrictions. However, Cape Town regained a fifth of its share of formal enterprises in the second and third quarters of 2020, and an additional quarter in the second and fourth quarters of 2020. Notwithstanding the sizable gains, Cape Town’s share of formal sector enterprises remained 14% below their pre-pandemic levels, possibly due to the disproportionate impact of the pandemic on the Cape Town tourism, transportation and retail sectors.

Graph 20. Formal and informal small business by metro and other regions, 2010 to 2018 and 2020Q1 to 2021Q1



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2019 and quarterly labour force survey for the relevant quarters. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own account workers; metros; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

Both formal and informal businesses operating in historic labour-sending regions appear to be disproportionately affected, although through different trajectories. Figures from the first half of 2020 show that, on average, the number of informal enterprises operating in historic labour-sending regions dropped by 29% (162 000) from around 561 000 in the first quarter of 2020 to around 400 000 in the second quarter of 2020. While there was a partial recovery from the third and fourth quarter of 2020, the number of informal enterprises remained 6% below their pre-pandemic levels by the end of the fourth quarter of 2020, and a tenth below pre-pandemic levels by the first quarter of 2021. In contrast, a disproportionate impact on formal businesses emerged in the last quarter of 2020. The number of formal enterprises operating in former labour-sending regions dropped 40% (56 000) in the third and fourth quarter of 2020 as COVID-19 surged again in December 2020. The pandemic effect on formal sector enterprises operating in historic labour-sending regions has been persistent and prolonged, with difficulties in business recovery. They dropped an additional 2% in the fourth quarter of 2020 and the first quarter of 2021.

Graph 21. Distribution of formal and informal small business between historic labour-sending and other regions, 2019Q1 to 2021Q1



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2019 and quarterly labour force survey for relevant quarters. Electronic datasets. Series on sectors including agriculture <http://nesstar.statssa.gov.za:8282/webview/n> formal and informal sectors; employers and own account workers; metros; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in May 2021.

Summary Note: Key facts on small businesses and the post COVID-19 recovery

- South Africa has an estimated 2.2 million small businesses in 2019. About 1.6 million were informal sector enterprises and 625 000 formal sector enterprises (Labour Market Dynamics).
- The impact of COVID-19 on small businesses varied over time. For informal enterprises, the impact was almost immediate. The number of informal enterprises decreased by 25% on average between the first and second quarters of 2020, or from 1.6 million to 1.2 million enterprises. While the third and fourth quarters of 2020 saw a partial recovery, the number of informal enterprises remained below pre-pandemic levels in the first quarter of 2021.
- The impact for formal enterprises was delayed. The number of registered small enterprises increased by 2% (15 000) in the first two quarters of 2020, before declining by 11%. This was likely due in part to that, in comparison to informal enterprises, they had more sunk costs and stronger liquidity, but also reflected the support from the Unemployment Insurance fund Temporary Employer/Employee Relief Scheme (UIF/TERS) programme among support measures. However, in the first quarter of 2021, they remained more than a tenth below their pre-pandemic levels.
- The earliest impact of the pandemic on formal sector enterprises owned by men was only felt in the third quarter of 2020, when the number of formal sector enterprises

declined by a fifth from the second quarter of 2020.

- The impact of the pandemic was most immediate for women-owned enterprises in the formal sector, who on average declined 16% in the first and second quarters of 2020, and by an additional 5% from the first quarter of 2020 to the same quarter in 2021. This may be an indication that a significant proportion of women had to take on care work during the pandemic during lockdown period compared to men. The number of informal enterprises owned by women declined by a quarter (224 000) in the first and second quarters of 2020. By the end of the first quarter of 2021, the number of informal businesses owned by men were a tenth lower compared to the first quarter of 2020.
- Within the informal sector, women-owned enterprises fared significantly worse compared to men-owned enterprises. Figures from the first half of 2020 show that the number of informal enterprises owned by women declined by 26% (167 000) in the first and second quarters of 2020, from 625 000 enterprises to 458 000 enterprises. While there was a partial recovery in the third and fourth quarters of 2020, these enterprises were 14% below their pre-pandemic levels in the first quarter of 2021. However, women-owned formal enterprises proved to be more resilient and recovered faster than formal sector enterprises owned by men. By the end of the first quarter of 2021, the number of formal sector enterprises owned by women were lower by 5% compared to the first quarter of 2020. In contrast, the number of formal sector enterprises owned by men were 8% lower in the same period.
- Ownership patterns within formal sector enterprises from the second quarter of 2020 point to significant shifts, with black people's share of formal sector enterprises declining by more than 25% in the third quarter of 2020, and an additional 2% in the fourth quarter of 2020. In contrast, white people's share of formal sector enterprises grew by a fifth in the second and third quarters of 2020, and then declined by 1% in the fourth quarter of 2020. By the end of the first quarter of 2021, black people's share of formal sector enterprises remained a fifth lower than the first quarter of 2020, while white people's share of formal sector enterprises was 10% higher.
- Employment data points to significant differences in the effect of the pandemic across enterprises of different sizes. Small enterprises (employing 50 people and below) were disproportionately affected compared to large enterprises, (defined as enterprises that employed 50 people and above) and shed around 20% of total employment in the first and second quarter of 2020. In contrast employment growth within large enterprises is estimated to have dropped 6% in the first and second quarters of 2020.
- Employment in small enterprises remained a quarter below their pre-pandemic levels by the end of the first quarter of 2021. In contrast, employment in large enterprises dropped in the first and second quarters of 2020 and shed an additional tenth in the fourth quarter of 2020. Employment in large enterprises remained 10% below their pre-pandemic levels in the first quarter of 2021.
- Both formal and informal businesses owned by people with lower levels of education were disproportionately affected, albeit in different ways. In the informal sector, enterprises held by individuals with less than a matric education dropped by around 28% (289 000) between the first and second quarters of 2020. They recovered around 182 000 enterprises in the second and third quarters of 2020 and an additional 19 000

enterprises in the third and fourth quarters of 2020. By the end of the first quarter of 2021, however, the number of enterprises owned by individuals with less than a matric education remained 169 000 (17%) lower than in the first quarter of 2020.

- Businesses owned by relatively educated individuals declined by 16% (25 000) in the second quarter of 2020, compared to the first quarter. They regained 8% from the second quarter of 2020 in the third quarter, and regained further 3% in the third and fourth quarters of 2020. By the end of the first quarter of 2021, the number informal enterprises owned by individuals with a tertiary education were 11% higher compared to the first quarter of 2020.
- Almost every sector in the formal sector experienced sizable drops in the number of businesses from the first and second quarter of 2020 (with the exception of agriculture, manufacturing, logistics and retail trade). Formal businesses in face-to-face services – in particular those “risky to contagion” including personal and community services were significantly hit, with losses of 3% of formal enterprises from the first to the second quarter of 2020. However, personal services showed resilience in subsequent quarters, rebounding 3% in the third quarter, and a further 3% in the fourth quarter of 2020, with an almost full recovery in the first quarter of 2021.
- Higher-skilled services, and those that do not require face-to-face interaction, such as financial and business services, lost 2% of formal sector enterprises in the second quarter of 2020, with an almost full recovery in the first quarter of 2021.
- There are notable geographical differences in the impact of the COVID-19 pandemic across regions for both formal and informal businesses operating in historic labour-sending regions affected.
- Figures for the first half of 2020 show that, on average, the number of informal enterprises operating in historic labour sending regions dropped by 29% (160 000) from around 560 000 in the first quarter of 2020 to around 400 000 in the second quarter of 2020. While there was a partial rebound from the third and fourth quarters of 2020, the number of informal enterprises remained 6% below pre-pandemic levels by the end of the fourth quarter of 2020, and 10% below pre-pandemic levels by the first quarter of 2021.
- The number of formal enterprises operating in former labour-sending regions dropped 40% (56 000) in the third and fourth quarter of 2020, as COVID-19 surged again in December 2020. The pandemic effect on formal sector enterprises operating in historic labour-sending regions has been persistent and prolonged, with difficulty in business recovery. They dropped an additional 2% in the fourth quarter of 2020 and the first quarter of 2021. The pandemic’s disproportionate effect on enterprises operating in former labour-sending regions is due probably to lower access to digital connectivity in these areas compared to other areas. The international experience suggests that small enterprises that were able to withstand the crises were those which were able to operate online during the pandemic.