

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

STATE OF SMALL BUSINESS 2023

This is TIPS's third publication on the State of Small Business in South Africa, which is a periodic special edition of our Real Economy Bulletin. The series provides baseline data on the number of small businesses and their contribution to the economy, as well as their distribution by industry and location, ownership by race, gender and age, investment and profitability.

The analysis draws primarily on Statistics South Africa's surveys on employment and business finances through to the end of 2022. (For details on the sources used see the box on page 22).

The bulletin first looks at the number of small business, both formal and informal, and the rate of growth. The figures show how the legacy of apartheid has left the country lagging behind other upper middle-income countries, which is a core factor behind very low employment levels.

The next section looks at value added, assets and profitability. Small formal businesses directly generate a third of value added in South Africa. Informal enterprise adds around 5%, but with very low profitability and access to resources.

In terms of the production structure, around a fifth of formal small businesses provide professional services, ranging from education and healthcare to engineering, legal advice and creative work. A quarter are in retail and hospitality. In the informal sector, retail trade accounts for close to half of all businesses, including street traders.

The bulletin also analyses education levels, race and gender, the numbers of young people becoming business owners, and the geographic distribution of small business. The share of black entrepreneurs in small business climbed from 40% in the early 2000s to 60% in 2019. The pandemic hit them disproportionately hard, but by the end of 2022 their share in small business ownership had returned to pre-pandemic levels. Black people have consistently owned around 95% of informal enterprises.

TIPS is simultaneously publishing a working paper, [Small business in industrial policy](#), which analyses factors behind the state of small business as described in this bulletin.

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KEY FINDINGS

- ◆ In 2022, the number of small formal business in South Africa reached 710 000. The figure had climbed from 590 000 in 2010 to 680 000 in 2019, and recovered from a decline during the COVID pandemic.
- ◆ The number of informal businesses came to 1,75 million in the final quarter of 2022, fully overcoming a very sharp decline at the start of the pandemic. It had risen from 1,3 million to 1,6 million in the 2010s.
- ◆ The rate of growth in the number of small businesses over the past 30 years was not enough to overcome the disastrous deficit in small enterprise left by apartheid. In other upper-middle-income countries, small business owners (that is, employers and the self-employed) make up over 20% of the working-age population. In South Africa, this is just 6%. This backlog in itself mainly explains very low employment levels in South Africa.
- ◆ TIPS estimates that small formal businesses directly generate a third of value added in South Africa. Informal enterprise adds around 5%.
- ◆ In 2020, small formal firms held at least a quarter of total business assets. Generally, they were both more labour intensive and more profitable than their larger counterparts. No similar data exist for informal business, but on the whole they have very low profits and limited resources.
- ◆ Small formal business generated 30% of total employment, 32% of all waged employment including informal and domestic work, and half of waged work in the formal private sector.
- ◆ The number of people working in small formal business was flat through the 2010s, while larger firms rapidly increased their employment. Small formal businesses also accounted for almost all of the formal job losses reported during the pandemic. That shrinkage in formal opportunities fuelled the extraordinary rebound in informal self-employment through most of 2022.
- ◆ Remuneration and benefits in small formal enterprises for employers and waged workers lagged only slightly behind those in larger companies. They far exceeded the norm for waged employees and own-account workers in informal and domestic work. In contrast, informal businesses typically provided low incomes and comparatively insecure jobs.
- ◆ Around a fifth of private formal small businesses supply professional services, ranging from education and healthcare to engineering, legal advice and creative work. A quarter are in retail and hospitality. The rest are mostly in construction; transport and communications; manufacturing; and agriculture.
- ◆ In the informal sector, retail trade accounts for close to half of all businesses, including around half a million street traders. The next largest sector for informal business is construction, with about a tenth of the total. Only just over 5% of informal businesses provide professional services.
- ◆ Close to half of formal business owners have post-matric qualification of some kind, compared to a seventh of their waged employees. Workers in smaller formal enterprises are slightly less educated than those in larger companies. They have higher education levels, however, than informal business owners and their employees as well as domestic workers.
- ◆ In the early 2000s, black entrepreneurs owned 40% of small formal businesses. Their share rose to around 60% in 2019. The pandemic hit them disproportionately hard, and the share fell back again in 2021. By the end of 2022, however, it had returned to pre-pandemic levels. Black people have consistently owned around 95% of informal enterprise.

KEY FINDINGS

- ◆ Women own around a quarter of small formal business, but half of them are white. In the informal sector the share of women entrepreneurs declined steadily from 45% in 2010 to 40% in 2019, with a further fall to 35% in 2022. The trend paralleled a loss of men’s jobs in formal industries, which led more to compete in informal activities. At the same time, the expansion in public and formal private services as well as the evolution away from gender-based apartheid restrictions created more opportunities for women.
- ◆ In 2022, 4% of young people aged 15 to 34 were business owners, which equated to 15% of all employed youth. Among people aged 35 and over, 10% of the total population owned a business, equal to 21% of the employed.
- ◆ In 2019, the five largest metros held a third of the national population but around 60% of all formal small businesses. The historic labour-sending regions held only 5% of formal businesses, although they had a quarter of the national population. In contrast, the metros contained just 35% of informal business in 2010, rising to 39% in 2019 and over 45% in late 2022.

NUMBER OF SMALL BUSINESSES

The number of formal small businesses climbed from 590 000 in 2010 to 680 000 in 2019, based on household surveys that show the number of people who are employers or self-employed. The COVID-19 pandemic brought an initial 25% decline in the second quarter of 2020, but by the second half of 2022 the number had recovered to 710 000. The number of informal business also rose through the 2010s, increasing from 1,3 million to 1,6 million. It fell more sharply than formal small business at the start of the pandemic, but recovered faster. In the last quarter of 2022, the number of informal businesses reached 1,75 million.

Graph 1. Number of formal and informal small business (a), 2017 to 2019 and quarterly from 2020 to 2022



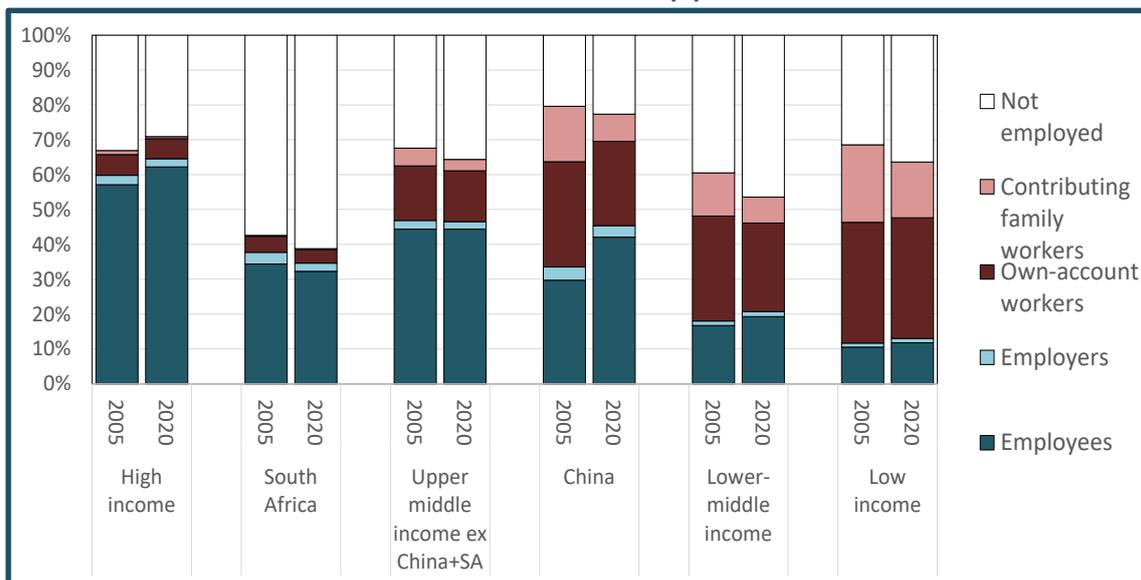
Note: (a) Defined as the number of employers with under 50 employees plus own-account workers. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics Surveys for 2010 to 2019, and Quarterly Labour Force Surveys for first quarter 2020 to fourth quarter 2022. Electronic datasets. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

In contrast to informal activities and waged employment, which saw a very sharp downturn in the second quarter of 2020, the pandemic downturn affected the number of small formal businesses only gradually. In large part, this outcome resulted from substantial government support for employers, starting with the initial pandemic lockdown in April 2020 and lasting through mid-2021. The large surplus at the Unemployment Insurance Fund mostly funded the relief effort. Informal enterprises did not benefit because they do not contribute to the Fund.

Despite the relief, formal employers' incomes dropped by half in the first year of the pandemic (see Graph 13 in the Section on Conditions, page 14) and they shed around 400 000 jobs, or 5% of their total employment (see Graph 10 in the Section on Job creation, page 11). Small formal business accounted for 85% of all net losses in waged jobs from 2019 to the third quarter of 2022. Virtually all of these job losses affected lower-level workers, with almost no decline in employment for professionals and managers. The narrowing of opportunities in the formal sector fuelled the sharp rebound in informal work.

Over the past 20 years, the number of small businesses generally increased in step with economic growth. That said, apartheid had entrenched a disastrous deficit in small enterprise compared to peer economies. In other upper-middle-income countries, small business owners (that is, employers and the self-employed) make up over 20% of the working-age population. In South Africa, the figure was only 6%. The steady but modest increase in their numbers from the early 2000s fell far short of the qualitative step up required to overcome that shortfall.

Graph 2. Business owners (employers and the self-employed) as percentage of total employment in South Africa compared to other countries by income group 2005 and 2020 (a)

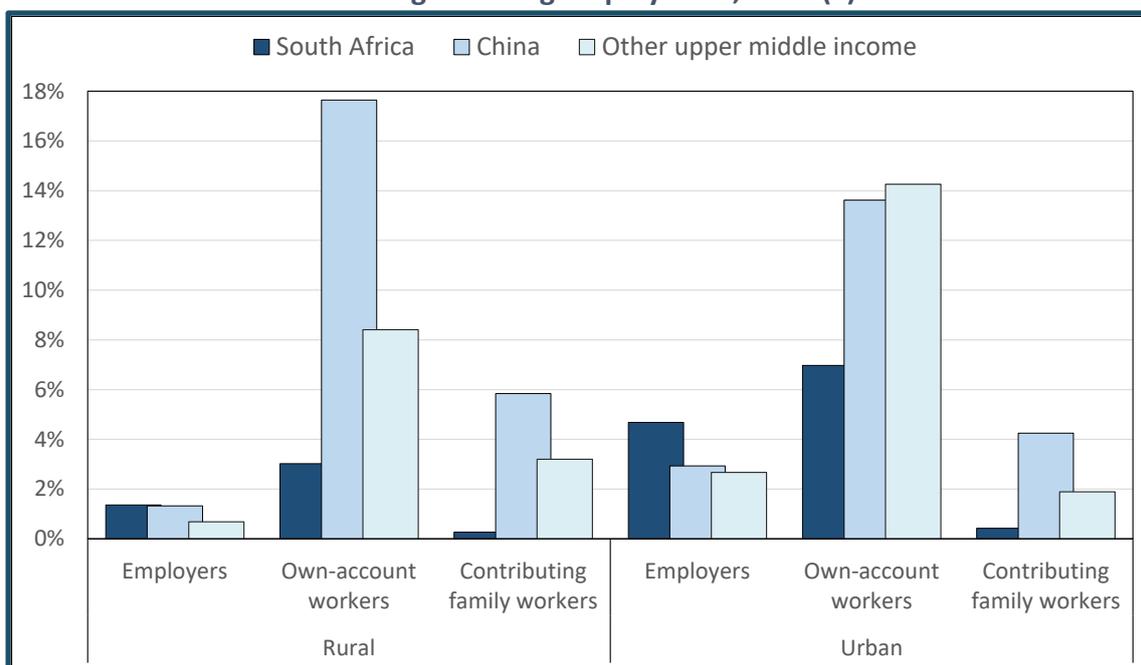


Note: (a) ILO modelled estimates try to standardise findings for countries, which requires some modification of national data where data are missing or not comparable. *Source:* ILOStat. Employment by sex, age and economic class. Electronic dataset. Accessed at www.ilo.org in August 2022.

South Africa inherited its very low level of small business from the apartheid era, which saw the destruction of black-owned family farms and urban enterprises. The suppression of small business was a central factor behind high joblessness. From the 1980s, only around 40% of the adult population was employed or self-employed, compared to an international norm of 60%.

The share of own-account enterprises in total employment lagged extraordinarily far behind the global norm in both rural and urban areas. The share of employers, in contrast, was above that in peer economies, especially in urban areas.

Graph 3. Employers and self-employed as percentage of total income-generating employment, 2020 (a)



Note: (a) ILO modelled estimates try to standardise findings for countries, which requires some modification of national data where data are missing or not comparable. Source: ILOStat. Employment by sex, rural/urban areas and status in employment. Electronic dataset. Accessed www.ilo.org in August 2022.

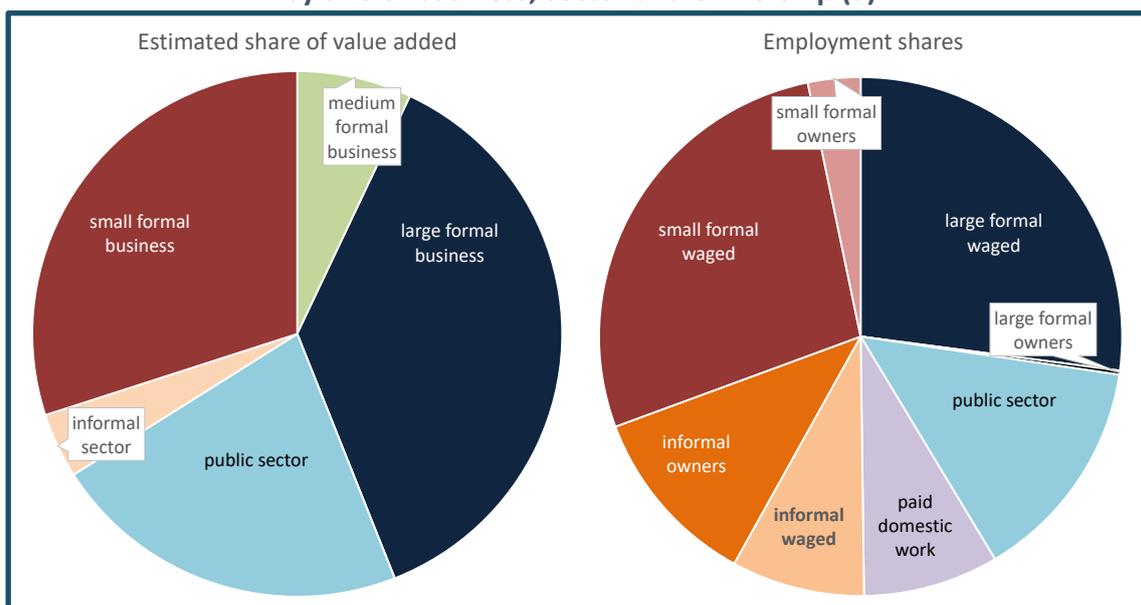
VALUE ADDED, ASSETS AND PROFITABILITY

The available data suggest that small formal businesses directly generate a third of value added in South Africa. Informal enterprise adds around 5%. In 2020, small formal firms held at least a quarter of total business assets. Generally, they were both more labour intensive and more profitable than their larger counterparts. No similar data exist for informal business, but on the whole they have very low profits and limited resources.

Value added

Graph 4 illustrates the share of small formal and informal businesses in national value added compared to larger businesses and the public sector, based primarily on survey findings for profits and for employer and employee earnings. Figures for employment, including domestic work, are provided for comparison. The findings underscore the importance of poorly paid and precarious informal business for livelihoods and social engagement, but not prosperity.

Graph 4. Indication of shares in national value added and in employment by size of business, sector and ownership (a)



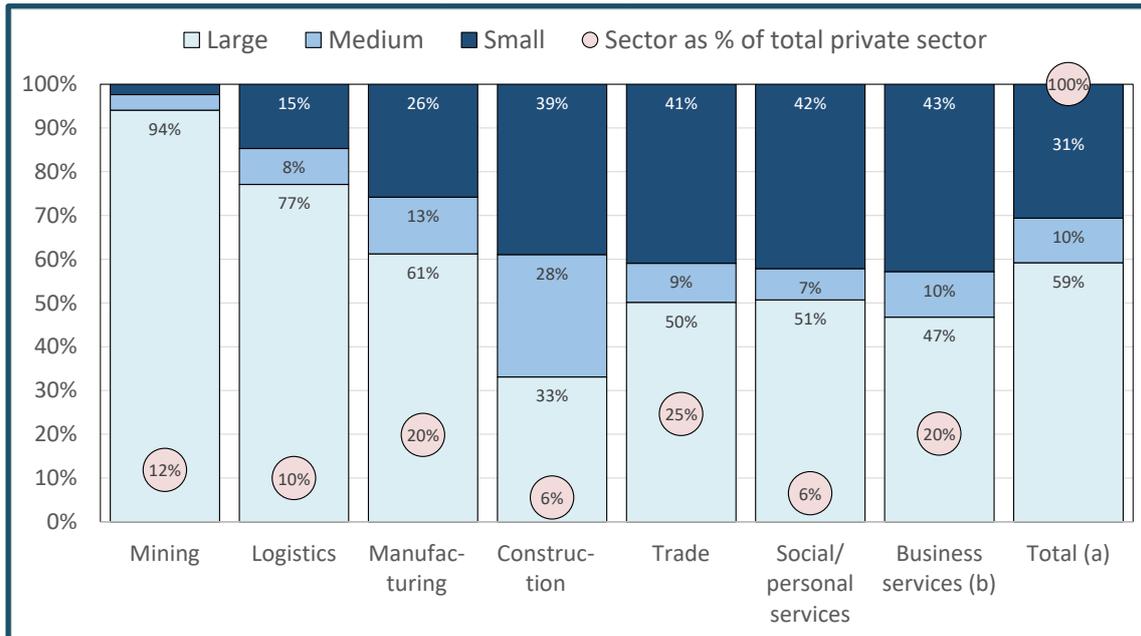
Note: (a) Estimated based on remuneration in the public sector; earnings in informal business and formal self-employment; and remuneration plus pre-tax profit in the private formal sector. *Source:* Calculated from Statistics South Africa. Annual Financial Statistics 2020. AFS 2019 revised – Estimates by business size. Excel spreadsheet. Accessed at www.statssa.gov.za in February 2023. Statistics South Africa. Labour Market Dynamics 2019. Electronic dataset. Accessed at Nesstar facility at www.statssa.gov.za. National Treasury. Medium Term Budget Statement. Table 7 – Consolidated government revenue and expenditure. Excel spreadsheet. Accessed at www.treasury.gov.za in February 2023.

Statistics South Africa does not calculate the share of small business in national value added, so Graph 4 provides only a very rough estimate. It derives from official business surveys on formal profits and remuneration, and from household-based labour force surveys on earnings for business owners and waged workers.

The Annual Financial Statistics database consolidates reported financial data from a sample of 13 000 formal businesses. It estimates the formal business universe at 350 000 enterprises, or around half as many as found by household surveys. Two reasons explain most of the divergence. First, the Annual Financial Statistics surveys sample only enterprises that have registered for VAT, which is mandatory for firms with over a million rand in turnover. In 2019, however, the Labour Market Dynamics survey found that even in the formal sector, 40% of self-employed people and 20% of employers had not registered for VAT. In effect, then, its findings for small business represent only relatively established and somewhat larger enterprises. In addition, the Annual Financial Statistics survey excludes enterprises in agriculture, cleaning and security (which fall under the heading of unclassified business services) and financial intermediation.

Given these caveats, in 2020 the Annual Financial Statistics found that small business accounted for just over 30% of remuneration plus pre-tax profits (which equates to value added) in the formal non-agricultural private sector. The small-business share was largest in services, which effectively meant mainly high-end professional activities because the survey excludes cleaning and security as well as finance. The survey reported virtually no small businesses in mining. While specialised small firms perform critical work for larger companies along the mining value chain, the statistical system captures them under other industries, such as engineering and accounting (both categorised as business services), logistics and construction.

Graph 5. Remuneration plus pre-tax surplus in VAT-registered formal business by size of enterprise and sector (a), 2020



Notes: (a) The source includes only VAT-registered enterprises, which excludes around a third of small business owners. It also excludes financial intermediation, non-classified business services and agriculture. In addition, it categorises firms based on turnover levels set by the National Small Business Act, which vary significantly by industry. In 2021 rand, the ceiling for small business ranges from R97,5 million turnover in manufacturing, logistics and business and financial services, to R75 million in mining and R45 million in construction and social and personal services. The total for small business aggregates the industry data, which means that the “small” category includes a variety of sizes. (b) Excludes unclassified business services, mostly cleaning and security, as well as financial intermediation and pensions. *Source:* Calculated from Statistics South Africa. Annual Financial Statistics 2021. AFS 2020 revised – Estimates by business size. Excel spreadsheet. Accessed at www.statssa.gov.za in February 2023.

As noted, Annual Financial Statistics data undercount the smallest enterprises, and especially self-employed people. In addition, it excludes the 30 000 commercial farms, almost all of which ranked as small and medium formal operations. Agriculture contributed 3% of the GDP in 2020.

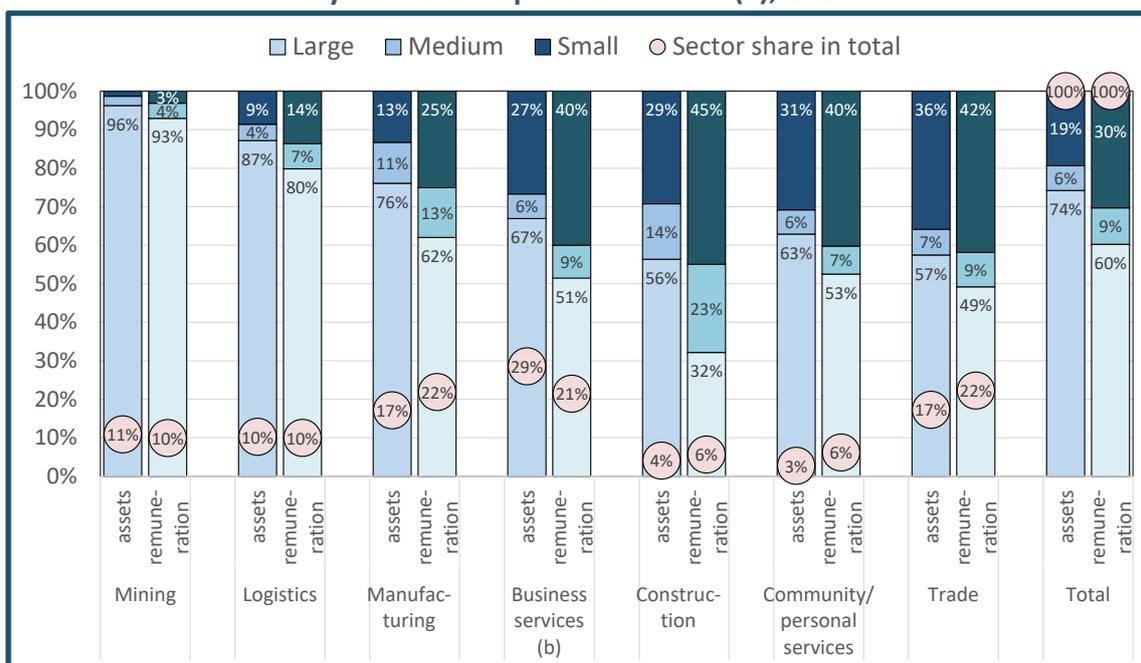
There is even less data on the contribution of the informal sector to the GDP. Earnings data for informal employers and self-employed people plus pay for employees provides some indication, however. We can posit that, in aggregate, these amounts roughly approximate total informal-sector value added. This estimate assumes that most informal business owners count any surplus toward their personal earnings. By this measure, informal value added came to roughly 5% of total private value added, based on earnings reported in the 2020 Labour Market Dynamics dataset. These surveys effectively exclude both unpaid reproductive labour and casual income-generating activities that respondents may not see as a job.

Assets

Overall, for the sectors covered in the Annual Financial Statistics, the sample of small enterprises held almost a fifth of private formal business assets in 2020, although they provided close to a third of formal remuneration. (Graph 6) Where businesses have a larger share in remuneration than in assets, they are generally relatively labour intensive. The disparity was particularly large in manufacturing, where small firms were concentrated in comparatively labour-intensive industries. Overall, they held just 13% of all private formal business assets in manufacturing,

but paid 25% of remuneration. Small construction businesses were also substantially more labour-intensive than larger enterprises. Mining and logistics, where small business was weakest, ranked among the most capital-intensive sectors. Reported assets for business services include financial investments, which inflates both their assets and their liabilities. Long-term external investments account for almost 60% of all assets in this sector, compared to 15% in the rest of the economy.

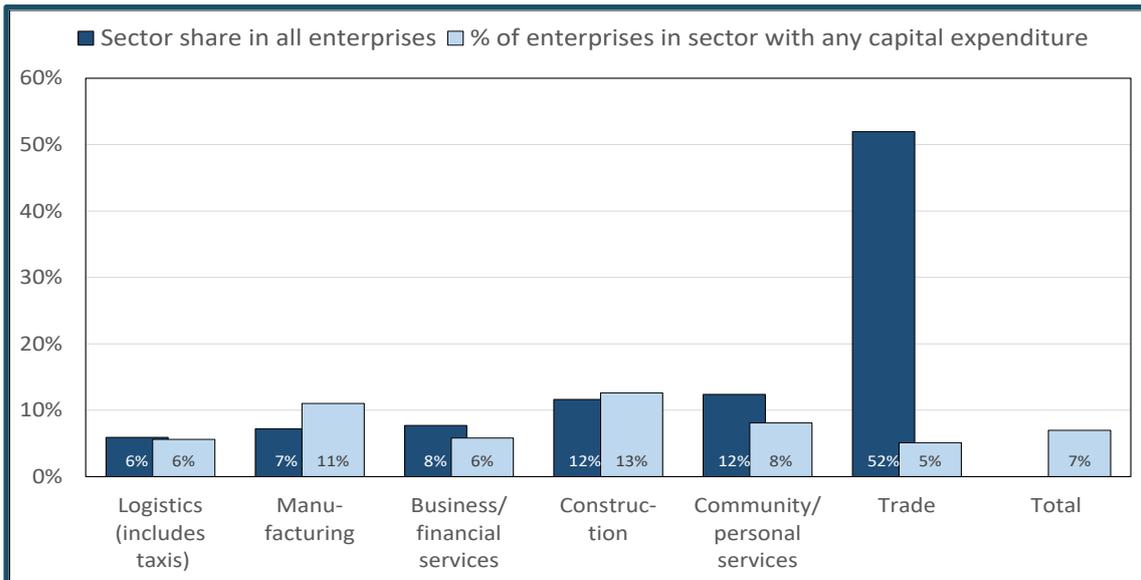
Graph 6. Assets and employment in VAT-registered business by size of enterprise and sector (a), 2020



Notes: (a) The source includes only VAT-registered enterprises, which excludes around a third of small business owners, as well as financial intermediation, non-classified business services and agriculture. It categorises firms based on turnover levels set by the National Small Business Act, which vary significantly by sector. In 2020 rand, the ceiling for small business ranges from R97,5 million turnover in manufacturing, logistics and business and financial services, to R75 million in mining and R45 million in construction and social and personal services. The total aggregates the industry data, which means that the “small” category includes a variety of sizes. (b) Excludes unclassified business services, mostly cleaning and security, as well as financial intermediation and pensions. *Source:* Calculated from Statistics South Africa. Annual Financial Statistics 2021. AFS 2020 revised – Estimates by business size. Excel spreadsheet. Accessed at www.statssa.gov.za in February 2023.

The official surveys do not report on overall asset ownership by informal businesses. Statistics South Africa’s 2017 Survey of Employers and the Self Employed, the latest available, provides information on capital expenditure, however. As Graph 7 shows, over 90% of the informal enterprises surveyed reported no capital expenditure of any kind. A tenth of informal businesses spent anything on capital expenditure, with an annualised median amount of R11 500 in 2021 rand. That figure suggests that the vast majority of informal business had only very limited productive assets, which largely explains their low levels of income for both employers and employees (see Graph 9).

Graph 7. Capital expenditure by informal businesses, 2017 (a)



Note: (a) Because only between 6% and 13% of enterprises paid anything on capital goods, the sample of those spending on capital goods, transport equipment or buildings, is too small to provide anything but a very rough order of magnitude. *Source:* Statistics South Africa. Survey of Employers and the Self Employed 2017. Electronic database. Accessed at Nesstar facility at www.statssa.gov.za.

Profitability

Small formal business generally reported a higher rate of return on assets than large firms both overall and within industries, although they lagged medium-sized enterprises. In 2020, small businesses covered in the Annual Financial Statistics reported a 5% return on assets, compared to 2% for large companies but 7% for medium-sized enterprises. The rate of return on assets declined for virtually all companies in 2020, as the pandemic hit. Preliminary data indicate some recovery in 2021.

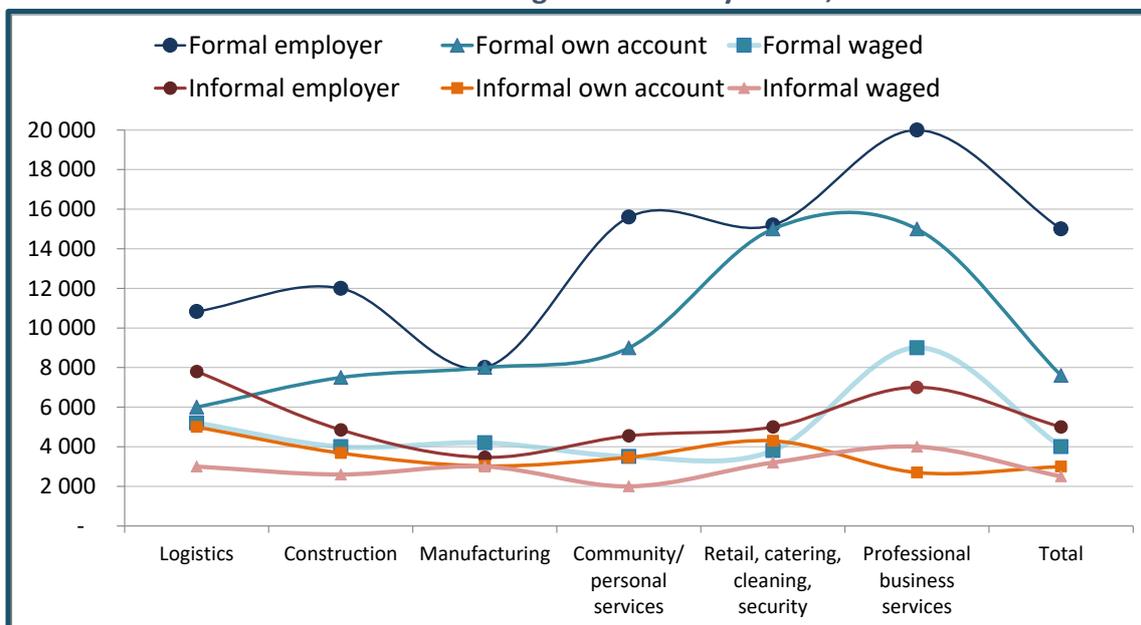
Graph 8. Rate of return on assets by business size and sector, 2019 to 2021 (a)



Note: (a) Pre-tax profits as percentage of total asset value. Figures for 2021 are preliminary. *Source:* Calculated from Statistics South Africa. Annual Financial Statistics 2020 and 2021. Estimates by business size for 2019 and 2020 (revised) and 2021 (preliminary). Excel spreadsheet. Accessed at www.statssa.gov.za in February 2023.

It is not possible to determine profit rates for very small formal businesses and the informal sector, which are not included in the Annual Financial Statistics. A comparison of their reported earnings suggests that returns to informal businesses tend to be very low. In contrast, own-account workers in the formal sector are often professionals or craftspeople, whose earnings approach those of larger formal business owners. In every sector except logistics, their incomes significantly exceed those of waged workers.

Graph 9. Median earnings of formal and informal employers, own-account and waged workers by sector, 2019



Source: Calculated from Statistics South Africa. Labour Market Dynamics 2019. Electronic dataset. Accessed at Nesstar facility at www.statssa.gov.za.

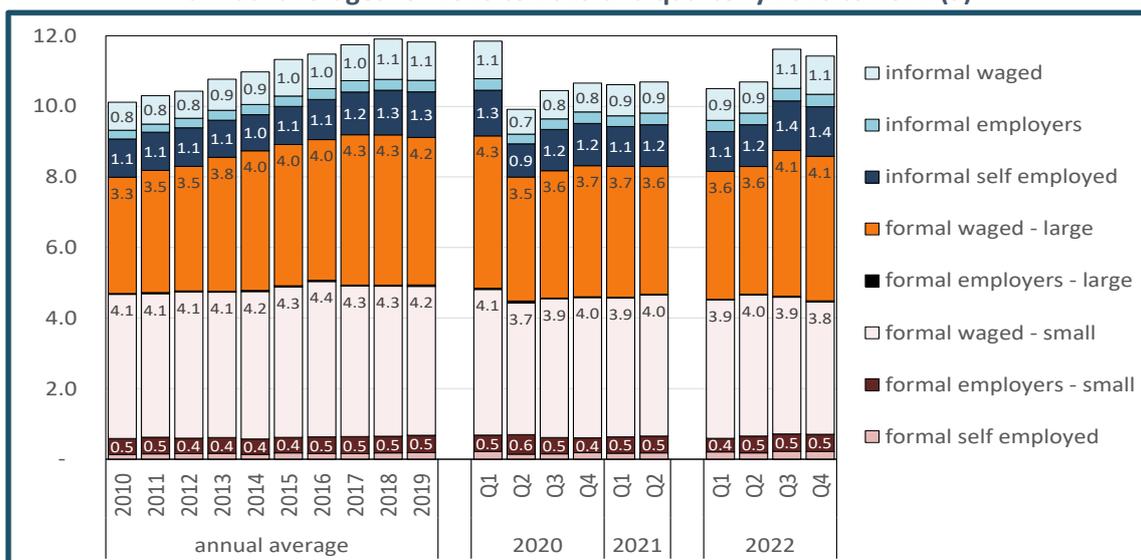
EMPLOYMENT

Small formal business generated 30% of total employment, 32% of all waged jobs including informal and domestic work, and half of waged work in the formal private sector. Their conditions of employment for both employers and waged workers lagged only slightly behind those in larger companies. They far exceeded the norm for waged employees and own-account workers in informal and domestic work. In contrast, informal businesses typically provided low incomes and comparatively insecure jobs.

Job creation

The number of people working in small formal business was flat through the 2010s. In contrast, large firms rapidly increased employment for much of the decade. Waged employment in small businesses trended down throughout the COVID-19 pandemic, accounting for almost all of the formal job losses reported since the second quarter of 2020. The number of formal employers and self-employed people, however, remained relatively stable. The fall in formal opportunities fuelled the extraordinary rebound in informal self-employment through most of 2022.

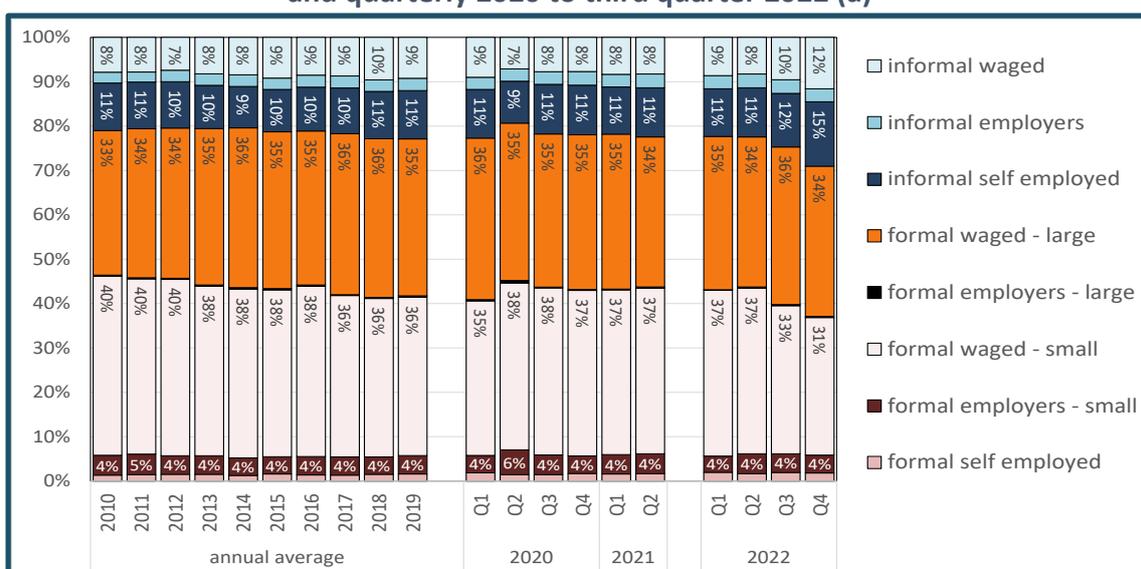
Graph 10. Employment in millions by sector, type and size of employer, annual averages for 2010 to 2019 and quarterly 2020 to 2022 (a)



Note: (a) Quarterly figures are not seasonally adjusted. Surveys for the third and fourth quarter of 2022 had a very low response rate and are therefore excluded. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics for relevant years from 2010 to 2019, and Quarterly Labour Force Survey for 2020 to 2021. Electronic databases. Accessed at Nesstar facility at www.statssa.gov.za.

The stagnation in employment at small formal business resulted in a falling share in total employment (which includes domestic workers and public servants, plus business owners and waged workers). It dropped from almost 35% in 2010 to 30% in 2022. The share of small formal business in private waged employment, excluding paid domestic work, fell from 46% in 2010 to 37% in the fourth quarter of 2022.

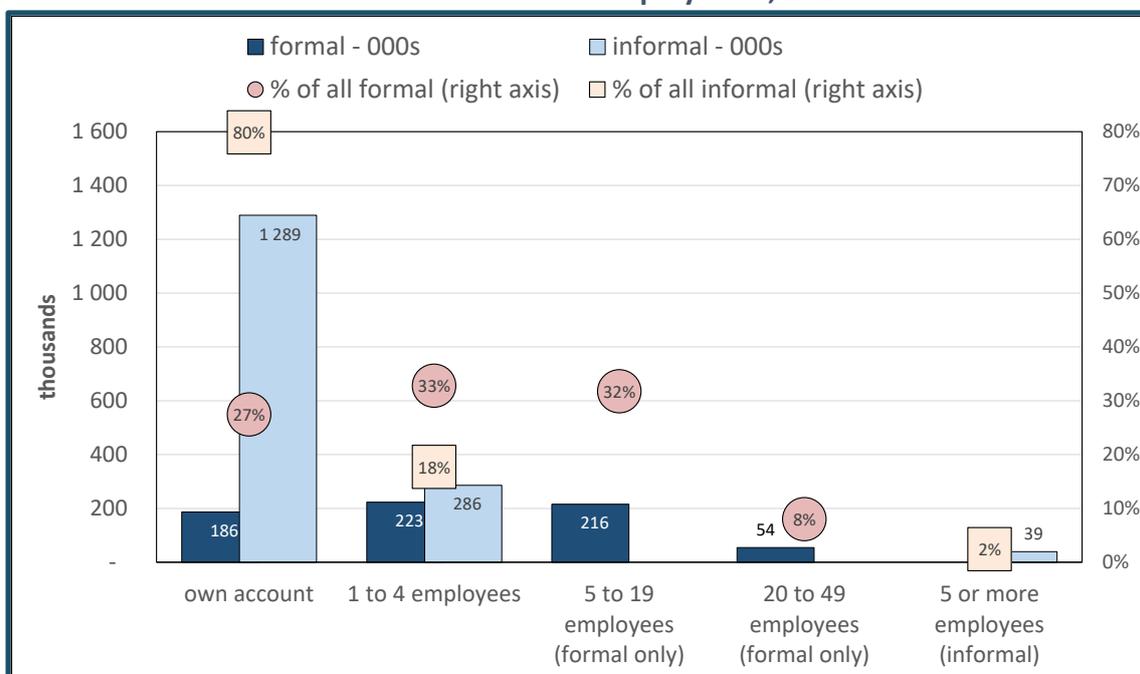
Graph 11. Share in private employment, excluding domestic work, by sector, size and nature of employment, annual averages for 2010 to 2019 and quarterly 2020 to third quarter 2022 (a)



Note: (a) Quarterly figures are not seasonally adjusted. Surveys for the third and fourth quarter of 2022 had a very low response rate and are therefore excluded. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics for relevant years from 2010 to 2019, and Quarterly Labour Force Survey for 2020 to 2021. Electronic databases. Accessed at Nesstar facility at www.statssa.gov.za.

In 2019, own-account workers, with no waged employees, operated a quarter of small formal businesses. Half had between one and 20 employees, while just under one in ten had between 20 and 49 workers. In the informal sector, in contrast, own-account work dominated. Four out of five informal enterprises were run by own-account workers, and virtually all of the rest had four employees or fewer. (Graph 12)

Graph 12. Employment by size in terms of number of enterprises (in thousands) and share of sectoral employment, 2019



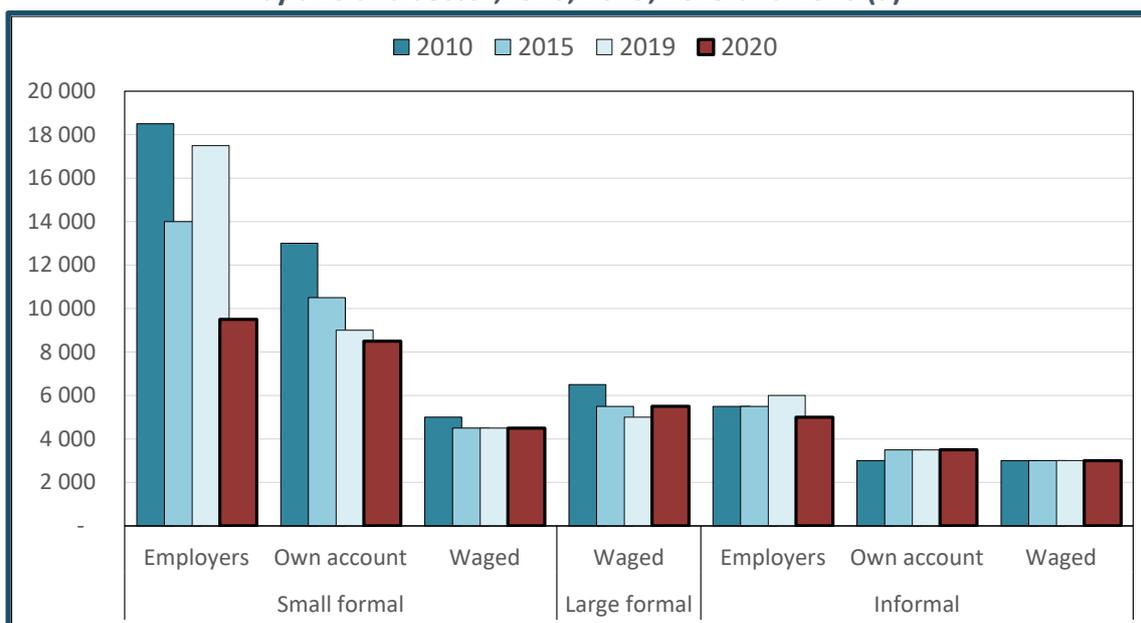
Source: Calculated from Statistics South Africa. Labour Market Dynamics 2019. Electronic database. Accessed at Nesstar facility at www.statssa.gov.za.

The gradual decline in employment in small businesses from 2017 saw a fall in their average number of waged workers. The figure declined from seven in the first half of the 2010s to six in 2019. During the pandemic, it dropped to five.

Conditions

According to the labour force surveys, median incomes for formal small business owners essentially tracked broader economic growth, declining in real terms as the economy slowed through the latter 2010s. The reported earnings for formal employers were, however, far more volatile than for own-account workers. In contrast, pay for waged workers in small formal businesses remained flat for most of the period. They fluctuated around 80% below pay for waged employees in larger companies but were more than 60% above waged employment in the informal sector. Waged workers' earnings in formal small businesses ranged between 25% and 30% of their employers' reported incomes in the 2010s, but climbed to almost 50% in 2020 when the pandemic hit. They came to between 40% and 50% as much as earnings for own-account workers. Informal employers earned slightly more than formal waged workers, but informal own-account workers and employees, as well as domestic workers, earned considerably less. (Graph 13)

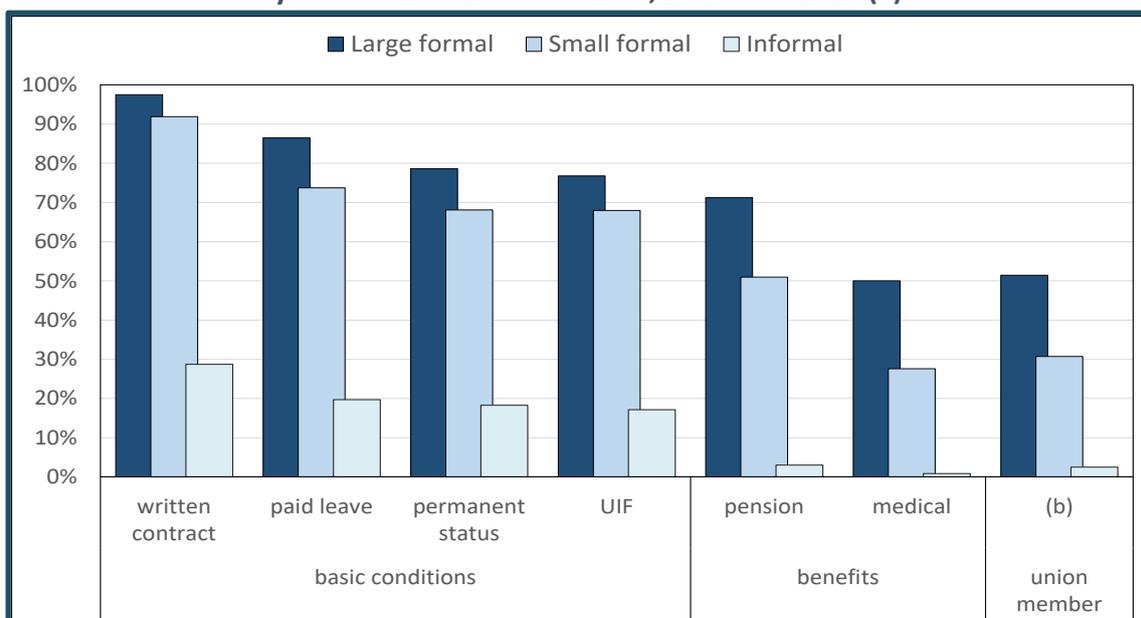
Graph 13. Median monthly earnings in constant (2021) rand by size and sector, 2010, 2015, 2019 and 2020 (a)



Note: (a) Reinflated with average annual CPI rebased to 2021. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics for relevant years. Electronic databases. Downloaded from Nesstar facility at www.statssa.gov.za.

A similar pattern emerged for basic conditions, benefits and union membership for waged workers. Employees in small formal business lagged somewhat behind those in larger concerns, but were far ahead of informal workers. Data on benefits are not available for employers or own-account workers.

Graph 14. Share of waged workers with conditions of employment as required by law, employment-related pensions and medical aid, and union membership, by sector and size of business, 2010 and 2020 (a)

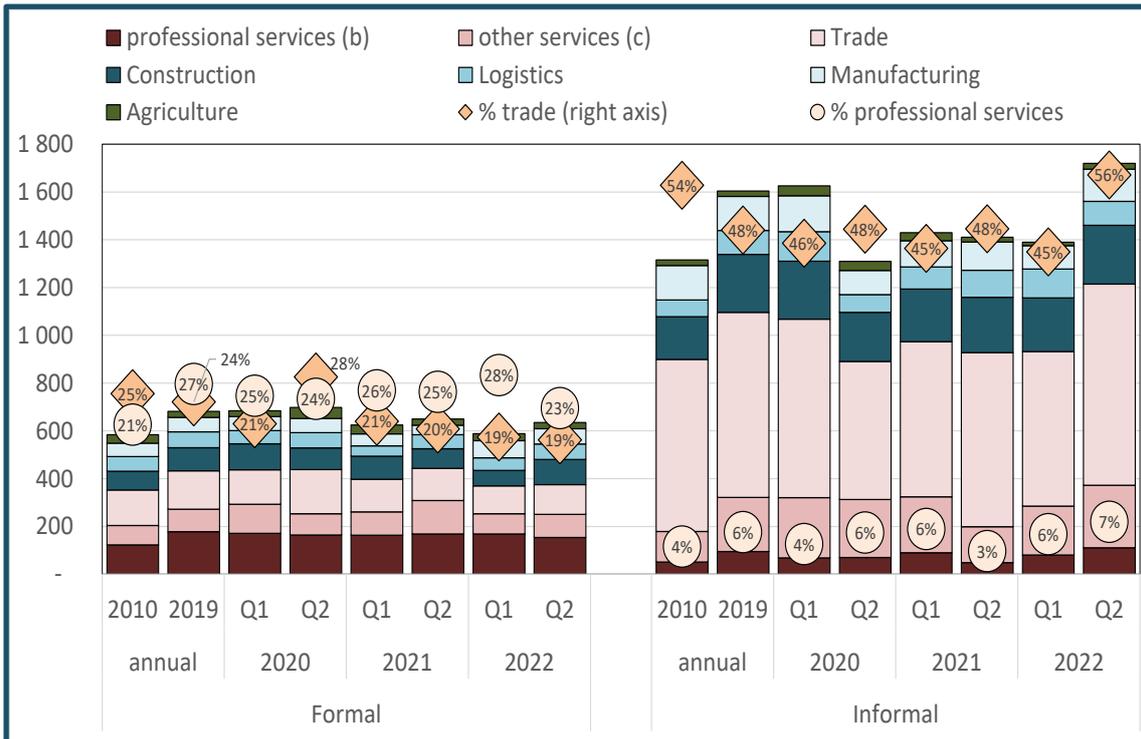


Note: (a) Percentage of waged workers who know the answer. (b) Figures are for 2011 instead of 2010. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics for relevant years. Electronic databases. Downloaded from Nesstar facility at www.statssa.gov.za.

PRODUCTION STRUCTURE

Around a fifth of private formal small businesses provide professional services, ranging from education and healthcare to engineering, legal advice and creative work. A quarter are in retail and hospitality. The rest are mostly in construction; transport and communications; manufacturing; and agriculture. In the informal sector, in contrast, retail trade accounts for close to half of all businesses. That figures includes around half a million street traders. The next largest sector for informal business is construction, with a tenth of the total. Only just over 5% of informal businesses provided professional services. (Graph 15.)

Graph 15. Number of small businesses (a) by sector and industry, annually in 2010 and 2019 and quarterly from first half 2020 to second half 2022



Note: (a) Measured by the number of people saying they are employers or self-employed. (b) Finance, professional business services (legal, accounting, computer related, etc.), private education and healthcare. (c) Mostly security and cleaning, personal and childcare, and property management. *Source:* For 2010 to 2019, calculated from Statistics South Africa. Labour Market Dynamics for relevant years. Electronic databases. For 2020 to 2022, calculated from Statistics South Africa. Quarterly Labour Force Surveys. Electronic databases. Downloaded from Nesstar facility at www.statssa.gov.za.

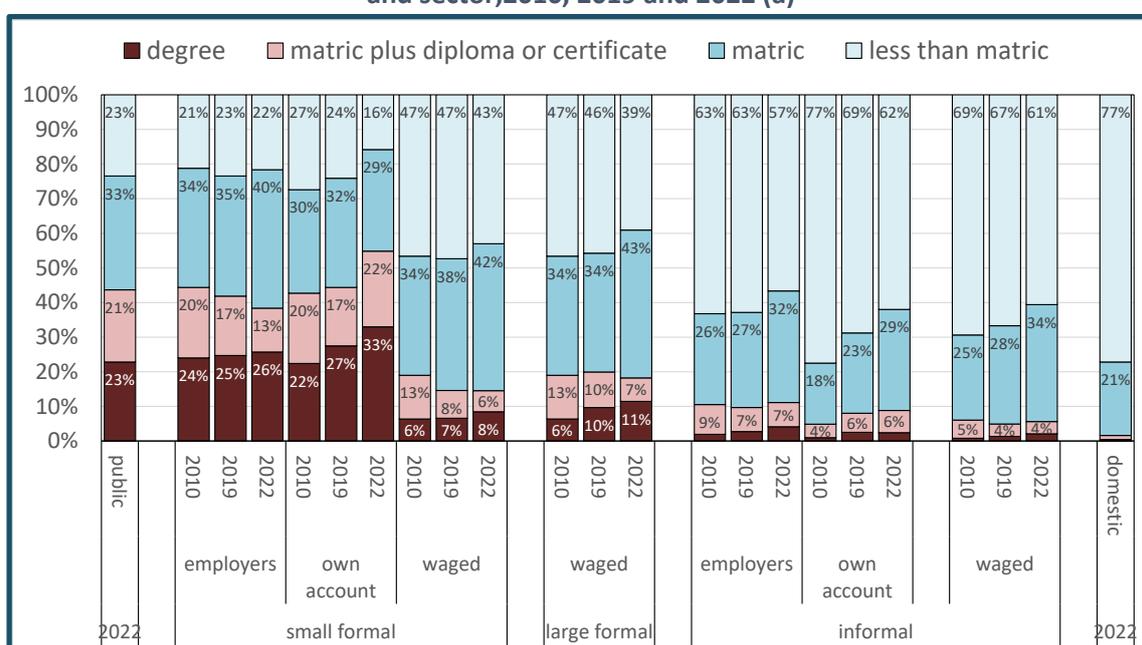
The data show around 60 000 formal small businesses in manufacturing in 2019, or 10% more than a decade earlier. The number is too small to analyse by industry.

EDUCATION

People with a university degree or other post-matric qualification were much more likely to become formal business owners than those with lower qualifications. Close to half of formal and own-account workers have post-matric qualification of some kind, compared to a seventh of their workers. Workers in smaller enterprises were slightly less educated than those in larger companies. They had much higher education levels, however, than informal business owners and their employees as well as domestic workers.

In 2022, in the formal sector, a quarter of small formal employers and a third of own-account workers had a degree. A fifth of both groups had a post-matric certificate or diploma. Over 55% of their waged workers had a least matric, and 8% had a degree, compared to 11% in larger businesses. In contrast, well under 5% of employers and own-account workers in the informal sector had a degree, and almost two thirds did not have matric.

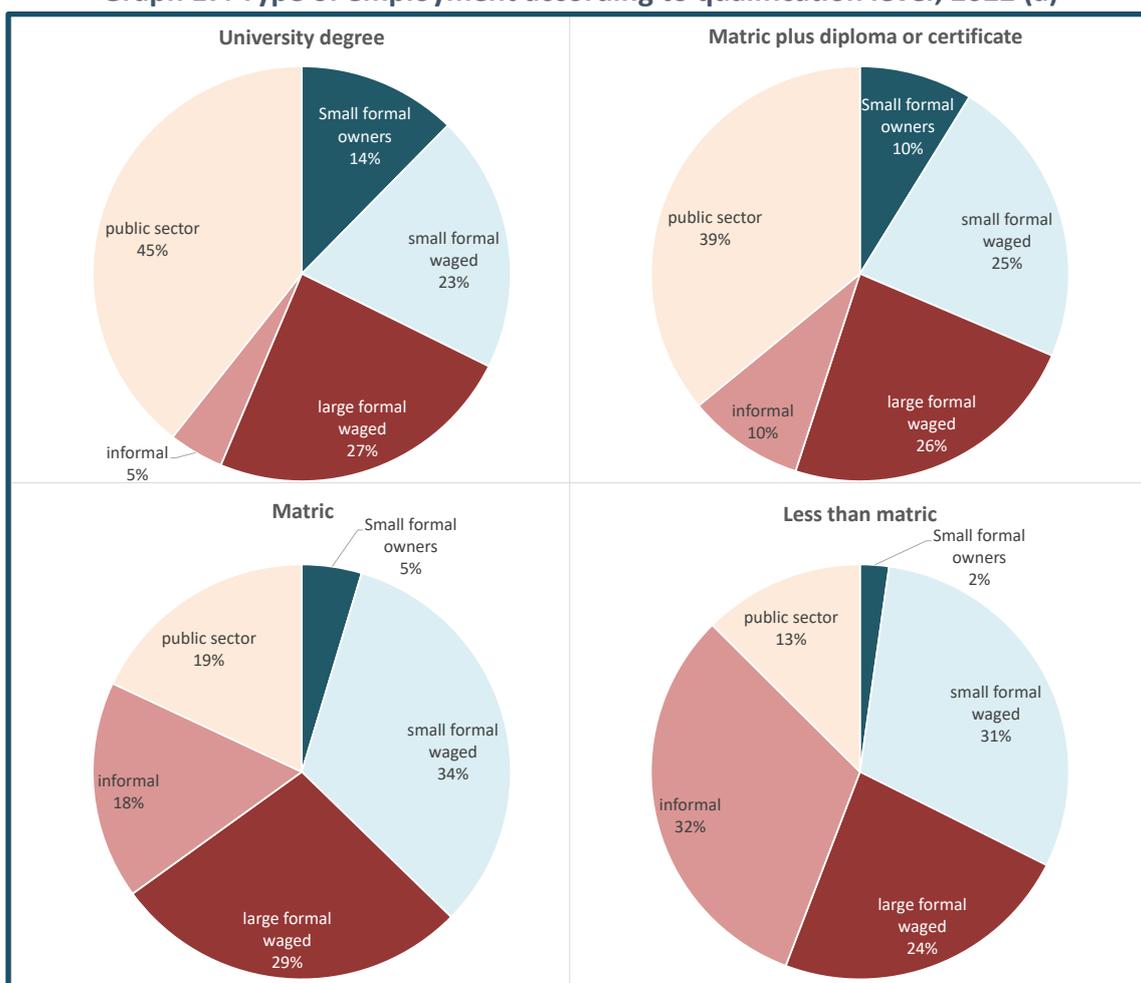
Graph 16. Level of qualification according to business ownership and sector, 2010, 2019 and 2022 (a)



Note: (a) Average of quarterly figures for 2022. *Source:* Calculated from Quarterly Labour Force Surveys for 2022. Accessed at Nesstar facility at www.statssa.gov.za.

Just under one in seven of all employed people with degrees owned a formal small business, compared to one in ten with other post-secondary qualifications and one in 20 with matric alone. Of employed people with less than matric, only one in 50 owned a formal small business. In the informal sector, the relationship between education and employment was reversed. It provided livelihoods for a third of all employed people that did not finish matric, but for only one in 20 university graduates.

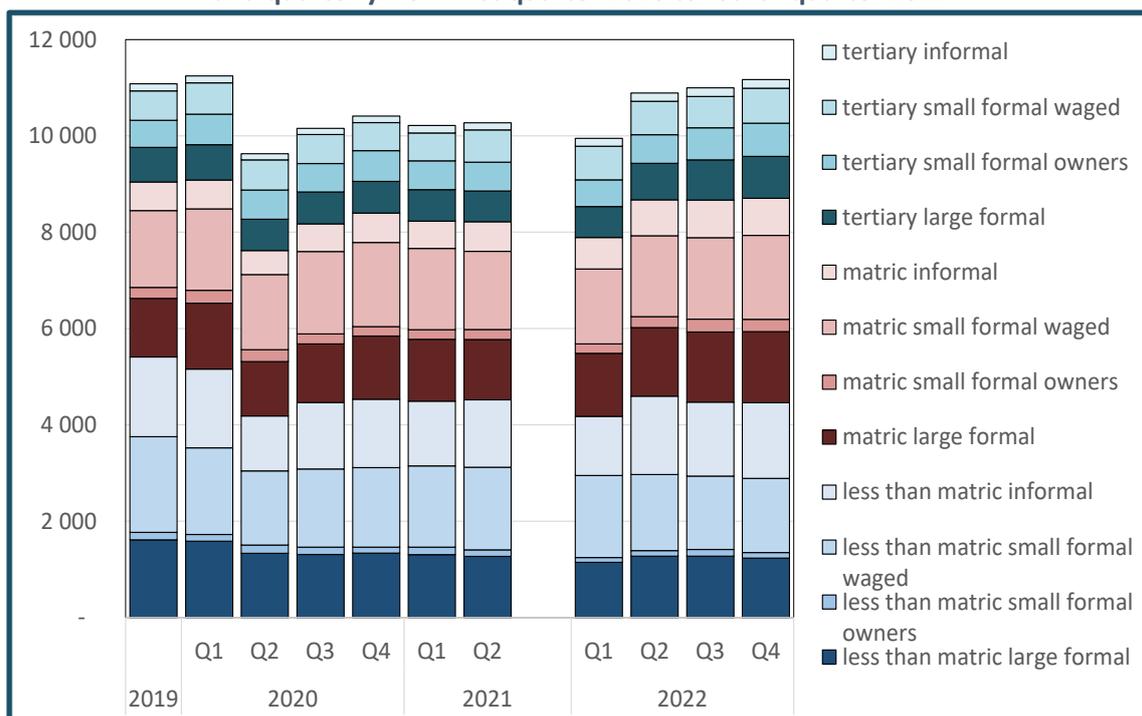
Graph 17. Type of employment according to qualification level, 2022 (a)



Note: (a) Average of quarterly figures for 2022. *Source:* Calculated from Quarterly Labour Force Surveys for 2022. Electronic dataset. Downloaded from Nesstar facility at www.statssa.gov.za.

Job gains during the recovery from the pandemic were concentrated on better educated people. Net employment losses for people without matric persisted through the end of 2022. This trend contributed to a remarkable shift toward more qualified people, both as business owners and as workers. From 2019 to the last quarter of 2022, people without matric in the formal sector lost around a quarter of their employment, with a similar rate of loss in waged jobs and business ownership. In the formal sector, their total employment fell 5%. In the same period, for people with matric, the number of small formal business owners climbed by 12% and waged workers by 9%. Large formal businesses increased their employment of matrics by over 20%, and informal enterprises by almost 30%. People with post-matric qualifications did even better. From 2019 to the end of 2022, this group saw a 23% increase in the number of small formal business owners. Formal waged jobs for people with tertiary qualifications rose by 20% across both large and small concerns. The informal sector saw a similar increase, but off a tiny base.

Graph 18. Employment by education level, sector and ownership status in 2019 and quarterly from first quarter 2020 to fourth quarter 2022



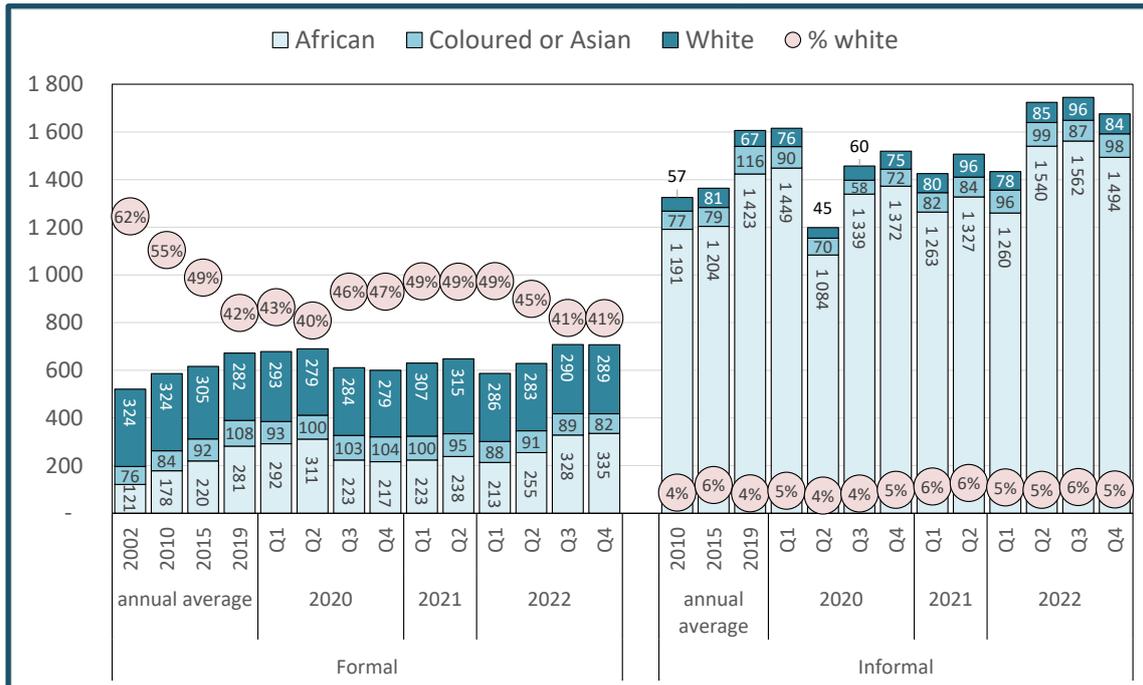
Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2019, and Quarterly Labour Force Surveys for 2021 to 2022. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za.

RACE AND GENDER

In the early 2000s, whites owned 60% of small formal businesses, although they make up only 7% of the working-age population. Their share fell to around 40% in 2019, where it remained in 2022. Black people have consistently owned around 95% of informal enterprise. Women own around a quarter of small formal business, but half of them are white. In the informal sector the share of women entrepreneurs declined steadily from 45% in 2010 to 40% in 2019, with a further fall to 35% in 2022. The trend paralleled a loss of men’s jobs in formal industries, which led more to compete in informal activities. At the same time, the expansion in public and formal private services as well as the evolution away from gender-based apartheid restrictions created more opportunities for women.

At the start of the pandemic, the share of whites in small formal business ownership climbed to almost 50%, as almost only black formal businesses closed down. The number of black-owned businesses soon rebounded, however, and by the end of 2022 the share of whites in small business ownership had fallen back to pre-pandemic levels.

Graph 19. Ownership of small formal and informal business by race, annually in 2002, 2010, 2015 and 2019 and quarterly from 2020 to 202



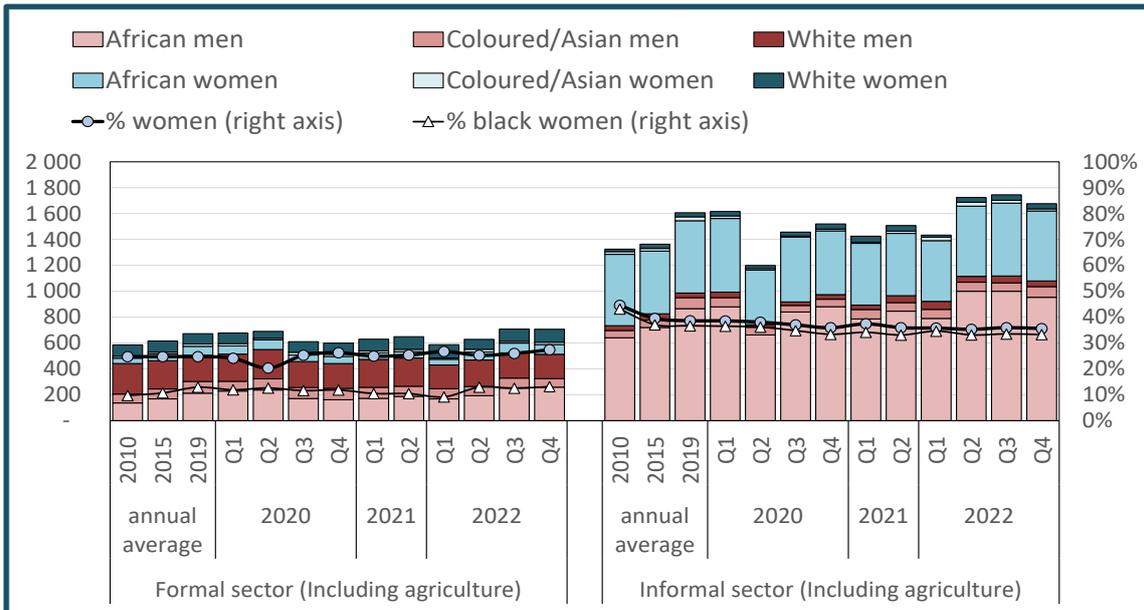
Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for 2010 to 2019, and Quarterly Labour Force Surveys for first quarter 2020 to fourth quarter 2022. Electronic datasets. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

The high rate of closure among small black-owned formal business at the start of the pandemic reflected two factors. First, many of these enterprises were comparatively new, which always makes it harder to survive tough times. Second, white entrepreneurs were far more likely to inherit significant resources of some kind. That provided a buffer in downturns.

Around a quarter of small formal business owners were women, a figure that improved only marginally from 2010 to 2022. Over half of women business owners in the formal sector were, however, white. African women, who made up 40% of the working-age population in 2022, owned only 13% of small formal business at the end of 2022, up from 10% in 2010. (Graph 20)

In the informal sector, the share of women entrepreneurs declined steadily from 2010 to 2019, with a further fall during the pandemic. In 2010, 45% of informal business owners were women; in 2019, the number had dropped to 40%, and at the end of 2022 it was just over 35%. The trend paralleled a loss of men’s jobs in formal industries, which led more to compete in informal activities. At the same time, the expansion in public and formal private services as well as the evolution away from gender-based apartheid restrictions created more opportunities for women. From 2010 to 2019, the number of women-owned informal enterprise climbed 5%, but the number of men-owned businesses increased 35%. From 2019 to late 2022, the number of women-owned informal enterprise shrank 4% while men-owned businesses increased by almost 10%.

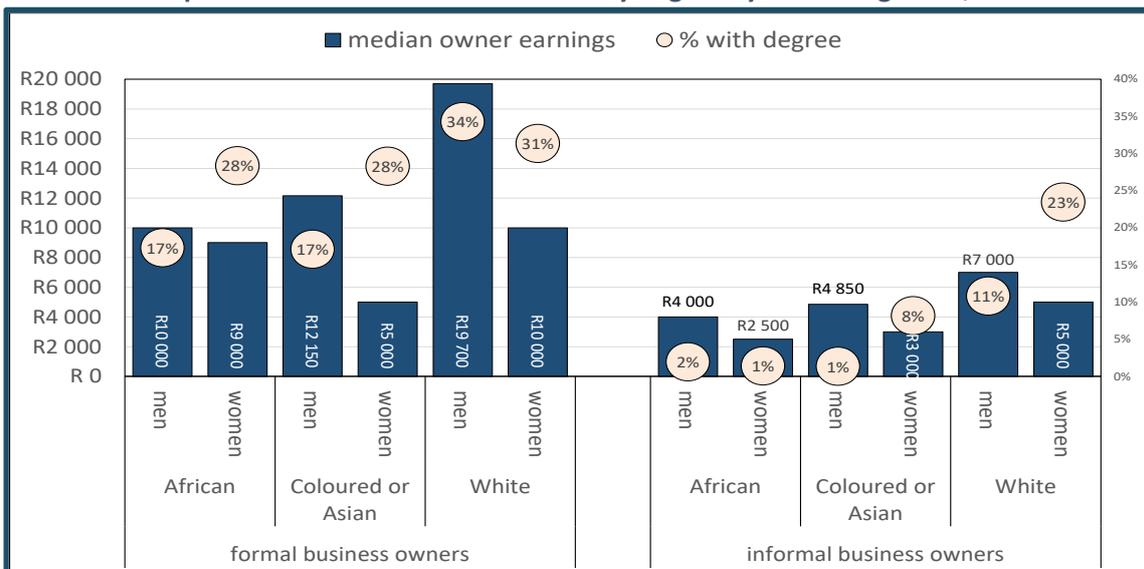
Graph 20. Ownership of small business by gender and race, annually in 2010, 2015 and 2019 and quarterly from 2020 to 2022



Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for 2010 to 2019, and Quarterly Labour Force Surveys for first quarter 2020 to fourth quarter 2022. Electronic datasets. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

The earnings of small business owners varied substantially by race and gender, even controlling for education levels. In 2019, the median earnings of a white man who owned a small formal business were almost twice as high as those for black men and women and for white women. In contrast, the difference between African men and women small business owners in the formal sector was only around 10%. Among small formal business owners, African women were almost as likely as white men to have a degree and nearly twice as likely as African men – but they still earned significantly less than either group. The differences in earnings by race and gender were also significant in the informal sector, but it included far fewer white businesspeople. (Graph 21)

Graph 21. Median monthly earnings of small formal business owners and informal entrepreneurs and share with a university degree by race and gender, 2019

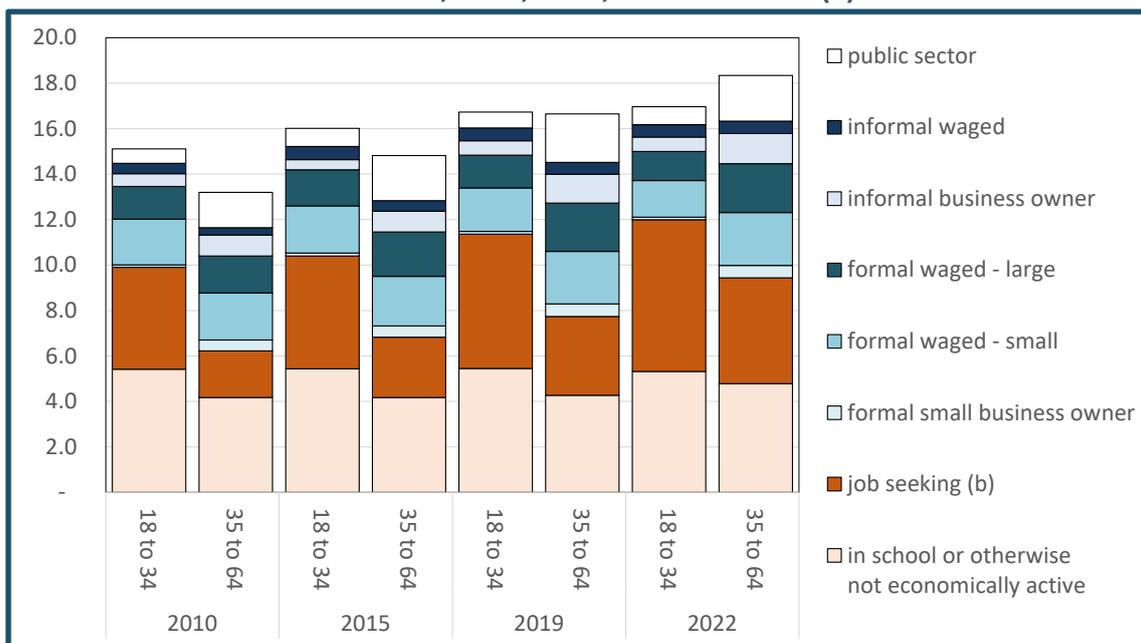


Source: Calculated from Statistics South Africa. Labour Market Dynamics 2019. Electronic database. Downloaded from Nesstar facility at www.statssa.gov.za.

YOUTH

In both the formal and informal sector, business owners were significantly older than waged workers. In 2019, the median age for waged workers in both sectors was 35. For formal business owners, it was 45, and for informal owners, 41. In 2022, 4% of young people aged 15 to 34 were business owners, which equated to 15% of all employed youth. Amongst people aged 35 and over, 10% of the total population owned a business, which equalled 21% of the employed. Overall, young people were more likely than older people to be in school (that is, economically inactive) and, if out of school, still seeking work.

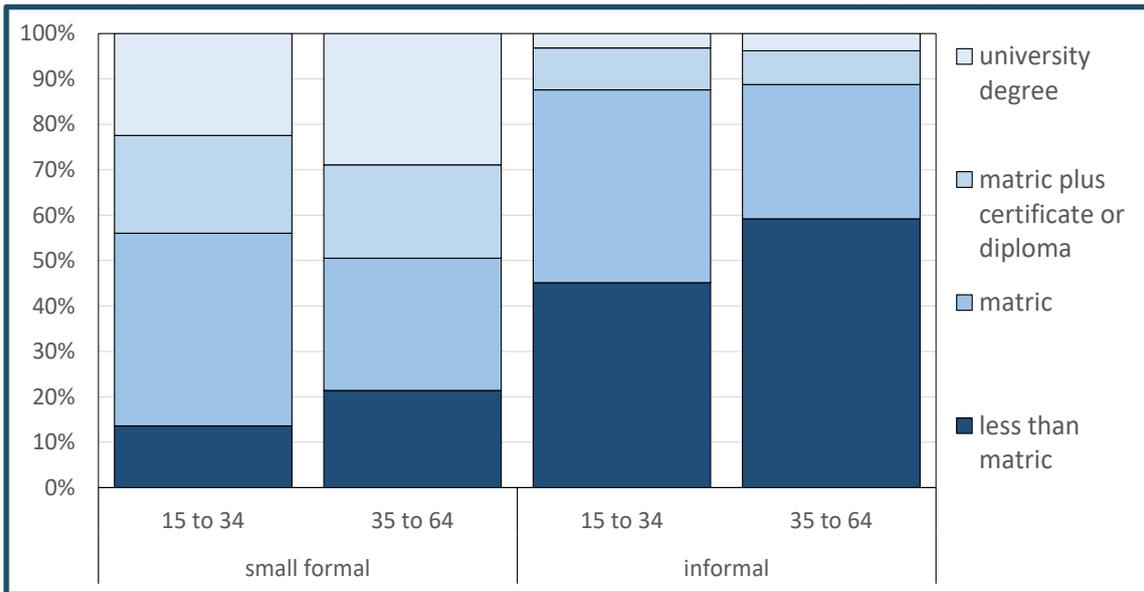
Graph 22. Jobless, business owners and waged workers by sector and age group, in millions, 2010, 2015, 2019 and 2022 (a)



Note: (a) Figures for 2022 are average of quarterly findings. The share of youth among adults has declined as a result of slowing population growth rates. (b) Includes people counted as unemployed (who actively sought work in the past two weeks) and discouraged (who want paid work but have given up looking for it). *Source:* Calculated from Statistics South Africa. Labour Market Dynamics for 2010 to 2019, and Quarterly Labour Force Surveys for 2022. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za.

In addition to the general obstacles to small business in South Africa, young people faced unique barriers. Above all, they still had to accumulate the experience, networks and financial resources needed to provide at least some cushion for the risks of entrepreneurship. That said, improving education levels since 1994 meant that they generally had higher education levels than older adults. In 2019, young business owners were almost as likely to have a degree as their older peers, and much more likely to have matric. (Graph 23)

Graph 23. Education of formal and informal business owners by age group, 2019

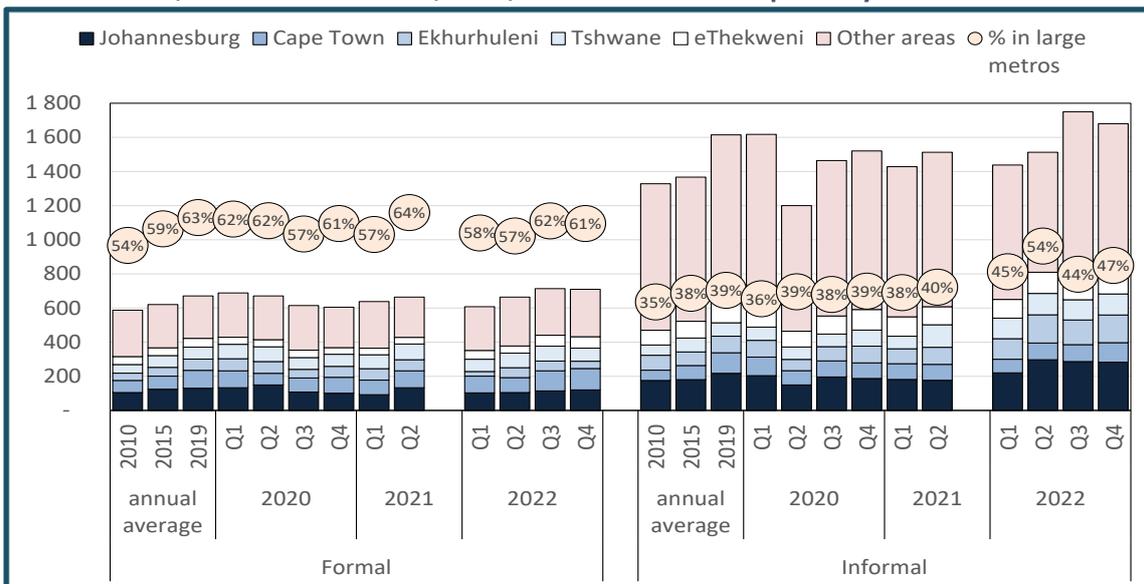


Source: Calculated from Statistics South Africa. Labour Market Dynamics 2019. Electronic dataset. Downloaded from Nesstar facility at www.statssa.gov.za.

GEOGRAPHIC DISTRIBUTION

Historically, formal business was located principally in metro areas. The five largest metros hold just over a third of the population but dominate economic capacity. The concentration of formal small business in the biggest metros intensified through the 2010s. By 2019, the largest metros hosted around 60% of all formal small businesses, a share that remained stable through the pandemic. In contrast, the location of informal business correlated better with the distribution of the population. Still, the metro share rose rapidly during the pandemic. The five biggest metros held 35% of informal business in 2010, 39% in 2019, and over 45% in late 2022. (Graph 24)

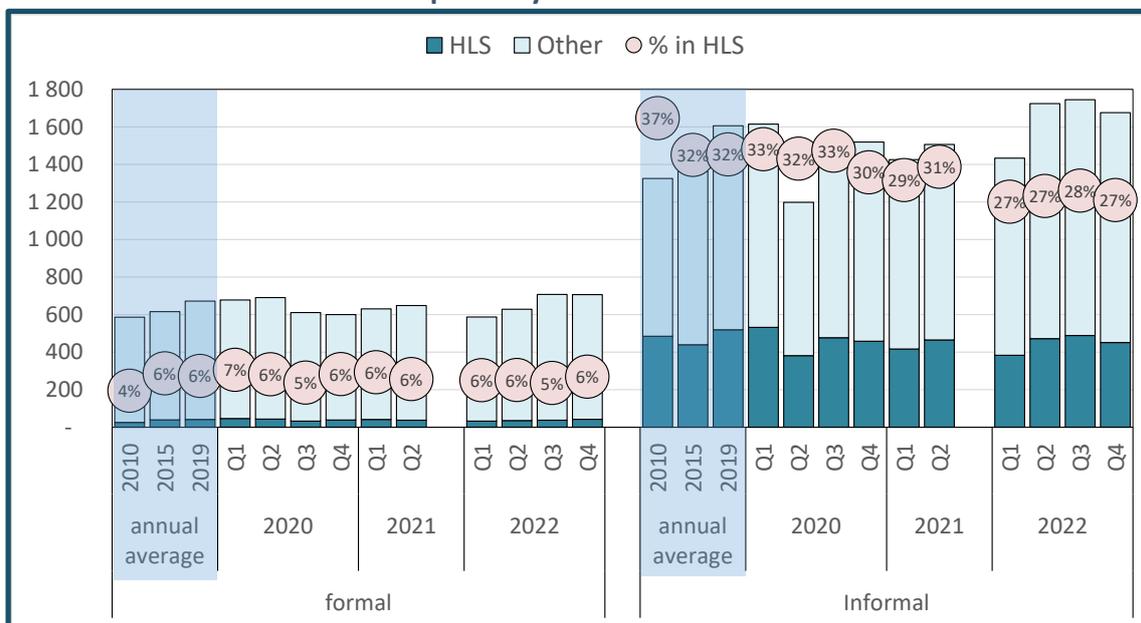
Graph 24. Number of formal and informal small business in metros and other areas, in thousands, and share in metros, 2010, 2015 and 2019 and quarterly from 2000 to 2022



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey for 2010, 2015 and 2019, and Quarterly Labour Force Survey for 2020 to 2022. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za in January 2023.

Formal small business was particularly limited in the historic labour-sending regions of South Africa – the former so-called “homeland” areas. These areas held around a quarter of the population in 2022, but only 5% of small formal enterprises. They contained over a quarter of informal businesses, but the share had fallen from 37% in 2010. (Graph 25)

Graph 25. Formal and informal small business presence in historic labour sending regions (HLS) and other areas, in thousands, and share in HLS, 2010, 2015 and 2019 and quarterly from 2000 to 2022



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey for 2010, 2015 and 2019, and Quarterly Labour Force Survey for 2020 to 2022. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za in January 2023.

SOURCES

The analysis in this bulletin draws primarily on four surveys published by Statistics South Africa: the Quarterly Labour Force Survey (QLFS), the Labour Market Dynamics (LMD) databases derived from the quarterly surveys, the Annual Financial Statistics, and the 2017 Survey of Employers and the Self Employed.

The quarterly labour market surveys cover around 30 000 households, asking a range of questions on both employment and unemployment. Where respondents say they are either employers or own-account workers (that is, self-employed with no paid employees), they are here considered to be business owners. Small business owners are here defined as own-account workers plus employers who report fewer than 50 employees.

From the start of the COVID-19 pandemic through the end of 2021, telephonic interviews replaced face-to-face conversations in the quarterly surveys. That shift resulted in a sharp fall in the response rate. Figures for the second half of 2021 seem particularly unreliable, and this report leaves them out. (See [The Real Economy Bulletin – Third Quarter 2021](#))

The Labour Market Dynamics databases average the Quarterly Labour Force Survey findings in order to remove seasonal variations and offset survey errors. We here use these annual figures mostly for the pre-COVID period, since they do not capture the substantial short-run shifts in employment and small enterprise since then. For 2022, an average of quarterly series gives analogous figures, although the official Labour Market Dynamics for the year has not yet been published. The Labour Market Dynamics databases also provide information on earnings based on the responses of business owners and waged workers. As always, these returns should be treated with caution, especially for the best and worst paid.

The Annual Financial Statistics aggregates financial statements provided from a sample of 13 000 businesses that are registered for VAT. It excludes agriculture, financial services, and unspecified business services (mostly cleaning and security). It stratifies responses by size and economic sector. Its findings define small business based on the definitions in the Small Business Act of 2003, which relate to turnover and employment. The thresholds in the Act vary substantially by sector.

According to the Quarterly Labour Force Surveys, a fifth of formal employers and two fifths of own-account workers are not registered for VAT. The surveys categorise them as formal based on other indicators, such as registration for income tax and unemployment insurance. The reliance on VAT alone means that the Annual Financial Statistics undercount smaller formal businesses.

Statistics South Africa has published the Survey of Employers and the Self Employed at four-yearly intervals since 2001, most recently in 2017. The survey identifies business owners who are not registered for VAT from the Quarterly Labour Force Surveys, and undertakes follow-up interviews to find out more about their businesses. In 2017, it covered almost 1 700 businesses, out of around 8 000 informal employers and own-account workers surveyed in the Labour Market Dynamics for that year.

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