

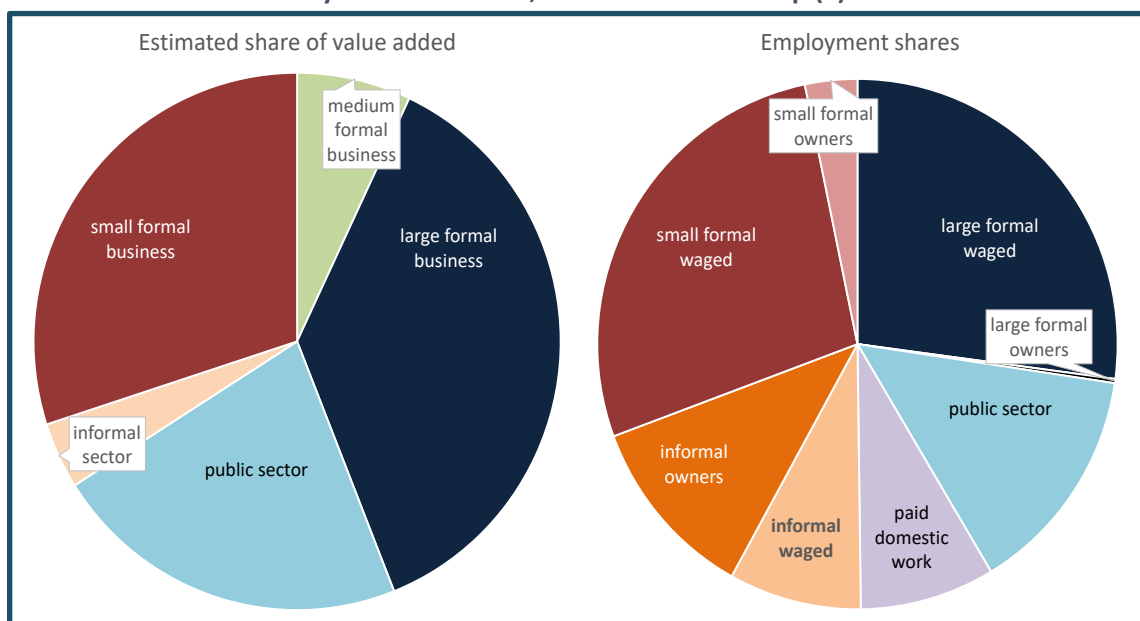
## Briefing Note 3: The small business REB

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TIPS is publishing the latest edition of its special REB on the State of Small Business, dedicated to an analysis of the available data on small business. This Briefing Note highlights 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 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 thirty 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, the figure is just 6%. This backlog in itself largely 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%. The impact on employment is larger. (Graph 1)

**Graph 1. Indication of shares in national value added and in employment by size of business, sector and ownership (a)**

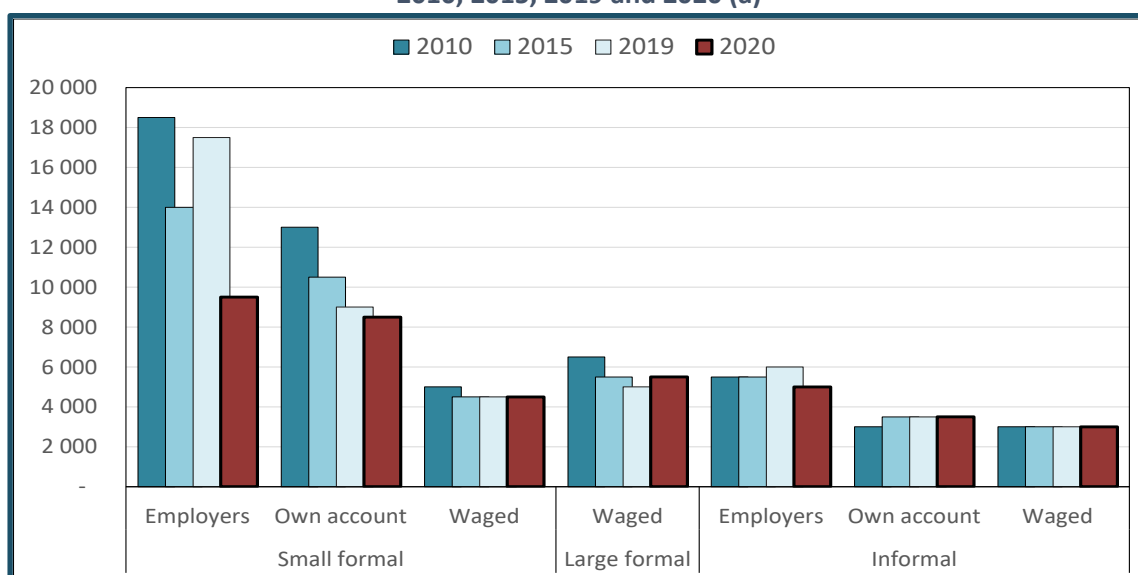


Note: (a) Estimated based on remuneration in the public sector; earnings in informal business and formal self-employment; and remuneration plus pre-tax profit in the private formal sector. Source: Calculated from Statistics South Africa. Annual Financial Statistics 2020. AFS 2019 revised - Estimates by business size. Excel spreadsheet. Accessed at [www.statssa.gov.za](http://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](http://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](http://www.treasury.gov.za) in February 2023.

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 COVID-19 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 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. (Graph 2)

**Graph 2. Median monthly earnings in constant (2021) rand by size and sector, 2010, 2015, 2019 and 2020 (a)**

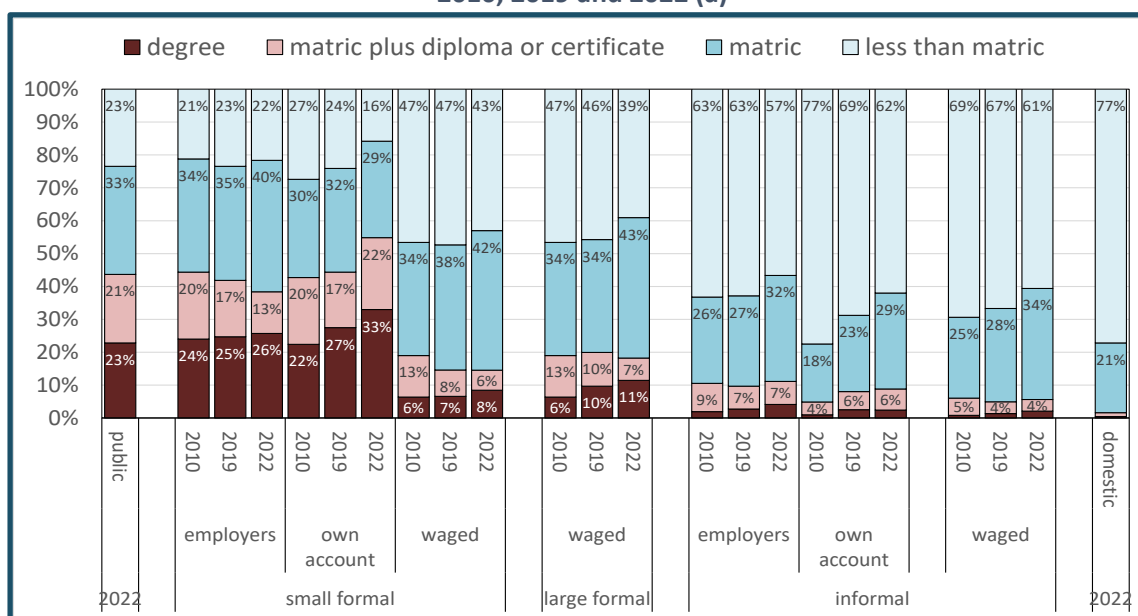


*Note: (a) Rebased with average annual CPI rebased to 2021. Source: Calculated from Statistics South Africa. Labour Market Dynamics for relevant years. Electronic databases. Downloaded from Nesstar facility at [www.statssa.gov.za](http://www.statssa.gov.za).*

- 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 a 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 much higher education levels, however, than informal business owners and their employees as well as domestic workers.

**Graph 3. 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](http://www.statssa.gov.za).

- In the early 2000s, black entrepreneurs owned 40% of small formal businesses. Their share rose to 60% in 2019. The pandemic hit them disproportionately hard, however, and their share fell to 50% 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.
- 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 had only 35% of informal businesses in 2010, rising to 39% in 2019 and over 45% in late 2022.