THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

SPECIAL EDITION: THE STATE OF SMALL BUSINESS IN SOUTH AFRICA

Having an up-to-date overview of the state of small businesses in South Africa provides policymakers with evidence to inform decisions and design appropriate interventions.

This special edition of The Real Economy Bulletin is the second edition of the State of Small Business published by TIPS. It includes a review of trends in small business according to national data; learnings about efforts to support small business in South Africa from Kate Philip's new book, Markets on the Margins; *and a summary of the main initiatives for small business in the Job Summit Framework Agreement.*

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SMALL BUSINESS BY NUMBERS

Small business encompasses a wide range of enterprises, from self-employed people eking out a precarious survival selling by the road side to high-level professionals providing well-paid services to big business.

This analysis draws on two sources: Statistics South Africa's Quarterly Labour Force Survey[1] and the Annual Financial Statistics, a survey of around 13 000 businesses stratified by size and industry.

The Labour Force Survey identifies employers and the self-employed in both the formal and informal sector, 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.

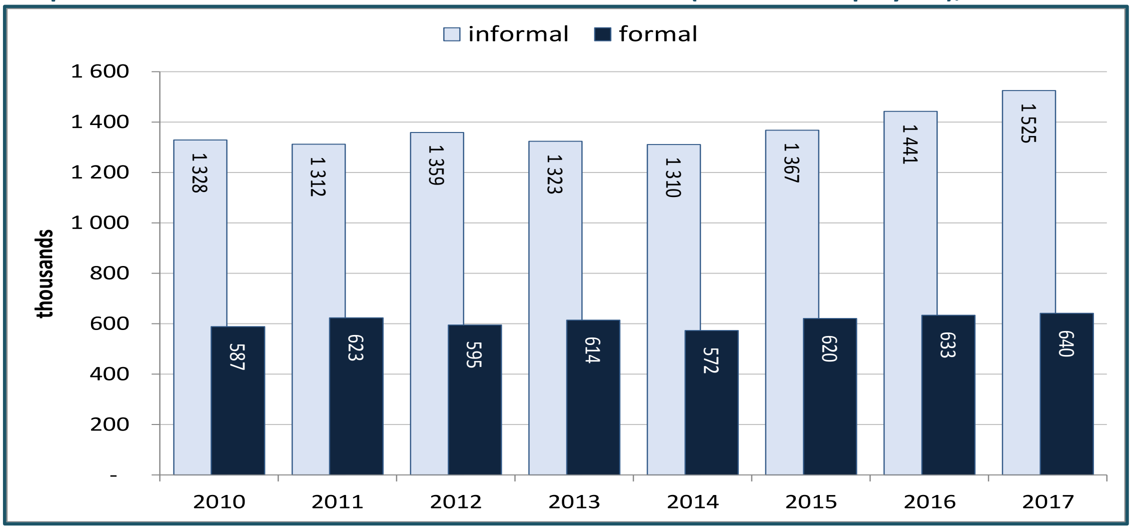
[1] For annual figures except for 2018, the data are from Statistics South Africa's publication of average figures for the quarterly data for each year in the Labour Market Dynamics survey; for 2018, the figures are an average of the Quarterly Labour Force Surveys through June 2018.

Key facts on small business in 2017
♦ Formal small businesses: 640 000, up from 590 000 in 2010
♦ Informal small businesses: 1,5 million, up from 1,3 million in 2010
♦ Waged employees in formal small businesses in 2018: 4,2 million, or 50% of formal private jobs
♦ Estimated share of GDP: Around a quarter
♦ Rate of return on assets before tax in 2017: 7,6% for small enterprise, 7,2% for medium-sized enterprise, 7,1% for large enterprise
♦ Main sectors for formal small business: Business services (25% of total number), retail (23%), community and personal services (14%), construction (14%)
♦ Main sectors for informal small business: Retail (49% of total number), personal and community services (14%), construction (14%)
♦ Location: Two thirds of formal small business in the five largest metros, but only 20% of informal business
♦ Median income for formal employers and self-employed: R12 500 for firms with under 10 employees; R17 000 for firms with 20 to 49 employees
♦ Median income for informal employers and self-employed: R3010
♦ White ownership of formal small business: 45%, down from 62% in 2002
♦ Women's ownership: A quarter of formal and just under half of informal small business

HOW MANY SMALL BUSINESSES ARE THERE?

As Graph 1 shows, the number of formal small business reported in the labour market surveys climbed from around 600 000 in 2010 to 2012 to 640 000 in 2017. The number of informal business grew from 1,3 million to 1,5 million in the same period.

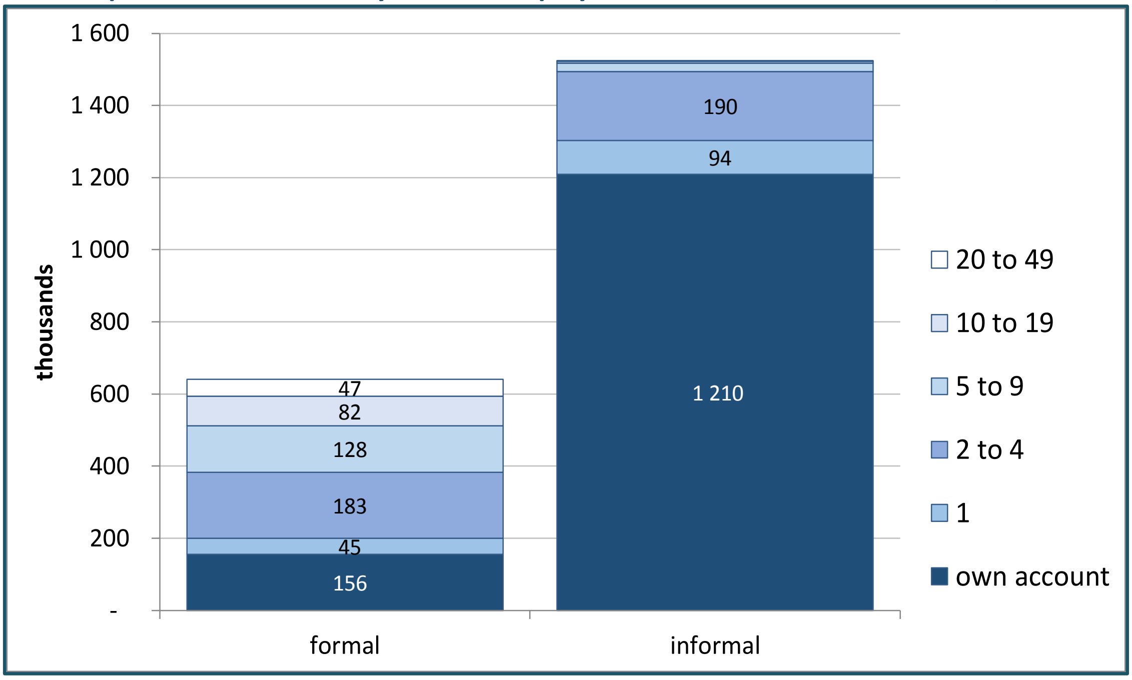
Graph 1. Number of formal and informal small business (under 50 employees), 2010 to 2017



Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years. 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.

A quarter of formal small business were own-account enterprises, with no employees. Over half had between one and nine employees, and a fifth had between 10 and 49 employees. In contrast, some 80% of informal enterprises had no employees, and virtually none had more than four (see Graph 2).

Graph 2. Small business by number employed in formal and informal sectors, 2017



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey, 2017. 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 January 2019.

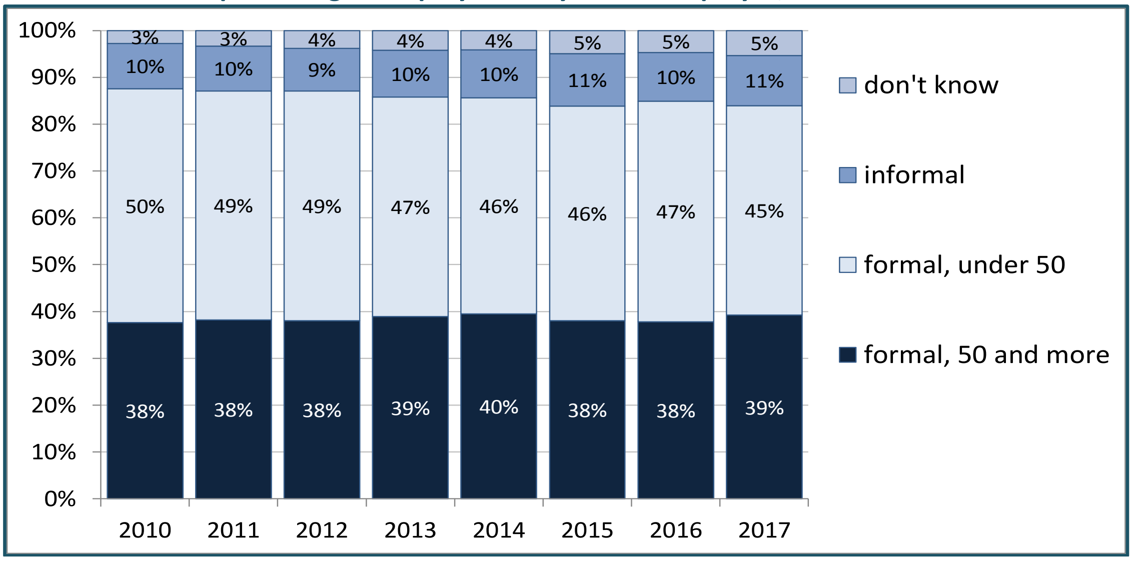
EMPLOYMENT AND EARNINGS

Small formal business accounts for 45% of all waged employment, and the informal sector for another 10%.

As Graph 3 shows, the share of small formal business stagnated from 2010 to 2017. 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 half of the total.

The relative labour intensity of small businesses as a group emerged from their expenditure figures. According to the Annual Financial Statistics, for small enterprises across all sectors (excluding agriculture and financial intermediation), remuneration accounted for 19% of total production costs. That compared to 13% for medium-sized enterprises and 12% for large enterprises.

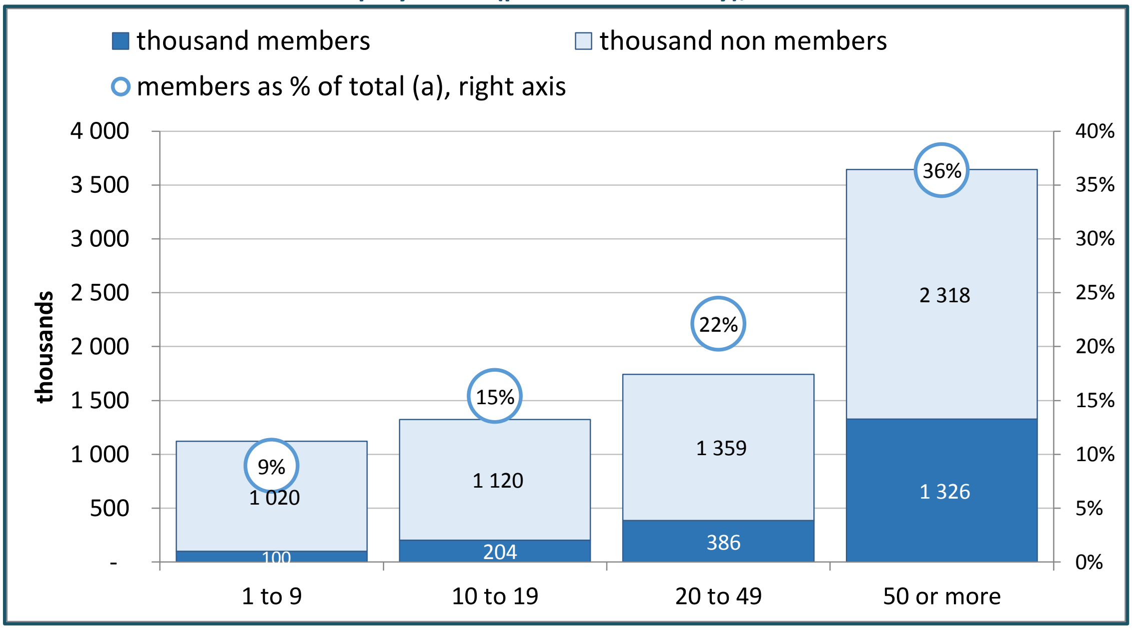
Graph 3. Waged employment by size of employer, 2010 to 2017



Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years. 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.

Union density was far lower in small business than in large private enterprise. In private companies with fewer than 10 workers, under a tenth were union members; in those with over 50 members, the figure rose to 36%.

Graph 4. Number of union members and union density by employer size (private sector only), 2017



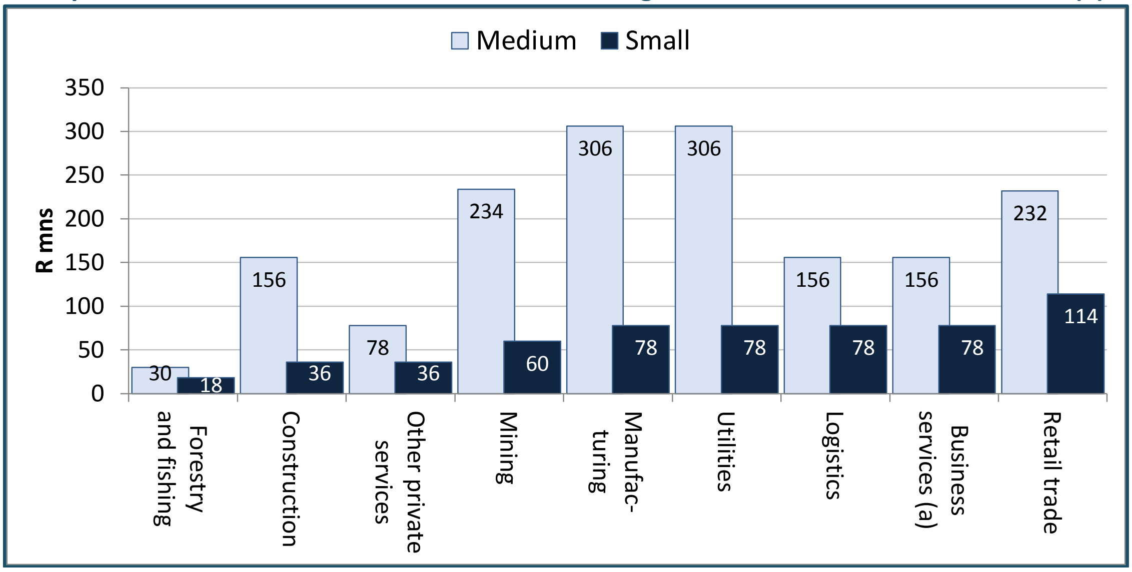
Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey, 2017. Electronic dataset. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za in January 2019.

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 definition in the Small Business Act, using categories for turnover updated for inflation.

The aggregate figure for small business reflects the sum of small business by industry rather than businesses that fall below a shared ceiling. By extension, it covers enterprises that diverge substantially in size, with turnover ranging from under R18 million in forestry up to R114 million in retail trade. The definition of medium-sized differs even more by industry. Graph 5 indicates the ceiling for turnover by industry in the Annual Financial Statistics.

Graph 5. Maximum turnover for business size categories in Annual Financial Statistics (a)



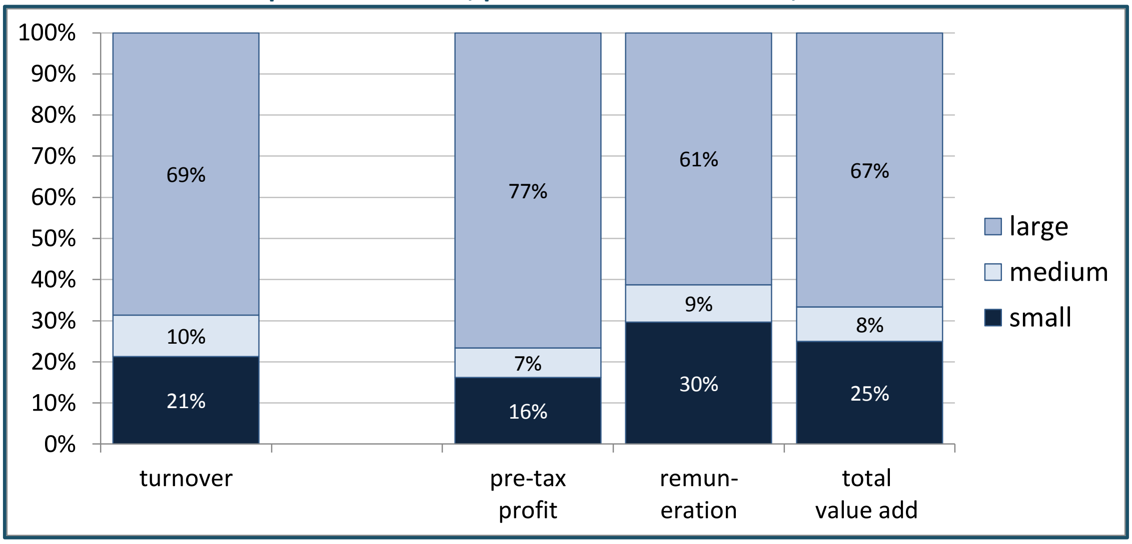
Note: Medium-sized enterprises fall between the maximum for small firms and the maximum for medium-sized enterprises. Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

According to the Annual Financial Statistics, the contribution to GDP outside of agriculture of formal small and medium enterprise, estimated as post-tax profit plus employment costs, came to 33% of the total for formal private enterprises. Most estimates put the share of the informal sector in the South African GDP at around 6%.[2]

Since the public sector contributes a fifth of the GDP, that would mean that small business as a whole, including medium-sized enterprise, contributed just under a third of the non-agricultural GDP.

[2] 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.

Graph 6. Contribution of small and medium enterprise to total formal private turnover, profits and remuneration, 2017



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

The share of small business in the GDP was considerably smaller than its contribution to employment, reflecting its relative labour intensity. This emerged in terms of the figures for value added: small and medium sized enterprise accounted for 39% of remuneration paid by the formal private sector, but just 23% of profits. As a result, the share of remuneration compared to profits in small and medium business was substantially higher than in larger companies. It came to 77% for small enterprise; 71% for medium-sized enterprise; and 60% for large enterprise.

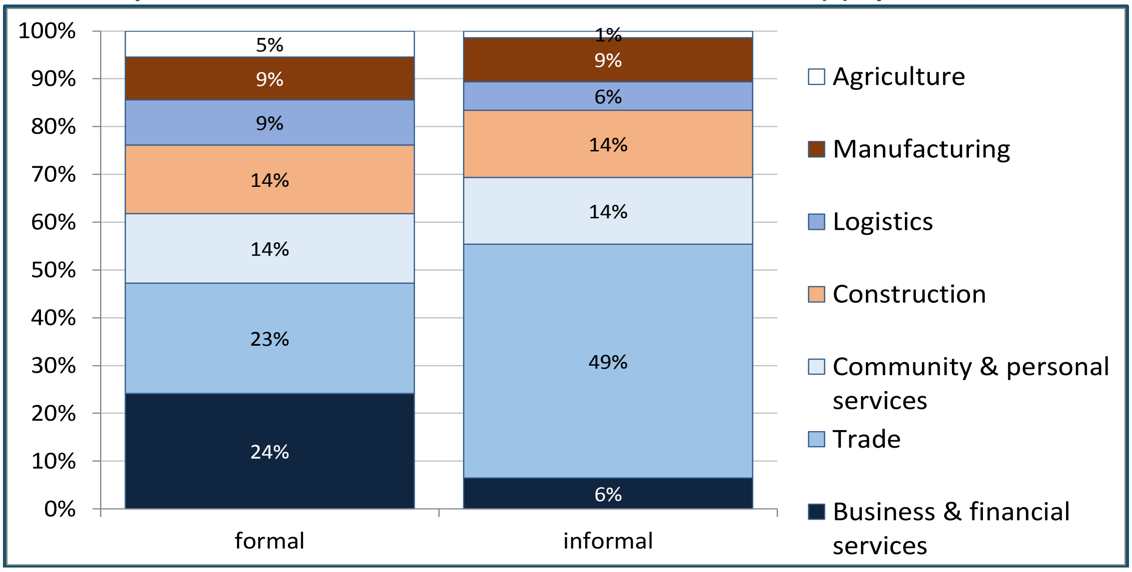
SMALL BUSINESS BY SECTOR

According to the Labour Force Survey, the distribution of small business between industries was stable over the past decade. In 2017, a quarter of formal small businesses were in business services, with almost as many in trade. A seventh each was in construction and personal services. In the services sectors, around a quarter of small formal businesses were in cleaning and security, with professional services such as law firms and healthcare accounting for most of the rest.

Just under a tenth of formal small enterprises were in manufacturing, with over a quarter in metals and machinery, followed at a distance by food processing, wood and printing.

Half of all informal businesses were in trade, a seventh in construction and another seventh in personal services. The main services for informal enterprises were cleaning and security. Just under a tenth of informal businesses were in manufacturing, largely clothing followed by metals.

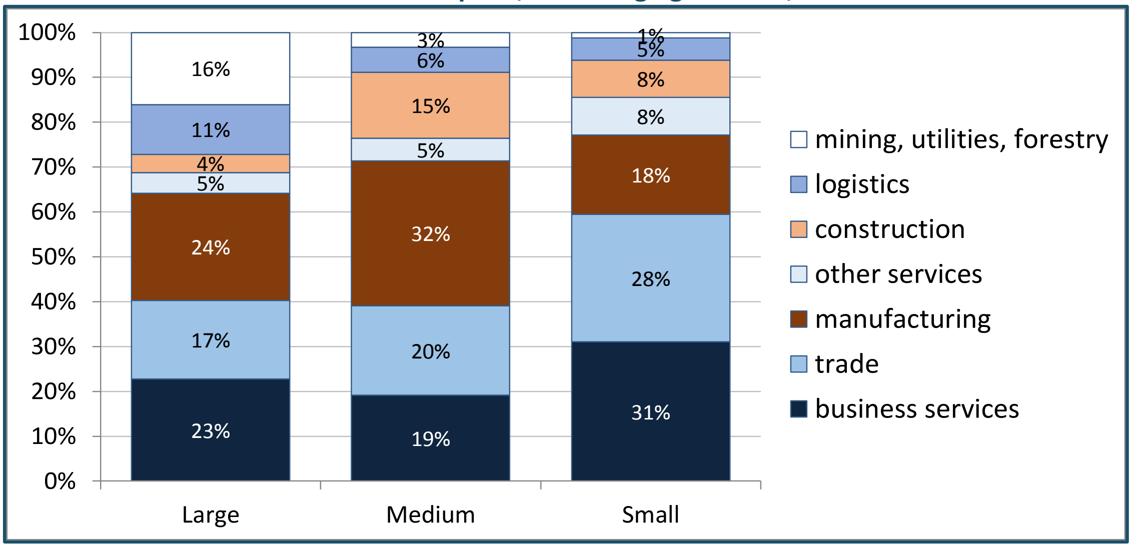
Graph 7. Distribution of formal and informal small business (a) by sector, 2017



Note: (a) Defined here as businesses with fewer than 50 workers. Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey, 2017. 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 January 2019.

The Annual Financial Statistics provides insight into the contribution to the GDP of small business by sector. Trade and business services accounted for almost three fifths of small enterprise value add, with nearly another fifth from manufacturing. For medium-sized enterprise, manufacturing was the most important sector, contributing 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.

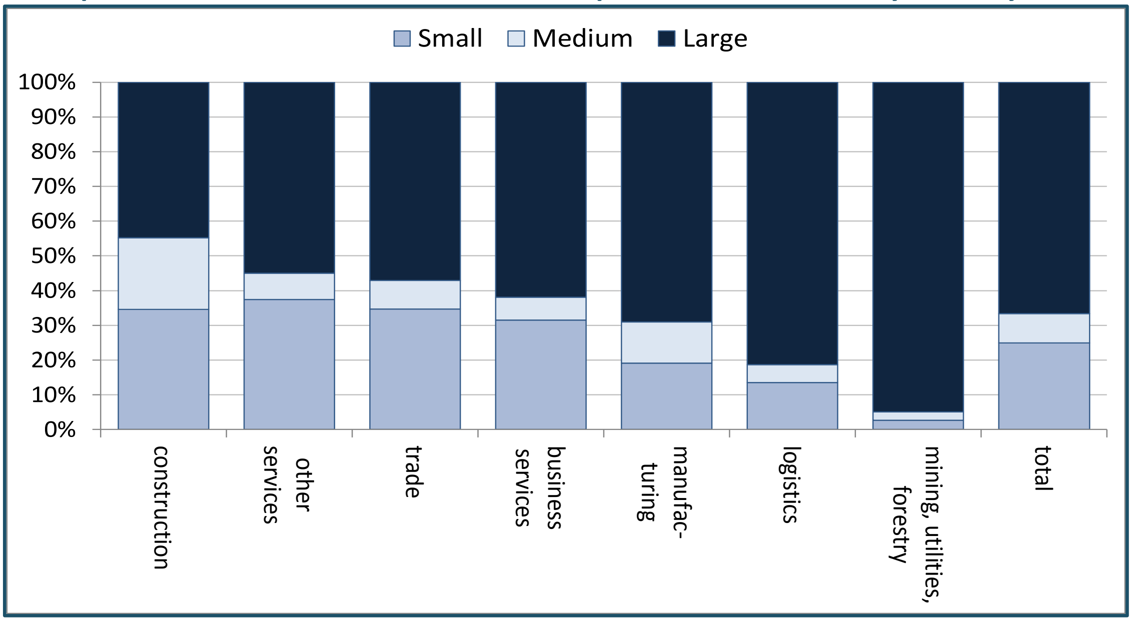
Graph 8. Value added (remuneration plus profits) by sector and size of formal enterprise, excluding agriculture, 2017



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

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

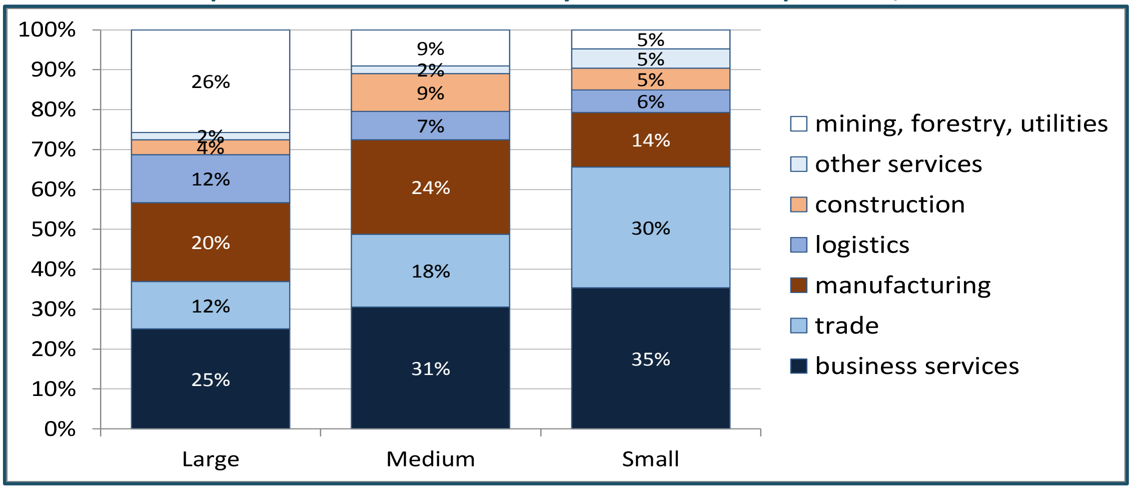
Graph 9. Share of small and medium enterprise in value added by industry, 2017



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

Two thirds of small enterprise assets were in business services and trade, with another seventh in manufacturing. Medium-sized enterprise was more heavily invested in manufacturing, which accounted for a quarter of its total assets, with less in trade. Large business had more of its holdings in mining, forestry and utilities than small and medium enterprises.

Graph 10. Share of total assets by sector and enterprise size, 2017

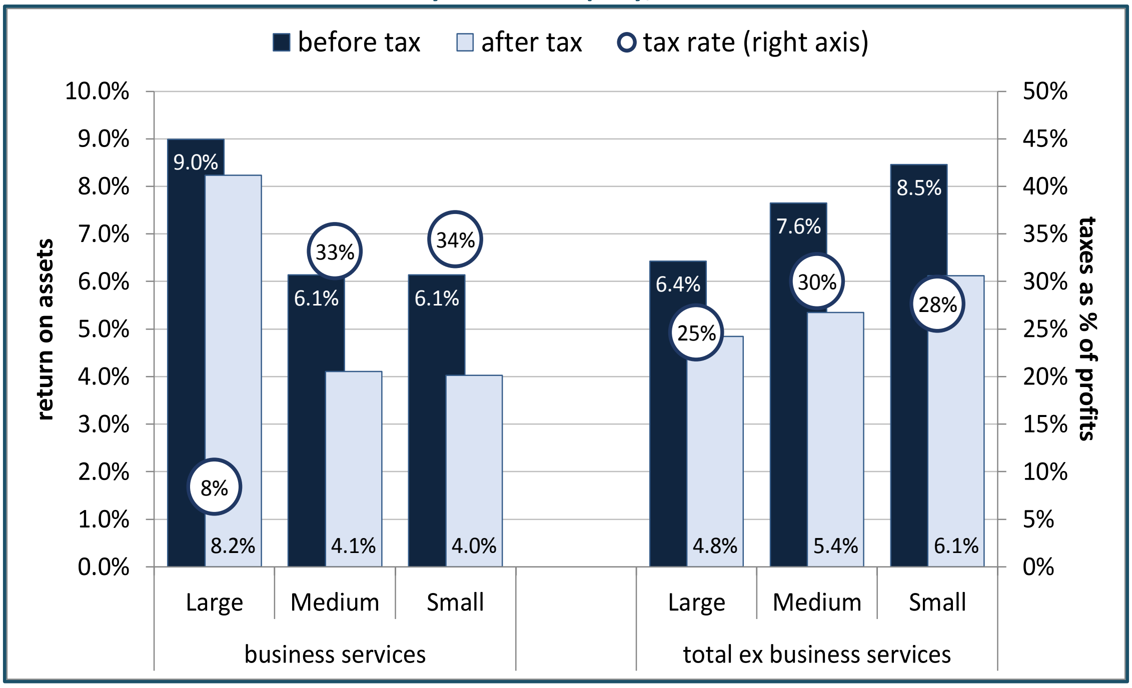


Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

PROFITABILITY AND EARNINGS

According to the Annual Financial Statistics, the rate of return on assets for small and medium enterprises before tax was slightly higher than for large enterprises. Reported taxes on profits were however proportionately higher for small than for large business. In part, that resulted from very low effective tax rates in mining, forestry and utilities. It also resulted from very low reported taxes on 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 – returns on assets after tax was still larger for small and medium business than for large enterprise, but the differential was significantly smaller.

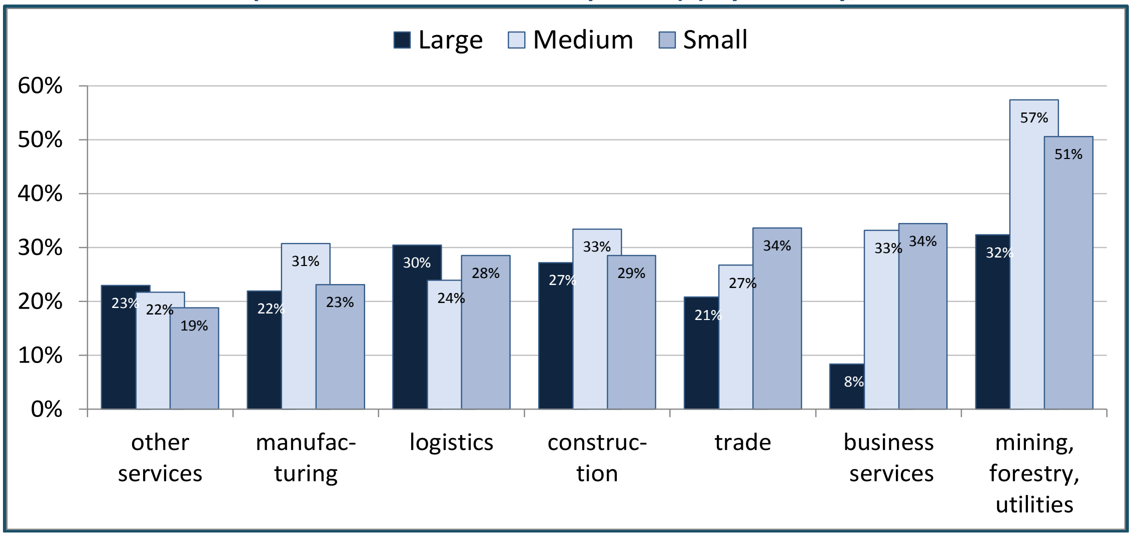
Graph 11. Pre-tax and after-tax returns on total assets (a) and effective tax rate (b) by size of company, 2017



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 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

As Graph 12 shows, the effective rate of tax on profits varied substantially between industries. It was lower on large companies than small ones in all industries except personal and community services and logistics.

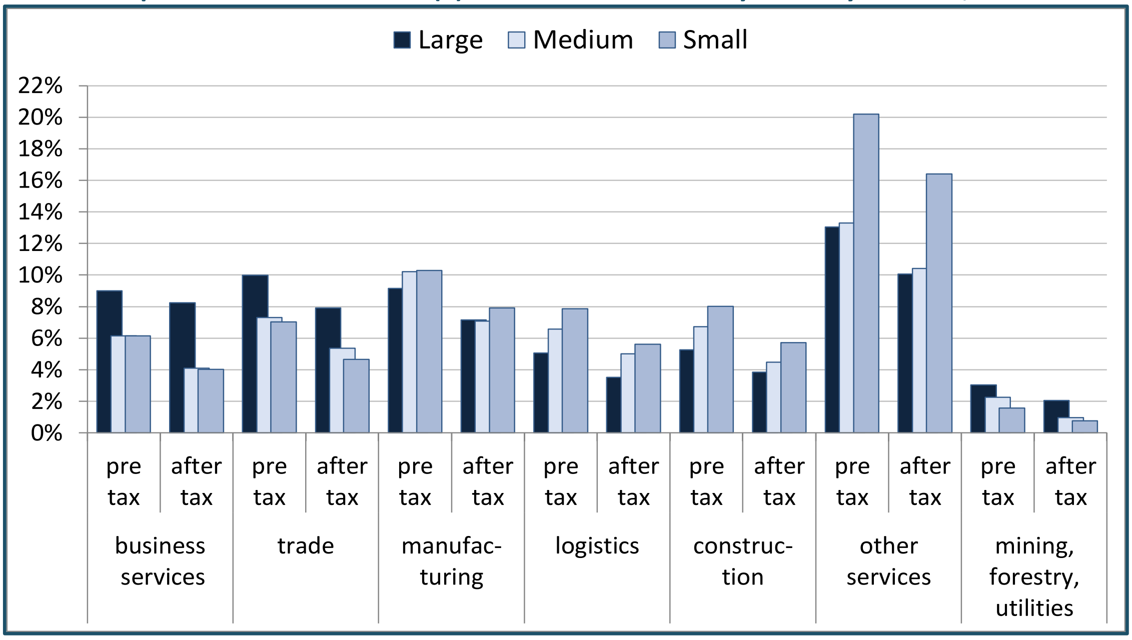
Graph 12. Effective tax rate on profits (a) by industry, 2017



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 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

Graph 13 shows the rate of return on assets by sector before and after tax.

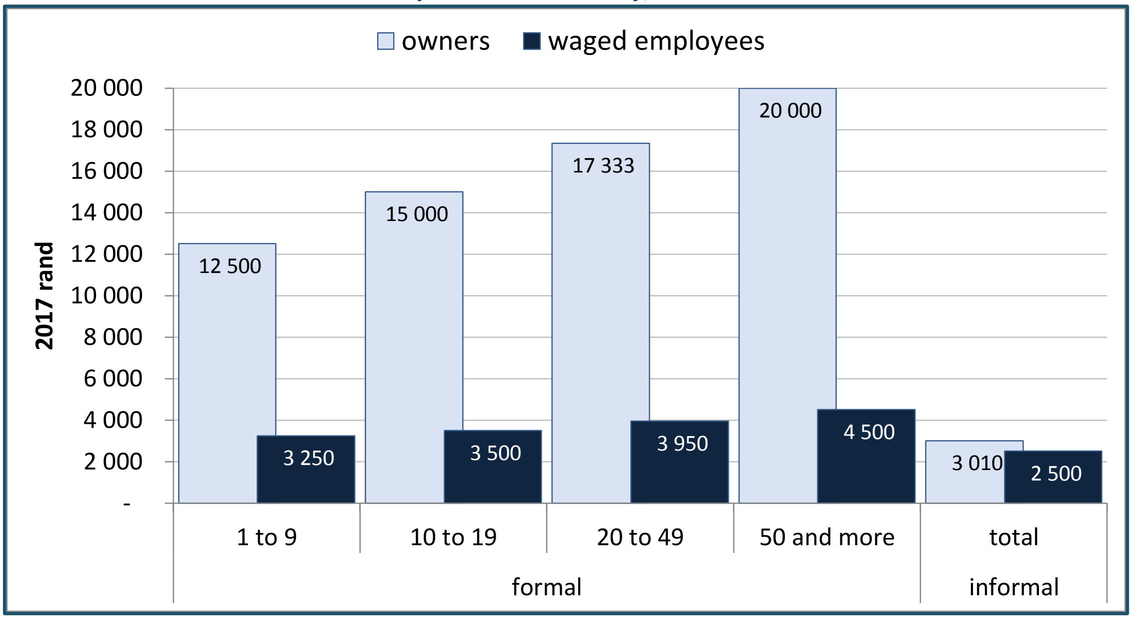
Graph 13. Return on assets (a) before and after tax by industry and size, 2017



(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 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

As Graph 14 shows, the labour force surveys reported that earnings for both employers and employees 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 R12 500 a month, while their workers' median earnings came to R3 250. Business owners with more than 20 workers earned 50% more, and their employees' median pay came to around R4 000 a month.

Graph 14. Median monthly earnings for owners and employees by size of business, private sector only, 2017



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey, 2017. 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 January 2019.

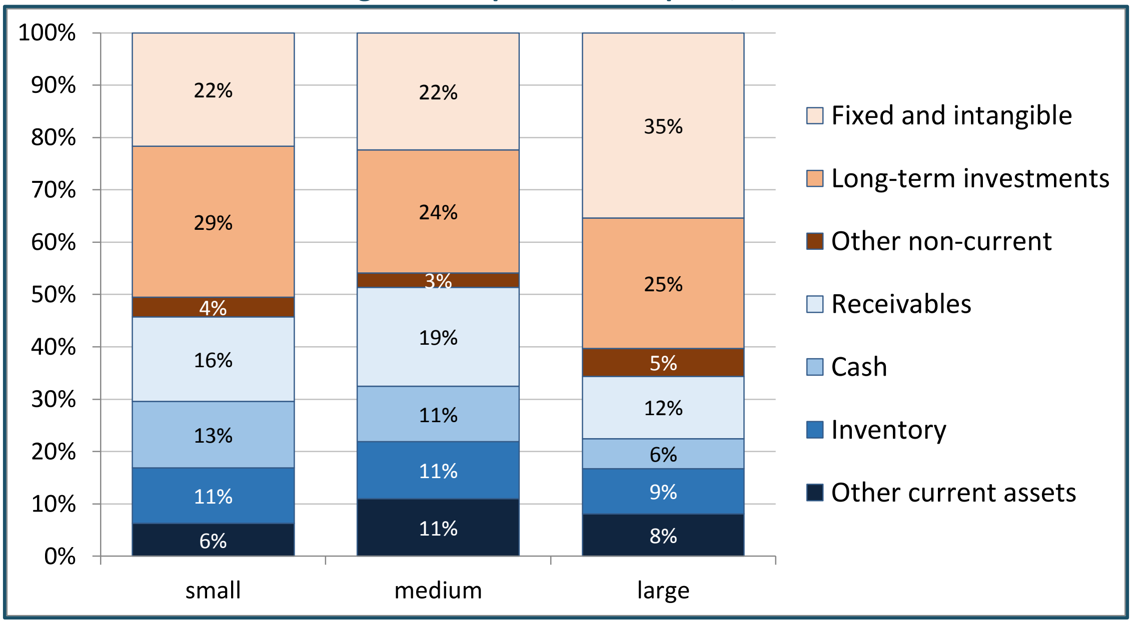
While wages were generally lower in small business for employees, there was a slightly lower pay gap between workers and employers. The ratio of workers' earnings to that of their employers came to 3,8 to one in formal enterprises with fewer than 10 employees; to 4,3 to one in those with between 10 and 19; and to 4,4 to one in those with more than 20 workers. In the informal sector, the median earnings for employers were only around 20% higher than the medium earnings for employees.

ASSETS AND LIABILITIES

According to the Annual Financial Statistics survey, small enterprise accounted for 17% of the assets of the formal private business sector, and medium-sized firms for another 7%. These findings again underscore the relative labour-intensity of small business.

Small business tended to be relatively liquid. Some 12% of the current assets of small formal enterprise was in cash, compared to 6% for large enterprise. For medium-sized firms, the figure was 13%. Another 16% of small enterprise assets was trade and other receivables, compared to 19% for medium-sized business and 12% for large firms. In contrast, fixed assets and intangible holdings plus investments accounted for around half of the assets of small and medium business, but two thirds of the total for large enterprise.

Graph 15. Composition of assets of small, medium and large formal private enterprise, 2017



Source: Calculated from Statistics South Africa. Annual Financial Statistics Survey. Estimates by business size 2016-2017. Excel spreadsheet. Preliminary estimates for 2017. Downloaded from www.statssa.gov.za in January 2019.

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 enterprise, but the figures do not indicate how much of the difference was due to branding and how much to fixed investments.

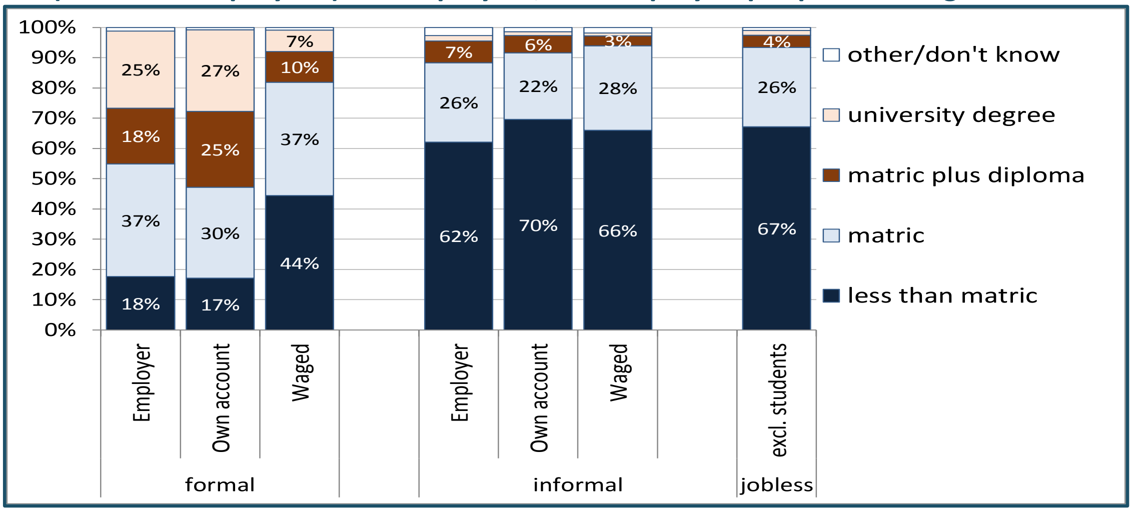
The share of small and medium enterprise in total current and non-current liabilities of private formal business was similar to their proportion in assets, at 15%. Small enterprises were, however, more dependent on bank overdrafts than other firms. Bank overdrafts constituted 7% of current liabilities for small enterprise, compared to 4% for medium-sized and 3% for large enterprise. As a result, they accounted for almost 30% of all bank overdrafts to private formal business.

EDUCATION LEVELS

In small business, formal employers and self-employed people were substantially better educated than their employees. Around half of self-employed formal workers had a university degree or a post-matric diploma, which include artisan training.

Education levels were generally much higher in formal small business than in the informal sector. Moreover, in the informal sector there was little difference in education between business owners and employees, and education levels were more or less the same as for jobless people of working age.

Graph 16. Education levels in formal and informal small business (under 50 employees) for employers, self-employed people and wage workers

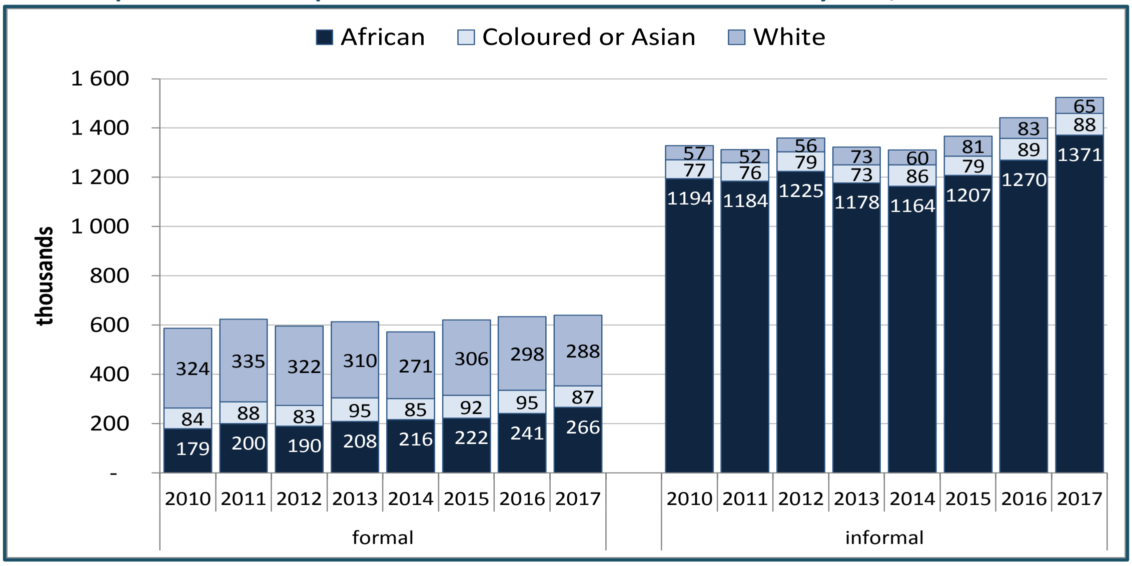


Source: Calculated from Statistics South Africa. Labour Market Dynamics Surveys for relevant years. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; and number of employees. Datasets downloaded from Nesstar facility at www.statssa.gov.za.

OWNERSHIP BY RACE AND GENDER

In the early 2000s, around two thirds of formal small business owners were white. Their share had fallen to a third by 2010, and it continued to decline steadily to under half in 2017. In contrast, Africans consistently made up around 90% of informal business owners, with whites constituting around 5% and Coloureds and Indians some 6%.

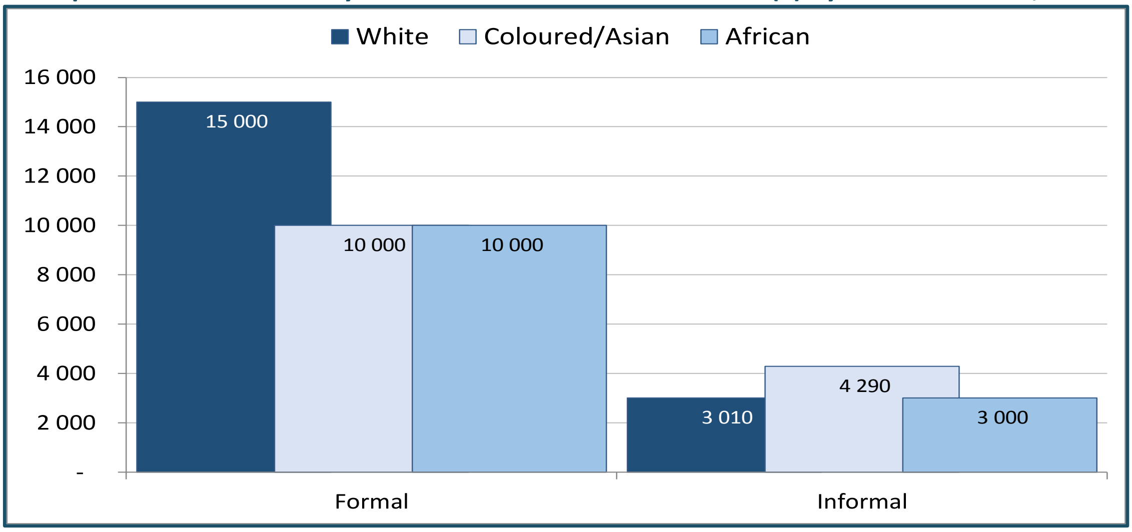
Graph 17. Ownership of small formal and informal business by race, 2010 to 2017



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

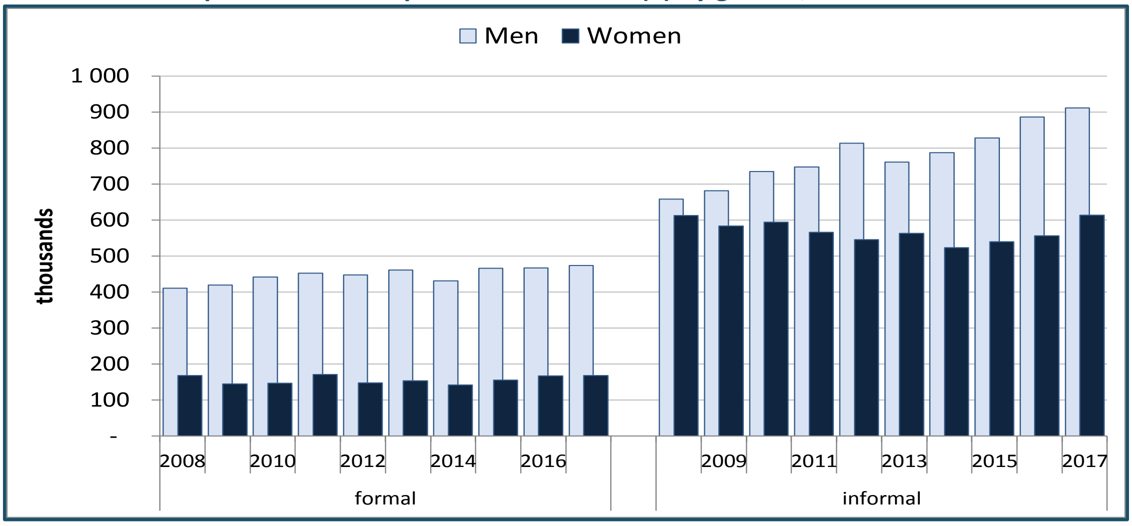
White business owners in the formal sector had substantially higher earnings than black owners. In the informal sector, racial differences were fairly small.

Graph 18. Median monthly income of small business owners (a) by race and sector, 2017



Note: (a) Defined as having under 50 employees. Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2017. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; population group; earnings of employers and the self-employed; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in January 2019.

Graph 19. Ownership of small business (a) by gender, 2010 to 2017



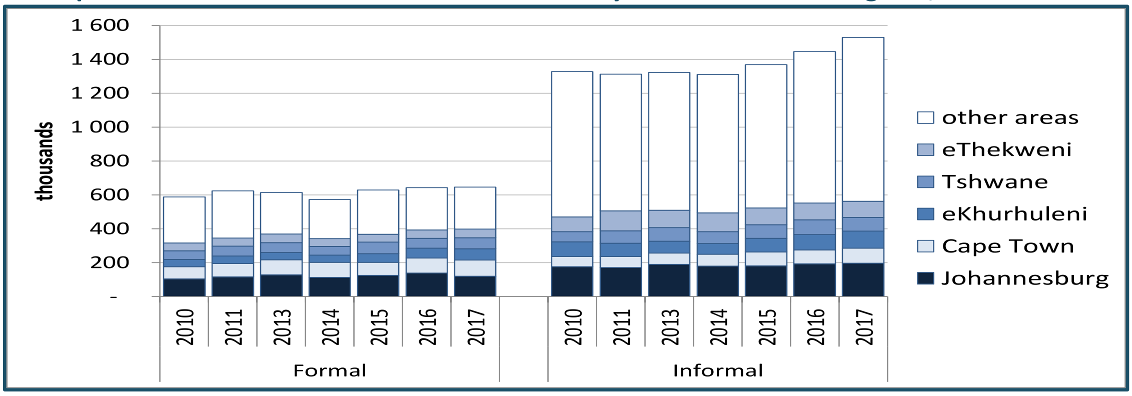
Note: (a) Defined as having under 50 employees. Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2017. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; gender; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in January 2019.

The median income for women small business owners in the formal sector in 2017 was R9 000 a month; for men, it was R12 500 a month, or 40% higher. In the informal sector, the proportional gap was even larger. The median earnings for women small business owners were just R2 170 a month, while for men it was R3 900, or 80% more.

THE GEOGRAPHY OF SMALL BUSINESSS

Historically, formal business was located principally in the main economic centres around the metro areas, while informal enterprise was more evenly distributed in spatial terms. This pattern has changed little in recent years. As Graph 20 shows, the metro areas contain almost two thirds of formal small business, but only a third of informal enterprise. The share of formal small business in the major metros tended to increase between 2010 and 2017.

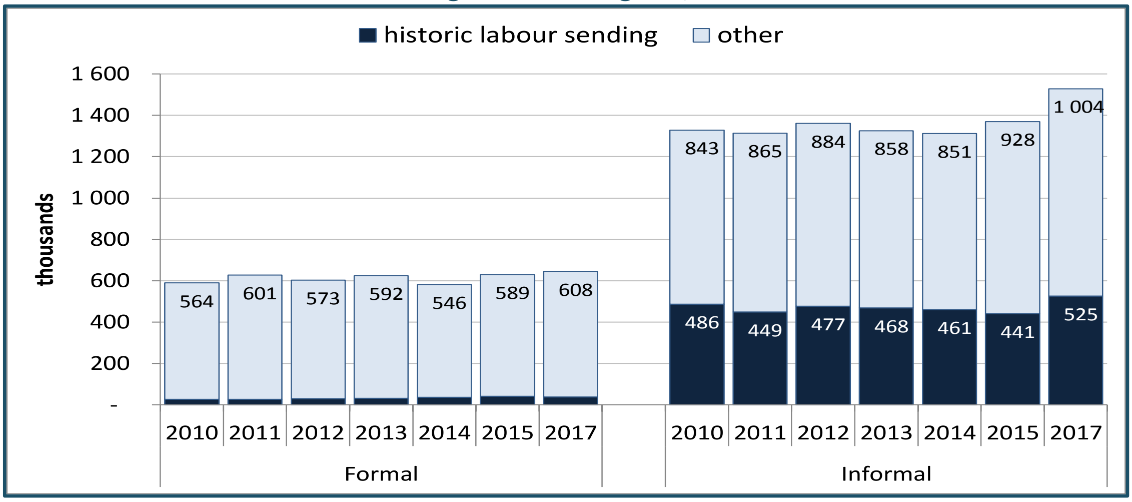
Graph 20. Formal and informal small business by metro and other regions, 2010 to 2017



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2017. 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 January 2019.

Formal small business was scarce 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 2017, but only 6% of small formal enterprises – although the figure had risen from 4% in 2010. In contrast, the historic labour-sending areas contained a third of informal businesses.

Graph 21. Distribution of formal and informal small business between historic labour-sending and other regions, 2010 to 2017



Source: Calculated from Statistics South Africa. Labour Market Dynamics Survey 2017. Electronic datasets. Series on sectors including agriculture in formal and informal sectors; employers and own-account workers; geography type; and number of employees. Downloaded from Nesstar facility at www.statssa.gov.za in January 2019.

Briefing Note: Markets on the margin: Lessons for today

Kate Philip, author of "Markets on the Margins: Mineworkers, job creation and enterprise development", on lessons from an important South African experience in developing small enterprise.

Markets on the Margins tells a development story with highs and lows and successes and failures. The story starts just after the national mineworkers strike of 1987. The strike took a heavy toll on mining employers, but in the end over 40 000 workers were dismissed.

The strike was called by the National Union of Mineworkers (NUM), led by Cyril Ramaphosa. NUM was then just five years old but already the largest union in South Africa. It decided to start a job creation programme for the dismissed miners, most of whom came from rural labour-sending areas across southern Africa. This was – and still is – an unusual role for a trade union to play, but NUM invested significantly in its "social plan" for mining communities. I was appointed to head the Mineworkers Development Agency (MDA), which became the development wing of NUM.

The story begins in the dark days of apartheid but ended a decade into the democratic era. Although the context has changed significantly, many of the lessons we learnt are still relevant to small enterprise development today.

The journey had several phases. MDA established 30 worker co-ops; set up eight Development Centres, offering business services; and built a value chain from the bottom up with the successful commercialisation of a marula juice product – Ceres Marula Mania – supplied by 4 000 women in 42 villages. As part of a wider partnership, marula oil was supplied to the Body Shop.

In the process, MDA was also confronted with a paradigm shift in the sector, with an approach called "Making Markets Work for the Poor." The approach placed markets at the centre of the debate, which brought new insights but also did damage, with its inability to recognise the role of history in ensuring that markets are not a level playing field and that inequality has market effects.

This article focuses on one particular set of lessons that is still highly relevant to current debates, on township economic development in particular.

MDA's network of Development Centres provided a range of business services to local communities, intended to promote local economic development, with a strategy characterised as "local production for local consumption." The idea was to maximise the circulation of money in the local economy. Small-scale maize mills, sunflower oil-presses, mini-bakeries, school uniform co-ops, fence-making – we supported it all.

In the process, the Centres also aimed to overcome local market failures. For example, if an entrepreneur was making leather belts, where to buy the buckles? If people were making yoghurt, or atchar, where to buy the plastic containers and foil caps? Casing for ice-lollies? For t-shirt printing, where to buy the inks? In each case, the answer was: in the nearest big city. So the Centres had Business Supply Stores localising the supply of these inputs. They also had equipment-hire facilities for a wide range of enterprise options, so that entrepreneurs could test the market before investing in business start-up. They were a hive of activity. The logic of the model was widely embraced.

Then we did a very thorough impact evaluation. We found that despite all this entrepreneurial energy, the returns to enterprises were shockingly low. For most, this was certainly no pathway out of poverty. Why?

It was from this analysis that we started to understand the impact the wider structure of the economy was having on these enterprises. Think about the manufactured items you would find in the shopping basket of a poor household. Mielie-meal, flour, sugar, tea, peanut butter, soap, margarine, sunflower oil, shoe-polish. Every one of these – and many others not listed – are already mass-produced in the core economy at a scale that makes it very difficult for small producers to compete on either price or on brand recognition.

This is a serious constraint – because the easiest entry point into business for new entrepreneurs is by making and selling goods they know their neighbours need. Yet in the context of South Africa's high levels of concentration, the door to this entry point is often closed. This was a hard lesson to learn. The immediate question, however, was: So what are the alternatives?

In practice, the most obvious alternative, which many entrepreneurs discovered for themselves, was to go into retail – often buying products from the core economy and selling them in more marginal areas, hence the dominance of retail activity in our informal sector. But this is not the only option. In many areas, there are many opportunities for services. If someone needs a document photocopied, or a tyre repaired, or internet access, the fact that it might be cheaper in a nearby town does not assist: they need the service where they are.

In addition, in our highly unequal context, not everyone is poor. Were there opportunities in higher value markets outside the local context that could be targeted – bringing new incomes into the local economy? We initiated the commercialisation of marula products to test what this could mean.

While many of the lessons from this period still apply, the situation is not static. Concentration does not necessarily lead to efficiency. So, for example, increasing levels of concentration in the retail sector since 1994 have led to a growing gulf between farm-gate prices and the retail price of food. This creates new opportunities – for new forms of linkage between producers and consumers. In townships, there are increasing levels of disposable income and new niche opportunities. Products can be differentiated. Small enterprises can also enter into the value chains of larger firms and procurement policies provide new opportunities.

The important point, however, is to recognise how the wider structure of the economy affects the competitive environment at any given time – and to develop strategies accordingly.

Briefing Note: Small business in the Job Summit

The Presidential Job Summit framework agreement targeted growth in small business as a central way to promote employment and greater economic equality in the long run.

It noted that

> "The restricted small business sector is a major contributor to high joblessness. Just 6% of South African adults are self-employed or employers, compared to an average of almost 20% in other upper-middle-income countries. This reality arose because apartheid largely destroyed small black-owned business. Boosting employment to normal levels requires that we work together to rebuild the market and financial systems, infrastructure and resources required for a vibrant small-business sector." (NEDLAC 2018, p. 7[3])

In response to this situation, it emphasised the need for

> *"Holistic support for township and rural enterprise.* Township and rural enterprises require not only resources, but also appropriate marketing and procurement systems, industrial and retail sites, reliable municipal infrastructure, and in some cases skills development and mentoring. Many actual and potential farmers need better access to land and water. Strategies to expand economic opportunities must address all of these shortfalls in a holistic fashion, with scaled up resources and support from all of the NEDLAC constituencies." (NEDLAC 2018, p. 9)

The NEDLAC constituencies added that they were "committed to supporting small and medium enterprises to build their capacity and leverage national, regional and global value chains." (NEDLAC 2018, p. 8)

The commitments in the Framework Agreement range from relatively small pacts, for instance establishing a single business that will employ a hundred workers, to reforms to market and procurement systems as well as regional schemes that could generate opportunities for tens of thousands. We here summarise some of the larger pacts.

All the sectoral and regional proposals in the Framework Agreement have elements of support for small businesses. They include the following:

- A large-scale agri-industrial programme has been initiated in the West Rand, building on resources left behind by gold mining in the region. The programme, supported by a variety of public and private entities, aims to leverage over R15 billion to promote agriculture and processing on 30 000 hectares of land. It will provide infrastructure, training facilities and other forms of support for producers.
- A number of initiatives will expand agricultural opportunities mostly for emerging farmers. Companies engaged in fruit production and livestock committed to fostering new suppliers. The establishment of agri-parks mostly in historic labour-sending regions will provide marketing, processing and other services for small producers. "Smart villages" with infrastructure for small businesses will be established for farmworkers.

[3] NEDLAC. 2018. *Presidential Job Summit Framework Agreement 4 October 2018. Annexure 1.* Johannesburg.

- The metals and machinery industries support around a quarter of formal small businesses in manufacturing. The Job Summit agreed to strengthen measures for the industry, including through supplier development, training, and increased take up of the Industrial Development Corporation's (IDC) Steel Downstream Competitiveness Fund.

Sector initiatives were also proposed for the clothing, furniture and auto value chains and for business process services. Since these industries are important for formal small and medium enterprises, the proposed measures will open opportunities for small business on a significant scale.

Sefa, the small-business programme in the IDC, plans to scale up its Khula Credit Guarantee scheme. Under the initiative, government provides guarantees for private trade finance, loans for working capital, and finance for small businesses and co-operatives. It will provide guarantees for between 50% and 90% of loans to individual firms and to Portfolio Guarantee schemes operated by banks or non-bank financial intermediaries. It will also grant guarantees to suppliers who in turn can provide trade credit to small and medium enterprises. The ceiling for the guarantee will vary by industry, ranging from R5 million to R15 million.

Government has also committed R3 billion through 2020 for schemes to support small business in agriculture and in townships. The aim is for government and other NEDLAC constituencies both to empower and to learn from a broad range of approaches.

In rural areas, the initiative will support product clusters in agriculture. Specialisation should help smallholders to collectively improve procurement, marketing, skills development, packing and transport, and extension services. The initiative would support a variety of institutional set ups, including marketing co-operatives, non-profit support organisations and out-contracting by established processors and retailers. The aim is both to adapt to the needs of smallholders in particular regions, and to leverage existing support programmes around infrastructure, access to land and water, and extension services.

For township enterprise, the initiative recognises the need for initial funding to provide infrastructure, market services and technical support. These programmes need to coordinate with municipal planning to develop industrial and retail centres.

The Framework Agreement emphasises the importance of promoting local procurement in both the public and private sector. The measures proposed include identifying areas where import replacement makes sense and managing tender specifications to avoid unnecessary barriers to local producers. In this context, three initiatives aim to maximise the benefits to small and medium enterprises.

- Government committed to intensifying efforts to ensure that in larger contracts, 30% of the value is subcontracted to small business.
- Government and business will strengthen existing initiatives to ensure payment within 30 days of invoicing, particularly for small and micro enterprise as well as co-ops.
- The NEDLAC constituencies agreed to replicate two existing initiatives for incorporating

small business into the supply chains of government and large private companies: Gauteng's Township Economic Revitalisation Programme and the Supplier Development and Capacity Building Guideline developed by South African Supplier Development Council (SASDC). It was agreed that the provinces would each target between 1 000 and 2 500 small businesses, at a cost of around R24 000 per supplier.

Two initiatives centred on supporting youth entrepreneurs. The Finfind project brings together public and private actors to train and fund interns to assist small businesses with financial record keeping and readiness capacity. Under the Bizniz in a Box Youth Development Programme, Coca Cola and sefa work with agencies to provide training, mentorship and resourcing for emerging youth retailers.

The Framework Agreement argues that early childhood development centres provide an opportunity for small businesses based on existing government subsidies. It includes two initiatives to expand the number of small business providing these services by providing training, funding and access to the subsidy.

For more information on the Job Summit, click here.