

**EDITED 2014 REVIEW OF SMALL BUSINESSES IN SOUTH AFRICA
REPORT FOR THE DEPARTMENT OF SMALL BUSINESS DEVELOPMENT**



**small business
development**

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

EXECUTIVE SUMMARY

The period covered by this review (2008-2013) was characterised by considerably difficult economic conditions, with generally subdued overall growth performance, high lending rates, falling business and consumer confidence resulting in slowing demand and weakened capacity utilisation in the private sector. Business bankruptcies soared and the ease of doing business, as measured by the World Bank¹, deteriorated. These tough trading conditions undoubtedly have impacted the business prospects and performance of SMMEs. South Africa boasts a wide range of public and private sector small business support institutions, presently estimated at around 214 in total, providing a variety of support services. However, the ongoing criticism levelled at the support system is that it tends to be fragmented or unintegrated² and the quality of some of the services, particularly business advisory services, is continuously being questioned. The quality of small business data remains a challenge, resulting in lack of accurate figures on the total number of small businesses in the country. This has a negative bearing on policymaking and implementation. With this caveat born in mind, the main findings of this review are as follows:

1. Current estimates show that the country has roughly 2,7 million formal and informal small businesses combined, representing an estimated average annual growth rate of 14,5 per cent, some 74,396 new enterprises per annum, over the review period. Three provinces – Gauteng, Western Cape and KwaZulu-Natal – account for the majority of formal SMMEs, with informal sector SMMEs predominantly located in Gauteng, KwaZulu-Natal, Limpopo and Eastern Cape.
2. The sector continues to be dominated by very small and micro enterprises, compared to those classified as small and medium in size. SMMEs are predominantly involved in the financial intermediation, insurance, real estate and business services sector, followed at a distant second by those in retail trade. Manufacturing and community, social and personal services have declined since 2007, while sectors such as construction; electricity, gas and water; and transport, storage and communication have shown marginal growth in SMME numbers.

¹ Currently the Ease of Doing Business index ranks 189 countries.

² For instance, in her keynote speech at the Forging Enterprise conference in Cape Town on 28 May 2015, the Minister for Small Business Development identified lack of integration as being of the key weaknesses in small business development.

3. Most businesses survive up to three years of operation and thereafter there is a sudden decline in survival rates, confirming conventional knowledge that small businesses generally struggle to survive beyond their first three years of operation.
4. The year 2013/14 saw a significant drop in new business registrations, with company registrations falling by 45 per cent and co-operatives by 52 per cent from the previous year. Businesses registered as cooperatives significantly lag other legal forms.
5. The 2008-2010 period saw a sharp rise in business bankruptcies, liquidations and insolvencies. While the situation has shown steady improvement since then, it is still worse than the 2007 level.
6. Just over half of the country's SMMEs are urban-based and more than two-thirds are home-based, with only 13% and 5%, respectively, operating from an office block or factory.
7. The highest concentration of business owners is in the 36 to 55-year age group. Nearly forty per cent of respondent business owners held a Grade 12 qualification, with just over one-third holding university qualifications.
8. Contrary to the conventional view that entrepreneurship in South Africa is more necessity than opportunity driven, the review found that the majority of respondents were motivated to start their own businesses by positive factors rather than a negative urge to escape unemployment.
9. Twenty-four per cent more males than females own businesses. Since the last review the number of female owned businesses has decreased by almost 20%. Whereas previously, women were almost equally likely to engage in entrepreneurial activity as men, currently the proportion of women engaging in entrepreneurial activity is lower (8%) than the proportion of men doing the same (11%). Women own just over one-third of all SMMEs, a notable decrease since the 2007 review, when women were reported to comprise forty-five per cent of all business owners.

Males are more likely to start businesses and employ staff earlier in their lives than their female counterparts. Business ownership among women rises steadily by age, peaking at the 40-59 age group, after which it falls significantly. Most noteworthy is a low and declining business ownership rate among 15 to 29-year-old women.

10. The review found growth of 124 560 people in self-employment since the previous review, an average annual growth rate of only 1%, totalling just over 2 million individuals currently in self-employment. The majority of respondents either had either no employees or employed between 2 and 4 employees each. Only 2% of all businesses had more than 20 employees and just 1% employed over 50 employees each. Overall, an estimated 8,4 million employees worked for SMMEs in 2013, a contribution of 55% to overall employment.
11. Similar to employment, accurately determining the GDP contribution of SMMEs remains a challenge. Using a different approach to the one used in 2007, this review estimates the overall GDP contribution of SMMEs at between 41% and 47% of total GDP. SMMEs are marginally involved in both importing and exporting, and trade mostly with local customers.
12. Previous studies show that SMMEs in different sectors of the economy face different challenges. Manufacturing and business services SMMEs mainly face a challenge with recruiting skilled personnel. Tourism SMMEs mainly face difficulties in accessing finance. Overall, local economic conditions and lack of skilled staff are the main challenges faced by all SMMEs, followed by lack of finance and burdensome regulations.

The review makes five recommendations:

- Prioritise the improvement of the quality of small business data, which has an important bearing on policy quality and relevance
- Analyse reasons for low levels of entrepreneurship among youth between the ages of 15 and 29, particularly women, and implement programmes to stimulate entrepreneurship with this age group
- Analyse the causes of concentration of small businesses within only three of the country's provinces and two economic sectors and implement targeted measures to drive higher levels of entrepreneurship in other provinces and sectors
- Analyse the causes of sharp drops in business survival after three years of operation and reasons for apparent lack of progression beyond the micro and very small business size category and implement measures to enable this transition
- Analyse the causes of low levels of co-operative establishment and design appropriate responses thereto

LIST OF ACRONYMS

ANDE	Aspen Network for Development Entrepreneurs
CC	Close Corporation
CIPC	Companies & Intellectual Property Commission
GDP	Gross Domestic Product
GEDI	Global Entrepreneurship Development Institute
GEI	Global Entrepreneurship Index
GEM	Global Entrepreneurship Monitor
LFS	Labour Force Survey
SEDA	Small Enterprise Development Agency
SMME	Small, Medium & Micro Enterprise

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A. BACKGROUND AND METHODOLOGY

1. INTRODUCTION

The National Small Business Act, 1996 requires the compilation of an annual review of small business in South Africa, focusing on the performance of the country's small business sector, measured according to a number of criteria. Similar to previous reviews, this report presents the results of a national assessment of small business performance for the period 2007 to 2013. The report is based on the results of a detailed national survey, comprising an in-depth qualitative and quantitative analysis of key small business performance variables and the overall support environment. These reviews are intended to uncover key trends within the country's small business sector, to provide a basis for policy responses and support programmes aimed at stimulating the sector, and to enable the measurement of the impact of these policies and programmes. An important development to be noted, following the last review conducted in 2007, is the introduction of a new Companies Act (71 of 2008), which introduced new legal forms of business, which has a bearing on what is understood as a small business. This calls for due caution in comparing the 2007 and current reviews.

2. SAMPLE DESIGN AND DATA COLLECTION

Based on the May 2013 CIPC database and information from other stakeholders, which indicated that there were 1,3 million SMMEs, 150,000 informal traders and 54,000 co-operatives, a formula was applied to select the sample. At a 95 per cent confidence level the overall, numerically proportional sample of 4,200 enterprises, was selected nationally for interviews. It comprised 2495 SMMEs, 1089 co-operatives and 622 informal businesses, with the overall total rounded down to 4,200 (see Appendix for the sampling process). Table 1 presents the actual realised SMME sample, broken down by province. Data was collected through reviews of existing material³, data mining, focus group discussions with small

³ These included official documents such as the Stats SA Labour Force Survey (LFS), Stats SA Survey of Employers and the Self-employed (SESE), CIPC Enterprise Register, the 2004 and 2007 SMME Review Reports, and various other SMME research reports.

business associations and other representative bodies, and questionnaire-based face-to-face interviews with enterprises across all nine provinces of the country.

TABLE 1: BREAKDOWN OF SURVEY SAMPLE

ROVINCES	SMMEs	INFORMAL BUSINESSES	CO-OPERATIVES
Eastern Cape	150	32	27
Free State	123	22	7
Gauteng	1,780	143	34
KwaZulu-Natal	556	66	44
Limpopo	109	30	20
Mpumalanga	128	29	13
North West	79	29	12
Northern Cape	28	9	3
Western Cape	659	60	8
TOTAL	3,612	420	168

Source: Urban-Econ 2013

3. LIMITATIONS OF THE STUDY

This study is not without its limitations and, as in all empirical studies, the limitations should be identified and considered when making recommendations and conclusions. The limitations of the study are the following:

- **Lack of available and/or reliable data sources:** Citing prior research studies should have formed the basis of 2014 Annual Review's literature review and helped lay a foundation for understanding the research problem we were investigating.

Like in the previous Annual Reviews, the 2014 research depended on having access to external data sources from CIPC, StatsSA, SARS and provincial governments to enrich the primary data but access was denied or limited. Additionally and from the municipal, provincial and country wide level, there are no well-maintained and inclusive SMME databases.

It has then required us to limit the scope of our analysis, the size of our sample, which in turn became a significant obstacle in finding a trend and a meaningful relationship. Structural relationships with these official government institutions are needed to ensure access to data sources and consistent undertaking of the Annual Review is needed to avoid not relying on secondary information.

- **Longitudinal effects:** the time and finance available to investigate a research problem and to measure change or stability over time was constrained by the due date of this assignment. Proper time management and flexibility should be considered for the next Annual Reviews to allow the completion of the research within the acceptable confines of the assignment's due date.

For instance, time did not allow the research team to organize workshops with SMMEs and Cooperatives in each province and as such follow-ups were not planned for and used.

- **True random sample:** Caution must be exercised when projecting the findings from this study to the whole population of SMMEs and Cooperatives. The main, and unavoidable, limitation is that the sample of 4200 small businesses studies was not a complete random sample.

Therefore, it is not known whether the responses upon which these results are based are systematically different from those that would be obtained from a true random sample of SMMEs and Cooperatives. Care should be taken in generalizing the findings to all rural small businesses in other regions in the country.

- **Measure used to collect the data:** After completing our interpretation of the findings, we have discovered that the way in which we gathered data inhibited our ability to conduct a thorough analysis of the results.

For example, we regret not including questions on Cooperatives' groups dynamics and nuanced challenges for women-owned enterprises in the survey that, in retrospect, could have helped address why there is decreasing Cooperative formation and registration as well challenges affecting low female owned enterprises which are factors that have later in the study. Future Annual Review series should have these questions in their methods for gathering data.

- **Self-reported data:** Whether we were relying on pre-existing data or we were conducting a qualitative research study and gathering the data ourselves, self-reported data was limited by the fact that it rarely can be independently verified. In other words, you have to take what people say, whether in interviews, focus groups, or on questionnaires, at face value. However, self-reported data can contain several potential sources of bias that we should be alert to and note as limitations. These biases become apparent if they are incongruent with data from other sources.

These are: (1) **selective memory** [remembering or not remembering experiences or events that occurred at some point in the past]; (2) **telescoping** [recalling events that occurred at one time as if they occurred at another time]; (3) **attribution** [the act of attributing positive events and outcomes to one's own agency but attributing negative events and outcomes to external forces]; and, (4) **exaggeration** [the act of representing outcomes or embellishing events as more significant than is actually suggested from other data].

- **Cultural and other type of bias:** we noted that our questionnaires were administered in English, which might have created some negative bias is when some respondents, their places, or things were viewed or shown in a consistently inaccurate way by the interviewer. This was noticed during questionnaire review sessions and we then began to be critical in reviewing how we have stated a problem, selected the data to be studied, what may have been omitted, the manner in which we have ordered events, people, or places, how we have chosen to represent a person, place, or thing, to name a phenomenon, or to use possible words with a positive or negative connotation.

All questionnaires identified to have had some biases were scrutinized and cleaned together with individual interviewer concerned. Piloting questionnaires should be done thoroughly at early phase to pick up and sort out such biases.

Despite the limitations identified, this study is designed to add to existing empirical body of small business and co-operatives research in rural and urban areas. The study is further based on the scientific opinion that existing published evidence of both qualitative and quantitative nature that influences the performance, trends and challenges faced by small businesses and co-operatives to become sustainable globally is still lacking, the findings of this study could make a significant contribution to a better understanding of the nature of urban and rural small businesses and co-operatives in South Africa.

B. NATIONAL MACRO-ECONOMIC CONTEXT

During the period under review (2008 - 2014), the country's economy faced considerable difficulties on a number of fronts. Gross Domestic Product (GDP) fell significantly between 2008 and 2010, with the economy reaching a -6% growth rate during the first quarter of 2010, and continuing at muted performance levels for most of the period since then. The bank lending rate soared consistently from 2007, reaching precipitous levels (around 15%) in 2009, and remaining above 10% per annum until the end of 2010. With consumer confidence falling, demand slowed, and capacity utilisation in the private sector weakened. Business confidence plummeted until 2010 and though improving thereafter remained largely subdued. Bankruptcies touched a high of 500 during the latter part of both 2008 and 2010, and remained markedly volatile for most of the period up to the end of 2013. The ease of doing business, as measured by the World Bank⁴ deteriorated from a ranking of 32 in 2008 to 41 by 2013. These were tough trading conditions for all enterprises within the economy and, no doubt, with significantly negative impact on the business prospects and performance of SMMEs.

C. SMALL BUSINESS SUPPORT IN SOUTH AFRICA: INSTITUTIONS AND DYNAMICS

⁴ Currently the Ease of Doing Business index ranks 189 countries.

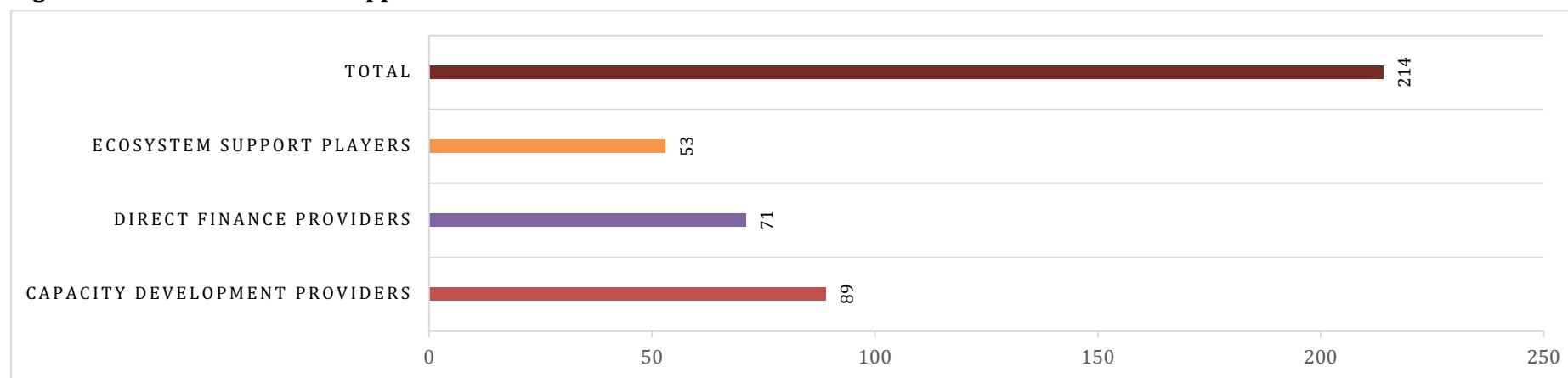
Since the release of the government's small business White Paper in March 1995, a number of small business support institutions and programmes have been established across South Africa⁵. These encompass initiatives and institutions within the government (national, provincial and local), private commercial sector, educational institutions, non-profit sector, and international development agencies. There has been a marked growth in enterprise development initiatives started by large corporations in response to the government's Black Economic Empowerment legislation and regulations. The range of support initiatives covers a number of support areas as listed in table 2 below.

TABLE 2: SUPPORT MEASURES IN THE FIELD OF SMALL BUSINESS		
• Advocacy	• Export development	• Small business exhibitions
• Business finance	• Informal business development	• Small business media
• Business incubation and information	• Mentorship and business advice	• Supplier development
• Business skills development	• Microfinance	• Technology transfer and advice
• Corporate SMME investment / finance	• Product design and innovation	• Venture capital
• Enterprise education	• Public policy	• Women's business development
• Entrepreneurship research	• Rural and township enterprise development	• Youth enterprise development

In mapping the support available to SMEs in South Africa, the Aspen Network for Development Entrepreneurs (ANDE) found that South Africa boasts as many as 214 providers of SMME support (figure 1).

⁵ Some support institutions, particularly non-governmental ones, pre-date the 1995 White Paper.

Figure 1: Providers of SMME support in South Africa



Source: ANDE, South Africa's Entrepreneurial Ecosystem Map, date unspecified

However, while the comprehensiveness of the range of support services is generally acknowledged, the main criticism is that these services tend to be fragmented or unintegrated⁶ and the quality of some of the services, particularly business advisory services, is continuously being questioned. Various studies have observed that available support has the following characteristics:

- Support available but fragmented
- Mismatch between capacity support and funding
- Better co-ordination between initiatives required
- There exists a gap in the funding of early stage businesses

These gaps and weaknesses in the overall support system mean that the many capacity development needs of small businesses, while being addressed, are not adequately met. This, in turn, has a negative bearing on the capabilities, performance and longevity of SMEs.

⁶ For instance, in her keynote speech at the Forging Enterprise conference in Cape Town on 28 May 2015, the Minister for Small Business Development identified lack of integration as being of the key weaknesses in small business development.

D. SMALL BUSINESS SECTOR PROFILE AND DYNAMICS

1. DEFINITION

The National Small Business Act, No. 102 of 1996 defines a small enterprise as “a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or a number of owners which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro, a very small, a small or a medium enterprise”. The Act uses three quantitative measures – “total full-time equivalent of paid employees”, total annual turnover, and total gross asset value (fixed property excluded) – to categorise small enterprises. Based on these three measures, the four small enterprise categories, whose size differs by economic sector, are micro, very small, small, and medium. Using employment and total annual turnover, small enterprises are defined broadly as follows:

TABLE 3: SMALL BUSINESS DEFINITION BY EMPLOYMENT AND TURNOVER

Size category	Employment (Less than)	Turnover (Less than)
Micro	5	R200,000
Very small	20 (10 for agriculture)	R1m – R6m (varies on sector)
Small	50	R3m – R32m (varies by sector)
Medium	200 (100 for agriculture)	R13m – R64m (varies by sector)

Source: 2007 SMME Review

2. SIZE AND GROWTH RATES AND TRENDS OF SOUTH AFRICA'S SMALL BUSINESS SECTOR

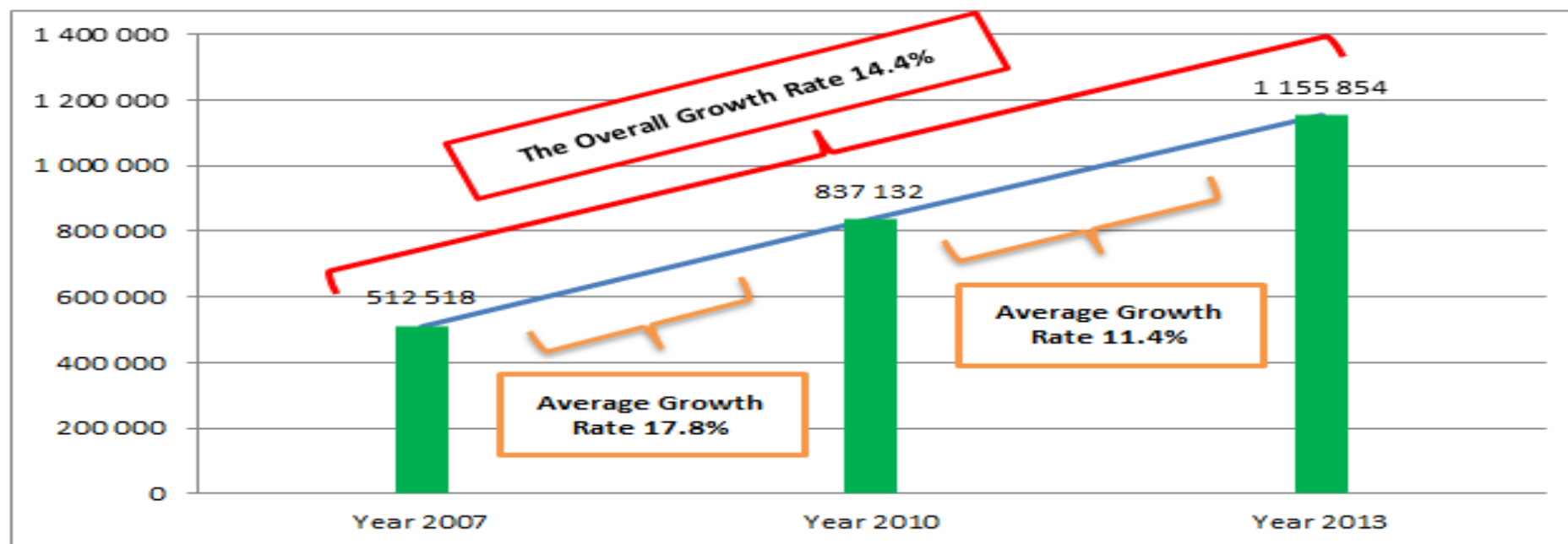
Due to lack of credible baseline (census) data, the total number of small businesses in South Africa remains a contentious issue, with differing sources suggesting varying figures. According to the 2007 SMME Annual Review there were 2.4 million SMMEs in South Africa in 2007, out of which only 512 518 were formal businesses. A small business survey undertaken in 2010 by Finscope reported that the country had 5 979 510 SMMEs. Further analysis of the Finscope study revealed that 86% of small businesses were not registered with CIPC (Amra *et al.*, 2013), indicating that the majority were informal SMMEs. Therefore, according to Finscope there were 837 131 formal SMMEs (14%) in 2010, with informal SMMEs accounting for the balance of 5 142 379 businesses or 86% of the total (compared to 1,887,482 in the 2007 Review Report). This is a major policy challenge. Using the definition of an SMME presented earlier, available official sources indicate that the total number of active SMMEs in the country was 2,738,929 as of 31 March 2014. The breakdown per type of enterprise is presented below.

TABLE 4: ACTIVE BUSINESS AS AT 31 MARCH 2014			
Close Corporations	497 050	Personal Liability Company	8 055
Public Companies	2 503	Company Unlimited	4
Private Companies	649 296	State Owned Company	60
Non Profit (Section 21)	15 958	Statutory Body	1
Limited by Guarantee	4	Primary Co-Operative	85 472
External Companies under Section 21A	31	Secondary Co-Operative	559
External Companies	1 414	Tertiary Co-Operative	24
Total formal businesses			1 260 431
Total informal enterprises as per the Stats SA QLF Survey (2013)			1 478 498
Grand total (formal and informal enterprises)			2 738 929

Source: Stats SA 2013, CIPC 2014 database (first quarter), Urban-Econ update

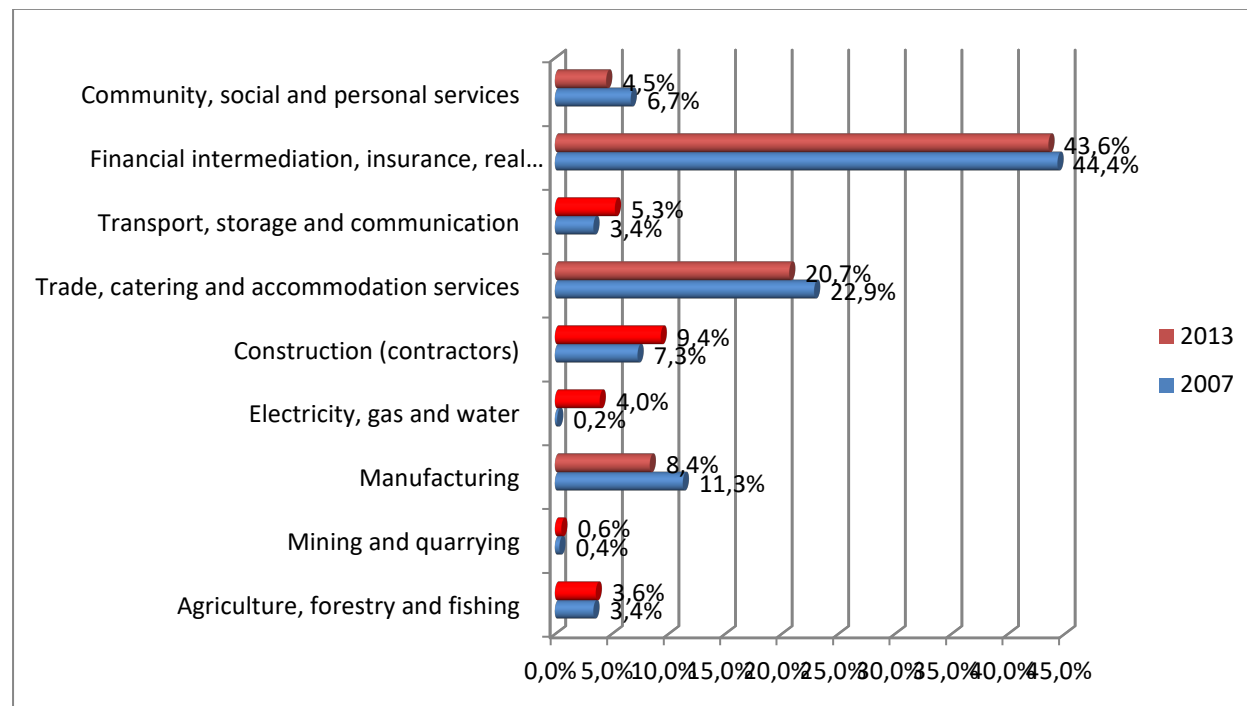
In 2013, after revising their databases, the Company and Intellectual Property Commission (CIPC) and the Small Enterprise Development Agency (Seda), found that South Africa had an estimated 1 155 854 SMMEs. In the first three years after the 2007 Review, from 2007 to 2010, the growth rate was estimated at 17.8%. However, for the years from 2010 to 2013, growth dropped to 11.4%. The overall annual average growth rate for the period 2007-2013 is therefore estimated at 14,5 %, totalling to some 74 396 new businesses per annum, as presented in figure 2.

Figure 2: Growth rate trends of small businesses, 2007-2013



Source: 2007 SMME Annual Review Report, 2010 Finscope Report, CIPC 2013 database and Urban-Econ calculation

FIGURE 3: GROWTH TRENDS OF SMALL BUSINESSES, 2007-2013

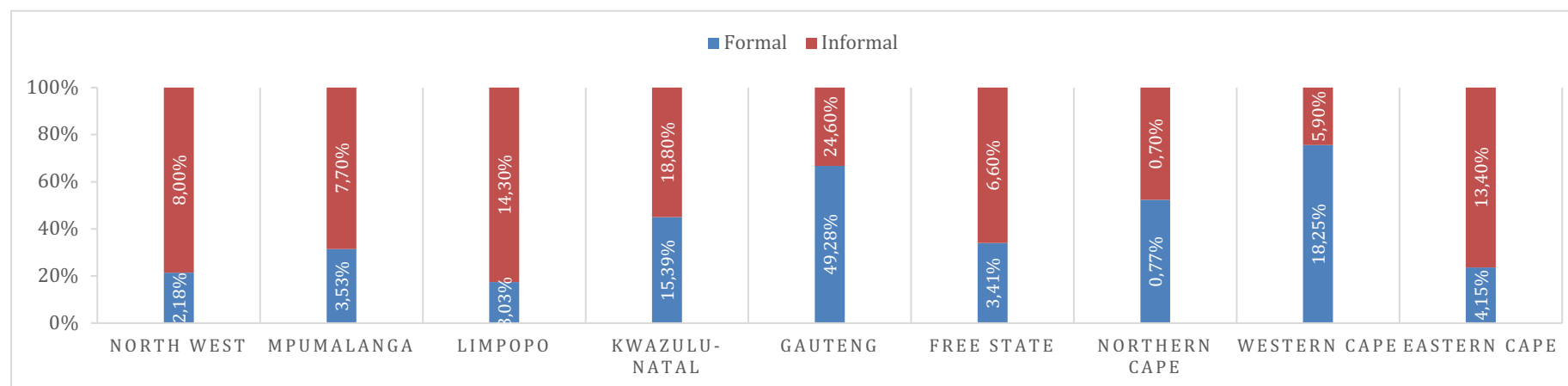


As mentioned above, most SMMEs operate in the financial intermediation, insurance, real estate and business services. This number declined in 2014 as compared to 2007, while there was a significant increase for the transport, storage and communication, construction, and electricity, gas and water industries. Very few SMMEs operate in the mining and quarry as well as the.

3. PROVINCIAL DISTRIBUTION OF SMALL BUSINESSES

The majority of formal SMMEs are based in three provinces – Gauteng (49, 28%), Western Cape (18,25%) and KwaZulu-Natal (15, 39%). Gauteng, KwaZulu-Natal, Limpopo and Eastern Cape also have significant informal sector business concentrations.

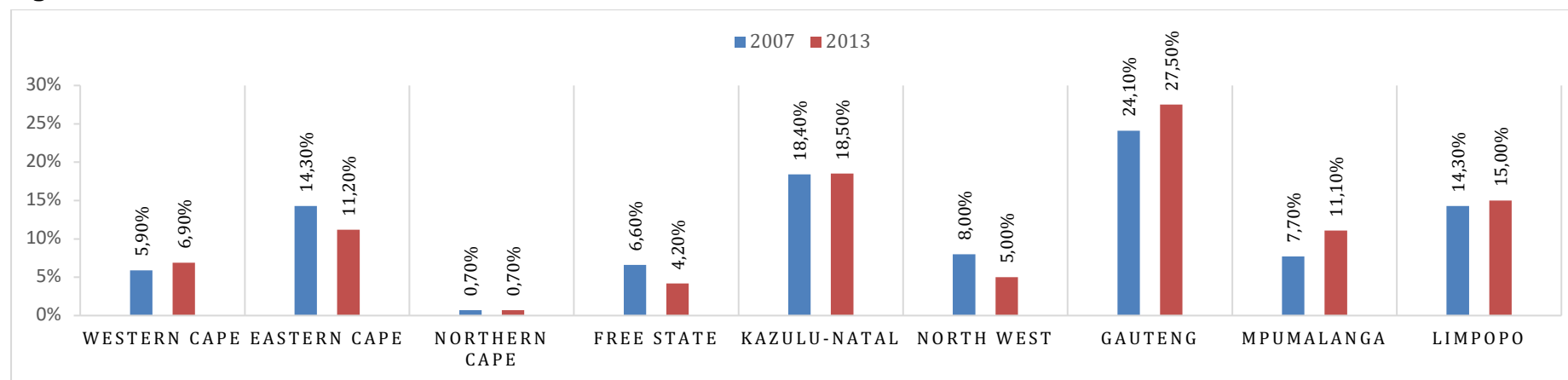
Figure 4: Provincial distribution of all SMMEs, 2013



Source: CIPC 2014 database (Q1)

Since 2007, the number of informal SMMEs has risen in Gauteng, Limpopo, Mpumalanga and Western Cape and dropped in Eastern Cape, Free State and North West (figure 4).

Figure 5: Provincial distribution of informal SMMEs, 2007 and 2013

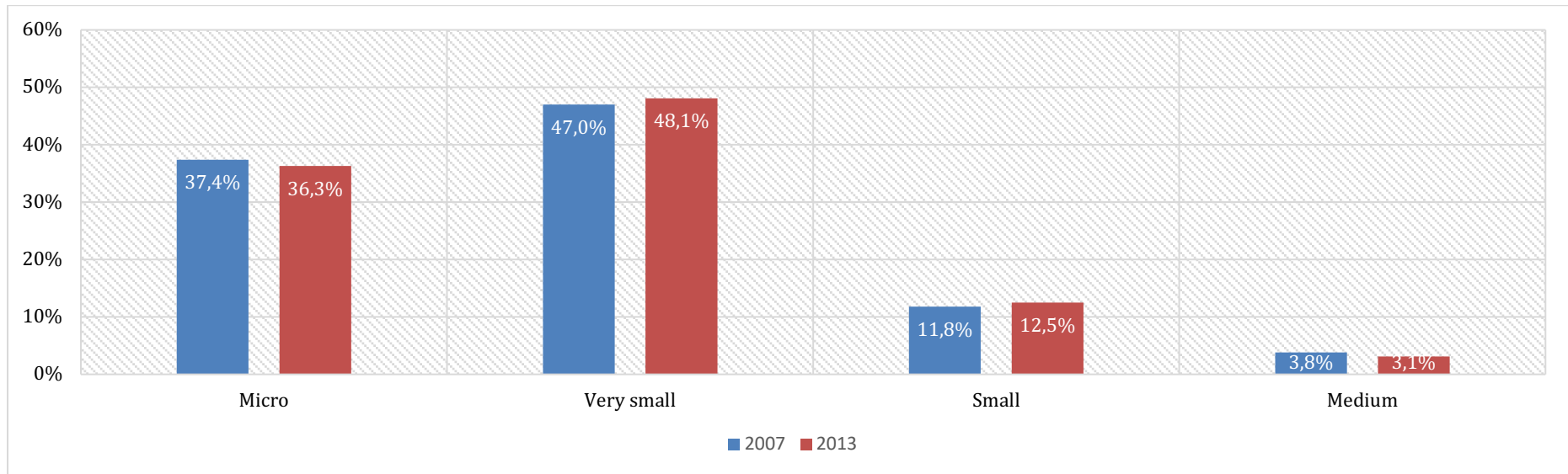


Source: The 2007 SMME Annual Review Report and CIPC 2014 database first quarter (Urban-Econ calculations)

4. THE MAJORITY OF SMMEs FALL WITHIN THE MICRO AND VERY SMALL SIZE CLASS

As during the previous (2007) review period, the sector remained dominated by very small and micro enterprises in 2013, with a negligible proportion being small and medium enterprises. There have been slight decreases in the number of micro and medium enterprises, with a similarly marginal increase in the number of very small and small enterprises. It is, however, important to note that figures in the 2007 SMME Annual Review Report included both active and dormant businesses, while the current figures reflect only active ones.

Figure 6: Comparison of business size, 2007 and 2013

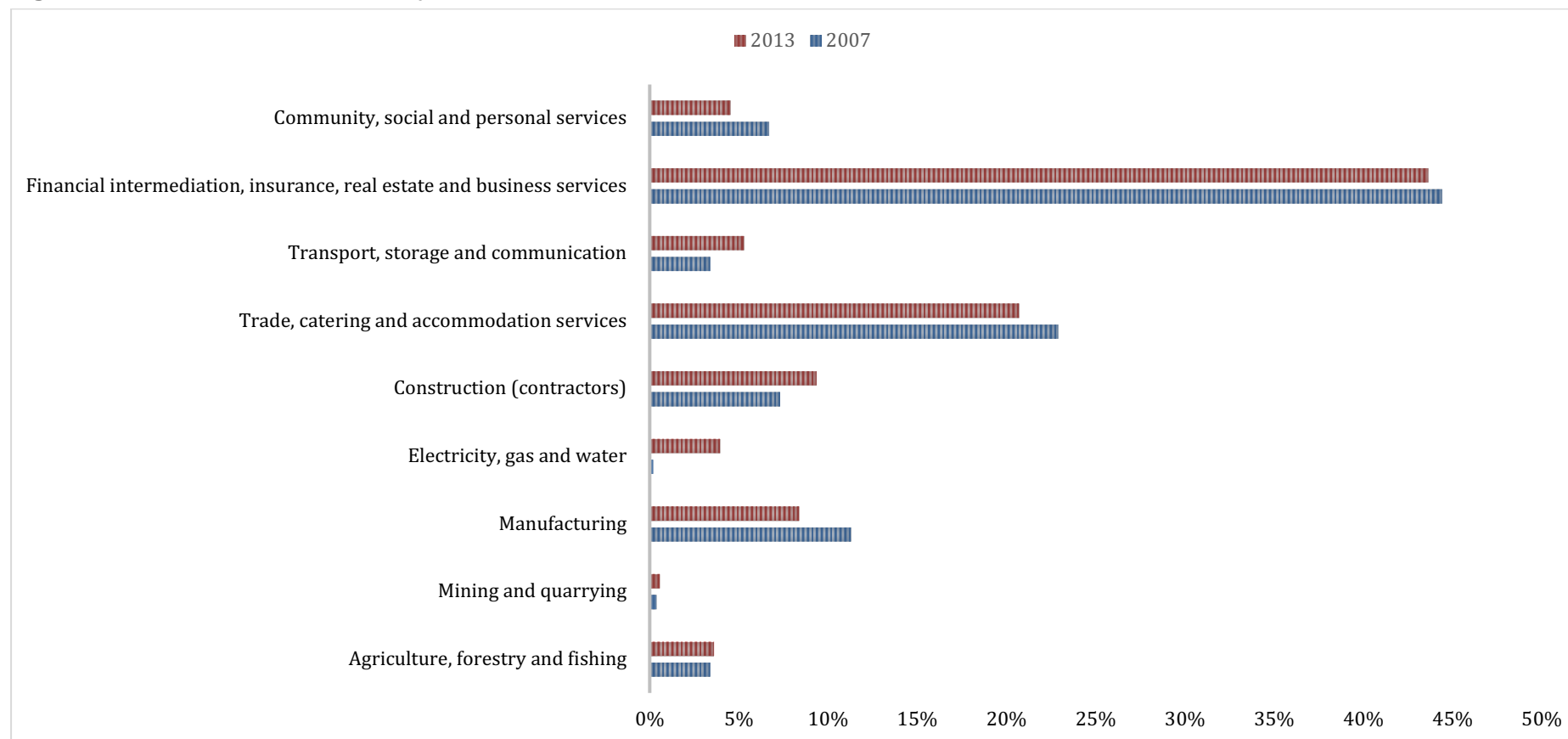


Source: The 2007 SMME Annual Review Report and SEDA database, Urban-Econ calculations

5. SMMEs CONTINUE TO BE CONCENTRATED IN ONLY TWO ECONOMIC SECTORS

As in 2007, the largest number of SMMEs are involved in financial intermediation, insurance, real estate and business services (43.6%) and retail trade (20.7%). Manufacturing and community, social and personal services have declined since 2007, while construction; electricity, gas and water; and transport, storage and communication have shown slight increases.

Figure 7: Formal small businesses by sector, 2007 and 2013

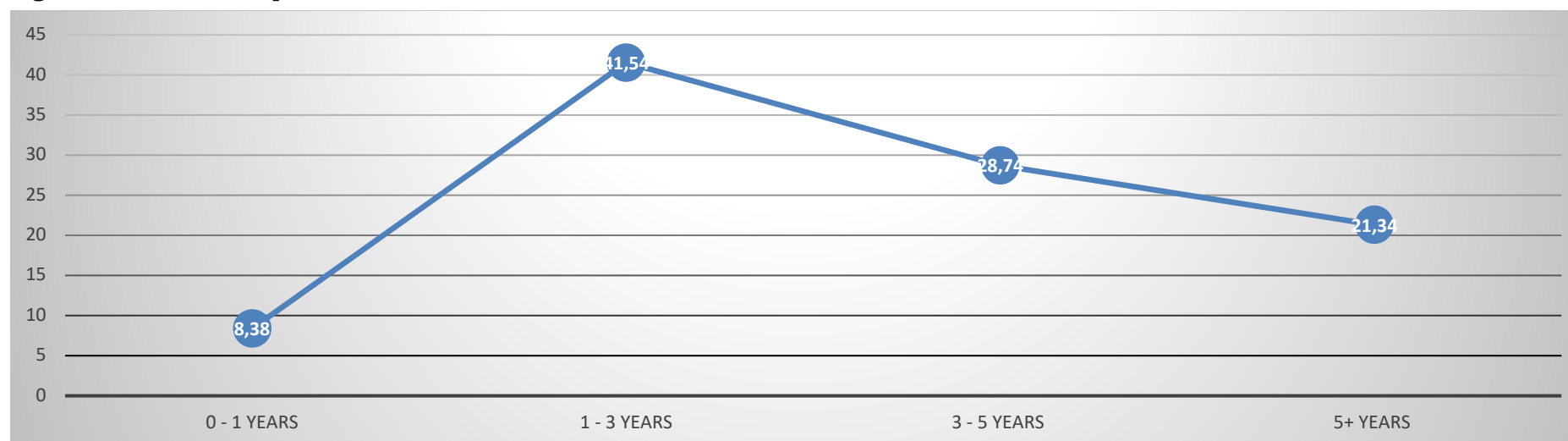


Source: 2007 SMME Annual Review Report and Urban-Econ

6. BUSINESS LIFESPAN SHOWS A SIGNIFICANT DECLINE AFTER THE FIRST THREE YEARS OF OPERATION

Most businesses survive up to three years of operation and thereafter there is a sudden decline in survival rate. This confirms conventional knowledge that small businesses generally struggle to survive beyond their first three years of operation.

Figure 8: Business lifespan



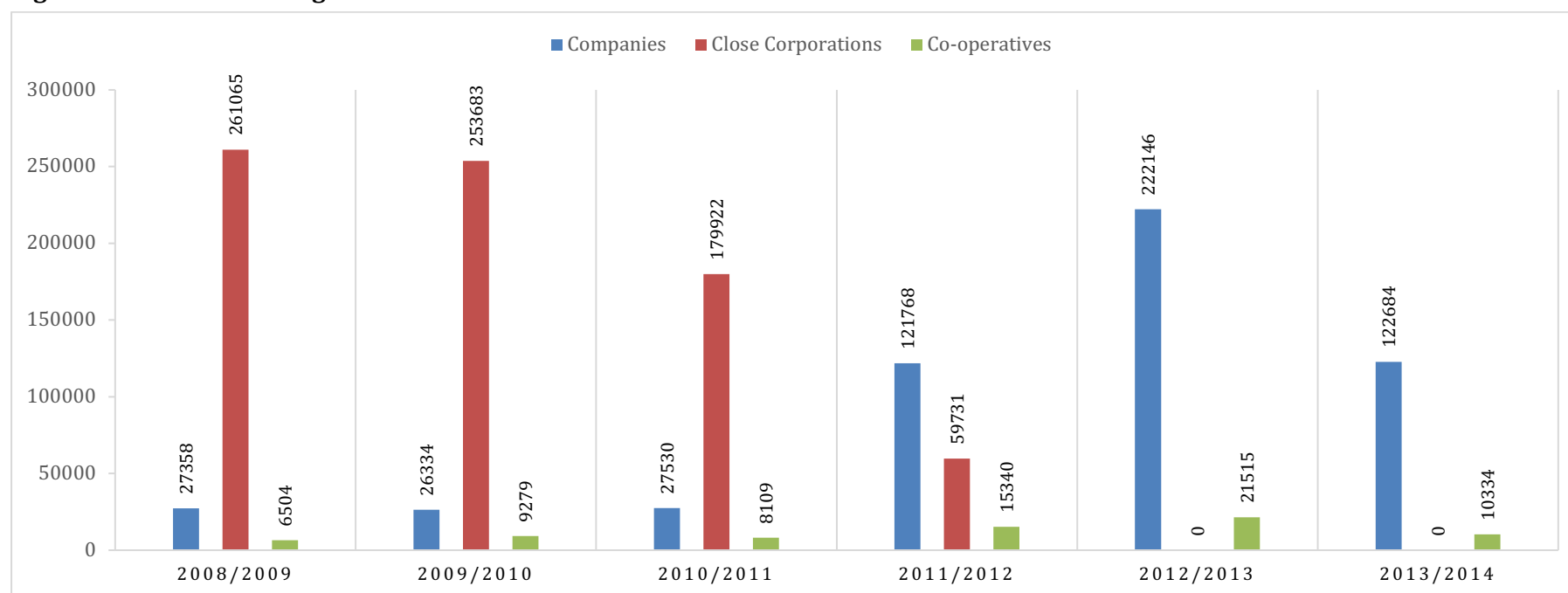
Source: Urban-Econ

7. NEW BUSINESS REGISTRATIONS

The period 2008-2011 still saw the predominance of Close Corporations (CC) as a preferred legal form for establishing a business in the country, with the majority of new businesses registering as CCs. The marked impact of the 2008 Companies Act, which brought an end to the CC as a legal form for new business registration, can be seen from 2011/12 onwards, particularly during the 2012/13 year. The year 2013/14 saw a significant drop in overall business registrations, with company registrations falling by 45 per cent and co-operative registration by 52 per cent from the

previous year. Statistics show that there is still a significantly smaller number of co-operatives being registered, lagging the other legal forms by a significant margin.

Figure 9: New business registration since 2008



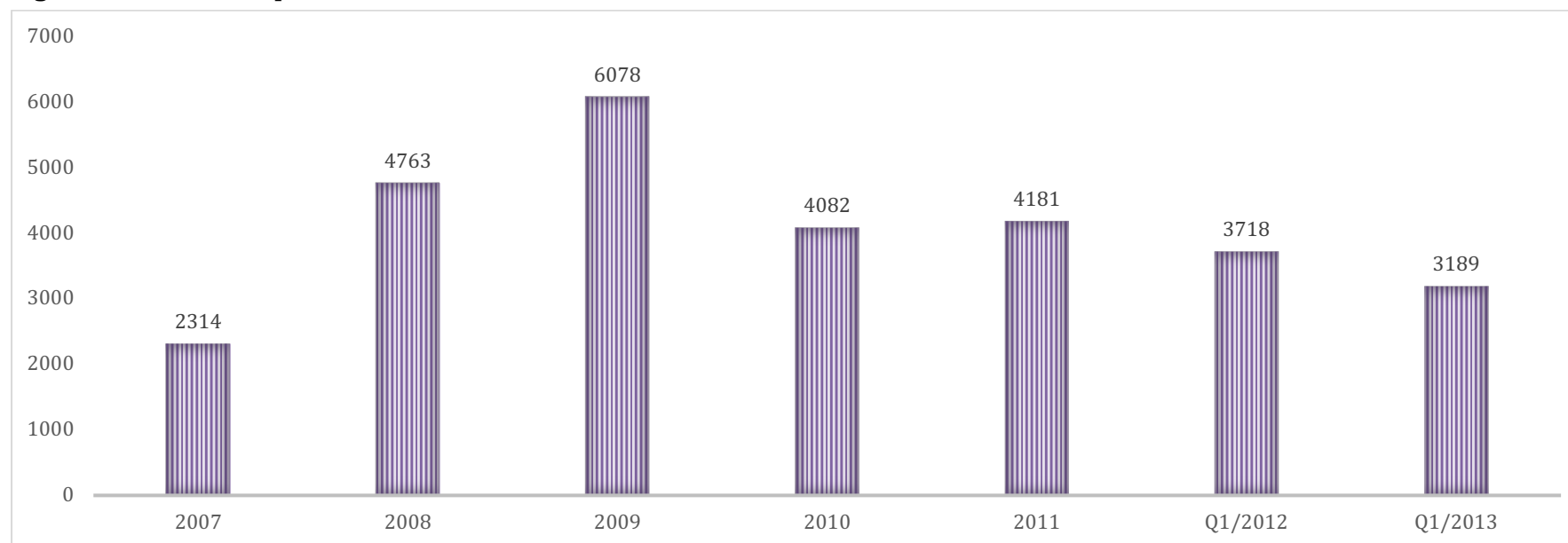
Source: CIPC 2013

8. BANKRUPTCIES, LIQUIDATIONS AND INSOLVENCIES

As previously discussed under the section on macro-economic outlook, with the economy experiencing significant difficulties during most of the 2008-2010 period, bankruptcies, liquidations and insolvencies rose sharply, registering the highest level in 2009, the year the country's economy

officially entered a recession. The situation has shown steady improvement since then, with the first quarter of 2013 showing a marked drop in liquidations and insolvencies, though still higher than 2007 levels.

Figure 10: Business liquidations and insolvencies since 2007

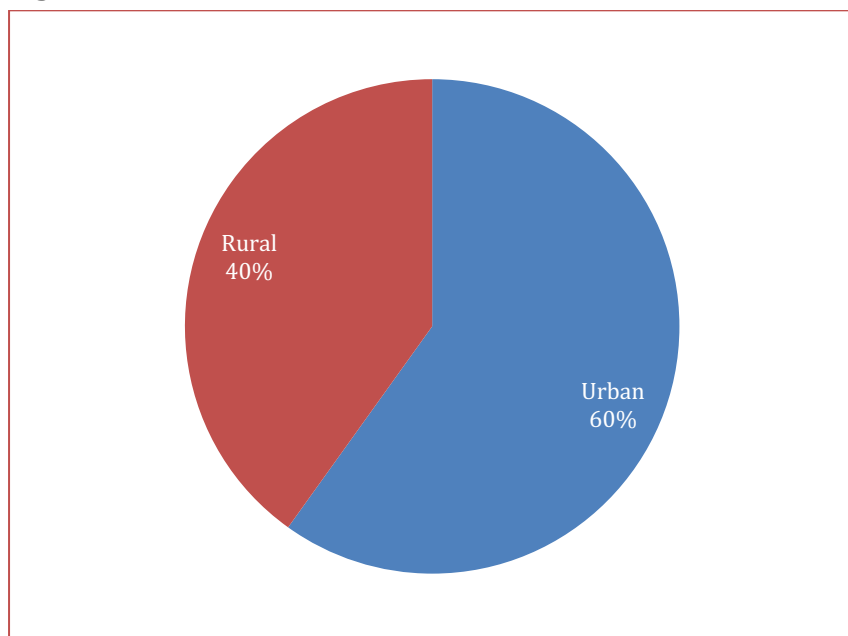


Source: Stats SA business liquidations and insolvencies

9. SMMEs ARE MOSTLY URBAN- THAN RURAL-BASED

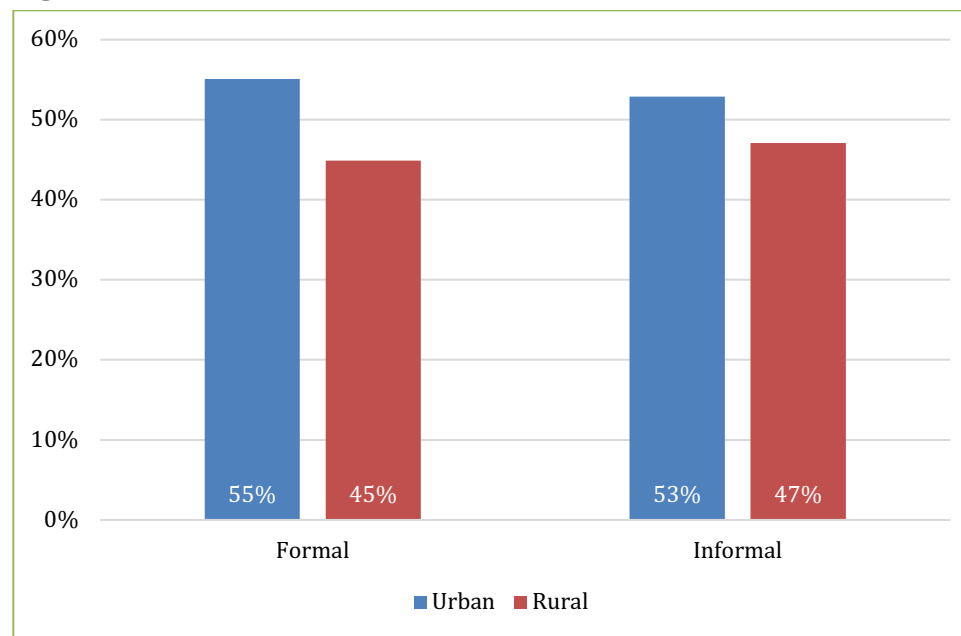
The 2001 Global Entrepreneurship Monitor (GEM) study showed that sixty per cent of South Africa's SMMEs are urban-based. Using a similar approach as was used by GEM in 2001, the current review found that the same pattern still holds, albeit with a five-percentage point decline in the number of urban-based SMMEs and an increase of the same magnitude in rural-based SMMEs. The same pattern holds for both formal and informal SMMEs.

Figure 11: Urban versus rural SMMEs, 2001



Source: Berry et al. 2001 (GEM approach)

Figure 12: Urban versus rural, formal and informal SMMEs, 2013



Source: Urban Econ (GEM approach)

10. DEMOGRAPHICS, EDUCATIONAL ATTAINMENT AND NATIONALITY OF BUSINESS OWNERS

Twenty-four per cent more males than females own businesses, with the highest concentration of business owners aged between 36 and 55 years, and Africans and Coloureds accounting for more businesses than Indians and Whites. More than a third of respondent business owners held a Grade 12 qualification, with just around one-third holding university qualifications. South Africa nationals own the vast majority (98%) of SMMEs.

Figure 13: Gender of owner

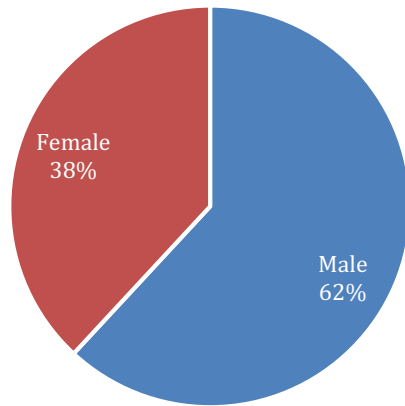


Figure 14: Age of owner

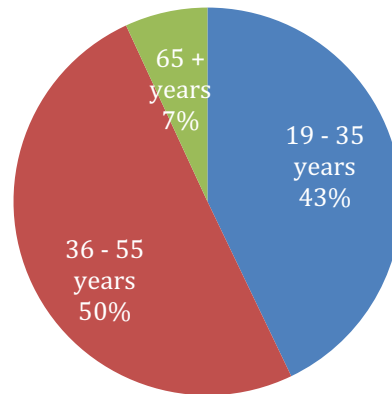


Figure 15: Population group of owner

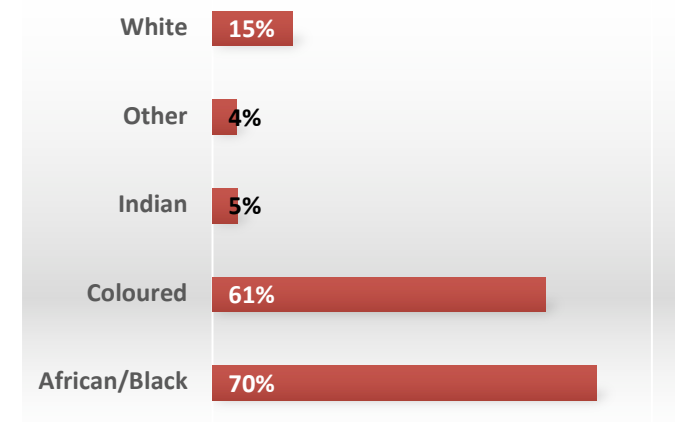
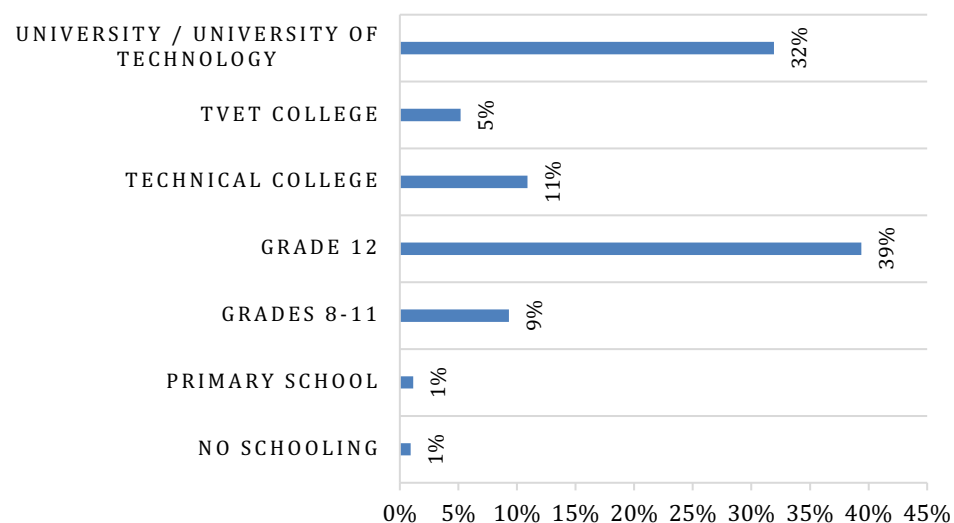
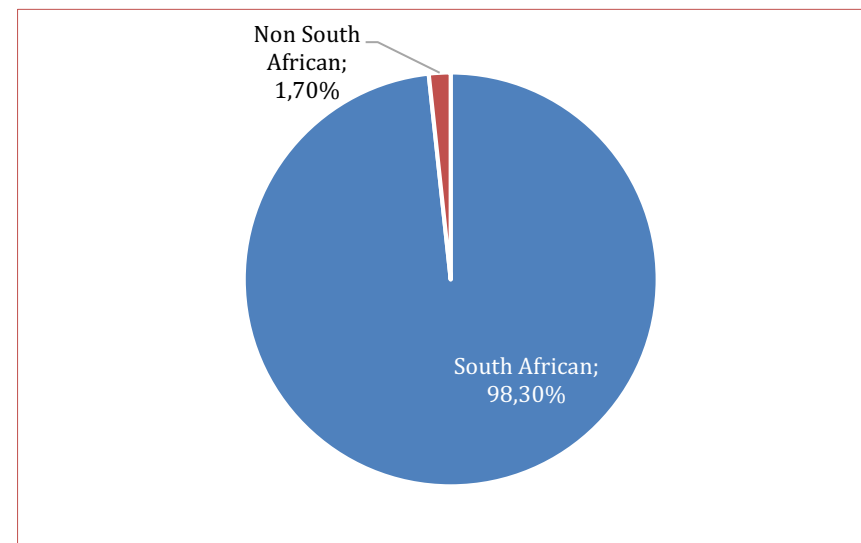


Figure 16: Educational attainment



Source: Urban-Econ 2014

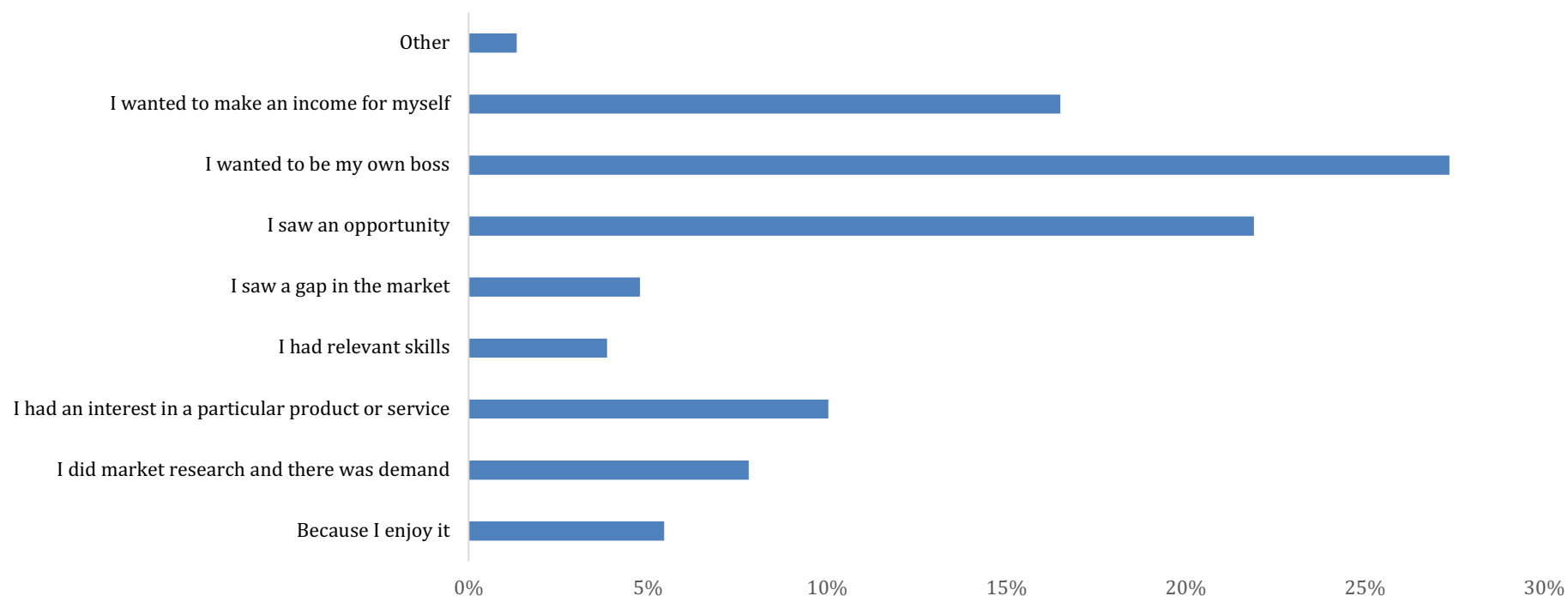
Figure 17: Nationality of owner



11. MAIN MOTIVATION FOR STARTING THE BUSINESS

Much is often made of entrepreneurship in South Africa being more necessity than opportunity driven. The responses below paint a different picture to this commonly held belief. The majority of respondents were motivated to start their own businesses by positive factors rather than a negative urge to escape unemployment. Importantly, if those who “saw an opportunity”, “saw a gap in the market”, and “did market research and there was demand” were combined, those motivated to start their businesses by a perceived market opportunity would account for thirty-five percent of all respondents.

Figure 18: Main motivation for starting the business

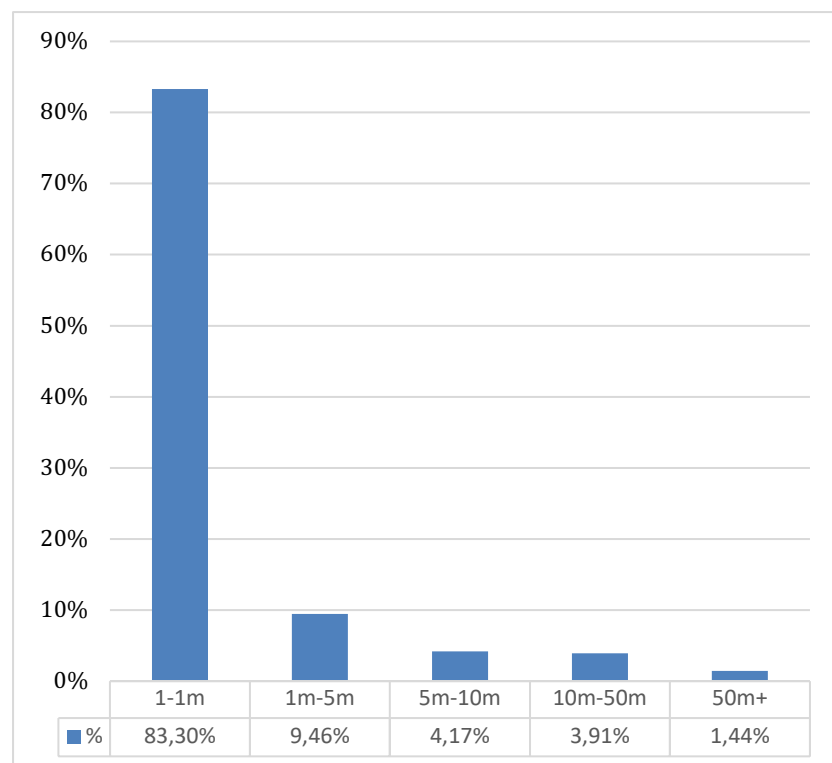


Source: Urban-Econ

12. BUSINESS TURNOVER AND OPERATING PREMISES

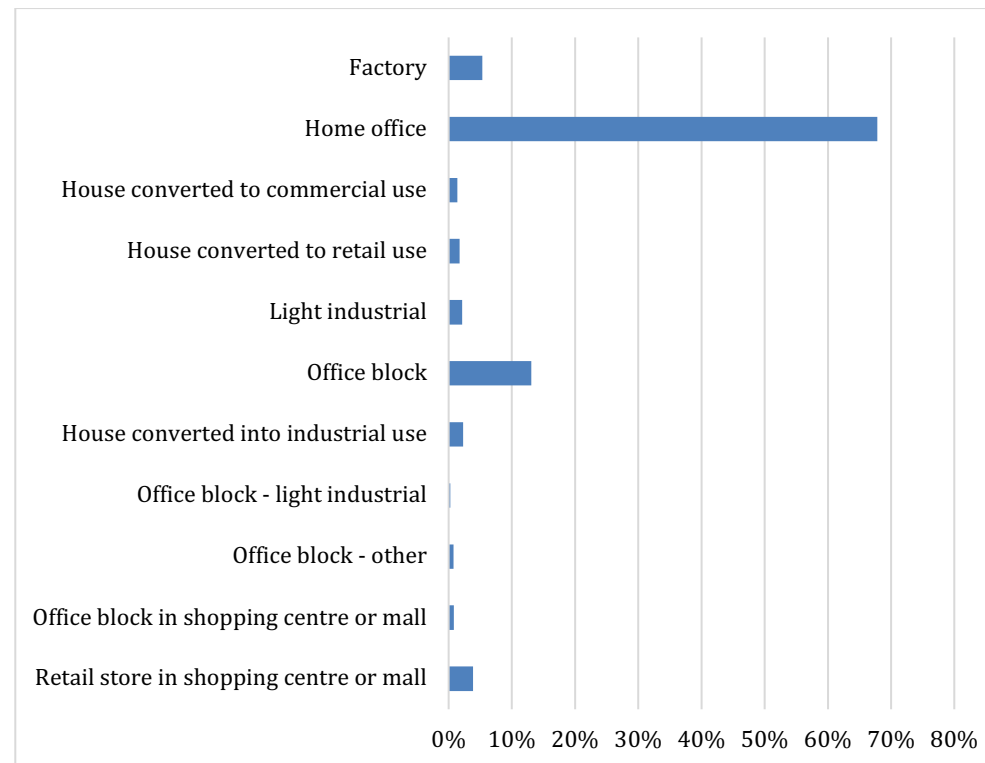
Figures 18 and 19 on annual turnover and business premises reinforce what was reported earlier: that the majority of enterprises are micro to very small in size. Just over ninety-two per cent of respondents have annual turnover of up to five million rand, which places them in the micro and very small enterprise category. More than two-thirds of the businesses are home-based, with only 13% and 5%, respectively, operating from an office block or factory. This also gives an indication of the size of the respondent businesses.

Figure 19: Annual turnover (Rand)



Source: Urban-Econ

Figure 20: Business premises



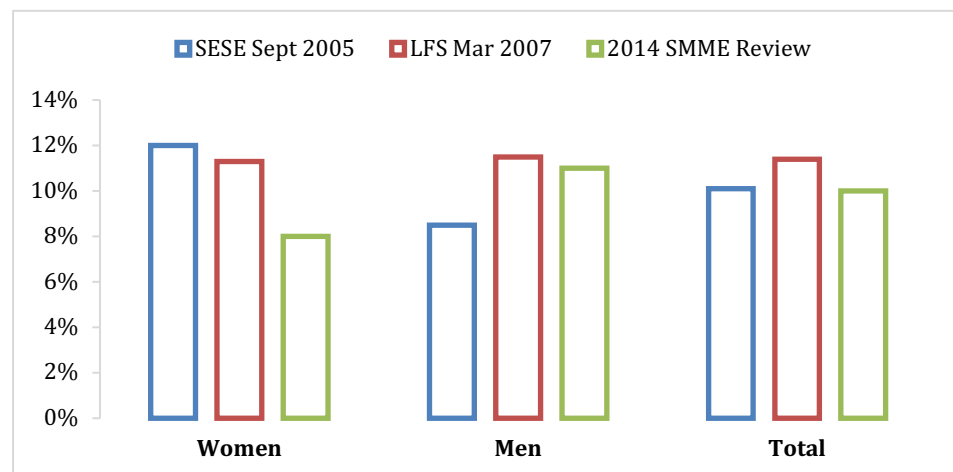
Source: Urban-Econ

E. PARTICIPATION IN ENTREPRENEURIAL ACTIVITY

1. PROPORTION OF THE ECONOMICALLY-ACTIVE POPULATION INVOLVED IN ENTREPRENEURIAL ACTIVITY

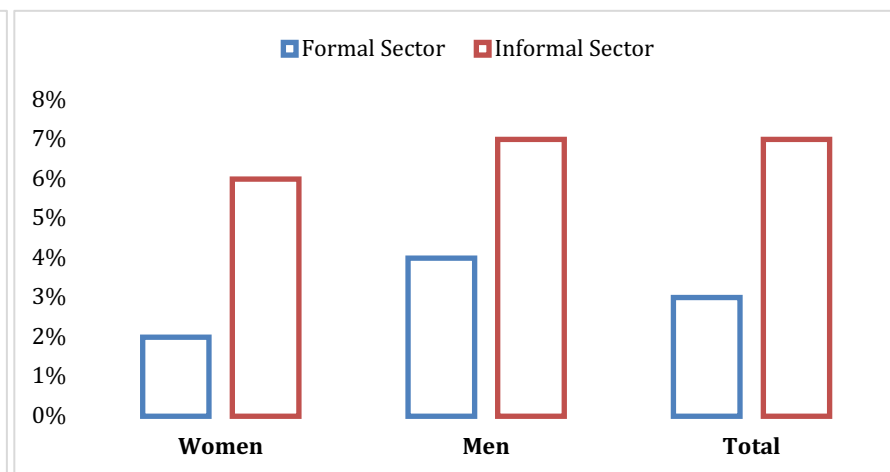
South Africa continues to have a relatively small proportion of its population involved in entrepreneurial activities. According to GEDI, there is a significant scope to increase participation in entrepreneurship around the world. In South Africa, the figures are significantly less. Figure 20 shows that since 2005 there has not been any marked improvement in entrepreneurial participation within the South African population as a whole, both men and women. In fact, there has been a slight drop, from 11,4% in 2007 to 10% presently. This presents significant scope to increase participation in entrepreneurial activities across society. Figure 21 shows that the majority of entrepreneurs are in the informal sector, with women more likely to be active in the informal than in the formal sector.

Figure 21: Owners as a % of economically active population by gender



Source: Urban-Econ

Figure 22: Owners as a % of economically active population by gender & sector, 2013



Source: Urban-Econ

2. WOMEN PARTICIPATION IN ENTREPRENEURIAL ACTIVITY

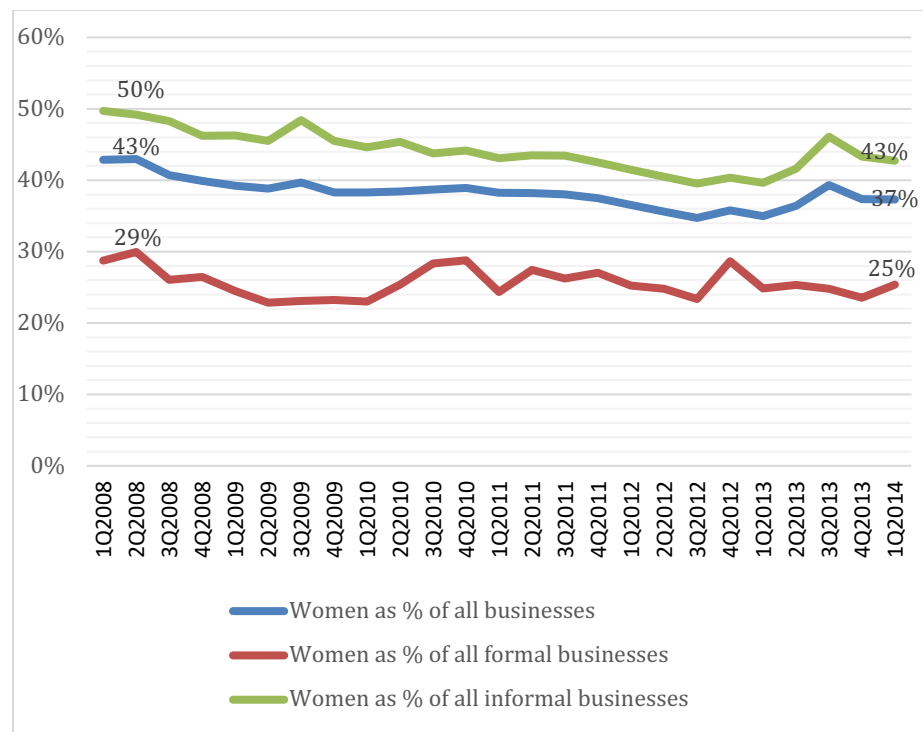
Since 2007, the number of female owned businesses has decreased by almost 20%, and is currently estimated to be 723 000, as determined by the Stats SA LFS. Whereas previously women in South Africa were roughly equally likely to engage in entrepreneurial activity as men, currently the proportion of women engaging in entrepreneurial activity is lower (8%) than the proportion of men doing the same (11%), with the difference being slightly more marked in the formal sector (4% males, 2% females) than it is in the informal sector (7% males, 6% females) – (figure 21).

Gender	SESE Sept 2005	LFS Mar 2007	2014 SMME Review
Women	922 000	876 000	723 000
Men	771 000	1 058 000	1 216 000
Total	1 693 000	1 934 000	1 939 000

Source: 2005 and 2007 figures from 2007 SMME Annual Review Report; 2014 review figures from Quantec Online Data (based on Stats SA 2008-2014 Quarterly LFS)

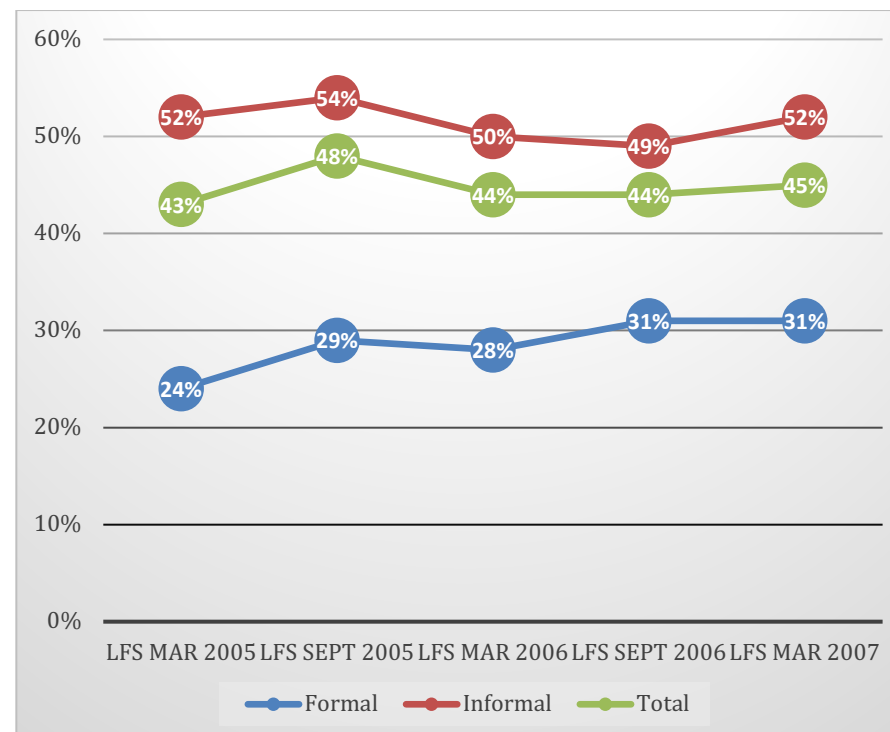
Based on the Stats SA LFS of March 2014, women own just over one-third (37%) of all businesses in the country (figure 22). This is a notable decrease in the representation of women as business owners since the 2007 SMME Annual Review Report in which women were reported to comprise forty-five per cent all business owners (figure 23). Trends indicate that women business owners have also decreased in representation in both formal and informal sectors – from thirty-one per cent of formal businesses previously to twenty-five per cent currently, and from fifty-one per cent of informal businesses to forty-three per cent.

Figure 23: Working age women amongst all business owners⁷



Source: Quantec Online Data (based on Stats SA 2008-2014 Quarterly LFS)

Figure 24: Women as a % of all business owners aged 16-65 years, 2005-2007

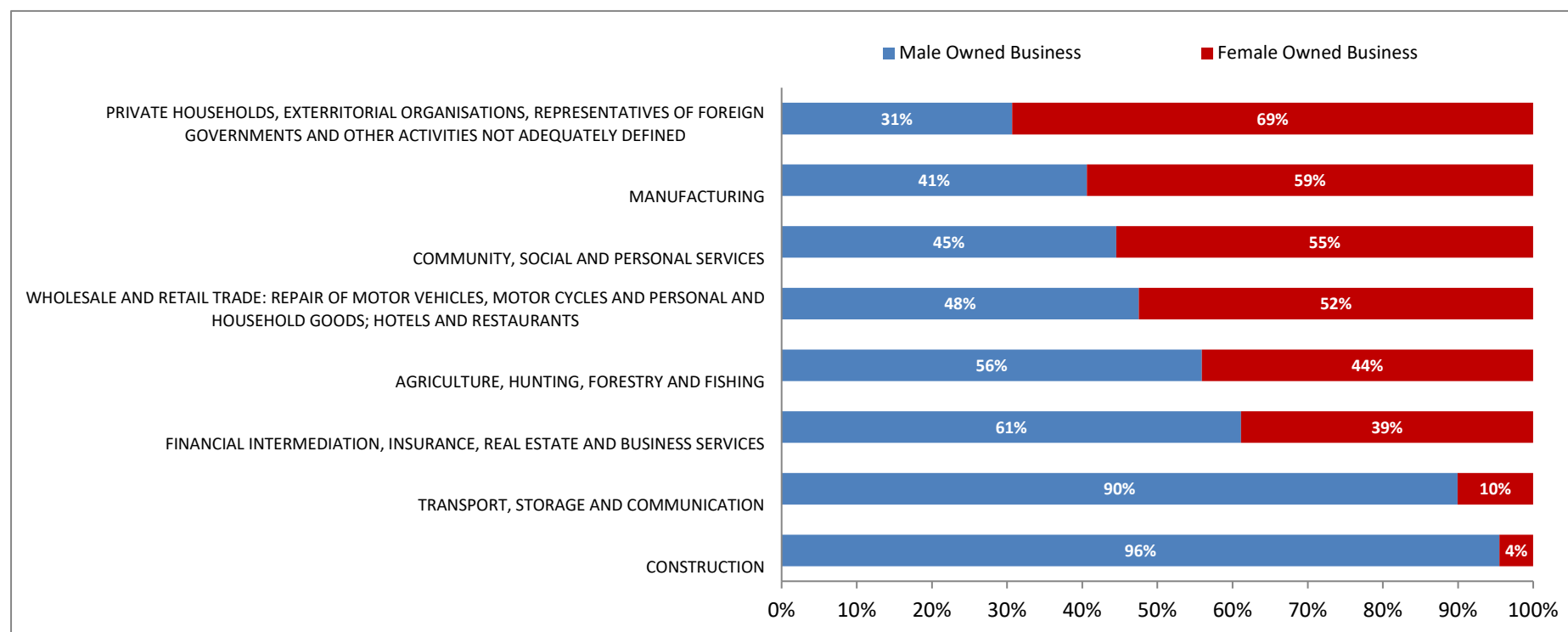


Source: 2007 SMME Annual Review Report

⁷ Business owners are defined as employers (employing one or more employees), as well as own account workers (not employing any workers). Both the formal and informal sectors are included, with the agricultural sector represented, as well as those working in private households.

Figure 24 presents sectoral participation by gender⁸. It shows a higher level of women representation, compared to men, in four sectors: Private households, extraterritorial organisations, representatives of foreign governments and other activities not adequately defined (69%), manufacturing (59%), community, social and personal services (53%), and wholesale and retail trade, etc. (52%). Women participation in construction and transport, storage and communication is negligible.

Figure 25: Business ownership by industry and gender, 2014



Source: Quantec Online Data (based on Stats SA 2008-2014 Quarterly LFS)

⁸ Mining and quarrying, as well as electricity, gas and water supply industries have been left out because their sample sizes are too small.

Table 5 shows that males are more likely to start businesses and employ staff earlier in their lives than their female counterparts. Business ownership among women rises steadily by age, peaking at the 40-59 age group, after which it falls significantly, although still showing a 5% overall growth rate for the 60-79 age group. Above the age of 79, women business ownership fell by 8% from 2008 to 2014 (among men, the drop during the same period was two percentage points higher than that of women, at 10%).

Most noteworthy are low and declining levels of business ownership among the 15 to 29-year-old women, a total drop of 4% over the 2008-2014 period. Although business ownership rates pick up significantly from the 30 to 39-year age bracket, ownership within this age group still falls below 30%, and has mostly been on a decline since 2008.

TABLE 5: CHANGES IN MALE AND FEMALE BUSINESS ACTIVITIES FROM 2008 TO Q1, 2014

Business owners and employers aged:		2008	2009	2010	2011	2012	2013	2014 Q1	2008-2014 Growth Rate
15-29	Male	16%	15%	14%	14%	16%	15%	15%	0%
	Female	13%	13%	13%	11%	11%	11%	11%	-4%
30-39	Male	31%	31%	32%	32%	31%	29%	31%	0%
	Female	29%	28%	27%	28%	25%	24%	24%	-3%
40-59	Male	46%	47%	46%	46%	46%	48%	49%	0%
	Female	47%	48%	47%	50%	52%	52%	52%	2%
60-79	Male	7%	7%	8%	8%	7%	8%	8%	2%
	Female	10%	11%	12%	12%	11%	13%	13%	5%
Above 79	Male	0.2%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	-10%
	Female	0.3%	0.1%	0.2%	0.3%	0.1%	0.2%	0.2%	-8%
Total	Male	100%	100%	100%	100%	100%	100%	100%	
	Female	100%	100%	100%	100%	100%	100%	100%	

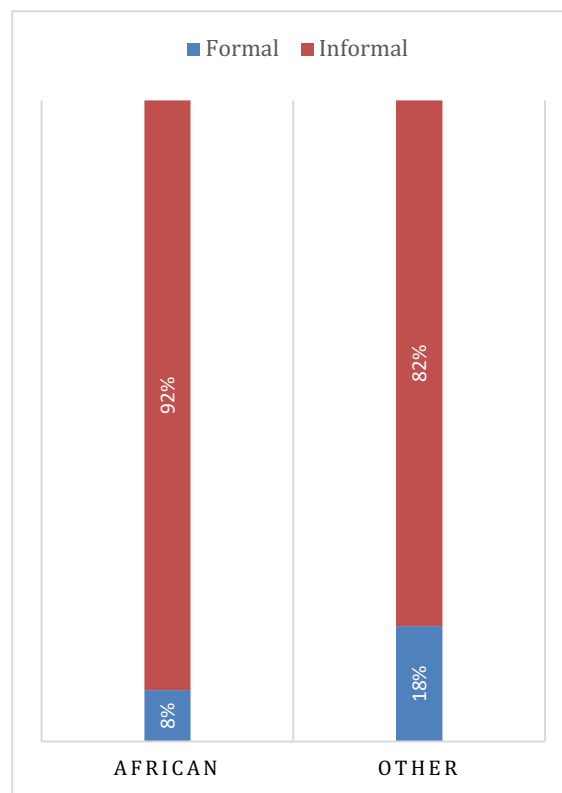
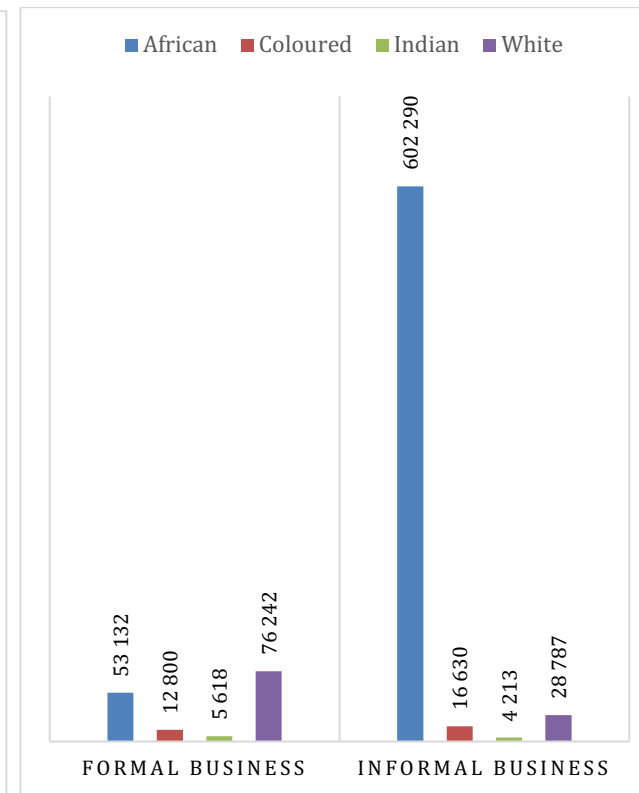
Source: Quantec Online Data (based on Stats SA 2008-2014 Quarterly LFS)

According to National Treasury, unemployment is highest among the youth aged 18 to 29 (51% within the 18-24 age group and 33,8% within the 25-29 age group)⁹. Given this, there is a need to increase the rate of entrepreneurial activity among women within this group, where currently entrepreneurial activity is low and has been declining over time, as table 5 shows.

3. RACIAL DEMOGRAPHICS OF WOMEN IN BUSINESS

Ninety-two percent of all businesses owned by African women in 2013 are in the informal sector. This has remained largely the case since the last review. Women of other population groups are also concentrated in the informal sector, though to a lesser extent compared to African women. The majority of formal women-owned businesses in South Africa are owned by white women, followed by African women. Proportionally, white and Indian female business owners in South Africa are more likely to own formal businesses than black and coloured women.

⁹ National Treasury, "Confronting youth unemployment: policy options for South Africa", February 2011

Figure 26: Woman ownership (%), 2008**Figure 27: Women ownership (%), 2013****Figure 28: Women ownership by race (number)**

Source: Quantec Online Data (based on Stats SA 2008-2014 Quarterly LFS)

4. SOME CHALLENGES FACED BY WOMEN IN BUSINESS

Survey respondents reported that women are still clustered in service industries. Interviewees commented that the clustering of women business owners in service industries was due to low barriers to entry in these industries. Respondents noted repeatedly that access to finance to start or expand their businesses remained the primary challenge for women entrepreneurs. This was attributed to distrust of female entrepreneurs by commercial banks and a lack of support from their spouses (where dual signatures are required to access bank finance). Red tape was identified as

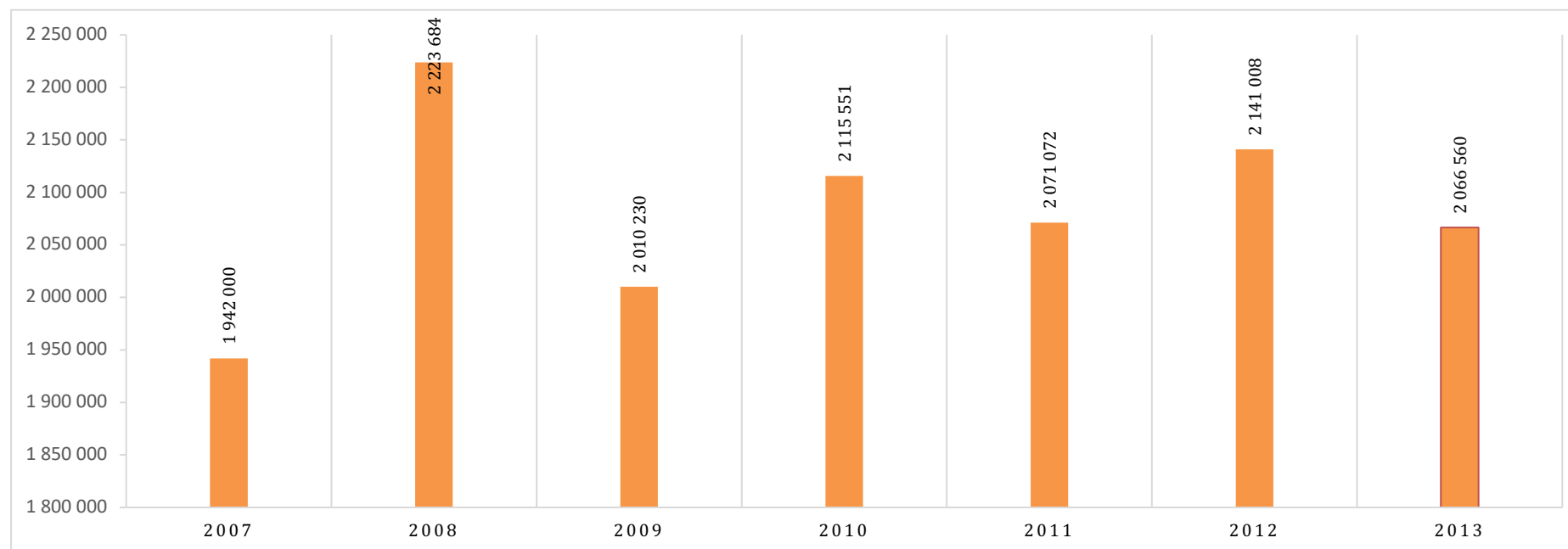
the main obstacle to accessing finance from government SMME support agencies. This includes application forms that are too complicated and lengthy processes involved.

A related challenge is that often in industries where women-owned SMMEs are clustered (such as events management and catering) contracts are awarded with very short lead times in which to deliver the required service, thereby making it impossible to secure finance for the project, where this may be required. In such instances, capital is required, and accessing money from commercial banks often proves impossible. Respondents also noted that another reason why the growth of women-owned businesses in industries such as construction is slow is distrust of women by established businesses. Another key challenge in the construction sector is that women-owned construction SMMEs are rarely awarded ratings at or beyond grade three, meaning they are not able to tender for large projects that require higher grading.

F. CONTRIBUTION OF SMALL BUSINESSES TO THE SOUTH AFRICAN ECONOMY

1. CONTRIBUTION TO SELF-EMPLOYMENT

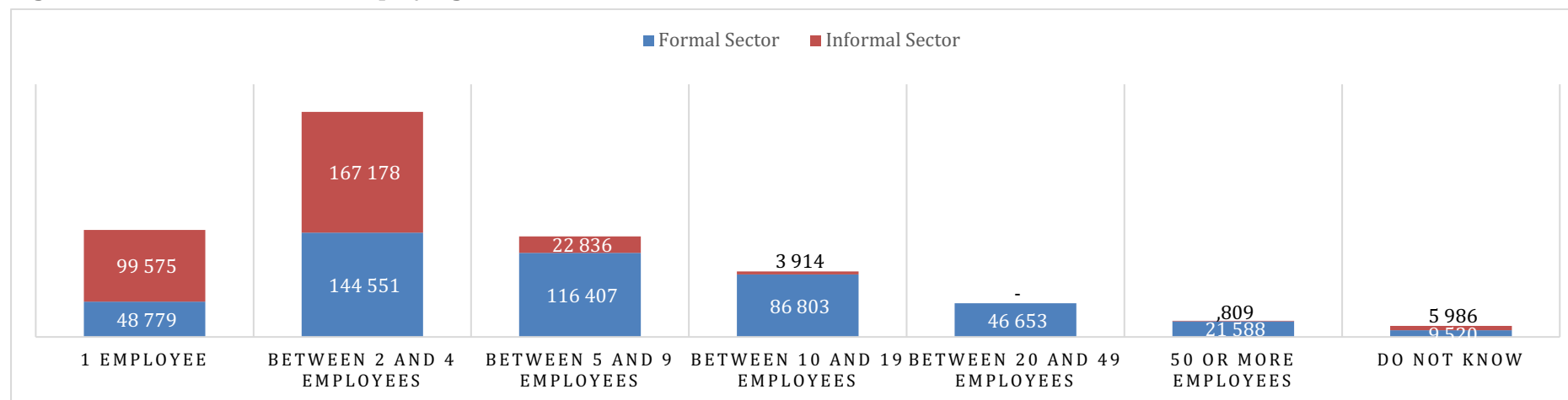
The number of self-employed persons is often used as an indicator for SMMEs because it reflects businesses that are too small to have shareholders. Statistics SA's Labour Force Survey (LFS) uses the question: 'Did you run or do any kind of business, big or small, for yourself or with one or more partners in the last week?' to determine the number of self-employed people in the economy. The 2007 SMME Annual Review used this LFS figure to arrive at a number of 1 942 000 self-employed persons. The same question is asked in the Labour Force Survey in 2013 and the result is 2 066 560 individuals. This shows a growth of 124 560 self-employed persons since the previous review, an average annual growth rate of only 1%.

Figure 29: Number of self-employed individuals

Source: 2007 SMME Annual Review Report, Stats SA (2008-2013) - Q2.4b in the QLFS

2. ESTIMATED TOTAL EMPLOYMENT

Similar to the number of SMMEs, the number of SMME employees is not specifically captured by Stats SA. However, an approximation can be derived from the answers to the Labour Force Survey question: ‘How many employees are there at your place of work?’ Of those who said they were self-employed in 2013, sixty-two per cent said they had no employees. The responses of the remaining 38 per cent are shown in figure 29 below. Forty per cent of those businesses that did employ others employed between 2 and 4 employees, with 19 per cent having 1 employee and another 19 per cent having between 5 and 9 employees. Only 2% of all businesses had more than 20 employees and only 1% had over 50 employees. This confirms that over 90% of all businesses can be classified as micro or very small.

Figure 30: Number of SMMEs employing staff, 2013

Source: Stats SA LFS

In order to determine the total employment provided by SMMEs the average number of employees per category is used. For example, in the category 'between 2 and 4 employees' the average number of 3 employees is used (plus 1 for the owner, for a total of 4 employees per enterprise) to determine total employment. Businesses that do not employ any staff other than the owner are considered as providing one job (for the owner). Table 6 presents estimated total SMME employment contribution based on this computation.

TABLE 6: SMME CONTRIBUTION TO EMPLOYMENT, 2013

	Formal Sector	Informal Sector	Agriculture	Private households	Total
Micro (1-5)	814 502	2 024 415	60 926	9 200	2 909 043
Very Small (5-10)	931 254	182 686	96 476	-	1 210 416
Small (10-50)	2 835 079	62 630	166 838	-	3 064 546
Medium (over 50) *	1 079 387	40 428	104 661	-	1 224 475
Don't know (2 jobs assigned) **	19 040	11 972	519	-	31 531
TOTAL EMPLOYMENT	5 679 261	2 322 130	429 420	9 200	8 440 011

Source: Adjusted by Urban-Econ from Stats SA 2013 data

NOTE: * The QLFS does not provide a band of above 50 employees, that is, a medium sized business. Thus, the lowest possible employment number of 50 people is used as a conservative estimate for this category of businesses

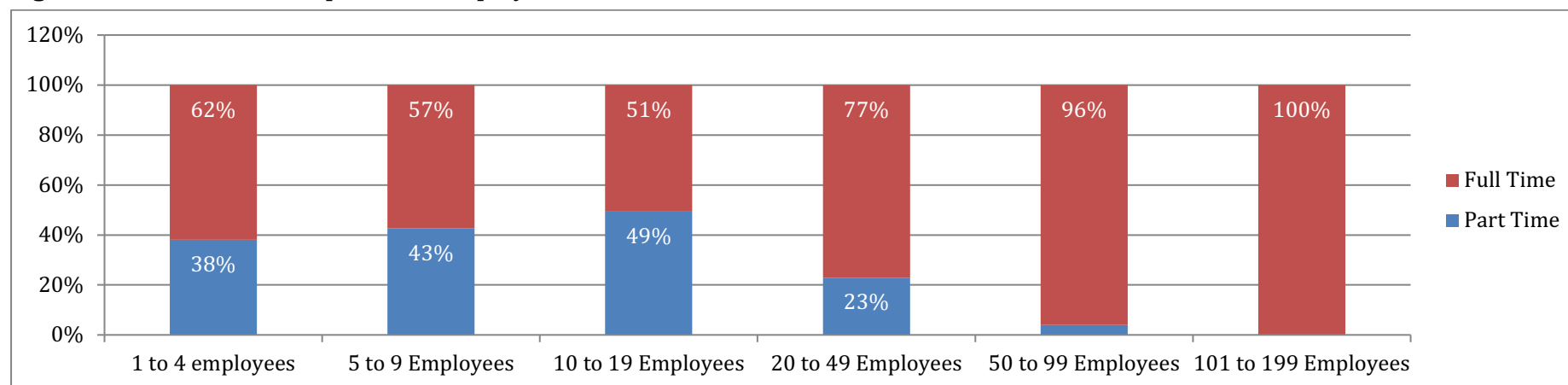
** Some respondents said that they did not know how many people were employed at their place of work. For these the most frequent response of 2 persons was assigned.

All in all, the total employment contribution made by SMMEs in South Africa in 2013 is conservatively estimated at 8 440 011 jobs, taking into account that the number of jobs in medium-sized businesses is hard to determine. For these businesses, the lowest estimate of 50 people per business has been used. This means that SMMEs contribute around 55% to South Africa's total formal and informal employment.

3. FULL-TIME VERSUS PART-TIME EMPLOYMENT

The Labour Force Survey does not distinguish between full-time and part-time jobs as the only requirement is that the respondent has worked in the previous week. A sample survey carried as part of this review, however, shows that the majority of employment in SMMEs is full-time, with part-time employment more prevalent at the lower end of the size spectrum and dropping sharply for businesses with twenty employees and upwards.

Figure 31: Full-time versus part-time employment, 2013



Source: Urban-Econ

4. SMME CONTRIBUTION TO GDP

Determining accurately the GDP contribution of the SMME sector remains a challenge. The 2004 review of ten years of small business support in South Africa (1994–2004) reported that SMMEs contributed 45% to 50% to the country's GDP. Acknowledging the difficulties in computing the GDP contribution, the 2007 Review estimated that SMMEs accounted for 27% to 34% of total GDP¹⁰. Various other studies have estimated the sector's GDP contribution in 2010 at between 52% and 57% (D'Imperio, 2012). The 2013 Review adopted a different approach to estimate the GDP contribution of SMMEs. This approach makes use of the 2007 and 2010 employment to GDP ratio trends as well as the results from the national SMME survey undertaken in 2013. Thus, for the current review the employment to GDP ratio approach was adjusted based on the 2013 SMME survey results. On this basis, the overall contribution of SMMEs to GDP, using the adjusted ratio, is estimated at between 41% and 47%. Table 7 presents the various studies' estimates of GDP contribution by SMMEs from 2004 to 2014.

TABLE 7: ESTIMATED SMME CONTRIBUTION TO GDP

Report	Estimated SMME contribution to GDP
Review of 10 years of small business support in South Africa: 1994 – 2004	45% to 50%
2007 SMME Review	27% to 34%
Various 2010 studies	52% to 57%
2014 SMME Review	41% to 47%

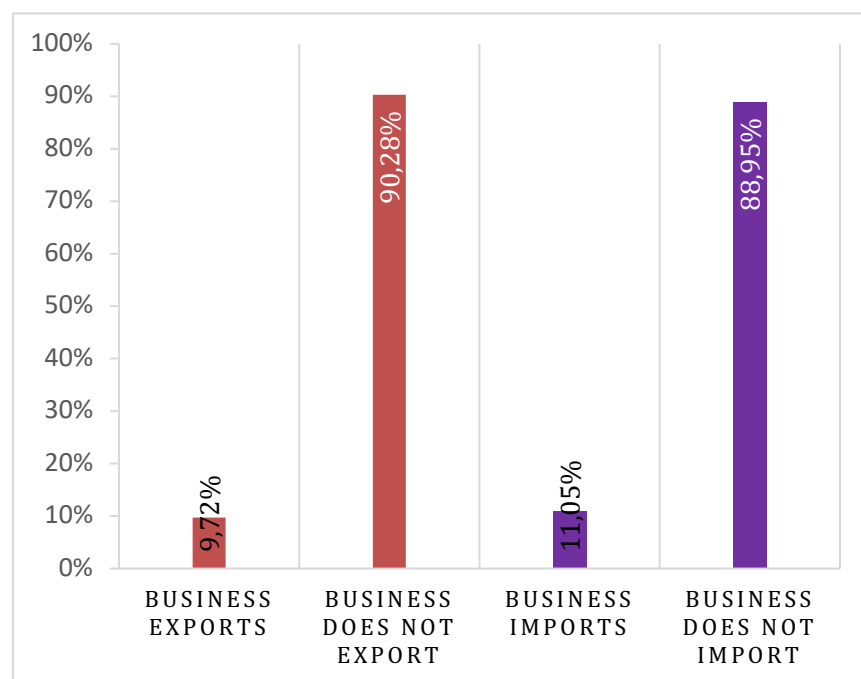
Sources: 2007 SMME Annual Review Report, D'Imperio 2012, Review of Ten Years of Small Business Support in South Africa 1994 – 2004; and Urban-Econ calculations.

¹⁰ The 2007 review did not make a clear distinction between the medium and large enterprises.

5. CONTRIBUTION TO EXPORT AND IMPORT

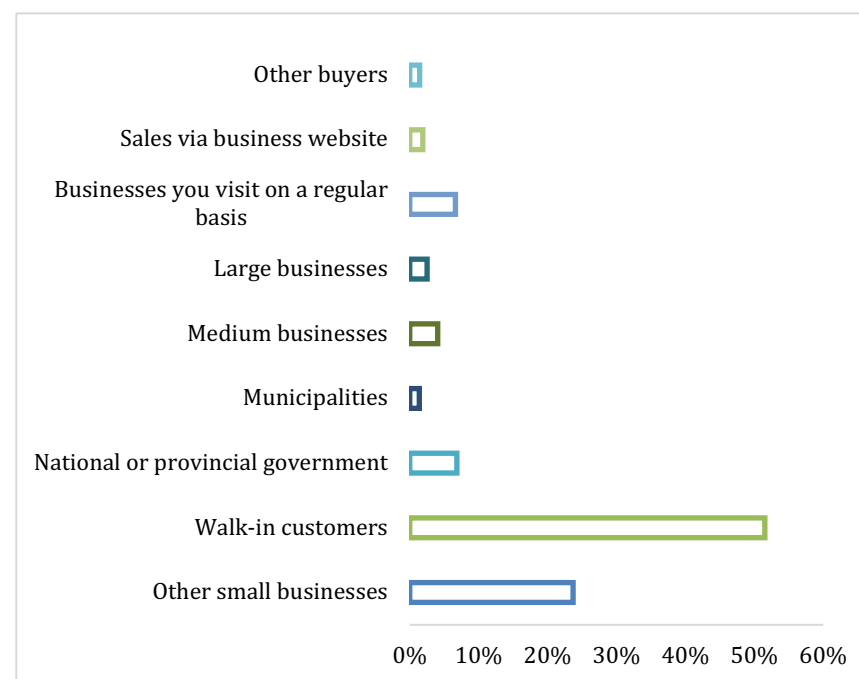
South Africa's major exports are mostly those that SMMEs are only marginally, or not at all, involved in trading in, including: mineral products, products of the chemical or allied industries, vehicles, aircraft, vessels and associated transport equipment. A similar scenario applies to the country's imports. Consequently, SMMEs are marginally involved in both importing and exporting (figure 31). Figure 32 shows that SMMEs trade mostly with local customers, thus confirming their limited activity in international trade.

Figure 32: Involvement in imports and exports



Source: Urban-Econ

Figure 33: Major customer groups

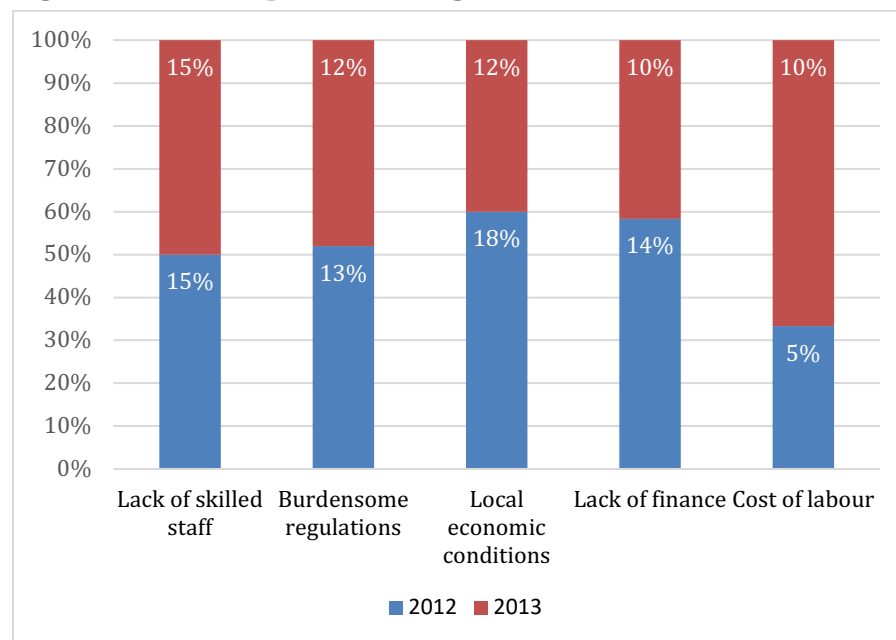


Source: Urban-Econ

G. CHALLENGES FACED BY SMALL BUSINESSES

Figure 33 below, based on the SBP longitudinal survey of 500 SMEs in manufacturing, tourism and services, presents the main constraints impeding the growth of respondent firms in 2012 and 2013. The main concern faced by manufacturing and business services respondents was lack of skilled personnel. For tourism firms, on the other hand, lack of finance was the most common impediment. Overall, local economic conditions and lack of skilled staff were the main challenges faced by SMMEs, followed by lack of finance and burdensome regulations. A 2010 study conducted by the World Bank identified several obstacles faced by SMMEs. Table 8 categorises these according to their severity for different firm sizes.

Figure 34: Chief impediments to growth



Source: SBP, SME Growth Index™, 2012 and 2013

Table 8: Perceived severity of obstacles, by firm size

Severity	Micro	Small	Medium
Most severe	Access to finance	Crime	Crime
2nd severe	Access to premises	Electricity	Electricity
3rd severe	Business licensing	Access to finance	Corruption
4th severe	Competition	Corruption	Access to finance
5th severe	Corruption	Competition	Access to premises

Source: Adapted from World Bank 2010 (in Rethinking Small Business Support in South Africa, 2011)

H. CONCLUSIONS AND RECOMMENDATIONS

This review shows that although small businesses continue to play an important role in the South African economy, contributing an estimated 41%-47% to the country's gross domestic product (GDP) and an estimated 8,4 million jobs, about 55 per cent of all employment in the economy, they have been negatively impacted by the sluggish performance of the economy. This has seen a fall in the overall number of new businesses registered particularly since 2010. There has also been a slight drop in the overall proportion of business owners to the overall economically active population. SMMEs also face a range of constraints, key among them being local economic conditions and access to a range of key inputs. The country's small businesses are by far predominantly represented in the micro and very small size class and are mainly concentrated in three provinces – Gauteng, Western Cape and Eastern Cape. There is low level of entrepreneurial activity among young people between the ages of 15 and 29, both men and women. Female entrepreneurship picks up significantly only within the 40 to 59-year age group. There is a marked decline in business survival rate after three years of operation. Small businesses almost exclusively operate within the domestic economy, with negligible participation in international markets. The rate of establishment of co-operatives remains quite low. Small business data remains a perennial policy challenge, making it extremely difficult to measure with any degree of accuracy the full extent of the country's small business sector and its performance.

The following five key actions are recommended:

- (a) Prioritise the improvement of the quality of small business data, which has an important bearing on policy quality and relevance
- (b) Analyse reasons for low levels of entrepreneurship among youth between the ages of 15 and 29, particularly women, and implement programmes to stimulate entrepreneurship with this age group
- (c) Analyse the causes of concentration of small businesses within only three of the country's provinces and two economic sectors and implement targeted measures to drive higher levels of entrepreneurship in other provinces and sectors
- (d) Analyse the causes of sharp drops in business survival after three years of operation and reasons for apparent lack of progression beyond the micro and very small business size category and implement measures to enable this transition
- (e) Analyse the causes of low levels of co-operative establishment and design appropriate responses thereto

ANNEXURE: THE SAMPLING PROCESS FOR THE 2013 SURVEY

FORMULA:				$N/(1+(N(e)^2))$				
	Business Numbers	Precision at 95% confidence level	Sample Size	Time frame implication	Cost implication	Human capital implication	Confidence level (P)	Selection
Formal businesses	1 300 000	1%	9 924	High	Very high	Very high	Over 95%	Nothing has been used here because of the high cost and human capital implication
Co-operatives	54 000	1%	8 438	High	Very high	Very high	Over 95%	
Informal businesses	150 000	1%	9 375	High	Very high	Very high	Over 95%	
Total			27 737					
Formal businesses	1 300 000	2%	2 495	Good	Good	Good	Over 95%	2 495
Co-operatives	54 000	2%	2 389	Good	Good	Good	Over 95%	
Informal businesses	150 000	2%	2 459	Good	Good	Good	Over 95%	
Total			7 343					
Formal businesses	1 300 000	3%	1 110	Low	Low	Low	Over 95%	
Co-operatives	54 000	3%	1 089	Low	Low	Low	Over 95%	1 089
Informal businesses	150 000	3%	1 103	Low	Low	Low	Over 95%	
Total			3 302					
Formal businesses	1 300 000	4%	625	Very Low	Very Low	Very Low	Around 95%	
Co-operatives	54 000	4%	618	Very Low	Very Low	Very Low	Around 95%	
Informal businesses	150 000	4%	622	Very Low	Very Low	Very Low	Around 95%	622
Total			1 865					4 206 rounded to 4 200

Source: Urban-Econ