SMME Quarterly Update
1st Quarter 2021

The Small Enterprise Development Agency

SMALL ENTERPRISE DEVELOPMENT AGENCY

an agency of the dsbd

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Executive summary

- **The number of SMMEs in South Africa (SA) declined by 11% (or 289 000) year-on-year (y-o-y) from 2.61 million to 2.33 million in 2021Q1.** The decline in the number of formal and informal establishments was of the same order, indicating sustained pressure on the sector despite the broader economic recovery.
- **Whereas the contraction in SMME employment was deep, it recovered by 633 000 during 2021Q1.** This partly reflects increased unemployment in the rest of the economy, but also reflects a measure of resilience in the sector.
- **Total employment provided by SMMEs measured 9.8 million** (64% of economy-wide employment), 6.2% down from 2020Q1.
- The overall structure of the SMME sector remained relatively stable amidst some idiosyncratic tendencies.
- The SME* share in the total turnover of all enterprises[#1] remained relatively stable around 37.5%, **suggesting that their relative financial position (vis-à-vis large enterprises) held up**.

The world economy remains on the recovery road, with the IMF projecting growth rates of 6% (2021) and close to 5% (2022). However, even the IMF describes the outlook as 'patchy', owing to the current third wave of COVID-19 in many emerging economies and a fourth wave shaping up in leading advanced economies, as well as high financial risk.

The global economic outlook is characterised by divergence. Advanced economies benefit from successful vaccination programmes and macroeconomic stimulus. In contrast, vaccination programmes tend to lag in emerging and low-income economies, also having to contend with less macroeconomic support and even tighter monetary policies to hedge against potential financial volatility. The short-term outlook is for lower inflation and low interest rates.

Domestically, the economic outlook has also improved, albeit that progress remains hesitant at best. Positive developments, such as the solid recovery in business confidence in the year to 2021Q2 and the (partial) liberalisation of the energy market, tend to be superseded by negatives. **The deep socio-political unrest in the economic hub of SA, namely the KZN and Gauteng provinces, was a serious setback**.

On the positive side, key export commodity prices remain elevated, adding to liquidity in the money market and lifting fiscal constraints. **From a revised estimated contraction of 6.4% last year, real GDP is projected (by the BER) to recover to 3.9% this year and 2.5% next year**. Current inflationary pressures are regarded as being temporary and interest rates are generally expected to remain low for the foreseeable future. The recovery road is likely to be uneven as the COVID-19 pandemic causes periodic disruption. Oher risks also remain.

A full year into the pandemic, the latest results indicate sustained pressure on the sector, as the number of SMMEs continued to decline in 2021Q1. SMME employment recovered during 2021Q1, which could be an early indicator of a turnaround, or it may simply reflect a higher rate of worker retrenchment in the rest of the economy. **On the positive side, the decade-long trend of a softer survivalist tendency in the sector continued, highlighting the importance of skills development**.

It appears that it is particularly the younger-aged SMME owners, those with lower educational attainment and lower skills (disproportionately represented by the black population group) who have been more vulnerable to the pandemic impact. **Support policies should recognize the informal nature of the SMME sector; marketing and financial support also remain critical in the current economic climate**.

KEY INDICATORS	2020Q1	2020Q4	2021Q1	q-o-q change	y-o-y change
Number of SMMEs	2 614 063	2 382 030	2 325 203	-2.4%	-11.1%
Number of formal SMMEs	755 265	656 423	667 111	1.6%	-11.7%
Number of informal SMMEs	1 748 031	1 617 533	1 552 814	-4.0%	-11.2%
Number jobs provided	10 406 070	9 124 485	9 757 287	6.9%	-6.2%
% operating in trade & accommodation	38.0%	38.1%	37.6%	-0.5% pts	-0.4% pts
% operating in community services	14.0%	13.1%	14.8%	1.7% pts	0.8% pts
% operating in construction	14.4%	15.7%	14.7%	-0.9% pts	0.3% pts
% operating in fin. & business services	13.4%	13.5%	13.7%	0.2% pts	0.4% pts
% black owned formal SMMEs	74.8%	74.8%	72.6%	-2.2% pts	-2.2% pts
% contribution of SMEs* to turnover of all enterprises[#]	37.5%	37.5%	37.4%	-0.1% pts	-0.2% pts

**excluding micro enterprises*

[#]*excluding agriculture, financial intermediation, insurance and government institutions*
[1]*The contribution of SMEs to GDP is contested. An estimate could be possible from existing National Accounts data. However, further research, in cooperation and with assistance from Statistics South Africa, is needed.*

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Economic background

International

The global economy continues to recover from the COVID-19-induced contraction (3.2% in aggregate and real terms) last year. **The IMF's forecast for world GDP growth remains bullish, projecting 6% in 2021 and close to 5% next year**. The growth number conceals the fact that it is calculated from a low base; the IMF actually describes the outlook as 'patchy', adversely impacted, amongst other, by the current third wave of COVID-19 in many emerging economies and a fourth wave shaping up in leading advanced economies. **Furthermore, risk also continues to be associated with the outlook**.

Global growth characterised by diverging growth trends and risk

Two important elements of the IMF's outlook are, *firstly*, the deepening fault line of increased inequality (also manifesting in the worldwide rollout of vaccinations); and, *secondly*, high financial risk. Both elements embody risk for emerging economies and have led to downgrades of economic growth forecasts. Slow or lagging vaccination programmes undermine the economic outlook. *Secondly*, the threat of financial volatility is beginning to trigger tighter monetary policies in some emerging economies; more can follow. **Emerging and developing economies are projected to grow by 6.3% and 5.2% in 2021 and 2022 respectively, after contracting by 2.1% in 2020.**

Economic growth forecasts for developed economies have been upgraded, partly due to more efficient vaccine roll-outs; and partly due to more aggressive economic stimulus measures (e.g. a comprehensive infrastructure drive planned in the US economy). **Closer home, the Sub-Saharan African region is forecast to grow by 3.4% and 4.1% respectively, after contracting by 1.8% in 2020**.

Arguably, the biggest constraint on global economic growth, is the high level of debt. In the major advanced economies, debt levels have been boosted by fiscal economic stimulus measures. The problem is that the additional unit of GDP generated by every additional unit of debt continues to decrease. **Debt-driven economic stimulus is therefore not expected to generate sustained high levels of real economic growth**.

Advanced economy interest rates are expected to remain low, accompanied by elevated commodity prices

Current inflationary pressures reflect technical base effects as well as temporary supply-chain disruptions leading to bottlenecks and price spikes is some product categories. **Combined with the patchy real economic growth outlook, interest rates are expected to remain low**. While this will continue to underpin commodity prices, the latter is not expected to generate sustained higher levels of inflation. **Emerging economies are expected to continue consolidating their fiscal positions and remain on the backfoot regarding additional monetary stimulus, given the financial risks**.

Multiple waves of COVID-19 sickness remain a threat to

Regarding the COVID-19 pandemic, the reality of multiple waves is playing itself out. Most emerging economies are trapped in a vicious third wave of COVID-19 sickness, overshadowed by the super-spreading delta variant, with vaccination programmes lagging. This is a sad state of affairs as the

the economic outlook

evidence shows that between 94% to 99% of deaths caused by the delta variant of the virus are un-vaccinated people (MIT *Coronavirus Tech Report*, 16 August 2021). The advanced economies, in turn, have progressed well with vaccination; however, the delta variant is also wreaking havoc, causing higher infection numbers, including hospitalisations in some regions. A fourth wave of COVID-19 sickness is also shaping in countries like the US, the UK and some EU countries. More mutations of the virus are anticipated. The evidence is, however, strong that vaccination assists in avoiding COVID-19 related deaths.

Business strategies likely to remain defensive, given the level of uncertainty

In all, the unrelenting pandemic trajectory is likely to continue undermining the global economic outlook until at least the end of next year when emerging economies are also expected to successfully complete vaccination programmes. Given the divergent global economic outlook, with growth forecasts being upgraded in the advanced economies and being offset by downgrades of those in emerging economies, the uncertainties associated with the pandemic and financial risks, these call for defensive business strategies. **Entrepreneurs will (and should) be seeking new expansion opportunities, albeit that they have to be weary of unexpected shocks uprooting more favourable prospects ahead**.

South Africa

The SA economy remains on the recovery road following the slump last year[1]. **The recovery has been helped along by a surge in exports and key commodity prices**. Export demand, stimulated activity in the agriculture, mining and manufacturing sectors in particular. Favourable climatic conditions also boosted yields in the horticultural sector in agriculture. The high prices of commodities such as gold, the platinum group metals, iron ore and coal boosted the country's terms of trade and provided substantial liquidity in the domestic money market.

SA's economic recovery supported by high commodity prices

This allowed monetary policy to remain accommodative, while the strength of the rand countered inflationary pressures. The boost in export revenues aided the fiscus, allowing it to continue consolidating its finances whilst providing some support to the business and household sectors impacted by the pandemic. **Consumer demand remained relatively resilient throughout the pandemic impact – real household consumption only contracted by 5.4% in 2020**.

This constellation of facts underpinned international investor sentiment towards SA, which already benefitted from the swift recovery in financial markets following the March to May 2020 slump. **Domestic business confidence also staged a solid recovery in the year to the second quarter**. The RMB/BER business confidence index increased from 5 to 50 index points.

[1] Statistics SA completed a comprehensive revision of the estimation of GDP in SA at the time of writing, which left the size of the economy 11% larger than before the revision. The revision was backdated to 1993. While some growth rates were also affected, the general growth trajectory remains intact. The detail of this revision is not discussed in this report, suffice to note that key economic ratio's, such as the debt-to-GDP ratio, the fixed investment ratio and the current account balance expressed as a ratio of GDP, will be significantly different.

The second quarter was characterised by confidence-boosting developments…

The second quarter was also characterised by confidence-boosting policy measures, e.g. the partial liberalisation of the energy market allowing private energy producers to supply up to 100MW of solar- or wind energy to Eskom; and bold steps in the fight against corruption. **The high-frequency economic indicators pointed to sustained recovery during the second quarter**. Whilst the pace of the economic recovery may continue to slow down following the exceptional rebound during the third quarter of last year, a number of sectors are estimated to have surpassed their pre-crisis activity levels (e.g. agriculture, mining, the general government and personal services).

… albeit that the improvement in the labour market lags the rest of the economy

As hopeful as these tendencies have been, the soft underbelly of the economy and the devastating impact of economic lockdown due to the pandemic, was again illustrated with the release of the second quarter labour force statistics. **Narrow unemployment rocketed up to 34.4%, the highest ever**. The (narrow) unemployment population was swelled by 584 000 people, increasing to 7.8 million. At a regional level, unemployment ranges from 25.8% in the Western Cape to 47.1% in the Eastern Cape; 44.2% of people aged between 15 and 34 are not employed, in education or training, a worrying indicator of the extent of youth unemployment. Employment is a lagging indicator, which explains why the broader employment situation remained in retreat despite the economic recovery. A sustained expansion will in time reverse the fortunes of the labour market as well.

… and deep socio-political unrest in SA's economic hub in July impacts prospects

Unfortunately, prospects for the second half of the year were dealt a heavy blow from two avenues: firstly, the rampant third COVID-19 wave (caused by the delta variant of the virus); and, secondly, deep unsettling socio-political unrest in the economic hub of SA, namely the KZN and Gauteng provinces. This has caused the business cycle upswing shaping from the third quarter of last year, following after 80 months in a historic economic downturn, suddenly developing erstwhile shaky foundations. The leading indicator of economic activity, i.e. the ABSA manufacturing PMI plunged in July, as did car sales. Business and consumer confidence also took a knock.

SA's contemporary economic history is being characterised by two steps forward, one (and often two) step(s) back. This is a sad state of affairs as the millennial development goals embodied in the NDP are sure to come to naught in the absence of a solid economic recovery, driven by structural economic reforms. **The strengthening of the supply side of the economy, particularly by removing debilitating infrastructural constraints, is of critical importance, both in terms of growth and employment creation and therefore cultivating inclusive economic growth**.

Domestic inflation and interest rates are likely to remain low

Domestic inflation has spiked sharply, partly due to base effects, but more importantly, the rise in food and energy prices, as well as the increase in prices of some intermediate goods impacted by bottlenecks in global supply chains as a result of COVID regulations. To illustrate, the intermediate goods manufacturing PPI inflation rate increased to 15% in May; the goods component of CPI inflation stood at 8% over the corresponding period. The supply-side bottlenecks are expected to subside as the global vaccination programmes progress, allowing the normalisation of international transport. **Combined with a reversal of base effects, inflation is likely to recede and it is projected**

to remain below the mid-point of the inflation target on average during both 2021 and 2022. This will allow interest rates to move largely sideways over the largest part of the forecast period. The projection assumes a relatively stable financial environment where the currency is not dislodged.

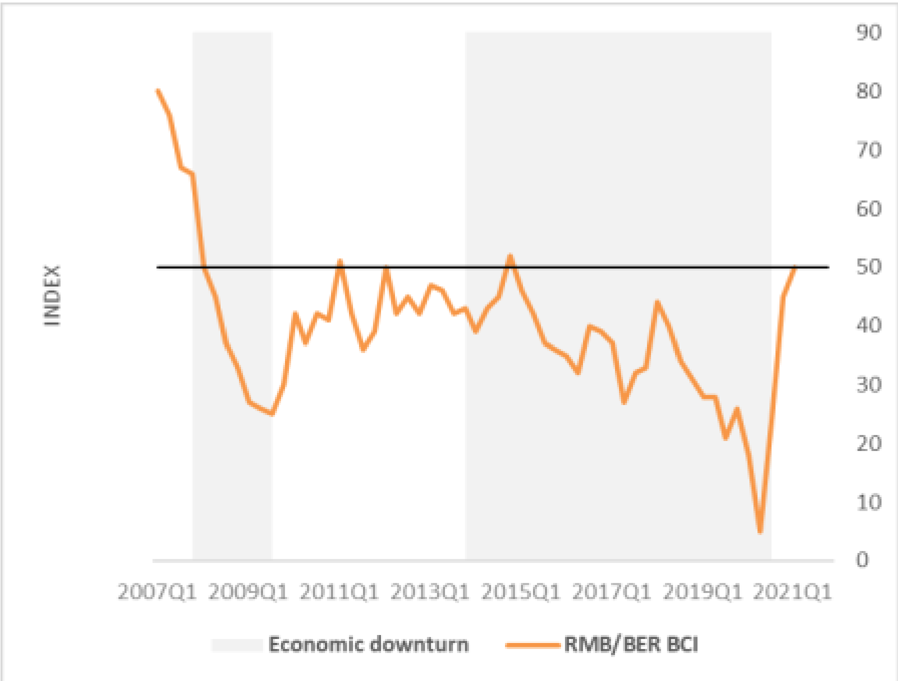
Uncertainty continues to cloud the outlook, requiring defensive business strategies

Regarding the COVID-19 pandemic, the number of daily infections remained relatively elevated at the time of writing, despite having peaked. **Furthermore, as is currently unfolding in a range of countries, SA is also expected to be hit by a fourth wave of the pandemic towards the end of the year/early next year**. While the adverse economic impact should be less serious as the country makes progress with vaccination, the pandemic remains a source of global and domestic uncertainty and disruption, impacting economic prospects.

From a revised estimated contraction of 6.4% last year, the BER projects real GDP to recover to 3.9% growth this year and 2.5% next year. Current inflationary pressures are regarded as being temporary and interest rates are generally expected to remain low for the foreseeable future.

Business confidence recovers

Figure 1: RMB/BER business confidence index



Source: BER

SMME quarterly overview for 2021Q1

The overall number of SMMEs continued to contract during the first quarter of 2021 …

The latest SMME survey tracks the situation in the sector a full year into the pandemic. It compares the position during the first quarter of 2021 with that of one quarter earlier (end-2020) and over a year, before the pandemic hit SA's shores. **A key result from the latest survey, is the fact that the overall number of SMMEs continued to decline**. The level (2.33 million) is 11.1% below that of a year ago (pre-crisis) and close to 13% down from the peak of 2.67 million reached during the second quarter of 2019[2].

It should be noted that part of the latter contraction can be ascribed to the economic recession, which began before the pandemic impacted. **The number of own account workers contracted sharper by 14.4% (i.e. accounting for 85% of the overall decline in the number of SMMEs) compared to the number of SMME employers, only contracting by 4.8%**. The relative contraction in the number of formal and informal SMMEs was similar to the overall 11% contraction in the number of SMMEs.

However, there are encouraging signs of recovery and resilience.

At the deepest point, the number of both formal and informal SMMEs was around a fifth down compared to pre-crisis levels. Both categories of SMMEs had begun to recover by the first quarter of 2021. SMME employment also recovered during the first quarter of 2021 (though it is still 6.2% below that of a year ago). **This evidence of recovery in the SMME sector is encouraging reflecting a degree of flexibility. While it was impacted more adversely compared to large firms, the recovery in SMME numbers and employment appears to be more rapid**. The share of SMME employment in aggregate employment, at 64% (9.8 of 15.2 million), remained relatively stable compared to a year ago at 63% (10.4 of 16.6 million). Over the year to the first quarter of 2021, employment in large enterprises declined by 12.5% (or 802 000), which was slightly worse compared to SMME employment (having recovered somewhat).

A number of interesting tendencies presented themselves in the latest survey.

Regarding the structure of the SMME sector, as reflected in the demographics, regional and sectoral distributions, a number of interesting developments presented themselves. **It is, for instance, clear that the SMMEs with owners younger than 45 suffered the bulk of the COVID-19 and associated economic lockdown impact on the sector**. Furthermore, start-ups were impacted heavily, with many businesses that managed to open up during the second half of 2020, going bust again during the first quarter of 2021.

The share of informal SMMEs remained relatively stable (around two-thirds) as did the sectoral distribution compared to a year ago. The trade & accommodation sector accounted for the bulk of SMME business closures (more than 40%); however, this is also its share in the total number of establishments in the sector. Compared to the fourth quarter, business closures were concentrated in the construction, trade & accommodation and transport & communication sectors. **Most provinces suffered the largest**

[2] The impact of the global financial crisis (GFC) in 2008-09 on the SMME sector was slightly less serious compared to the COVID-19 impact; the latter is also expected to linger for longer. At the time of the GFC, the peak-to-trough contraction in the number of SMMEs amounted to 14.7% (and 334 000 in absolute terms). It is difficult to compare the respective employment impacts owing to anomalies in the Labour Force Survey of 2020Q2 at the depth of the pandemic economic impact.

number of SMME closures in the trade & accommodation sector. Many of these enterprises are street trading operations. The North-West Province and the Northern Cape number of SMMEs increased significantly, which may partly reflect the beneficial impact of the commodity price boom, with PGMs and iron ore mining concentrated in these regions respectively. Limpopo Province was impacted the worst in the year to the first quarter of 2021.

Trade & accommodation is the largest SMME sector and the most vulnerable

Regarding the impact across population groups, the number of white-owned (and to a lesser extent, coloured-owned) SMMEs contracted, but recovered again. The number of the black-owned (and to a lesser extent, Asian-owned) SMMEs continued to decline during the first quarter of 2021. This may be the result of the fact that the black-owned SMMEs are disproportionately represented in the informal sector, with owners being younger aged, having lower educational attainment and with less occupational skills.

The pandemic did not stop the softening of the survivalist nature of the SMME sector

It was evident that SMMEs with better qualified owners (i.e. owners with secondary education completed and higher) and those with better skilled owners (being managers or professionals) were more resilient in the face of the pandemic impact. **It is therefore interesting that the well-established trend over the past decade of a softening in the survivalist nature of the sector continued throughout the pandemic impact thus far.**

While evidence of recovery is coming to the fore, the pandemic took a serious toll

In all, the results continue to paint a dramatic adverse impact that the economic lockdown had on the SMME sector. **An encouraging result from the latest survey is the emerging evidence of a recovery in SMME employment, where the haemorrhage was worst initially**. The resilience of some SMME cohorts may explain this result. For the remainder, it is worrying that the overall number of SMMEs continued to contract during the first quarter of 2021, a full year into the pandemic.

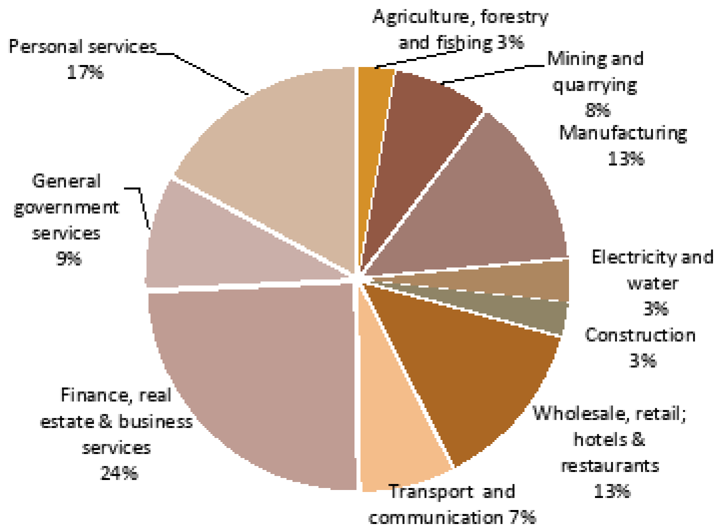
Focus on manufacturing, ICT and tourism: a sectoral perspective

Considering the structure of the SA economy and how the COVID-19 pandemic has impacted, some observations can be made. Whereas the plunge in economic activity during the second quarter of 2020 was heavy across the board (except agriculture, food processing and pharmaceuticals), the recovery pattern shows distinct differences.

The broad sectoral recovery in GDP from the pandemic impact shows some patterns

Overall GDP is estimated to be close to pre-crisis levels during the second quarter. This performance was driven by the strong recoveries in the primary sectors, which ended the first quarter of the year 6% above levels a year earlier (before the onset of the local pandemic impact). The positive recovery strengthened further during the second quarter, mainly due to the boost in mining output, in turn, benefitting from the high commodity prices.

Figure 2: South Africa GDP by main economic sector in 2021Q1



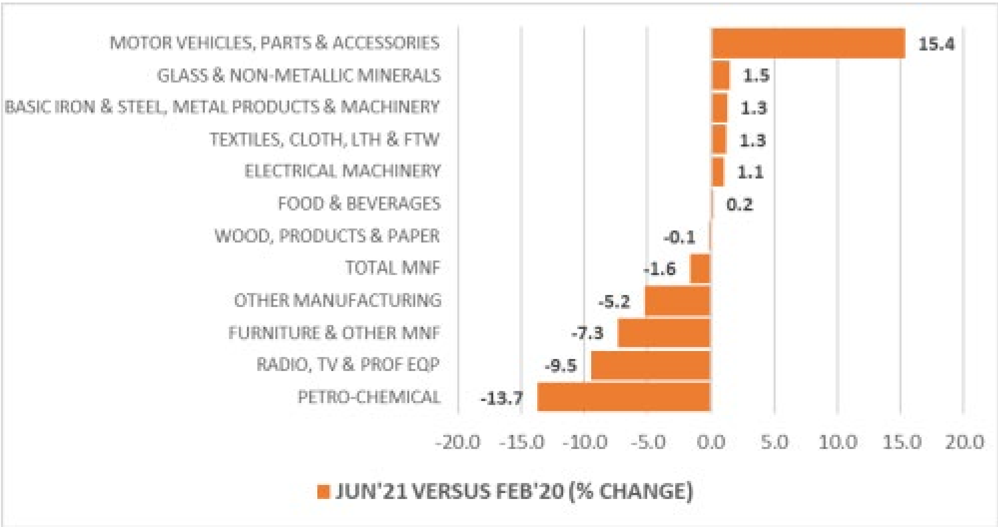
Source: Statistics SA

The secondary sectors (i.e. manufacturing, water & electricity and construction) were still 3.9% down and the services sectors by 3.7% in 21Q1. The manufacturing recovery flattened out rapidly following the sharp rebound during the third quarter of last year. Construction activity levels remained way down (18% year-on-year). Of the tertiary subsectors, it was mainly the transport and communications sector (-11%) and financial & business services (-5%) which weighed on the recovery in the services sector.

The broad structure of the economy is depicted in Figure 2. This section of the report sheds some light on the **latest developments and outlook for the manufacturing, ICT and tourism sectors**. These sectors have been identified by SEDA as potential growth areas for SMMEs.

Manufacturing output rebounds almost fully

Figure 3: Manufacturing: Real output in June 2021 relative to pre-crisis levels



Source: Statistics SA

The COVID-19 pandemic impacted the **manufacturing sector** heavily. It was not only the initial economic lockdown which hit the sector hard, it is also evident that the supply chain disruptions since had a disproportional adverse impact. Capital goods production plunged by more than 70% (peak-to-trough); intermediate goods production by more than 40% and consumer goods production by more than 30% during the second quarter of 2020. **The recovery in manufacturing output has been uneven.**

The recovery in manufacturing output is uneven and reveals worrying tendencies

In all, in June 2020, real manufacturing output came in at 1.6% below levels registered in the month before the pandemic breakout. The initial recovery was characterised by a sharp rebound during the third quarter of 2020, which flattened out quite rapidly during the final months of the year and during the first few months of 2021. **Output actually contracted during the second quarter and is likely to continue doing so in the third quarter in view of the socio-political unrest in July in key regions**.

Intermediate goods production returns to its pre-crisis declining trajectory

Consumer goods output levels have recovered fully to their pre-crisis levels. However, this recovery peaked in March 2021 and output levels have receded since. The more worrying pattern is to be found in the trajectory of intermediate goods production. Whilst it rebounded, this was not a full recovery as was the case in the consumer goods sector. In fact, the tendency during the first half of 2021 has been to prolong the decline this sector witnessed since 2015. **Intermediate goods output levels were 19.2% down in June 2021 compared to December 2015; they were also 9.2% down compared to pre-crisis levels, i.e. February 2020.** On the positive side, capital goods production has staged a full recovery, being close to 6% above that of February 2020. This recovery has been driven by exports, specifically in the basic metals, metal products and machinery (including electrical machinery) industries.

Business confidence recovers across sectors, but remains relatively subdued

Figure 4: Manufacturing business confidence across sectors, 2021Q2

Source: BER Manufacturing Survey, 2nd Quarter 2021

Therefore, the aggregate manufacturing output figure (i.e. 1.6% down in June compared to pre-crisis levels) conceals an uneven recovery. Some sectors are still in deep crisis territory, e.g. petro-chemicals

A number of industries are still in deep crisis territory

(-13.7% down compared to February 2020); radio, TV and professional equipment (-9.5%) and furniture & other manufacturing (-7.3%). On the positive side, auto manufacturing output levels were 15.4% above pre-crisis levels; the other sectors that have entered an expansionary phase of the recovery, included basic metals, machinery & products, non-metal minerals, textiles, clothing and footwear as well as electrical machinery. Food processors' output was almost level with February 2020.

The medium- to longer term future of small manufacturing in SA remains promising

As noted in the previous report, the sector faces formidable challenges. Competitive issues are upfront from a macroeconomic perspective and need to be addressed by the required structural reform policies, particularly in the infrastructure and labour market domains. **The opportunities presented by high tech, lowering the barriers to entry and allowing small firms to compete with large firms in niche manufacturing areas, remain the key promise for the SMME sector. In this regard, the growth outlook may be more positive compared to the macro picture.**

SA's ICT sector outlook[3] is currently dominated by two issues – first of which is the COVID-19 pandemic impact; and, *secondly*, the pending auctioning of high-demand radio frequency spectrum (HDS) to broadband internet service providers. The latter process has been put on hold owing to the predictable litigation offensives by some large telcos. ICASA's latest State of the ICT Sector report, released in March, for the first time reveals some numbers regarding the COVID-19 impact on the sector[4].

ICT sector revenues resilient in the face of the pandemic impact

On the whole the sector managed to grow revenues over the year to September 2020, at least in nominal terms. **Aggregate revenues increased by a modest 2% to R243 billion, of which 83% is accounted for by telecommunications; 14% by broadcasting and 7% by postal services**. Aggregate employment in the sector also remained stable, with employment in the telecommunications sector expanding and that in broadcasting and postal services contracting relatively sharply, i.e. by more than 5% in the year to September 2020.

Firms, including SMMEs, need to embrace technology and digitisation in the workplace

Whereas telecommunications revenues grew by 2.4% and postal services revenues by 3.6%, broadcasting revenues contracted by more than 6%. According to the IDC, IT spending (including spending on devices, infrastructure, software and IT services and excluding telecom spending, business services, operational technology spending and spending on some emerging technologies) contracted by 10.2% in 2020. **IT spending is forecast to grow by 5.2% in 2021 to around R190 billion**[5].

An important source of growth in the IT sector has been the digitisation of the company workforces moving to work from home. While the pendulum is swinging back, around half of company workforces are expected to continue working from home. This has raised concerns regarding productivity and cyber

[3] This sector comprises telecommunications, broadcasting, data centres, cloud & IT services, business process management (BPM) services, Big Data and analytics, and the Internet of Things (IoT) (Frost & Sullivan: *South Africa ICT Outlook,* 2017; Online: **http://www.frost.com/sublib/display-report.do?id=MCD3-01-00-00-00**).

[4] ICASA (March 2021): *The State of the ICT Sector in South Africa Report*.

[5] Mzekandaba, S (31 March 2021): *South Africa's IT market swings into growth in 2021*, [online] **https://www.itweb.co.za/content/dgp45Ma6R9RqX9l8**

security. **The impact of the pandemic has therefore been to effectively frontload spending in these areas, i.e. the digitisation of workforces and cyber security**.

Auctioning of HDS is expected to happen soon

As noted in the previous report, technology and digitisation are impacting business strategies, from SMMEs to large firms. The key is that high-tech and digitisation should not be considered for its own sake, but strategically embraced in order to improve core business processes, i.e. improving human decision-making, rethinking the workplace and customer experiences. **The implication is that technology and digitisation should "form an integral part of [any] business strategy"**

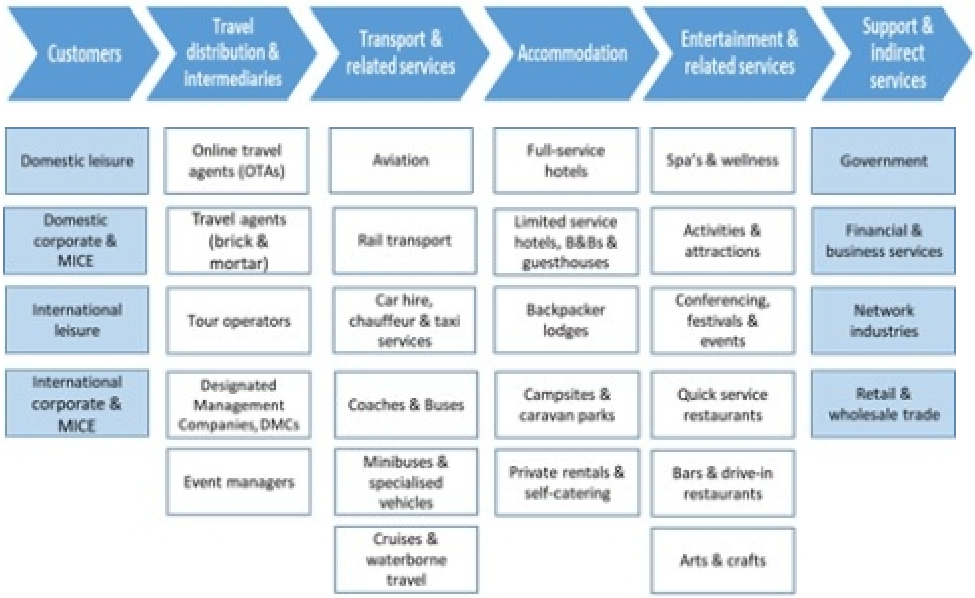
These workplace processes will receive a boost as internet connectivity expands in SA. **Currently, the much-vaunted high-demand spectrum (HDS) release process, which was previously scheduled to occur by the end of March 2021, is now expected to become a reality as soon as both the Telkom and MTN litigation cases draw to a close by the end of August**. Following this, a few weeks will be required for ICASA to stage the auction, which is anticipated to generate revenues in the order of R560 million.

Tourism is a multi-faceted industry, with substantial growth potential …

Tourism is a pivotal industry in SA. It employs workers of various skills levels, has low barriers to entry for SMMEs, is gender neutral, has substantial forward and backward linkages in the economy (Figure 5) and is an important foreign exchange earner. Including the economic activities indirectly linked with tourism, the sector accounts for close to 12% of GDP and 2.2 million (or 14.5%) of total employment. In terms of employment, it accounts for more than 67% of the work opportunities in the transport & related services industries, and around one fifth in each of the accommodation, entertainment & related services and support & indirect services industries (Table 1).

… the sector involves and is linked to many economic activities

Figure 5: Tourism value chain



Source: SA Tourism (March 2021): SA Tourism Sector Recovery Plan,
https://www.tourism.gov.za/AboutNDT/Documents/Tourism%20Sector%20Recovery%20Plan.pdf

Table 1: Contribution of tourism to output and employment in SA, 2019

Contribution to:	Travel distribution & intermediaries	Transport & related services	Accom-modation	Entertainment & related services	Support & indirect services
Industry output	3%	27%	16%	16%	37%
Industry employment	4%	34%	19%	20%	23%

Source: SA Tourism (March 2021): SA Tourism Sector Recovery Plan

The COVID-19 pandemic caused the sector to come to a standstill and continues to exert an adverse influence on economic activity

The previous report described the devastating impact the pandemic has had on the sector, particularly regarding international travel. The impact ranged from business closures and businesses operating at drastically reduced capacity; massive job losses; the collapse of supply and demand in the domestic and international markets; damage to the SA tourism brand owing to the country's association with the so-called delta variant of the COVID-19 virus (with the slow vaccination programme having further negative potential in this regard); and regression of transformation in the tourism sector (*SA Tourism Sector Recovery Plan*, March 2021: 4-5).

Table 2 depicts the impact of the pandemic on the various subsectors of the food & beverages industry sales. **The contraction in average monthly sales during the first half of 2020 (compared to the second half of 2019) was the steepest in the restaurants & coffee shops category (i.e. 52.6%) compared to the total industry decline of 47.4% over the corresponding period**. Considering the full impact, i.e. including the first half of 2021, sales in the catering services subsector continued to contract, being 10% down compared to a year earlier and the level of sales almost 50% lower compared to pre-crisis levels.

The contraction and recovery of food & beverages sales reflect the impact of the pandemic on the hospitality sector

Measuring the degree of recovery, the average monthly sales during the first six months of 2021 are compared with those of a year earlier, as well as the pre-crisis level (i.e. the average monthly sales during the final six months of 2019). **The take-away & fast-food subsector recovered the strongest (by 59.2%) to a level which was only 7.3% below pre-crisis monthly sales. This reflects the degree of adaptation in the tourism and hospitality industry as customers and businesses switched to take-aways**. For the food & beverage industry as a whole, monthly sales averaged 25.5% below the pre-COVID-19 impact. This indicates the scope of sustained pressure on the tourism industry, as well as some indication of the long road to full recovery.

Table 2: Food & beverage sales – 2019 to 2021 impact of the COVID-19 pandemic

	Before COVID-19 July-December 2019 (R million)	COVID-19 impact January – June 2020 (6m % change)	Recovery[##] January – June 2021 (y-o-y % change)
Restaurants & coffee shops	3222.7	-52.6	46.3 (-30.7%)
Take-away & fast-food outlets	2055.6	-41.4	58.2 (-7.3%)
Catering services	915.5	-42.5	-10.0 (-48.2%)
Total food & beverage industry	6193.8	-47.4	41.6 (-25.5%)

[##] *Number in parenthesis refers to the change from the pre-crisis (July-December 2019) level.*

Source: Statistics SA

Preserving capacity, stimulating demand and ensuring long-term sustainability are key

The industry recovery plan consists of three departments: firstly, preserving and rejuvenating supply (tourist operations need to stay in business); secondly, the stimulation of demand; and, finally the building of and strengthening capacity for long term sustainability. The industry has therefore decided on seven strategic interventions, ensuring the recovery of the sector: the implementation of norms and standards for safe operation across the tourism value chain and the rebuilding of traveller confidence; targeted marketing initiatives and campaigns to rejuvenate tourism demand; the mobilisation of resources and facilitation of investment in the sector in order to strengthen the supply-side; supporting the protection of core tourism infrastructure and assets; re-establishing SA's tourism brand overseas; promoting the regional integration of tourism; and reviewing tourism policy with the objective to grow and develop the sector (*SA Tourism Sector Recovery Plan*, March 2021: 5-6).

It is estimated that the Recovery Plan, part of the SA government's broader Economic Reconstruction and Recovery Plan (ERRP), will contribute to preserving R189 billion of value in the tourism industry and assist the sector to recover to its 2019 output and employment levels by 2023. The latter is in line with current macroeconomic forecasts of professional forecasters.

The tourism industry is facing a 'new normal'

Considering the outlook for the tourism and hospitality sector, it is clear that the industry will need to adapt to a 'new normal', coexisting with the coronavirus and being impacted by potential new variants of the virus, including alternate waves of COVID-19 sickness. **The IMF anticipates that low levels of global transmission will be reached toward the end of next year (IMF World Economic Outlook Update, July 2021)**. It was noted in the previous report that the government's target is to grow the existing SA inbound tourism market by 4.4% per year over the coming decade and, including new markets, by close to 7% per year.

Proxy numbers for SMMEs

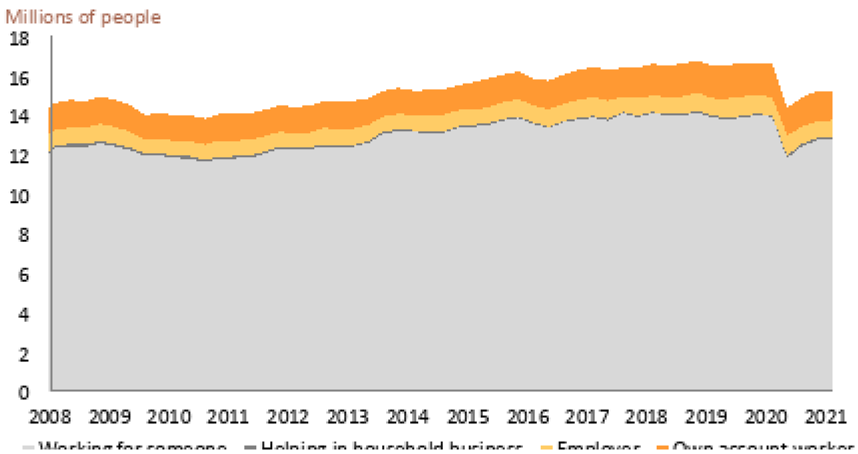
Derived from the Quarterly Labour Force Survey[6]

Number of SMMEs

COVID-19 lockdown puts 11% of SMMEs out of business

The number of SMME owners declined by a dramatic 289 000 to 2.33 million between the first quarters of 2020 and 2021, reaching the lowest level since 2016. This is an 11% drop and is due to the outbreak of the COVID-19 pandemic, followed by various lockdown measures imposed since the end of March 2020. The decline in the number of SMME owners was proportionally more than that in overall employment (-8.6%). Compared to the fourth quarter of 2020, the number of SMME owners fell by 2.4% (57 000), while overall employment was virtually unchanged. *Of all employed people, 5.7% also employed others in 2021Q1, while 9.6% worked for themselves. Combined at 15.3% (or 2.33 million), this comprises the proxy measure for the number of SMMEs in South Africa.*

Figure 6: Employment in South Africa



Source: QLFS of Stats SA

[6] Please note there is substantial volatility in the sub-distributions of the SMMEs; most of this might be due to sampling noise.

Table 3: Number of SMMEs (million)

Indicator	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	913 100	5.5%	852 712	5.6%	869 036	5.7%	16 324	1.9%	-44 064	-4.8%
Own account worker	1 700 963	10.2%	1 529 318	10.1%	1 456 167	9.6%	-73 151	-4.8%	-244 796	-14.4%
SMME owners	**2 614 063**	**15.8%**	**2 382 030**	**15.7%**	**2 325 203**	**15.3%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**
Working for someone	13 898 448	83.7%	12 701 503	83.6%	12 736 240	83.9%	34 737	0.3%	-1 162 208	-8.4%
Helping in household business	83 288	0.5%	117 190	0.8%	114 245	0.8%	-2 945	-2.5%	30 957	37.2%
Total employed	**16 595 799**	**100.0%**	**15 200 723**	**100.0%**	**15 175 688**	**100.0%**	**-25 035**	**-0.2%**	**-1 420 111**	**-8.6%**

Source: QLFS of Stats SA

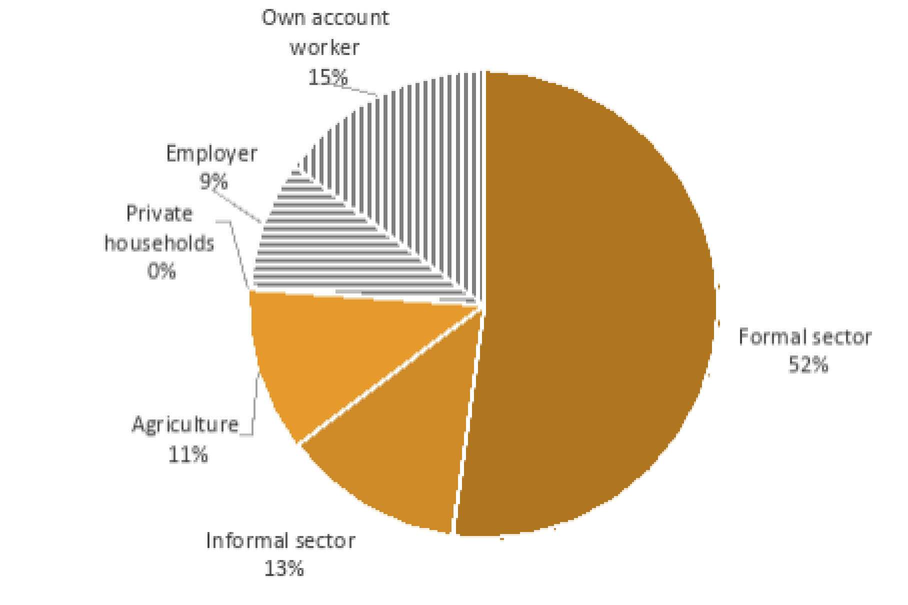
Employment provided by SMMEs

SMME employment starts to recover

The SMME sector was more reactive to the impact of the pandemic as it initially shed more jobs than large firms, but also started recovering them quicker. During the first quarter of 2021 they restored 633 000 jobs (for others and the owners) while large firms still shed 655 000 jobs. Compared to a year ago, SMMEs lost 649 000 jobs, while large enterprises shed 802 000 jobs. The SMME sector accounted for 64% of all jobs in SA (9.8 of 15.2 million) in the first quarter of 2021, in line with the 63% (10.4 of 16.6 million) a year ago. Of these 9.8 million jobs, only 2.33 million comprised of SMME owners and, the balance of 7.4 million jobs (or 76%), SMME employees.

The majority of SMME employment (52%) is located in the formal sector. Of all jobs provided to others by SMME owners, an estimated 38% is filled by female workers*. This proportion was stable in the previous four quarters.

Figure 7: Employment provided by SMMEs



Source: QLFS of Stats SA

Table 4: Employment provided by SMMEs

	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	5 928 009	57.0%	4 795 310	52.6%	5 081 610	52.1%	286 300	6.0%	-846 399	-14.3%
Informal sector	1 102 869	10.6%	965 656	10.6%	1 226 738	12.6%	261 082	27.0%	123 869	11.2%
Agriculture	752 032	7.2%	979 707	10.7%	1 107 846	11.4%	128 138	13.1%	355 814	47.3%
Private households	9 098	0.1%	1 782	0.0%	15 890	0.2%	14 108	791.8%	6 792	74.7%
Provided to others	**7 792 007**	**74.9%**	**6 742 455**	**73.9%**	**7 432 084**	**76.2%**	**689 629**	**10.2%**	**-359 923**	**-4.6%**
*% Female**		*38.2%*		*38.1%*		*38.3%*		*0.3% pts*		*0.1% pts*
Employer	913 100	8.8%	852 712	9.3%	869 036	8.9%	16 324	1.9%	-44 064	-4.8%
Own account worker	1 700 963	16.3%	1 529 318	16.8%	1 456 167	14.9%	-73 151	-4.8%	-244 796	-14.4%
Total	**10 406 070**	**100.0%**	**9 124 485**	**100.0%**	**9 757 287**	**100.0%**	**632 802**	**6.9%**	**-648 783**	**-6.2%**

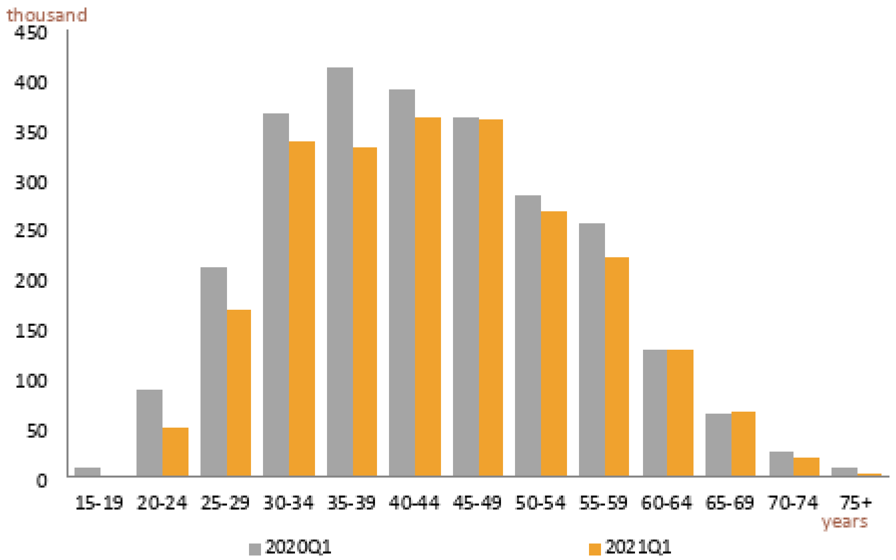
Source: QLFS of Stats SA ** of all people working for private enterprises, of which 84% worked for SMMEs over the last 5 years*

SMME owners by age

SMME closures concentrated amongst the younger than 45-year-old owners

A year of successive waves of COVID-19 and subsequent lockdowns appear to have impacted more on entrepreneurs younger than 45. The number of 55-60-year-old SMME owners also declined significantly. Nearly two-thirds of owners older than 75 retired; this group was most at risk to die from COVID-19. Those SMME owners in their 30s and older than 60 reflected an increase in numbers between the fourth quarter of 2020 and the first quarter of 2021.

Figure 8: SMME owners by age



Source: QLFS of Stats SA

Table 5: SMME owners by age

	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	10 915	0.4%	3 558	0.1%	2 794	0.1%	-763	-21.5%	-8 121	-74.4%
20-24	88 852	3.4%	70 102	2.9%	50 529	2.2%	-19 573	-27.9%	-38 323	-43.1%
25-29	210 753	8.1%	202 492	8.5%	168 919	7.3%	-33 573	-16.6%	-41 834	-19.8%
30-34	365 560	14.0%	309 355	13.0%	337 719	14.5%	28 364	9.2%	-27 841	-7.6%
35-39	413 738	15.8%	331 811	13.9%	332 384	14.3%	573	0.2%	-81 355	-19.7%
40-44	390 269	14.9%	373 717	15.7%	362 438	15.6%	-11 279	-3.0%	-27 831	-7.1%
45-49	362 476	13.9%	364 273	15.3%	360 622	15.5%	-3 650	-1.0%	-1 854	-0.5%
50-54	284 669	10.9%	297 302	12.5%	267 963	11.5%	-29 339	-9.9%	-16 706	-5.9%
55-59	255 177	9.8%	221 651	9.3%	221 635	9.5%	-16	0.0%	-33 541	-13.1%
60-64	129 755	5.0%	118 903	5.0%	129 595	5.6%	10 692	9.0%	-160	-0.1%
65-69	64 938	2.5%	64 084	2.7%	65 639	2.8%	1 555	2.4%	701	1.1%
70-74	26 032	1.0%	19 431	0.8%	21 067	0.9%	1 635	8.4%	-4 965	-19.1%
75+	10 929	0.4%	5 351	0.2%	3 899	0.2%	-1 452	-27.1%	-7 030	-64.3%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

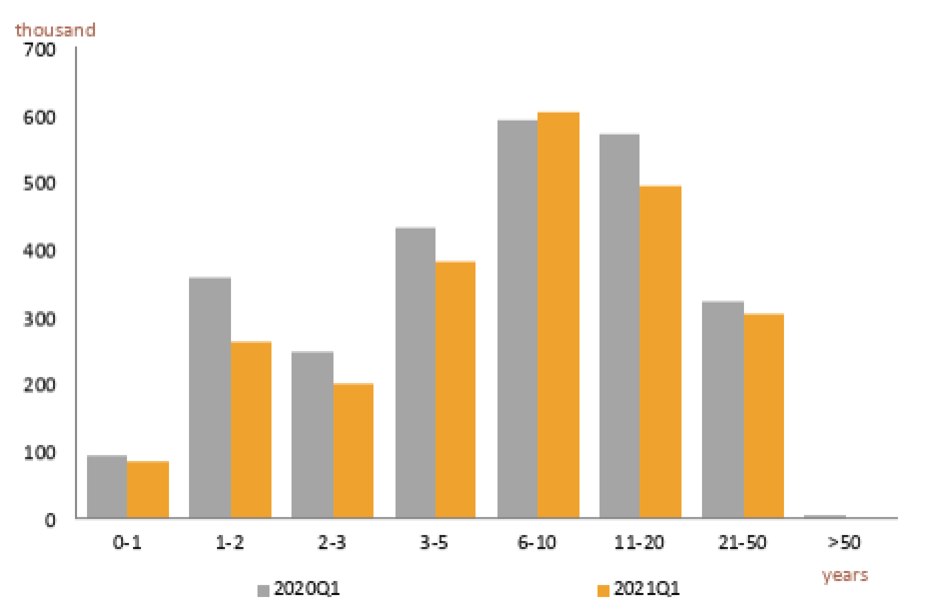
Source: QLFS of Stats SA

Enterprise age of SMMEs

SMME start-ups during 2020 went bust again in 21Q1

The number of businesses in operation for 6 to 10 years increased by a significant 26% during the first quarter of 2021. These may have been businesses which became dormant due to the lockdown in 2020, that re-entered the market in 2021. In contrast, the number of new businesses (less than one year in operation) ballooned from only 93 000 just before the pandemic to 330 000 in the fourth quarter of 2020. Thereafter the number contracted again to 83 000 in the first quarter of 2021. Clearly, the adverse impact of the COVID-19 pandemic hit start-ups (defined as businesses less than two years old) the hardest, albeit that the impact of the pandemic reaches across the enterprise age groups.

Figure 9: Enterprise age of SMMEs



Source: QLFS of Stats SA

Table 6: Enterprise age of SMMEs

	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
0-1	92 930	3.6%	329 590	13.8%	82 979	3.6%	-246 612	-74.8%	-9 951	-10.7%
1-2	355 925	13.6%	234 307	9.8%	261 016	11.2%	26 709	11.4%	-94 910	-26.7%
2-3	247 632	9.5%	211 030	8.9%	199 936	8.6%	-11 094	-5.3%	-47 696	-19.3%
3-5	432 581	16.5%	343 248	14.4%	379 785	16.3%	36 536	10.6%	-52 796	-12.2%
6-10	592 287	22.7%	479 894	20.1%	604 615	26.0%	124 721	26.0%	12 328	2.1%
11-20	569 804	21.8%	496 752	20.9%	493 758	21.2%	-2 994	-0.6%	-76 046	-13.3%
21-50	319 958	12.2%	287 208	12.1%	303 115	13.0%	15 907	5.5%	-16 843	-5.3%
>50	2 947	0.1%	0	0.0%	0	0.0%	0	n/a	-2 947	-100.0%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

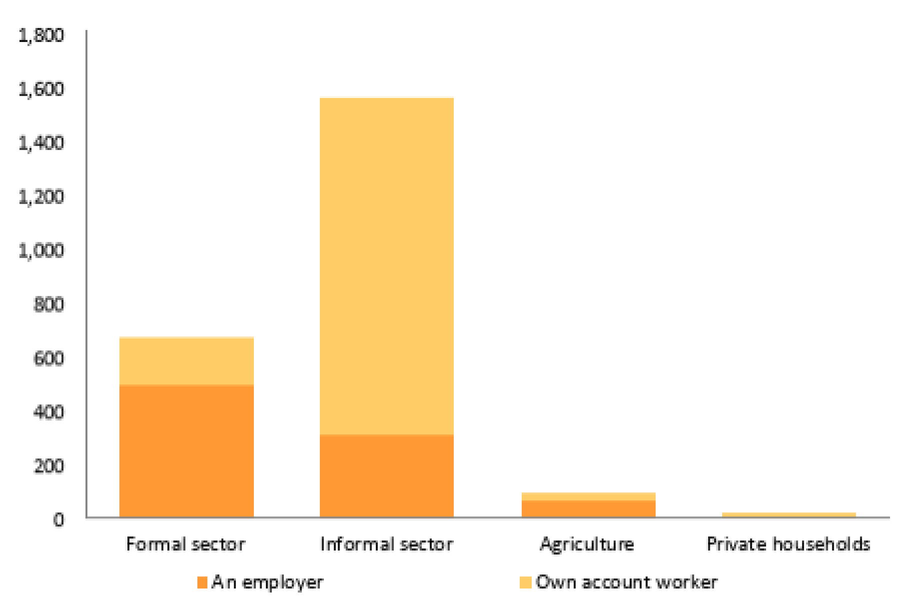
Source: QLFS of Stats SA

SMMEs by formal and informal sector

About two in three SMMEs are informal

The share of SMMEs operating in the informal sector stood at 67% in the first quarter of 2021, and the share operating in the formal sector, at 29%. These ratios have changed very little since 2010. Most SMME owners in the formal sector also employ other people, while the majority in the informal sector (80%) are own account workers. In comparison, own account workers comprise 27% of formal SMMEs. Of all SMME owners, 37% also employ other people.

Figure 10: SMMEs by formal and informal sector in 2020Q3



Source: QLFS of Stats SA

Table 7: SMMEs by formal and informal sector in 2020Q3

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	489 200	309 837	64 568	5 432	**869 036**	37.4%
Own account worker	177 911	1 242 978	24 648	10 630	**1 456 167**	62.6%
Total	**667 111**	**1 552 814**	**89 216**	**16 061**	**2 325 203**	**100.0%**
% per sector	28.7%	66.8%	3.8%	0.7%	100%	

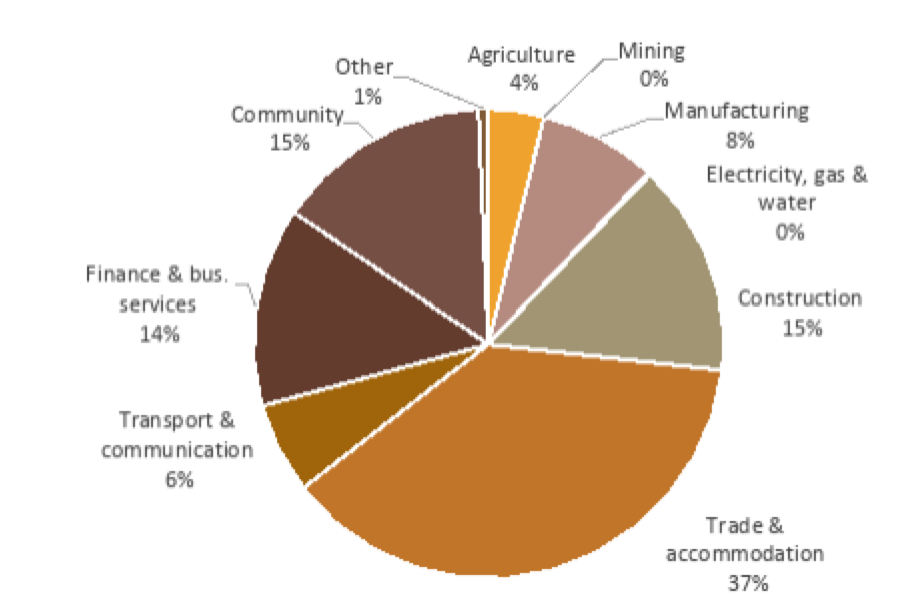
Source: QLFS of Stats SA

SMMEs by industry

The trade sector accounts from more than 40% of SMME closures

More than a third (38%) of SMMEs operate in the trade and accommodation sector and this sector accounts for most of the business closures over the year to 21Q1. This proportion therefore remained relatively unchanged. Likewise, the distribution among the other economic sectors was only slightly affected as closures occurred across industries. The SMME closures between the fourth quarter of 2020 and the first quarter of 2021 were concentrated in construction, trade & accommodation and transport & communication. The community services sector witnessed an increase of 33 000 SMMEs between the fourth quarter of 2020 and the first quarter of 2021, an increase of nearly 11%.

Figure 11: SMMEs by industry in 2021Q1



Source: QLFS of Stats SA

Table 8: SMMEs by industry

Industry	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	85 889	3.3%	95 970	4.0%	89 216	3.8%	-6 753	-7.0%	3 327	3.9%
Mining	6 348	0.2%	2 194	0.1%	0	0.0%	-2 194	-100.0%	-6 348	-100.0%
Manufacturing	239 816	9.2%	184 473	7.7%	186 733	8.0%	2 260	1.2%	-53 083	-22.1%
Electricity, gas & water	1 676	0.1%	5 870	0.2%	5 321	0.2%	-549	-9.4%	3 645	217.5%
Construction	377 464	14.4%	373 295	15.7%	342 595	14.7%	-30 700	-8.2%	-34 869	-9.2%
Trade & accommodation	992 190	38.0%	907 310	38.1%	874 253	37.6%	-33 057	-3.6%	-117 937	-11.9%
Transport & communication	170 343	6.5%	167 006	7.0%	147 179	6.3%	-19 827	-11.9%	-23 164	-13.6%
Finance & bus. services	349 816	13.4%	322 510	13.5%	319 454	13.7%	-3 056	-0.9%	-30 363	-8.7%
Community	365 159	14.0%	311 298	13.1%	344 390	14.8%	33 092	10.6%	-20 768	-5.7%
Other	25 361	1.0%	12 105	0.5%	16 061	0.7%	3 957	32.7%	-9 300	-36.7%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

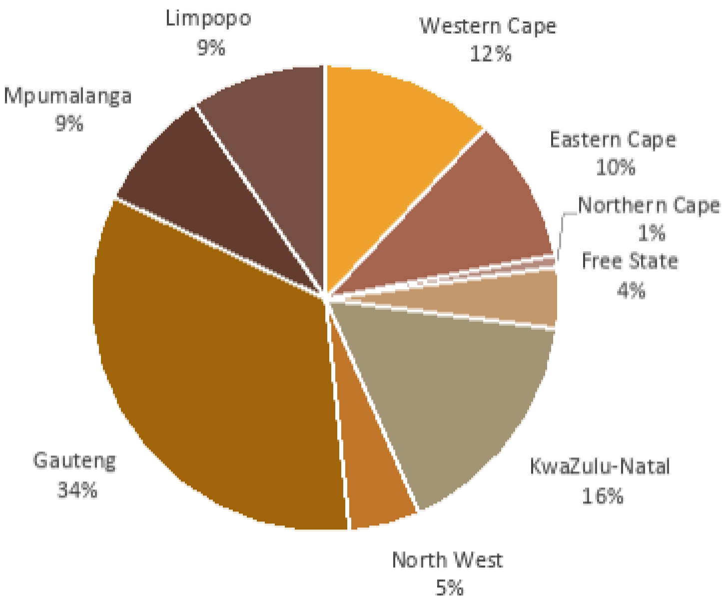
Source: QLFS of Stats SA

SMMEs by province

Some provinces reported an increase in the number of SMMEs during 21Q1

Among the nine provinces, SMMEs in Limpopo were the most severely impacted by the pandemic. Nearly a quarter of them closed their doors, many during the first quarter of 2021. The number of SMMEs in the Eastern Cape increased, presumably as workers were retrenched in larger enterprises. This could also be the case for SMMEs in the North West (up 20%) and the Northern Cape (up 24%). Alternatively, as these two provinces produce platinum group metals (PGMs) and iron ore respectively, it may be possible that SMMEs benefitted from the boom in these commodity prices.

Figure 12: SMMEs owners by province



Source: QLFS of Stats SA

Table 9: SMMEs by province

Province	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	298 819	11.4%	282 080	11.8%	278 721	12.0%	-3 359	-1.2%	-20 097	-6.7%
Eastern Cape	225 298	8.6%	222 698	9.3%	232 367	10.0%	9 668	4.3%	7 068	3.1%
Northern Cape	24 275	0.9%	16 346	0.7%	20 306	0.9%	3 960	24.2%	-3 969	-16.3%
Free State	114 979	4.4%	93 148	3.9%	97 905	4.2%	4 758	5.1%	-17 074	-14.8%
KwaZulu-Natal	419 467	16.0%	394 767	16.6%	381 742	16.4%	-13 026	-3.3%	-37 725	-9.0%
North West	129 168	4.9%	93 067	3.9%	111 976	4.8%	18 909	20.3%	-17 192	-13.3%
Gauteng	885 839	33.9%	807 751	33.9%	786 027	33.8%	-21 724	-2.7%	-99 812	-11.3%
Mpumalanga	229 060	8.8%	212 301	8.9%	197 809	8.5%	-14 492	-6.8%	-31 251	-13.6%
Limpopo	287 158	11.0%	259 873	10.9%	218 351	9.4%	-41 522	-16.0%	-68 808	-24.0%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

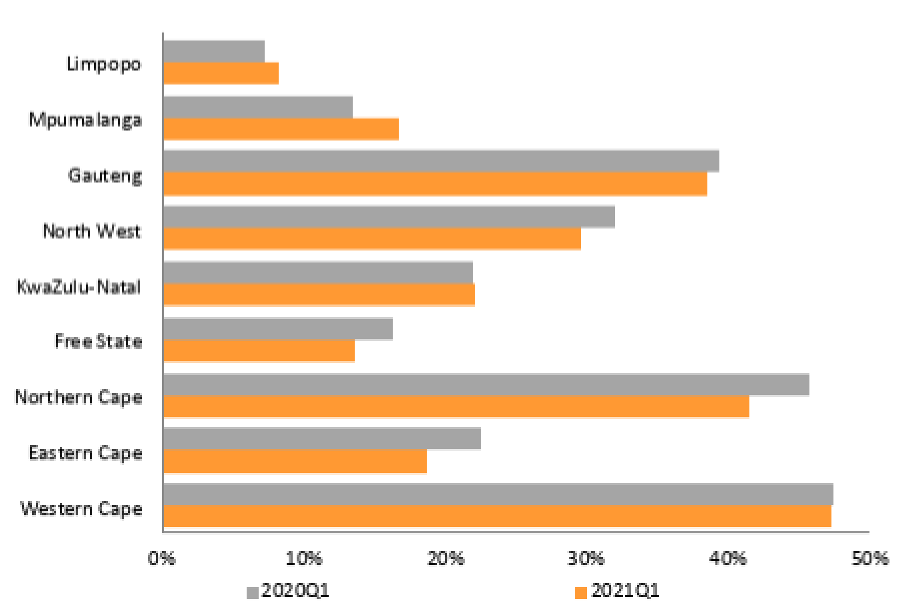
Source: QLFS of Stats SA

SMMEs by province and formal/informal sector

The formal/informal profile of provinces differ

Provinces differ in terms of the formal/informal profile of their SMMEs. The Western Cape, Northern Cape and Gauteng have a significantly higher proportion of formal SMMEs than the other provinces. The most informal provinces are Limpopo, Mpumalanga and the Free State. Since the onset of the pandemic in 2020, five provinces registered a decline in the proportion of formal sector SMMEs. In two provinces, Limpopo and Mpumalanga, the share for formal SMMEs increased. However, these two provinces also lost a significant number of SMMEs in the last year, implying that the informal SMMEs were more vulnerable.

Figure 13: Percentage of SMME owners in the formal sector, by province



Source: QLFS of Stats SA

Table 10: SMMEs by province and formal/informal sector

Province	2020Q1			2021Q1			Yearly change (% pts)		
	Formal	Informal	Agric+	Formal	Informal	Agric+	Formal	Informal	Agric+
Western Cape	47.4%	46.4%	6.2%	47.3%	47.5%	5.3%	-0.1%	1.0%	-1.0%
Eastern Cape	22.5%	72.3%	5.1%	18.6%	73.7%	7.6%	-3.9%	1.4%	2.5%
Northern Cape	45.6%	43.4%	10.9%	41.4%	31.1%	27.4%	-4.2%	-12.3%	16.5%
Free State	16.3%	74.8%	8.9%	13.5%	78.0%	8.5%	-2.8%	3.1%	-0.4%
KwaZulu-Natal	21.9%	73.9%	4.2%	22.1%	75.9%	2.0%	0.1%	2.0%	-2.1%
North West	32.0%	63.3%	4.8%	29.5%	67.9%	2.6%	-2.5%	4.6%	-2.2%
Gauteng	39.4%	59.5%	1.2%	38.5%	59.5%	2.0%	-0.9%	0.1%	0.8%
Mpumalanga	13.4%	79.7%	6.8%	16.6%	76.0%	7.3%	3.2%	-3.7%	0.5%
Limpopo	7.2%	86.6%	6.2%	8.2%	83.4%	8.3%	1.1%	-3.2%	2.1%
Total	**28.9%**	**66.9%**	**4.2%**	**28.7%**	**66.8%**	**4.5%**	**-0.2%**	**-0.1%**	**0.3%**

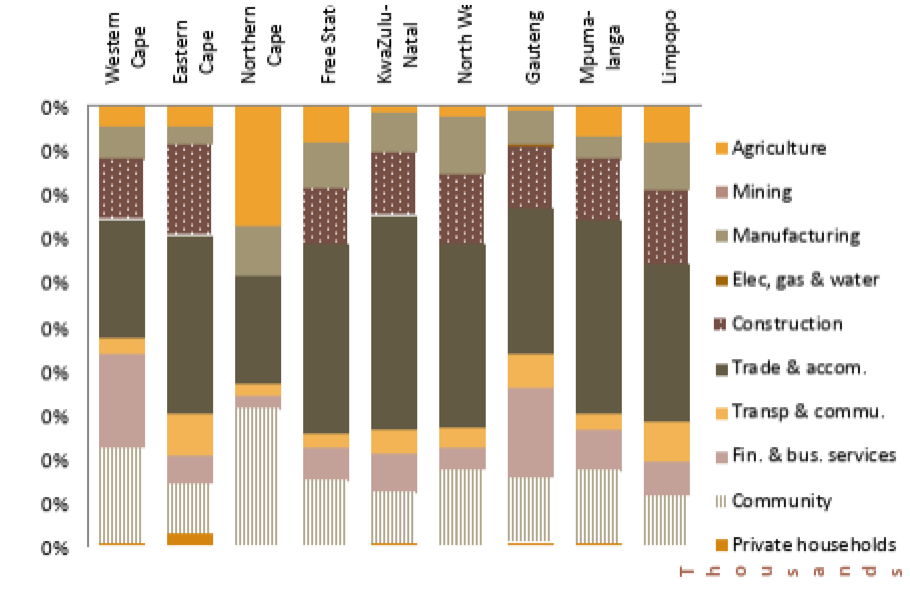
Source: QLFS of Stats SA *Agric+ refers to agriculture and private households*

SMMEs by industry and province

Many provinces lose SMMEs in the trade sector

The onset of the COVID-19 pandemic had a diverse impact on the SMMEs operating in the various provinces. Nearly half the SMMEs lost in Limpopo and Gauteng were in the trade & accommodation sector. The gains in the Eastern Cape were mostly in the agricultural and construction sectors. The Western Cape lost a significant number of SMMEs in manufacturing but gained just as many in finance and business services. However, the distinctive profiles of the provinces remain; the Western Cape and Gauteng have larger financial & business services sectors while the Northern Cape has a relatively large agricultural sector.

Figure 14: SMMEs by industry and province in 2021Q1



Source: QLFS of Stats SA

Table 11: SMMEs by industry and province in 2021Q1

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpuma-langa	Limpopo	Total
Agriculture	12 938	11 482	5 566	8 368	5 695	2 928	10 355	13 673	18 212	**89 216**
Mining	0	0	0	0	0	0	0	0	0	**0**
Manufacturing	21 320	9 393	2 253	10 258	34 439	14 577	59 778	10 837	23 877	**186 733**
Elec, gas & water	0	0	0	0	652	0	4 668	0	0	**5 321**
Construction	37 704	47 453	0	12 230	54 185	17 923	109 440	27 084	36 576	**342 595**
Trade & accom.	75 525	94 607	4 997	41 904	185 794	46 249	260 363	86 373	78 441	**874 253**
Transp & commu.	9 447	21 749	580	3 282	20 630	5 230	58 970	7 633	19 658	**147 179**
Fin. & bus. services	60 055	14 786	608	7 458	34 178	5 842	161 257	18 564	16 707	**319 454**
Community	59 989	26 633	6 302	14 405	44 190	19 228	115 922	32 842	24 879	**344 390**
Private households	1 743	6 264	0	0	1 979	0	5 273	802	0	**16 061**
Total	**278 721**	**232 367**	**20 306**	**97 905**	**381 742**	**111 976**	**786 027**	**197 809**	**218 351**	**2 325 203**

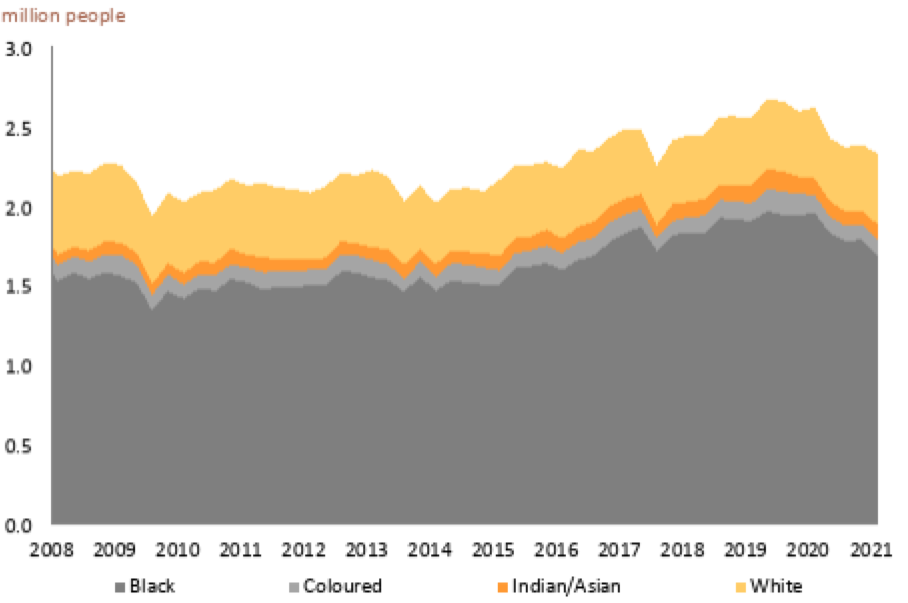
Source: QLFS of Stats SA

SMMEs by population group

The share of black ownership of SMMEs declines

The impact of the pandemic was slightly different for SMMEs owned by the various population groups in South Africa. Whereas white-owned (and to a lesser extent, coloured-owned) SMMEs closed doors during 2020, and re-started in 2021, this was not the case amongst black-owned (and to a lesser extent Asian-owned) SMMEs. The numbers continued to contract during the first quarter of 2021 for these population groups. Consequently, the share of white-owned SMMEs increased from 17% a year ago to 19% currently. Over the same period, the share of black-owned SMMEs declined from 75% to 73%.

Figure 15: SMMEs by population group



Source: QLFS of Stats SA

Table 12: SMMEs by population group

Race	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	102 948	3.9%	92 218	3.9%	90 639	3.9%	-1 579	-1.7%	-12 309	-12.0%
Coloured	111 266	4.3%	93 228	3.9%	101 396	4.4%	8 168	8.8%	-9 870	-8.9%
White	445 420	17.0%	414 064	17.4%	445 451	19.2%	31 387	7.6%	31	0.0%
Black	1 954 430	74.8%	1 782 520	74.8%	1 687 718	72.6%	-94 802	-5.3%	-266 712	-13.6%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

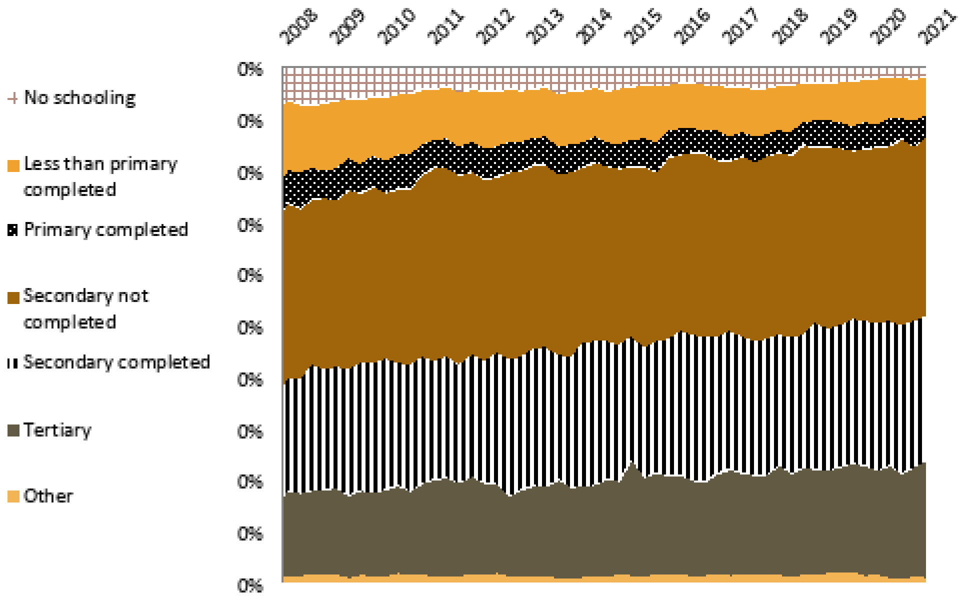
Source: QLFS of Stats SA

SMME owners by educational attainment

More educated SMME owners the first to recover

SMME owners with tertiary education have weathered the COVID-19 storm better. A year after the onset of the pandemic their numbers have recovered to pre-pandemic levels. Meanwhile, more than a quarter of owners with less than primary school education have ceased operations. Consequently, the share of owners with tertiary education increased from 20% to 23% over the same period. It seems that the outbreak of the pandemic hastened the long-term trend where the educational attainment of SMME owners gradually improve.

Figure 16: SMME owners by education group



Source: QLFS of Stats SA

Table 13: SMME owners by education group

Schooling	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	57 075	2.2%	54 430	2.3%	42 296	1.8%	-12 133	-22.3%	-14 779	-25.9%
Less than primary completed	239 076	9.1%	198 364	8.3%	176 054	7.6%	-22 310	-11.2%	-63 022	-26.4%
Primary completed	112 500	4.3%	114 811	4.8%	92 901	4.0%	-21 910	-19.1%	-19 599	-17.4%
Secondary not completed	894 360	34.2%	807 407	33.9%	803 749	34.6%	-3 658	-0.5%	-90 611	-10.1%
Secondary completed	742 324	28.4%	672 657	28.2%	661 018	28.4%	-11 640	-1.7%	-81 307	-11.0%
Tertiary	527 659	20.2%	505 844	21.2%	524 660	22.6%	18 816	3.7%	-2 998	-0.6%
Other	41 069	1.6%	28 517	1.2%	24 524	1.1%	-3 992	-14.0%	-16 544	-40.3%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

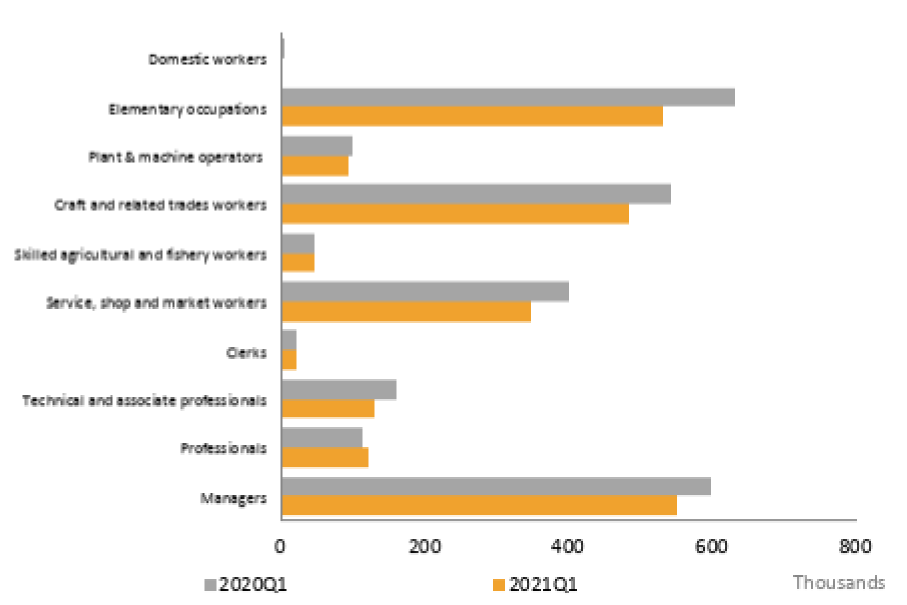
Source: QLFS of Stats SA

SMMEs by occupation

Recovery started among managers and professionals

In concurrence with the tendency in the educational attainment of SMME owners, the only occupations among them to show some recovery yet was that of professionals and managers. During the first quarter of 2021 there was an increase of nearly 19% and 10% in their numbers, respectively. Among all the other occupations the tendency was still downwards. A year after the onset of the pandemic, the largest absolute decline was among owners with elementary occupations; their numbers fell by nearly 100 000 (16%) over the year. Other occupations still significantly down are craft & related trade workers and service, shop & market workers.

Figure 17: SMMEs by occupation



Source: QLFS of Stats SA

Table 14: SMME owners per occupation group

Occupation	2020Q1		2020Q4		2021Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	597 987	22.9%	502 363	21.1%	550 795	23.7%	48 432	9.6%	-47 192	-7.9%
Professionals	112 106	4.3%	102 607	4.3%	121 733	5.2%	19 126	18.6%	9 627	8.6%
Technical and associate professionals	159 233	6.1%	143 073	6.0%	130 508	5.6%	-12 565	-8.8%	-28 725	-18.0%
Clerks	20 333	0.8%	22 189	0.9%	20 067	0.9%	-2 122	-9.6%	-266	-1.3%
Service, shop and market workers	400 936	15.3%	358 679	15.1%	346 217	14.9%	-12 463	-3.5%	-54 719	-13.6%
Skilled agricultural and fishery workers	45 173	1.7%	59 645	2.5%	44 555	1.9%	-15 090	-25.3%	-618	-1.4%
Craft and related trades workers	542 368	20.7%	506 449	21.3%	483 275	20.8%	-23 174	-4.6%	-59 093	-10.9%
Plant & machine operators	99 099	3.8%	113 353	4.8%	94 150	4.0%	-19 203	-16.9%	-4 949	-5.0%
Elementary occupations	631 427	24.2%	568 599	23.9%	531 551	22.9%	-37 048	-6.5%	-99 876	-15.8%
Domestic workers	4 918	0.2%	3 239	0.1%	2 352	0.1%	-887	-27.4%	-2 566	-52.2%
Other	484	0.0%	1 833	0.1%	0	0.0%	-1 833	-100.0%	-484	-100.0%
Total	**2 614 063**	**100.0%**	**2 382 030**	**100.0%**	**2 325 203**	**100.0%**	**-56 827**	**-2.4%**	**-288 860**	**-11.1%**

Source: QLFS of Stats SA

Financial data of SMEs

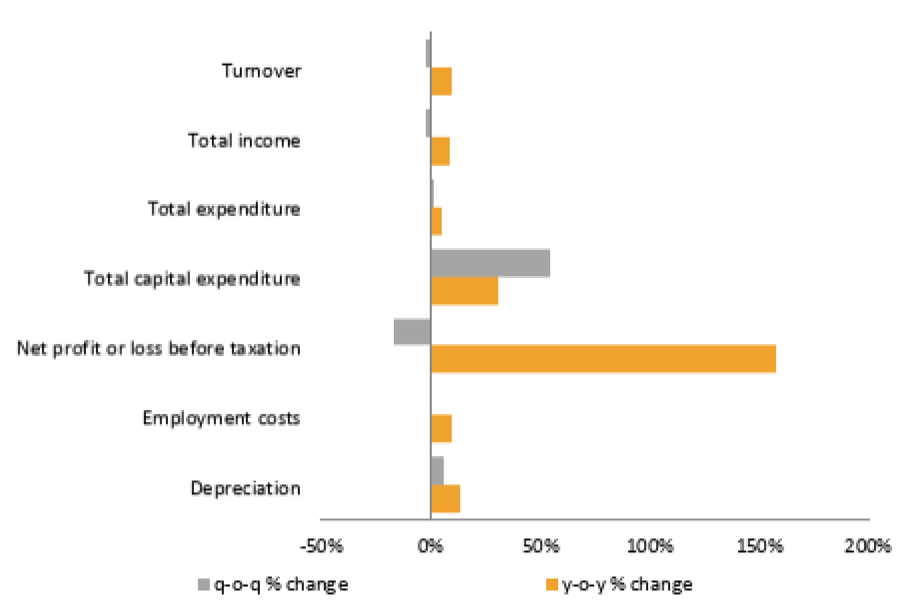
From the Quarterly Financial Survey

Profitability of SMEs

SMEs' financial position recovers, despite the decline in numbers

From a financial perspective, the SME sector has recovered fully from the damage incurred owing to the COVID-19 pandemic and subsequent lockdown measures. By the first quarter of 2021, turnover and income had increased by 9% compared to pre-pandemic levels (exceeding consumer inflation of 3.1% over the same period). This occurred while expenses were kept under control, escalating by only 4.5%. Consequently, profit levels more than doubled (up 157%) over the same period and firms were able to pay workers more while raising investment by 31%. It is possible that the commodity boom also benefitted the top lines of SMEs.

Figure 18: Change per financial indicator: 2021Q1



Source: QFS of Stats SA

Table 15: Financial indicators of SMEs

R million	2020Q1	2020Q4	2021Q1	q-o-q % change	y-o-y % change
Depreciation	R 16 044	R 17 131	R 18 183	6.1%	13.3%
Employment costs	R 177 326	R 193 733	R 193 900	0.1%	9.3%
Net profit or loss before taxation	R 25 263	R 78 741	R 64 925	-17.5%	157.0%
Total capital expenditure	R 13 848	R 11 739	R 18 095	54.1%	30.7%
Total expenditure	R 962 039	R 996 952	R 1 005 153	0.8%	4.5%
Total income	R 964 183	R 1 077 499	R 1 050 005	-2.6%	8.9%
Turnover	R 929 629	R 1 043 681	R 1 014 975	-2.8%	9.2%

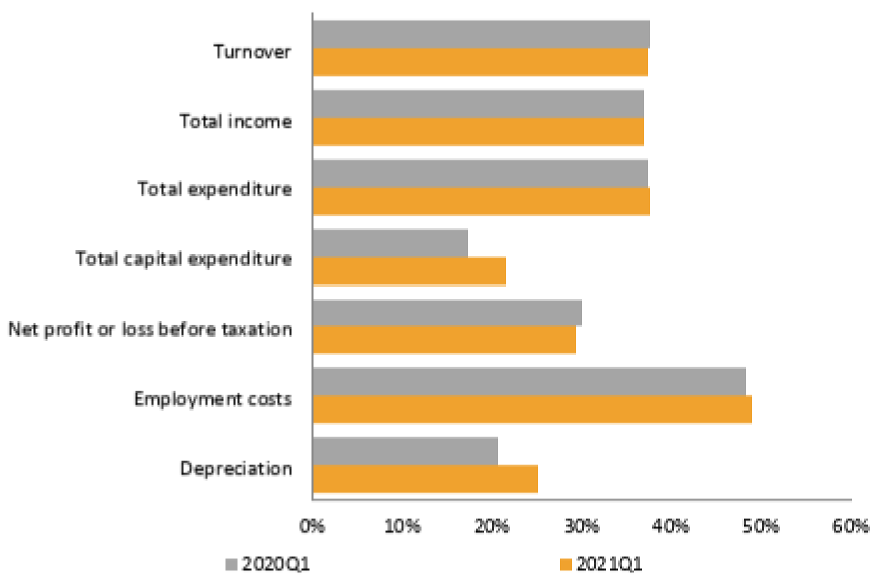
Source: QFS of Stats SA

Economic contribution of SMEs

Balance between large and small firms largely unchanged

The share that SMEs contributes to the turnover of all enterprises* remained relatively stable between the first quarters of 2020 to 2021. This is also true regarding total income and expenditure. SMEs did manage to increase their share of capital expenditure significantly and to a lesser extent regarding their employment costs and depreciation charges. As a result, their share of profits declined slightly from 30% to 29%. The smaller share that SMEs have of total profits (29%), compared to turnover (37%), reflects the scale advantages that larger enterprises have.

Figure 19: SME contribution to all enterprises* by indicator



Source: QFS of Stats SA

Table 16: SME contribution to all enterprises* by indicator

Indicator	2020Q1	2020Q4	2021Q1	q-o-q change	y-o-y change
Depreciation	20.6%	23.1%	25.0%	1.9% pts	4.4% pts
Employment costs	48.2%	49.0%	48.9%	-0.1% pts	0.7% pts
Net profit or loss before taxation	30.0%	35.0%	29.3%	-5.7% pts	-0.8% pts
Total capital expenditure	17.3%	14.1%	21.5%	7.5% pts	4.3% pts
Total expenditure	37.4%	36.8%	37.5%	0.6% pts	0.1% pts
Total income	36.8%	36.7%	36.8%	0.1% pts	0% pts
Turnover	37.5%	37.5%	37.4%	-0.1% pts	-0.2% pts

Source: QFS of Stats SA
**excluding agriculture, financial intermediation, insurance and government institutions*

Table 17: Financial indicators of SMEs by industry

R million	2020Q1	2020Q4	2021Q1	q-o-q % change	y-o-y % change
Employment costs	**R 177 326**	**R 193 733**	**R 193 900**	**0.1%**	**9.3%**
Community, social and personal services industry	R 9 889	R 10 520	R 11 159	6.1%	12.8%
Construction industry	R 16 190	R 10 447	R 10 767	3.1%	-33.5%
Electricity, gas and water supply industry	R 705	R 818	R 716	-12.5%	1.6%
Manufacturing industry	R 48 136	R 49 093	R 48 123	-2.0%	0.0%
Mining and quarrying industry	R 4 131	R 4 167	R 4 189	0.5%	1.4%
Real estate and other business services industry	R 50 858	R 70 023	R 69 935	-0.1%	37.5%
Transport industry	R 11 057	R 11 059	R 11 019	-0.4%	-0.3%
Trade industry	R 36 360	R 37 606	R 37 992	1.0%	4.5%
Net profit or loss before taxation	**R 25 263**	**R 78 741**	**R 64 925**	**-17.5%**	**157.0%**
Community, social and personal services industry	-R 575	R 1 571	R 3 748	138.6%	-751.8%
Construction industry	-R 1 600	-R 254	-R 1 761	593.3%	10.1%
Electricity, gas and water supply industry	R 694	R 2 546	R 3 619	42.1%	421.5%
Manufacturing industry	R 3 675	R 22 258	R 15 637	-29.7%	325.5%
Mining and quarrying industry	R 1 281	-R 1 397	-R 1 955	39.9%	-252.6%
Real estate and other business services industry	R 16 624	R 30 462	R 27 010	-11.3%	62.5%
Transport industry	R 3 549	R 4 486	R 3 732	-16.8%	5.2%
Trade industry	R 1 615	R 19 069	R 14 895	-21.9%	822.3%
Total capital expenditure	**R 13 848**	**R 11 739**	**R 18 095**	**54.1%**	**30.7%**
Community, social and personal services industry	R 489	R 1 097	R 488	-55.5%	-0.2%
Construction industry	R 272	R 5	R 6	20.0%	-97.8%
Electricity, gas and water supply industry	R 34	R 487	R 522	7.2%	1435.3%
Manufacturing industry	R 5 535	R 5 125	R 9 040	76.4%	63.3%
Mining and quarrying industry	R 1 030	R 835	R 2 837	239.8%	175.4%
Real estate and other business services industry	R 1 393	R 1 849	R 2 963	60.2%	112.7%
Transport industry	R 1 583	R 993	R 833	-16.1%	-47.4%
Trade industry	R 3 512	R 1 348	R 1 406	4.3%	-60.0%
Total expenditure	**R 962 039**	**R 996 952**	**R 1 005 153**	**0.8%**	**4.5%**
Community, social and personal services industry	R 25 642	R 26 741	R 27 367	2.3%	6.7%
Construction industry	R 47 114	R 37 328	R 34 423	-7.8%	-26.9%
Electricity, gas and water supply industry	R 5 834	R 7 501	R 6 811	-9.2%	16.7%
Manufacturing industry	R 249 527	R 267 835	R 272 755	1.8%	9.3%
Mining and quarrying industry	R 17 474	R 20 511	R 19 376	-5.5%	10.9%
Real estate and other business services industry	R 159 434	R 178 364	R 179 118	0.4%	12.3%
Transport industry	R 55 956	R 57 259	R 56 037	-2.1%	0.1%
Trade industry	R 401 058	R 401 413	R 409 266	2.0%	2.0%
Total income	**R 964 183**	**R 1 077 499**	**R 1 050 005**	**-2.6%**	**8.9%**
Community, social and personal services industry	R 25 052	R 28 387	R 30 909	8.9%	23.4%
Construction industry	R 45 361	R 37 092	R 32 541	-12.3%	-28.3%
Electricity, gas and water supply industry	R 6 530	R 10 078	R 10 379	3.0%	58.9%
Manufacturing industry	R 243 298	R 289 696	R 279 897	-3.4%	15.0%
Mining and quarrying industry	R 18 558	R 19 105	R 17 435	-8.7%	-6.1%
Real estate and other business services industry	R 174 792	R 209 105	R 206 064	-1.5%	17.9%
Transport industry	R 59 504	R 61 819	R 59 752	-3.3%	0.4%
Trade industry	R 391 088	R 422 217	R 413 028	-2.2%	5.6%
Turnover	**R 929 629**	**R 1 043 681**	**R 1 014 975**	**-2.8%**	**9.2%**
Community, social and personal services industry	R 22 440	R 25 558	R 25 499	-0.2%	13.6%
Construction industry	R 44 526	R 34 487	R 29 881	-13.4%	-32.9%
Electricity, gas and water supply industry	R 5 911	R 9 600	R 9 277	-3.4%	56.9%
Manufacturing industry	R 236 472	R 282 546	R 273 881	-3.1%	15.8%
Mining and quarrying industry	R 17 717	R 17 451	R 16 672	-4.5%	-5.9%
Real estate and other business services industry	R 159 355	R 196 179	R 193 758	-1.2%	21.6%

Transport industry	R 57 467	R 60 171	R 57 818	-3.9%	0.6%
Trade industry	R 385 741	R 417 689	R 408 189	-2.3%	5.8%

Implications for the SMME sector

A hesitant and divergent macroeconomic recovery combines with uncertainty, forcing SMMEs to remain defensive

The macro-economic outlook has improved, with firm evidence that the world economy is on the recovery road, as well as the SA economy, following the deep contractions during 2020. However, the level of uncertainty did not change. The global economic outlook is characterised by divergence and high financial risk and the domestic outlook is clouded owing to socio-political unease and a slow vaccination programme. **These factors all have the potential to cause disruptions, making for a 'patchy' general economic recovery in the words of the IMF**. The frequency and intensity of climatic disasters is another ominous element in the economic outlook matrix.

The overriding implication for SMMEs is that the strategic focus will need to be to remain in business over the short term. Firms need to adapt to coexist with the imperatives of recurrent variants of the COVID-19 virus and the associated waves of sickness until such time that herd immunity has been reached at the global level. According to the latest information, this may only be achieved towards the end of next year. **As uncertainty continues to cloud the outlook, defensive strategies are the name of the game**. Customer service is paramount as is the identification of considered new (and niche) growth opportunities. The financing environment will remain supportive even though exchange rate volatility may cause problems.

Technological development and digitisation will be key in manufacturing outlook; tourism adapting to a 'new normal'

In **manufacturing**, supply chain bottlenecks and input price hikes may continue to characterise the business environment over the short term. The sector is also being re-shaped owing to the forces associated with the 4th Industrial Revolution (IR) and fast-tracked as a result of the COVID-19 pandemic. Embracing technology and the digitisation of the work place are key imperatives. ICT firms should soon be able to benefit from the release of HDS. While the pandemic also weighs on the **ICT sector outlook**, prospects remain bright. The opposite is true regarding **t**ourism. **SMME tourism operators** will need to adapt to disruptions in destination markets for a while longer, become used to the 'new normal' in terms of safety and other standards, as well as a hesitant growth pattern, both domestically and abroad.

Early evidence of recovery in the SMME sector, including a measure of resilience

A full year into the pandemic, the number of SMMEs in SA continued to decline, both formal and informal establishments. This indicates sustained pressure on the sector even though the broader economy has embarked on a recovery road. There are signs of a turnaround, with particularly employment in the sector picking up. **There is also a clear measure of resilience in the sector and this may be linked to the qualitative improvement in the skills set of SMME owners**.

Support policies should prioritise skills development and the

The latter is a well-established trend in the sector over the past decade and imparts the importance of training and skills development. Considering the tendencies by population group, the need is more recognition of the informal nature of the sector

intense regarding blacks, who is disproportionately represented in the informal sector, the younger age groups and the lower skilled.

The noted increase in SMME employment may reflect the outcome of the overall increase in economy-wide formal sector unemployment. The informal SMME sector is the natural destiny for workers being retrenched in the formal economy. **Two thirds of SMMEs operate in the informal sector and support policies need to recognise this fact of SA economic life**. The younger-aged SMME owners and start-ups (i.e. establishments less than 2-3 years in operation) appear to be the most vulnerable.

SMME numbers expected to increase

It is expected that the number of SMMEs in operation will increase over the short- to medium term as the broader economic recovery continues to strengthen. As noted in the previous report, **growth opportunities are likely to become more available towards the end of the year and into next year.**

Glossary

Annualised growth: The growth rate of a given quarter compared with the previous quarter, compounded to an annual rate.

Business Cycle: The phase in which an economy grows (upswing) or contracts (downswing) relative to its long-term trend. See “Coincident Indicator” and “Leading Indicator” below.

Coincident Indicator: An economic indicator (such as real retail sales) whose turning points coincide with those of the business cycle (called reference turning points).

Business Confidence Index: An index that tracks the percentage of respondents rating economic conditions to be satisfactory during a given period. It is measured on a scale from 0 to 100, where 50 indicates a neutral level. Mostly used as a business cycle indicator.

Constant Prices: The monetary value of an indicator after the impact of inflation has been accounted for. It will be expressed in terms of the currency value of a specific year, called the base year (e.g. 2005). This price-format reflects on volume changes at a specific time.

Consumer Price Index (CPI): The index from which consumer inflation is calculated. The prices of a representative basket of goods and services, which is typical to the median consumer, is tracked over time to monitor the purchasing power of the consumer’s money.

Current Prices: The monetary value of an indicator before any adjustment for inflation. This price-format reflects the actual value of an indicator at a specific time as it would be recorded by accountants.

Employee Earnings: Calculated by dividing the total gross earnings, excluding severance, termination and redundancy payments, for the reference month by the number of employees as at the end of the reference month.

Gross Domestic Expenditure (GDE): The total value of spending originating within the borders of a country. The GDE excludes exports and includes imports.

Gross Domestic Fixed Investment (GDFI): The purchase of additional capital stock within the borders of one country, not providing for depreciation in the current capital stock.

Gross Domestic Product (GDP): The total value of all final goods and services produced within the geographic boundaries of a country in a particular period (usually one year).

Index: A series of index numbers at regular fixed intervals, which compare the level of an indicator with its own level at another time or place. The base period (e.g. 2005) will be set to 100 and all other periods will be expressed as a ratio of that.

Leading Indicator: An economic indicator (such as the number of new cars sold) whose turning points precedes those of the business cycle (called reference turning points).

M3: The broadest indicator of money supply in a country, including notes and coins and all the positive balances and deposits in all of the bank accounts of the private sector.

Private Consumption Expenditure: The largest single element of expenditure in the economy by households and firms on final goods and services.

Producer Price Index (PPI): Similar to the CPI, the PPI constitutes a basket of goods priced when they leave local farms, mines and factories, or are imported. It aims to monitor the price changes in production.

Real Prices: See Constant Prices

Seasonality: The fluctuation in a time series due to seasonal factors such as holidays, tax year-ends, agricultural crops etc. This fluctuation tends to repeat itself in constant cycles (usually the quarters of a year).

Seasonally adjusted (s.a.): The seasonal fluctuation within a time series has been eliminated. This makes it possible to compare two consecutive periods (quarters in most cases) on equal foot.

SMMEs: Small, medium and micro enterprises

SMEs: Small and medium enterprises

Appendix

Methodology to estimate a proxy for the number of SMMEs

The first step in identifying a proxy is to determine the number of SMMEs in a particular year, and then to find another statistic that would give a comparable number. According to the Integrated Business Register, South Africa had 553 491 enterprises in 2007, of which only 17 251 (3.1%) were classified as large enterprises (The DTI, 2008). The DTI estimated a total of 2.26 million SMMEs in South Africa in 2007, of which more than 75% operated in the informal sector. They based this estimate on the QLFS published by StatsSA.

With this number in mind, we analysed the QLFS data to see if a comparable statistic could be found. The QLFS publish data on the employment status of individuals. It specifies the number of persons in South Africa who work for a salary, the number who employ others and themselves and also the number who employ only themselves (own account worker). From this data, those who work for someone else are excluded from the proxy. To avoid double counting, those helping in a household business are also excluded.

The own account workers should all be included in a possible proxy as it would be highly unlikely that any would have a turnover above R123.5 million. Regarding employers, their numbers have been above the 700 000 level since 2008. This number can be assumed not to include large enterprises for two reasons. Firstly, large enterprises constitute such a small part of the total on the business register (3.1% in 2007). Secondly, many are owned by multiple owners and will not be counted in the QLFS, which is a sample of individuals. Their managers will be counted among those “working for someone”.

Thus, the proxy for the number of SMMEs will be taken as the number of employers and own account workers combined. Together they constitute 14% to 15% of all employees, a number which has not changed much in the last seven years. We can deduce that the QLFS-proxy is a relatively accurate estimate of the number of SMMEs in 2007 according to the DTI (it differs by only 3%). This methodology is similar to the original methodology used by the DTI.

Classification of enterprises according to size in terms of turnover

Regarding the financial data on SMEs, the methodology is determined by the DTI. They classify enterprise size according to their annual turnover in terms of the National Small Business Amendment Bill. These cut-off points differ among the economic sectors. Stats SA then adjusts the turnover cut-off points every year to provide for inflation. These are published in the QFS. The March 2021 cut-off points appear in the table below. All enterprises falling below the 'large' category are grouped together to form the SME sector.

Table 18: Cut-off points for enterprise turnover to determine their size

Industry Turnover		Large > Rm	Medium > Rm	Small > Rm	Very small > Rm
SIC2	Mining and quarrying	585	150	60	2
SIC3	Manufacturing	765	195	75	2
SIC4	Electricity, gas and water	765	195	77	2
SIC5	Construction	390	90	45	2
SIC61	Wholesale trade	960	480	90	2
SIC62	Retail trade	585	285	60	2
SIC63	Motor trade	585	285	60	2
SIC64	Accommodation and catering	195	90	77	2
SIC7	Transport	390	195	45	2
SIC8	Real estate & business services	390	195	45	2
SIC9	Community, social and personal	195	90	15	2

Source: QFS of Stats SA