SMME Quarterly Update
3rd Quarter 2019

The Small Enterprise Development Agency

SMALL ENTERPRISE DEVELOPMENT AGENCY

an agency of the dsbd

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Executive summary

The 2019Q3 SMME results outline tendencies in the sector as the SA economy entered a technical recession and well before the dramatic impact of the local outbreak of the COVID-19 pandemic. **The global economy has been tipped into a recession and locally business volumes are likely to fall off a cliff in vulnerable industries**. **SMMEs, accounting for 70% of employment, are in the eye of the storm**.

The latest SMME results and the outlook for manufacturing, ICT and the tourism sector are covered as usual in this report. For obvious reasons, **the macro dimensions of the COVID-19 impact, particularly the implications for SMMEs, receive disproportional attention**.

- **The number of SMMEs in South Africa (SA) grew by 3.8% year-on-year (y-o-y), from 2.56 million in 2018Q3 to 2.65 million in 2019Q3.** The increase in numbers occurred as around 100 000 economy-wide job opportunities were shed over this period.
- **Employment in the SMME sector grew by 15% between 2018Q3 and 2019Q3 to 11.6 million** (or 70% of total employment).
- The growth in numbers and employment in the SMME sector is encouraging. **Due to the poor macroeconomic conditions, financial performance remains under pressure**. This is despite evidence of greater agility and sustained improvements in the quality of SMME ownership, e.g. educational attainment.
- **The SME* share in the total turnover of all enterprises#1 shrank by a full percentage point to 37.3% in the year up to 2019Q3**.

On the 31st of December 2019, China notified the World Health Organisation (WHO) of the detection of a novel coronavirus (subsequently labelled, SARS-Cov-2, causing COVID-19 disease). The WHO declared a pandemic on 11 March as infections spread globally. **The SA government declared a State of National Disaster on 15 March, following the first COVID-19 case reported on 5 March**.

Epidemiologists describe the SARS-Cov-2 virus as being a mild strain (with only low-immune hosts being vulnerable). Its spread is very rapid. Most importantly, spreading during incubation (as long as 28 days, 5-7 days on average), i.e. before the host presents symptoms, distinguishes it as a *pandemic* virus. The previous global *pandemic* occurred in 1918-20, at the time of the aggressive Spanish flu.

The global economy is already headed for recession during the first half of 2020, mainly due to the impact of the draconian measures necessary to fight the spread of COVID-19 and the financial market meltdown. Nobody really knows how deep and long this recession will be – many analysts suggest that overall global GDP may contract this year, as it did in 2009 at the time of the Global Financial Crisis (GFC). **Elements with the current pandemic impact are likely to trigger longer-term changes**.

Flatter epidemic curves and a scenario where financial markets, businesses and consumers respond positively to the unprecedented macroeconomic stimulus measures unleashed by policy makers will be more benign. Stimulus packages measure 5-10% (and higher) of national GDPs. The financing of these packages is a later concern in a war economy; however, has sure economic implications down the line.

SA's economy is also expected to contract sharply in 2020. The economy was already in recession as the pandemic hit. The SMME sector is in the eye of the storm. The authorities have been quick in responding. There is evidence that the local spread of infections is being contained, explaining the zero death rate (despite 709 COVID-19 cases at the time of writing). **This crisis is and will demand extraordinary cooperation and positivity by all of SA society and beyond**.

KEY INDICATORS	2018Q3	2019Q2	2019Q3	q-o-q change	y-o-y change
Number of SMMEs	2 556 891	2 667 299	2 653 424	-0.5%	3.8%
Number of formal SMMEs	734 023	760 880	779 297	2.4%	6.2%
Number of informal SMMEs	1 756 314	1 845 236	1 791 431	-2.9%	2.0%
Number jobs provided	10 067 628	11 413 901	11 592 677	1.6%	15.1%
% operating in trade & accommodation	40.4%	41.4%	40.6%	-0.8% pts	0.2% pts
% operating in community services	13.7%	13.7%	13.0%	-0.7% pts	-0.8% pts
% operating in construction	14.7%	13.8%	14.2%	0.4% pts	-0.5% pts
% operating in fin. & business services	13.3%	12.9%	13.4%	0.5% pts	0.1% pts
% black owned formal SMMEs	75.1%	73.6%	73.1%	-0.4% pts	-2% pts
% contribution of SMEs* to turnover of all enterprises#	38.3%	37.8%	37.3%	-0.5% pts	-1% 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 outbreak of the SARS-Cov-2 epidemic (causing COVID-19 disease) has been classified a pandemic by the WHO …

The international economic backdrop has deteriorated dramatically as governments (and society) respond to the outbreak of the COVID-19 disease. The pandemic (declared as such by the WHO on 11 March), originated in the Hubei Province of China and has taken root in more than 150 other countries (notably Italy, Iran and South Korea and other large European countries, the USA and currently spreading on the African and Latin American continents). **The accumulated number of reported worldwide infections exceeded 310 000 on 23 March 2020 and grows daily; around 13 500 deaths have been recorded. Outside China, infections tally 229 000 (in 149 countries), with more than 10 000 deaths**. Importantly, more than a fifth of sick people have recovered, i.e. close to 67 000; more than 90% of these recoveries have been recorded in China[1]. **The number of new cases has fallen to a trickle in China, with the accumulated number of cases having stabilised around 81 000. Countries in the rest of the world are midst their growth phases** (excluding some countries having greater success in flattening their epidemic curves, e.g. South Korean, Japan and Hong Kong). In fact, the centre of the pandemic has moved to Europe and the USA as the number of external deaths exceed the cumulative total in China.

… and is likely to cause untold economic hardship given the current state of the global business cycle

The virus outbreak is having dramatic adverse direct economic impacts. Air travel is being banned, retail outlets, factories, education centres and planned events are also being closed down in affected regions. Furthermore, quarantine programmes have kicked in and individual businesses, governments and households are responding in mitigating the spread of the virus. **While the medical dimensions of the virus have to be seen in perspective, the reality of society's response is severely negative for the economy**. Globally, the tourism sector (including the airline industry, both holiday and business travel, and large sport and entertainment events) has been impacted heavily. Global production value chains are being disrupted at an unprecedented scale.

China's economy is currently the 2nd largest in the world (contributing 16% of world GDP in US dollar terms, i.e. 4 times more compared to at the time of the SARS epidemic in 2002-03 when it was the 6th largest)[2]. The US economy accounts for close to one quarter of world GDP and the Euro area 21%. Both the USA and major European countries have implemented draconian travel restrictions and other domestic 'social distancing' measures. The S&P 500 share price index has fallen by more than a quarter since mid-January, sealing the prospect of a US recession. **The world**

[1] While this translates to a low death rate (around 3-4% on average, compared with around 10% with the SARS virus in 2003), it should be noted that the COVID-19 virus strain has *pandemic* features, due to its incubation period, i.e. spreading before symptoms appear. Also being zoonotic (transferred from animals), there are no anti-bodies in humans and the time involved with developing a vaccine is at a minimum of 12-18 months.

[2] The first available economic statistics since the onset of the pandemic show the dramatic impact in the source country, China, with gross domestic fixed investment contracting by 24.5% (year-on-year) in February 2020; industrial production volumes by 13.5% and retail sales volumes by 20.5%.

has become highly interdependent and interconnected and social media (when abused) tends to fuel fear and therefore panic in a situation that is deeply uncertain and uncharted.

Society's response in averting the rapid spread of COVID-19 extracts serious damage to economies, particularly when motivated by self-interest

The disruption of value chains and national economies, including the financial market meltdown, has most likely tipped the global economy into recession. This is despite forceful economic stimulus measures by the advanced economies' central banks and fiscal authorities, with packages measuring 5-10% (and higher) of national GDPs. Contrary to the stimulus measures at the time of the GFC, current measures include direct support to households and businesses also being replicated in other countries. Yet, the only real question remains, i.e. how deep and how long the recession will be? **The current scientific evidence suggests that the virus in itself is not as severe, but it spreads fast and society's response to contain it – particularly if motivated by fear, panic, suspicion and self-interest – could cause much bigger economic harm**. To some extent the latter is inevitable given the nature of the required preventative measures and contemporary social behaviour. **To the extent that rationality and open-mindedness enter the equation – and the greater challenge, a sense of altruism – the better chance the world has to confront the pandemic's impact** (see Whiteside, 11 March 2020: 4).

Amongst other, it triggered substantial falls in advance economy capital markets, as well as a price war in the global oil market

All major global capital markets have already witnessed substantial falls[3]. **Some analysts point out that the correction of particularly the US stock market was on the cards before the outbreak of COVID-19.** Adding insult to injury, a price war also developed in the international oil market (between major suppliers, Saudi Arabia and Russia), plunging the Brent crude price close to $30/bbl. This severely threatens the profitability of US and Canadian shale oil production, not to mention the traditional oil producers. The oil market was already under pressure from weakening global demand. The global economy slowed through 2019 (partly due to cyclical forces in industrial sectors and partly due to the adverse impact of the US-China trade war), while equity markets continued to appreciate[4]. This exacerbated the over valuation of US share prices in particular. Assessing this reality, the US Fed reacted swiftly by cutting its policy interest rate (from 1.75%) on two occasions by a full 150 basis points close to zero. Other central banks followed (e.g. Canada, Australia and the UK) and more monetary easing is likely to follow on a global scale.

Experts estimate that China's GDP may shrink 10-20% year-on-year in 2020Q1 and that this performance can be repeated, if not worse, in Europe (where the centre of the pandemic was at the time of writing) and in the USA during the second quarter. Central banks and governments have responded aggressively with unprecedented economic stimulus measures (measuring 5-10% and

[3] In the USA, for instance, the S&P 500 share price index is 25% down from its recent mid-January 2020 peak; 10-year bond yields have slumped to below 0.5% and US dollar volatility has ensued, typically a sign of deep uncertainty. It seems that precious metals like gold and safe-haven currencies like the Japanese yen and Swiss franc have been the main beneficiaries of the international capital flight to safety.

[4] The S&P 500 share price index rocketed by 40% from the end of 2018 to its recent mid-January 2020 peak despite the US economic slowdown underway. Investor frenzy and super-low interest rates were main drivers, stimulating, amongst other, loan-financed share buy-backs and contributing to the general overvaluation of shares. High-tech shares with earnings potential have already reached dizzying heights. The depth and duration of the current equity market correction will depend on the Fed's full monetary policy response (more interest rate cuts are expected) and the containment of the COVID-19 impact.

more of GDPs). Apart from broader commercial considerations (e.g. liquidity support, quantitative easing, interest rate and tax cuts, etc.), the focus is on the worker (or household) and businesses facing income losses and potential bankruptcy. **SMMEs are in the eye of the storm and responsible for the bulk of employment**.

Expect deep contractions in global GDP, 20H1. Real hope for a recovery through the second half of the year exists

Economic recovery during the second half of 2020 will, in the first place, be driven by the shape of worldwide epidemic curves. **Prospects for a relatively swift recovery are positive in view of success in China, South Korea and Hong Kong in managing their epidemics, but this is not a forgone conclusion.** The jury is out on how long lock-down will be required in averting repeated phases of the global pandemic. Open economies in the West also face potential issues regarding coordination, e.g. the macroeconomic stimulus responses in the major advanced economies have been somewhat fragmented, albeit that coordination has been improving of late.

Advanced economy policy makers have the benefit of the Global Financial Crisis (GFC) experience in 2008-09. The slogan *"do whatever it takes"* is being aired forcefully. This is borrowed from Mr. Draghi's (Governor of the ECB) line pulling the Euro area out of recession at the time of its sovereign debt crisis, 2011-12 (averting a second leg of the GFC). **The bottom-line policy prescription in averting the spread of COVID-19 is similar to what is required in averting the consequent economic damage, i.e. "act decisively and act big".** While financing is an issue (also likely to dampen the eventual recovery in the wake of the pandemic), it should not hold the authorities back in a war economy.

The only certainty, is major uncertainty …

Most economic forecasters are scaling down real GDP growth rates across the globe, with scenario exercises becoming the preferred mode of projection in view of the profound uncertainties. **The two main drivers of a weaker global economic outlook are, firstly, the adverse consequences of the global response to the pandemic; and, secondly, the market meltdown.** The outcome of both these events are unclear. Both the demand and supply sides of any affected economy are exposed to risk. The conventional macroeconomic stimulus arsenal in the advanced economies is close to empty in view of the already low levels of interest rates and record-high debt levels. Fiscal deficits and national debt levels are bound to rise sharply further. The unfolding economic hardships are serious and the economic downside potential can hardly be overstated. **The most benign scenario would be one with flattened epidemic curves in key affected countries, as well as favourable responses in financial markets and spending by consumers and businesses to the economic stimulus measures.**

South Africa

The South African (SA) economy entered a technical recession in the middle of 2019. This is the second time over the past two calendar years. The recession developed ahead of the serious electricity supply shortages towards the end of last year and the subsequent global turmoil unleashed by COVID-19. **The contraction of GDP follows close to six years of below trend growth (2014-19), i.e. SA's longest post-war economic downswing.**

The SA economy entered 2nd technical recession (19H2) over the past two years – ahead of the COVID-19 impact …

Real GDP contracted by (a seasonally adjusted and annualised rate of) 1.4% during the final quarter of the year, with the agriculture (7.6%), transport & communication (7.2%), construction (5.9%), retail, wholesale & accommodation (3.8%), electricity & water (4.0%), manufacturing (1.8%) and the general government (0.4%) sectors all shrinking. On the other hand, mining (1.8%) rebounded from contractions during the preceding quarters and the financial (2.7%) and personal (0.7%) services sectors added to growth. For the full year, the primary sectors (mining and agriculture) contracted by 3.1% and the secondary sectors (manufacturing, electricity and construction) by 1.3%. The services sector countered the contractions (expanding by 1.2%) and ensured a modest positive economy-wide real growth rate of 0.2%. **This concludes five calendar years of contracting national real per capita income levels. Business confidence was reported at a 21-year low during the first quarter of 2020**, with more than 8 out of every 10 executives surveyed by the BER reporting unsatisfactory business conditions[5].

SA (along with Egypt and Algeria) rated highest exposed to COVID-19 risk on African continent

The COVID-19 pandemic reached SA's shores on the 5th of March – the number of infections increased to 240 on the 23rd of March; zero deaths have resulted thus far. The latter is most heartening; however, is likely to change once inland infection acquires momentum. In response, the government announced a National State of Disaster on the 15th of March, including an array of measures aimed at limiting the spread of the epidemic. A range of adverse economic impacts have already been reported, including cancelled sport and entertainments events, international flight restrictions, supply chain disruptions in various sectors, lower commodity prices and demand (particularly from SA's largest trading partners). **SA is rated as particularly high risk given its high rates of HIV and TB infection and the COVID-19 risk being highest for low-immune (co-morbid) individuals, including the elderly**. The already buckling public health sector will be severely challenged and wide private sector and community support is critical.

Short-term SA macroeconomic outlook acquires profound crisis proportions …

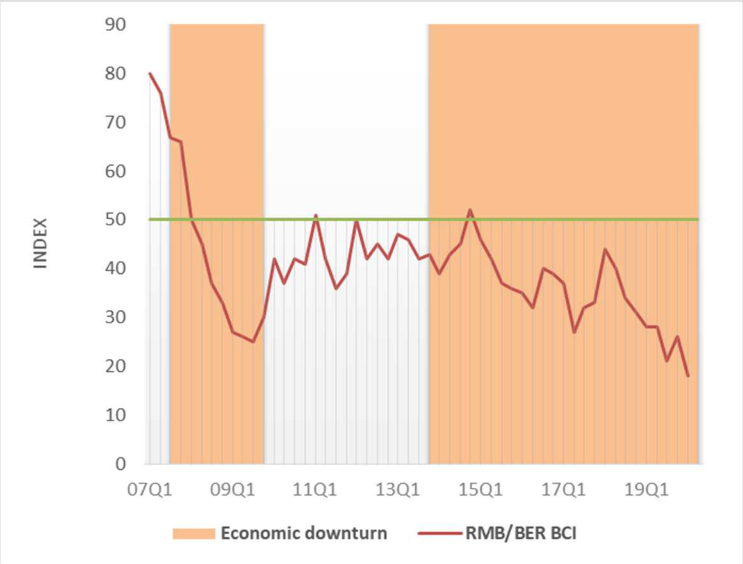
The SA macroeconomic outlook has acquired profound crisis proportions. Economic forecasts immediately lose value due to the depth of uncertainty, the global market meltdown and not to mention the domestic electricity supply shortages, the fiscal constraints and the spectre of a credit rating downgrade by Moody's. **The level of business and consumer confidence being at multi-decade lows and the historic peak in the narrow unemployment rate (29.1% in 19Q4) outline the dire economic situation.** Business confidence is a reliable leading indicator of private businesses' fixed investment intentions. It is not inconceivable that the RMB/BER business confidence index falls further in coming months and lingers below its current level of 18 points for 2-3 quarters, much as

[5] In the history of the RMB/BER business confidence index (the survey of business executives commencing in 1975Q1) there were only four periods when the index was at a level of 18 (or below): 76Q3 to 77Q4 (at the end of the 1974-77 recession and in the wake of the first oil price crisis and the domestic Soweto political turmoil); 85Q1 to 86Q2 (during SA's deepest post-war recession at the time of the infamous Rubicon speech by the then State President); 91Q3 to 93Q2 (at the end of SA's longest post-war recession at the time, with the country gripped by a serious and protracted drought in agriculture as well as deep political turmoil in the run-up to SA's first full democratic elections); 98Q2 to 99Q2 (at the end of the externally-induced East-Asian economic crisis and the LTCM bankruptcy, which sparked capital flight from emerging market economies causing a slump in the value of the rand exchange rate and leading to a 25% prime overdraft interest rate). During the 2008-09 Great Recession impact, the BCI declined to 23 index points (99Q3) at its deepest point then; this followed after a period of 5% real GDP growth (2004-2008).

during the early and mid-1980s and early 1990s. The contraction in SA's export demand is likely to exceed the 23% drop witnessed in 2009 (peak-to-trough) at the time of the GFC; export volumes are already down 6.6%, in the year to 19Q4. On top of the trade impact, the effect on tourism and other services will ensure SA's GDP will witness a deep fall for the full calendar year, most likely deeper than 2009 (down 1.5%). **The 2009 contraction occurred during the dramatic external impact of the Great Recession, and before that, during the early 1990s and early 1980s, both periods of global recession.** Quantitative forecasts are at most educated guesses of what will undoubtedly be substantial carnage. **The adverse impact on SMMEs and employment will be dire.**

Business confidence tumbles to 21-year low and may fall further, also lingering at these levels for 2-3 quarters

Table 1: RMB/BER business confidence index



Source: BER

SMME quarterly overview for 2019Q3

The number of SMMEs continues to grow, but financial performance remains under pressure …

The number of SMMEs has been on an upward trajectory from 2014 and this growth continued in the year up to 2019Q3. **The past 12-month period's growth amounted to 3.8%, bringing the total number of SMMEs to 2.65 million (or 16% of total employment, in turn split into employers measuring 6% and own account workers, 10%).** A key feature of this growth is the increase in the number of employers (11.2%, mainly in the formal sector). **As a consequence, employment created in the SMME sector (excluding the growth in the number of SMME owners) expanded by no less than 19%.** Including owners, employment in the SMME sector expanded by 15% (or 1.5 million) to 11.6 million (i.e. no less than 70% of aggregate employment in the economy). This growth in SMME employment (and the growth in the number of SMMEs, particularly employers) occurred as aggregate employment in the country contracted by close to 1% (i.e. around 100 000 jobs). **The implication is, therefore, that people losing their jobs elsewhere, or those struggling to find employment, opt for the SMME sector.**

… and this pressure will reach crisis proportions over the short term

The other part of the SMME reality, unfortunately, is that the growth in numbers and even the improvement in the quality of SMME ownership (as reflected in the standard of educational attainment, for instance) is occurring in the context of increased competition for scarce resources. **Both financial performance vis-à-vis large enterprises and pay levels within the SMME sector are under pressure due to the poor economic conditions and lack of growth in the broader economy.** With the economy already in recession before the COVID-19 impact, it is most likely that these pressures will intensify. **This has important implications for SMME development in SA, as SMME operations and employment will come under severe pressure**.

Share of low-schooled owners continues to decline; positive tendency in skills also continued

Considering the demographic characteristics of SMME owners (age, gender, population group and education and skills levels), regional and sectoral distribution, a number of developments can be highlighted. **The most conspicuous tendency, remains the firm downtrend in the share of low-schooled owners. Over the 12 months up to 2019Q3, it is particularly noteworthy that the secondary school completions increased strongest, while the share of those without secondary schooling (including those with no schooling) declined sharply**. In terms of occupation, the shares of managers, technical and associated professionals increased; on the other hand, the share of elementary occupations also increased. For the remainder, it may be noteworthy reporting that the shares of owners in the 30-39 and, particularly the 50-54 age groups, grew. In terms of population groups, the shares of Indian/Asian and coloured owners witnessed sharp growth, albeit that the proportion of Black owners remained the highest by far, i.e. 73%. The sectoral distribution of owners remained largely unchanged, whilst the number of SMMEs in the Western Cape grew notably (mostly at the cost of Gauteng). **While the share of SMMEs less than 3 years in business increased notably, this did not change the trend over the past decade (with this share declining from 40% to around 30%).**

Numbers grow, but SMMEs face major crisis

In all, whilst the sustained growth in the number of SMMEs and employment is encouraging, the intensified competition for resources is taking a toll on the financial performance and pay levels in the SMME sector. These pressures are likely to reach deep crisis proportions over the short term.

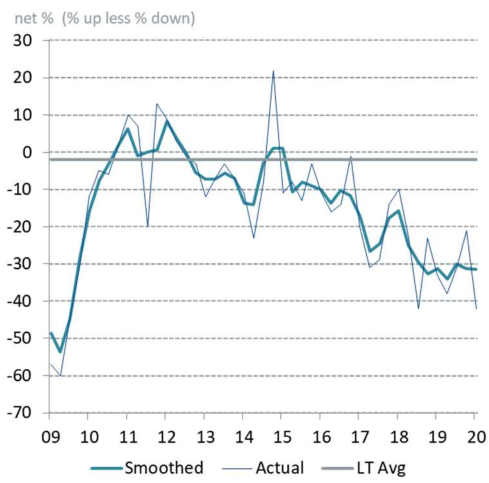
Focus on manufacturing, ICT and tourism: a sectoral perspective

Manufacturing, ICT and tourism are key focus areas for SEDA SMME development objectives

SEDA has identified manufacturing, the ICT and tourism sectors as key sectors to focus activities in promoting SMME development. The domestic manufacturing sector has unfortunately been decimated by an array of factors over the years, particularly over the past five years. It is midst an economy-wide recession from the middle of last year and the broader economic downturn from the end of 2013 as the charts below reveal. Both domestic and export sales are under serious pressure and the full impact of the unfolding world recession and COVID-19 impact awaits. **The opportunities in manufacturing small business are therefore located in new vistas.** This requires capitalising on the opportunities inherent in technological change and has all to do with the digital revolution, or the so-called 4th Industrial Revolution (4iR). The section aims to expand on these growth opportunities. It also provides a short update on the latest developments in the ICT sector, notably the decline in data costs and the status quo regarding the release of high-frequency spectrum. *Finally*, the carnage in the tourism sector is assessed, including pointers to recovery and altered business strategies in this life-blood industry of SA.

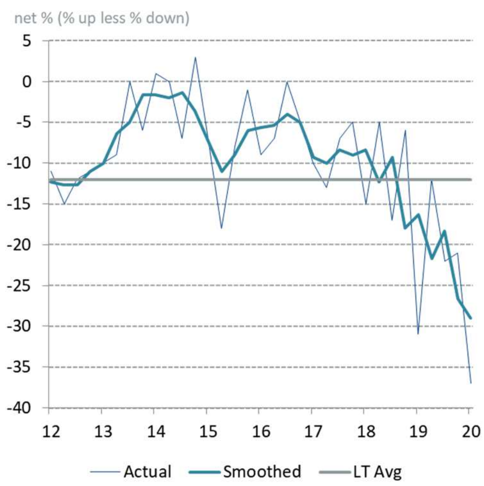
Manufacturing domestic and export sales continue plunging in the first quarter of 2020

Table 2: Manufacturing domestic sales



Source: BER Manufacturing Survey, 2020Q1

Figure 3: Manufacturing export sales



Source: BER Manufacturing Survey, 2020Q1

Manufacturing conditions have been bleak in recent years; yet, this sector carries the seeds of renewal

Manufacturing business confidence dropped to 17 index points in 20Q1. All major manufacturing groups report confidence hovering around this level; furniture manufacturers are the only exception. Here favourable exports have supported production levels; however, this is at serious risk due to the onset of a deep global recession. **Manufacturing conditions have been bleak for a number of years**. This sector is in the middle of the economic downswing, it is the most productive sector (output per employee), has the widest backward and forward linkages with the rest of the economy and is the source of a large share of SA's exports (particularly, vehicles, petro-chemicals, heavy metals & machinery and processed food). It has been impacted by the weak domestic demand conditions, SA's infrastructure bottlenecks (energy, logistics and communications), labour sector instability, economic policy uncertainty and currently faces a huge adverse impact from the global meltdown. It is not necessary to dwell on the gloomy short-term outlook. **The focus needs to shift as this sector, and**

particularly in the SMME field, also carries the seeds of renewal. Technological change presents new opportunities and, yes, also its challenges.

Table 3: Main characteristics of industrial revolutions

Period	Transition	Energy Resource	Main Technical Achievement	Main Developed Industries	Transport Means
I: 1760-1900	1860-1900	Coal	Steam Engine	Textile, Steel	Train
II: 1900-1960	1940-1960	Oil, Electricity	Internal Combustion Engine	Metallurgy, Auto, Machine building	Train, Car
III: 1960-2000	1980-2000	Nuclear Energy	Computers, Robots	Auto, Chemistry	Car, Plane
IV: 2000-	2000-2010	Green Energies	Internet, 3D Printer, Genetic engineering	High-Tech Industries	Electric Car, Ultra-Fast Train

Source: Xu, M; David, JM & Kim, SH: The Fourth Industrial Revolution: Opportunities and Challenges, International Journal of Financial Research, Vol. 9(2), 2018

> The world transitioned to the 4iR as we entered the 21st century, viewed as the *'age of wisdom'*

Without discussing the detail, Table 3 outlines the path along which each previous industrial revolution morphed into the following. **We currently experience the onset of the Fourth Industrial Revolution (4iR) as we entered the 21st century, also described as *the age of wisdom***. The 4iR is also described as the digital revolution and evolved from the 3rd, spawning the emergence of computers, information technology and robotics, which automated production and replaced various manual labour work opportunities. The 3rd industrial revolution also marked the transition from manual to knowledge workers required in industry. The digital era is radically deepening this tendency, with skilled and professional jobs also threatened to be replaced by artificial intelligence (AI) and advanced robotics, for instance.

> The unfolding technological changes embody both challenges and opportunities …

As with all previous industrial revolutions, the 4iR embodies both challenges and opportunities. During each revolution, a range of jobs in the previous revolution was destroyed and currently threatens to repeat. The positive takeaway in this regard is that with each industrial revolution in the past, **more new jobs were created on balance – this is likely to be the case with the 4iR as well.** Furthermore, the new jobs will not only be in the STEM (science, technology, engineering & maths) subjects, job creation in the arts & humanities could be a multiple of STEM jobs. Undoubtedly, however, the demand will be for knowledge workers even more so than during the 3rd industrial revolution. **The implication is that education and training, upskilling and re-skilling will have to become the priority, both in the formal education & training sector and via vocational training**.

> … the demand for knowledge workers will deepen, with important implications regarding education & training

Amongst the other opportunities inherent in the 4iR (e.g. the benefits of artificial intelligence and machine learning; the fusion of different technologies and domains; the (qualified) improvements in the quality of life linked to internet connectedness and automation/robotics), there is one critical aspect which is likely to boost small manufacturing. **This is the lowering of barriers to entry into markets for small business owners and entrepreneurs/innovators**. It is worthwhile in these uncertain times to focus on this aspect and opportunity emerging as we progress into the 21st century. This is the only real chance that SA has to restructure its economy, to unlock business opportunity and employment creation, which is otherwise thwarted by big companies and big labour in oligopolous markets. Currently these companies tend to financially survive the challenging economic conditions in better

> A key opportunity for SMMEs is the lowering of barriers to entry in the formal market

shape, but at the cost of small business and employment creation. Nothing wrong in terms of the implied stability. However, the SMME sector accounts for close to two thirds of all employment in the broader economy. The growth of this sector is critical in order to unleash employment potential.

Finance and infrastructure support will be accentuated due to the economic malaise

Small business ventures, with proper finance and infrastructure support (particularly in the fields of communications, logistics and energy), are ideally placed to capitalise on the opportunities presented by the technological developments inherent in the 4iR (3D printing, internet-of-things[6], biotech, robotics, etc.). These opportunities are already being exploited in various applications – the future potential is huge. Start-up costs for such ventures are low, allowing entrepreneurs to establish small companies that can effectively enter the market and compete with the bigger firms – witness developments in SA's financial services sector.

ICT sector spending could buck the general economic trend in 2020, albeit likely to be adversely impacted by the COVID-19 fallout

SA's ICT sector [7] is projected to grow significantly in 2020, despite the weak wider economic conditions, even in the face of the COVID-19 impact. The main driver of this growth is spending by businesses and organisations as they embark on digital transformation (DX) strategies. **The IDC's forecast is for the industry to expand by 2.5% to US$26.4 billion in 2020 (which translates to R435 billion at the expected average exchange rate)[8].** The main sector driving growth is financial services, also expected to outgrow most sectors in the next five years; other important ICT spenders are the communications, government, retail and wholesale, professional and personal services, as well as manufacturing. Then there is also keen spending in the education, healthcare, utilities and transport, resource and construction sectors. **No doubt, some of these capex budgets will be adversely impacted by the COVID-19 fallout; however, it is likely to remain a priority area given the technological changes and the associated promise**. The ICT developments in key Sub-Saharan countries (notably Kenia, Nigeria and Ethiopia) are also underpinning the outlook. IoT, software-defined networking, AI, and robotic processing automation are all spending areas. The focus is currently on infrastructure, i.e. the replacement of legacy systems with cloud-based ones, followed by an emphasis on mobility (apps, devices and end-points). Furthermore, attention to cyber security is regarded as a necessity.

Urgent need for the release of 4G and 5G spectrum

It seems we are close to some breakthrough in the battle between the Competition Commission (CC) demanding that the large telcos cut data costs (by between 30-50%) given their market power and punitive non-contract data costs for lower-income consumers in particular. The CC also demands 'lifeline packages' of continuous free data to prepaid subscribers. The CC has also instructed mobile operators to reach agreements within specific timeframes with itself in reducing, simplifying and increasing transparency to customers regarding pricing. **The large telcos, in turn, complain that they**

[6] Internet-of-Things (IoT) refers to the interconnectedness of internet-capable devices and products and will be enabled by the roll-out of 5G technology.

[7] 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**).

[8] Mzekandaba, S: *Upswing expected in SA's ICT spending in 2020*, online: 31 January 2020.

cannot do all that before the release of the long-awaited high-frequency radio spectrum. They have spent billions on establishing the 4G network, with a 95% national coverage without 4G spectrum having been allocated. In fact, the government is still deciding on the model and allocation/licensing (via ICASA) of new high-frequency spectrum, which will be the real breakthrough for lowering data costs; the structure of the industry and scale economies also remain a bone of contention, albeit that both parties agree data costs need to fall and competition should improve. **The release of 4G and 5G spectrum has become a major urgency for SA to capitalise on the growth potential inherent in the 4iR, particularly to the extent that this will unleash SMME growth**.

The outlook for **international tourism travel** was for growth of between 3-4% in 2020; early-March 2020, the UN World Tourism Organisation (UNWTO) projected a contraction of 3% due to the impact of the coronavirus[9]. Fact of the matter is that these projections may still be too optimistic. The reason is that we simply do not know how long and deep the COVID-19 impact will be and it is also difficult to gauge the impact of the pandemic on tourist behaviours – how long and what will it take for numbers to return to normal; and will this possibly be a new normal? These questions are relevant for all sectors. **It is absolutely certain that tourism will suffer a dramatic adverse impact over the short term** – deep contractions in holiday travel (banned in all seriously affected countries thus far), business travel (with large companies and most governments announcing dramatic travel curbs on employees' travel obligations), event tourism (including sports and cultural events), even educational travel will suffer as universities close down and/or switch to online delivery.

From anticipated growth of 3-4%, international tourism is expected to fall deeply in 2020 due to COVID-19

Europe and China accounts for close to 60% of SA's inward international tourists (i.e. excluding inward tourism from the African continent). In the latest tourism statistics report released by Tourism SA, it is reported that inward tourism from the overseas market shrank by 3.7% in July to September (compared with a year earlier); inward tourism from the African continent shrank by 4.4% over the corresponding period. These declines are in line with those reported in the previous report referring to the January to May 2019 period. The main reasons for the decline were outlined previously and are worrying. **The COVID-19 impact will exacerbate the shrinkage and cause a serious crisis in the industry, in all subsectors.** The real growth in income from accommodation, occupation rates and income of the food & beverage industry was marginal over the corresponding period[10]. The epidemic originated in China and soon spread to other countries, with the centre of it located in Europe at the time of writing; as noted, there is a real fear of a second phase of the pandemic hitting China as visitors or returnees from Europe, the USA and elsewhere enter other regions outside Hubei province where the bulk of the Chinese epidemic occurred.

Domestic tourism numbers were already in decline due to various non-COVID-19 reasons

The adverse impact will intensify as the pandemic unfolds in SA

The short of this all is that one of the pillars of growth for the SMME sector has just about been decimated and this could remain so over the short term (late 2020?). Domestic travel will also be impacted as events are closed down and dramatic constraints on the hospitality industry have been and

[9] See Retief, C: *SA Tourism industry set to take big knock from Coronavirus*, online: 11 March 2020

are being implemented. While SA's interventions are aggressive and upfront (to its credit, particularly in limiting chances for the pandemic to get out of hand), we are only at the beginning of the COVID-19 disease spreading in SA. **The picture will get much worse over the next 3-4 weeks and the measures to counteract will grow in intensity, as will their adverse impact on economic activity**.

The industry will require financial support to keep it afloat beyond the pandemic impact

The implication is that this sector requires serious support – information wise and financial, particularly those employees who are dependent on tips and commission. The small operators will suffer serious financial straits. **These businesses need to be sustained so as to ensure the industry is well-placed in responding to a recovery when it arrives**.

Proxy numbers for SMMEs

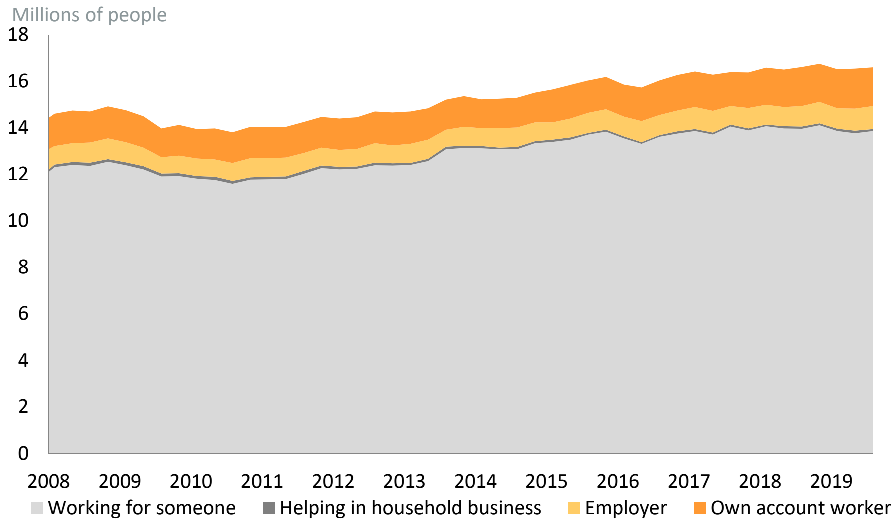
Derived from the Quarterly Labour Force Survey[10]

Number of SMMEs

More SMMEs operate as available jobs decline

In the year up to the third quarter of 2019, the number of SMMEs grew by around 97 000 against a backdrop where the available jobs declined by around 100 000. As such, the SMME option has become the natural alternative for people struggling to find a job. However, a smaller cake is now divided by ever more enterprises, as the combined nominal turnover of SMEs (Table 27) stagnated despite inflation being above 4%. *Of all employed people, 5.9% employed others in 2019Q3, while 10% worked for themselves. Combined at 16% (or 2.65 million), this comprises the proxy measure for the number of SMMEs in South Africa.*

Table 4: Employment in South Africa



Source: QLFS of Stats SA

Table 5: Number of SMMEs (million)

Indicator	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	887 297	5.3%	951 998	5.8%	986 330	5.9%	34 332	3.6%	99 033	11.2%
Own account worker	1 669 594	10.1%	1 715 301	10.4%	1 667 094	10.0%	-48 206	-2.8%	-2 499	-0.1%
SMME owners	**2 556 891**	**15.4%**	**2 667 299**	**16.1%**	**2 653 424**	**16.0%**	-13 874	**-0.5%**	96 533	**3.8%**
Working for someone	13 953 455	84.0%	13 763 611	83.2%	13 853 046	83.5%	89 435	0.6%	-100 409	-0.7%
Helping in household business	94 437	0.6%	104 502	0.6%	87 347	0.5%	-17 154	-16.4%	-7 090	-7.5%
Total employed	**16 604 784**	**100.0%**	**16 535 411**	**100.0%**	**16 593 818**	**100.0%**	**58 407**	**0.4%**	**-10 966**	**-0.1%**

Source: QLFS of Stats SA

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

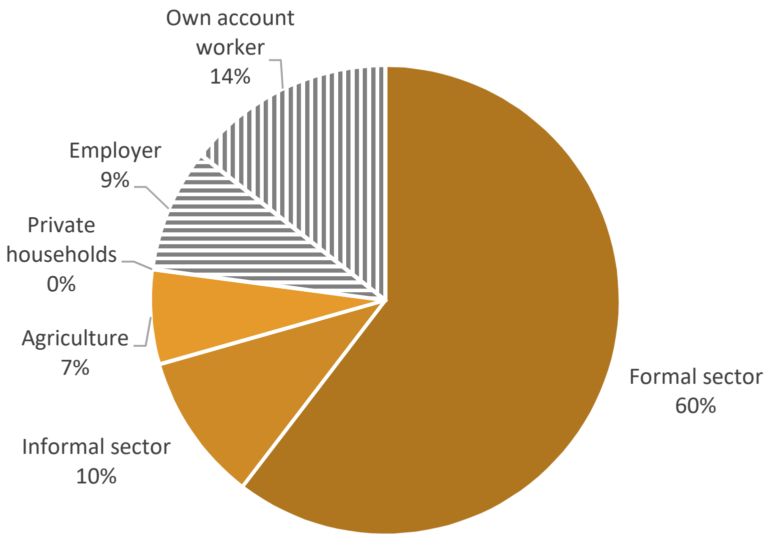
Employment provided by SMMEs

SMME employment expands strongly

In the third quarter of 2019, the SMME sector provided 70% of all jobs in SA (11.6 of 16.6 million), up from 61% (10.1 of 16.6 million) a year ago. Of these 11.6 million jobs, only 2.65 million were for the SMME owners themselves, whilst the balance of 8.9 million (or 77%) was for their employees. Over this period, SMMEs created 1.5 million jobs (including the owners), whilst large enterprises shed a similar amount.

Zooming in, the number of SMME employees (non-owners) grew by 19% over the year up to 2019Q3. The majority of SMME employment (60%) 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.

Table 6: Employment provided by SMMEs



Source: QLFS of Stats SA

Table 7: Employment provided by SMMEs

	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	6 068 027	60.3%	6 902 724	60.5%	7 002 433	60.4%	99 708	1.4%	934 405	15.4%
Informal sector	974 087	9.7%	1 377 109	12.1%	1 182 252	10.2%	-194 857	-14.1%	208 165	21.4%
Agriculture	468 622	4.7%	465 184	4.1%	753 953	6.5%	288 770	62.1%	285 331	60.9%
Private households	0	0.0%	1 585	0.0%	614	0.0%	-971	-61.3%	614	n/a
Provided to others	**7 510 737**	**74.6%**	**8 746 602**	**76.6%**	**8 939 252**	**77.1%**	**192 650**	**2.2%**	**1 428 516**	**19.0%**
% Female*		37.9%		37.3%		37.6%		0.3% pts		-0.3% pts
Employer	887 297	8.8%	951 998	8.3%	986 330	8.5%	34 332	3.6%	99 033	11.2%
Own account worker	1 669 594	16.6%	1 715 301	15.0%	1 667 094	14.4%	-48 206	-2.8%	-2 499	-0.1%
Total	**10 067 628**	**100.0%**	**11 413 901**	**100.0%**	**11 592 677**	**100.0%**	**178 775**	**1.6%**	**1 525 049**	**15.1%**

Source: QLFS of Stats SA   ** of all people working for private enterprises, of which 81% worked for SMMEs over the last 5 years*

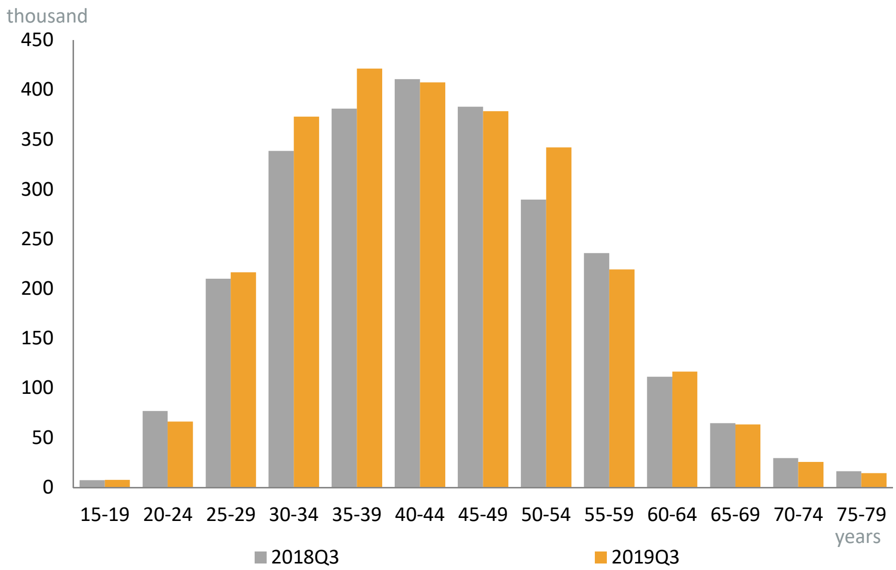
SMME owners by age

Huge jump in the 50-54 age group, and less so in the 30-39 age cohorts

In the year up to 2019Q3 there was a substantial increase in the number of SMME owners aged 30 to 39 (up 10%) and 50 to 54 (up 18%). There were no similar declines in the preceding age groups, implying that the growth in these respective groups were new entrants leaving or losing their jobs at large enterprises.

Of note is the 14% decline in the 20 to 24 age group. This is now at its lowest number since 2014. There was also a 13% decline in the age groups older than 70.

Table 8: SMME owners by age



Source: QLFS of Stats SA

Table 9: SMME owners by age

	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	7 574	0.3%	7 866	0.3%	7 779	0.3%	-87	-1.1%	205	2.7%
20-24	77 084	3.0%	92 712	3.5%	66 435	2.5%	-26 277	-28.3%	-10 649	-13.8%
25-29	210 143	8.2%	204 920	7.7%	216 591	8.2%	11 671	5.7%	6 448	3.1%
30-34	338 517	13.2%	378 055	14.2%	373 005	14.1%	-5 050	-1.3%	34 488	10.2%
35-39	381 317	14.9%	389 646	14.6%	421 588	15.9%	31 942	8.2%	40 271	10.6%
40-44	410 868	16.1%	404 633	15.2%	407 630	15.4%	2 998	0.7%	-3 238	-0.8%
45-49	383 232	15.0%	399 896	15.0%	378 584	14.3%	-21 312	-5.3%	-4 648	-1.2%
50-54	289 646	11.3%	337 678	12.7%	342 264	12.9%	4 586	1.4%	52 618	18.2%
55-59	235 757	9.2%	223 022	8.4%	219 362	8.3%	-3 659	-1.6%	-16 395	-7.0%
60-64	111 593	4.4%	119 499	4.5%	116 668	4.4%	-2 831	-2.4%	5 075	4.5%
65-69	64 882	2.5%	60 934	2.3%	63 366	2.4%	2 432	4.0%	-1 516	-2.3%
70-74	29 733	1.2%	35 510	1.3%	25 736	1.0%	-9 775	-27.5%	-3 997	-13.4%
75-79	16 546	0.6%	12 928	0.5%	14 416	0.5%	1 488	11.5%	-2 130	-12.9%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**-13 874**	**-0.5%**	**96 533**	**3.8%**

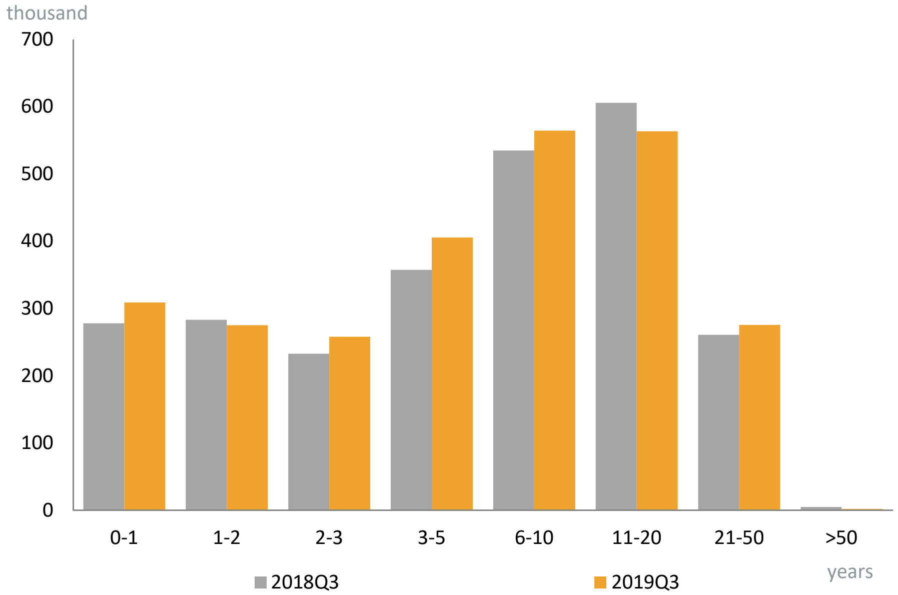
Source: QLFS of Stats SA

Enterprise age of SMMEs

Most SMMEs only reported once older than 3 years

As before, the total number of SMMEs increased by more (i.e. around 96 500) than the new entries (around 31 000; age 0-1 years). This divergence implies that many workers have side-line businesses, mitigating the risk of losing their jobs. It is only once they do lose their job that they apparently report/register their businesses as their source of employment. If so, one can expect this pattern to be prevalent when broader employment opportunities decline. *Also, there may be employees (who have not lost their job) running side-line businesses that are not accounted for in the proxy estimate of the number of SMMEs.*

Table 10: Enterprise age of SMMEs



Source: QLFS of Stats SA

Table 11: Enterprise age of SMMEs

	2018Q3		2019Q2		2019Q3		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%
0-1	277 868	10.9%	221 208	8.3%	309 050	11.6%	31 183	11.2%
1-2	283 041	11.1%	325 806	12.2%	275 242	10.4%	-7 799	-2.8%
2-3	232 708	9.1%	244 920	9.2%	257 982	9.7%	25 274	10.9%
3-5	357 403	14.0%	399 248	15.0%	405 562	15.3%	48 159	13.5%
6-10	534 679	20.9%	574 854	21.6%	564 515	21.3%	29 836	5.6%
11-20	605 537	23.7%	611 287	22.9%	563 251	21.2%	-42 286	-7.0%
21-50	260 739	10.2%	286 217	10.7%	275 844	10.4%	15 105	5.8%
>50	4 917	0.2%	3 760	0.1%	1 978	0.1%	-2 939	-59.8%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**96 533**	**3.8%**

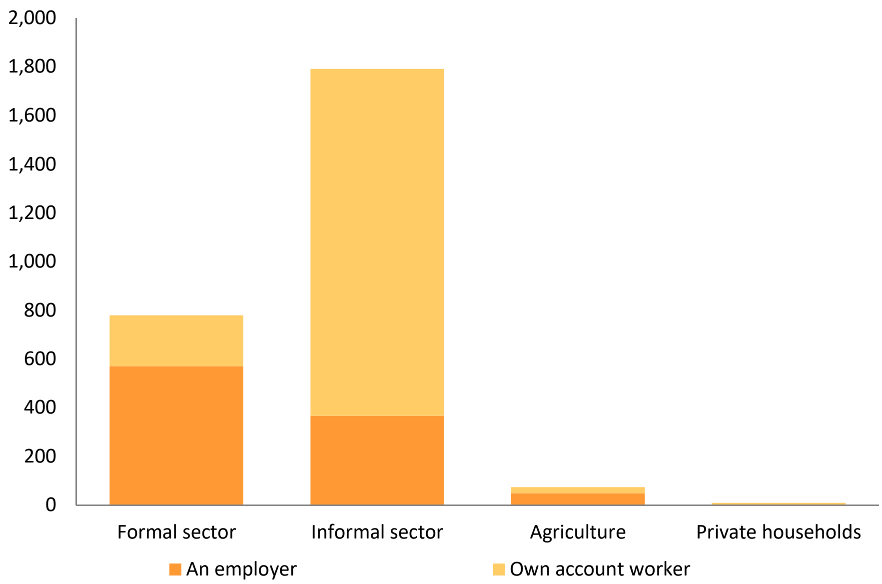
Source: QLFS of Stats SA

SMMEs by formal and informal sectors

More than two in three SMMEs are informal

The share of SMMEs operating in the informal sector stood at 68% in the third quarter of 2019, with the share operating in the formal sector at 29%. These ratios have been very stable since 2010. Most SMME owners in the formal sector employ other people, whilst the majority in the informal sector are own account workers. Of all SMME owners, 37% also employ other people.

Table 12: SMMEs by formal and informal sector in 2019Q1



Source: QLFS of Stats SA

Table 13: Formal and informal SMMEs in 2019Q3

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	570 627	366 738	48 350	614	**986 330**	37.2%
Own account worker	208 670	1 424 693	25 199	8 534	**1 667 094**	62.8%
Total	**779 297**	**1 791 431**	**73 549**	**9 148**	**2 653 424**	**100.0%**
% per sector	29.4%	67.5%	2.8%	0.3%	100%	

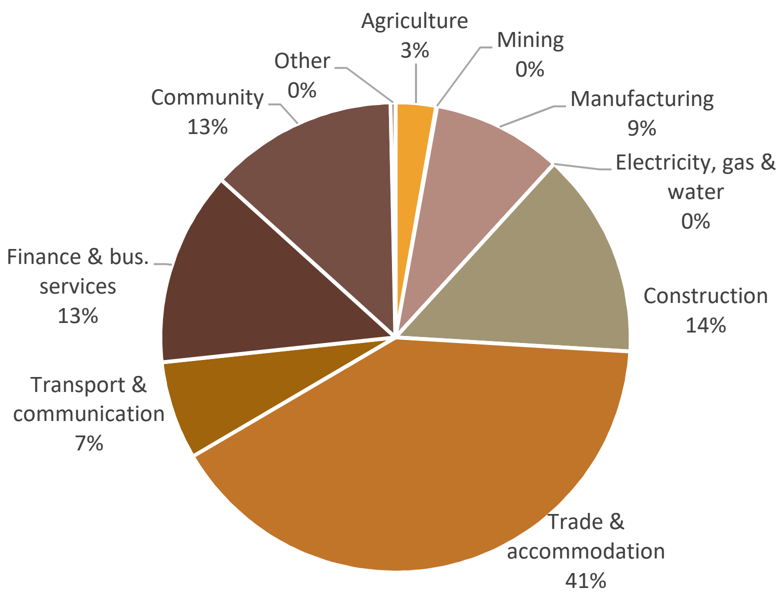
Source: QLFS of Stats SA

SMMEs by industry

Large increase in the manufacturing sector

The change in the industry mix was insignificant over the year up to 2019Q3. By far the most SMMEs (41%) still operate in the trade and accommodation sector. This is followed by the construction sector (14%) and business and community services (13% each). Among these main industries it was only the community services sector where fewer SMMEs operated compared to a year ago. The manufacturing sector posted surprisingly high growth (12%) in the number of SMMEs. *Growth rates in the smaller sectors tend to be volatile, probably due to sampling noise.*

Table 14: SMMEs by industry in 2019Q1



Source: QLFS of Stats SA

Table 15: SMMEs by industry

Industry	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	55 931	2.2%	48 734	1.8%	73 549	2.8%	24 814	50.9%	17 618	31.5%
Mining	5 651	0.2%	3 241	0.1%	2 226	0.1%	-1 015	-31.3%	-3 425	-60.6%
Manufacturing	211 535	8.3%	232 769	8.7%	236 778	8.9%	4 009	1.7%	25 243	11.9%
Electricity, gas & water	1 732	0.1%	712	0.0%	0	0.0%	-712	-100.0%	-1 732	-100.0%
Construction	375 646	14.7%	368 643	13.8%	376 254	14.2%	7 611	2.1%	608	0.2%
Trade & accommodation	1 032 063	40.4%	1 105 053	41.4%	1 076 910	40.6%	-28 143	-2.5%	44 847	4.3%
Transport & communication	173 351	6.8%	188 464	7.1%	179 650	6.8%	-8 814	-4.7%	6 299	3.6%
Finance & bus. services	339 113	13.3%	342 789	12.9%	355 278	13.4%	12 489	3.6%	16 166	4.8%
Community	351 247	13.7%	364 446	13.7%	343 632	13.0%	-20 814	-5.7%	-7 615	-2.2%
Other	10 624	0.4%	12 448	0.5%	9 148	0.3%	-3 301	-26.5%	-1 476	-13.9%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**-13 874**	**-0.5%**	**96 533**	**3.8%**

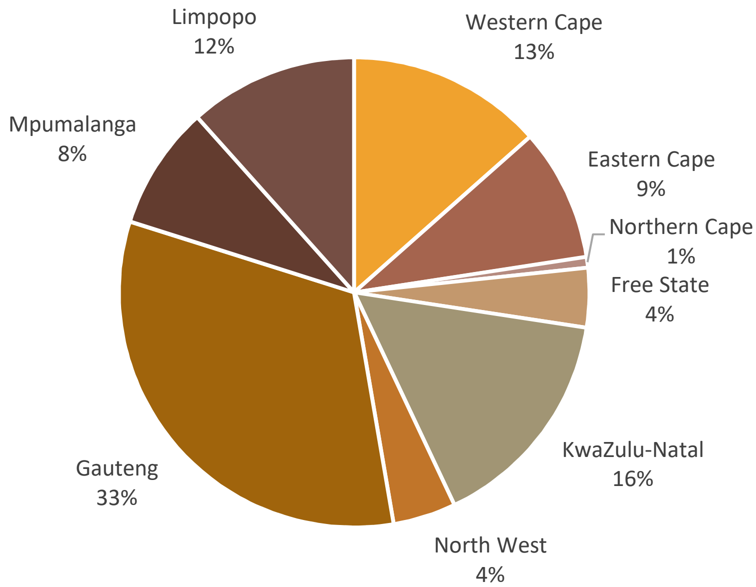
Source: QLFS of Stats SA

SMMEs by province

Western Cape gains SMMEs due to job losses in the province

Nearly a third of SMMEs operated in Gauteng in the third quarter of 2019, followed by close to 16% in KwaZulu-Natal and 13% in the Western Cape. Growth in the Western Cape was a staggering 37% over this period, with the province gaining more than 96 000 SMMEs. This gain coincides with an even greater number of job losses in the formal sector of the Western Cape economy (109 000 jobs). Gauteng experienced the largest decline in number of SMMEs (close to 24 000; or down 2.7%), with close to 29 000 formal sector jobs being created. The Northern Cape suffered the greatest proportional decline (30%), probably as the severe drought there forced many farmers and agriculturally-linked SMMEs out of business.

Table 16: SMME owners by province



Source: QLFS of Stats SA

Table 17: SMME owners by province

Occupation	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	260 439	10.2%	317 330	11.9%	356 878	13.4%	39 548	12.5%	96 438	37.0%
Eastern Cape	210 986	8.3%	205 211	7.7%	242 367	9.1%	37 156	18.1%	31 381	14.9%
Northern Cape	27 760	1.1%	23 683	0.9%	19 365	0.7%	-4 317	-18.2%	-8 394	-30.2%
Free State	101 709	4.0%	115 134	4.3%	108 275	4.1%	-6 859	-6.0%	6 567	6.5%
KwaZulu-Natal	400 967	15.7%	431 610	16.2%	413 636	15.6%	-17 974	-4.2%	12 668	3.2%
North West	125 046	4.9%	103 014	3.9%	114 620	4.3%	11 606	11.3%	-10 426	-8.3%
Gauteng	888 120	34.7%	919 100	34.5%	864 280	32.6%	-54 820	-6.0%	-23 840	-2.7%
Mpumalanga	226 230	8.8%	233 574	8.8%	225 724	8.5%	-7 850	-3.4%	-506	-0.2%
Limpopo	315 634	12.3%	318 643	11.9%	308 279	11.6%	-10 364	-3.3%	-7 355	-2.3%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**-13 874**	**-0.5%**	**96 533**	**3.8%**

Source: QLFS of Stats SA

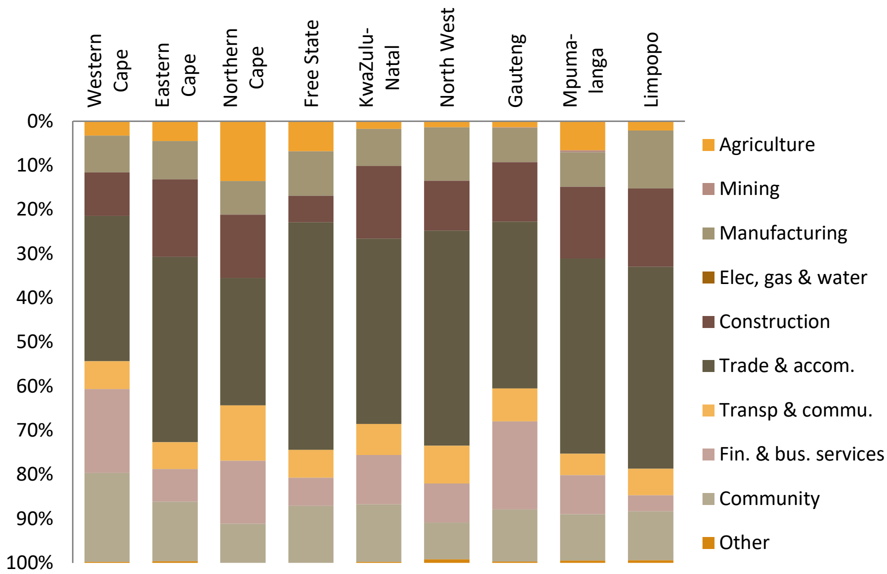
SMMEs by industry and province

Western Cape and Northern Cape have different profiles

The industry distribution of most provinces is somewhat similar; the trade and accommodation sector (internal trade) is the largest in all the provinces. This sector accounted for 41% of SMMEs in the country, but is smaller in the Western Cape and the Northern Cape (33% and 29% respectively). These two provinces, in turn, have unique features; the Northern Cape is more involved in agriculture and the Western Cape in financial, business and community services. Gauteng has a large business sector.

The 96 000+ increase in the Western Cape was mainly in trade & accommodation, business and community services, though manufacturing and construction exhibited similar growth rates.

Table 18: SMMEs by industry in 2019Q3



Source: QLFS of Stats SA

Table 19: SMMEs by province and industry in 2019Q3

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpuma-langa	Limpopo	Total
Agriculture	11 458	10 869	2 623	7 313	7 172	1 532	11 528	14 742	6 312	**73 549**
Mining	0	0	0	0	0	0	1 186	1 041	0	**2 226**
Manufacturing	29 709	21 073	1 473	10 930	34 524	13 919	66 978	17 606	40 564	**236 778**
Elec, gas & water	0	0	0	0	0	0	0	0	0	**0**
Construction	35 160	42 370	2 777	6 527	68 194	12 893	116 904	36 676	54 755	**376 254**
Trade & accom.	117 626	101 772	5 579	55 807	173 639	55 869	325 922	99 892	140 804	**1 076 910**
Transp & commu.	22 475	14 759	2 435	6 795	28 897	9 804	65 006	10 904	18 575	**179 650**
Fin. & bus. services	67 782	17 930	2 764	6 923	46 315	10 093	172 194	19 936	11 342	**355 278**
Community	71 874	32 599	1 714	13 981	53 949	9 608	102 025	23 768	34 113	**343 632**
Other	795	994	0	0	945	903	2 538	1 159	1 813	**9 148**
Total	**356 878**	**242 367**	**19 365**	**108 275**	**413 636**	**114 620**	**864 280**	**225 724**	**308 279**	**2 653 424**

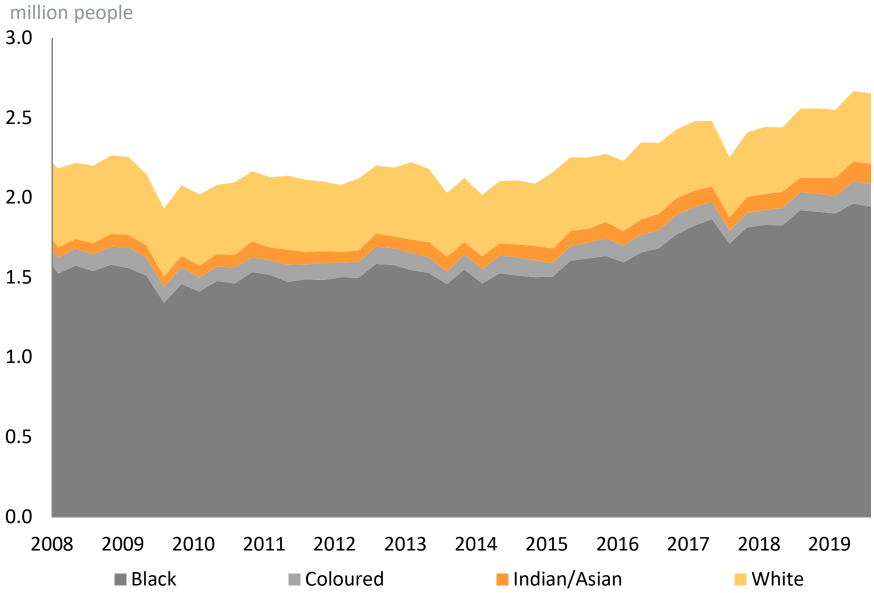
Source: QLFS of Stats SA

SMMEs by population group

The number of Indian/Asian-owned SMMEs up strongly

There was a notable shift in the racial composition of SMME ownership in the year up to 2019Q3, with the number of Indian/Asian owners up around 36 000 (or 39%), followed by coloureds up 32 000 (or 28%). Consequently, the proportion of black and white SMME ownership declined somewhat despite an increase in their absolute numbers. However, at 73%, blacks remain by far the largest group of SMME owners in South Africa.

Table 20: Number of SMMEs by population group



Source: QLFS of Stats SA

Table 21: SMME owners by population group

Race	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	92 180	3.6%	122 611	4.6%	128 310	4.8%	5 699	4.6%	36 130	39.2%
Coloured	112 498	4.4%	141 432	5.3%	144 496	5.4%	3 063	2.2%	31 998	28.4%
White	431 632	16.9%	440 993	16.5%	440 357	16.6%	-637	-0.1%	8 725	2.0%
Black	1 920 582	75.1%	1 962 263	73.6%	1 940 262	73.1%	-22 000	-1.1%	19 680	1.0%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**-13 874**	**-0.5%**	**96 533**	**3.8%**

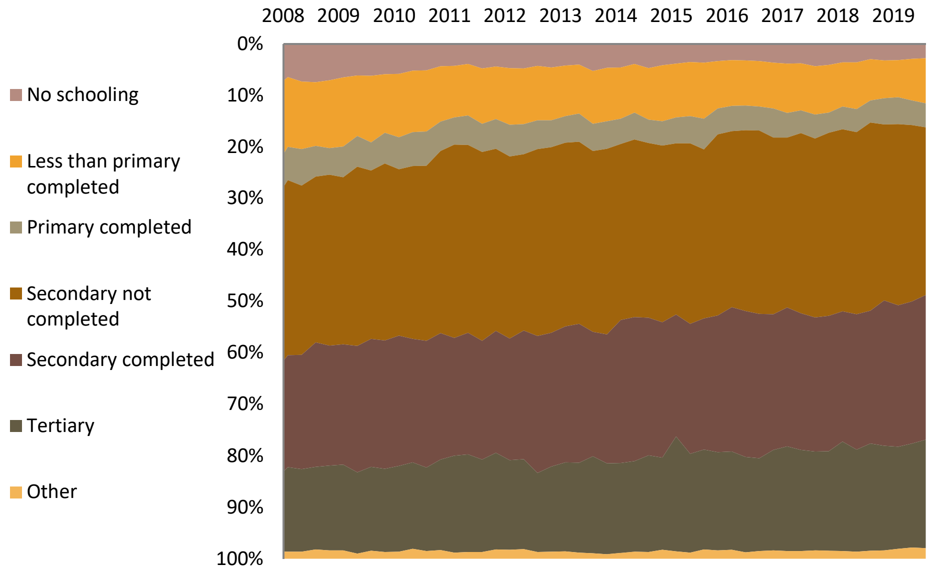
Source: QLFS of Stats SA

SMME owners by educational attainment

Educational attainment improves

The educational attainment of SMME owners continued with its gradual improvement over the year up to the third quarter of 2019. Nearly half of SMME owners have completed high school or more. Despite this improvement, there was also an increase in the proportion of those who have very little educational attainment. The biggest decline was in the group who dropped out of high school.

Table 22: SMME owners by education group



Source: QLFS of Stats SA

Table 23: SMME owners by education group

Schooling	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	76 913	3.0%	77 433	2.9%	73 713	2.8%	-3 720	-4.8%	-3 200	-4.2%
Less than primary completed	204 914	8.0%	216 590	8.1%	232 247	8.8%	15 657	7.2%	27 333	13.3%
Primary completed	108 653	4.2%	126 812	4.8%	124 540	4.7%	-2 272	-1.8%	15 886	14.6%
Secondary not completed	935 522	36.6%	914 266	34.3%	863 905	32.6%	-50 361	-5.5%	-71 617	-7.7%
Secondary completed	658 976	25.8%	734 738	27.5%	745 217	28.1%	10 479	1.4%	86 240	13.1%
Tertiary	532 653	20.8%	538 641	20.2%	559 040	21.1%	20 399	3.8%	26 387	5.0%
Other	39 260	1.5%	58 819	2.2%	54 763	2.1%	-4 055	-6.9%	15 504	39.5%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**-13 874**	**-0.5%**	**96 533**	**3.8%**

Source: QLFS of Stats SA

SMMEs by occupation

The sustained improvement in skills composition was somewhat mixed

There were no significant changes in the occupational distribution of SMME owners. While the soft longer-term trend of higher skills continued, this was somewhat mixed in the year up to 2019Q3. The number of managers (up by 19 300, or 3%) and technical and associate professionals (up by 23 500, or 16%) grew on the one hand; on the other hand, SMME owners operating in elementary occupations increased as well (up 30 000, or 5%). Despite the increase in those with tertiary education, owners operating as professionals declined by 8%. Clerks and machine operators also declined.

Table 24: SMMEs by occupation

Source: QLFS of Stats SA

Table 25: SMME owners per occupation group

Occupation	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	610 735	23.9%	667 331	25.0%	630 019	23.7%	-37 312	-5.6%	19 285	3.2%
Professionals	117 079	4.6%	98 446	3.7%	107 500	4.1%	9 054	9.2%	-9 579	-8.2%
Technical and associate professionals	148 551	5.8%	167 511	6.3%	172 039	6.5%	4 528	2.7%	23 488	15.8%
Clerks	16 976	0.7%	20 378	0.8%	15 115	0.6%	-5 263	-25.8%	-1 861	-11.0%
Service, shop and market workers	375 759	14.7%	379 924	14.2%	393 747	14.8%	13 823	3.6%	17 988	4.8%
Skilled agricultural and fishery workers	32 032	1.3%	27 382	1.0%	33 037	1.2%	5 655	20.7%	1 005	3.1%
Craft and related trades workers	528 290	20.7%	548 419	20.6%	549 026	20.7%	607	0.1%	20 735	3.9%
Plant & machine operators	87 057	3.4%	80 560	3.0%	82 197	3.1%	1 637	2.0%	-4 860	-5.6%
Elementary occupations	638 706	25.0%	677 347	25.4%	668 485	25.2%	-8 862	-1.3%	29 780	4.7%
Domestic workers	1 706	0.1%	0	0.0%	2 259	0.1%	2 259	n/a	553	32.4%
Total	**2 556 891**	**100.0%**	**2 667 299**	**100.0%**	**2 653 424**	**100.0%**	**-13 874**	**-0.5%**	**96 533**	**3.8%**

Source: QLFS of Stats SA

Financial data of SMEs

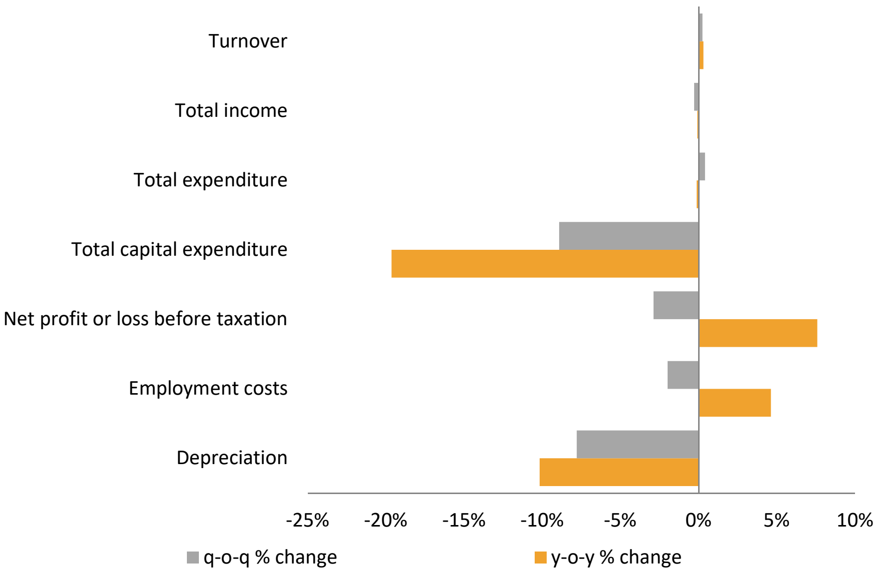
From the Quarterly Financial Survey

Profitability of SMEs

SME profits recover due to aggressive cost cuts

The combined turnover of SMEs increased by only 0.3% y-o-y in 2019Q3, which is significantly below the 4.9% turnover growth of large enterprises and the inflation rate of 4.1% over the same period. This stagnant level in turnover forced SMEs to also contain spending by cutting "other" expenditure. Capital spending was also reduced significantly, albeit that this constitutes a small share of total expenses. As a result, combined profit levels improved somewhat (7.6%). Given the fact that the number of SMMEs grew by 3.8% over the corresponding period, the average profit level of SMEs probably improved. Whereas the employment costs of SMEs increased by 4.6% over this period, SMME employment grew by close to 19%. *This implies that the average pay level is significantly lower*.

Table 26: Change per financial indicator: 2019Q3



Source: QFS of Stats SA

Table 27: Financial indicators of SMEs

R million	2018Q3	2019Q2	2019Q3	q-o-q % change	y-o-y % change
Depreciation	R 13 027	R 12 691	R 11 703	-7.8%	-10.2%
Employment costs	R 163 581	R 174 604	R 171 155	-2.0%	4.6%
Net profit or loss before taxation	R 66 022	R 73 130	R 71 033	-2.9%	7.6%
Total capital expenditure	R 16 419	R 14 487	R 13 195	-8.9%	-19.6%
Total expenditure	R 900 194	R 895 401	R 899 187	0.4%	-0.1%
Total income	R 967 467	R 969 472	R 966 680	-0.3%	-0.1%
Turnover	R 933 412	R 933 848	R 936 279	0.3%	0.3%

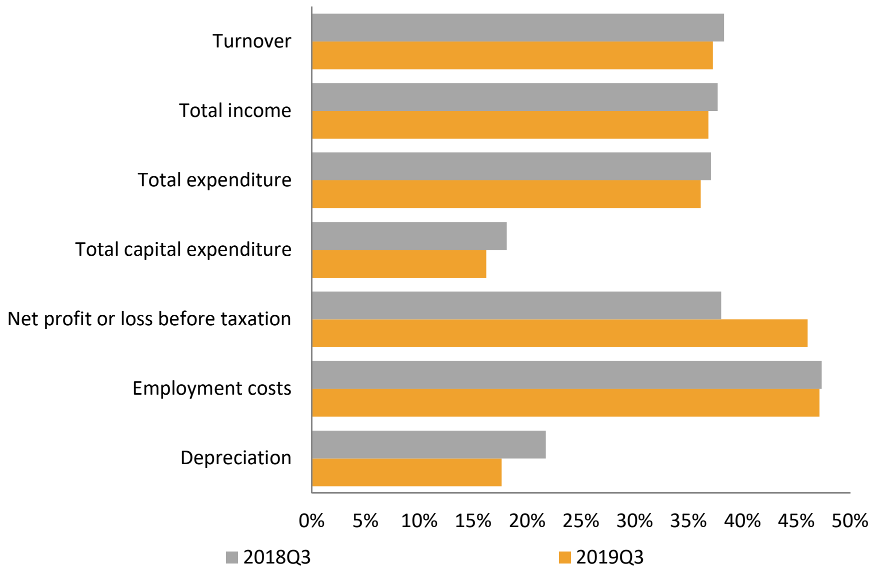
Source: QFS of Stats SA

Economic contribution of SMEs

SMEs more adaptive in difficult times

The share that SMEs contribute to the turnover of all enterprises* declined slightly from 38% to 37% in the year up to 2019Q3. In contrast, its share of net profit increased from 38% to 46%, as SMMEs managed cutting costs deeper compared to the larger enterprises. The SME share of capital investment slid marginally from 18% to 16%. *These numbers suggest that SMEs were more responsive to the current difficult economic environment compared to the larger enterprises*.

Table 28: SME contribution to all enterprises* by indicator



Source: QFS of Stats SA

Table 29: SME contribution to all enterprises* by indicator

Indicator	2018Q3	2019Q2	2019Q3	q-o-q change	y-o-y change
Depreciation	21.7%	19.4%	17.6%	-1.8% pts	-4.1% pts
Employment costs	47.4%	47.7%	47.2%	-0.5% pts	-0.2% pts
Net profit or loss before taxation	38.0%	47.7%	46.1%	-1.6% pts	8% pts
Total capital expenditure	18.1%	18.1%	16.2%	-1.9% pts	-1.9% pts
Total expenditure	37.1%	36.4%	36.1%	-0.3% pts	-1% pts
Total income	37.7%	37.4%	36.8%	-0.5% pts	-0.9% pts
Turnover	38.3%	37.8%	37.3%	-0.5% pts	-1% pts

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

Table 30: Financial indicators of SMEs by industry

R million	2018Q3	2019Q2	2019Q3	q-o-q % change	y-o-y % change
Employment costs	**R 163 581**	**R 174 604**	**R 171 155**	**-2.0%**	**4.6%**
Community, social and personal services industry	R 9 054	R 9 123	R 9 029	-1.0%	-0.3%
Construction industry	R 9 075	R 11 430	R 11 264	-1.5%	24.1%
Electricity, gas and water supply industry	R 318	R 565	R 565	0.0%	77.7%
Manufacturing industry	R 41 974	R 43 829	R 44 281	1.0%	5.5%
Mining and quarrying industry	R 2 958	R 4 937	R 4 897	-0.8%	65.6%
Real estate and other business services industry	R 55 827	R 62 875	R 58 529	-6.9%	4.8%
Transport industry	R 10 701	R 10 285	R 10 734	4.4%	0.3%
Trade industry	R 33 674	R 31 560	R 31 856	0.9%	-5.4%
Net profit or loss before taxation	**R 66 022**	**R 73 130**	**R 71 033**	**-2.9%**	**7.6%**
Community, social and personal services industry	R 1 206	R 3 114	R 2 849	-8.5%	136.2%
Construction industry	R 2 188	R 1 086	R 1 102	1.5%	-49.6%
Electricity, gas and water supply industry	R 1 550	R 103	R 1 431	1289.3%	-7.7%
Manufacturing industry	R 16 921	R 17 772	R 18 245	2.7%	7.8%
Mining and quarrying industry	R 2 075	-R 565	-R 1 861	229.4%	-189.7%
Real estate and other business services industry	R 12 096	R 28 135	R 24 242	-13.8%	100.4%
Transport industry	R 3 864	R 828	R 4 434	435.5%	14.8%
Trade industry	R 26 122	R 22 657	R 20 591	-9.1%	-21.2%
Total capital expenditure	**R 16 419**	**R 14 487**	**R 13 195**	**-8.9%**	**-19.6%**
Community, social and personal services industry	R 573	R 485	R 464	-4.3%	-19.0%
Construction industry	R 160	R 265	R 401	51.3%	150.6%
Electricity, gas and water supply industry	R 125	R 67	R 35	-47.8%	-72.0%
Manufacturing industry	R 3 819	R 5 262	R 5 136	-2.4%	34.5%
Mining and quarrying industry	R 1 509	R 1 430	R 708	-50.5%	-53.1%
Real estate and other business services industry	R 4 941	R 2 634	R 1 985	-24.6%	-59.8%
Transport industry	R 3 137	R 2 734	R 2 468	-9.7%	-21.3%
Trade industry	R 2 155	R 1 610	R 1 998	24.1%	-7.3%
Total expenditure	**R 900 194**	**R 895 401**	**R 899 187**	**0.4%**	**-0.1%**
Community, social and personal services industry	R 28 218	R 26 567	R 26 336	-0.9%	-6.7%
Construction industry	R 46 022	R 48 755	R 51 350	5.3%	11.6%
Electricity, gas and water supply industry	R 3 946	R 6 184	R 5 471	-11.5%	38.6%
Manufacturing industry	R 235 883	R 226 213	R 228 905	1.2%	-3.0%
Mining and quarrying industry	R 12 851	R 20 505	R 21 508	4.9%	67.4%
Real estate and other business services industry	R 150 895	R 156 909	R 150 704	-4.0%	-0.1%
Transport industry	R 52 829	R 61 457	R 62 599	1.9%	18.5%
Trade industry	R 369 550	R 348 811	R 352 314	1.0%	-4.7%
Total income	**R 967 467**	**R 969 472**	**R 966 680**	**-0.3%**	**-0.1%**
Community, social and personal services industry	R 29 486	R 29 630	R 29 244	-1.3%	-0.8%
Construction industry	R 48 455	R 50 240	R 52 482	4.5%	8.3%
Electricity, gas and water supply industry	R 5 491	R 6 250	R 6 891	10.3%	25.5%
Manufacturing industry	R 255 602	R 239 288	R 242 157	1.2%	-5.3%
Mining and quarrying industry	R 14 546	R 19 747	R 19 480	-1.4%	33.9%
Real estate and other business services industry	R 161 788	R 185 301	R 173 698	-6.3%	7.4%
Transport industry	R 56 729	R 62 313	R 66 953	7.4%	18.0%
Trade industry	R 395 370	R 376 703	R 375 775	-0.2%	-5.0%
Turnover	**R 933 412**	**R 933 848**	**R 936 279**	**0.3%**	**0.3%**
Community, social and personal services industry	R 24 149	R 27 556	R 27 275	-1.0%	12.9%
Construction industry	R 47 970	R 49 314	R 51 623	4.7%	7.6%
Electricity, gas and water supply industry	R 5 081	R 5 927	R 6 553	10.6%	29.0%
Manufacturing industry	R 242 881	R 231 908	R 235 251	1.4%	-3.1%
Mining and quarrying industry	R 13 403	R 17 659	R 18 134	2.7%	35.3%
Real estate and other business services industry	R 153 817	R 168 885	R 160 842	-4.8%	4.6%
Transport industry	R 55 186	R 60 723	R 65 359	7.6%	18.4%
Trade industry	R 390 925	R 371 876	R 371 242	-0.2%	-5.0%

Implications for the SMME sector

Already challenging business conditions for SMMEs falling off the cliff…

The 2019Q3 SMME survey portrays challenging broader economic conditions where macroeconomic conditions were already overwhelming sector-specific support measures. **Turnover growth and pay levels in the SMME sector are under pressure despite the growth in numbers and the qualitative improvements in management.** Given developments in the global economy over the past two months and domestically as the COVID-19 outbreak hits SA's shores (5th of March), SMME owners need to prepare for business volumes falling off the cliff.

Key industries such as tourism & hospitality, retail & manufacturing coming to a standstill, with high SA COVID-19 risk …

Given the fact that key industries, such as tourism & hospitality, retail and manufacturing (and others) have for all intents and purposes come to a standstill and could be in this frame of business for the next couple of months, local SMMEs need to prepare for survival. Whilst economic stimulus measures are already being implemented, SA's macroeconomic support arsenal is weak, the economy was already down-and-out and the dimensions of its COVID-19 epidemic could be worse than the international norm thus far. **This transpired during the first three weeks of COVID-19 entering SA's borders, with the number of cases doubling every two days compared to the international average trend of every three days**. The weak public health system, the high HIV and TB infection rates and SA's household settlement patterns are all high-risk factors. **This reality will demand extraordinary cooperation and action by all of society.** In this regard, there has been encouraging evidence during the initial phases of the local epidemic. The absence of deaths three weeks into the local epidemic (with 274 reported cases), suggests the authorities are containing the internal spread of COVID-19.

…. demanding extraordinary cooperation

The truth about crisis is to face and prepare for the danger and to seek and embrace the new opportunities arising

SMMEs are faced with crisis, no doubt. The SA economy was already described as being in crisis (energy supply, fiscally and unemployment) before the outbreak of COVID-19. Former President of the USA, John F. Kennedy was quoted as saying: *"The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger – but recognize the opportunity."* **The first part of this truism, suggests business owners should not underestimate the danger (and be ill-prepared) and the second part suggests one has to seek and embrace the new opportunities always accompanying crisis moments.**

Amidst profound uncertainty, focus on the basics in keeping operations afloat

With the COVID-19 outbreak, the spontaneous multi- and bipartisanship in politics, the care for the commons as communities and people reach out to each other immediately make it clear that positives are lurking; **the world is likely to change permanently**. SMMEs serving or active in any of the following entities/industries have already witnessed the cliff in business volumes: restaurants, cafes, bars, nightclubs, gyms, hotels, theatres, cinemas, art galleries, shopping malls, craft fairs, museums, musicians and other performers, sporting venues (and sports teams), conference venues (and conference producers), cruise lines, airlines, public transportation, private schools, day-care centres, etc. **The key question is what the future holds?**

Whilst much useful and spectacularly deep scientific information on the coronavirus (SARS-Cov-2), causing COVID-19 disease, has become available and sage investment houses and analysts are putting quantitative estimates out, **the scary truth is that we do not really know**. This does not mean that business owners have to capitulate.

Survival guide for SMMEs facing unprecedented difficulty

Some key survival steps to be considered in these highly uncertain times are outlined here: **Communicate clearly and authentically with your team, customers, networks, suppliers and community; embrace change, remain positive and monitor the (business) cycle – the recovery is ahead; limit spending and reduce outlays (renegotiate rental agreements, wage and employment agreements) all in an effort to remain afloat and to be around when the recovery arrives; use all available credit and refinance if possible to see your operations over; apply/install new technologies where possible allowing work from home, for instance, and switch to online purchases/ delivery where possible; exceed customer expectations in "unexpected and helpful ways". Apply scenario planning and remain very alert and nifty regarding risks potentially arising from chain reactions/ knock-on effects**.

SMMEs will also be able to rely on financial and other support

Despite SA's macroeconomic constraints regarding the implementation of support measures, there is more scope in the monetary policy department. Interest rates have already been cut by 100 basis points and will be cut further. The fiscus is in a tight corner; however, support is likely to follow (driving the deficit and national debt levels higher); **the country has entered a war economy**. Furthermore, a greater focus on direct household and business support, SMMEs in particular, is likely to transpire. Finally, one of SA's leading commercial banks has already announced payment holidays and credit support for small firms. **This type of support is likely to multiply.**

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 2017 cut-off points appear in the table below. All enterprises falling below the 'large' category are grouped together to form the SME sector.

Table 31: 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	488	125	50	2
SIC3	Manufacturing	638	163	63	2
SIC4	Electricity, gas and water	638	163	64	2
SIC5	Construction	325	75	38	2
SIC61	Wholesale trade	800	400	75	2
SIC62	Retail trade	488	238	50	2
SIC63	Motor trade	488	238	50	2
SIC64	Accommodation and catering	163	75	64	2
SIC7	Transport	325	163	38	2
SIC8	Real estate & business services	325	163	38	2
SIC9	Community, social and personal	163	75	13	2

Source: QFS of Stats SA