SMME Quarterly Update
1st Quarter 2020

The Small Enterprise Development Agency

SMALL ENTERPRISE DEVELOPMENT AGENCY

an agency of the dsbd

November 2020

Executive summary

The current SMME report still describes conditions in the sector before the impact of economic lockdown, announced on the 27th of March. **The pandemic has been more protracted than expected, with aggressive 2nd waves of COVID-19 disease underway in Europe and elsewhere.** While the economic impacts have been revised milder of late, particularly in the advanced economies, deep uncertainty continues to prevail.

Scientists still only have partial knowledge of the particular strain of the SARS-Cov-2 virus. **It is evident that the pandemic will be present for some time to come.** The economic outlook is therefore uncertain, being subject to individual countries' mitigation strategies, amongst other. **This report continues to provide disproportionate attention to the implications for the SMME sector, resulting from the macroeconomic conditions.** The usual topics, i.e. the outlook for manufacturing, the ICT sector and tourism receive attention in this context.

- **The number of SMMEs grew by 2.5% year-on-year (y-o-y), from 2.55 million in 2019Q1 to 2.61 million in 2020Q1. SMME employment declined by 4% to 10.4 million.** Formal SMMEs shed many jobs, most during the first quarter of the year. Informal SMMEs and agriculture also shed jobs during the first quarter.
- **The SME* share in the total turnover of all enterprises#1 continued to taper, from 38.3% to 37.3% in the year to 2020Q1.**
- The softening 'survivalist' tendency persisted, with the educational attainment and occupational skills indicators improving. **Yet, the SMME sector continues to lose out compared to large enterprises in financial terms. Small firms suffer harsher impacts compared to large firms.** This may only reverse in better macroeconomic conditions.

Uncertainty relating to the trajectory of the pandemic, given the sharp acceleration in daily infection rates, has gripped the attention of the world. In Europe, this has led to a downscaling of 20Q4 economic forecasts, but at the same time fuelling expectations of additional macroeconomic support measures, which could underpin recovery next year. In the USA, the election outcome will be pivotal. China witnessed a V-shaped recovery from its epidemic.

COVID-19 impacts have varied in emerging and developing economies. India and Brazil, amongst other, have been heavily impacted. Many countries on the African continent, including SA, have suffered contained epidemics, albeit exposed to the risk of 2nd waves. **The IMF upgraded its forecast for world GDP growth in view of the stronger-than-expected rebound of economic activity in 20Q3 in particularly the advanced economies, but warns of deep risk for setbacks.**

SA also witnessed a stronger-than-expected rebound from the 20Q2 economic slump and it is to be hoped that this will, in time, be the lower turning point in the macroeconomic retreat since the end of 2013. The government launched its Economic Reconstruction & Recovery Plan (ERRP), which contains realistic policy steps in the right direction. Positive attitudes and cooperation across all divides remain critical. **The BER upgraded its forecast for GDP growth, mainly in respect of next year and the medium term.**

The 2020Q1 SMME survey provides evidence that confirms the economic malaise pre-COVID, as well as leading indicators of the economic crisis that unfolded during the middle quarters of the year. **As in any crisis, new opportunities arise.** While SMMEs will be well-advised to implement risk mitigation strategies to be around when the recovery arrives. **SEDA, in conjunction with government, can play a constructive role in ensuring an environment conducive to free enterprise.** Small manufacturing, success with the release of high-demand spectrum (HDS) and domestic tourism hold real promise.

KEY INDICATORS	2019Q1	2019Q4	2020Q1	q-o-q change	y-o-y change
Number of SMMEs	2,550,540	2,590,489	2,614,063	0.9%	2.5%
Number of formal SMMEs	736,198	749,423	755,265	0.8%	2.6%
Number of informal SMMEs	1,754,443	1,751,167	1,748,031	-0.2%	-0.4%
Number of jobs provided	10,839,819	11,830,042	10,406,070	-12.0%	-4.0%
% operating in trade & accommodation	41.3%	38.1%	38.0%	-0.1% pts	-3.3% pts
% operating in community services	12.7%	14.1%	14.0%	-0.1% pts	1.3% pts
% operating in construction	13.9%	14.0%	14.4%	0.4% pts	0.6% pts
% operating in fin. & business services	13.3%	14.0%	13.4%	-0.6% pts	0.1% pts
% black owned formal SMMEs	74.5%	74.7%	74.8%	0% pts	0.2% pts
% contribution of SMEs* to turnover of all enterprises#	38.3%	37.1%	37.3%	0.2% 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.

Table of Contents

Economic background

International

Aggressive 2nd waves of COVID-19 infection in key countries grip the world …

More than seven months following the World Health Organisation (WHO) declaration of the SARS-Cov-2 epidemic, which originated in the Hubei Province of China, a pandemic, the world is still gripped by it. **An aggressive second wave of infections have broken out in key European countries and elsewhere, realising the much-feared possibility of multiple phases of the pandemic**. These developments have led to nervousness on the world's financial markets, threatening to undo the swift financial recoveries from the first-round impact.

Unprecedented macroeconomic support in the main advanced economies and successful mitigation strategies in China and other East-Asian countries have contributed to a swift return of international investor confidence. **The IMF actually upgraded its global economic forecasts in October – currently anticipating less contraction in global GDP in 2020 (4.4%) and a slightly stronger recovery next year (5.2%) and over the medium term**. Views are almost unanimous that the medium-term road to full economic recovery will – in the IMF's words – *"be a slow and long ascent"*, amidst deep risk of setbacks on the way.

… as scientists continue to fight mapping the virus

Scientists continue to battle fully mapping the SARS-Cov-2 strain of the coronavirus. **At best we only have a partial understanding, which is at the root of the uncertainty and risk perceptions**. Progress is being made and there is hope of effective vaccines and/or treatments on the horizon. Until such time, the possibility of multiple phases is likely to exert adverse economic impacts.

Health versus economic considerations is no binary choice

Many European governments have responded with renewed lockdown measures in containing the spread of COVID-19 disease. The forceful action is intended to instil behavioural change. It may have to be accepted that in view of the likelihood of the coronavirus being present for a long time to come, the only viable mitigation strategy may be one where individuals and communities take responsibility. **Basic measures, such as the wearing of masks and social distancing, and including intervention in contact-sensitive sectors may be the preferred route**. The issue whether to emphasise health versus economic considerations (i.e. the loss of livelihoods) is not a binary choice. Health objectives will be served by keeping the economy open; the economy will be better off if the basic mitigation measures are applied. **It is apparent that renewed rounds of COVID-19 outbreaks are accompanied by irresponsible, sometimes outright reckless, behaviour**. Locking down the economy in rectifying such behaviour could be counterproductive.

Regarding the world economic outlook, the renewed COVID-19 outbreak in Europe is not a good leading indicator. The fourth quarter outlook for Europe's GDP growth is being scaled down following the generally stronger-than-expected rebounds during the third quarter. Encouragingly, expectations are positive that renewed macroeconomic support measures will aid an even better recovery next year. **The IMF forecasts a contraction of 8.3% in 2020, followed by a recovery of 5.2% next year in the Euro area.** The US economy's resilience is also being tested by the high level of daily

The world economic outlook characterised by uncertainty and therefore risk

COVID-19 infections and renewed outbreaks in some regions. The US election outcome will also be an important beacon in the economy's road to recovery. Investor market sentiment has responded positively to the polls suggesting a sizeable winning margin for Mr Biden, with the Democrats possibly taking both Houses. This is fuelling hopes of additional macroeconomic support and easier geo-political relations, which will underpin economic recovery. **The IMF projects a contraction of 4.3% in US real GDP in 2020, followed by a 3.1% recovery next year**. The Chinese economy has staged an almost perfect V-shaped recovery, albeit that the rapidly growing debt levels cast some shadow over the medium-term outlook.

Emerging and developing countries hit hard by the global recession

The pandemic's course and its economic impact on emerging and developing economies have been differential, with countries such as Brazil and India being hit hard, while others, on both the Latin American (e.g. Ecuador) and African continents (generally) experiencing contained epidemics, specifically in terms of mortality. Nonetheless, the adverse economic impacts tied to the global recession, falls in key commodity prices (e.g. oil), travel restrictions impacting tourism and lower remittances have been very serious for a range of low-income countries. The economic consequences are more serious in less diversified economies. Important changes in the international financial architecture are bolstering hopes for sustained recoveries in the impacted economies. **The IMF projects a contraction of 3% in Sub-Saharan Africa GDP, with a recovery of 3.1% next year.**

South Africa

The contraction in SA's GDP (16.4% in absolute terms) during the second quarter was accompanied by sharp declines in employment (2.2 million) and tax revenues (measured at 22%). This dramatic contraction in general economic activity was followed – in line with experiences elsewhere – with a significantly stronger-than-expected rebound during the third quarter.

The dramatic collapse of economic activity in 20Q2 was followed by a rebound in 20Q3

The swift recovery in international financial markets surely provided some impetus. Other factors also assist in explaining the rebound. These include, strong consumer pent-up demand, the accelerated roll-out of social grants to households with a high marginal propensity to consume and relatively aggressive monetary policy easing. Prime overdraft interest rates were cut by 300 basis points during the course of the year.

Yet, economic activity remains well below pre-COVID levels …

The rebound in economic activity is encouraging and will boost sentiment when the numbers are released later this month. **It is necessary to not become too sanguine regarding the economic outlook.** Even a 50% annualised rebound implies an absolute improvement in the level of economic activity of only 10%. This means that economic activity will still be well short of pre-COVID levels. At least it would signal that the economy may have turned the corner. This will, to a large extent, depend on global economic developments and domestic progress with the implementation of structural reform policies going forward.

Currently, the key macroeconomic concerns include deep uncertainty regarding the trajectory of the COVID-19 pandemic. The reinstatement of economic lockdowns (e.g. in various Euro area countries,

... and is troubled by important macroeconomic concerns

the UK and the USA) does not bode well. There are also real concerns that a substantial part of the economic contraction may involve permanent damage to SA's productive capacity (e.g. in the tourism and hospitality sector). Furthermore, the pre-existing supply constraints, e.g. the likelihood of electricity supply disruptions, the weak public finances and the adverse impact of remaining lockdown measures remain part of the economic outlook.

SA faces a treacherous transition

The question is how additional spending support in aid of the economic recovery will be affected without compromising fiscal sustainability further? How the policy authorities navigate this economic trade-off will be pivotal regarding the economic outlook. **This is surely one of the most challenging and complex transitions SA has faced.**

Third quarter developments supported the outlook

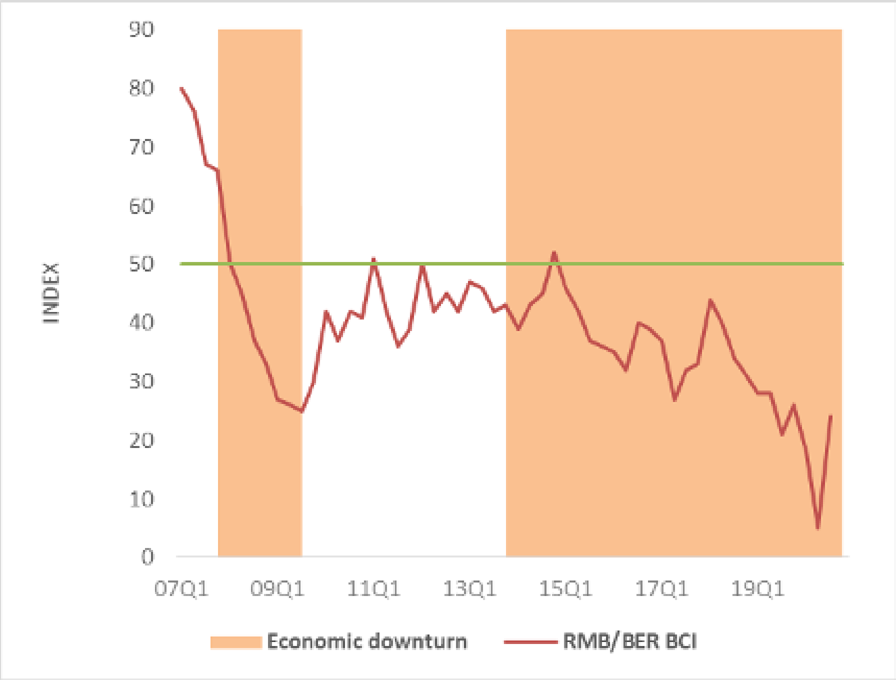
Financially, 20Q3 (and early 20Q4) developments, have been favourable, supporting the outlook. SA benefited from the safe-haven demand for precious metals and China's V-shaped economic recovery. Combined with the abrupt fall in imports, the trade account has registered surpluses for five consecutive months (measuring R33.5 billion in October). The rand has benefited as a result, also due to the recovery in financial markets and a return of a risk-on international investment environment. This assists in explaining significantly lower-than-expected inflation following the sharp currency depreciation during the first part of April. The large negative output gap and low global inflation, combined with SA's disciplined monetary policies, ensured that inflation is no near-term concern (CPI inflation at 3% in September; PPI inflation at 2.5%). This allows monetary policy to remain accommodative. **Whether further interest rate cut(s) will transpire will be determined by SA's fiscal trajectory**. Unfortunately, the MTBPS did not instil confidence, with medium-term debt projections firmly on the side of concern.

The general consensus is that the medium-term economic recovery will be slow, long and arduous

The basic outlook is premised on success with structural reform as, amongst other, proposed in the government's ERRP. **The economy is projected to contract by 8.3% in 2020 (a slight upgrade of previous forecasts) and recover by 3.4% in 2021, with average growth of 1.9% per annum over the period 2022-25** (also an upgrade from previous forecasts). It has become an almost generally accepted consensus that the post-COVID-19 economic recoveries will follow *'a slow and long ascent'* (to paraphrase the IMF). The BER's current projection is for real GDP to only return to pre-crisis levels by 2024.

Business confidence recovers to 24 index points from a record low of 5 in 20Q2

Table 1: RMB/BER business confidence index



Source: BER

SMME quarterly overview for 2020Q1

The number of SMMEs continues to grow, but financial performance remained under pressure before the pandemic impact

The 2020Q1 survey describes the conditions in the SMME sector largely before the pandemic impacted. The adverse impact of the weakening domestic economic conditions was already evident in the SMME sector tendencies and this remained so. **The most significant result from the latest few surveys, is that the numbers continue to expand, but financially the sector remains under severe pressure.**

... and SMME employment began to decline

The number of SMMEs grew by 2.5% in the year to 2020Q1, with the growth again being stronger in the number of employers (4.6%; mainly in the formal sector), compared to own account workers (expanding by 1.4%; mainly in the informal sector). This pattern was also reported in the previous survey. **What is different this time around, was that particularly employers in the SMME sector retrenched workers, leading to an overall decline in SMME employment**. In the previous survey, sharp growth in SMME employment was reported[1]. Total SMME employment declined from 10.8 million a year ago (or 66% of aggregate employment) to 10.4 million (or 63%) in 2020Q1. Close to 60% of employment in the SMME sector is in the formal sector. It has to be expected that the decline in, not only employment in the sector, but also the number of SMMEs, would have continued during the middle quarters of the year in view of the dramatic pandemic impact.

While the Labour Force Survey (LFS) indicated growth in aggregate employment between 2019Q1 and 2020Q1 (i.e. 0.5%), it was modest, **continuing to result in workers presumably being forced to become active in the SMME sector, or beginning to report their businesses on the side (initially created as insurance against retrenchment)**. This explains the higher growth in SMME numbers compared to the measured growth in aggregate employment.

The adverse macroeconomic conditions continue to overpower SMMEs' financial performance

It is also encouraging to report that the softening 'survivalist' tendency in the SMME sector continued in 2020Q1. **Both the share of owners completing secondary schooling and the share of managers and professionals continued to increase. More than half of SMME owners completed secondary schooling or higher. The impact of the challenging macroeconomic conditions became evident as the number of three-year-old surviving businesses continued to come under pressure**. Most of the decline was reported between 2019Q4 and 2020q1. The two facts, i.e. the tendency of a qualitative improvement in the educational attainment and skills of SMME owners on the one hand, and poorer financials on the other hand seem contradictory. **It is explained by the overpowering adverse impact of the weak macroeconomic conditions. This has important implications for the nature of SMME support, particularly in the quarters ahead with the impact of COVID.**

As noted, most of the demographic tendencies reported previously, continued in the first quarter before the COVID pandemic impacted. **However, it is evident that some changes occurred between**

[1] SMME employment increased to 11.6 million (or 70% of aggregate employment) in 2019Q3. Part of the 2020Q1 decline in numbers stems from this high level; much of the decline was in fact reported between 2019Q4 and 2020Q1.

Significant changes occurred between 19Q4 and 20Q1

the fourth quarter of 2019 and the first quarter of 2020. A higher rate of SMME retrenchment, fewer SMME enterprises surviving at least three years, a sharp decline in the number of trade and accommodation sector SMMEs (i.e. the largest SMME sector) and the notable decline in low-skilled SMME owners (those not having completed primary education) are some notable examples. **It should be a primary focus of the authorities not to allow the hard gains that were made over the past decade regarding the noted qualitative improvements in the sector to be reversed by the impact of the pandemic**. This also includes corrective action at the macro level.

Regarding the age of SMME owners, some shifts occurred between the various age cohorts, but nothing significant given the reality of sampling error. The same can be said regarding the industry and provincial composition of the SMME sector, except maybe to note the sharp increase in the number of SMMEs in the Eastern Cape.

SMME support should capitalise on the 20Q3 renewed momentum

In all, the decline in 2020Q1 SMME employment and the noted changes that emerged in the sector, in all likelihood reflect evidence of more serious pressures that would have developed even in the absence of the pandemic. The sudden stop in economic activity during the second quarter is now well documented. **The macroeconomic rebound during the third quarter was stronger than expected and all support measures should be aimed at sustaining this improvement.**

Focus on manufacturing, ICT and tourism: a sectoral perspective

The re-industrialisation of SA holds exciting opportunities

SEDA has identified manufacturing, the ICT sector and tourism as key sectors to focus activities in promoting SMME development. The structural decline in the domestic manufacturing sector is well-documented and was alluded to in the previous report. Part of the analysis was to point out various exciting new opportunities arising in manufacturing. **It remains pivotal that SEDA and other agencies supporting small business in SA capitalise on these opportunities**. The re-industrialisation of SA is a key theme in the government's Economic Reconstruction & Recovery Plan (ERRP) and it has been on the agenda for some time.

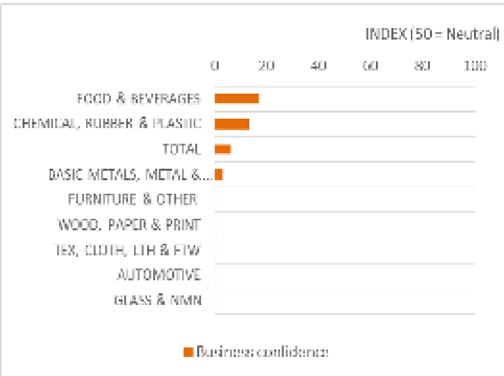
The ICT sector is at the heart of SA's post-COVID development

The tourism sector will be in trouble for a while

In this report, the question is asked: where are the growth opportunities, or more to the point, what is (economic) growth and how can the government enhance it? The discussion focuses on the small business sector and, in particular, **some definitions of entrepreneurship**. In the second section, the outlook for **the ICT sector** is discussed. Here the focus shifts (from the previous report's emphasis on this sector's central role in the context of the Fourth Industrial Revolution (4iR) and SA's re-industrialisation) to more practical suggestions as to how the inherent economic growth opportunities can be unlocked. As such, it is a case study of the broader theme of unlocking economic growth – and it may be added – a key ingredient of SA's re-industrialisation. The third part of this section **outlines the tragic ordeal that has overcome SA's vibrant tourism sector as a result of the pandemic impact**. Here pointers are provided as to where new opportunities may arise, which should be supported.

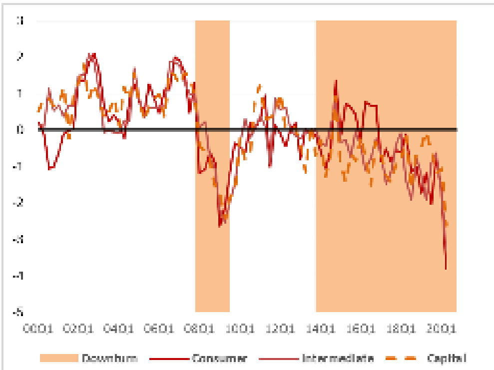
Manufacturing activity comes to a virtual standstill in 20Q2

Figure 1: Manufacturing business confidence



Source: BER Manufacturing Survey, 2020Q2

Figure 2: Manufacturing domestic sales



Source: BER Manufacturing Survey, 2020Q2

Manufacturing activity stalled during the second quarter, with confidence slumping to a record-low six index points. Business confidence faded across all sectors, with only the food & beverages and chemicals (pharmaceuticals) industries retaining some confidence for understandable reasons. **During the third quarter, a welcome rebound in the business confidence index to 22 index points continue to reflect challenging business conditions as the economy began opening up**. The slump in manufacturing business volumes arrived on top of the haemorrhage in the sector noted above and the reversal of the implied de-industrialisation has become an imperative.

The sector is key to addressing an important economic policy challenge

One of SA's central macroeconomic policy challenges is to address the distortions caused by rapidly growing demand for skilled labour exceeding the rate at which the poor can be lifted out of poverty due to the lagging demand for semi- and unskilled labour. The manufacturing sector, SA's most productive sector (measured in output per worker) is ideally situated to address the implied inequalities.

While it is better to 'leave it to the private sector', market failure has to be acknowledged

The question of what economic growth is, is a complex one, but taken at a very basic level, it involves *"getting capital to where it is productive"*. **History has taught us that while it is better to leave it to the private sector, market failure is unfortunately also a reality**. There are ways that the government can intervene by creating an environment conducive for private enterprise to flourish.

There are three elements of market failure (see Hausmann, Rodrik & Sabel)[2]: the market fails to price 'self-discovery'[3] appropriately, does not allow for collective solutions and do not always deliver the needed public goods. **Through private-public sector cooperation and collaboration, it is possible to identify ways in which benefits can be generalised, while individual firms are allowed to learn from mistakes collectively – this allows a situation where *"all boats are lifted"* proverbially** *(see below for further elaboration)*. Such private-public sector interaction is necessary and preferable as the public sector generally does not possess the *ex-ante* knowledge in identifying which public goods would, for instance, be required for any new growth opportunity, or, in general, to incentivise and support innovation.

Entrepreneurship is key and there are various types of entrepreneurs

Before, the avenues for public sector support are briefly discussed, **it may also be helpful to consider the issue of entrepreneurship. SEDA's mandate is clearly focussed on the small business sector**. While it may be possible to spawn/incubate a very successful large firm, even industry, the level of public sector intervention may differ for large enterprises. A dynamic consideration of the term entrepreneurship is helpful.

The acclaimed economic historian, Schumpeter, distinguished between what he described as 'replicative' entrepreneurs, on the one hand, and 'innovative' entrepreneurs, on the other[4]. The former-mentioned entrepreneur is typically your small, local firm who may, for instance, take a new idea from abroad and apply it locally. The 'innovator', on the other hand, typically causes major disruption, revolutionising the way business is conducted – history is replete with individuals, often also starting from scratch and succeeding in building business empires. Intervention or support for large

[2] This section of the report makes heavy reliance on: Hausmann, R, Rodrik, D & Sabel , CF (2008): *Reconfiguring Industrial Policy: A Framework with an Application to South Africa*, Paper delivered at the DRUID 25th Celebration Conference, Entrepreneurship and Innovation – Organisations, Institutions, Systems & Regions, Copenhagen, Denmark.

[3] 'Self-discovery' is defined when an entrepreneur identifies a product or service that he/she can supply with a cost structure that is such that he/she will be able to make a profit. The social value of such a product or service typically exceeds the private/ market price as any competing supplier later will be able to sell it at a lower price. The question is, how to ensure the incentive structure that such innovation will not be thwarted (see Hausmann, Rodrik & Sabel, 2008: 2-3) / CDE: *Accelerating Growth in Tough Times*, March 2009: 17).

[4] See Economist (2 December 2014): *What exactly is an entrepreneur?* online: http:www.economist.com/node/21596319/print)

The various definitions of entrepreneurship allow SEDA to clarify its mandate

established firms is in the domain of industrial policy at the macro level. **SEDA's mandate should be focussed on the former 'replicative' entrepreneur. Another helpful distinction has been drawn by Allon Raiz, who identifies the 'survivalist', 'life-style' and 'growth' entrepreneurial** categories[5]. Many of SEDA's clientele reside in the first-mentioned category. The 'life-style' entrepreneur typically will be a small unit, providing a high value add/ specialised product or service, while the 'growth' entrepreneur can be likened to Schumpeter's 'innovative' entrepreneur. Again, it is clear where SEDA's mandate and focus should be.

Broader public policy falls outside SEDA's mandate, but is relevant

Returning to the elements of market failure, and without going into the detail, the remaining urgent question is, what is it that public policy can do? Suffice to note a few suggestions from leading analysts and practitioners in the field. **We should move beyond ideological blinkers and ask what will work. In this regard, a shift has to take place, from a focus on 'restraint' to one of unambiguous preference for 'growth'**, e.g. the lowering of the cost to do business, preference for providing incentives rather than to tax, etc.

The question is what public policy can do?

The public sector can play a critical role in facilitating cooperation between market and other role players in identifying, for instance infrastructure, skills training and other public goods that will allow the private sector firms to invest and create employment so that 'benefits can be generalised'. **Building an inclusive economy sustainably can only really work with employment creation.**

The manufacturing sector, being an absorber of semi- and unskilled labour, with the promise of upskilling, is ideally positioned to be instrumental in unlocking growth in a way that SA's fundamental skills imbalance is addressed. **This may sound like a goldilocks proposal, but this is what is required in facing market failure and attending to the inherent income and wealth inequalities prevalent in SA.** While the impact of the pandemic is likely to exacerbate inequalities, the socio-economic crisis also embodies new opportunities (alluded to in the previous report). **The final point is that while many promising policy proposals are on the table and have been over the past decade, the key is implementation and action.**

Demand for internet connectivity escalates

ICT sector outlook [6]. The COVID pandemic has exposed the digital divide in SA. The demand for internet connectivity has grown as people were forced to work from home, businesses moved online much faster and social media activity was stimulated. The expansion of internet connectivity has been a great need as technological developments have been sweeping across most countries in the digital era, also known as the 4iR. **The sad reality in SA is that only around one tenth of households are connected to broadband internet, which places tremendous demands on mobile connectivity**.

[5] See Biznews (August 2020): *Lifestyle and growth entrepreneurs*, online: https://www.biznews.co.za)

[6] 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).

… and exposes SA's digital divide, making the release of HDS an urgent priority

In this regard, an enormous opportunity in expanding mobile connectivity is embodied in the release of high-demand spectrum (HDS), which became (and is still becoming) available as a result of the digitalisation of SA's airwaves and TV broadcasting. The key question is how public policy will facilitate the process as spectrum is a public good. The ICT sector is at the heart of this process and its outlook will, to a large extent, be shaped by policy.

In the previous report, the various dimensions and the importance of the ICT sector in SA's broader economic development, but also specifically in the development of the SMME sector (e.g. through the lowering of barriers to entry), were discussed. **The emphasis in the current report is on the public policy intervention in the sector where the government has to weigh its developmental goals, i.e. the availability, accessibility and affordability of internet connectivity against the economic considerations, namely competition, innovation and investment**.

In weighing up developmental objectives and economic considerations …

In economic development we are always faced with trade-offs. A difficult range of choices is faced by the government and industry players. The large (and other) mobile operators seek less uncertainty and incentives to do the required investments. The question is whether this will happen in a way that internet access is affordable and widely accessible? On the other hand, the government's fiscal resources are constrained and it is difficult to ensure its developmental mandate is carried out.

… strengthening the regulator can lead to win-win solutions

The government has been grappling with this issue for many years and many industry players have become sceptic as to whether the release of HDS will – even with the necessary political will – materialise within a year[7]. **The impact of the pandemic has delayed matters further**. In a recent research note[8], it is suggested that attention should focus on the regulator, ICASA. As noted in the previous section, the public sector has an important role to play in addressing market failure. The Competition Commission (2019) has found that SA's internet connectivity costs are high.

One way in addressing the implied market failure is to strengthen/ capacitate the regulator, by for instance, attending to its skills requirements. This may result in a win-win solution. The regulator could achieve much by providing the required incentives and reducing uncertainty. By moving ahead more rapidly with its regulatory framework, e.g. the method of HDS release, this could illicit the necessary investment by the mobile operators. More than that, if successful, it may be able to do this without additional demands on SA's scarce fiscal resources. In fact, should the technicalities of an auction (or hybrid method) of HDS release be put in place, the regulator may instead *contribute* to the fiscus. **Furthermore, the regulator will also be in a position to ensure that the government's developmental goals are achieved**.

[7] Marais, J & Gungubele, N: *Assigning High Demand Spectrum in the ICT sector – A possible hybrid method* [online: 16 April 2019].

[8] Fourie, H & Venter, C (August 2020): *How high-speed internet can help grow the South African economy during and after the COVID-19 pandemic*, BER Research Note 2020|6.

The successful development of SA's ICT sector holds much potential in unlocking equitable growth

The government has now put a tight timeline on preparing and executing the release (auctioning?) of HDS, namely March 2021. **It is to be hoped that the urgency of this issue, which has been postponed so often in recent years, is now more apparent and acted upon in the wake of the pandemic impact**. The ICT sector's outlook will be bolstered in a favourable scenario. In time, this will ensure more affordable and wider internet access, not only to private business in general, and SMMEs in particular, but also in government departments and in households and society at large.

Tourism is a priority industry in SA

The tourism sector. The importance of SA's tourism sector cannot be overstated. **The industry accounts for 8% of GDP when its direct and indirect linkages are included; and it employs 1.6 million people**. Tourism is a foreign exchange earner and absorbs semi- to unskilled labour with good prospects for upskilling. One of SA's fastest growth sectors in recent years has been the development of tourism activities in the agricultural sector, with agri-tourism making an important contribution to employment, particularly in rural areas.

… and has come to a virtual standstill, additionally being faced by a bleak short-term outlook

This sector has been one of the hardest hit by the economic lockdown and other measures required to contain the spread of COVID-19. The sector, for all practical purposes, came to a complete standstill. Income from accommodation was in the year to July 2020 down by 90%; in August, as the lifting of lockdown measures commenced, revenues were still 82% down. On the real estate side, the growth in units sold was also down 90% in the year to July 2020. To put this in perspective, in August the turnover in the industry measured R365 million, compared to a typical monthly turnover of around R2 billion.

Being heavily impacted by the international travel restrictions, SA's overseas arrivals plummeted by 99%, i.e. a virtual complete stop. The overall decline in arrivals measured 92.5% in August 2020, with SA's neighbouring SADC market contracting by 90%. SADC inward tourism accounts for 98% of the African market and 75% of total arrivals. It has to be pointed out that arrivals were already in retreat before the pandemic. The reasons for the pressure on the sector were alluded to in the previous report, i.e. the damage to the SA brand from the day-zero campaign in the drought-stricken Western Cape during the 2018/19 season; the high national crime rate and associated safety concerns; instances of improper pricing in the sector typically catering for the foreign currency market; and, the adverse impact of the tourism visa debacle.

In time, travellers will be back and willing to adapt

One can safely assume that arrivals, particularly from overseas, will be under pressure for some time. Both behavioural changes and household budget constraints are likely to be key growth inhibitors. In this regard, the results from an IATA survey are revealing; on the one hand, it confirms behavioural change; but, on the other hand, **it also confirms a strong desire to return to travel and readiness to adapt**. Regarding behavioural change, up to a third of the respondents indicated that even if containment of the pandemic was announced today, they will wait at least six months before considering travel. Then again, around two thirds of the respondents were willing to travel even in the event of (moderate) quarantine requirements (the proportion declines to slightly above half in the event of stricter quarantine measures). Furthermore, almost all respondents (88%) would be willing to undergo a COVID test before travel and 84% felt this should be compulsory for all travellers.

The BER compiled two scenarios, with an in-depth analysis of the tourism sector linkages and by considering both optimistic and more pessimistic assumptions. Domestic trips could be down between 60-70% next year (when compared to the end of 2019) and foreign arrivals are estimated to be down by 69-74%. **These are depressing numbers given the contribution of the industry to SA's economy; however, they are a stark reminder of the reality the sector is likely to face over the short term**.

There are new opportunities and these should be capitalised upon

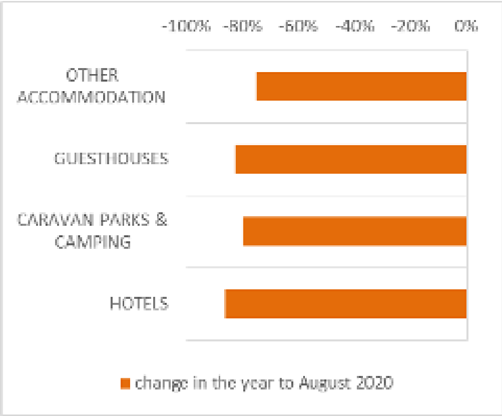
The implication is that the sector's crisis is likely to persist for some time and the question therefore becomes, where are the opportunities? It is evident that industry players are adjusting swiftly, with pricing in the domestic market becoming much more realistic in a very short time. The domestic market may, therefore, deliver upside surprises. The problem, of course, is the fact that the overseas markets are the big spenders. One interesting opportunity in this regard could be in the field of technological development, by for instance, expanding the issuing of E-visas (currently only two countries have this facility in respect of SA travel, i.e. Kenya and New Zealand). **The expansion of these capabilities may unlock yet unknown inward tourism potential.**

It may be necessary to consider policy priorities

Finally, from a broader macro perspective, and to link with the former two subsections of the report, the question may be posed: should policy during the interim rather prioritise the development of (small) manufacturing in view of the realities faced by the tourism sector over the short term. **This is again a matter of some trade-off, or more accurately, re-balancing or sequencing of policy objectives.** The adverse impact suffered by the tourism sector, may be an opportunity to shift resources to the development of the manufacturing sector, e.g. the proposed localisation initiatives so that when the tourists return, local manufacturers can supply more of the goods the tourists buy. This may be a moot point, but reflects the nature of economic policy-making.

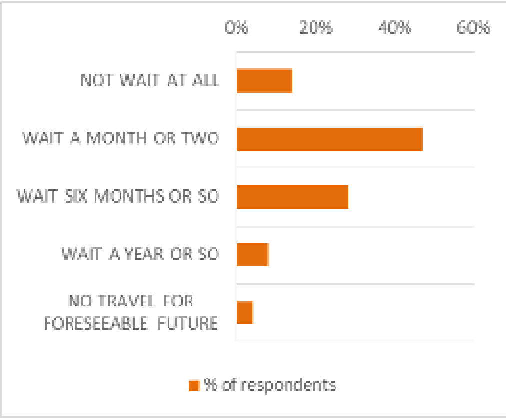
Adverse impact on SA tourism sector will linger for a while

Figure 3: SA tourism: Income from accommodation



Source*: IATA Survey, April 2020*

Figure 4: Travellers' response should travel restrictions be terminated



Source*: IATA Survey, April 2020*

Proxy numbers for SMMEs

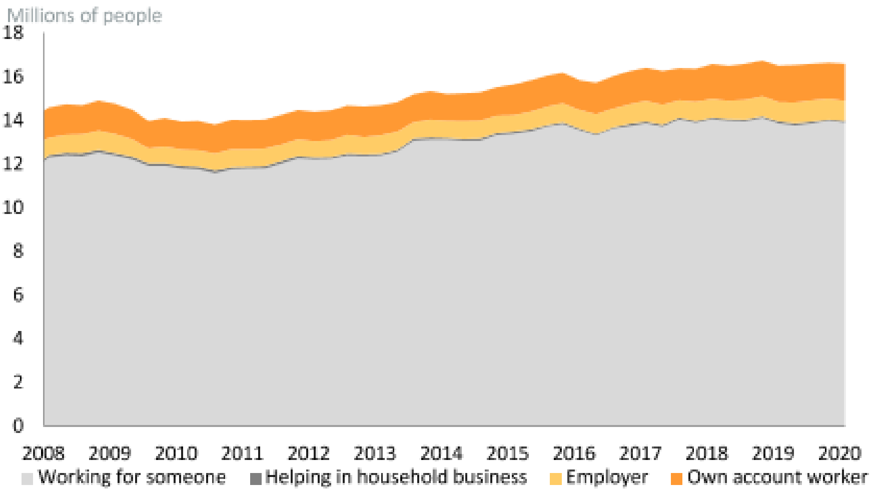
Derived from the Quarterly Labour Force Survey

Number of SMMEs

Number of SMMEs increase, amidst serious profit squeeze

The number of SMMEs grew by 2.5% to 2.61 million in the year to 2020Q1, which is more than the 0.5% growth in total employment in SA. As such, the SMME option remains the natural alternative for people who struggle to find a job. **Provided the adverse macroeconomic conditions, the growth in SMME numbers results in serious competitive pressures in the sector**. The combined nominal turnover of SMEs (Table 25) increased by only 1.5% (compared to inflation being above 4%) and profits contracted sharply. *Of all employed people, 6% also employed others in 2020Q1, while 10% worked for themselves. Combined at 16% (or 2.61 million), this comprises the proxy measure for the number of SMMEs in South Africa.*

Table 2: Employment in South Africa



Source: QLFS of Stats SA

Table 3: Number of SMMEs (million)

Indicator	2019Q1		2019Q4		2020Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Employer	872,711	5.3%	947,533	5.7%	913,100	5.5%	-34,433	-3.6%	40,389	4.6%
Own account worker	1,677,829	10.2%	1,642,956	9.9%	1,700,963	10.2%	58,007	3.5%	23,134	1.4%
SMME owners	**2,550,540**	**15.4%**	**2,590,489**	**15.6%**	**2,614,063**	**15.8%**	23,574	**0.9%**	63,523	**2.5%**
Working for someone	13,853,471	83.9%	13,983,026	84.0%	13,898,448	83.7%	-84,578	-0.6%	44,976	0.3%
Helping in household business	109,030	0.7%	67,279	0.4%	83,288	0.5%	16,009	23.8%	-25,742	-23.6%
Total employed	**16,513,041**	**100.0%**	**16,640,794**	**100.0%**	**16,595,799**	**100.0%**	**-44,996**	**-0.3%**	**82,758**	**0.5%**

Source: QLFS of Stats SA

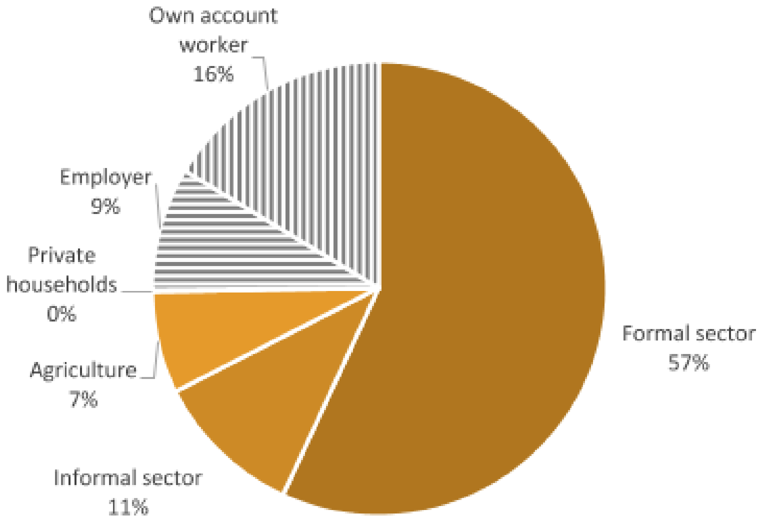
Please note there is substantial volatility in the sub-distributions of the SMMEs; most of this might be due to sampling noise.

Employment provided by SMMEs

SMME employment already contracted in the first quarter

Nearly half a million SMME employees lost their jobs in the year up to the first quarter of 2020, i.e. a 4% contraction. Most of them were absorbed by larger enterprises, reporting more than half a million new jobs, while some became self-employed (net 64 000). **As such, by the first quarter of 2020 the SMME sector provided 63% of all jobs in SA (10.4 of 16.6 million), down from 66% (10.8 of 16.5 million) a year ago**. These 10.4 million jobs were composed of 2.61 million SMME owners (either employers or own account workers) and 7.8 million SMME employees (i.e. 75% of the total), most employed in formal SMME establishments (57%). The bulk of the SMME job-shedding (i.e. more than 700 000) occurred in the formal sector. Of all jobs provided by SMME owners, an estimated 38% are filled by female workers*. This proportion was stable in the previous four quarters.

Table 4: Employment provided by SMMEs



Source: QLFS of Stats SA

Table 5: Employment provided by SMMEs

	2019Q1		2019Q4		2020Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Formal sector	6,631,459	61.2%	6,811,782	57.6%	5,928,009	57.0%	-883,773	-13.0%	-703,450	-10.6%
Informal sector	1,115,405	10.3%	1,425,958	12.1%	1,102,869	10.6%	-323,090	-22.7%	-12,537	-1.1%
Agriculture	537,157	5.0%	998,307	8.4%	752,032	7.2%	-246,275	-24.7%	214,875	40.0%
Private households	5,258	0.0%	3,507	0.0%	9,098	0.1%	5,591	159.4%	3,840	73.0%
Provided to others	**8,289,280**	**76.5%**	**9,239,553**	**78.1%**	**7,792,007**	**74.9%**	**-1,447,547**	**-15.7%**	**-497,273**	**-6.0%**
% Female*		38.0%		37.8%		38.2%		0.5% pts		0.3% pts
Employer	872,711	8.1%	947,533	8.0%	913,100	8.8%	-34,433	-3.6%	40,389	4.6%
Own account worker	1,677,829	15.5%	1,642,956	13.9%	1,700,963	16.3%	58,007	3.5%	23,134	1.4%
Total	**10,839,819**	**100.0%**	**11,830,042**	**100.0%**	**10,406,070**	**100.0%**	**-1,423,973**	**-12.0%**	**-433,750**	**-4.0%**

Source: QLFS of Stats SA

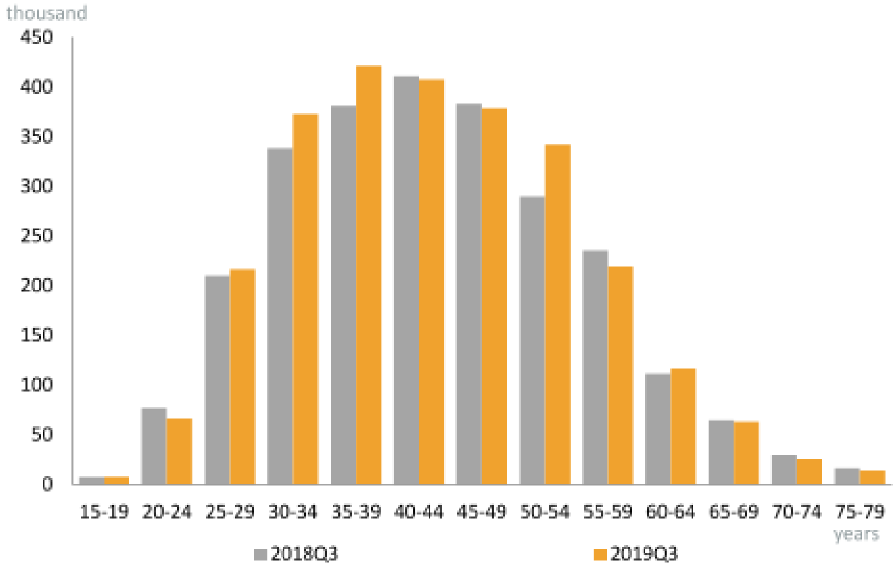
** of all people working for private enterprises, of which 81% worked for SMMEs over the last 5 years*

SMME owners by age

Increases in some middle-age groups – likely to be new SMME entrants

There were some changes in the young and middle-age groups, albeit difficult to draw firm conclusions. The 30-year old age group increased in number and even more so in the 55 to 64 age group; the number of SMME owners aged 45 to 49 contracted sharply in the year up to 2020Q1.It does appear that the growth in the middle-age groups comprised new entrants to the SMME sector. These individuals probably lost their jobs in the formal sector. Of note is the 65% increase in the 15 to 19 age group. However, this number is volatile, small and does not point to any specific trends or breaks.

Table 6: SMME owners by age



Source: QLFS of Stats SA

Table 7: SMME owners by age

	2019Q1		2019Q4		2020Q1		Quarterly change		Yearly change	
Years	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
15-19	6,624	0.3%	6,711	0.3%	10,915	0.4%	4,204	62.7%	4,291	64.8%
20-24	73,187	2.9%	84,466	3.3%	88,852	3.4%	4,386	5.2%	15,665	21.4%
25-29	228,872	9.0%	202,511	7.8%	210,753	8.1%	8,242	4.1%	-18,120	-7.9%
30-34	325,453	12.8%	364,079	14.1%	365,560	14.0%	1,481	0.4%	40,107	12.3%
35-39	386,822	15.2%	389,656	15.0%	413,738	15.8%	24,082	6.2%	26,916	7.0%
40-44	386,179	15.1%	391,028	15.1%	390,269	14.9%	-759	-0.2%	4,090	1.1%
45-49	417,524	16.4%	378,655	14.6%	362,476	13.9%	-16,179	-4.3%	-55,048	-13.2%
50-54	295,764	11.6%	296,160	11.4%	284,669	10.9%	-11,491	-3.9%	-11,095	-3.8%
55-59	221,234	8.7%	249,855	9.6%	255,177	9.8%	5,322	2.1%	33,942	15.3%
60-64	107,756	4.2%	123,962	4.8%	129,755	5.0%	5,793	4.7%	21,999	20.4%
65-69	62,187	2.4%	63,989	2.5%	64,938	2.5%	949	1.5%	2,751	4.4%
70-74	27,341	1.1%	25,237	1.0%	26,032	1.0%	795	3.1%	-1,309	-4.8%
75-79	11,596	0.5%	14,181	0.5%	10,929	0.4%	-3,252	-22.9%	-667	-5.8%
Total	**2,550,540**	**100.0%**	**2,590,489**	**100.0%**	**2,614,063**	**100.0%**	**23,574**	**0.9%**	**63,523**	**2.5%**

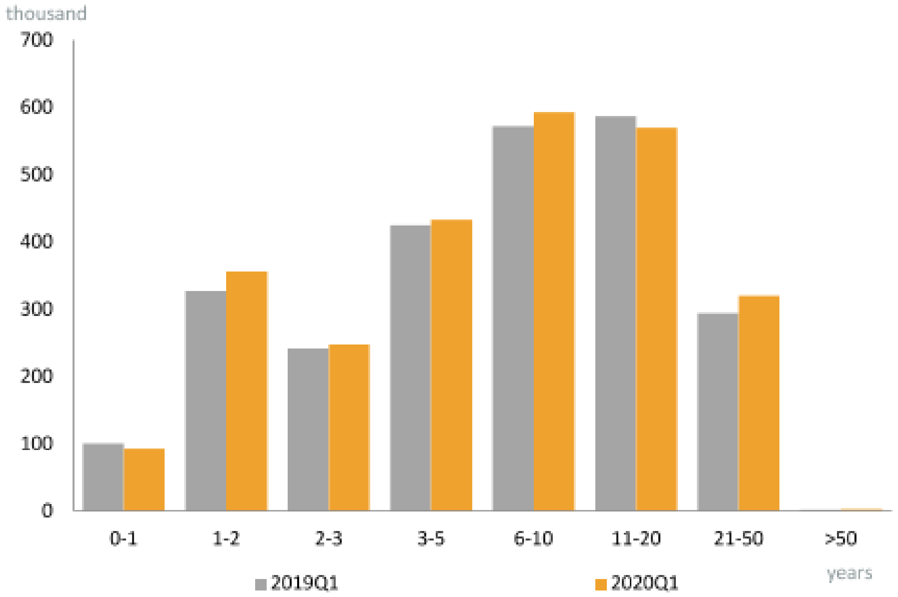
Source: QLFS of Stats SA

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 63 500) than the new entries (around 26 400; age 0-1 years) in the year to 2020Q1. **This divergence implies that many workers have sideline 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 continue when broader employment opportunities decline. Also, there may be employees (who have not lost their job) running sideline businesses that are not accounted for in the proxy estimate of the number of SMMEs. The higher number of SMMEs older than three years is also an indication that an enterprise gains staying power once it has successfully been in business for two to three years. This number has been on a rising tendency in recent years up to the first quarter of 2020.

Table 8: Enterprise age of SMMEs



Source: QLFS of Stats SA

Table 9: Enterprise age of SMMEs

Years	2019Q1 Number	2019Q1 Distrib.	2019Q4 Number	2019Q4 Distrib.	2020Q1 Number	2020Q1 Distrib.	Yearly change Number	Yearly change %
0-1	100 739	3.9%	360 678	13.9%	92 930	3.6%	-7 810	-7.8%
1-2	327 310	12.8%	270 388	10.4%	355 925	13.6%	28 616	8.7%
2-3	242 041	9.5%	239 820	9.3%	247 632	9.5%	5 591	2.3%
3-5	425 128	16.7%	385 303	14.9%	432 581	16.5%	7 453	1.8%
6-10	571 898	22.4%	538 360	20.8%	592 287	22.7%	20 389	3.6%
11-20	586 780	23.0%	522 384	20.2%	569 804	21.8%	-16 977	-2.9%
21-50	294 185	11.5%	270 477	10.4%	319 958	12.2%	25 773	8.8%
>50	2 459	0.1%	3 079	0.1%	2 947	0.1%	488	19.9%
Total	**2 550 540**	**100.0%**	**2 590 489**	**100.0%**	**2 614 063**	**100.0%**	**63 523**	**2.5%**

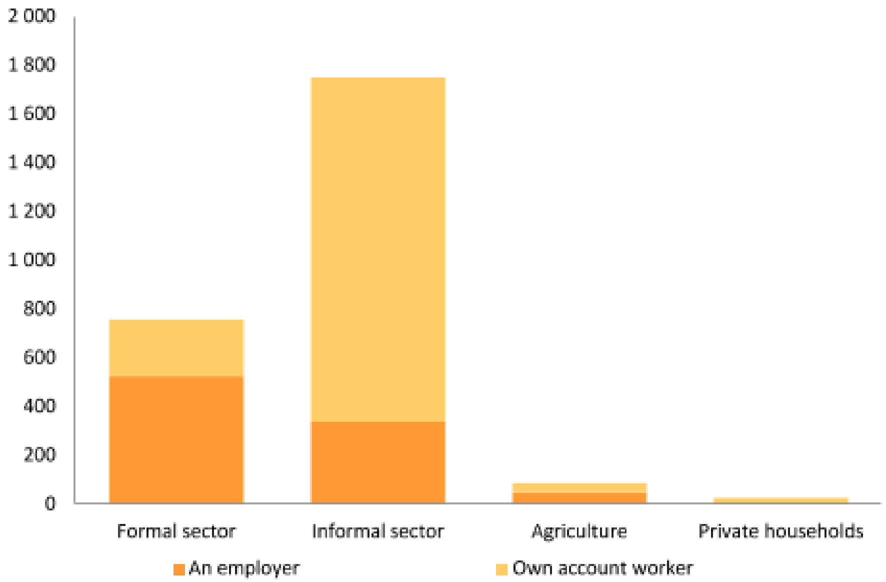
Source: QLFS of Stats SA

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 67% in the first quarter of 2020 and those in the formal sector at 29%. **These ratios have not changed much since 2010**. Most SMME owners in the formal sector also employ other people, while the majority in the informal sector are own account workers. Of all SMME owners, 35% also employ other people.

Table 10: SMMEs by formal and informal sector in 2020Q1



Source: QLFS of Stats SA

Table 11: Formal and informal SMMEs in 2020Q1

Type	Formal sector	Informal sector	Agriculture	Private households	Total	Distrib.
An employer	524 504	336 639	47 915	4 042	**913 100**	34.9%
Own account worker	230 761	1 411 392	37 974	20 836	**1 700 963**	65.1%
Total	**755 265**	**1 748 031**	**85 889**	**24 877**	**2 614 063**	**100.0%**
% per sector	28.9%	66.9%	3.3%	1.0%	100%	

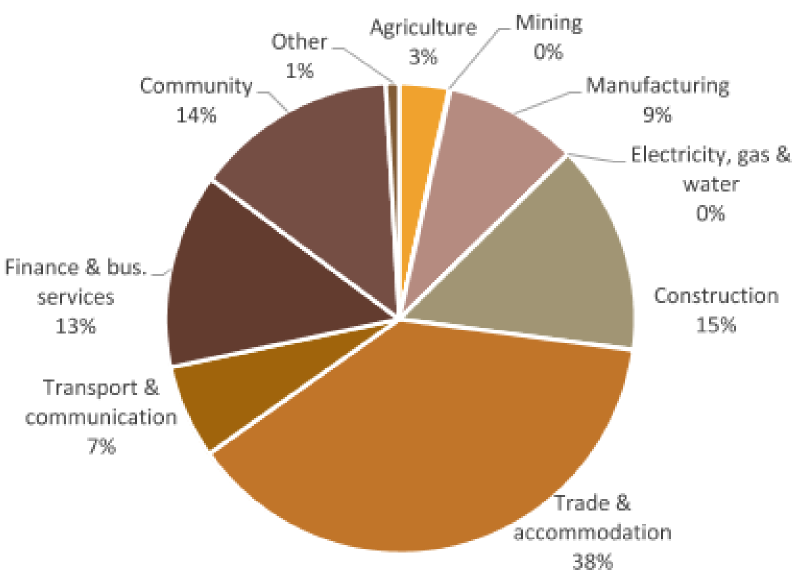
Source: QLFS of Stats SA

SMMEs by industry

Large decline in the trade and accommodation sector compared to a year ago

The change in the industry mix was small over the year up to 2020Q1. By far, the most SMMEs (38%) still operate in the trade and accommodation sector. This is followed by the construction sector (14%), community services (14%) and business services (13%). The largest absolute changes were recorded in the trade and accommodation sector, with a decline of nearly 61 000 that were balanced by an increase of 42 000 in the business services sector. *Growth rates in the smaller sectors tend to be volatile, probably due to sampling noise.*

Table 12: SMMEs by industry in 2020Q1



Source: QLFS of Stats SA

Table 13: SMMEs by industry

Industry	2019Q1		2019Q4		2020Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Agriculture	45 429	1.8%	79 774	3.1%	85 889	3.3%	6 115	7.7%	40 460	89.1%
Mining	0	0.0%	3 082	0.1%	6 348	0.2%	3 266	106.0%	6 348	n/a
Manufacturing	228 303	9.0%	243 552	9.4%	239 816	9.2%	-3 736	-1.5%	11 513	5.0%
Electricity, gas & water	1 041	0.0%	2 195	0.1%	1 676	0.1%	-519	-23.7%	635	61.0%
Construction	353 477	13.9%	362 556	14.0%	377 464	14.4%	14 908	4.1%	23 987	6.8%
Trade & accommodation	1 053 385	41.3%	987 024	38.1%	992 190	38.0%	5 166	0.5%	-61 195	-5.8%
Transport & communication	191 114	7.5%	173 489	6.7%	170 343	6.5%	-3 145	-1.8%	-20 771	-10.9%
Finance & bus. services	339 697	13.3%	363 007	14.0%	349 816	13.4%	-13 190	-3.6%	10 120	3.0%
Community	323 625	12.7%	365 685	14.1%	365 159	14.0%	-526	-0.1%	41 534	12.8%
Other	14 470	0.6%	10 125	0.4%	25 361	1.0%	15 236	150.5%	10 891	75.3%
Total	**2 550 540**	**100.0%**	**2 590 489**	**100.0%**	**2 614 063**	**100.0%**	**23 574**	**0.9%**	**63 523**	**2.5%**

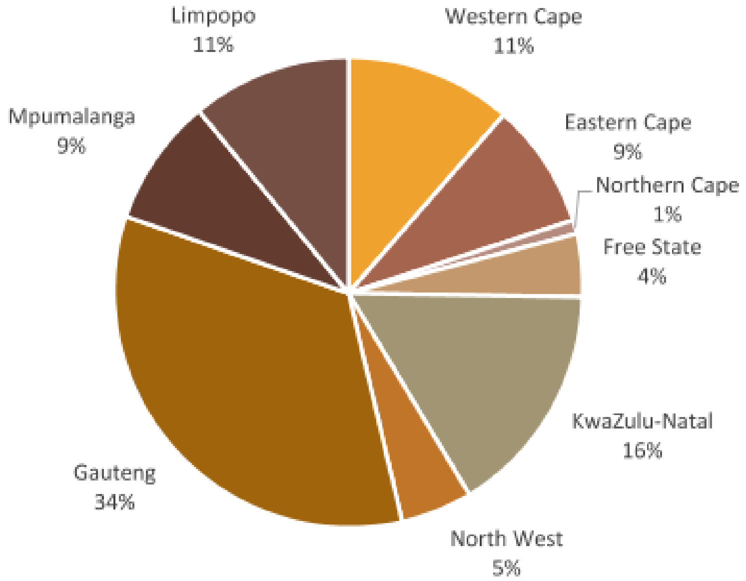
Source: QLFS of Stats SA

SMMEs by province

The share of the Eastern Cape increases

Nearly 34% of SMMEs operated in Gauteng in the first quarter of 2020, followed by close to 16% in KwaZulu-Natal and 11% in the Western Cape. This is only slightly different from a year ago. The increase in the number of SMMEs in the Eastern Cape was high at around 45 000 (or 25% year-on-year), pushing its share of the total up from 7% to 9%. The increase could be linked to higher unemployment in the region.

Table 14: SMME owners by province



Source: QLFS of Stats SA

Table 15: SMME owners by province

Occupation	2018Q3		2019Q2		2019Q3		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Western Cape	288 194	11.3%	325 838	12.6%	298 819	11.4%	-27 020	-8.3%	10 625	3.7%
Eastern Cape	179 908	7.1%	229 253	8.8%	225 298	8.6%	-3 955	-1.7%	45 390	25.2%
Northern Cape	25 577	1.0%	24 492	0.9%	24 275	0.9%	-217	-0.9%	-1 302	-5.1%
Free State	121 740	4.8%	121 495	4.7%	114 979	4.4%	-6 516	-5.4%	-6 761	-5.6%
KwaZulu-Natal	390 115	15.3%	395 989	15.3%	419 467	16.0%	23 478	5.9%	29 352	7.5%
North West	126 725	5.0%	97 729	3.8%	129 168	4.9%	31 438	32.2%	2 443	1.9%
Gauteng	903 220	35.4%	866 438	33.4%	885 839	33.9%	19 401	2.2%	-17 381	-1.9%
Mpumalanga	219 083	8.6%	227 292	8.8%	229 060	8.8%	1 768	0.8%	9 977	4.6%
Limpopo	295 978	11.6%	301 962	11.7%	287 158	11.0%	-14 804	-4.9%	-8 820	-3.0%
Total	**2 550 540**	**100.0%**	**2 590 489**	**100.0%**	**2 614 063**	**100.0%**	**23 574**	**0.9%**	**63 523**	**2.5%**

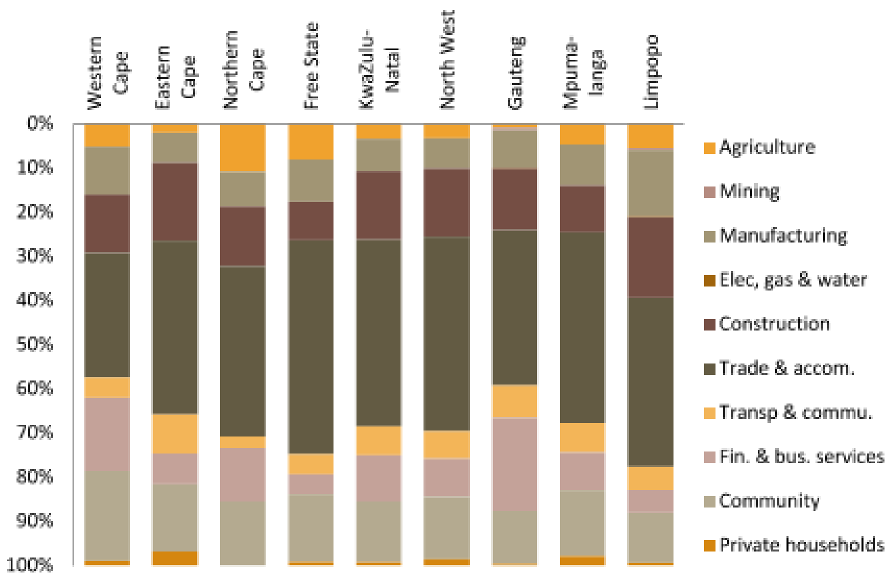
Source: QLFS of Stats SA

SMMEs by industry and province

The industry distribution of most provinces remained more or less stable; the trade and accommodation sector (internal trade) remains the largest subsector in all provinces. This sector accounted for 38% of SMMEs in the country, but are smaller in the Western Cape and Gauteng (28% and 35% respectively). These two provinces have unique characteristics; both have relatively larger business and financial services sectors. The 45 000+ increase in the Eastern Cape was mainly in construction, trade and accommodation and community services. The decline of 17 000+ in Gauteng was mainly in the trade and accommodation sector.

Western Cape and Gauteng continue to have similar profiles

Table 16: SMMEs by industry in 2020Q1



Source: QLFS of Stats SA

Table 17: SMMEs by province and industry in 2020Q1

	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpuma-langa	Limpopo	Total
Agriculture	15 486	4 477	2 654	9 392	14 539	4 293	8 122	10 751	16 176	**85 889**
Mining	0	0	0	0	0	0	5 114	0	1 235	**6 348**
Manufacturing	32 433	15 550	1 895	10 926	30 996	8 796	75 038	21 424	42 758	**239 816**
Elec, gas & water	0	0	0	0	0	0	1 137	0	539	**1 676**
Construction	39 507	39 596	3 271	9 941	64 653	19 971	123 896	24 266	52 363	**377 464**
Trade & accom.	84 175	88 666	9 357	55 815	177 181	56 832	311 554	98 711	109 900	**992 190**
Transp & commu.	13 690	20 033	629	5 185	27 349	8 109	64 619	15 447	15 282	**170 343**
Fin. & bus. services	49 589	15 456	2 959	5 212	44 030	11 058	187 253	19 623	14 637	**349 816**
Community	60 815	34 460	3 510	17 664	57 828	18 219	106 130	33 920	32 614	**365 159**
Other	3 124	7 061	0	845	2 891	1 889	2 493	4 918	1 656	**24 877**
Total	**298 819**	**225 298**	**24 275**	**114 979**	**419 467**	**129 168**	**885 356**	**229 060**	**287 158**	**2 613 579**

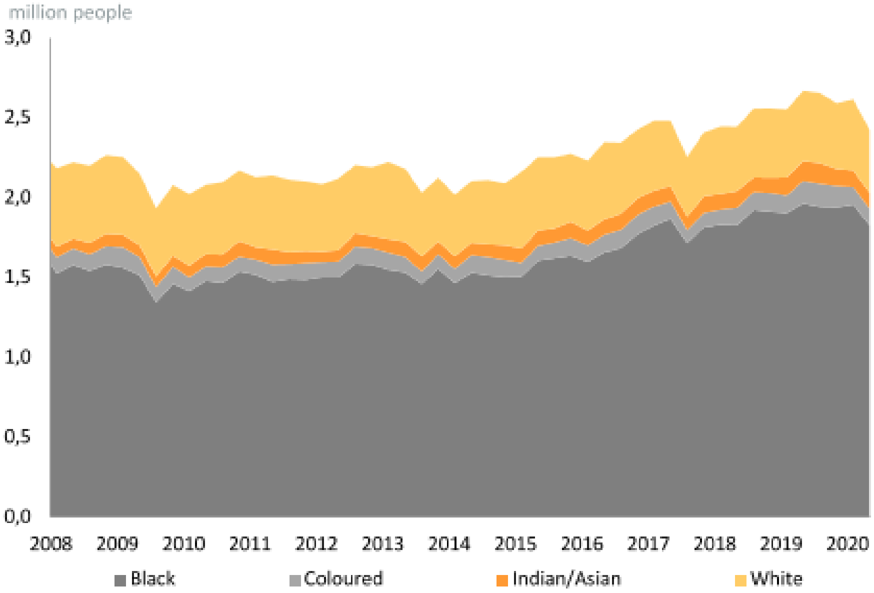
Source: QLFS of Stats SA

SMMEs by population group

The number of Indian/Asian-owned SMMEs decline

The only racial group where fewer people operated an SMME compared to a year before was the Indian/Asian group. Their number fell by 13 000 to reach 103 000, an 11% decrease. An additional 53 000 Black SMME owners joined the small business ranks, while White owners increased by 20 000. The proportion of Black and White SMME ownership was unchanged at 75% and 17% respectively. A sharp fall in Coloured SMME ownership was reported compared to the fourth quarter of last year. **It should be emphasised that these quarterly (and even annual) numbers may only be reflecting sampling noise**.

Table 18: Number of SMMEs by population group



Source: QLFS of Stats SA

Table 19: SMME owners by population group

Race	2019Q1		2019Q4		2020Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Indian/Asian	115 520	4.5%	108 556	4.2%	102 948	3.9%	-5 608	-5.2%	-12 572	-10.9%
Coloured	108 631	4.3%	135 106	5.2%	111 266	4.3%	-23 841	-17.6%	2 634	2.4%
White	425 027	16.7%	410 737	15.9%	445 420	17.0%	34 683	8.4%	20 393	4.8%
Black	1 901 361	74.5%	1 936 090	74.7%	1 954 430	74.8%	18 339	0.9%	53 068	2.8%
Total	**2 550 540**	**100.0%**	**2 590 489**	**100.0%**	**2 614 063**	**100.0%**	**23 574**	**0.9%**	**63 523**	**2.5%**

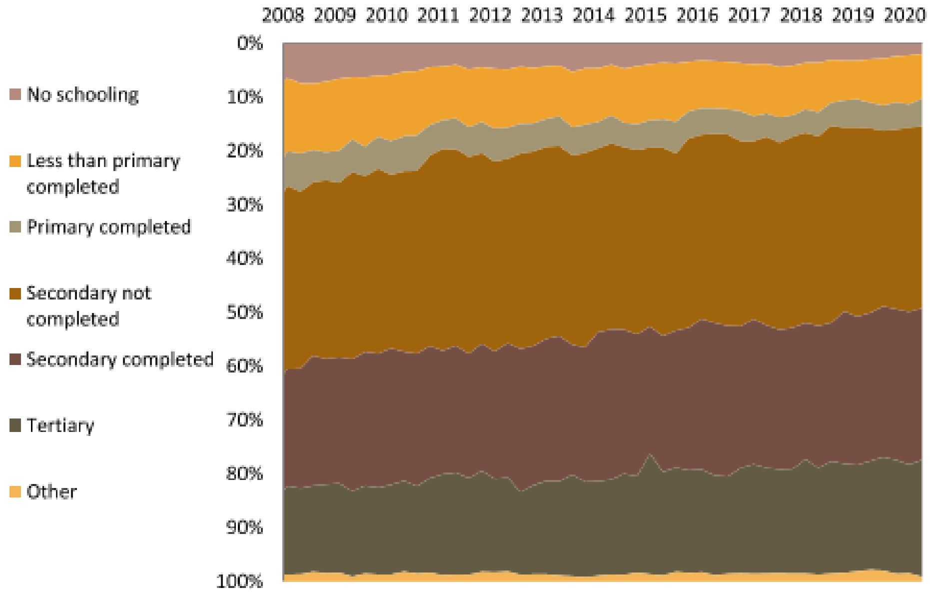
Source: QLFS of Stats SA

SMME owners by educational attainment

Educational attainment continues to improve

The educational attainment of SMME owners continued with its gradual improvement. **Slightly more than half of SMME owners have currently completed high school or more**. Despite this improvement, there was also an increase in the proportion of those who have little educational attainment. The biggest increase was in the group that dropped out of primary school.

Table 20: SMME owners by education group



Source: QLFS of Stats SA

Table 21: SMME owners by education group

Schooling	2019Q1		2019Q4		2020Q1		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
No schooling	81 611	3.2%	62 181	2.4%	57 075	2.2%	-5 106	-8.2%	-24 536	-30.1%
Less than primary completed	182 399	7.2%	220 681	8.5%	239 076	9.1%	18 395	8.3%	56 677	31.1%
Primary completed	134 282	5.3%	131 171	5.1%	112 500	4.3%	-18 671	-14.2%	-21 782	-16.2%
Secondary not completed	896 277	35.1%	863 630	33.3%	894 360	34.2%	30 731	3.6%	-1 917	-0.2%
Secondary completed	701 603	27.5%	726 847	28.1%	742 324	28.4%	15 478	2.1%	40 721	5.8%
Tertiary	504 464	19.8%	548 155	21.2%	527 659	20.2%	-20 496	-3.7%	23 195	4.6%
Other	49 903	2.0%	37 825	1.5%	41 069	1.6%	3 244	8.6%	-8 835	-17.7%
Total	**2 550 540**	**100.0%**	**2 590 489**	**100.0%**	**2 614 063**	**100.0%**	**23 574**	**0.9%**	**63 523**	**2.5%**

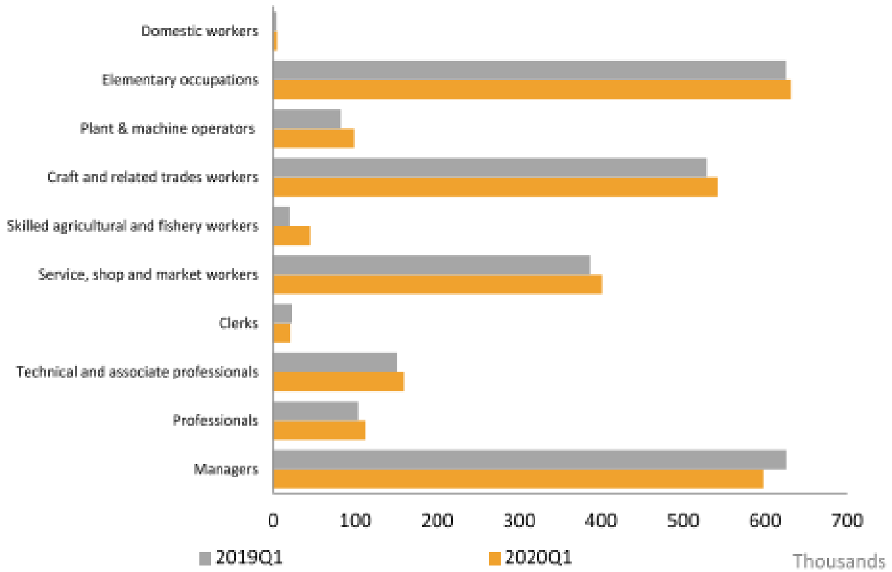
Source: QLFS of Stats SA

SMMEs by occupation

The occupational distribution of SMME owners remains largely stable

There were some minor changes in the occupational distribution of SMME owners in the year up to 2020Q1. The two main occupations remain elementary jobs (24%) and managers (23%). The proportion of managers was down from 25% a year before. The more than doubling in the number of skilled agricultural workers is not exceptional for this volatile series. **An observable tendency in the SMME sector has been a steady increase in the number of managers and professionals, as well as those with a completed secondary education**. This tendency did not change in the first quarter of 2020.

Table 22: SMMEs by occupation



Source: QLFS of Stats SA

Table 23: SMME owners per occupation group

Occupation	2019Q1		2019Q4		2020Q4		Quarterly change		Yearly change	
	Number	Distrib.	Number	Distrib.	Number	Distrib.	Number	%	Number	%
Managers	626 171	24.6%	617 146	23.8%	597 987	22.9%	-19 159	-3.1%	-28 184	-4.5%
Professionals	103 645	4.1%	121 924	4.7%	112 106	4.3%	-9 818	-8.1%	8 461	8.2%
Technical and associate professionals	151 165	5.9%	169 501	6.5%	159 233	6.1%	-10 268	-6.1%	8 069	5.3%
Clerks	22 645	0.9%	16 671	0.6%	20 333	0.8%	3 662	22.0%	-2 312	-10.2%
Service, shop and market workers	386 966	15.2%	379 385	14.6%	400 936	15.3%	21 550	5.7%	13 970	3.6%
Skilled agricultural and fishery workers	19 648	0.8%	43 703	1.7%	45 173	1.7%	1 470	3.4%	25 525	129.9%
Craft and related trades workers	528 951	20.7%	521 333	20.1%	542 368	20.8%	21 035	4.0%	13 417	2.5%
Plant & machine operators	81 883	3.2%	95 173	3.7%	99 099	3.8%	3 926	4.1%	17 216	21.0%
Elementary occupations	625 509	24.5%	623 622	24.1%	631 427	24.2%	7 805	1.3%	5 918	0.9%
Domestic workers	3 957	0.2%	2 030	0.1%	4 918	0.2%	2 888	142.2%	960	24.3%
Total	**2 550 540**	**100.0%**	**2 590 489**	**100.0%**	**2 613 579**	**100.0%**	**23 090**	**0.9%**	**63 040**	**2.5%**

Source: QLFS of Stats SA

Financial data of SMEs

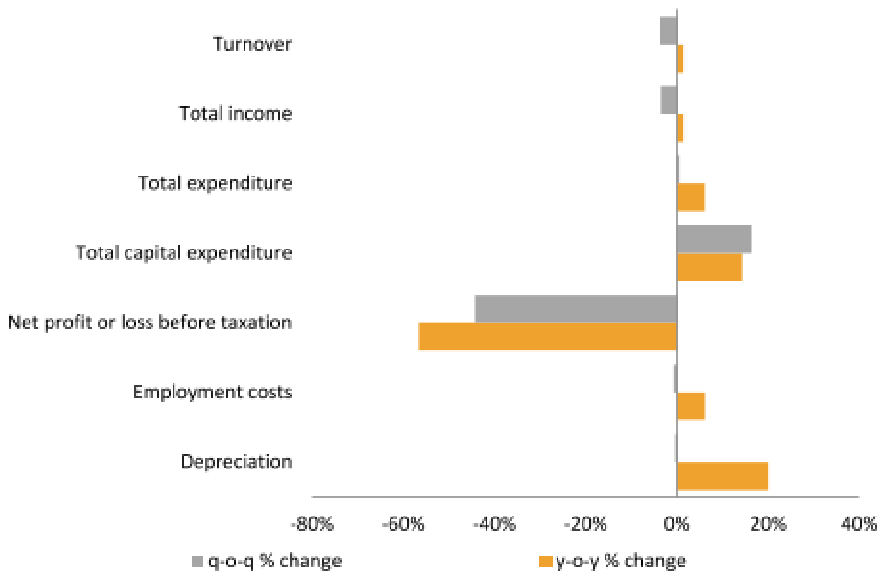
From the Quarterly Financial Survey

Profitability of SMEs

SME profits are under pressure

The combined turnover of SMEs increased by only 1.5% y-o-y in 2020Q1, which is significantly below the 5.9% turnover growth of large enterprises and the inflation rate of 4.4% over the same period. **These conditions have persisted for a while now and SMEs are no longer able to cut costs further.** Consequently, their combined profit levels fell by a significant 57% compared to a year ago. Given that there were 2.5% more SMMEs in the same period, the average profit of SMEs probably declined even more. While employment costs of SMEs increased by 6.3% in this period, SMMEs created nearly 6% fewer jobs at the same time.

Table 24: Change per financial indicator: 2020Q1



Source: QFS of Stats SA

Table 25: Financial indicators of SMEs

R million	2019Q1	2019Q4	2020Q1	q-o-q % change	y-o-y % change
Depreciation	R 12 490	R 15 057	R 14 988	-0.5%	20.0%
Employment costs	R 170 972	R 183 043	R 181 658	-0.8%	6.3%
Net profit or loss before taxation	R 59 651	R 46 483	R 25 913	-44.3%	-56.6%
Total capital expenditure	R 13 986	R 13 740	R 15 984	16.3%	14.3%
Total expenditure	R 895 391	R 944 719	R 950 285	0.6%	6.1%
Total income	R 950 610	R 999 770	R 964 547	-3.5%	1.5%
Turnover	R 917 029	R 965 406	R 930 389	-3.6%	1.5%

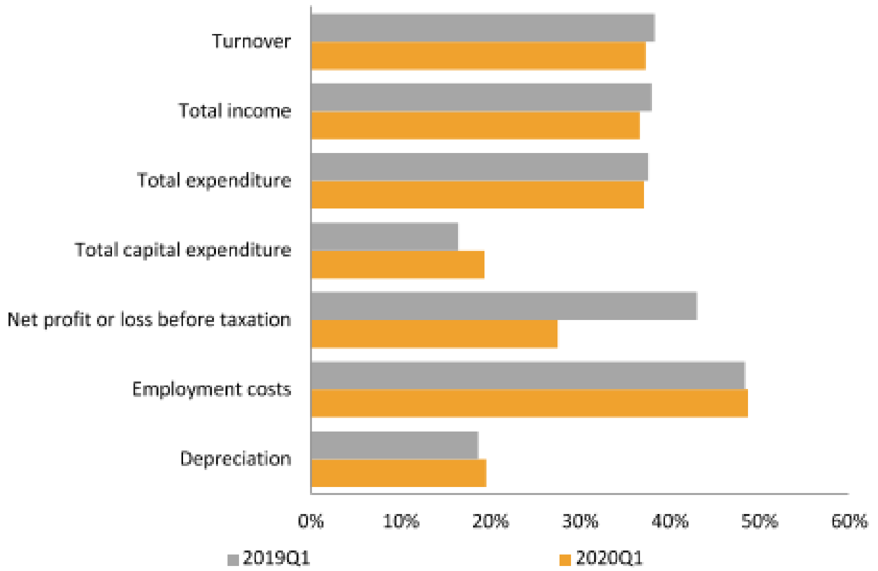
Source: QFS of Stats SA

Economic contribution of SMEs

SMEs' ability to cut costs is nearing an end

The share that SMEs contribute to the turnover of all enterprises* declined slightly from 38% to 37% in the year up to 2020Q1. Meanwhile, their share of net profit declined from 43% to 28%, as they presumably reached the end of their road with cost cutting. In contrast, the SME share of capital investment increased from 16% to 19% of total investment as they are probably now forced to start catching up with their investment backlog.

Table 26: SME contribution to all enterprises* by indicator



Source: QFS of Stats SA

Table 27: SME contribution to all enterprises* by indicator

Indicator	2019Q1	2019Q4	2020Q1	q-o-q change	y-o-y change
Depreciation	18.6%	19.8%	19.5%	-0.3% pts	0.9% pts
Employment costs	48.3%	48.2%	48.7%	0.4% pts	0.3% pts
Net profit or loss before taxation	43.0%	38.4%	27.5%	-10.8% pts	-15.5% pts
Total capital expenditure	16.4%	14.6%	19.4%	4.8% pts	3% pts
Total expenditure	37.6%	36.6%	37.1%	0.5% pts	-0.5% pts
Total income	37.9%	36.7%	36.6%	-0.1% pts	-1.3% pts
Turnover	38.3%	37.1%	37.3%	0.2% pts	-1% pts

Source: QFS of Stats SA

**excluding agriculture, financial intermediation, insurance and government institutions*

Table 28: Financial indicators of SMEs by industry

R million	2019Q1	2019Q4	2020Q1	q-o-q % change	y-o-y % change
Employment costs	**R 170 972**	**R 183 043**	**R 181 658**	**-0.8%**	**6.3%**
Community, social and personal services industry	R 8 390	R 10 359	R 10 007	-3.4%	19.3%
Construction industry	R 10 498	R 17 142	R 16 189	-5.6%	54.2%
Electricity, gas and water supply industry	R 624	R 789	R 786	-0.4%	26.0%
Manufacturing industry	R 41 388	R 51 150	R 48 400	-5.4%	16.9%
Mining and quarrying industry	R 4 531	R 4 083	R 4 126	1.1%	-8.9%
Real estate and other business services industry	R 63 061	R 54 166	R 54 080	-0.2%	-14.2%
Transport industry	R 10 765	R 11 201	R 10 984	-1.9%	2.0%
Trade industry	R 31 715	R 34 153	R 37 086	8.6%	16.9%
Net profit or loss before taxation	**R 59 651**	**R 46 483**	**R 25 913**	**-44.3%**	**-56.6%**
Community, social and personal services industry	R 3 342	R 860	-R 293	-134.1%	-108.8%
Construction industry	R 962	R 506	-R 1 600	-416.2%	-266.3%
Electricity, gas and water supply industry	R 1 256	R 2 054	R 880	-57.2%	-29.9%
Manufacturing industry	R 16 650	R 12 183	R 1 033	-91.5%	-93.8%
Mining and quarrying industry	-R 2 517	R 1 190	R 1 235	3.8%	-149.1%
Real estate and other business services industry	R 16 630	R 13 341	R 16 984	27.3%	2.1%
Transport industry	R 1 685	R 3 787	R 2 642	-30.2%	56.8%
Trade industry	R 21 643	R 12 562	R 5 032	-59.9%	-76.7%
Total capital expenditure	**R 13 986**	**R 13 740**	**R 15 984**	**16.3%**	**14.3%**
Community, social and personal services industry	R 513	R 845	R 461	-45.4%	-10.1%
Construction industry	R 12	R 266	R 273	2.6%	2175.0%
Electricity, gas and water supply industry	R 69	R 69	R 30	-56.5%	-56.5%
Manufacturing industry	R 4 686	R 4 347	R 6 725	54.7%	43.5%
Mining and quarrying industry	R 1 338	R 832	R 994	19.5%	-25.7%
Real estate and other business services industry	R 3 944	R 2 026	R 1 783	-12.0%	-54.8%
Transport industry	R 1 600	R 2 027	R 1 648	-18.7%	3.0%
Trade industry	R 1 824	R 3 328	R 4 070	22.3%	123.1%
Total expenditure	**R 895 391**	**R 944 719**	**R 950 285**	**0.6%**	**6.1%**
Community, social and personal services industry	R 26 070	R 26 001	R 26 336	1.3%	1.0%
Construction industry	R 49 056	R 54 672	R 47 114	-13.8%	-4.0%
Electricity, gas and water supply industry	R 5 680	R 5 479	R 6 188	12.9%	8.9%
Manufacturing industry	R 218 921	R 236 508	R 252 343	6.7%	15.3%
Mining and quarrying industry	R 19 211	R 17 658	R 17 613	-0.3%	-8.3%
Real estate and other business services industry	R 161 624	R 162 599	R 163 165	0.3%	1.0%
Transport industry	R 59 456	R 57 465	R 57 194	-0.5%	-3.8%
Trade industry	R 355 373	R 384 337	R 380 332	-1.0%	7.0%
Total income	**R 950 610**	**R 999 770**	**R 964 547**	**-3.5%**	**1.5%**
Community, social and personal services industry	R 29 365	R 26 867	R 26 029	-3.1%	-11.4%
Construction industry	R 49 748	R 51 896	R 45 361	-12.6%	-8.8%
Electricity, gas and water supply industry	R 6 936	R 7 538	R 7 061	-6.3%	1.8%
Manufacturing industry	R 231 629	R 255 484	R 242 321	-5.2%	4.6%
Mining and quarrying industry	R 16 367	R 18 681	R 18 691	0.1%	14.2%
Real estate and other business services industry	R 178 371	R 177 512	R 181 429	2.2%	1.7%
Transport industry	R 61 157	R 61 200	R 59 833	-2.2%	-2.2%
Trade industry	R 377 037	R 400 592	R 383 822	-4.2%	1.8%
Turnover	**R 917 029**	**R 965 406**	**R 930 389**	**-3.6%**	**1.5%**
Community, social and personal services industry	R 27 061	R 24 371	R 23 156	-5.0%	-14.4%
Construction industry	R 48 837	R 50 871	R 44 526	-12.5%	-8.8%
Electricity, gas and water supply industry	R 6 364	R 6 857	R 6 395	-6.7%	0.5%
Manufacturing industry	R 224 421	R 248 673	R 236 701	-4.8%	5.5%
Mining and quarrying industry	R 14 960	R 17 639	R 17 768	0.7%	18.8%
Real estate and other business services industry	R 165 584	R 160 697	R 165 344	2.9%	-0.1%
Transport industry	R 59 108	R 59 706	R 57 941	-3.0%	-2.0%
Trade industry	R 370 694	R 396 592	R 378 558	-4.5%	2.1%

Implications for the SMME sector[9]

The 2020Q1 SMME survey provides leading indicators of the COVID-induced economic crisis

The previous report alluded to the predicament that the SMME sector faced, being caught in the proverbial 'eye of the storm' as the COVID-19 pandemic unleashed an economic crisis. The 2020Q1 SMME survey points to these realities. **The analysis pertains to the pre-COVID business conditions in the sector. However, developments between 2019Q4 and 2020Q1, captured in the latest survey, are evidence of the deteriorating general economic conditions before the pandemic struck. They are also leading indicators of what did transpire during the middle quarters of the year**.

The reported contraction in SMME employment, the bulk of which occurred between 2019Q4 and 2020Q1, is the most worrying indicator. This was accompanied, over the corresponding period, by a notable decline in the number of trade and accommodation establishments, fewer SMMEs surviving three years and a sharp decline in the number of micro businesses operated by low-skilled owners.

It also confirms that some pre-COVID tendencies in the sector continued

For the remainder, the latest survey confirms the tendencies in the sector being prevalent over recent years. The encouraging softening of the sector's 'survivalist' nature continued in that the educational attainment and the occupational skills of owners continued to improve. Unfortunately, the adverse macroeconomic conditions are too overwhelming to accommodate an improved financial performance of the SMME sector. The sector's contribution to aggregate national income (as defined in this report) continued to recede.

Deep uncertainty prevails and therefore risk on the road to economic recovery

The good news, at the macro level, is that the rebound in economic activity was stronger than expected following the 'sudden stop' and economic slump during the second quarter. While the threat inherent in the second waves of COVID infection in many advanced economies casts a shadow on the outlook, expectations have improved. **The implication is that risk-mitigating strategies should be a top priority.** As suggested in the previous report, the SMME sector – as most firms – are likely to be in 'business rescue mode' for some time.

As in all crises, new opportunities arise …

The main implication, in view of both the challenging broader economic conditions and the level of risk for setbacks on the road to recovery, is to seek new opportunities for growth. SEDA's mandate does not include the macro considerations, but it is helpful to be aware of them. It is to be hoped that the policy authorities at both the global and local levels will succeed in building on the momentum which was created during the third quarter. **There are interesting new opportunities arising from the economic crisis.**

Entrepreneurship is key

In manufacturing, some of these opportunities, linked to the digital revolution, were alluded to in the previous report. It has become more important to succeed with re-industrialisation. In this regard,

[9] Readers are also referred to the results from a COVID-19 impact survey conducted by The World Bank, (June 2020): *Measuring the Pulse of Firms in South Africa: Results from the COVID-19 Business Pulse Survey*, Department of Small Business Development. The survey reports on the impact of the COVID-19 pandemic on firms' sales and employment, their operations and their expectations.

lower barriers to entry and the revival of small manufacturing and employment creation are realistic prospects. **It may be possible for SEDA to sharpen its mandate, including consideration of the various categories of entrepreneurship.**

New developments in the ICT sector in the offing

The ICT sector is at the heart of SA's post-COVID development. The strengthening of the regulator can produce win-win solutions in the long-awaited release of HDS. The sharp increase in demand for internet connectivity has made this policy proposal a more urgent matter. **Small business should prepare for the cost and availability benefits that are likely to flow in the medium term**. The government aims to effect the auctioning of HDS by March 2021.

Tourism operators should shift their focus to the domestic market

Whereas SA's vibrant tourism and hospitality sector has come to a standstill, also facing a bleak short-term outlook, **new growth opportunities may arise in the domestic market**. Furthermore, technological solutions, such as E-visas, should be explored to attract the big-spending overseas travellers. On the positive side, surveys do reveal both a desire to travel again and a willingness to adapt to the required COVID basic mitigating measures. **The current bleak outlook in the sector will also pass**.

SA faces a treacherous transition, but steps in the right direction are moving into place

Regarding the outlook for the SMME sector, **policies should be aimed at correcting for market failure; however, in a way that an environment conducive to free enterprise can be established**. In this regard, the initiatives to re-industrialise (including the localisation initiatives), to build infrastructure (energy, logistics and communication) with private-public sector cooperation and collaboration, are all steps in the right direction.

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 29: 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