

What contribution do SMMEs really make to the South African economy? An exploration of spatial tax data

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Context

- There is currently too much speculation about the size and composition of small business in South Africa and not enough **hard evidence**.
- Partly due to a **weakness in SA's statistical ecosystem**- limited availability of any firm databases (yet numerous household databases)
 - QLFS derived statistics – useful to pick up informal and self-employment, but what about formal sector?
 - Global Entrepreneurship Monitor – 3,000 person sample of the adult population (who may or may not be involved in small business)
 - FinMark MSME - 5,000 sample of individuals self-identified as business owners (60-75% are informal)
- “In South Africa, there is a lack of reliable data on small business. Obtaining an accurate count of the number of SMMEs and Co-operatives covering both informal and formal sector is a challenge” *SMME and Co-operatives Funding Policy, Government Gazette 48483, April 2023*
 - Proposal to build “Database of Small Business.. aggregation of all publicly accessible small business data sets under the www.smmesa.gov.za database... CIPC's BizPortal site and **tax data gathered by SARS** and information provided by local actors such as Municipalities”

What is the ‘Spatial Tax Panel’?

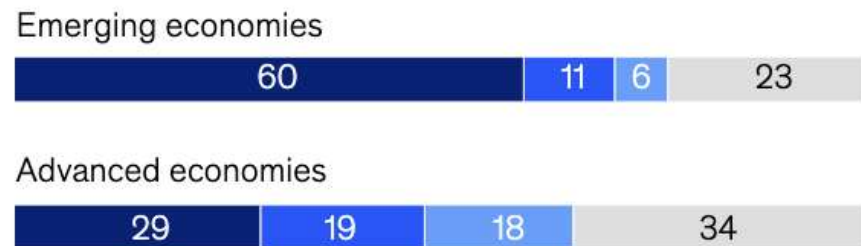
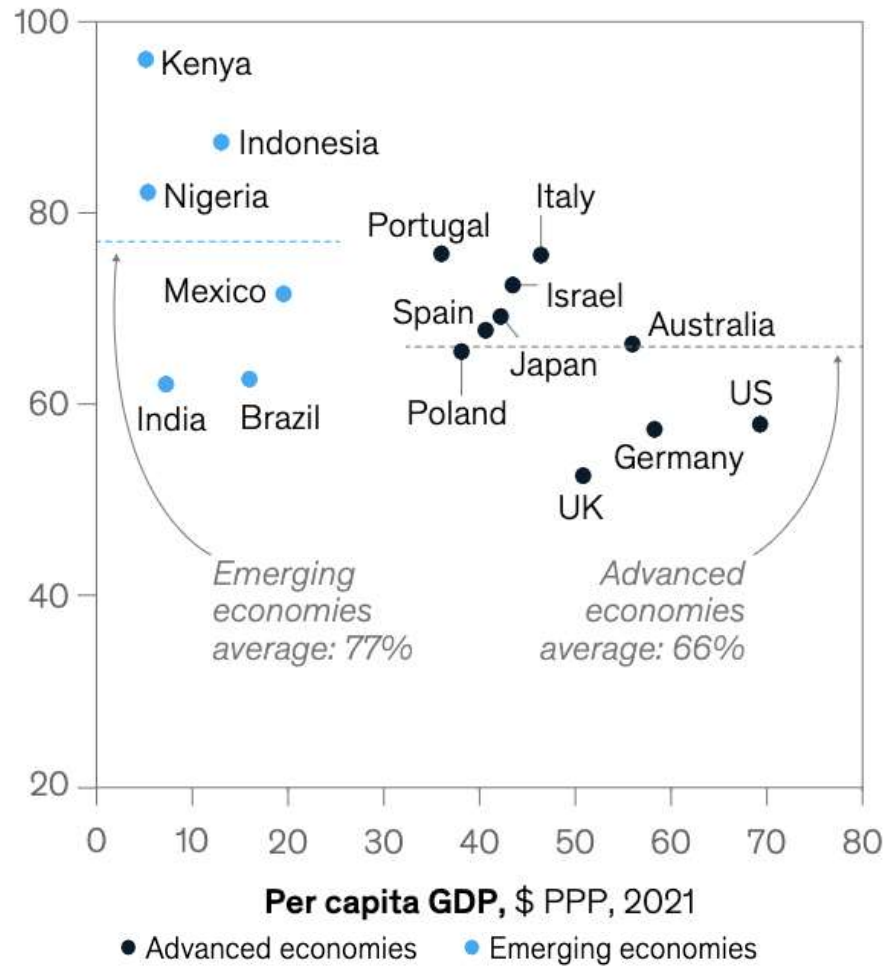
- SARS had made their **administrative tax data available** to researchers in a de-identified form **through the National Treasury – Secure Data Facility (NT-SDF)**.
- **Available data** consists of employee (PAYE), company (CIT), VAT and Customs data etc.
- The **NT-CSP** (Cities Support Programme) has spearheaded a project to prepare and **make available a Spatial Tax Panel (STP) of aggregated longitudinal economic indicators down to a sub-municipal level**
- The **data leverages postal code information** available within the PAYE tax returns to **corresponding to an employees’ establishment**.
- Future work is hoping to improve on the data by incorporating geocoded address information.
- The **dis-aggregated panels are available within the NT-SDF** at both an establishment and employee level.
- (note: a range of spatial indicators *for places* released publicly through SEAD-SA) – see <https://spatialtaxdata.org.za/>
- **Some major limitations** of this data is that it are that it is **administrative** and **limited to the formal sector**.



Definitions

- The South African Revenue Service (SARS) classification of SMMEs is based on the holding firms gross income turnover and total assets related to specific employees or establishments – based on ITR14 tax form which introduces a longer data lag; Assets dropped from definition by DBSD in 2019.
- Cleaner/neater to use the number of full time equivalent employees corresponding to each firm aggregated into ranges of employees. Correspond with the “National Small Enterprise Act” (amendment 2019) employment thresholds
- FTE thresholds applied in this paper: (we do not include any turnover exclusions but could be explored)
 - Micro: 0-9
 - Small:10-49
 - Medium: 50-249
 - Large: 250-999
 - V Large: 1000+
- Note: the unit of analysis in the STP is the local establishment (or branch)– large firms often include multiple establishments in many places

MSME share of employment in business sector,¹ %



■ Microenterprises ■ Small enterprises ■ Medium-size enterprises ■ Large companies

Where does SA stand?

McKinsey (2024) Microscope on small businesses

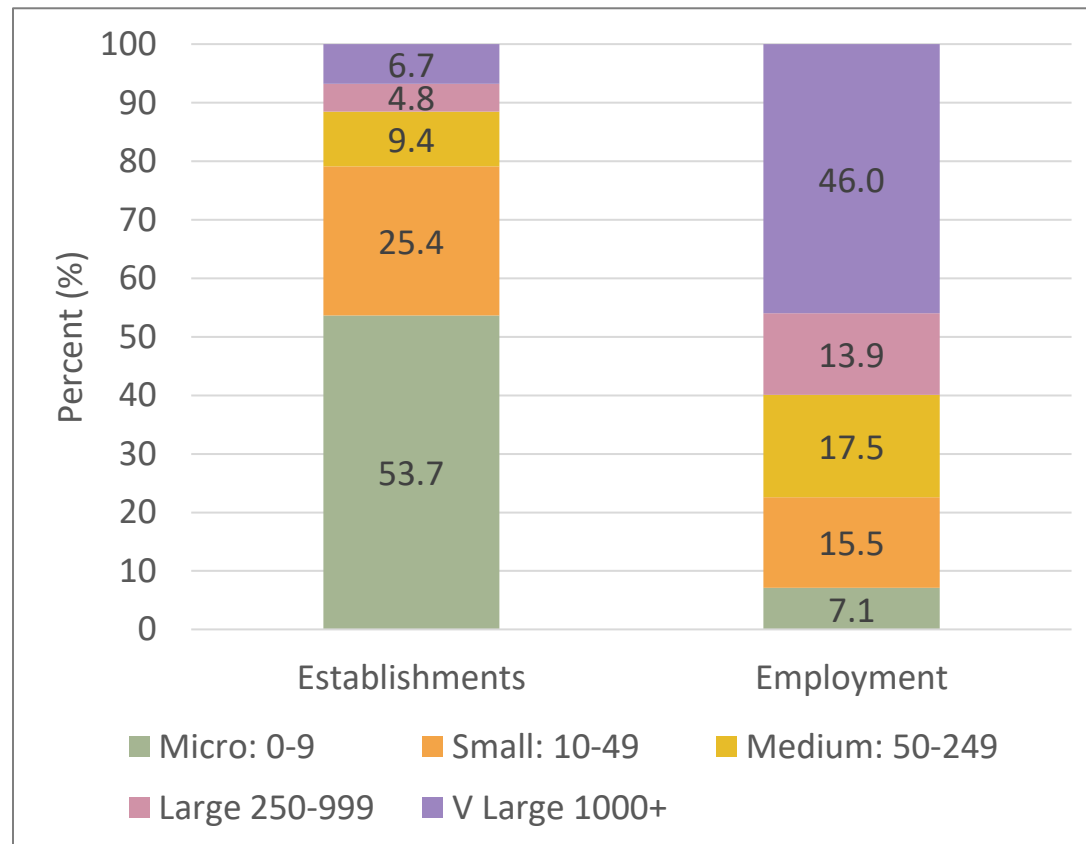
- MSMEs generate the majority of jobs
- 77% of jobs in emerging economies
- 66% of jobs in advanced economies

South Africa?

- FINSCOPE 2023: “MSME’s: 87% of total formal labour force” **incorrect?**
- TIPS 2023: “Small business generated... half of waged work in the formal private sector” (QLFS derived) **more plausible...**

What is the contribution of SMMEs to national (formal) employment?

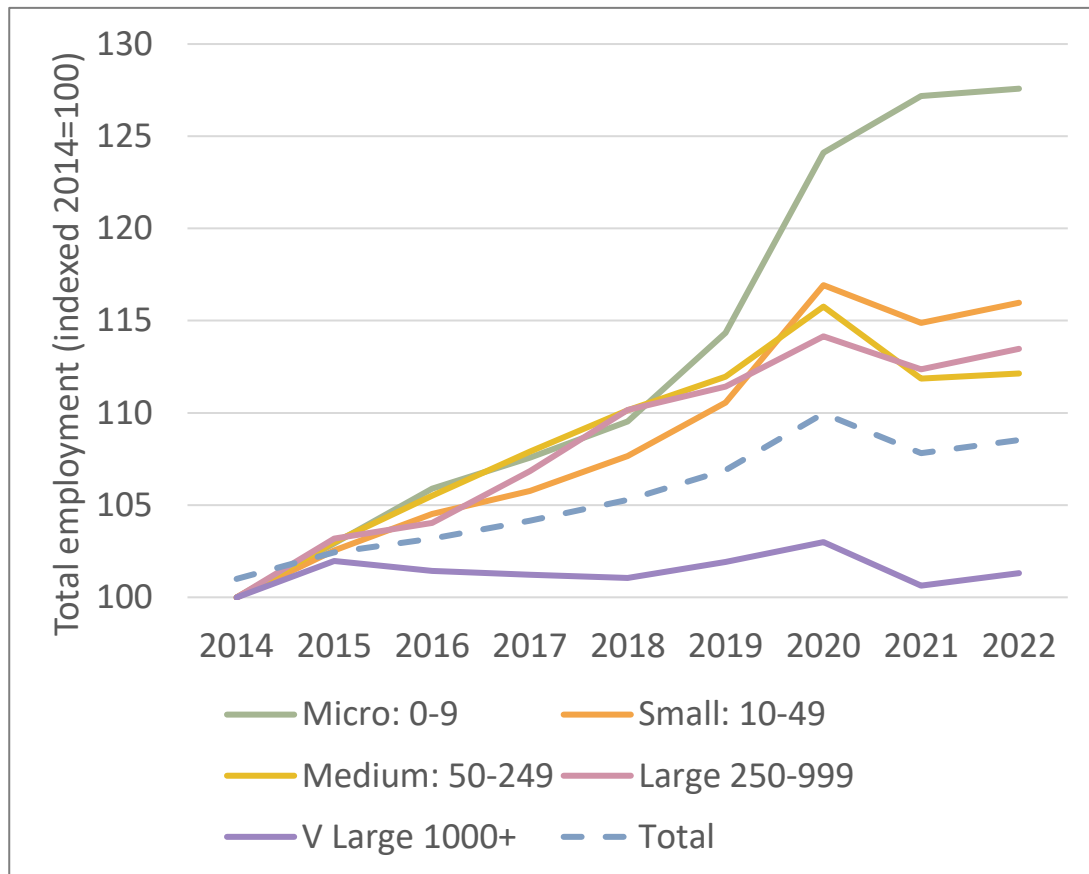
Figure 1: Total establishments and employment by firm size, 2019/20



- Total establ = 469,000; Total empl= 10.8 million (*aligns with Quarterly Employment Survey*)
- SMME's make up 88.5% (415,000) of all establishments **but only 40% (4.3 million) of employment**
 - This drops to 22.6% of empl when excl medium sized firms.
 - Micro firms (<10) make up 53.7% of establishments but 7.1% of employment
 - Very large firms (1000+) make up 6.7% of establishments but 46% of employment

Where did new jobs come from?

Figure 2: Change in employment by firm size



- Total jobs increased by 10 percentage points between 2014 to 2020
 - That is only +-1.5 percentage point growth per annum
- There is significant divergence by firm size
 - **Employment growth in very large firms has stalled!**
 - Micro firms expanded by 24 percentage points 2014-2020
 - That is +-4 percentage point growth per annum
 - Small and medium (and large) midway
- Impact of Covid? Upsurge in micro?

Where did new jobs come from?

Table 1: New jobs created by firm size, 2013/14-2019/20

	# of new jobs	% of new jobs
Micro: 0-9	149,367	15.2
Small: 10-49	242,409	24.7
Medium: 50-249	257,493	26.3
Large 250-999	186,486	19.0
V Large 1000+	144,383	14.7
Total jobs	980,138	100.0

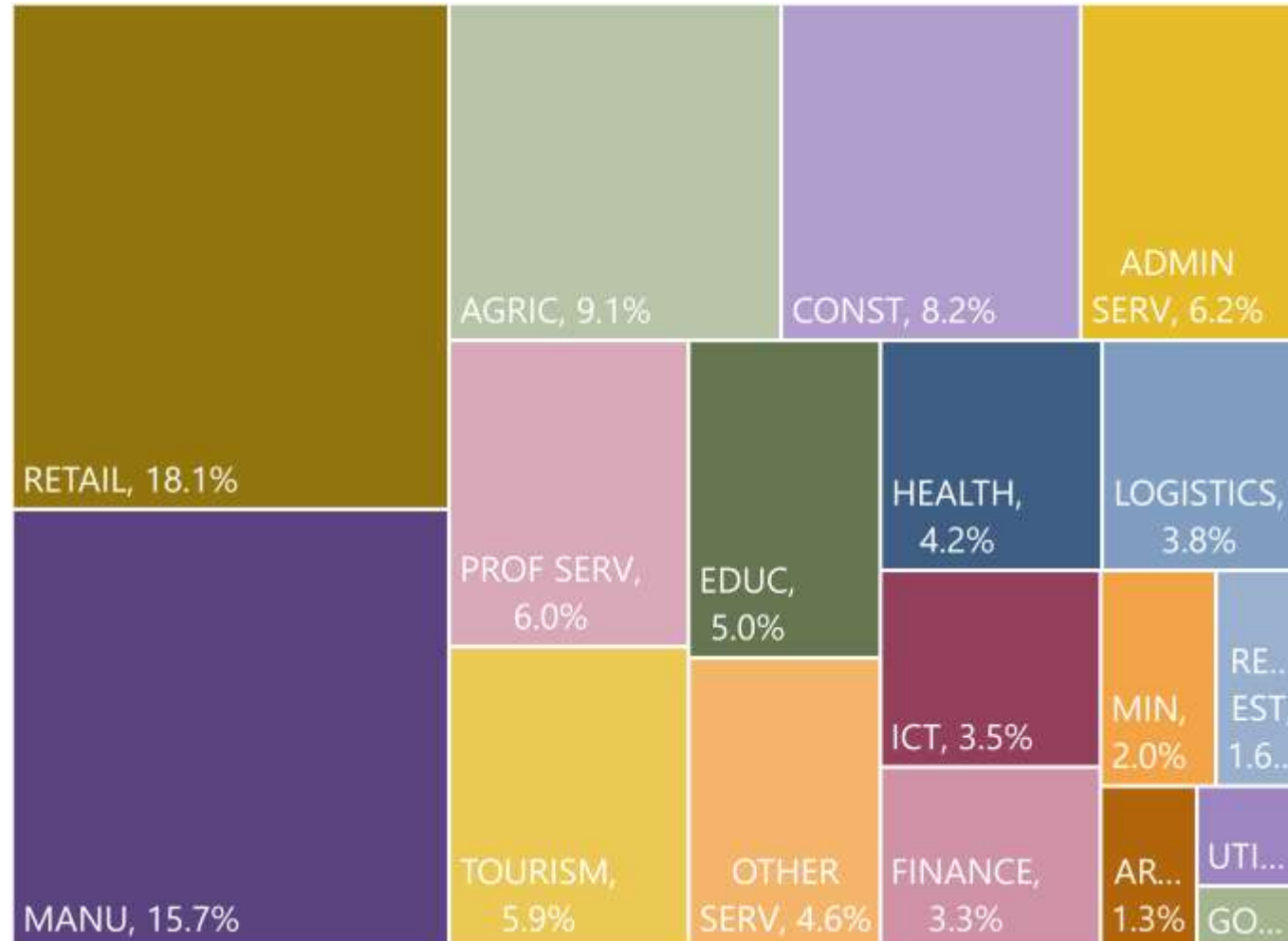
- Majority (66.2%) of all new jobs were created by SMMEs
- V large firms still contributed 14.7% of all new jobs (only grew by 3 percentage points but large base)
- Post-2020 (Covid recovery)? All firms sizes had less employment in 2022 compared with 2020 (except micro)

Confirmation from StatsSA 2019 Annual Financial Statistics...

“Small businesses have, without much fanfare, slowly taken over more of the turnover pie. In 2013, small business generated 16% of total turnover in the formal business sector, expanding to 22% in 2019. The contribution of large business waned over the same period, from 75% to 68%.”

What about industry?

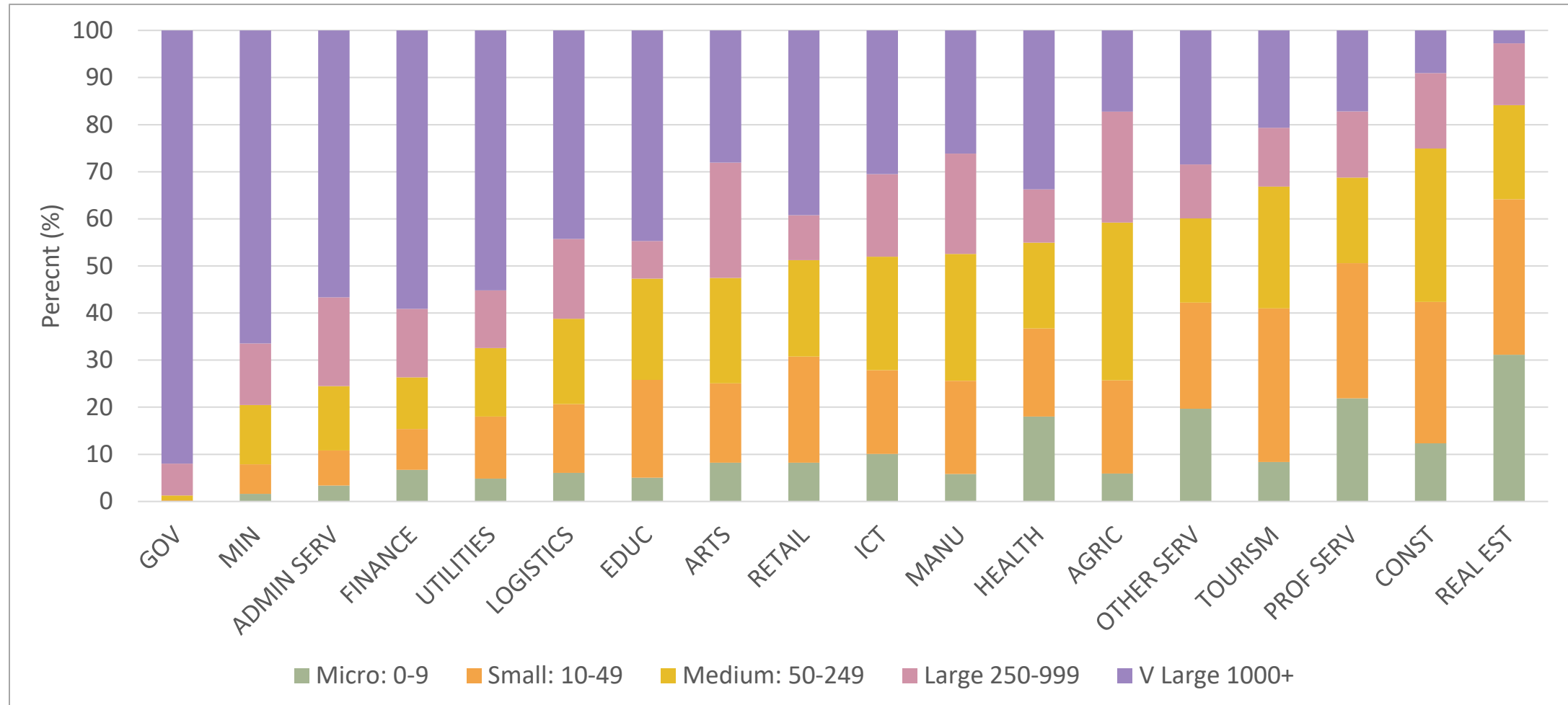
Figure 3: Total empl by sector for SMMEs, 2019/20



- A decent split between different sectors for SMMEs:
 - Retail #1 BUT not overwhelming
 - Manufacturing #2
 - Agriculture #3
 - Constr #4
 - Admin Serv #5
 - Prof Serv #6
 - Tourism #7

What about industry?

Figure 4: The percent of employment by industry and firm size, 2019/20



New jobs and sector

- Jobs were both created and lost in very large firms by sector
 - Losers: Mining (and other services), Construction and Manufacturing
 - Winners: Retail (and Govt), Finance
- SMMEs greater consistency by sector
 - Top performers: Retail, Agric, Tourism
- The start of a swing in favour of SMMEs?
 - Construction, Education, ICT, Manufacturing

Table 2: Job growth by sector and firm size, 2013/14 – 2019/20

	Jobs growth (2014-2020)	Growth per annum	Jobs growth by firm size (2014-2020)				
			Micro: 0-9	Small: 10-49	Medium: 50-249	Large 250-999	V Large 1000+
AGRIC	146,151	4.8%	14,997	27,439	52,434	26,755	24,526
MIN	-58,906	-2.0%	1,901	5,240	9,033	-5,105	-69,975
MANU	31,591	0.4%	10,462	8,550	18,081	21,983	-27,485
UTILITIES	4,341	0.6%	1,884	3,960	3,759	4,006	-9,268
CONST	-5,173	-0.2%	15,362	18,657	8,031	-13,039	-34,184
RETAIL	237,806	3.1%	14,953	43,459	41,128	29,637	108,629
LOGISTICS	21,144	0.9%	5,147	8,507	3,218	12,455	-8,183
TOURISM	101,799	6.2%	8,724	30,114	18,243	15,260	29,458
ICT	40,632	2.7%	8,100	10,612	22,639	16,191	-16,910
FINANCE	77,602	2.9%	6,465	7,757	10,064	14,628	38,688
REAL EST	23,548	6.8%	6,535	7,860	6,645	819	1,689
PROF SERV	54,107	2.8%	19,513	18,860	6,604	5,932	3,198
ADMIN SERV	84,536	1.4%	7,833	13,867	21,738	21,725	19,373
GOV	166,353	1.6%	50	-4	-7,107	17,765	155,649
EDUC	14,724	0.6%	5,721	17,046	26,740	5,612	-40,395
HEALTH	53,187	3.3%	13,329	12,399	6,555	4,284	16,620
ARTS	39,671	8.8%	2,619	4,351	6,816	8,876	17,009
OTHER SERV	-9,370	-0.5%	20,114	19,954	14,307	2,529	-66,274

Zoom into manufacturing

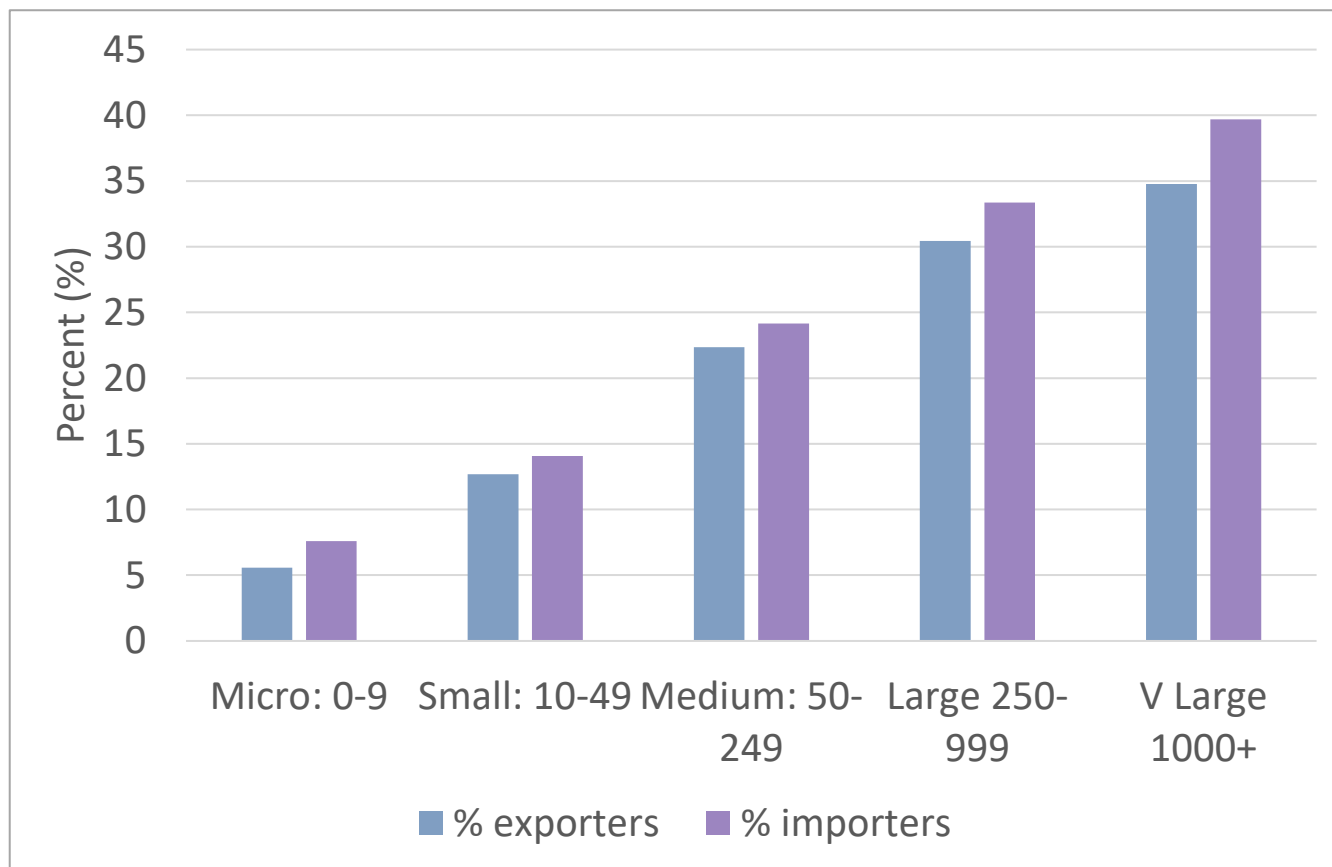
Table 3: Job growth in manufacturing sub-sectors by firm size, 2013/14-2019/20

	Jobs growth (2014-2020)	Avg jobs growth per annum	Jobs growth by firm size (2014-2020)				
			Micro: 0-9	Small: 10-49	Medium: 50-249	Large 250-999	V Large 1000+
Food Products	41260	21.4	1370	3716	10693	15821	9660
Beverages	4194	10.8	568	350	1388	1313	575
Tobacco	-941	-27.0	59	33	14	-61	-986
Textiles	458	1.0	491	-962	2635	2250	-3956
Wearing Apparel	-4164	-10.9	108	626	-3236	-2449	787
Leather	1485	9.0	93	-61	960	-245	738
Wood	-2646	-4.9	-8	116	-445	-5196	2887
Paper	4154	15.9	154	-24	-306	4072	258
Printing	-13207	-22.5	712	621	-4372	-3584	-6584
Coke and Refined Petro	-4947	-12.9	64	254	10	-798	-4477
Chemicals	-452	-0.7	556	1086	1952	-924	-3122
Pharmaceuticals	4784	21.9	-6	671	-341	2655	1805
Rubber and Plastic	-947	-1.4	247	85	4983	2943	-9205
Other Non-Metallic Minerals	489	0.8	261	279	-680	2859	-2230
Basic Metals	-2985	-4.0	449	-584	2034	-1988	-2896
Fabricated Metals	-3115	-2.3	884	-582	2743	2476	-8636
Computer, Electronic and Optical	874	5.1	334	-50	312	278	0
Electrical Equipment	-3990	-11.3	208	296	-550	1165	-5109
Machinery and Equipment N.E.C.	-1773	-3.0	603	619	-695	227	-2527
Motor Vehicles and Trailers	6122	7.4	394	-555	-47	4032	2298
Other Transport Equipment	1744	11.8	91	366	2115	-2492	1664
Furniture	-1665	-6.8	199	-316	-1199	-747	398
Other Manufacturing	6644	24.3	891	1639	54	1877	2183
MANU TOTAL	31376	2.5	8722	7623	18022	23484	-26475

- Not all manufacturing sub-sectors stagnant – see: food products & beverages
- Very large firms suffered in heavy manufacturing
- Large firms and medium firms still outperformed micro and small

...and exports/imports?

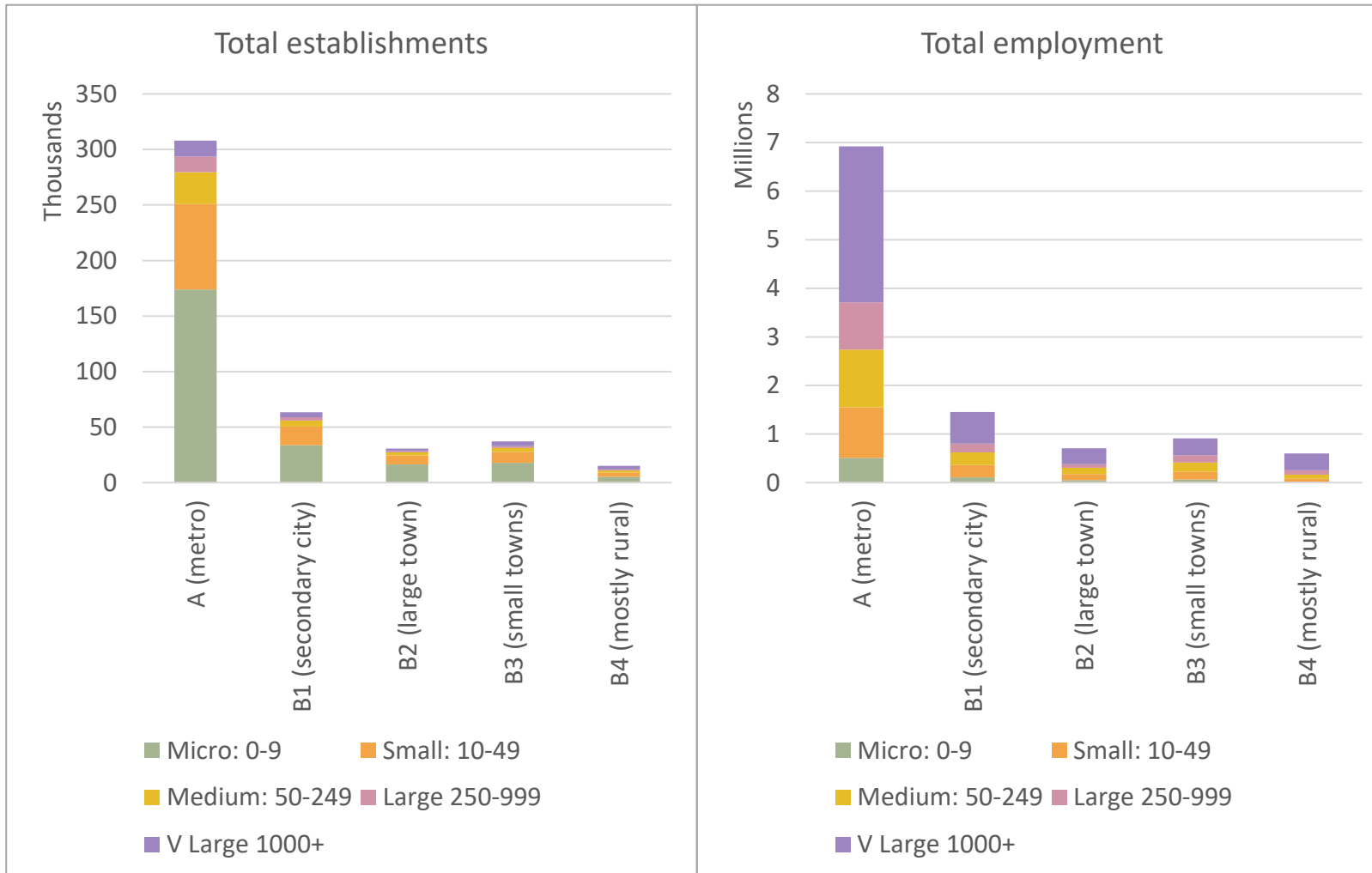
Figure 5: Percent which are exporters/importers



- Very clear correlation between firm size and participation in international trade (by import or export)

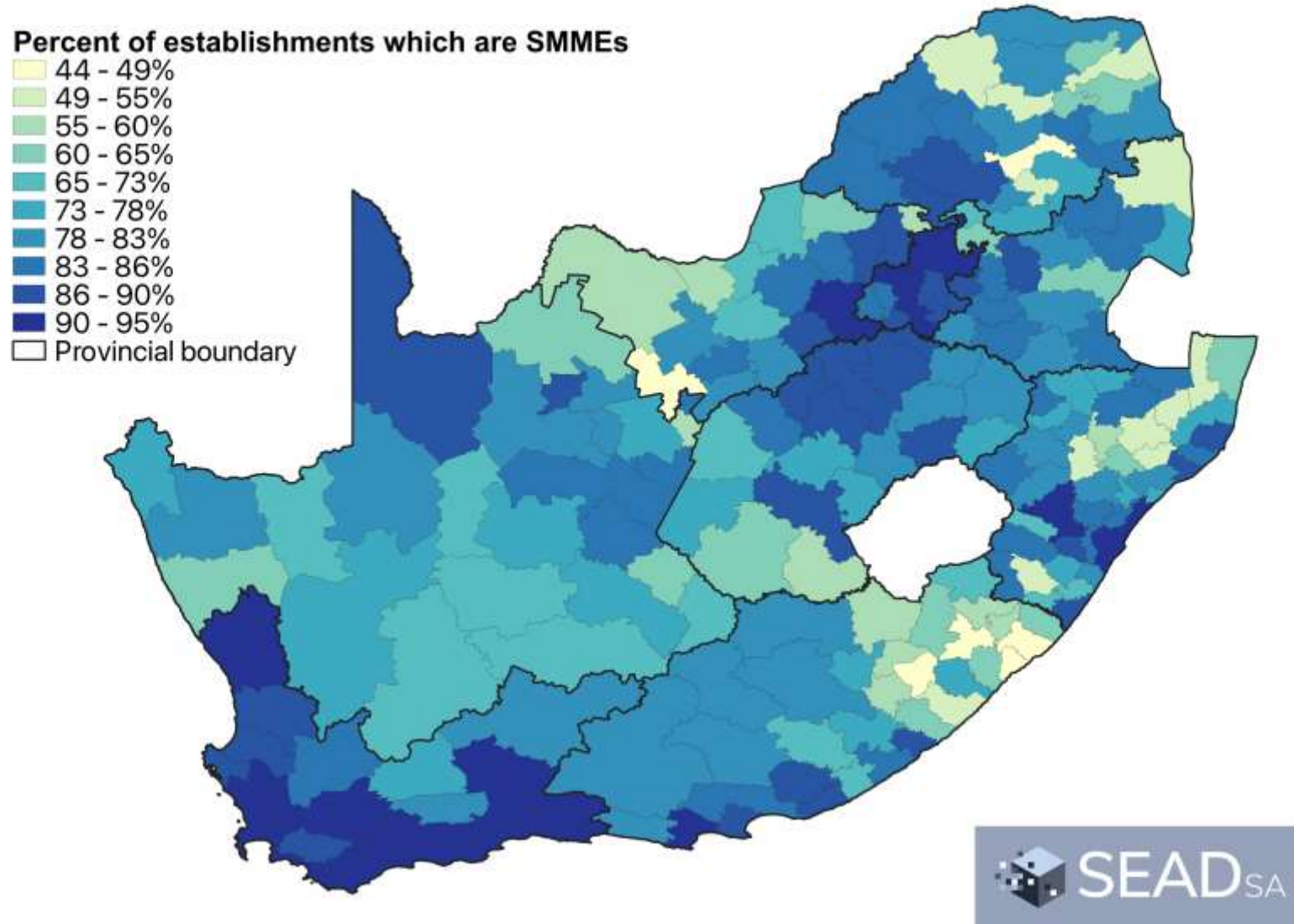
What about local economies?

Figure 6: Spatial types and firm size, 2019/20



- Metros overwhelming majority of firms/employment because of their sheer economic size

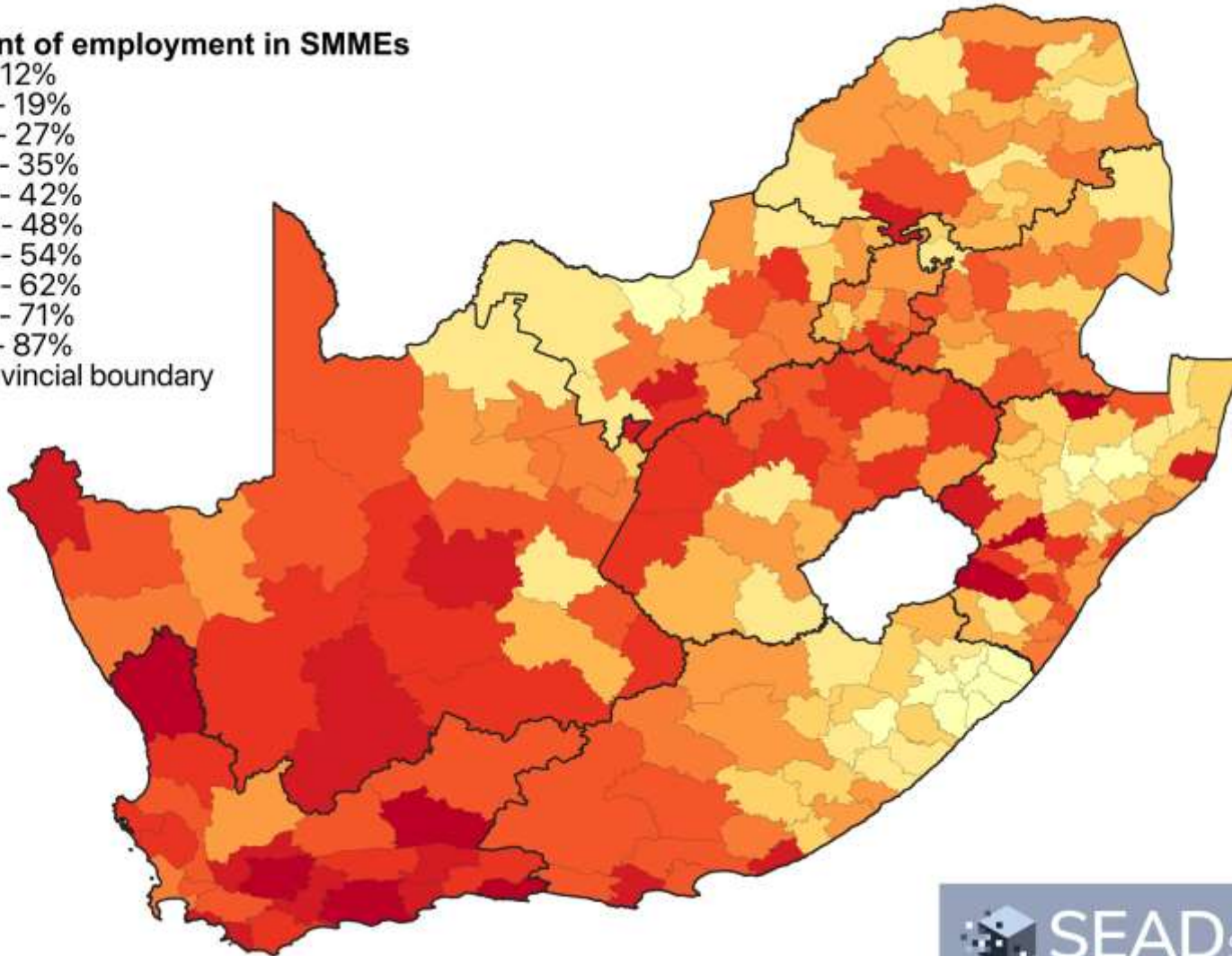
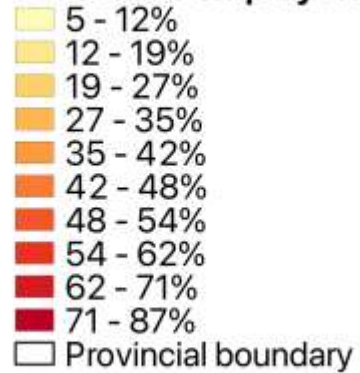
What about local economies?



- In relative terms, the share of establishments which are SMMEs varies by place (43-94% of all establishments)
- Noticeably higher in Gauteng, Western Cape – and in metros

What about local economies?

Percent of employment in SMMEs



- The share of employment in SMMEs by place has high level of variation (5-87%)
- Less clear pattern
 - But WC and NC generally have higher shares

What about local economies?

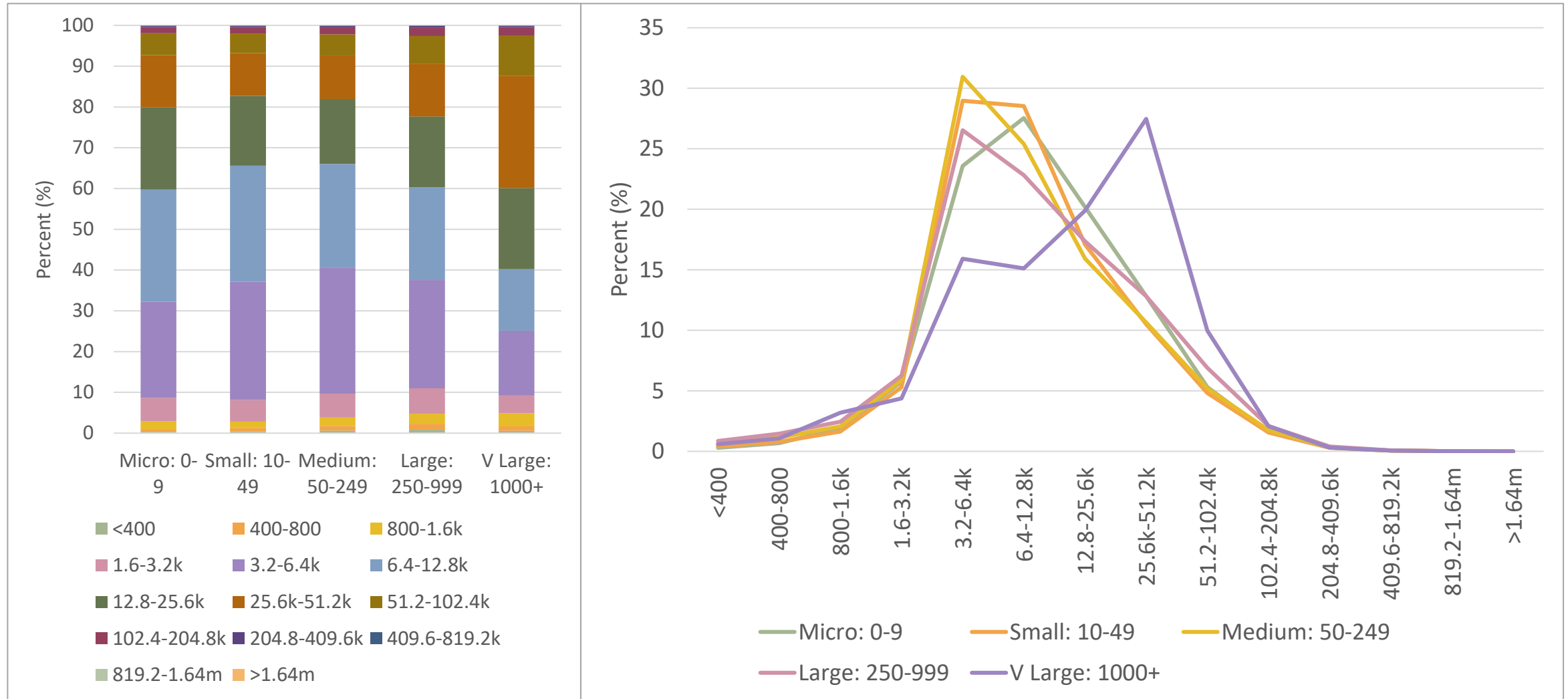
Figure 4: Spatial types and firm size, 2019/20



- Share of large and v large establishments is higher in small town and rural municipalities
- Employment only higher in mostly rural municipalities

What about equity/inclusion?

Figure 5: Wage earnings by firm size, 2019/20



What about equity/inclusion?

Figure 6: Employment by sex and firm size, 2019/20

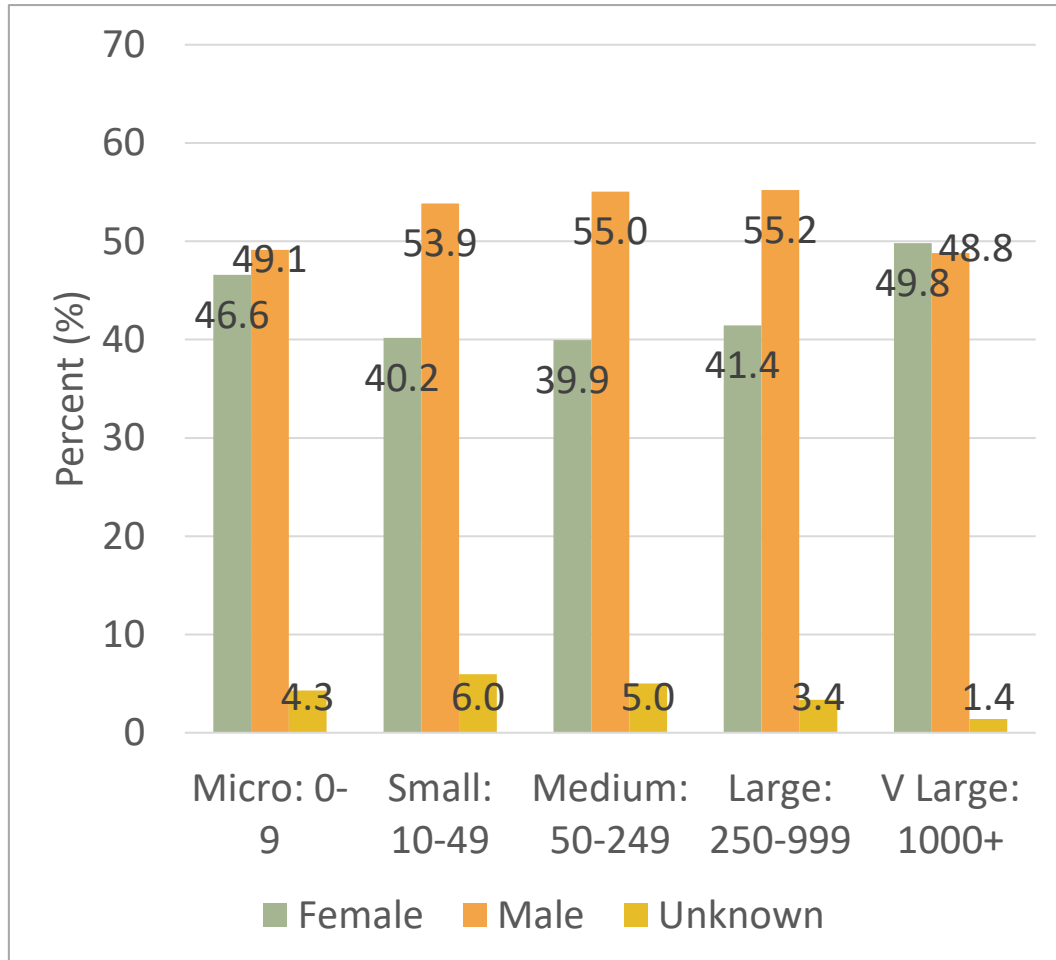
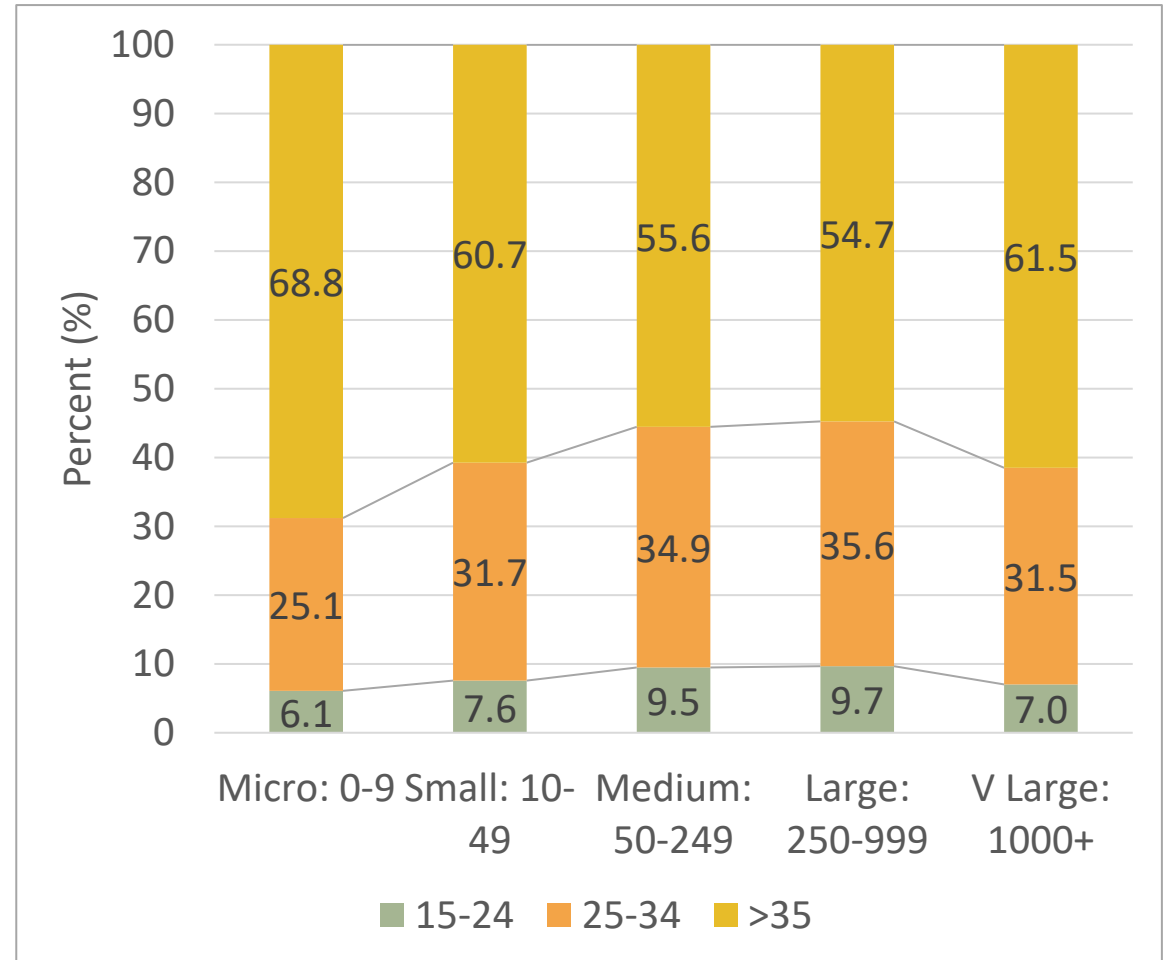


Figure 7: Employment by youth and firm size, 2019/20



Key reflections

- Need for more realism about SMMEs in SA policy:
 - The direct contribution from SMMEs to formal employment is modest (*and nearly halved that when excluding medium sized firms*). Less than 40% of formal jobs which is an outlier.
 - The NDP envisioned that 90 percent of new jobs in South Africa would be created by SMMEs by 2030 – this seems completely unrealistic!
 - SMMEs performance is encouraging (two thirds of jobs 2013/14-2019/20)! But we still need large firms to (re)invest, innovate, grow. Example: Job creation from v large firms = micro firms because of the difference in ‘base’
 - SMMEs noticeably more constrained in pay levels, shares for female (and youth) employment and exports.

Key reflections

- We should avoid thinking of SMMEs in a simplistic way – not a panacea!
 - Survivalist informal enterprises = important for poverty reduction, livelihoods but won't drive GDP or decent wages
 - Small fintech or knowledge-intensive service business = create value add and profit but limited (unskilled) labour absorption
 - Conventional small business services (retail, personal care, entertainment) = create jobs but little tradability and wider dynamism
 - Mixed bag by sector, sub-sector, geography etc...

Key reflections

- Clarify the role of SMMEs in economic development
 - SMME job contribution is curtailed by *definition*: small firms become large firms when they are successful. Should we rather target rates of survival and monitor churn?
 - Different tracks (and outcomes) for street vendor, township entrepreneur, black industrialist, and digital disrupter
- Geographical differences highlight role of local ecosystems
 - Huge variation in share of SMMEs by municipality- what makes some places better 'incubators' than others?
 - Metros importance due to size and scale – but also potential churn with higher share of micro enterprises

Looking ahead

- Administrative data untapped resource for M&E of SMMEs
 - We need fine grained data that captures the heterogeneity
- Research gap in understanding:
 - different forms of entrepreneurship and SMMEs
 - understanding the lifecycle over time – need to interrogate firm panels
 - barriers and enablers within local ecosystems

Thanks for listening!

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