PERFORMANCE AND DEVELOPMENTS OF SMMEs IN THE EASTERN CAPE

STATISTICAL QUARTLY UPDATE 3Q2020

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Dr Kambale Kavese

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STATISTICAL QUARTLY UPDATE, 3Q2020

1. Introduction, Background, Objective, Definition and Selected key Findings.

This report presents a broad statistical overview of Small, Medium, and Micro Enterprises (SMMEs) in the Eastern Cape. It uses Statistics South Africa's data from both, the Quarterly Labour Force Survey (QLFS, 2020), and the Quarterly Financial Statistics Survey (QFS, 2020) to develop a profile of SMMEs in the province. The report follows a similar methodology as the Department of Trade and Industry (dti), the Bureau of Economic Research (BER) and Small Enterprise Development Agency (seda) to derive a proxy for the number of SMMEs. The aim of the report is to provide data to prospective researchers and policy analysts on a wide spectrum of indicators on SMMEs. The data is presented in the form of graphs and tables, organised according to ten selected key SMME policy questions which the study focuses on.

The literature[1] acknowledges the important role that SMMES play in sustaining economic growth and development in developing countries (World Bank, 2020). The South African Government has prioritised entrepreneurship and the advancement of SMMEs as a catalyst to achieving economic growth, innovation, job creation, and development (the dti, 2019). In recognition of the importance of the SMME sector, the government established a Ministry of Small Business Development (MSBD) in 2014. The aim of the Ministry was to facilitate the promotion and development of small businesses. The National Development Plan envisioned that by 2030, SMMEs will contribute 60-80% to GDP increase, and generate 90% of the 11-million new jobs in our country. Hence, it is crucial to monitor the performance of SMMEs. This study seeks to report on the number of jobs created by SMMEs in the province.

1.1. Background

The diagnostic of post-apartheid socio-economic challenges[2] of the Eastern Cape are presented in the Provincial Development Plan (EC PDP) and "Vision 2030" documents (See footnote with the list of socio-economic challenges facing the province). These challenges together with the unprecedented adverse impact of the current health pandemic of Covid-19, and other disaster management measures related to Covid-19 have weaken the ability of most enterprises to create jobs.

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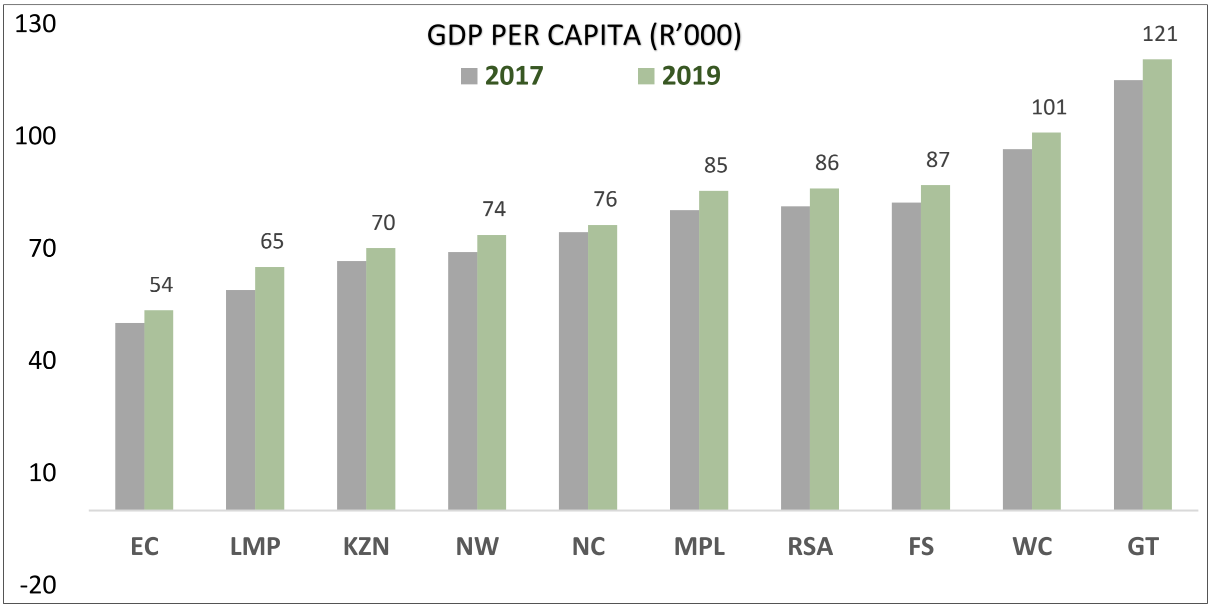
[1] World Bank (2020). Small and Medium Enterprises (SMEs) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. https://www.worldbank.org/en/topic/smefinance

[2] The challenges mentioned in the EC PDP together with other contemporaneous issues are: (1) Weak growth prospects, and low real investment; (2) Fiscal austerity measures (weak fiscal stance could lead to sovereign debt crisis), shrinking government revenue and rising government expenditure; (3) Uncertainty about the impending upsurge of Covid19 – how long the pandemic will last, its imminent adverse effects of the economy; (4) Skills shortage, high illiteracy rate, and poor education system, especially in deprived & marginalised communities; (5) Deteriorating health system – especially in the poor rural communities; (6) Ever-escalating crime rate and social unrest, which can undermine investment prospects and business development; (7) Corruption and fruitless expenditure that weaken service delivery and the fiscal stance which is already under stress; (8) High poverty rate and persisting inequality between the rich and the poor; and (9) Continued rise of unemployment rate – especially among the young people

An OECD (2019) report suggests that in situations where big enterprises are shedding jobs, SMMEs, through their ability to act as absorbers of excess labour, must be strengthen so that they employ workers who were laid off. This would make a meaningful contribution to slowing down the growing unemployment rate that has largely been caused by the big business shedding jobs. In other words, with the reduced employment opportunities in big business, SMMEs can become an important source of new jobs. In a rural province, like the Eastern Cape, their role is even more significant because they are the only viable form of business due to the small markets in rural towns and villages.

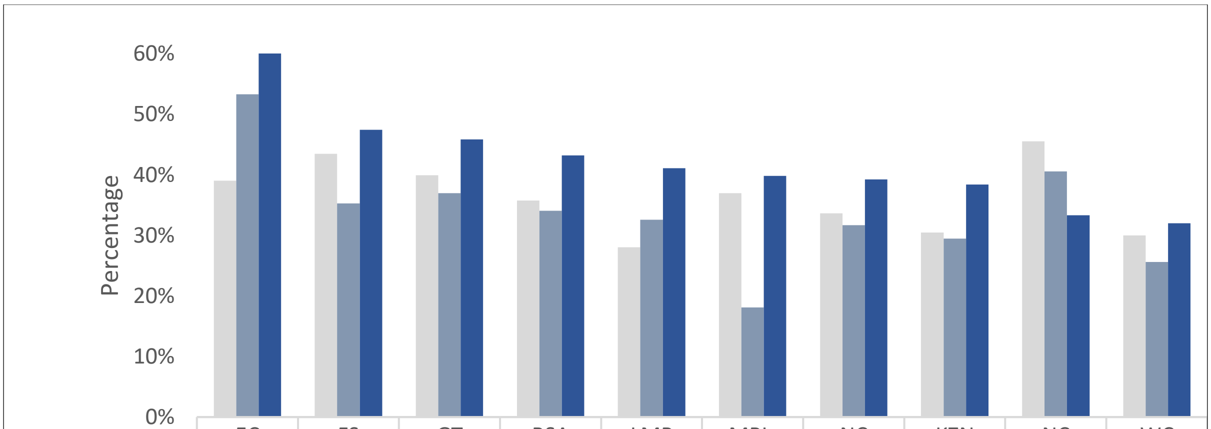
Why SMMEs promotion and development are considered important in the Eastern Cape? Two main reasons. Firstly, the province has the highest youth unemployment rate in the country. Secondly, the Eastern Cape is the poorest province in the country in terms of GDP per capita. (See Figures 1 and 2).

Figure 1. The Eastern Cape is the poorest province in the country in terms of GDP per capita.



Source: Statistics South Africa

Figure 2. The Eastern Cape has the highest youth unemployment rate in the country.



	EC	FS	GT	RSA	LMP	MPL	NC	KZN	NC	WC
3Q2015	39%	43%	40%	36%	28%	37%	34%	30%	46%	30%
2Q2020	53%	35%	37%	34%	33%	18%	32%	29%	41%	26%
3Q2020	60%	47%	46%	43%	41%	40%	39%	38%	33%	32%

Source: Statistics South Africa

Rationale for SMME promotion and the economic role of the SMME sector: The Ministry of Small Business Development (MSBD) acknowledges three important reasons why SMMEs are considered crucial for development.

- SMMEs are seedbeds for entrepreneurship development, innovation and risk-taking behaviour, and provide the foundation for long-term growth dynamics and the transition towards larger enterprises. In this context, the predominant role of youth entrepreneurs is of particular importance.
- SMMEs are crucial to the transition from Agro-led to industrial economies as they provide simple opportunities for processing activities that can generate sustainable livelihoods.
- SMMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.

1.2. Definition of SMMEs, objective and structure of the report

1.2.1 Definition

In South Africa, the National Small Business Act, 1996 defines a small business as: a separate distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more, and which can be classified[3] as a micro, very small, a small or medium enterprise by satisfying the criteria mentioned in the Act.

The heterogeneity of the SMME population across the province, the diversity of their business ecosystems and the pressing challenges ahead call for a fundamental rethinking of SMMEs.

SMME policies require more and better data, as well as stronger evidence on policy synergies, complementarities, and trade-offs. Hence, this report makes a first step by developing a database for tracking development of small businesses in the province.

1.2.2 Objective of the report

The main objective of this report is to provide data that could be used to respond to the following ten key SMMEs policy questions, namely:

1. How many SMMEs operate in South Africa and in the province?

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[3] The National Small Business Act 102 of 1996 is the framework that is most used in South Africa. The definition outlined in the Act uses the number of employees (the most common mode of definition); annual turnover; and the gross assets excluding fixed property to classify enterprises. The definitions for the various enterprise categories are given as follows:

• **Survivalist enterprise**: the income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers.

• **Micro enterprise**: The turnover is less than the VAT registration limit (that is, R150 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than 5 people.

• **Very small enterprise**: these are enterprises employing fewer than 10 paid employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.

• **Small enterprises**: The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

• **Medium enterprises**: the maximum number of employees is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterized by the decentralization of power to an additional management layer.

2. How many SMMEs operate in the formal sector vs informal sector?
3. Where do these SMMEs operate? i.e., in terms of Urban areas, Non-Urban areas, Metros, Non-Metros; and provincial distribution.
4. Who owns these SMMES? i.e., in terms of Gender, and Population Group, and Age (Youth Owned SMMEs vs Adult Owned SMMEs).
5. What is the marital status of SMME owners? The status of SMME owner can affect the performance of SMMEs.
6. How educated are SMMEs owners; and how many are functionally literate or illiterate?
7. What occupation category SMME owners fall under; and what level of skills they have?
8. In which economic sectors do they function?
9. How many SMMEs in the province are registered for VAT?
10. How many SMMEs in the province are registered for income tax?

The report is structured according to the ten policy questions identified above. Each policy question is addressed in a section.

1.3. Summary of findings

During the third quarter of 2020, SMMEs in the Eastern Cape contributed 19% to total employment in the province. A statistical summary of selected key SMMEs indicators is provided in Table 1 below.

Table 1 Summary of selected key SMMEs indicators

	SMMEs indicators	Findings (Eastern Cape, third quarter 2020)
1	Number of SMMES in the RSA and in the Eastern Cape	In the third quarter of 2020, there were 2.4 million SMMEs in South Africa of which 231 011 SMMEs (9.8%) were in the Eastern Cape
2	SMMEs in Formal and informal sectors	51 047 SMMEs (22%) operate in the formal sector; 160 861 SMMEs (70%) in the informal sector; and 19 104 SMMEs (8%) in other sectors
3	SMMEs in Urban and non-urban areas	135 940 SMMEs (59%) operate in Urban areas; and 95 072 SMMEs (41%) in non-urban areas
4	SMME owners by Gender	141 616 SMMEs (61%) are owned by Males; and 89 396 SMMEs (39%) are owned by Females
5	SMME owners by Education and literacy level	49% of SMME owners have “Secondary not completed”; 92% are functional literate and 8% are functional illiterate
6	SMME owners by Marital status	47% of SMMEs are owned by married people; 42% by those not married; 2% by divorced; 5% by widows/widowers; and 4% by those in cohabitation
7	SMME owner by occupation	28% of SMME owners operate in the occupation of “trade worker” and 27% in the “elementary occupation”
8	SMME owners by age	Youth owned SMMEs accounts for 36%, and Adult for 64%. The majority of SMMEs (60 841 or 26%) are owned by people in the age group (30-34)
9	SMMEs owner by skill levels	50% (half) of SMMEs are owned by Semi-skilled entrepreneurs. Skilled (23%) and low-skilled (27%) account for the other half.
10	SMME owners by population group	77% of SMMEs are owned by Africans; 10% by White; 9% by Indian; and 4% by Coloured.
11	SMMEs by province	SMMEs are unevenly distributed across the nine provinces: GT 33%; KZN 17%; WC 11%; LMP 10%; EC 10%; MPL 9%; FS 5%; NW 3%; NC 1%
12	SMMEs by Metros and Non- Metros	The majority of SMMEs in the province operate in non-metro areas (62%). Only 20% of SMMEs operate in the BCM and 18% in NMBM
13	SMMEs by Industry	39% of SMME owners operate in Trade sector; 19% in Construction; 16% in Community services; 7% in Agriculture; 7% in Finance; 6% in Manufacturing; and 5% in Transport
15	SMMEs by type of Enterprises	For every 10 SMMEs in the province, 9 are private enterprises. Few are NGO, public enterprises, or government-controlled entities
16	SMMEs registered for VAT	For every 10 SMMEs in the province, 8 are not registered for VAT
17	SMMEs registered for income tax	For every 10 SMMEs in the province, 7 are not registered for income tax

Source: Own calculations derived from Stats SA’s Quarterly Labour Force Survey (QLFS, 2020)

1.4. Methodology and proxy used to derive the number of SMMEs in the Eastern Cape.

1.4.1 Methodological approach

Statistics South Africa's Integrated Business Register (SAIBR) contains information on businesses in the country. For confidentiality reasons, the information is not open to the public, which makes it difficult to compile a profile of businesses, including SMMEs. To overcome this challenge, the DTI conducted a study that sought to assess the number of SMMEs in the country. The results of their study revealed that in 2007, there were 2 260 096 SMMEs in South Africa. Subsequently, the BER used the QLFS-Proxy to estimate the number of SMMEs. BER's methodology consisted of combining the number of "*employers*" and the number of "*own account workers*" as a proxy for SMMEs. The BER results showed that in 2007, there were 2 182 823 SMMEs in South Africa.
The comparison of the two results (between the DTI and BER) differs only by 3%. Therefore, we can deduct that the QLFS-Proxy is a relative accurate estimate of the number of SMMES. Since the QLFS-Proxy is closer to the official number, SEDA has adopted this methodology to compile its Quarterly SMMEs Statistical Update (SEDA, 2019).

There is no need to re-invent the wheel. This report uses the same methodology of QLFS-Proxy to estimate the number of SMMEs in the Eastern Cape. The report draws heavily from both the BER and SEDA's "*SMMEs Quarterly Update*" documents in terms of the structure, approach, and statistical analysis (SEDA, 2019).

Table 2. QLFS-Proxy to estimate the number of SMMEs in the Eastern Cape

	Number of SMMES		Distribution	Number of SMMES		Distribution	Growth rate (%)	
	3Q2008	3Q2015	3Q2015 (%)	2Q2020	3Q2020	3Q2020 (%)	3Q2008 - 3Q2015	3Q2015 - 2Q2020
Total	**1 320 625**	**1 387 457**	**100%**	**1 183 538**	**1 222 913**	**100%**	**5%**	**-12%**
Working for someone else for pay	1 089 167	1 187 949	85.6%	927 797	982 629	80.4%	9%	-17%
Helping without pay in a household business	13 614	4 973	0.4%	7 931	9 272	0.8%	-63%	86%
Sub-total (employed)	**1 102 781**	**1 192 922**	**86.0%**	**935 728**	**991 902**	**81.1%**	8%	**-17%**
Employer (employing one or more employees)	77 376	68 044	4.9%	98 232	73 342	6.0%	-12%	8%
Own account worker (not employing any employees)	140 467	126 492	9.1%	149 578	157 669	12.9%	-10%	25%
SMMEs	**217 843**	**194 535**	**14.0%**	**247 810**	**231 011**	**18.9%**	-11%	**19%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Table 2 shows that in 3Q2020, there were 1 222 913 people employed in the Eastern Cape. Of the 1.2 million people, 73 342 people (6.0%) employed others, while 157 669 people (12.9%) worked for themselves. Combined at 231 011 (18.9%), this comprises the proxy measure for the number of SMMEs in the Eastern Cape.

1.4.2 Analytical Approach

Employment in the SMMEs sector has increased dramatically. Two important findings emerge from Table 2. Firstly, the SMMEs' contribution to total employment in the province has improved from 14.0% in 3Q2015 to 18.9% in 3Q2020. Secondly, the number of SMMEs in the province increased by 19% from 194 535 in 3Q2015 to 231 011 in 3Q2020. However, the number of employed people (working for someone else for pay or those helping without pay) dropped by 17% from 1 192 922 in 3Q2015 to 991 902 in 3Q2020. The overall employment in the province declined by 12% from 1.38

million in 3Q2015 to 1.22 million in 3Q2020. The decline in total employment in 3Q2020 was mainly attributed to the global economic stagnation and the global health pandemic of Covid-19 that led to job shedding in most economic sectors. As such, the SMME option has become the natural alternative for people struggling to find a job (SEDA, 2019). According to ECSECC (2020), the QLFS highlights important facts. It shows that the Eastern Cape has a low share of employers and self-employed people in the labour force, and a relatively low share of working age adults in employment. That is a major factor behind high joblessness and the associated inequality and economic exclusion.

1.5 Global SMMEs outlook

According to the World Bank[4] (2020), SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to our estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.

1.6 SMMEs legislative tools in South Africa

The National Development Plan suggests that small business can open new opportunities to create jobs, equality and innovation as well as be a route to economic empowerment. According to the dti (2017), small business provides 55% of formal employment, compared to 40% from large companies (the other 5% of workers do not know the size of their employer). Various legislative tools have been enacted to create and foster a conducive business environment. These are:

- The Business Act of 1991,
- National Small Enterprise Act of 1996,
- Skills Development Act of 1998,
- Public Finance Management Act of 1999,
- the Preferential Procurement Policy Framework Act of 2000,
- Broad-Based Black Economic Empowerment Act of 2003,
- Cooperatives Development Act of 2005,
- Companies Act of 2008 and Industrial Development Corporation Act of 1940
- The National Small Enterprise Amendment Bill 2020, gazetted recently, outlines the establishment of an Ombud service that will provide legal support to SMMEs.

According to the DSBD, the creation of this environment is done through regulating the licensing and operation of businesses, establishment of councils and agencies of government that provide guidelines on promotion of businesses by state organs, develop skills of the country's workforce and promote self-employment, and the development of SMMEs through facilitation of access to finance.

[4] World Bank (2020) Small and Medium Enterprises (SMEs) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. https://www.worldbank.org/en/topic/smefinance

Despite these legislative tools, the province is still lacking behind in terms of attaining macro-economic objectives. This could imply ***the need to re-examine South Africa's SMME policy framework, to assess current SMME institutions, and to re-evaluate SMME policy instruments***.

1.7 Shortcoming of the study and future research area

Due to the limitation of the proxy used to derive the number of SMMEs in the country (province), the data provided in this report should be interpreted with care. Also, the quarterly date can be misleading due seasonality effects. The use of annual data[5] from Stats SA's Labour Market Dynamics (LMD) can provide a different and better picture.

The following topics fall outside the scope of this study, and further useful research would involve around:

1. How SMMEs in the Eastern Cape are affected by Covid-19?
2. Can rural SMMEs have meaningful impacts on the economy during this contemporaneous dispensation of digitalisation, high technology and the fourth industrial revolution?
3. Review of diagnostics of challenges currently facing the Eastern Cape SMMEs and what strategy to implement, or policy recommendations
4. What is the sectoral contribution of SMMEs on GDP, fiscus, and employment? How SMMEs affect other macroeconomic objectives in the province?
5. How SMMEs in the tourism sector, energy sector, environmental sector, ocean economy sector, art & culture (creative industry), township economy and digital economy sector are performing in the province?
6. Survey of SMMEs areas of involvement such as: Tuck shop, art and craft, traditional health service, education, shebeen, house shop, liquor sale, entertainment service, grocery retail (Spaza), religious services, tailor, tavern, mechanical services, transport services, meat & poultry & fish retail, subsistence farming, hair care, takeaways, shoe repair, community services, car wash, phone shops, appliance repairs, restaurants and vendors.

From the above shortcomings, this study does not claim to bring solution to the SMMEs sector but rather it aims to contribute to the building of the bigger picture. Without such information, it is difficult to develop a SMME strategy for the province.

2. Statistical profile of SMMEs in the Eastern Cape

To attain heterogeneity and reach the objectives set in this study, this subsection will provide data and a very brief discussion on various SMMEs indicators. The section will focus on trends and number of SMMEs in the province; employment provided by SMMEs; SMMEs in formal and informal sectors; SMME owners by age, gender, marital status, race, education attained; Spatial distribution of SMMEs

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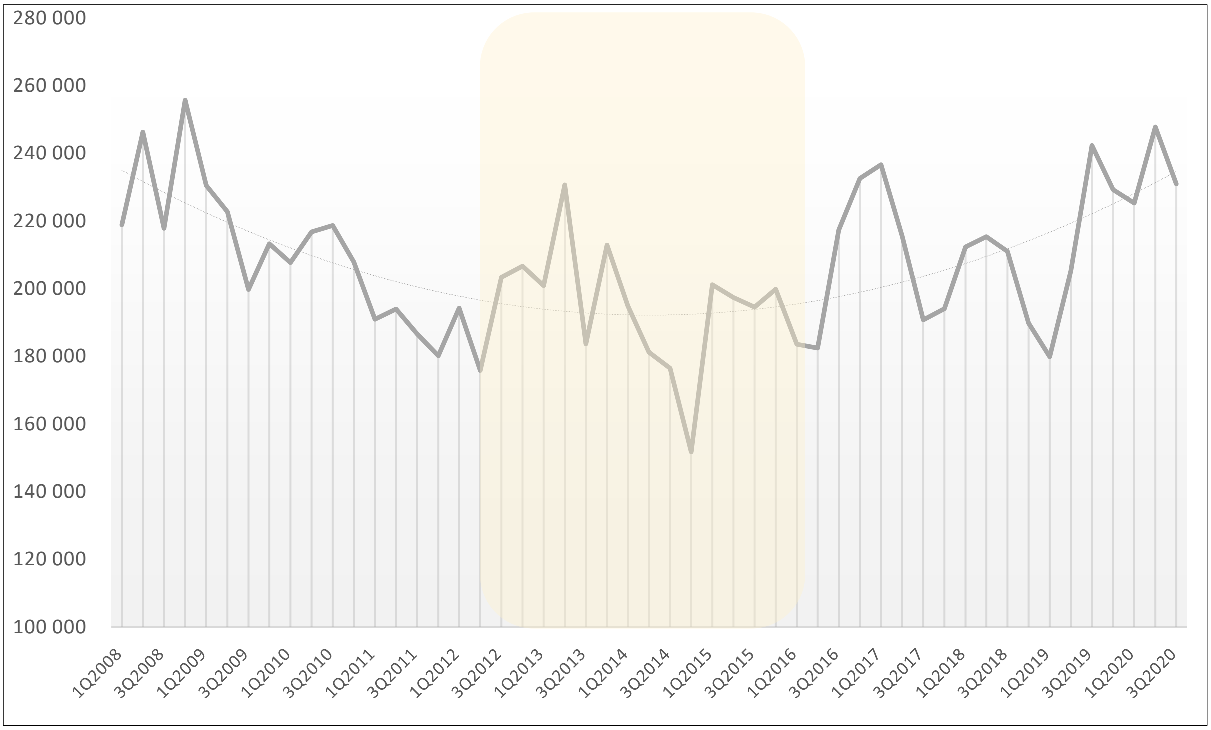
[5] The LMD is an annual consolidation of Statistics South Africa's Quarterly Labour Force Survey (QLFS), a household survey with 60 000 respondents. These are significant samples, but they become less reliable if divided on too many dimensions. The change in weighting in 2015 saw a significant jump in overall employment and in the number of employers and self-employed people.

across the nine provinces, in urban and non-urban, in metros and non-metros; SMMEs matrix of industry and occupation, SMMEs by skill & occupation, and SMMEs registered for VAT and for Tax.

2.1 Performance and trends of SMMEs in the province

As shown in figure 3, from the global economic meltdown in 2008 to the most recent recession in 2019, ***trends of SMMEs in the Eastern Cape have displayed a light parabola shape***. The number of SMMEs peaked in 4Q2008 to 255 742. Due to the 2008 financial crisis, the figure dropped, reaching the bottom of 151 741 in 4Q2014 and thereafter start recovering, reaching a second peak of 247 810 in 2Q2020 (See Figure 1). ***In the third quarter of 2020, there were 2.4 million SMMEs in South Africa of which 231 011 SMMEs (9.8%) were in the Eastern Cape***.

Figure 3. SMMEs in the Eastern Cape: performance and trends



Source: Statistics South Africa (2020)

The current SMMEs trend is likely to be affected by the health pandemic of Covid-19. Preliminary results from Stats SA (2020) and FinFind[6] (2020) surveys on the impact of Covid19 on businesses have concluded that most SMMEs in the country were unable to operate during the lockdown period.

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[6] *https://www.vutivibusiness.co.za/small-business/report-paints-gloomy-picture-for-smmes/*
A survey conducted by FinFind (2020) confirms that small businesses are still knee-deep in debt following the Covid-19 outbreak, and many have had to shut their doors. According to the report, 60% of SMMEs were unable to operate during the lockdown, while 42.7% were forced to close. The report by the financial institution also noted a significant decrease in revenue in the first five months of lockdown. About 76.2% of the respondents experienced a drop in revenue, while 17.5% reported that their revenue remained the same, and only 6.3% saw an increase. The lockdown also wreaked havoc on unemployment levels. A total of 60% of full-time employees lost their jobs, 76.8% part-time employees were left without work, and 53.4% casual employees were shown the door.

2.2 Number of SMMEs operating in the formal and informal sectors.

The main structural characteristic of the Eastern Cape SMMEs is that the majority of SMMEs in the province (70%) operate in the informal sector. Table 3 shows that in the third quarter of 2020, of the 231 011 SMMEs in the province, the share of SMMEs operating in the informal (non-agricultural) sector stood at 69.6%, while the share of SMMEs operating in the formal (non-agricultural) sector was only 22.1%. A minority of SMMEs operate in Agriculture (6.7%) and private households (1.6%). According to SEDA (2019), rural provinces tend to have more informal SMMEs, due to their high number of hawkers and informal traders. SEDA's report reveals that the majority of SMMEs operating in formal sector are in urban provinces, mainly in Gauteng (46%).

Table 3. The majority of SMMEs in the Eastern Cape (70%) operate in the informal sector.

	Employer	Own account worker	Total SMMEs	Distribution (SMMEs %)	Employer ratio	Own account worker ratio
Formal Sector (non-agricultural)	39 245	11 802	**51 047**	22.1%	77%	23%
Informal Sector (non-agricultural)	19 301	141 559	**160 861**	69.6%	12%	88%
Sub total (Formal + Informal)	***58 546***	***153 361***	***211 908***	***91.7%***	28%	72%
Agriculture	13 671	1 775	**15 446**	6.7%	89%	11%
Private households	1 125	2 533	**3 658**	1.6%	31%	69%
Eastern Cape: Total SMMEs	**73 342**	**157 669**	**231 011**	**100%**	**32%**	**68%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

SMME owners in the formal sector also employ other people. For every 100 SMMEs owners in the formal sector, 77 are employers and 23 are own account workers. The opposite is true in the informal sector. The majority of SMME owners in the informal sector are own account workers. For every 100 SMME owners in the informal sector, 12 are employers and 88 are own account workers. Overall, of all 231 011 SMME owners in the Eastern Cape, 32% are employers and 68% are own account workers.

Looking at employment by SMMEs, it is important to note that while small formal businesses in the province makes a significant contribution to employment, small businesses as a whole remains underdeveloped by international standards. In the Eastern Cape, only 18.9% (See Table 2) of all employed people are self-employed or employers. In contrast, the norm for upper middle-income economies, excluding China, is around 40%. The evidence suggests that the lower the share of self-employment, the lower the level of employment overall, measured in the ratio of employment to working age population. Only 40% of South African adults have income-generating work, compared to almost 60% in other upper-middle-income economies excluding China (the dti, 2017).

2.3 Provincial distribution of SMMEs

According to the IMF (2018), countries with a high share of SMMEs have succeeded in making income distribution more equitably. This in turn is a key contribution to ensuring social stability by reducing economic disparities between rural and urban areas.

In this subsection, we provide a distribution of SMMEs between the nine provinces of South Africa for three distinctive quarters, 3Q2008, 3Q2015 and 3Q2020. We also show percentage changes in SMMEs between 3Q2008 and 3Q2020. Results are presented in Table 4 and in Figure 4 below.

These results shows that ***the spatial distribution of small business has continued to mirror patterns set up under apartheid***[7], with most clustered around economic centres. In 3Q2020, Gauteng, KwaZulu-Natal and Western Cape accounted for 62% of all SMMEs in the country.

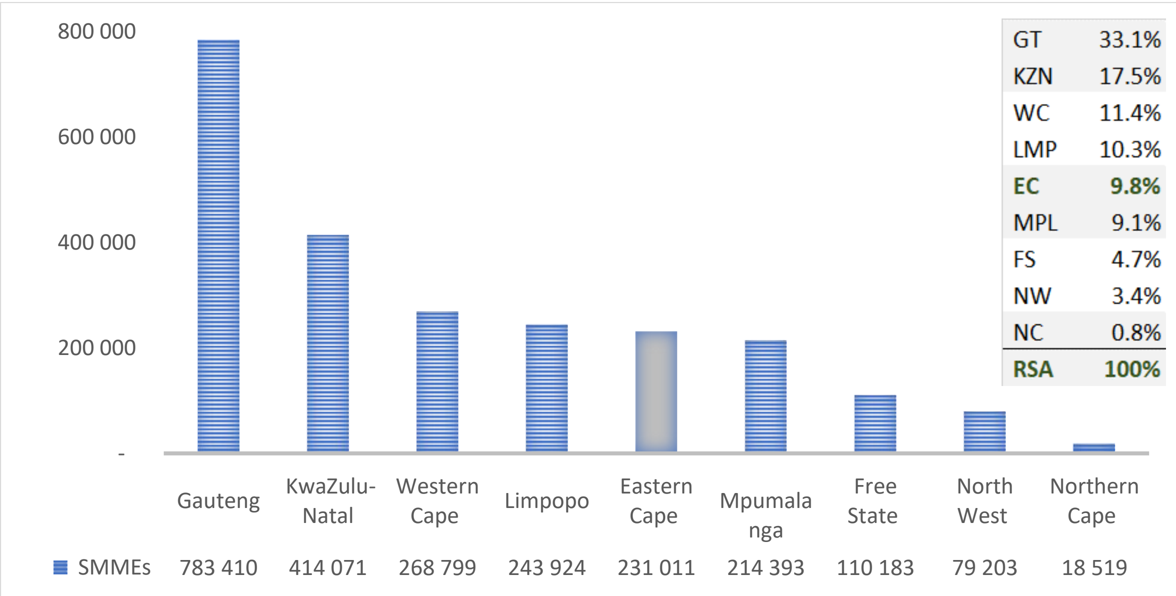
Table 4. More than half of SMMEs in the country operate in Gauteng and KwaZulu-Natal.

Provinces	Number of SMME Owners			Growth rate (%)	Distribution (%)		
	3Q2008	3Q2015	3Q2020	3Q2008-3Q2020	3Q2008	3Q2015	3Q2020
1: Western Cape	213 210	242 869	268 799	26.1%	9.7%	10.8%	11.4%
2: Eastern Cape	217 843	194 535	231 011	6.0%	9.9%	8.6%	9.8%
3: Northern Cape	26 902	16 067	18 519	-31.2%	1.2%	0.7%	0.8%
4: Free State	108 245	106 582	110 183	1.8%	4.9%	4.7%	4.7%
5: KwaZulu-Natal	428 298	375 258	414 071	-3.3%	19.5%	16.7%	17.5%
6: North West	94 903	97 974	79 203	-16.5%	4.3%	4.4%	3.4%
7: Gauteng	717 907	793 099	783 410	9.1%	32.6%	35.2%	33.1%
8: Mpumalanga	195 174	162 543	214 393	9.8%	8.9%	7.2%	9.1%
9: Limpopo	196 998	263 070	243 924	23.8%	9.0%	11.7%	10.3%
Total (RSA)	**2 199 480**	**2 251 997**	**2 363 513**	**7.5%**	**100%**	**100%**	**100%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

There are however other scholars who argue that despite the significant contribution made by the SMME sector, only a small segment really has the potential to contribute to economic growth. Also, a number of SMMEs are inactive or dormant. So, the number of SMMEs recorded in the province can be a misleading figure. Therefore, a study on the contribution of SMMEs to development is needed.

Figure 4. There are 2.4 million SMMEs in South Africa (3Q2020).



Source: Statistics South Africa (2020)

[7] The provincial distribution of formal and informal enterprise mainly reflected the legacies of apartheid. For every thousand working-aged people in the former "homeland" areas, there were 43 informal businesses and only four formal ones. In contrast, in the rest of the country, for every thousand inhabitants there were 26 formal and 40 informal businesses (DTI, 2017)

The following observations emerge from Table 4 and Figure 2.

- Over more than a decade, the number of SMMEs in South Africa increased by 7.5%, from 2.19 million in 3Q2008 to 2.36 million in 3Q2020. SMMEs in the Eastern Cape grew by 6.0%, slightly below the average growth of 7.5% for the country as a whole.
- In 3Q2020, more than half (51.6%) of SMMEs in the country operated in Gauteng (33.1%) and KwaZulu-Natal (17.5%).
- Despite the 6% growth in the number of SMMEs in the province, the Eastern Cape's contribution to total SMMEs in the country has remained relatively the same at 9.9% in 3Q2008 and 9.8% in 3Q2020.
- Among the nine provinces, the Western Cape had the highest growth rate in the number of SMMEs (26.0%), followed by Limpopo (23.8%). The Norther Cape lost the largest portion (31.2%) of SMMEs.

According to SEDA (2019), rural provinces tend to have more informal SMMEs, due to their high number of hawkers and informal traders. SEDA's report reveals that the majority of SMMEs operating in formal sector are in urban provinces, mainly in Gauteng (46%).

2.4 Economic sectors in which SMMEs function

In section 2.2, it was indicated that the majority of SMMEs in the Eastern Cape province (70%) operate in the informal sector. This section looks briefly at the distribution of SMMEs between the main economic sectors. It highlights percentage changes of various economic sectors within SMMEs.

2.4.1 Sectoral dynamics of SMMEs

Table 5 shows that of the 231 011 SMMEs in the Eastern Cape***, more than half of SMMEs (58%) operate in two industries: wholesale and retail trade (90 403 or 39%) and in Construction (42 999 or 19%).*** More importantly, Table 5 reveals that small businesses have much less presence in the mining and utility (electricity, water and gas supply) industries. This indicates that these industries are dominated by a few very large players and have high barriers to entry. Eskom, for example, generates the bulk of South Africa's electricity supply.

Table 5. Most SMME owners operate in Trade (39%) and in Construction (19%) industries

	Number of SMMEs		Distribution (%)		Growth rate (%)
	3Q2015	3Q2020	3Q2015	3Q2020	3Q2015-3Q2020
01: Agriculture, hunting, forestry and fishing	3 279	15 446	2%	7%	371%
02: Mining and quarrying			0%	0%	
03: Manufacturing	21 838	13 956	11%	6%	-36%
04: Electricity, gas and water supply			0%	0%	
05: Construction	27 171	42 999	14%	19%	58%
06: Wholesale and retail trade	86 901	90 403	45%	39%	4%
07: Transport, storage and communication	12 953	12 431	7%	5%	-4%
08: Financial intermediation, insurance & real estate	17 881	15 365	9%	7%	-14%
09: Community, social and personal services	24 091	36 753	12%	16%	53%
10: Private households		3 658	0%	2%	
Total SMMEs - EC	**194 535**	**231 011**	**100%**	**100%**	**19%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

The highest decline in the number of SMMEs occurred in the manufacturing sector. SMMEs in the construction sector have grown by 58% from 27 171 SMMEs in 3Q2015 to 42 999 SMMEs in 3Q2020. According to Stats SA's Annual Financial Statistics (AFS)[8] survey, small construction companies in South Africa have tripled the amount of turnover generated, from R53 billion in 2013 to R163 billion in 2019 (a rise of R110 billion).

2.4.2 SMME activities

SMMEs can undertake different activities, like: Tuck shop, art and craft, traditional health service, education, shebeen, house shop, liquor sale, entertainment service, grocery retail (Spaza), religious services, tailor, tavern, mechanical services, transport services, meat & poultry & fish retail, subsistence farming, hair care, takeaways, shoe repair, community services, car wash, phone shops, appliance repairs, restaurants, vendors, etc. Unfortunately, there is no study in the province that profiles SMMEs according to these activities.

2.5 Digitalisation and the Level of education attained by SMME owners.

This section is subdivided in three sub-sections. The first subsection focuses on the level of education (literacy) of SMME owners, the second section looks at the skill levels of SMMEs owners, and the third section shows how digitalisation has become a key game changer in the SMMEs sector.

2.5.1 The level of education attained by SMME owners.

There are ***some improvements in the education level of SMME owners in the province***. The number of SMME owners who are functionally literate has improved from just over 165 000 in 3Q2015 to just over 212 500 in 3Q2020. However, the number of SMME owners who are functionally illiterate has declined from just over 27 500 in 3Q2015 to just below 18 500 in 3Q2020. Table 6 shows that ***the majority of SMME owners (92%) are literate***. Only a minority of SMME owners (8%) is functionally illiterate.

[8] The Annual Financial Statistics (AFS) survey measures the financial health and performance of each industry, providing information on turnover, purchases, and capital expenditure. The report sources data from the financial statements of enterprises (i.e., private businesses and public corporations). The AFS excludes agriculture and hunting; government and educational institutions; and financial intermediation, pension funding, insurance and business services 'not elsewhere classified. Readers can access the AFs at http://www.statssa.gov.za/?p=13900.

Table 6. SMME owners by level of education

	Number of SMME Owners by level of education					Growth rate	Distribution (%)	
	3Q2015	3Q2019	1Q2020	2Q2020	3Q2020	1Q2020-2Q2020	2Q2020	3Q2020
Functionally illiterate	**27 585**	**41 133**	**28 941**	**29 685**	**18 478**	**3%**	**12%**	**8%**
1: No schooling	3 335	10 205	4 643	6 762	7 113	46%	3%	3%
2: Less than primary completed	24 251	30 927	24 298	22 923	11 365	-6%	9%	5%
Functionally literate	**165 308**	**199 699**	**195 819**	**218 125**	**212 533**	**11%**	**88%**	**92%**
3: Primary completed	15 101	14 843	11 487	17 499	8 103	52%	7%	4%
4: Secondary not completed	79 708	91 653	99 500	108 077	112 402	9%	44%	49%
5: Secondary completed	48 893	59 883	50 334	58 906	60 045	17%	24%	26%
6: Tertiary	21 605	33 320	34 498	33 643	31 984	-2%	14%	14%
7: Other	1 643	1 535	539	-	-	-	0%	0%
TOTAL - SMMEs in the Eastern Cape	**194 535**	**242 367**	**225 298**	**247 810**	**231 011**	**10%**	**100%**	**100%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

2.5.2 Skill levels of SMME owners.

The share of SMMEs owned by skilled entrepreneurs has declined from 26% in 3Q2015 to 23% in 3Q2020 while for the same period, the share of SMMEs owned by low-skilled entrepreneurs has remained the same at 27%.

According to the OECD (SME and Entrepreneurship Outlook, 2019), Skills in ICT are more and more becoming critical for SMME owners operating in a world of digitalisation, technology, and 4IR.

Table 7. The majority of SMMEs in the Eastern Cape are owned by semi-skilled entrepreneurs.

	South Africa				Eastern Cape			
	3Q2015	1Q2020	2Q2020	3Q2020	3Q2015	1Q2020	2Q2020	3Q2020
Skilled	739 614	869 326	747 404	742 008	50 850	67 745	48 643	52 516
Semi-skilled	945 424	1 107 908	1 029 048	1 027 604	91 641	104 539	121 423	116 420
Low skilled	566 960	636 345	643 192	593 901	52 044	53 014	77 744	62 075
Other	-	484	2 137	-	-	-	-	-
Total SMMEs	**2 251 997**	**2 614 063**	**2 421 780**	**2 363 513**	**194 535**	**225 298**	**247 810**	**231 011**
	3Q2015	1Q2020	2Q2020	3Q2020	3Q2015	1Q2020	2Q2020	3Q2020
Skilled	33%	33%	31%	31%	26%	30%	20%	23%
Semi-skilled	42%	42%	42%	43%	47%	46%	49%	50%
Low skilled	25%	24%	27%	25%	27%	24%	31%	27%
Other	0%	0%	0%	0%	0%	0%	0%	0%
Total SMMEs	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

2.5.3 Digitalisation has become a key game changer in the SMMEs sector.

The OECD (2019) concludes that ***digitalisation is a game changer in the SMME sector***. SMMEs operating in information and communication technologies (ICT) industry are particularly well placed to reap the benefits of digitalisation. The report argues that innovation is key to boost productivity, and digitalisation offers SMMEs new opportunities to actively take part of the global market and global value chains. Digitalisation has created effective mechanisms to reduce size disadvantages in international trade, such as by reducing the absolute costs associated with transport and border operations.

SMMEs must be better prepared for the digital transition. Generally, small businesses lag in digitalisation. The smaller the firm, the less likely they are to adopt digital-enhanced business practices, or to face cybersecurity threats. This places them at risk of becoming weak nodes in complex and hyper-connected infrastructure systems.

The Eastern Cape being the poorest and most rural province in the country, digitalisation in the SMMEs sector is a real challenge for various reasons: Firstly, the cost of data is high in the country and unaffordable by most entrepreneurs in rural areas. Secondly, there is ICT skills shortage for managing digital transformation in rural areas. The province has still too few entrepreneurs who engage their employees in ICT training.

2.6 Occupation of SMMEs owners

We recall from section 2.2 that the majority of SMMEs in the province (70%) operate in the informal sector; and from section 2.4 that the majority of SMMEs (more than half of SMME owners) operate in two industries: Trade and Construction. Such information is important in the analysis of occupation of SMME owners.

Table 8. Half of SMMEs in the province are owned semi-skilled entrepreneurs.

Occupation	3Q2015	% Share	3Q2020	% Share	Growth rate (%)
Skilled	***50 850***	***26%***	***52 516***	***23%***	***3%***
01: Legislators, senior officials and manage	40 011	21%	**43 013**	19%	8%
02: Professionals	4 076	2%	**2 180**	1%	-47%
03: Technical and associate professionals	6 763	3%	**7 323**	3%	8%
Semi-skilled	***91 641***	***47%***	***116 420***	***50%***	***27%***
04: Clerks	2 720	1%	**2 209**	1%	-19%
05: Service workers and shop	34 088	18%	**41 248**	18%	21%
06: Skilled agricultural and fishery workers	1 484	1%	**5 053**	2%	240%
07: Craft and related trades workers	47 911	25%	**63 554**	28%	33%
08: Plant and machine operators	4 535	2%	**4 356**	2%	-4%
Low skilled	***52 044***	***27%***	***62 075***	***27%***	***19%***
09: Elementary Occupation	51 622	27%	**62 075**	27%	20%
10: Domestic workers	-	0%	-	0%	0%
11: Other Occupation	-	0%	-	0%	0%
Total - Number of SMMEs in the EC	**194 535**	**100%**	**231 011**	**100%**	**19%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Table 8 shows that in 3Q2020, more than half (55%) of SMME owners fell under “Craft and related trade workers” (28%) and “elementary occupation” (27%). Table 9 cross-tabulates better the industry by occupation matrix of SMME owners. It shows for example that of the 90 000 SMMEs operating in Trade Industry, 51 000 SMMEs were operated by owners who fall under “elementary occupation”.

Table 9. Industry by occupation matrix of SMME owners in the Eastern Cape: 3Q2020

	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community services	Private households	Total SMMEs
Skilled	*9 785*	*-*	*535*	*-*	*2 210*	*9 151*	*11 225*	*9 290*	*10 320*	*-*	*52 516*
01: Legislators, senior officials and managers	9 785	-	535	-	2 210	9 151	11 225	2 877	7 230	-	**43 013**
02: Professionals	-	-	-	-	-	-	-	1 478	702	-	**2 180**
03: Technical and associate professionals	-	-	-	-	-	-	-	4 934	2 389	-	**7 323**
Semi-skilled	*4 627*	*-*	*13 421*	*-*	*38 844*	*29 840*	*1 206*	*6 075*	*22 407*	*-*	*116 420*
04: Clerks	-	-	-	-	-	-	-	2 209	-	-	**2 209**
05: Service workers and shop	-	-	1 069	-	-	14 500	-	3 866	21 814	-	**41 248**
06: Skilled agricultural and fishery workers	4 627	-	-	-	-	426	-	-	-	-	**5 053**
07: Craft and related trades workers	-	-	9 795	-	38 844	14 914	-	-	-	-	**63 554**
08: Plant and machine operators	-	-	2 557	-	-	-	1 206	-	593	-	**4 356**
Low skilled	*1 034*	*-*	*-*	*-*	*1 945*	*51 413*	*-*	*-*	*4 026*	*3 658*	*62 075*
09: Elementary Occupation	1 034	-	-	-	1 945	51 413	-	-	4 026	3 658	**62 075**
10: Domestic workers	0	0	0	0	0	0	0	0	0	0	**0**
11: Other Occupation	0	0	0	0	0	0	0	0	0	0	**0**
Total - Number of SMMEs in the EC	**15 446**	**-**	**13 956**	**-**	**42 999**	**90 403**	**12 431**	**15 365**	**36 753**	**3 658**	**231 011**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

2.7 Spatial distribution of SMMEs

2.7.1 SMMEs distribution between urban and non-urban areas

It has been established that in 3Q2020, there were 231 011 SMMEs in the province. The next question is to know where these SMMEs operate[9]. In this subsection, the analysis provides a spatial distribution of SMMEs between urban areas and non-urban areas (Table 10 and Figure 5); and between Metros and Non-Metros (Table 10).

Table 10. Spatial distribution of SMMEs

	Spatial distribution of SMMEs in South Africa				Ratio	
	Total	**Urban**	**Traditional Tribal**	**Farms/Rural formal**	**Urban**	**Non-Urban**
1: Western Cape	268 799	247 815	-	20 984	92%	8%
2: Eastern Cape	231 011	135 940	78 083	16 989	59%	41%
3: Northern Cape	18 519	10 299	2 623	5 597	56%	44%
4: Free State	110 183	87 575	17 511	5 097	79%	21%
5: KwaZulu-Natal	414 071	255 456	148 418	10 196	62%	38%
6: North West	79 203	44 269	31 040	3 893	56%	44%
7: Gauteng	783 410	761 876	7 181	14 353	97%	3%
8: Mpumalanga	214 393	84 734	116 222	13 437	40%	60%
9: Limpopo	243 924	68 257	167 707	7 960	28%	72%
Total	**2 363 513**	**1 696 221**	**568 785**	**98 507**	**72%**	**28%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Observations from Table 10 shows that in wealthy provinces, like Gauteng (97%) and Western Cape (92%), SMMEs are concentrated in urban areas. However, in non-wealthy provinces, like Limpopo (72%), SMMEs are concentrated in non-urban areas. For classification purposes, in this study, non-

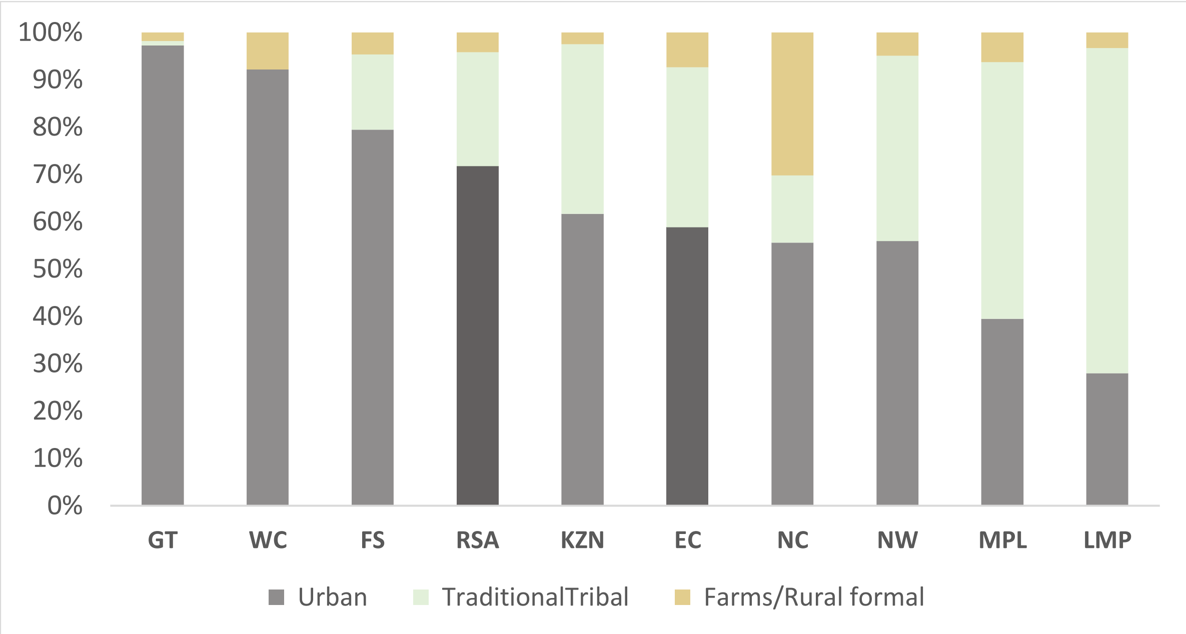
[9] World Bank Gauteng Firm Survey by Chandra et al., (2001). An analysis of labour markets, product markets, financial markets, as well as other relevant factors.

urban areas are made up of the traditional & tribal areas, farms areas, and rural formal areas. The overall ratio shows that in 3Q2020, **the majority (72%) of SMMEs in the country were concentrated in urban areas** while few SMMEs **(28%)** were concentrated in non-urban areas (See Table 10).

2.7.2 The apartheid legacy

According to the dti (2008), the poor performance of SMMEs is often associated with the racial distortions in education, income and economic empowerment inherited from the previous regime. However, SMMEs owned by foreign nationals, like: Pakistanis, Bangladeshis, Somalians and Ethiopians have flourished in the townships across South Africa. Therefore, there is a danger in ascribing all the responsibility for the underdevelopment of SMMEs to political disenfranchisement. The outcome to this argument is that the new economic regime provides some form of supports for the revitalisation of the SMME economy**.**

Figure 5. Spatial distribution of SMMEs



Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Research findings so far suggest that most of the SMMEs located in the rural areas are **necessity driven**. Hence, they are characteristically limited in their ability to create jobs and boost growth. A re-examination of the approach in which rural based SMMEs are supported is recommended to increase their impact on the socio-economic development of the communities in which they operate.

2.7.3 SMMEs distribution between Metros and Non-Metro areas

Table 11 shows that in 3Q2020, of the 2 363 513 SMMEs in South Africa, 1 167 530 SMMEs (49.4%) operated in Metros and 1 195 983 SMMEs (50.6%) operated in Non-Metros. But in the Eastern Cape, of the 231 011 SMMEs in the province, 143 375 SMMEs (62%) operated in Non-Metros, and 87 636 SMMEs (38%) operated in the two Metros. The BCM had more SMMEs (46 405) than the NMBM (41 231). Looking at gender disparity of SMMEs ownership in South Africa's metros, the BCM appeared to be the only metro in the country that achieved gender parity with almost equal share of male and female SMME owners. This was followed by Free state with 40% SMMEs owned by female and 60%

of SMMEs owned by male. In contrast, in all South Africa's metros, SMME ownership in NMBM was dominated mostly by male owners (75%). More demographic information on SMMEs is provided in the next section.

Table 11. SMMEs distribution between Metros and Non-Metro areas

Number of SMMEs in South Africa's Metros

	Quarter	Male	Female	Total	Female ratio
WC - City of Cape Town	3Q2015	121 305	52 830	174 135	30.3%
	3Q2020	128 435	65 160	193 596	33.7%
EC - Buffalo City	3Q2015	18 009	9 811	27 820	35.3%
	3Q2020	22 793	23 612	46 405	**50.9%**
EC - Nelson Mandela Bay	3Q2015	26 039	12 545	38 584	32.5%
	3Q2020	31 147	10 084	41 231	24.5%
FS - Mangaung	3Q2015	22 667	9 566	32 233	29.7%
	3Q2020	15 239	10 519	25 758	**40.8%**
KZN - eThekwini	3Q2015	101 685	56 776	158 461	35.8%
	3Q2020	118 801	47 530	166 331	28.6%
GP - Ekurhuleni	3Q2015	122 622	60 918	183 541	33.2%
	3Q2020	121 684	44 270	165 954	26.7%
GP - City of Johannesburg	3Q2015	238 551	107 609	346 161	31.1%
	3Q2020	258 412	106 086	364 498	29.1%
GP - City of Tshwane	3Q2015	115 464	45 956	161 420	28.5%
	3Q2020	99 846	63 911	163 757	39.0%
Number of SMMEs in RSA Metros	**3Q2015**	**766 342**	**356 012**	**1 122 354**	**31.7%**
	3Q2020	**796 358**	**371 172**	**1 167 530**	**31.8%**

Number of SMMEs in South Africa's Non-Metros

	Quarter	**Male**	**Female**	**Total**	**Female ratio**
WC - Non Metro	3Q2015	50 605	18 129	68 734	26.4%
	3Q2020	55 192	20 011	75 203	26.6%
EC - Non Metro	3Q2015	90 192	37 940	128 132	29.6%
	3Q2020	87 675	55 700	143 375	38.8%
NC - Non Metro	3Q2015	12 374	3 693	16 067	23.0%
	3Q2020	11 752	6 767	18 519	36.5%
KZN - Non Metro	3Q2015	123 112	93 685	216 797	43.2%
	3Q2020	172 963	74 777	247 740	30.2%
NW - Non Metro	3Q2015	64 990	32 984	97 974	33.7%
	3Q2020	60 070	19 133	79 203	24.2%
GP - Non Metro	3Q2015	65 422	36 555	101 977	35.8%
	3Q2020	51 103	38 099	89 202	42.7%
MP - Non Metro	3Q2015	94 740	67 803	162 543	41.7%
	3Q2020	106 372	108 021	214 393	50.4%
LP - Non Metro	3Q2015	157 517	105 553	263 070	40.1%
	3Q2020	170 991	72 933	243 924	29.9%
FS - Non Metro	3Q2015	46 784	27 565	74 349	37.1%
	3Q2020	47 614	36 811	84 425	43.6%
Total SMMES in RSA Non-metro	**3Q2015**	**705 736**	**423 907**	**1 129 643**	**37.5%**
	3Q2020	**763 732**	**432 251**	**1 195 983**	**36.1%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

2.8 Demographic distribution of SMMEs in the Eastern Cape

This section is subdivided into three sub-sections. The first subsection focuses on the gender of SMME owners, the second section looks at various population groups of SMMEs owners, and the third section emphasises on the age of SMME owners, aggregated under youth SMME owners (aged 15-34), and adult SMME owners (aged 35 plus).

2.8.1 SMMEs ownership by population group

Important observations noted from Table 12 are as follows:

- The majority of SMME owners in the province are Black/Africans (77%), followed by Whites (10%) and by Indians/Asians (9%). In South Africa, Africans account for 75% and Whites for 17%. Coloureds (4%) and Indians (4%) have equal share.
- Between 3Q2008 and 3Q2020, White owned SMMEs in the province declined by 41% and by 16% for South Africa. Similarly, coloured owned SMMEs in the province dropped by 10% and by 12% for South Africa.
- However, between 3Q2008 and 3Q2020, Black/African owned SMMEs in the province increased by 8% and by 15% for South Africa.

Table 12. In the Eastern Cape, 77% of SMMEs are owned by Black/Africans (75% for RSA)

	South Africa				Eastern Cape			
	3Q2008	3Q2020	% Share 3Q2020	Growth rate (%)	3Q2008	3Q2020	% Share 3Q2020	Growth rate (%)
1: African/Black	1 539 891	1 776 542	75%	15%	164 042	177 982	77%	8%
2: Coloured	103 957	91 643	4%	-12%	9 612	8 689	4%	-10%
3: Indian/Asian	71 155	87 598	4%	23%	3 353	20 341	9%	507%
4: White	484 477	407 730	17%	-16%	40 836	23 999	10%	-41%
Total SMMEs	**2 199 480**	**2 363 513**	**100%**	**7%**	**217 843**	**231 011**	**100%**	**6%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

From Table 3, it was revealed that 70% of SMMEs in the province are informal. In Table 12, we see that 77% of SMMEs are owned by Black/Africans. This is an indication that the majority of Blacks/Africans operate in the informal sector. Given South Africa's history of exclusion based on race and gender, the unrepresentative nature of ownership has important implications for the regulation of small business. This distribution is critical in mobilising government SMMEs support since most of the direct beneficiaries belong to the historically disadvantaged group. The Broad-Based Black Economic Empowerment Act of 2003 aimed at supporting black-owned businesses, most of which are small, both by ensuring a preference in government procurement and by incentivising large businesses to support black-owned suppliers. There are controversial opinions about the success of BBBE, and the analysis of these different views falls outside the scope of this report.

2.8.2 SMMEs ownership by gender

In all South Africa's Metros, the BCM is the only metro in the country that nearly achieved equal gender parity, with 50.9% SMMEs operated by female and 49.1% SMMEs operated by male. However, The NMBM has the most male dominated SMME owners in the country with, three quarter of SMMEs owned by male and a quarter by their female counterpart.

The overall picture in Table 13, reveals that during 3Q2020, for every 10 SMMEs in the province, 6 SMMEs were owned by male and 4 SMMEs by female.

Table 13. More female entrepreneurs in the BCM

	Male	Female	Total	% Share	Female ratio	Male ratio
BCM	22 793	23 612	**46 405**	20%	50.9%	49.1%
NMBM	31 147	10 084	**41 231**	18%	24.5%	75.5%
EC Non-Metros	87 675	55 700	**143 375**	62%	38.8%	61.2%
Total SMMEs in the EC	**141 616**	**89 396**	**231 011**	**100%**	**38.7%**	**61.3%**

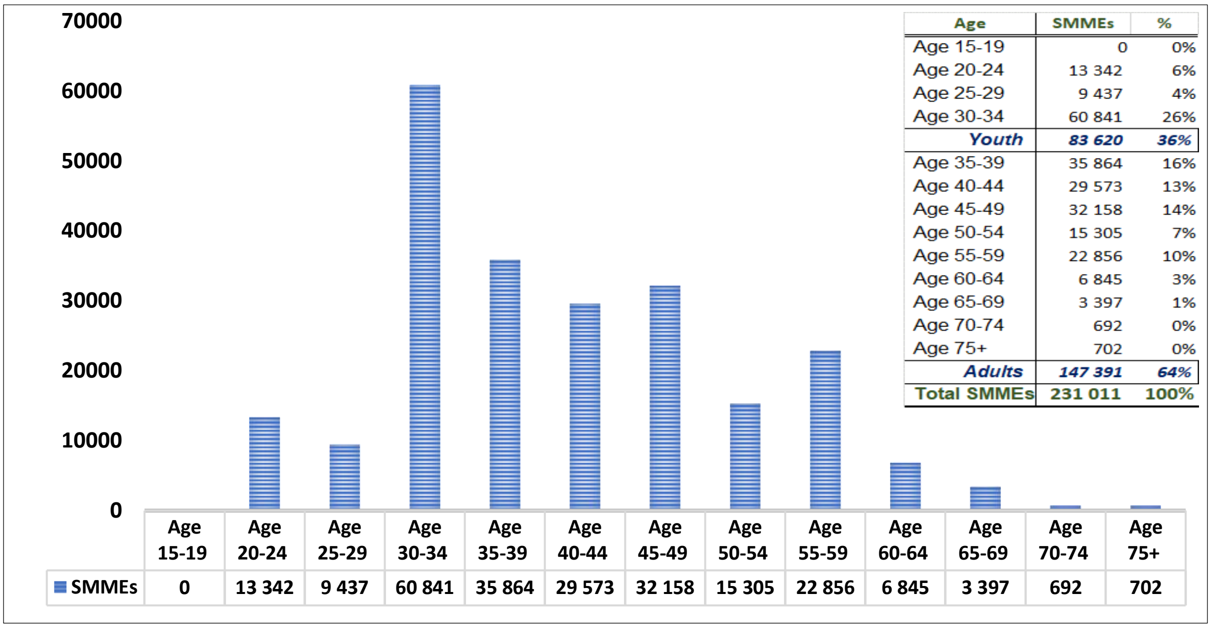
Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

2.8.3 SMMEs owned by young people in the province.

The need for youth owned SMMEs and youth entrepreneurs in South Africa, and particularly in the Eastern Cape cannot be overstated. Why? Many graduates are unemployed. Several young people are not in employment, education, or training institutions (NEET).

According to Stats SA's QLFS data, in 3Q2020, the Eastern Cape had the highest youth unemployment rate (60%) in the country (43% for RSA). The rate of unemployment among the young people stands at 63.5% in the Eastern Cape Non-Metros; 56.1% in the NMBM and 47.9% in the BCM.

Figure 6. Slightly more than a quarter of SMMEs in the Eastern Cape are owned by youth aged 30-34



Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Moreover, South Africa had in total 17.8 million people Not in Education, Employment, or Training of which 8,8 million (49.5%) were youth NEET. In other words, almost half of total NEET in the country are youth. Of the 8.8 million youth NEET in the country, 1,1 million were in the Eastern Cape. Of the 1.1 million youth NEET in the Eastern Cape, 859 672 (75%) reside in non-metropolitan areas, 165 847 (15%) in NMB metro, and only 113 231 (10%) in the BCM metro. The two metros (NMB & BCM) account for a quarter of all youth NEET in the province (ECSECC report on NEET: 2020). The province is yet to reap demographic dividend, as a huge number of youth remain excluded from education and employment.

SMMEs in the province are unevenly spread between owners of different age group. Figure 6 shows that of the 231 011 SMMEs in the province, 64% are owned by adults aged 35 and above; and 36% are owned by young people. It also shows that ***more than a quarter (26%) of SMMEs in the Eastern Cape are owned by youth aged 30-34***. Young[10] people (aged 15 to 24) are less likely to become entrepreneurs, mostly because they lack the assets, experience and networks required for success.

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[10] In the Eastern Cape, young employers and self-employed people are more commonly found in the informal sector and micro enterprise. If they were business owners, they are most likely to have an informal microenterprise with no employees.

This study proposes SMMEs development among the youth as a strategy to (re)integrate young people into the labour market through entrepreneurship geared towards small businesses. The intervention could help to address the issue of youth social exclusion, deprivation, poverty, and poor human capital.

2.9 Number of SMME owners by marital status

The majority of SMMEs in the province are owned by "married" people (46.7%), followed by those who are "never married" (41.9%).

Table 14. Number of SMME owners by marital status

	Number of SMME Owners by marital status					Growth rate (%)	Distribution (%)
	3Q2015	3Q2019	1Q2020	2Q2020	3Q2020	3Q2015-3Q2020	3Q2020
1: Married	90 437	121 063	104 052	113 757	107 810	19%	46.7%
2: Living together like husband & wife	9 097	20 699	12 175	10 502	10 384	14%	4.5%
3: Widow/Widower	13 813	20 603	14 971	18 268	12 310	-11%	5.3%
4: Divorced or Separated	5 643	11 902	5 949	10 975	3 775	-33%	1.6%
5: Never married	75 544	68 100	88 152	94 308	96 732	28%	41.9%
Total	**194 535**	**242 367**	**225 298**	**247 810**	**231 011**	**19%**	**100.0%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Unfortunate circumstances like divorce (separation) and losing a partner (and become widow/widower) have negative effects on SMMES owners. Table 14 shows that, between 3Q2015 and 3Q2020, SMME ownership by window/widower and by divorced people dropped respectively by 11% and 33%.

2.10 SMMEs by type of enterprises

For every 10 SMMEs in the province, 9 falls under private enterprises. Few are NGO, public enterprises, or government-controlled entities.

As indicated earlier in Table 5, the province has an insignificant number of small businesses in utility industry (electricity, water, and gas supply). There are two main reasons for that. The first one is the monopoly in large players, like Eskom. For example, in South Africa, the bulk of electricity supply in South Africa is generated by ESKOM. The second reason is that these large players in the utility industry are shielded by high barriers to entry.

Table 15. SMMEs by type of enterprises

	South Africa				Eastern Cape			
	3Q2015	3Q2019	2Q2020	3Q2020	3Q2015	3Q2019	2Q2020	3Q2020
1: National/provincial/local government	1 788	3 480	43 413	8 201	566	-	10 406	5 060
2: Government controlled business (Eskom, Telkom)	2 153	-	-	-	-	-	-	-
3: A private enterprise	2 083 866	2 463 226	2 048 668	2 192 939	175 467	202 367	160 393	204 565
4: Non-profit organisation (NGO/CBO)	11 777	15 480	13 328	10 820	1 539	811	869	370
5: A private household	135 332	166 480	305 456	150 708	16 964	39 189	76 142	21 016
Total SMMEs	**2 234 917**	**2 648 666**	**2 410 866**	**2 362 669**	**194 535**	**242 367**	**247 810**	**231 011**

	South Africa				Eastern Cape			
	3Q2015	3Q2019	2Q2020	3Q2020	3Q2015	3Q2019	2Q2020	3Q2020
1: National/provincial/local government	0%	0%	2%	0%	0%	0%	4%	2%
2: Goverment controlled business (Eskom, Telkom)	0%	0%	0%	0%	0%	0%	0%	0%
3: A private enterprise	93%	93%	85%	93%	90%	83%	65%	89%
4: Non-profit organisation (NGO/CBO)	1%	1%	1%	0%	1%	0%	0%	0%
5: A private household	6%	6%	13%	6%	9%	16%	31%	9%
Total SMMEs	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

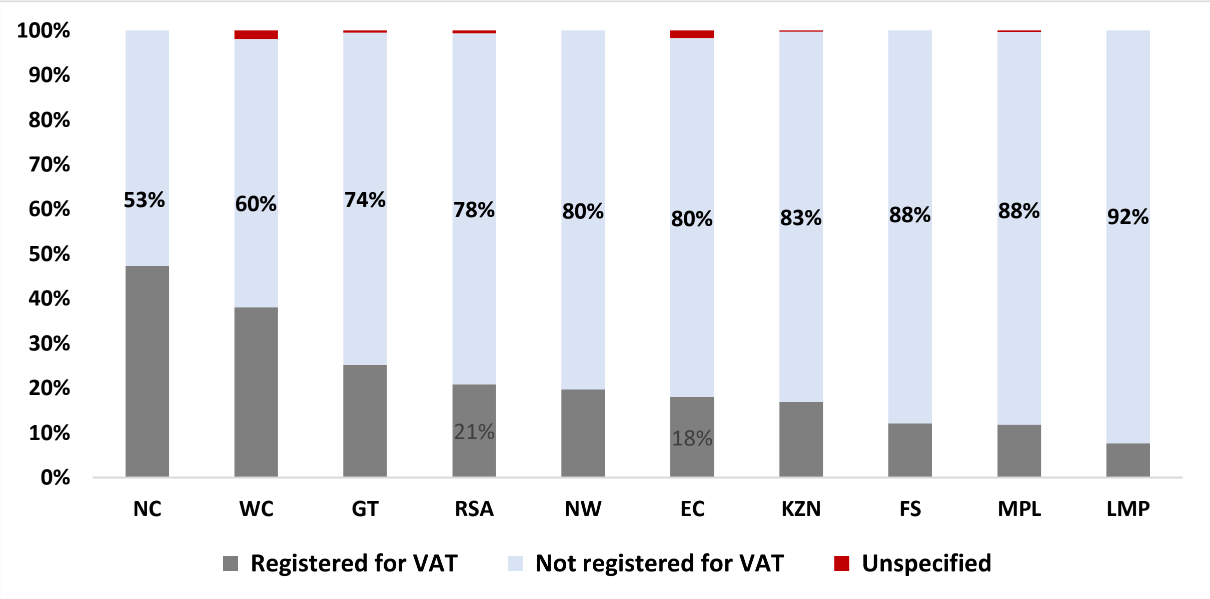
Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Table 15 confirms the finding that there is no single record of SMMEs from government-controlled businesses, like ESKOM. Panel B of Table 14 shows that during the third quarter of 2020, the majority of SMMEs in the country (93%) and in the Eastern Cape (89%) operated in the "*Private enterprises*". Of the 231 011 SMMEs in the province, only 5 060 SMMEs operated in the "*public sector*".

2.11 Number of SMMEs registered for Value-Added Tax (VAT).

VAT is an indirect system of taxation that is currently levied at 15% (as of 1 April 2018) on the value of all goods and services supplied by vendors. It is mandatory for any business (whether the business is registered as a Sole Proprietorship or Private Company) to register for VAT. The registration is compulsory if the income earned in any consecutive twelve-month period exceeded or is likely to exceed R1 million.

Figure 7. SMMEs registered for VAT



Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Table 16. SMMEs registered for VAT

	Registered for VAT	% Share	Not registered for VAT	% Share	Unspecified	% Share	Total SMMEs	% Share
1: Western Cape	102 400	20.8%	161 210	8.7%	5 189	34.0%	268 799	11.4%
2: Eastern Cape	41 705	8.5%	185 281	10.0%	4 026	26.4%	231 011	9.8%
3: Northern Cape	8 769	1.8%	9 750	0.5%	-	0.0%	18 519	0.8%
4: Free State	13 302	2.7%	96 881	5.2%	-	0.0%	110 183	4.7%
5: KwaZulu-Natal	70 062	14.2%	342 711	18.5%	1 297	8.5%	414 071	17.5%
6: North West	15 585	3.2%	63 618	3.4%	-	0.0%	79 203	3.4%
7: Gauteng	197 263	40.0%	582 197	31.4%	3 950	25.9%	783 410	33.1%
8: Mpumalanga	25 275	5.1%	188 331	10.2%	788	5.2%	214 393	9.1%
9: Limpopo	18 687	3.8%	225 237	12.1%		0.0%	243 924	10.3%
Total RSA	**493 048**	**100%**	**1 855 215**	**100%**	**15 250**	**100%**	**2 363 513**	**100%**

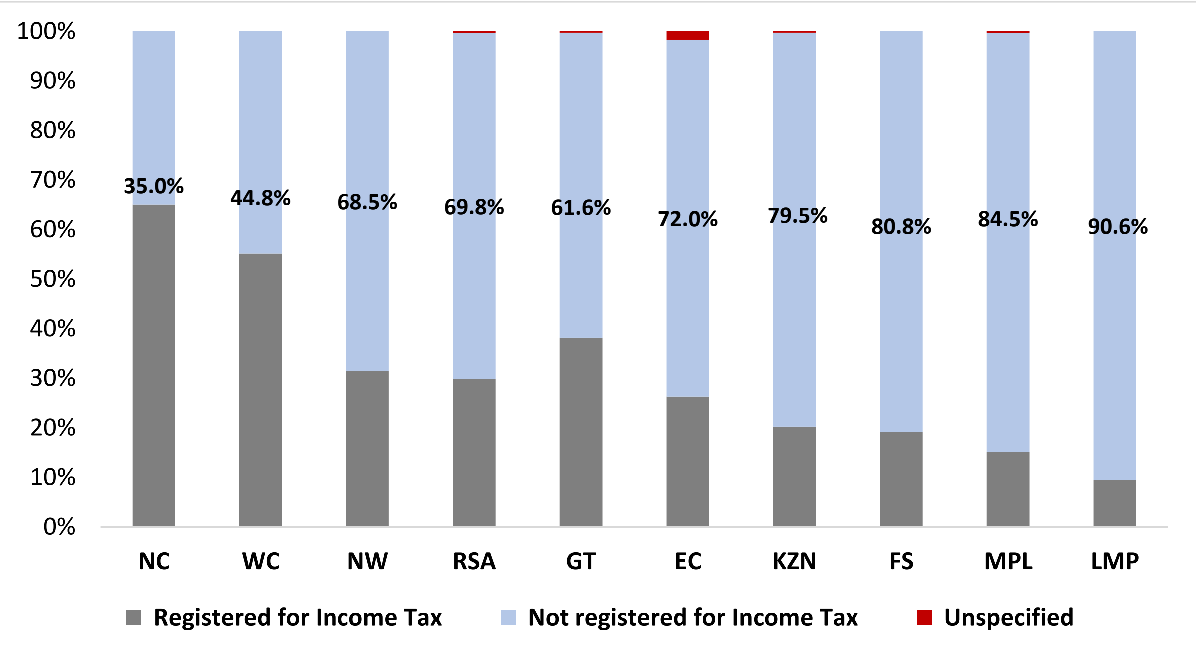
Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

The number of SMMEs registered for VAT is provided in Table 16 and in Figure 7. It shows that for every 10 SMMEs in the province, 8 are not registered for VAT. This is an indication that only a minority of SMMEs in the Eastern Cape is registered for VAT. This could be attributed to the earlier finding in Table 3 that showed that the majority of SMMEs in the province (70%) operate in the informal sector.

2.12 Number of SMMEs registered for income tax.

The number of SMMEs registered for income tax is provided in Table 17 and in Figure 8. It shows that for every 10 SMMEs in the province, 7 are not registered for income tax. The same reason why few SMMEs in the province register is applicable for income tax, which is that the majority of SMMEs in the province operate in the informal sector.

Figure 8. SMMEs registered for income tax



Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

Table 17. SMMEs registered for income tax

	Registered for Income Tax	% Share	Not registered for Income Tax	% Share	Unspecified	% Share	Total SMMEs	% Share
1: Western Cape	148 271	21.0%	120 528	7.3%	-	0.0%	268 799	11.4%
2: Eastern Cape	60 692	8.6%	166 294	10.1%	4 026	47.2%	231 011	9.8%
3: Northern Cape	12 038	1.7%	6 482	0.4%	-	0.0%	18 519	0.8%
4: Free State	21 143	3.0%	89 041	5.4%	-	0.0%	110 183	4.7%
5: KwaZulu-Natal	83 609	11.9%	329 164	19.9%	1 297	15.2%	414 071	17.5%
6: North West	24 911	3.5%	54 291	3.3%	-	0.0%	79 203	3.4%
7: Gauteng	298 700	42.4%	482 283	29.2%	2 427	28.4%	783 410	33.1%
8: Mpumalanga	32 366	4.6%	181 240	11.0%	788	9.2%	214 393	9.1%
9: Limpopo	22 909	3.3%	221 015	13.4%	-	0.0%	243 924	10.3%
Total RSA	**704 638**	**100%**	**1 650 337**	**100%**	**8 538**	**100%**	**2 363 513**	**100%**

Source: Statistics South Africa, Own calculations derived from the QLFS (2020)

There are three types of taxes that small businesses pay. These are: Turnover Tax & income tax; Employee Taxes (PAYE, UIF and SDL); and VAT (value-added tax). If a small business is trading as a company or close corporation, it must register for at least income tax. If it employs staff it must register for PAYE, UIF and SDL (if total annual payroll exceeds R 500k per annum). If the small business has turnover exceeding R1 million per annum it must also register for VAT. Turnover tax is an alternate simplified method of business tax in South Africa because it is a tax for small business in South Africa with an annual turnover of R1,000,000 or less.

3. Conclusion

This review of the state of small business in the Eastern Cape has analysed major indicators, development, and trends among the self-employed and small-scale employers. The focus of the review was on trends and number of SMMEs in the province; employment provided by SMMEs; SMMEs in formal and informal sectors; SMME owners by age, gender, marital status, race, education attained; Spatial distribution of SMMEs across the nine provinces, in urban and non-urban, in metros and non- matrix of industry and occupation, SMMEs by skill & occupation, and SMMEs registered for VAT for Tax. The summary of these key SMME indicators were presented in Table 1.

The findings of the study suggest that despite several legislative tools provided to boost small businesses, the contribution of SMMEs to employment and fiscus are minimal. This could partially be explained by the fact that the majority of SMMEs in the province (70%) operate in the informal sector. Also, the majority of SMMEs in the province are not registered for VAT (80%) and for Tax (70%).
The study also find that the spatial distribution of small businesses mirrors patterns set up under the apartheid regime. It showed that in wealthy provinces, like Gauteng, SMMEs are concentrated in urban areas. However, in non-wealthy provinces, like Limpopo, SMMEs are concentrated in non-urban areas. SMMEs in rural areas are necessity driven.

The improvement in the level of education of SMMEs owners is commended. However, the Eastern Cape being the poorest and most rural province in the country, digitalisation in the SMMEs sector remains a real challenge. The study argued that digitalisation is a game changer in the SMME sector. SMMEs operating in information and communication technologies (ICT) industry are particularly well placed to reap the benefits of digitalisation. The province should move towards that direction.

Annexure

DTI Cut-off points (adjusted by Statistics South Africa): Enterprise turnover by industry (Rand-Values)

Industry Turnover (Rand-Value)	Large Enterprise	Medium Enterprise	Small Enterprise	Very small Enterprise
SIC2 Mining and quarrying	526 500 000	135 000 000	54 000 000	2 000 000
SIC3 Manufacturing	688 500 000	175 500 000	67 500 000	2 000 000
SIC4 Electricity, gas and water supply	688 500 000	175 500 000	68 850 000	2 000 000
SIC5 Construction	351 000 000	81 000 000	40 500 000	2 000 000
SIC61 Wholesale trade	864 000 000	432 000 000	81 000 000	2 000 000
SIC62 Retail trade	526 500 000	256 500 000	54 000 000	2 000 000
SIC63 Motor trade	526 500 000	256 500 000	54 000 000	2 000 000
SIC64 Accommodation and catering	175 500 000	81 000 000	68 850 000	2 000 000
SIC7 Transport industry	351 000 000	175 500 000	40 500 000	2 000 000
SIC8 Real estate & business services	351 000 000	175 500 000	40 500 000	2 000 000
SIC9 Community & social services	175 500 000	81 000 000	13 500 000	2 000 000

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