

An Overview of SMMEs in South Africa: An Analysis of the National Small Business Act

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Abstract

The NDP estimates that the country will need to create 11 million additional jobs in order to boost economic growth and employment. The plan envisages that about 90% of these jobs will come from small businesses. While there is a strong consensus of the importance of SMMEs in job creation and economic growth world-wide, the definition of what constitutes a small business and the type of businesses that should be supported remains a contested subject. The Department of Small Business Development has undertaken a process to revise the National Small Business (NSB) Act of 1996, as amended in 2003 and 2004; and this study seeks to contribute to the discussion. A newly available SARS-National Treasury tax administrative data panel allowed us to examine the distribution and characteristics of the formal SMME sector in South Africa between 2010 and 2014. This study found that the number of SMMEs is dependent on the definition used; and that the NSB Act definition is restrictive and understates the number of SMME firms. Very small firms constitute between 54.9 - 60.9% of total SMMEs. Despite this, medium firms were found to be the largest employers and turnover generators. This highlights the need for policymakers to put more emphasis on growing small firms, as it is larger SMMEs that have greater economic impact.

Keywords: SMME; administrative data; South Africa

JEL Classification: D04, L11, L22

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1. Introduction

SMMEs account for over 60 per cent of jobs and contribute about 51 - 57 per cent of GDP in South Africa (Kongolo, 2010). The National Development Plan (NDP) envisages that about 90 per cent of the 11 million jobs to be created by 2030 will come from small businesses. While there is a strong consensus of the important role SMMEs play in job creation and economic growth world-wide, the definition of what constitutes a small business and the type of businesses that should be supported remains a contested subject. The definition of SMMEs varies widely across countries and institutions and has been the subject of considerable debate.

The two main justifications for SMME policies are to address market failures specific to a defined size segment and promote their economic contribution (ILO², 2015). Varying definitions therefore create a number of challenges for policy formulation. Gibson and van der Vaart (2008) explain that the inconsistencies among SMME definitions can lead to serious distortions in the allocation of government and donor funds for SMME development and support strategies. According to the OECD³ and UNIDO⁴ (2004), SMME definitions are beneficial in determining eligibility for particular forms of public support, benchmarking against other economies and between regions within an economy; and in providing arbitrary thresholds for imposition of tax or other regulations.

SMME definitions are also useful in the preparation of statistics and the monitoring of the performance of the SMME sector – these statistics allow policy makers to evaluate the type of firms that are likely to create jobs, advance the economy and alleviate poverty; and shed light on the transition dynamics amongst firms (OECD & UNIDO, 2004). Evidently, a clear definition of SMMEs would allow the government to correctly target small businesses that require development and support, and implement programmes that respond to their respective needs.

The Department of Small Business Development (DSBD) has undertaken a process to revise the National Small Business (NSB) Act of 1996, as amended in 2003 and 2004; and this study seeks to contribute to the discussion by providing insights into the distribution and characteristics of Small, Medium, Micro-sized Enterprises (SMMEs) in South Africa. This is done by using the definitions stipulated in the National Small Business (NSB) Act 102 of 1996 as amended by the National Small Business Amendment Act of 2003.

Whilst there are numerous studies on SMMEs, there is no analysis that strictly follows the NSB Act definition, and thus no means of evaluating policy proposals that may arise from the DSBD.

² International Labour Organization.

³ Organisation for Economic Co-operation and Development.

⁴ United Nations Industrial Development Organization.

2. Data

This paper takes advantage of a new firm-level longitudinal dataset that is available for South Africa, created as a joint research effort between the South African Revenue Service and the National Treasury: the SARS-NT Panel. The SARS-NT Panel is created from four data sources: (i) company income tax from registered firms who submit tax returns; (ii) employee data from employee income tax certificates submitted by employers; (iii) value-added tax data from registered firms; and (iv) customs records from traders (Pieterse, Gavin and Kreuser, 2016). The data are available from the 2007/08 tax year onwards.

The dataset is built up from the company income tax (CIT) data. Company income tax forms are completed by all companies that are residents for tax purposes. Each unique CIT reference number is associated with a single firm. A firm is defined in the Panel as an entity that is registered for company income tax and has completed an income tax form. The employee data are linked to the company income tax data by matching the identifiers of employers (the PAYE (Pay-As-You-Earn) reference number) to CIT reference numbers. Multiple branches and employees of the same firm are identified from the PAYE reference number.

Employment is measured in the SARS-NT Panel as the number of jobs, rather than individuals. If a person has more than one job (either simultaneously or during consecutive periods in the same tax year) they will be counted as two workers. Furthermore, the Panel does not contain employees that cannot be linked to a firm, including employees of government departments. Employers must register with the South African Revenue Service (and receive a PAYE reference number) if at least one employee is liable for personal income tax.

Firms can be classified into a sector based on several variables, including the profit code in the company income tax data or the main income source for individuals in the employee data, which is then mapped to sectoral classifications and the firm categorised based on the sector of the majority of employees.

The data used for this paper were extracted in mid-2016 and because firms have 12 months to submit their returns, data [points for outer years are less complete. This study is undertaken using STATA statistical programme. The sample period is 2010 - 2014.

3. SMMEs in South Africa

SMMEs are defined by the NSB Act as *separate and distinct entities (including cooperatives and non-governmental organisations), managed by one or more owners including branches or subsidiaries*. The Act broadly defines an SMME as a firm with less than 200 employees, R64 million in total annual turnover and R23 million in total annual assets excluding fixed property, depending on the sector. An SMME should satisfy all three criteria. These businesses are further categorised into four distinct groups namely: *Micro, Very small, Small and Medium* per standard industrial classification (see Annexure A).

The SARS-National Treasury dataset enables us to analyse the distribution and characteristics of SMMEs in each size category in South Africa. This paper uses two

definitions: firstly, an SMME is a firm that satisfy all three of the employment, turnover and asset criteria specified in the NSB Act schedule. Secondly, we applied an SMME definition which only utilises the number of employees and value of turnover as measures of firm size.

4. The Distribution of SMMEs

In this section, we present the distribution of SMMEs in South Africa by size and sector according to the two definitions. This also allows us to determine the number of SMMEs in the different economic sectors, and distinguish between *Micro*, *Very small*, *Small* and *Medium firms*.

The turnover and asset values given in the NSB Act schedule (and used in this study) have not been adjusted for inflation. Additionally, the figures reported in this section are averages for the 2010 – 2014 period, unless otherwise specified.

4.1 Findings

Table 1 demonstrates that of the 102 540 firms in the sample, SMMEs constitute 20.9 per cent (21 082) of the firms. Over the 2010 - 2014 period, 60.9 per cent of SMMEs fell within the *Very small firms* category, this was followed by *Small firms* (16.7 per cent), *Micro firms* (14.3 per cent) and *Medium firms* (8.2 per cent).

When we exclude the value of assets from the definition stipulated in the NSB Act (second panel on Table 1), we find that there were a total of 110 135 firms on average between 2010 and 2014, of that, 37.5 per cent (41 267) were SMMEs. This is twice the number of SMMEs relative to the NSB Act definition, suggesting that the NSB Act definition is restrictive. The requirement for firms to meet all three of the set criteria limits the number of SMME firms that can be detected.

Additionally, in the definition that excludes assets, *Very small firms* also constitute the highest proportion of SMMEs, accounting for a share of 54.9 per cent. *Micro firms* make up 15.1 per cent of total SMMEs, with *Small firms* and *Medium firms* accounting for 20.8 per cent and 9.3 per cent of SMMEs respectively.

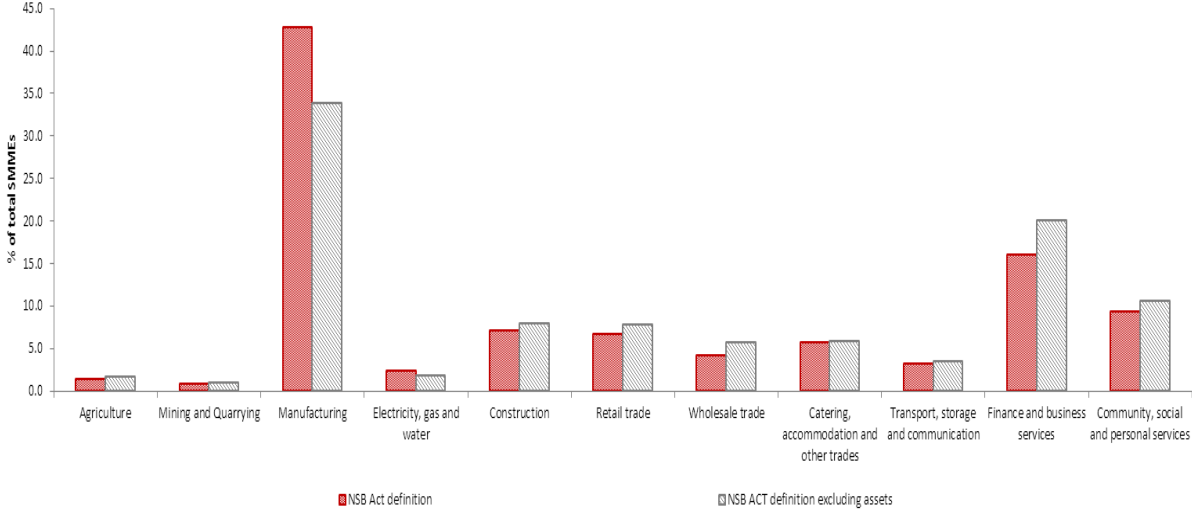
Table 1: Number of SMMEs

	NSB Act Definition		NSB Act Definition excluding assets	
	Average number of firms (2010 -2014)	% of total SMMEs (2010 -2014)	Average number of firms (2010 -2014)	% of total SMMEs (2010 -2014)
Micro	3 168	14.3	6 221	15.1
Very small	12 834	60.9	22 639	54.9
Small	3 515	16.7	8 972	20.8
Medium	1 723	8.2	3 920	9.3
Total SMMEs	21 082	20.6*	41 267	37.5*
Total non-SMME firms	81 457	79.4*	68 867	62.5*
Total firms	102 540	100.0	110 135	100.0

*Proportion of total firms

Source: Author's calculations based on data from the SARS-NT Panel

Figure 1: Distribution of SMMEs by sector⁵



Source: Author’s calculations based on data from the SARS-NT Panel

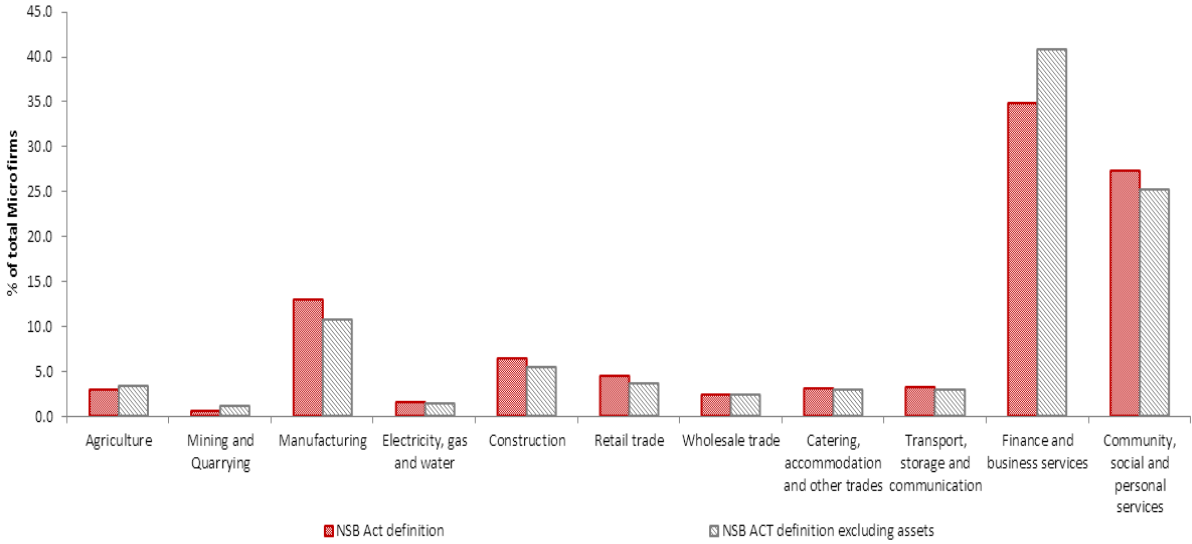
Figure 1 illustrates the distribution of SMMEs by sector for the two definitions. Under the NSB Act definition, the manufacturing, finance and business services and community, social and personal services sectors have the highest proportion of SMMEs. It is shown that 42.8 per cent of SMMEs operate in the manufacturing sector whilst the finance and business services and community, social and personal services sectors constitute 16.1 per cent and 9.4 per cent of total SMMEs respectively. These sectors are followed by construction (7.1 per cent), retail trade (6.7 per cent) and catering, accommodation and other trades (5.7 per cent). The primary sector has the lowest proportion of SMMEs with 1.4 per cent for agriculture and 0.9 per cent for mining and quarrying. The remaining sectors constitute 9.9 per cent of total SMMEs.

For the definition that excludes assets, the manufacturing, finance and business services and community, social and personal services sectors account for the highest share of SMMEs with 33.8 per cent, 20.1 per cent and 10.6 per cent respectively. The construction sector is the fourth highest contributor to the total number of SMMEs with 8.0 per cent, closely followed by the retail trade sector with a share of 7.9 per cent. Agriculture, mining and quarrying, and electricity, gas and water have the lowest proportion of SMMEs with only 1.7 per cent, 1.0 per cent and 1.8 per cent respectively.

Our findings suggest that removing assets from the SMME definition disadvantages SMMEs in manufacturing and, electricity, gas and water sectors – these sectors constitute significantly less in the definition without assets relative to the one given in the NSB Act.

⁵ Actual numbers can be found in Appendix C.

Figure 2: Distribution of *Micro firms* by sector



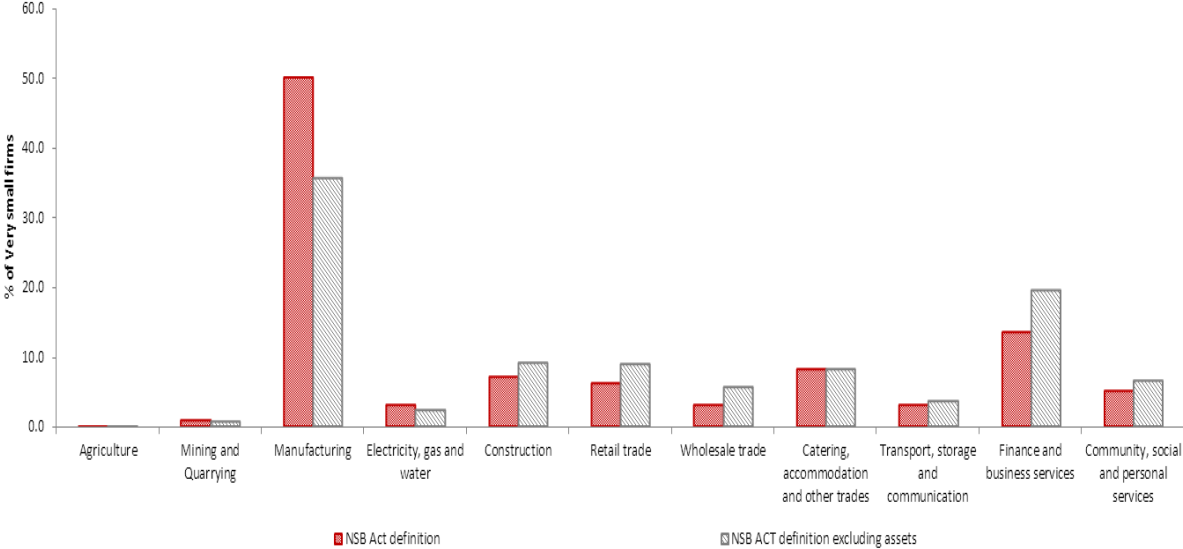
Source: Author's calculations based on data from the SARS-NT Panel

A breakdown of sector concentration for *Micro firms* under the NSB Act definition reveals that these types of firms are largely concentrated in the finance and business services (34.8 per cent) and community, social and personal services (27.3 per cent) sectors. Whilst 13.0 per cent and 6.4 per cent of *Micro firms* operate in the manufacturing and construction sectors respectively; mining and quarrying, and electricity, gas and water only represent 0.6 per cent and 1.6 per cent of total *Micro firms* respectively.

For the definition that excludes assets, we also find that a large number of *Micro firms* operate within the finance and business services (40.8 per cent) and community, social and personal services (25.2 per cent) sectors just as seen in the NSB Act definition. As illustrated in Figure 2, only 10.7 per cent of these types of firms are in the manufacturing sector whilst 5.5 per cent are in the construction sector. There is a very small proportion of *Micro firms* in mining and quarrying (1.1 per cent) and electricity, gas and water (1.4 per cent).

While the sectoral composition of *Micro firms* for the two definitions is the same, the proportions in the definition that excludes assets are lower for all sectors with the exception of finance and business services; mining and quarrying; and agriculture. This suggests that the NSB Act definition underestimates the size of *Micro firms* in the finance and business sector.

Figure 3: Distribution of *Very small firms* by sector

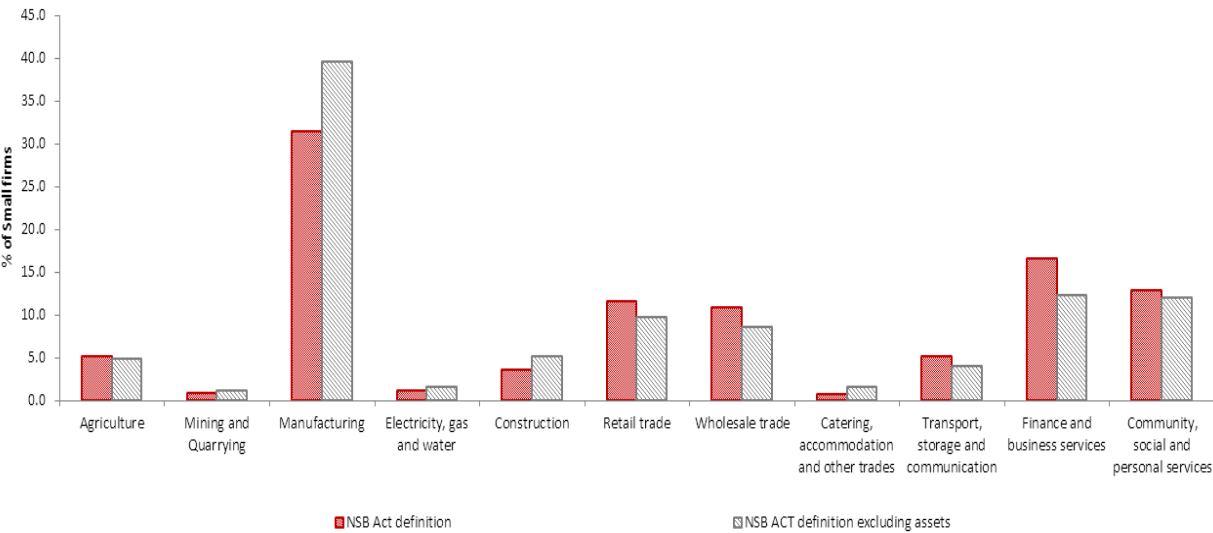


Source: Author's calculations based on data from the SARS-NT Panel

In Figure 3, it is shown that under the NSB Act definition, manufacturing constitutes 50.1 per cent of *Very small firms*, over three times larger than the finance and business services sector, which is the second largest contributor to the category with a share of 13.4 per cent. The catering, accommodation and other trades, construction and retail trade sectors make up 8.2 per cent, 7.1 per cent and 6.2 per cent of *Medium firms* respectively. The proportion of *Very small firms* within the agriculture sector is very negligible at 0.1 per cent.

When using the definition that excludes assets, we find that the manufacturing sector accounts for 35.7 per cent of *Very small firms*; finance and business services represent 19.5 per cent and construction account for 9.1 per cent of these types of firms. Retail trade (8.8 per cent); catering, accommodation and other trades (8.1 per cent); and community, social and personal services (6.5 per cent) contribute a less considerably to the number of *Very small firms*. The proportion of *Very small firms* in the agriculture and mining and quarrying sectors is very insignificant at 0.2 and 0.7 per cent respectively. Notably, whilst the rest of the sectors' share of *Very small firms* is higher in this definition, the manufacturing; and electricity, water and gas sectors constitute less relative to the NSB Act definition. Thus, excluding assets from the NSB Act definition disadvantages *Very small firms* in highly capital-intensive sectors.

Figure 4: Distribution of *Small firms* by sector

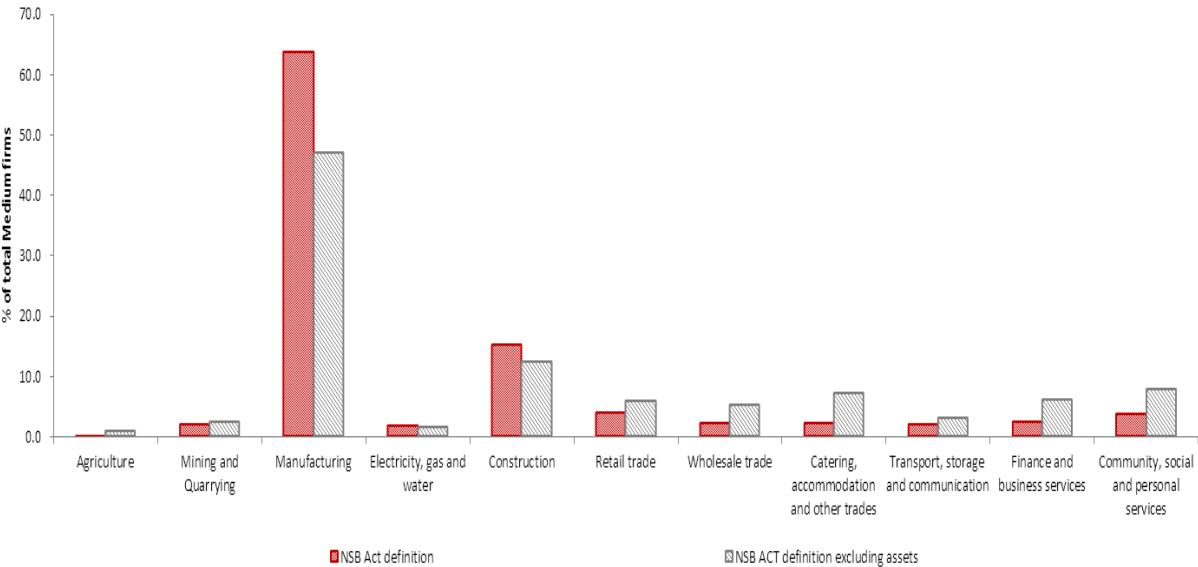


Source: Author's calculations based on data from the SARS-NT Panel

Contrary to *Micro* and *Very small firms*, *Small firms* are distributed more widely across various sectors compared to other size categories under the NSB Act definition. As illustrated in Figure 4, enterprises that operate in the manufacturing (31.4 per cent), finance and business services (16.6 per cent), community, social and personal services (12.9 per cent), retail trade (11.6 per cent), and wholesale trade (10.8 per cent) sectors represent the largest proportion of *Small firms*. The second largest group of contributors were firms in transport, storage and communication (5.2 per cent); agriculture (5.2 per cent) and construction (3.5 per cent). Less than 3.0 per cent of *Small firms* were in the catering, accommodation and other trades, mining and quarrying and electricity, gas and water sectors.

Figure 4 shows that under the definition that excludes assets, 39.5 per cent of *Small firms* are in manufacturing. This is over three times the number of firms in community, social and personal services, and finance and business services; and over four times larger than firms in retail and wholesale trade. The proportion of *Small firms* within the agriculture sector is higher than those seen in *Micro* and *Very small firms* with a share of 4.8 per cent. The proportion of *Small firms* that participate in the agriculture sector is also higher than that those in the electricity, gas and water (1.5 per cent) and mining and quarrying (4.8 per cent). Notably, the proportion of manufacturing and construction firms is higher in the definition that excludes assets, pointing to the possibility that the NSB Act underestimates these firms.

Figure 5: Distribution of *Medium firms* by sector



Source: Author's calculations based on data from the SARS-NT Panel

Figure 5 exhibits that 63.8 per cent of *Medium firms* are concentrated in the manufacturing sector when using the NSB Act. This is followed by construction firms, making up 15.3 per cent of total firms in this size category. The remaining sectors constitute 20.9 per cent of overall *Medium firms*.

For the definition that excludes assets, *Medium firms* also comprise mostly of firms that participate in the manufacturing sector (47.1 per cent). The second largest contributor to the category is the construction sector with 12.4 per cent. This is followed by the firms in the community, social and personal services (7.9 per cent); catering, accommodation and other trades (7.3 per cent); and finance and business services (6.1 per cent). We found that the remaining sectors constitute less than 6.0 per of firms within the size category respectively. The key difference between the two definitions is that the proportions of all sectors except manufacturing and construction are higher on the definition that excludes assets. This suggests that by excluding assets, the contribution of manufacturing and construction firms shrink.

Summary of findings

In this section we found that the number of SMME firms in the South African economy depends on the definition used. There were approximately 21 082 SMMEs between 2010 and 2014 under the NSB Act definition. This is equivalent to 20.9 per cent of firms in the South African economy between 2010 and 2014. A large number of these SMMEs fall within the *Very Small firm* category. When using the definition that excludes assets, there were approximately 41 267 formal SMMEs on average between 2010 and 2014; 37.5 per cent of total firms in South Africa. A large number of these SMMEs are *Very Small firms*. For both definitions, we found that the five main sectors that SMMEs operate in are manufacturing; finance and business services; community, social and personal services; construction; and retail trade.

5. Characteristics of SMMEs

In this section, we in this section we ascertain the total number of employees, turnover and assets SMMEs have per sector. Similar to the previous section, we first make use of the SMME definition stipulated in the NSB Act followed by the definition that excludes assets, which is commonly used internationally.

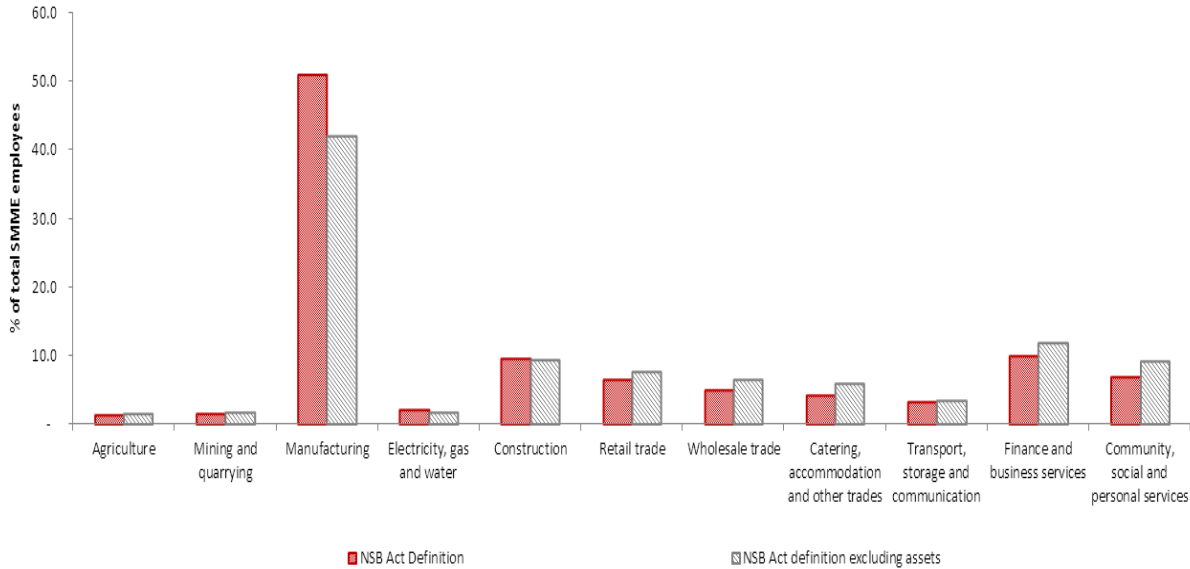
5.1 Findings

Table 2: Employment by type of SMMEs per sector

	NSB Act definition					NSB Act definition excluding assets				
	Micro	Very small	Small	Medium	Total SMMEs	Micro	Very small	Small	Medium	Total SMMEs
Agriculture	178	96	3 723	395	4 392	435	346	8 279	2 676	11 736
Mining and quarrying	33	1 019	905	3 018	4 975	133	1 442	2 883	8 159	12 617
Manufacturing	701	60 046	32 983	92 832	186 562	1 207	75 276	98 890	151 480	326 853
Electricity, gas and water	79	3 301	1 171	2 756	7 307	149	4 219	3 501	5 048	12 917
Construction	339	8 193	3 504	22 417	34 453	642	18 869	12 417	40 600	72 528
Retail trade	244	6 411	11 588	4 900	23 143	414	16 485	23 997	17 264	58 160
Wholesale trade	132	3 455	11 048	3 307	17 942	282	11 320	21 892	16 896	50 390
Catering, accommodation and other trades	197	11 373	765	3 007	15 342	392	19 509	4 078	20 968	44 947
Transport, storage and communication	179	3 156	5 361	2 753	11 449	346	6 779	10 089	9 323	26 537
Finance and business services	1 811	14 120	16 925	3 543	36 399	4 934	36 760	30 909	19 668	92 271
Community, social and personal services	1 367	5 010	12 908	5 219	24 504	2 907	11 557	29 356	26 713	70 533
Total	5 260	116 180	100 882	144 146	366 468	11 842	202 562	246 291	318 795	779 490

Source: Author’s calculations based on data from the SARS-NT Panel

Figure 6: Total employment by type of SMMEs per sector

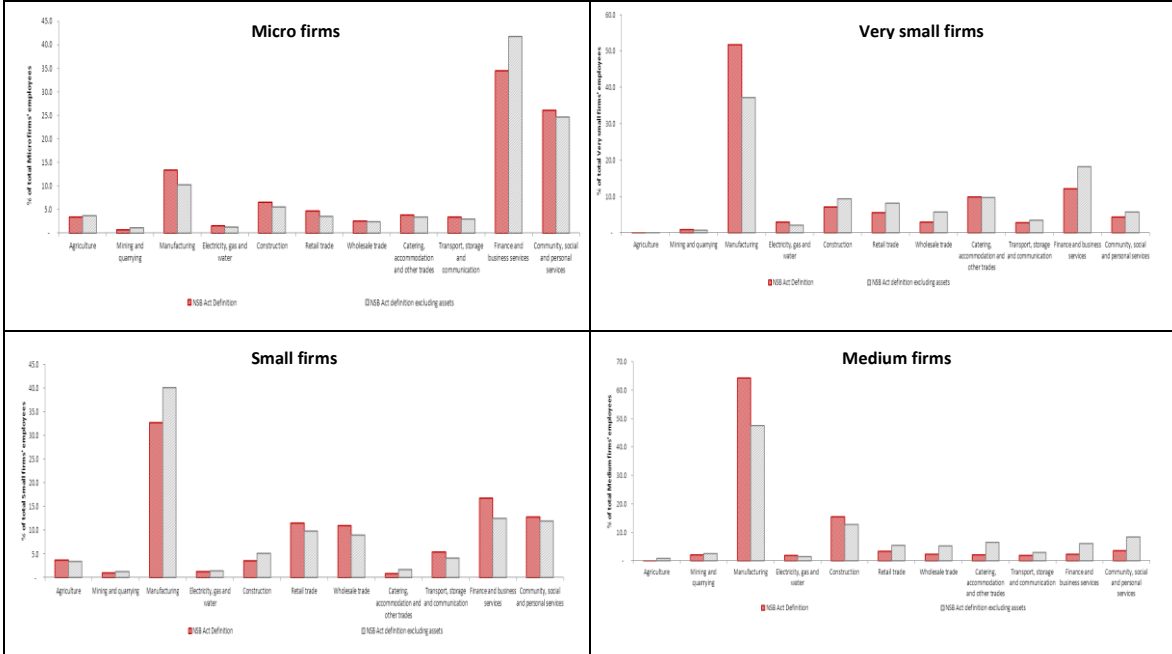


Source: Author’s calculations based on data from the SARS-NT Panel

Table 2 shows that under the NSB Act, SMMEs employed 366 467 people on average between 2010 and 2014. Figure 6 illustrates that most of these firms were concentrated in the manufacturing sector (50.9 per cent), finance and business services (9.9 per cent) and the construction sector (9.4 per cent). *Medium firms* are the largest employers (39.3 per cent) in the SMME sector, followed by *Very small* (31.7 per cent), *Small* (27.5 per cent) and *Micro firms* (1.4 per cent). It is shown in Figure 7 that the finance and business services, and community, social and personal services sectors employ the most people within *Micro firms*. A majority of the jobs in *Very small* and *Small firms* are accounted for by firms in manufacturing, and finance and business services. *Medium firms* that operate in manufacturing and construction have the highest number of employees.

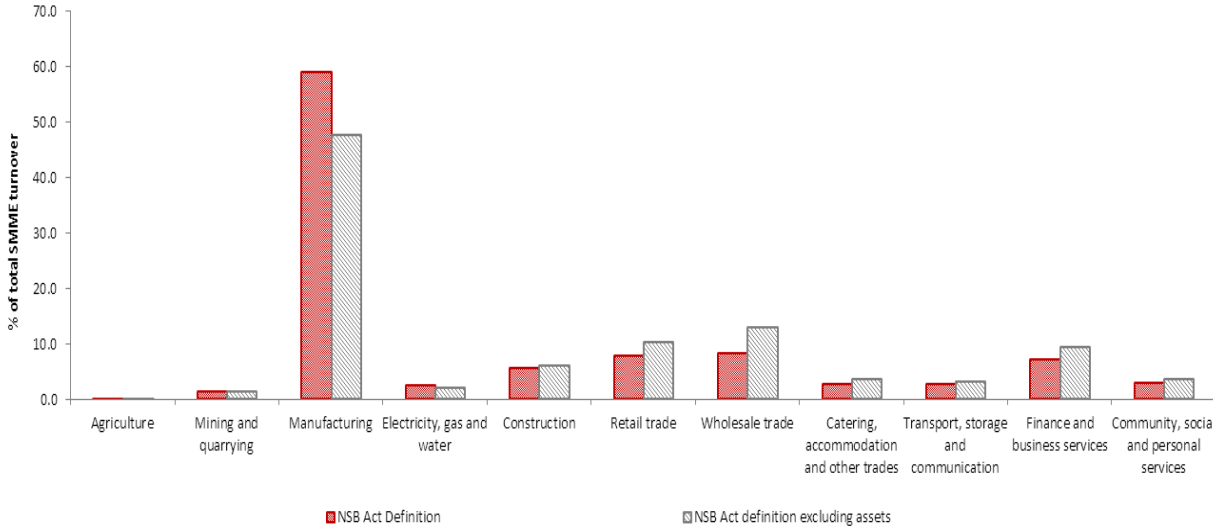
A total of 779 489 employees worked for SMMEs under the definition that excludes assets, of this, just over 50 per cent was accounted for by the manufacturing sector. *Medium firms* employ the largest number of people (40.9 per cent) relative to other SMME firms whilst *Micro firms* have the least number (11 842 or 1.5 per cent) of employees. *Small* and *Very small firms* represent 31.6 per cent and 26.0 per cent of total employees within the SMME sector respectively. Sectors that employ the least number of workers are agriculture (1.5 per cent), mining and quarrying (1.6 per cent), and electricity, gas and water (1.7 per cent).

Figure 7: Total employment by type of SMMEs firms



Source: Author's calculations based on data from the SARS-NT Panel

Figure 8: Total turnover by type of SMMEs per sector

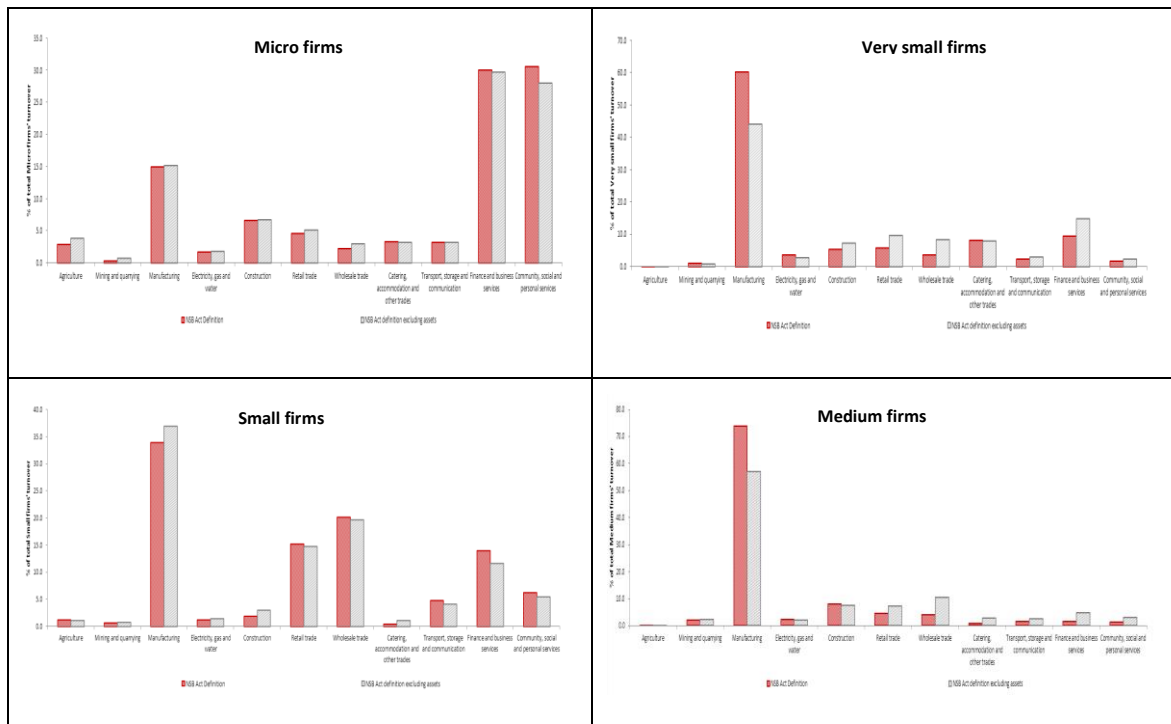


Source: Author's calculations based on data from the SARS-NT Panel

Approximately R100 billion in turnover was generated by the SMME sector between 2010 and 2014 under the NSB Act definition. The three largest sectors by turnover were manufacturing (58.9 per cent), wholesale trade (8.3 per cent) and retail trade (7.8 per cent). *Medium firms* generate 44.8 per cent of turnover with the largest drivers being the manufacturing, construction and retail trade sectors under the NSB Act definition (refer to Figure 9). *Small firms* recorded the second largest turnover value (27.6 per cent) during the review period, with manufacturing, wholesale and retail trade generating the most turnover within *Small firms*. For *Very small* and *Micro firms*, total turnover was 27.3 per cent and 0.2 per cent of the total respectively.

For the definition that excludes assets the total turnover generated by the SMME sector amounted to R201.7 billion. The three largest sectors by turnover were manufacturing (47.6 per cent), wholesale trade (12.8 per cent) and retail trade (10.2 per cent). *Medium firms* make over 50 per cent in total turnover with the largest turnover generators being the manufacturing (57.1 per cent), wholesale trade (10.4 per cent) and construction (7.6 per cent). *Small firms* recorded the second largest turnover value (31.5 per cent); as illustrated in Figure 9, manufacturing, wholesale and retail trade were the sectors that generate the most turnover within these types of firms. For *Very small* and *Micro firms*, total turnover was 23.0 per cent and 0.1 per cent of the total respectively.

Figure 9: Total turnover by type of SMMEs firms



Source: Author's calculations based on data from the SARS-NT Panel

Summary of findings

In this section we found that under the NSB Act, the SMME sector had 366 467 employees during the 2010 - 2014 period. We also found that SMMEs generated R100 billion in turnover. *Medium firms* in manufacturing contributed the most to all three variables. For the definition that excludes assets, we found that the SMMEs had 779 489 employees, generated R201.7 billion in turnover, and had R575.6 billion worth of assets between 2010 and 2014. *Medium firms* were the largest employers and turnover generators.

6. Conclusion and preliminary recommendations on the amendment of the NSB Act

The number of SMMEs in South Africa is dependent on the definition that is used to quantify them. This study has found that the definition stipulated in the NSB Act is restrictive; thus, fewer SMMEs were found under this definition relative to one that excludes assets, which is commonly used internationally. Most SMME firms operate in the manufacturing sector, and these firms had the largest proportion of employees and turnover. We also found that *Very small firms* constitute between 54.9 - 60.9 per cent (depending on definition used) of total SMMEs. Despite this, *Medium firms* were found to be the largest employer and turnover generators.

Based on these findings, it is recommended that the South African definition criteria be adjusted to be less restrictive, in line with international standards. In most countries, a firm is recognised as an SMME when it meets one or two of the three conditions between

employment, turnover and assets; generally denoted as *number of employees and annual total value of turnover or assets*. This is how we propose the definition should be applied. Some countries have done away with the use of assets in their SMME definition; however, we find that this criterion is crucial for highly capital intensive sectors in South Africa.

Allowing for flexibility in the manner in which SMMEs are defined would accommodate both asset-light and asset-heavy firms and sectors. Providing the option between turnover and asset values would ensure that SMMEs across all sectors economic activity are treated fairly. It would also enable government, banks and donors to tailor the criteria depending on their interests.

We recommend that the SMME definition should take into account sector dynamics such as the nature of businesses and ownership within the various sectors. This could be done by introducing a new threshold for niche and highly profitable businesses within each sector. Firstly, this would allow the DSBD to distinguish between firms with high mark-ups that are largely concentrated in business services; and community, social and personal services such as accounting and legal firms, and medical practices; and improve the targeting of SMME support measures to firms that require it the most.

With regards to support, we recommend that government put more emphasis into growing small firms, as it is larger SMMEs that have greater economic impact. Findings from this research suggest that there are high barriers to entry for SMMEs in the primary sector likely due to high start-up costs. A dedicated support programme for this sector can have a positive impact on job creation.

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Appendix A: Methodology

National Small Business Amendment Act Definitions

Sector	Size	Employees (full-time equivalent)	Total annual turnover	Total gross asset value (without fixed property)
Agriculture	Micro	5	R0.20m	R0.10m
	Very small	10	R0.50m	R0.50m
	Small	50	R3m	R3m
	Medium	100	R5m	R5m
Mining and quarrying	Micro	5	R0.20m	R0.10m
	Very small	20	R4m	R2m
	Small	50	R10m	R6m
	Medium	200	R39m	R23m
Manufacturing	Micro	5	R0.20m	R0.10m
	Very small	20	R5m	R2m
	Small	50	R13m	R5m
	Medium	200	R51m	R19m
Electricity, gas and water	Micro	5	R0.20m	R0.10m
	Very small	20	R5.10m	R1.9m
	Small	50	R13m	R5m
	Medium	200	R51m	R19m
Construction	Micro	5	R0.20m	R0.10m
	Very small	20	R3m	R0.50m
	Small	50	R6m	R1m
	Medium	200	R26m	R5m
Retail, motor trade and repair services	Micro	5	R0.20m	R0.10m
	Very small	20	R4m	R0.60m
	Small	50	R19m	R3m
	Medium	200	R39m	R6m
Wholesale trade, commercial agents and allied services	Micro	5	R0.20m	R0.10m
	Very small	20	R6m	R0.60m
	Small	50	R32m	R5m
	Medium	200	R64m	R10m
Catering, accommodation and other trades	Micro	5	R0.20m	R0.10m
	Very small	20	R5.10m	R1.90m
	Small	50	R6m	R1m
	Medium	200	R13m	R3m
Transport, storage and communications	Micro	5	R0.20m	R0.10m
	Very small	20	R3m	R0.60m
	Small	50	R13m	R3m
	Medium	200	R26m	R6m
Finance and Business services	Micro	5	R0.20m	R0.10m
	Very small	20	R3m	R0.50m
	Small	50	R13m	R3m
	Medium	200	R26m	R5m
Community, social and personal services	Micro	5	R0.20m	R0.10m
	Very small	20	R1m	R0.60m
	Small	50	R6m	R3m
	Medium	200	R13m	R6m

Data

1. The data used in this research note was extracted from the SARS-National Treasury panel.
2. Due to the manner in which the data is compiled⁶, a few adjustments were made to the definitions:
 - 2.1 The *Retail trade* and *Wholesale trade* variables used exclude *motor trade and repair services*; and *commercial agents and allied services*.
 - 2.2 *Plant and equipment* were excluded from the asset variable used in this research note as *Property, plant and equipment* are merged into one variable in the panel. In turn, the asset variable was constructed using the following indicators:
 - 2.2.1 Goodwill and intellectual property
 - 2.2.2 Investments in associates/joint ventures
 - 2.2.3 Long-term loans
 - 2.2.4 Deferred tax assets
 - 2.2.5 Inventory and work in progress
 - 2.2.6 Trade and other receivables
 - 2.2.7 Prepayments
 - 2.2.8 Group companies current accounts
 - 2.2.9 Short-term investment
 - 2.2.10 Cash and cash equivalent
 - 2.2.11 SARS
 - 2.2.12 Other fixed assets
 - 2.2.13 Other non-current assets
 - 2.2.14 Other current assets
 - 2.3 The asset value for *Very small* and *Small firms* for *Catering, accommodation and other trades* were substituted for one another in this study in order to enable us to create accurate size categories (and generate accurate results) for the four types of SMME firms (refer to table below). **This is likely a typing error in the NSB Act.**

Sector	Size	NSB Act: Total gross asset value (without fixed property)	This study: Total gross asset value (without fixed property)
Catering, accommodation and other trades	Micro	R0.10m	R0.10m
	Very small	R1.90m	R1m
	Small	R1m	R1.90m
	Medium	R3m	R3m

⁶ For an in-depth discussion on the panel, please refer to Pieterse, D., Kreuser, C. F. & Gavin, E. (2016). Introduction to the South African Turnover Service and National Treasury firm-level panel. 2016/42. Helsinki: UNU-WIDER.

3. Caveats to be noted regarding the data used:

3.1 The data used was extracted in 2016, and since firms have up to two years to file their tax returns hence the data points for 2014 are less complete.

3.2 The data only shows the number of firms that report turnover and employment and assets; and are therefore registered for tax purposes. These numbers exclude body corporates, and about 2/3rds of 'firms' registered for tax purposes – which have no turnover or other income sources.

3.3 Employment numbers refer to 'formally' employed individuals, where companies fill out IRP5 details. This data is not far off official Statistics SA Quarterly Employment Survey (QES) estimates.

3.4 The balance sheet variables are not well populated in the SARS-NT panel and caution should be taken when interpreting results that involve assets.

Appendix B: Results for Section A (Overview Of SMMEs)

Table B1: Number of SMMEs (NSB Act definition)

	2010	2011	2012	2013	2014
Agriculture	260	324	326	315	248
Mining and Quarrying	239	237	191	166	144
Manufacturing	10089	10211	9526	8551	6810
Electricity, gas and water	539	581	533	465	381
Construction	1661	1723	1510	1425	1147
Retail trade	1542	1606	1430	1415	1072
Wholesale trade	853	968	928	929	749
Catering, accommodation and other trades	1278	1367	1275	1174	955
Transport, storage and communication	780	771	716	688	552
Finance and business services	3318	3639	3483	3526	2868
Community, social and personal services	2136	2273	2152	1887	1479

Table B2: Distribution of SMMEs by sector and size (NSB Act definition)

		Agriculture	Mining and Quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	63	24	461	49	208	162	74	92	114	875	826
	2011	103	23	471	61	249	154	84	103	117	1175	939
	2012	103	22	423	44	180	126	72	106	105	1132	868
	2013	97	14	351	36	189	131	78	99	96	1128	845
	2014	86	9	266	45	138	103	56	72	63	904	636
Very small	2010	19	146	7163	401	1044	883	376	1119	434	1855	771
	2011	14	126	7323	438	1050	938	429	1200	420	1846	752
	2012	14	96	6750	417	932	811	415	1105	379	1753	705
	2013	17	101	6110	368	851	798	420	1014	380	1713	537
	2014	10	87	4815	278	690	582	334	826	303	1366	447
Small	2010	168	34	1317	58	129	420	367	25	188	561	476
	2011	201	40	1247	43	131	436	415	27	194	581	507
	2012	203	34	1200	41	135	421	402	21	205	554	508
	2013	199	25	979	32	121	423	390	18	179	637	444
	2014	146	22	811	31	100	333	317	26	153	552	347
Medium	2010	10	35	1148	31	280	77	36	42	44	27	63
	2011	6	48	1170	39	293	78	40	37	40	37	75
	2012	6	39	1153	31	263	72	39	43	27	44	71
	2013	2	26	1111	29	264	63	41	43	33	48	61
	2014	6	26	918	27	219	54	42	31	33	46	49

Table B3: Number of SMMEs (NSB Act definition excluding assets)

	2010	2011	2012	2013	2014
Agriculture	623	774	805	765	613
Mining and Quarrying	432	458	454	395	329
Manufacturing	15007	15574	14602	13660	10920
Electricity, gas and water	787	858	825	720	612
Construction	3527	3726	3435	3270	2622
Retail trade	3593	3785	3390	3219	2444
Wholesale trade	2291	2557	2530	2398	1949
Catering, accommodation and other trades	2341	2641	2514	2486	2118
Transport, storage and communication	1586	1599	1485	1418	1099
Finance and business services	7387	8881	8993	8649	7311
Community, social and personal services	4205	4919	4748	4403	3604

Table B4: Distribution of SMMEs by sector and size (NSB Act definition excluding assets)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	148	57	686	82	318	244	132	152	175	1612	1241
	2011	235	78	784	100	425	260	166	204	202	2883	1832
	2012	252	90	725	95	349	225	163	215	192	3065	1773
	2013	231	69	614	74	357	211	160	197	180	2793	1623
	2014	193	49	480	73	252	179	119	154	136	2445	1358
Very small	2010	54	196	8800	503	2282	2230	1267	1858	889	4578	1634
	2011	58	175	9091	555	2334	2336	1395	2019	898	4729	1639
	2012	54	148	8498	541	2107	2055	1398	1886	825	4617	1573
	2013	59	141	7859	466	2015	1941	1263	1836	793	4458	1426
	2014	39	125	6226	376	1606	1435	998	1544	595	3650	1122
Small	2010	375	90	3740	147	443	868	696	92	375	1011	1049
	2011	436	105	3828	138	478	908	785	143	370	1065	1116
	2012	463	110	3501	128	473	882	770	131	357	1061	1079
	2013	442	103	3298	119	423	857	764	141	339	1135	1055
	2014	345	78	2633	100	352	670	636	128	270	963	855
Medium	2010	46	89	1781	55	484	251	196	239	147	186	281
	2011	45	100	1871	65	489	281	211	275	129	204	332
	2012	36	106	1878	61	506	228	199	282	111	250	323
	2013	33	82	1889	61	475	210	211	312	106	263	299
	2014	36	77	1581	63	412	160	196	292	98	253	269

Appendix C: Results for Section B (Characteristics of SMMES)

Table C1: SMME Employment by sector and size (NSB Act definition)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	123	46	796	83	356	281	134	187	194	1494	1342
	2011	212	43	876	108	434	291	153	229	224	2017	1598
	2012	202	34	742	63	308	224	130	224	198	1959	1437
	2013	179	25	638	57	354	235	136	191	174	1971	1385
	2014	175	17	455	86	242	187	106	153	104	1614	1073
Very small	2010	116	1327	67121	3466	9435	6879	3127	11893	3515	15308	6030
	2011	83	1178	68597	3836	9495	7712	3858	12930	3475	15313	5862
	2012	98	877	63679	3629	8358	6480	3693	11761	3192	14659	5572
	2013	115	911	56547	3178	7553	6354	3713	11180	3157	14064	4144
	2014	66	804	44287	2396	6125	4631	2884	9101	2440	11255	3440
Small	2010	3480	1035	39583	1664	3622	12124	10798	869	5524	16373	13473
	2011	3947	1214	37001	1215	3763	12220	12148	946	5894	17105	14680
	2012	4064	928	35330	1171	3913	12012	11560	686	6016	16063	14418
	2013	4138	701	28990	935	3351	12112	11611	528	5036	18829	12194
	2014	2987	646	24012	871	2870	9473	9124	796	4336	16255	9776
Medium	2010	710	3035	98004	2888	23912	5686	2884	3215	3192	2466	5200
	2011	373	4308	99437	3277	24207	5596	3252	3009	3025	3028	6116
	2012	344	3680	97394	2678	22155	5074	3027	3369	2117	3949	5862
	2013	179	2015	92079	2694	23081	4407	3493	3345	2570	4280	4763
	2014	369	2053	77245	2243	18728	3738	3881	2095	2859	3990	4153

Table C2: SMME Turnover by sector and size (NSB Act definition)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	4607419	906653	37100000	3628683	14100000	12100000	4364285	8011768	8315652	70800000	72100000
	2011	5567139	857237	33300000	3893923	17700000	9962914	4941341	6542984	6989443	59000000	63900000
	2012	6676348	504298	29100000	2800117	10400000	6694742	4137913	6345088	5319451	56700000	60300000
	2013	6376682	419052	25700000	1956959	13000000	8871130	4735378	6701895	6299873	59600000	56300000
	2014	4255077	131344	18600000	3596474	7979632	6522085	3185408	3981617	3554239	42900000	40900000
Very small	2010	6809220	276000000	1750000000	913000000	1540000000	1660000000	864000000	2140000000	647000000	2560000000	542000000
	2011	5125199	271000000	1820000000	1070000000	1600000000	1850000000	984000000	2400000000	650000000	2620000000	536000000
	2012	4764738	192000000	1720000000	1080000000	1460000000	1570000000	962000000	2300000000	587000000	2600000000	505000000
	2013	6460350	216000000	1620000000	957000000	1410000000	1630000000	1090000000	2250000000	583000000	2610000000	400000000
	2014	3876580	193000000	1300000000	741000000	1180000000	1190000000	889000000	1850000000	481000000	2230000000	326000000
Small	2010	320000000	189000000	1080000000	491000000	531000000	4480000000	5220000000	141000000	1260000000	3570000000	1810000000
	2011	370000000	212000000	1040000000	366000000	553000000	4480000000	6060000000	150000000	1330000000	3830000000	1930000000
	2012	402000000	229000000	1010000000	337000000	588000000	4180000000	5740000000	116000000	1500000000	3660000000	1930000000
	2013	395000000	164000000	845000000	251000000	533000000	4400000000	5880000000	101000000	1340000000	4400000000	1660000000
	2014	281000000	152000000	709000000	259000000	445000000	3490000000	4970000000	143000000	1210000000	3930000000	1360000000
Medium	2010	40600000	846000000	3350000000	1040000000	3670000000	2300000000	1590000000	410000000	817000000	486000000	648000000
	2011	26600000	1220000000	3450000000	1280000000	3910000000	2350000000	1750000000	347000000	758000000	673000000	728000000
	2012	25100000	1070000000	3460000000	964000000	3520000000	2120000000	1740000000	417000000	517000000	796000000	732000000
	2013	9384063	612000000	3400000000	964000000	3690000000	1840000000	1840000000	423000000	657000000	843000000	593000000
	2014	24500000	696000000	2860000000	926000000	3180000000	1540000000	1980000000	294000000	641000000	859000000	486000000

Table C3: SMME assets by sector and size (NSB Act definition)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	1314294	178973	10900000	1055350	3901657	2724264	1298052	1604542	2086462	21800000	20000000
	2011	2990954	346019	11300000	1607668	5120086	2528370	1728444	2442057	2319128	32100000	22800000
	2012	3247930	376442	9366483	918452	2987519	2510290	1495485	2900359	2438532	32300000	22000000
	2013	2311626	381964	6499185	599145	3472868	3331667	2014407	2262415	1374896	29800000	19100000
	2014	2065284	31333	5325791	870096	2402347	1867169	1154508	1834308	971978	25000000	14700000
Very small	2010	4377692	89600000	508000000	265000000	284000000	302000000	128000000	436000000	134000000	517000000	201000000
	2011	3500002	89200000	525000000	293000000	287000000	320000000	150000000	478000000	136000000	513000000	194000000
	2012	3138631	73100000	479000000	296000000	250000000	272000000	140000000	438000000	120000000	488000000	179000000
	2013	3289191	68700000	416000000	248000000	230000000	268000000	146000000	377000000	111000000	461000000	133000000
	2014	2186907	64500000	336000000	189000000	179000000	198000000	112000000	312000000	84500000	365000000	107000000
Small	2010	211000000	103000000	410000000	176000000	94100000	740000000	983000000	33900000	309000000	850000000	678000000
	2011	262000000	136000000	385000000	126000000	98000000	772000000	1090000000	39800000	311000000	906000000	714000000
	2012	266000000	115000000	373000000	129000000	100000000	741000000	1100000000	29800000	348000000	824000000	692000000
	2013	251000000	89100000	300000000	101000000	88100000	758000000	1010000000	24900000	288000000	946000000	584000000
	2014	187000000	71100000	251000000	98200000	73000000	598000000	869000000	38600000	248000000	852000000	463000000
Medium	2010	39000000	374000000	1190000000	322000000	791000000	339000000	270000000	106000000	186000000	108000000	271000000
	2011	24000000	538000000	1210000000	428000000	816000000	326000000	298000000	88700000	172000000	149000000	326000000
	2012	24600000	435000000	1200000000	351000000	741000000	313000000	297000000	104000000	125000000	177000000	298000000
	2013	7025488	259000000	1120000000	348000000	720000000	281000000	307000000	106000000	140000000	186000000	244000000
	2014	25300000	311000000	938000000	301000000	585000000	242000000	315000000	77000000	137000000	183000000	206000000

Table C4: SMME Employment by sector and size (NSB Act definition excluding assets)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	298	100	1 206	141	572	416	250	327	320	2 915	2 098
	2011	488	145	1 497	183	791	495	316	433	398	5 504	3 473
	2012	515	171	1 314	164	653	423	313	457	392	5 926	3 373
	2013	473	138	1 153	125	705	403	301	405	351	5 484	3 042
	2014	403	110	864	133	491	335	231	339	268	4 839	2 548
Very small	2010	349	1 790	82 195	4 286	21 106	18 306	10 982	19 532	7 617	38 330	12 629
	2011	364	1 625	84 900	4 850	21 363	19 586	12 830	21 650	7 658	39 706	12 846
	2012	352	1 376	79 718	4 759	19 167	16 951	12 597	20 147	7 008	38 686	12 461
	2013	399	1 272	72 400	4 069	18 267	15 787	11 329	19 734	6 697	36 965	11 122
	2014	266	1 147	57 167	3 131	14 440	11 793	8 863	16 483	4 913	30 115	8 728
Small	2010	7 723	2 764	109 487	4 169	12 642	25 066	20 888	2 998	11 245	29 830	30 218
	2011	8 714	3 151	111 512	3 759	13 749	26 127	23 573	4 745	11 158	31 518	32 085
	2012	9 019	3 259	101 698	3 544	13 544	25 272	23 083	4 239	10 565	31 260	30 758
	2013	8 923	2 984	95 571	3 230	12 097	24 407	23 120	4 500	9 712	33 500	29 371
	2014	7 017	2 259	76 182	2 801	10 051	19 113	18 795	3 910	7 764	28 437	24 347
Medium	2010	3 203	8 339	153 005	4 953	41 912	19 142	15 822	18 747	11 633	16 145	24 681
	2011	2 976	9 751	158 215	5 519	41 255	21 731	16 772	21 038	10 030	17 099	28 919
	2012	2 461	9 441	159 005	5 186	43 151	17 344	16 847	20 869	8 855	21 310	29 126
	2013	2 273	6 579	156 206	4 767	41 416	15 834	17 444	22 972	8 276	22 635	26 839
	2014	2 469	6 684	130 971	4 816	35 265	12 267	17 595	21 213	7 820	21 149	24 001

Table C5: SMME turnover by sector and size (NSB Act definition excluding assets)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	11600000	2447870	56100000	6367452	23000000	20600000	9003741	11500000	13000000	112000000	100000000
	2011	11300000	3075136	51100000	5837883	24500000	16900000	9902277	11300000	10900000	91600000	93600000
	2012	11600000	1865288	45200000	5308370	17000000	12300000	9029918	10200000	7327941	84200000	82200000
	2013	11100000	1535710	38900000	3125858	20000000	12900000	8448885	8467751	8501470	82200000	72400000
	2014	8901926	556196	29000000	4565981	12000000	11500000	6471515	4995642	5441079	61700000	58600000
Very small	2010	19000000	364000000	2140000000	1140000000	3590000000	4880000000	3790000000	3470000000	1430000000	6760000000	1070000000
	2011	20200000	356000000	2250000000	1360000000	3700000000	5240000000	4200000000	3870000000	1460000000	7130000000	1100000000
	2012	18600000	282000000	2140000000	1390000000	3400000000	4620000000	4260000000	3760000000	1350000000	7100000000	1070000000
	2013	20700000	280000000	2020000000	1200000000	3330000000	4340000000	3930000000	3750000000	1270000000	7030000000	999000000
	2014	13900000	258000000	1640000000	959000000	2730000000	3270000000	3130000000	3270000000	965000000	5970000000	790000000
Small	2010	667000000	438000000	2500000000	1010000000	1940000000	9850000000	11700000000	512000000	2750000000	7000000000	3490000000
	2011	763000000	527000000	2590000000	994000000	2110000000	10200000000	13100000000	790000000	2760000000	7480000000	3690000000
	2012	834000000	580000000	2430000000	915000000	2140000000	9800000000	12900000000	729000000	2730000000	7460000000	3670000000
	2013	797000000	556000000	2300000000	830000000	1880000000	9500000000	13300000000	783000000	2670000000	8030000000	3540000000
	2014	616000000	455000000	1910000000	750000000	1570000000	7550000000	11400000000	716000000	2110000000	7100000000	2990000000
Medium	2010	185000000	2030000000	5080000000	1670000000	7000000000	7350000000	9080000000	2210000000	2840000000	3570000000	2580000000
	2011	182000000	2290000000	5360000000	2060000000	7030000000	8320000000	9930000000	2560000000	2550000000	3850000000	3060000000
	2012	145000000	2450000000	5480000000	1910000000	7300000000	6720000000	9380000000	2640000000	2220000000	4740000000	3010000000
	2013	132000000	1720000000	5530000000	1850000000	6900000000	6150000000	9890000000	2950000000	2070000000	4900000000	2750000000
	2014	152000000	1780000000	4670000000	1940000000	6340000000	4620000000	9520000000	2830000000	1910000000	4740000000	2530000000

Table C6: SMME assets by sector and size (NSB Act definition excluding assets)

		Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Retail trade	Wholesale trade	Catering, accommodation and other trades	Transport, storage and communication	Finance and business services	Community, social and personal services
Micro	2010	282000000	807000000	559000000	117000000	659000000	923000000	720000000	280000000	145000000	24000000000	1520000000
	2011	4050000000	20800000000	4860000000	102000000	2380000000	348000000	3080000000	540000000	301000000	103000000000	12100000000
	2012	1620000000	4050000000	6640000000	126000000	1050000000	166000000	3320000000	630000000	823000000	81600000000	14700000000
	2013	961000000	2230000000	5630000000	245000000	1340000000	341000000	28500000000	767000000	863000000	70800000000	22900000000
	2014	2010000000	26900000000	6150000000	184000000	4520000000	224000000	253000000000	711000000	477000000	83700000000	19100000000
Very small	2010	74800000	580000000	74200000000	530000000	1910000000	2040000000	1780000000	377000000000	629000000	6820000000	906000000
	2011	283000000	508000000	220000000000	614000000	1770000000	2180000000	1940000000	1720000000	725000000	5390000000	1150000000
	2012	93900000	743000000	9560000000	810000000	1410000000	2040000000	730000000000	1680000000	683000000	6140000000	797000000
	2013	83500000	229000000	8410000000	651000000	1580000000	1810000000	1910000000	1760000000	646000000	5940000000	593000000
	2014	39000000	243000000	7020000000	1410000000	1290000000	1330000000	1420000000	1510000000	389000000	6080000000	597000000
Small	2010	742000000	497000000	10700000000	390000000	649000000	3280000000	229000000000	151000000	1480000000	6310000000	1750000000
	2011	928000000	907000000	211000000000	327000000	868000000	3370000000	4590000000	195000000	1520000000	7420000000	1860000000
	2012	1460000000	1620000000	10200000000	495000000	731000000	3400000000	4460000000	250000000	1360000000	15100000000	2170000000
	2013	1260000000	1230000000	8440000000	335000000	609000000	3090000000	4940000000	232000000	868000000	4590000000	2140000000
	2014	1420000000	653000000	6960000000	410000000	615000000	2410000000	4430000000	196000000	817000000	3930000000	1740000000
Medium	2010	164000000	1060000000	22500000000	753000000	2440000000	2000000000	3120000000	802000000	1830000000	2120000000	1210000000
	2011	299000000	1660000000	24000000000	1130000000	2540000000	2250000000	3670000000	989000000	1530000000	2430000000	1230000000
	2012	89100000	2040000000	25800000000	986000000	2710000000	2140000000	3190000000	911000000	1350000000	3400000000	1330000000
	2013	140000000	733000000	23300000000	936000000	2100000000	1920000000	3930000000	803000000	784000000	5180000000	1370000000
	2014	130000000	769000000	19200000000	926000000	1820000000	1360000000	3400000000	652000000	707000000	2790000000	762000000