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Small and Medium Enterprises (SMEs): Instruments of economic growth and development in a South African regional dispensation

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Small and Medium Enterprises (SMEs): Instruments of Economic Growth and Development in a South African Regional Dispensation

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1. Introduction

The South African economy is currently characterized by high levels of unemployment, abject poverty, high illiteracy, low productivity and low international competitiveness. It is also struggling to attract and retain foreign direct investment and portfolio investments. Amidst this situation, the formal sector is also continuously shedding jobs. Furthermore, the formal sector's absorption capacity steadily declined, from approximately 75 per cent to about three per cent currently over the past three decades.

The need thus exists to create a situation where the entrepreneurial flair of individuals must be developed, supported and encouraged. In other words, the need for building capacity to encourage small business development, especially within the previously disadvantaged groups in South Africa, is of paramount importance to the development and long-term survival of the South African economy. Issues such as the absence or limited availability of social safety nets in South Africa, reinforces the dire need for self-employment, growth and development. This will also largely decrease the state of dependency of a large percentage of people, either unemployed or potentially unemployed.

Furthermore, the development of entrepreneurial behaviour will lead to the extension of labour market skills and will also combat the possible obsolescence of current skills due to prolonged periods of unemployment.

The SME sector is considered to be one of the most viable means to create employment and well-being in the South African economy. A business in general, whether micro, small or medium, which produces goods and services that are in demand, will have the over-arching aim of generating income for its owners or operators. It is therefore easy to understand that it is the initiative of a person or persons that leads to the creation of a formal entity and it is the amalgamation of all the individual entities, big or small, that determines the state, nature and direction of a country's economy. South Africa is no different.

The South African government also realizes that SMEs are the logical "kick-start" mechanism to job creation and future prosperity in the country, therefore the attitude of government has changed significantly towards allowing new opportunities for entrepreneurs. The main concern is that the majority of small businesses do not remain competitive for long enough to pass on the benefits to their respective communities and the economy in general.

The main purpose of the paper will be to place the South African regional economy in perspective. Secondly, to provide a better understanding of SME operations in South Africa, especially in ascertaining to what extent an enabling environment is created for SME business entrepreneurs to flourish and prosper. Thirdly, the aim will be to identify the pit-falls and the type of constructive support that can be developed to assist small business entrepreneurs in their endeavour to set up a formal business and to continue it as a successful going concern.

2. Placing the South African Regional Economy in Perspective

South Africa is subdivided into nine provinces and had a total population of approximately 44,6 million people in 2001 (see table 1).

As can be seen in Table 1 South Africa also has a fairly low urbanization rate, with only Gauteng Province showing a 100 per cent urbanized population, followed by the Western Cape; Free State and Northern Cape Provinces, each with an urbanization rate of 89 per cent, 72 per cent and 70 per cent, respectively.

**Table 1: ESTIMATED POPULATION DISTRIBUTION (2001)
PROVINCIAL**

Province	Total Population	Urban Population (%)
Eastern Cape	6 807 919	37
Free State	2 810 828	72
Gauteng	8 126 651	100
Kwazulu/Natal	9 254 638	42
Mpumalanga	3 147 192	39
Northern Cape	899 055	70
Northern Province	5 465 823	12
North-West	3 661 722	34
Western Cape	4 417 652	89
Total	44 591 480	54

Source: PIMSS 2001

South Africa has a relatively young population with 47,4 per cent of the population being younger than 19 years of age. This indicates that in the years to follow, the South African economy will have to create more

new jobs to allow the absorption of its population into the formal economy. The opposite has however taken place. The South African economy is shedding jobs continuously, to the extent of 420 000 formal jobs during the period 1990 – 1996 (Barker, 1999:163). Furthermore, between March and September 2000 an additional 63 635 jobs were lost in formal economy (Anonymous, 2002:98). Barker (1999:47) also estimates that in order to address the unemployment problem and to prevent the unemployment rate from rising the South African economy will have to create approximately 1700 new jobs every working day.

The problem as highlighted above is furthermore exacerbated by the fact that a large percentage of the South African population still resides in the rural areas (see table 1) and that most of the development seed capital is allocated to urban areas.

This not only leaves development stunted in the predominantly rural areas, but also creates a pull-incentive towards urban areas. This results in a massive rural-urban migration tendency, whereby urban squalor is created.

Table 2 draws the distinction between informal employment, formal employment and the unemployed workforce. This table indicates the rate at which formal sector employment decreased from 1996 to 2000. Taking the Eastern Cape Province as an example, the formal sector employment decreased from 37,4 per cent in 1996 to 34 per cent in 2000, while the informal sector activity increased from 4,9 per cent in 1996 to 9,9 per cent in 2000. Furthermore the unemployment rate increased from 48 per cent in 1996 to 52,9 per cent in 2000. This is similar for all the other eight provinces in the country. To take the analysis to a more micro level, the Nelson Mandela Metropolitan Municipality can be considered. This metropolitan area is characterized by a strong automotive cluster with a large export oriented segment. Despite this, the unemployment rate for this metropolitan area still

increased by 19,02 per cent between 1996 and 2000 and the informal sector activity increased with a staggering 129,66 per cent.

Table 2: INFORMAL, FORMAL AND UNEMPLOYED WORKFORCE (2000) PROVINCIAL

Province	Informal Employment 00 %	Informal Employment 96 %	Formal Employment 00 %	Formal Employment 96 %	Unemployed workforce 00 %	Unemployed workforce 96 %
Eastern Cape	9.9	4.9	34	37.4	52.9	48
Free State	9	5.1	43.9	56.5	36	29.5
Gauteng	8.7	4.5	56.4	63.3	33	27.7
Kwazulu/Natal	12.7	7.2	34	36	42.3	38.8
Mpumalanga	18.2	8.8	46.4	50.3	35.3	33.6
Northern Cape	5	2.2	53.8	61.7	30.4	27.2
Northern Province	18.7	8.6	33.5	34.4	46.1	45.4
North-West	9.3	4.4	40.6	45.1	43.4	37.9
Western Cape	9.2	4.1	63.6	73.5	19.2	17.7

Source: PIMSS 2001

Table 3 indicates the provincial economic base per capita of the country. From this table it becomes clear that South Africa is characterized by widespread inequalities. Where the poorest provinces are the KwaZulu/Natal Province with a GGP per capita of R6 094 and the Eastern Cape Province with a GGP per capita of R7 221. The more affluent provinces are the Gauteng Province and Western Cape Province with GGPs per capita of R28 911 and R27 408, respectively.

Table 3: AVERAGE GGP PER CAPITA (2000) – Rand Value

Province	GGP per cap 00	GGP per cap 96	GGP per cap 90
Eastern Cape	7 221.17	5 823.72	6 768.59
Free State	10 330.82	9 011.19	10 005.93
Gauteng	28 911.21	22 282.16	29 043.69
Kwazulu/Natal	6 093.76	4 984.63	6 644.13
Mpumalanga	22 525.04	17 602.14	18 754.82
Northern Cape	13 609.04	10 741.19	12 601.6
Northern Province	13 808.61	9 912.11	12 865.58
North-West	10 475.93	8 021.18	9 950.03
Western Cape	27 407.87	20 116.89	22 309.15
Total	140 383.45	108 495.21	128 943.52

Source: PIMSS 2001

The large scale inequality, unemployment and poverty is highlighted by Table 4 below which indicates that a vast percentage of the South African population lives below the so called minimum living level (poverty line). The province with the highest poverty rate is once again the Eastern Cape Province, where a staggering 74,2 per cent of the people live below the minimum living level. Table 4 in actual fact shows, with the exception of the Gauteng and Western Cape Provinces, that between 60 and 75 per cent of the population in the other provinces lives below the minimum living level.

Table 4: ESTIMATED NO. OF HOUSEHOLDS LIVING BELOW MINIMUM LIVING LEVEL (MLL) 2001 PROVINCIAL

Province	Households below MLL1	Households below MLL %	Total households
Eastern Cape	1 002 835	74.2	1 352 087
Free State	431 408	67.6	637 762
Gauteng	750 897	37.1	2 023 077
Kwazulu/Natal	1 017 075	60.5	1 680 143
Mpumalanga	379 179	61.4	617 894
Northern Cape	115 280	61.2	188 346
Northern Province	731 890	72.9	1 004 371
North-West	469 503	63.9	734 662
Western Cape	357 213	36.4	982 619

Source: PIMSS 2001

Furthermore, if the nine provinces in South Africa are compared to a selected number of countries, based on the Human Development Index (HDI), it is seen that South Africa and its provinces rank in the medium human development category, ranging from 0,4 and 0,6 on the HDI scale. According to Statistics South Africa (2001:20) the HDI basically consists of three key components, namely longevity, educational attainment and standard of living.

With this as background to the regional/provincial dimension of the South African economy, it becomes clear why more attention is given to a diverse array of alternatives to combat unemployment, poverty and low economic activity. It is also acknowledged that the larger scale industries are not the answer to job retention and employment, however, the Small and Medium Size Enterprise (SME) sector has greater potential for job creation and job retention.

3. The Importance of the SME Sector

In most cases the small business sector is subject to the same economic and management constraints as larger corporations. However, the small business entrepreneur is normally considered to be a “Jack of all trades” as far as the management functions are concerned. There is furthermore little doubt as to the importance of the small business (SME) sector for the development aspirations of South Africa, to address the serious problems of unemployment, income inequality and low economic growth (SACOB, 1999 and Ntsika, 2000:5).

The small business sector in any economy must furthermore be seen as the ultimate manifestation of a free-market system in a country. It is generally acknowledged that small business has a vast array of important economic and social characteristics linked to it. These include:

- Small business is seen as a generator of nett new employment opportunities.
- Small business is unique in the extent that it lends itself to inventions and innovations due to the personal initiatives of the entrepreneur.
- Small business provides predominantly in the needs of communities.
- Small business lends itself to economic stability and to better and more equal distribution of economic activities and opportunities in the economy.
- Small business tends to be more flexible and adaptable.
- Small businesses act as sub-contractors to most larger corporations in the economy.
- Small business activities result in a multiplier effect in the socio-economic activities in the economy.
- Small business is seen as the point of entry to big business in the economy.

(Moolman, P.L. as quoted in Du Plessis, P.G., 1993:708 – 719 and Parsons, C. and Cain, J., 1989:98).

Although there are several important socio-economic characteristics linked to small business, it is not without its problems. These problems include amongst others the following:

- The large percentage of small businesses that fail each year.
- The susceptibility of the small business sector to external factors such as the current economic climate, political and legislative environment, the high startup and maintenance costs, as well as discriminatory practices against small businesses.
- The problem linked to the internal functions of small business such as management capabilities, financing, marketing, and people management.

(Moolman, P.L. as quoted in Du Plessis, P.G., 1993:719 – 730)

In general most small businesses have certain common needs, which include the following:

- Requiring help in diagnosing internal problems.
- Requiring increases in productivity and general competitiveness.
- Lacking access to appropriate technologies.
- Needing access to better business management practices.
- Requiring more access to markets and appropriate marketing techniques.
- Suffering from poor human development skills.
- Lacking the awareness of available resources.

(PERMAC, 2001:unpublished data).

Having sketched the background to the importance of the small business sector in the development and growth of an economy, lets consider the importance of this sector to the South African economic landscape in particular.

4. The Importance of the SME Sector in the South African Economy

It is a common phenomenon throughout the world that the small business sector plays a critical role in absorbing labour, penetrating new markets and assisting in the creation and expansion of markets in innovative ways. South Africa is no different in this respect. The stimulation of the small business sector must be seen as an element of an integrated strategy to take the South African economy onto a higher level. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa is the attempt by the South African government to contribute to the process of stimulating small business concerns in South Africa (White Paper, 1995:3). For the South African economy to survive in a dynamic and competitive international arena, the economy must move onto a growth path that is synonymous with increased investments (local and foreign), increased productivity and expanding employment opportunities. The small business sector will play a vital role in this process, because approximately eighty per cent of the members of the South African Chamber of Business (SACOB) are small businesses (SACOB, 1999:3). It is also important to note that the expanded small business sector (SMMEs) in South Africa comprises approximately 800 000 SMMEs, representing approximately 25 per cent of the country's economically active population. The SME component of SMMEs contributes to the bulk of established businesses and employment ranges between 5 and 50 people per entity (White Paper, 1995:7 – 8).

According to the White Paper (1995:13 – 15) the National Small Business strategy has the following objectives, namely to:

- Establish an enabling environment for small business.
- Create greater education, in core and earning opportunities.
- Address the past disempowerment of black entrepreneurs in the economy.
- Actively support the advancement of women in all business sectors.

- Generate long-term sustainable employment.
- Stimulate sector-focused economic growth.
- Provide cohesion between small business entrepreneurs.
- Level the playing fields between larger and smaller role players in the economy.
- Prepare the small business sector to comply to the challenges of international competitiveness.

The Government's National Small Business Strategy rests on ten key principles, namely:

- A joint venture approach between the big and small business sectors.
- All the segments of the small business sector, namely survivalist, micro, small and medium enterprises, need similar and equal attention.
- The business efficiency of the entire small business sector must be developed based on the compliance with social and financial standards.
- The demand and supply side of the small business sector must be developed and supported.
- Black economic empowerment must be advanced by means of this sector.
- Governmental support programmes must be prioritized according to the availability of public funding.
- Government support programmes and policies will be sector-focused and targeted with the application of public funds.
- The institutional framework for small business support has to be restructured to take note of the provincial thrust of policy implementation amongst others.
- The Department of Trade and Industry will be the vital link and base for the national strategy.

- Private enterprise, NGOs, business associations and foreign donors will all have a critical role to play in the establishment and development of a sustainable and viable small business sector.

(White Paper, 1995:15 – 21)

To address the issues as outlined above, and also to simplify the regulatory procedures of the small business sector, the National Small Business Act was passed in 1996. The Transaction and Procurement Act and the Small Business Finance Act were also promulgated to assist small business. The National Small Business Act has the following objectives:

- The establishment of the National Small Business Council.
- The establishment of the Ntsika Enterprise Promotion Agency.
- The provision of guidelines for state departments to promote small business in South Africa.

(National Small Business Act No 102 of 1996).

In order to address access to finance as a major stumbling block to small businesses, the following steps towards financing small business were undertaken:

- Commercial Banks: Previously small business ventures were seen as too risky to finance. During the last 2 to 3 years the larger commercial banks established divisions that deal specifically with small business financing.
- SMME-focused financing institutions: Institutions originating from the sector for the sector, and mostly backed by either government financing or foreign donor money.
- Micro-enterprise finance: NGOs with the specific goal of financing micro and survivalist enterprises.
- Venture finance: Equity funds to address the equity needs of SMMEs.

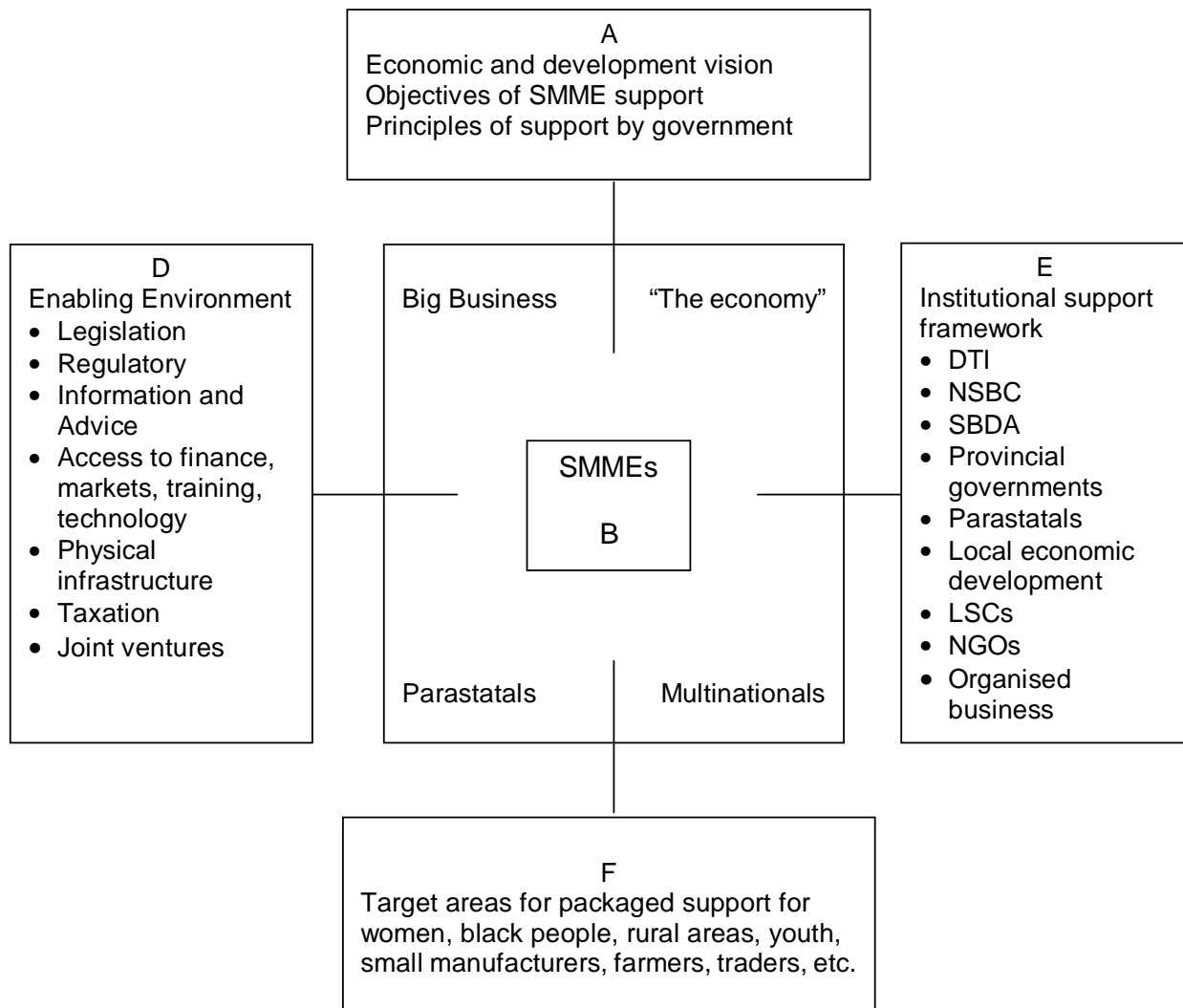
- Credit guarantees: A system geared for strengthening the commercialized funding of SMMEs, based on a differentiated credit-guarantee system.
- Deposit-taking by lending NGOs: To mobilize funds for micro-loans. However government will still evaluate the viability of such a system.
- Alternative collateral: To access commercial funds more readily, recognition is given to other types of securities and collateral substitutes, especially in rural areas where land for example is still held communally.

(White Paper, 1995:28 – 30)

To further address the problem of financing and cash flow, a differential taxation system has been approved for small businesses where the small business owner will pay 15 per cent on the first R100 000 taxable income, compared to the normal company tax rate of 30 per cent (excluding the STC component of 12,5 per cent) or an individual tax rate of 40 per cent.

In general the National SMME – Support Strategy can be placed in perspective by means of Figure 1 below.

Figure 1: The national SMME-support strategy in perspective



Source: White Paper, 1995:48

5. Quantifying the Small Business Sector in South Africa

With the focus on achieving greater economic growth, increased job creation and enhanced international competitiveness, the importance of new product invention, innovation, flexibility and productivity are becoming more important. As this realization is dawning on the general economic participants in South Africa, the leading role of the SME sector as a facilitator to this process is realized. In looking back

at the South African economy, especially over the past two decades, it becomes clear that the small business contribution to, especially employment, has risen significantly. Although most of the small business sector employment is not nett new jobs created, it at least allowed for job retention in the economy, over a period where the large corporate business sector was restructuring and downsizing their operations in the economy. Through this process, the small business sector revealed one of its unique characteristics namely that of creating economic stability by means of absorbing spillover labour from the corporate sector downsizing activities. It is furthermore envisaged that through the creation of an enabling environment by the Government sector and the larger corporate business sector, small business will ultimately become the main catalyst and generator of nett new employment opportunities in the economy. The shift in focus and the creation of an enabling environment can already be seen by the fact that the Industrial Development Corporation allocates 75 per cent of new-business loans to SMMEs (Erwin, 2002:1).

It is furthermore estimated that SMMEs comprise 97,5 per cent of all registered formal private sector businesses in the economy, contributing approximately 35 per cent to the GDP of South Africa (Erwin, 2002:1). More specifically, the small business sector (SMEs) plays a major role in agriculture, construction, trade and transport, contributing approximately 40 per cent to each of the sectors' output (Ntsika, 2000:10).

However, before the South African small business sector is analysed in detail, the way small business is defined or what distinguishes it from larger enterprises must be clarified. The generalized definition for small business (SME) in South Africa is any business with fewer than 200 employees, where fewer than fifty workers are deemed small and between 50 and 200 medium sized. The SME then also has an annual turnover of less than R5 million, capital assets of less than R2 million and the owners are directly involved in the management issues of the

enterprise (Cronje, G.J.; du Toit, G.S.; Mol, A.J. and Van Reenen, M.J., 1998:451).

The more detailed, per industrial sector, definition and classification of small business in South Africa is outlined in the National Small Business Act of 1996. Table 5 below highlights these various classifications.

Table 5: Small Business Classification according to the National Small Business Act, 1996

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full- time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed property excluded)
		<i>Less than:</i>	<i>Less than</i>	<i>Less than:</i>
Agriculture	Medium	100	R4.00 m	R4.00 m
	Small	50	R2.00 m	R2.00 m
	Very small	10	R0.40 m	R0.40 m
	Micro	5	R0.15 m	R0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full- time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed property excluded)
		<i>Less than:</i>	<i>Less than</i>	<i>Less than:</i>
Construction	Medium	200	R20.00 m	R4.00 m
	Small	50	R 5.00 m	R1.00 m
	Very small	20	R 2.00 m	R0.40 m
	Micro	5	R 0.15 m	R0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R5.00 m
	Small	50	R15.00 m	R2.50 m
	Very small	10	R 3.00 m	R0.50 m
	Micro	5	R 0.15 m	R0.10 m
Wholesale Trade, Commercial agents and Allied Services	Medium	100	R50.00 m	R8.00 m
	Small	50	R25.00 m	R4.00 m
	Very small	10	R 5.00m	R0.50 m
	Micro	5	R 0.15 m	R0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R8.00 m
	Small	50	R 5.00 m	R4.00 m
	Very small	10	R 1.00 m	R0.50 m
	Micro	5	R 0.15 m	R0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R5.00 m
	Small	50	R10.00 m	R2.50 m
	Very small	10	R 2.00 m	R0.50 m
	Micro	5	R 0.15 m	R0.10 m
Finance and Business Services	Medium	100	R20.00 m	R4.00 m
	Small	50	R10.00 m	R2.00 m
	Very small	10	R 2.00 m	R0.40 m
	Micro	5	R 0.15 m	R0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R5.00 m
	Small	50	R 5.00 m	R2.50 m
	Very small	10	R 1.00 m	R0.50 m
	Micro	5	R 0.15 m	R0.10 m

Source: National Small Business Act, Act No 102 of 1996

To gain clarity on the South African small business sector the following analysis will be done by means of tables, quantifying the effect of the small business sector on the economy.

Table 6 provides a synopsis of each sector's contribution to GDP in terms of size – class. From this table it becomes clear that the SME component of small business contributes 28,95 per cent of GDP, while the full SMME compliment contributes 34,8 per cent compared to large business's 65,23 per cent.

Table 6: Percentage contribution of SMMEs to the GDP in the industrial sectors: 2000

Sector	Micro	Small	Medium	Large	Total
Agriculture	4.13	8.67	43.71	43.49	100.00
Mining	1.01	1.74	2.55	94.70	100.00
Manufacturing	5.27	7.37	21.02	66.34	100.00
Electricity	0.00	0.00	0.00	100.00	100.00
Construction	3.14	35.60	12.20	49.06	100.00
Trade	2.27	23.41	17.12	57.21	100.00
Transport	7.07	18.50	20.30	54.13	100.00
Business and other services	14.90	12.90	2.90	69.30	100.00
Average: All Sectors	5.82	13.90	15.05	65.23	100.00

Source: Ntsika, 2000:24

Regarding employment, Table 7 below depicts the percentage contribution of the various class-size enterprises per industrial sector.

Table 7: Percentage contribution of SMMEs to employment in the main industrial sectors: 2000

Sector	Micro	Small	Medium	Large	Total
Agriculture	4.17	13.81	52.31	29.71	100.00
Mining	0.92	2.51	2.59	93.97	100.00
Manufacturing	8.39	10.57	24.58	56.46	100.00
Electricity	0.00	0.00	0.00	0.00	100.00
Construction	2.93	37.28	13.45	46.34	100.00
Trade	35.77	23.73	13.00	27.49	100.00
Transport	11.38	23.50	20.84	44.27	100.00
Business services	25.14	19.18	5.20	50.48	100.00
Other services	52.68	18.22	8.23	20.86	100.00
Average: All Sectors	17.38	16.34	20.76	45.52	100.00

Source: Ntsika, 2000:24

The SME sector contributes approximately 37,1 per cent of all employment, while the SMME sector contributes 54,5 per cent compared to large business's 45,5 per cent. It is also clear from Table 7 that the SME sector makes a significant contribution to employment in the agricultural, manufacturing, construction, trade and transportation sectors.

The average annual growth rate of the population in South Africa was approximately 2,2 per cent per annum between 1980 and 2000 (Ntsika, 2000:25). From table 8 below, the average annual growth in employment per sector according to enterprise size, over this period, was only 1,3 per cent per annum. Being less than the average population growth rate, it implies that the unemployment rate grew rapidly over this period of time, resulting in a faster growing informal sector.

Table 8: Average annual growth in employment per sector according to enterprise-size class over the past 20 years: 2000

Sector	Micro	Small	Medium	Large	Average
Agriculture	-3.42	92.28	5.25	5.32	2.97
Mining	0.14	2.70	1.02	-1.04	-0.91
Manufacturing	3.83	2.35	1.05	0.47	0.99
Construction	1.47	-0.56	-0.78	-3.88	-2.38
Trade	4.28	1.65	0.56	6.00	3.40
Transport	-4.62	-1.19	-0.51	3.11	-0.19
Business services	4.46	11.24	22.97	5.70	6.75
Other services	12.91	19.97	-21.82	N/A	2.33
Average growth	3.42	1.22	0.96	0.93	1.33

Source: Ntsika, 2000:26

The small business sector also makes a significant contribution to the number of business entities created per industrial sector. Table 9 denotes the percentage contribution towards the number of establishments per industrial sector and according to the enterprise-size.

Table 9: Percentage contribution of SMMEs to the number of establishments in the main industrial sectors: 2000

Sector	Micro	Small	Medium	Large	Total
Agriculture	24.86	28.35	40.96	5.82	100.00
Mining	57.89	18.98	7.24	15.90	100.00
Manufacturing	61.27	18.92	14.11	5.70	100.00
Electricity	0.00	0.00	0.00	100.00	100.00
Construction	24.50	67.05	4.84	3.61	100.00
Trade	82.57	14.59	1.75	1.09	100.00
Transport	64.66	28.39	5.34	1.61	100.00
Business services	84.99	13.03	0.99	0.99	100.00
Other services	89.26	8.95	1.02	0.77	100.00
Average: All Sectors	67.41	19.50	10.74	2.50	100.00

Source: Ntsika, 2000:26

SMEs and SMMEs are by far the largest number of formal institutions. SMEs comprise approximately 30 per cent of all formal institutions. The micro enterprises form a staggering 67,41 per cent of all formal private sector businesses in South Africa, while large enterprises only comprise 2,5 per cent (see Table 9). There is a continuous rise in the number of small businesses being registered. During 1999 some 78 730 new close corporations were registered, compared to the 28 008 of 1990 (Anonymous, 2002:98).

In comparing the small business sector (all encompassing SMME sector) to “big business” in terms of economic criteria, it becomes clear that small business is a major role player in the South African economy with respect to employment, the number of private sector entities created and the contribution to GDP. In considering an additional variable namely the salary and wage bill, there is nearly a fifty-fifty split

between small business concerns and large corporate enterprises. Table 10 below indicates a 43/57 per cent split between small business and large business enterprises regarding their respective contributions to salaries and wage in the economy.

Table 10: Percentage contribution of SMMEs to salaries and wages in the main industrial sectors: 2000

Sector	Micro	Small	Medium	Large	Total
Agriculture	2.95	6.84	38.81	51.40	100.00
Mining	0.69	1.48	1.97	95.86	100.00
Manufacturing	6.84	8.51	21.58	63.07	100.00
Electricity	0.00	0.00	0.00	100.00	100.00
Construction	2.30	33.58	12.88	51.24	100.00
Trade	16.80	36.10	29.90	17.20	100.00
Transport	5.87	18.91	22.25	52.97	100.00
Business services	14.90	13.10	2.90	69.10	100.00
Other services	14.90	13.10	2.90	69.10	100.00
Average: All Sectors 100,000	10.07	16.94	15.69	57.30	100.00

Source: Ntsika, 2000:28

Once again the agricultural, manufacturing, construction, trade and transport sectors make a significant contribution to wages and salaries in the economy. In certain instances the extended small business sector (SMMEs) makes a greater contribution than large enterprises, for example in the trade sector.

6. Conclusion

It can be argued that the expanded small business sector (SMMEs) over the past decade did not create any nett new employment

opportunities. However, these institutions do play a fundamental role in stabilising the various provincial economies where unemployment is high and poverty an everyday occurrence. This stabilising role of the expanded small business sector is characterized by the absorption of spill over labour resulting from large enterprise downsizing activities.

When analysed over the period 1980 to 2000 it becomes clear that the expanded small business sector in South Africa is playing an increasingly more important role in the manufacturing, construction and trade sectors. However, the role of the expanded small business sector in the agricultural, transport and storage sectors is declining.

To summarise, the following can be highlighted regarding the small business sector in South Africa:

- It represents 97,5 per cent of all business concerns in the country.
- It contributes approximately 35 per cent of the country's GDP.
- It employs approximately 55 per cent of the country's labour force.
- It contributes approximately 42 per cent to the total remuneration figure in the economy.

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